GIF DAILY
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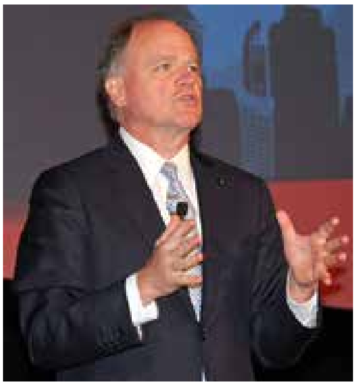
The coming renaissance of the industry

While much has been discussed about the challenges facing the industry, XL CEO Mike McGavick (right), spoke about four ideas that are contributing to the coming renaissance of the insurance industry in his special address.



❶ Rise again in importance of underwriting

The number one trend that is helping the industry is the rise again in the importance of the underwriting craft, he said. "The industry can get sloppy when it is easy to make money back on the investment side. But when you've got no interest rate to speak of, you had better be making it through your underwriting." It is of great importance that the industry creates solutions that pool and transfer risks, and that is what underwriting is about.

❷ Analytics to unlock new horizon

The second idea he spoke about was analytics. It has given the industry new ways to think about risk. And if the industry continues to invest and "attack new ways to think about risk", it has the potential to unlock an entirely new horizon of insurable activities. "Whether in the technology space or in spaces that we've long ignored or have been unable to crack, we can go to some new places because of what analytics allows."

❸ Contribution from alternative capital

The third piece of the puzzle is the contribution that alternative capital can make. Some may have been bothered by alternative capital, seeing it as an existential threat to the traditional insurance and reinsurance model. But that is the wrong way to look at it. He said: "You always want to be in an industry that is attractive to capital. The alternative is death."

And these additional capital is key to creating breakthroughs in products and solutions. "While we may have a bit too much capital now relative to the existing product set, we have nowhere near the capital to solve the problems that we should really be ambitious to solve," said Mr McGavick.

So the great opportunity lies in using analytical insight to attack and create new solutions through harnessing alternative and traditional capital to provide the ultimate solutions, he added.

❹ New ways to be relevant

The fourth idea he shared was the urgent need for the industry to continue being relevant. "Economic cycles come from simple ideas. If people are no longer able to make profits one way, they go for another way. That is the natural regenerative economic cycle. We are in a very difficult cycle as an industry. The reality is that we have an imperative to our shareholders and those who depend on us to come up with new ways to be relevant," he said.

The levels of investments now being made in areas such as new ideas, research into critical areas, and investments in new start-ups in Silicon Valley, when taken together, is the industry realising that there is an existential threat to be declining in relevance, said Mr McGavick.

"The analytics and capital available will enable us to do new and great things for society. And that will get us back to the kind of difference that we should be making. As things are evolving now, the opportunity is coming at hand for the industry to go back to making the kind of difference we really can," he concluded.

Executive Panel on Retirement & Savings: Minding the Gap

Industry's success will lighten burden on governments

The retirement protection gap the world faces today is not just a challenge, but a crisis on the horizon. And the more successful the insurance industry can be, the lesser will be the burden on governments to provide a safety net for their populations. This message must be carried far and wide, said leaders on yesterday's Executive Panel.

"We can help fill that gap by shifting longevity and investment risks back to insurers, because we have the expertise and scale to manage them much more effectively than individuals or their employers," said Prudential Financial Chairman & CEO John Strangfeld. And in the process of doing so, the industry can increase both its impact on society and its share of the broader financial marketplace. "That's the premise and hypothesis and it's up to us to make it a reality."

PRT solution for employers

The challenge needs to be approached on two fronts: employers and the individual. "Insurers have a significant role to play in helping employers deliver on their pension promises," said Mr Strangfeld, as he advocated the use of pension risk transfers (PRT). Though not new, PRTs have been updated, adapted and delivered in scale in the past decade.

"Insurers are ideally suited to assume these retirement risks, as we have the actuarial skills to measure, model and manage longevity risks; the investment capability to manage large-scale transactions and

Continued on page 2

(L-R): Messrs John Strangfeld, Larry Zimpleman, Dirk Kempthorne

Global Reinsurance Leadership Panel

More innovation to come

"There is a very high value placed on specialty companies right now. Because generally speaking, the more specialised the insurance is, the more they are involved in the innovation cycle. With the crisis of relevance and the dearness of capital, innovation is one of the ways to fight back. And this is why I think over time, there will be more and more innovation by the sector."

Mr Mike McGavick, CEO, **XL**

Avoid dependence on subsidies

"If the true cost of a product gets hidden because of allocation of taxpayer dollars to subsidise, once you get the population accustomed to a subsidy, it will be very, very hard to bring it back.

If you teach the buying public to depend on subsidies, it is very, very hard to roll them back. If a system is purely dependent on subsidies, when subsidies are not there, at the end of the day, the system collapses."

Mr Dinos Iordanou, Chairman, President and CEO, **Arch Capital Group**

New capital's focus

"New capital almost focused exclusively on existing risks that are more tangible and easier to understand and model. New capital almost always says, 'I don't want anything to do with microinsurance, terrorism, cyber'.

They are not underwriters, they are not innovators. They are trying to isolate and silo risk to invest in."

Mr Britt Newhouse, Chairman, Member of the Executive Committee, **Guy Carpenter**

Protectionism and unintended consequences

"Protectionism naturally results in a couple of unintended consequences. Requirement to have capital onshore is less efficient and more costly. But the more dangerous outcome is that in these environments, you tend to get too much uniformity in thinking and practice, and there's too much concentration risk.

We've seen that the natural outcome in territories that have moderate to extreme protectionist policy in place is that the local market tend to meaningfully underperform and there is less innovation."

Mr Kean Driscoll, CEO, **Validus Re**

The panel was chaired by **Mr Bradley Kading**, President, **Association of Bermuda Insurers and Reinsurers**.

(L-R): Messrs Michael McGavick, Dinos Iordanou, Britt Newhouse, Kean Driscoll and Bradley Kading

Industry's success will lighten burden on governments

From page 1

experience with long-dated assets and liabilities; and the operational service capability to take on large groups of new customers," he added.

Shift from DB places responsibility on individuals

On the individual customer front, Mr Strangfeld highlighted that the shift away from defined-benefit (DB) plans has put "tremendous responsibility on the individual's shoulders" and is "a lot to ask of the individual". He said: "It's a lot of DIY and it presents a lot of opportunities for sub-optimisation, neglect and unrealistic expectations. When individuals take on these responsibilities, they also take on the risks that go with them. And few are well-equipped to manage."

Hence, he named three key ways that insurance companies can deliver retirement security: expanding retirement plan coverage, enhancing savings and guaranteeing retirement income. Additionally, he said the workplace is "perhaps the most effective and efficient platform to promote retirement savings and to create pension-like outcomes".

Planned design to push right decisions

Meanwhile, Mr Larry Zimpleman, Chairman, President & CEO of Principal Financial Group, made the case for a "planned design" in retirement security solutions – automatic and re-enrolment in programmes, default/defined contributions, and stretch-match employee contributions.

"The way we have to go forward is not about participant education. There is a level of basic financial literacy that we need to get into our school systems, but at the end of the day, retirement security is more about planned design than it is about education."

"Modelling will show you that if you put those features of planned design in place, we will probably end up with something like 75-80% of people having secure retirement, versus 30, 35 or 40%. And that's where we have to go as an industry – we have to recognise that people don't act in their financial self-interest, so we need to design around that and we have the tools to do it," he added.

Keep it simple

But insurers must also not forget that in filling the protection gap, the solutions they develop must be kept simple. "Complexity, in many respects, is of our creation. Sometimes, the best innovation and most challenging is creating simplicity, not complexity," said Mr Strangfeld.

Mr Zimpleman concurred and said the industry needs to do a better job at "packaging and communicating simply the benefits and value" of what it does, and "fight the normal bias" of wanting to share every element of the product upfront, even before the purchase is made.

The panel was moderated by Mr Dirk Kempthorne, President & CEO, American Council of Life Insurers.

Critical questions for the healthcare industry

"The global healthcare industry faces an unprecedented confluence of ageing populations, a looming chronic disease epidemic, expanding access and rising expectations for healthcare, and a continuous advance of technology. This raises critical questions for the healthcare industry. Will older populations see longer periods of good health, well-being and social engagement, or will there be more illness, disability and dependency? How will the impact of population aging play out in low-income countries compared to developed markets?

These questions will require health insurers to operate in very different ways in the future to remain relevant. The role of the insurance company will change, from being just in the business of quantifying and pricing risk to being in the business of influencing and lowering risk. Health insurers will need to reinvent their business models in fundamental ways: to get closer to customers, better understand their behaviors and risks, and use data and technologies in new ways."

Mr Shaun Crawford, **EY** Global Insurance Leader

United Nations
Did you know?

The UN is an international organisation **founded** in **1945**.

This year marks its **70th Anniversary**!

The **complex** has served as the UN's **official headquarters** since its completion in 1952.

The UN's **headquarters** is located in the heart of **New York City**.

The **18-acre site** has been declared **international territory** and belongs to the 193 **Member States** of the UN.

United Nations Photo

The **role of UN** is to:

- Maintain international peace and security;
- Promote sustainable development;
- Protect human rights;
- Uphold international law; and
- Deliver humanitarian aid.

UN General Assembly hall

Source: United Nations

AIR marks 25th year by honouring the value of insurance

Asia Insurance Review celebrated its 25th anniversary this year of being the voice of the region and in marking the occasion, held a unique conference to salute the value of insurance in society.

It was indeed a one-of-a-kind event which sought to reaffirm the noble role which the industry plays in protecting individuals, businesses and economies, while also seeking new ideas to further enhance the positive contributions of the industry.

In his keynote address, AIA's Group Chief Executive Mark Tucker (left) said insurers need to uphold the trust of consumers and also restore the faith of regulators in order to reaffirm the benefits insurance brings to society.

He said insurers should not be complacent in discharging their responsibilities to consumers, reminding the industry to focus on the effectiveness of its advice rather than just distribution reach.

As for the regulatory front, Mr Tucker said the trust between regulators and the industry needs to be "restored and repaired" in the wake of the global financial crisis, and that the regulatory pendulum has swung too far the other way.

"Both regulators and insurers have a common responsibility to preserve the economic health of our societies, so trust is a necessity. Mistrust will lead to higher costs for all involved. So we need to work together to bring the pendulum back closer to the centre."

Honouring industry's noble tradition

In the day's special address, Ms Teo Swee Lian (right), Special Advisor, Managing Director's Office, Monetary Authority of Singapore, said in order for insurance to continue living up to its virtuous tradition, three key stakeholders have an important role: insurance companies and their representatives, regulators, and the wider market including consumers.

She said insurers and intermediaries need to always put customer interests at the forefront of what they do, while regulations must provide the confidence that insurers will always be available to honour claims when the time arises.

On the part of the wider market, consumers have a responsibility to understand which products would address their needs, rather than merely focus on the pricing element.

Ms Teo said the common binding thread for all stakeholders is to take a long-term perspective.

Nat CATs in Asia

In 2014, there were 189 **Nat CATs** and 147 **man-made disasters**, of which 130 occurred in **Asia**.

Global economic losses totalled $110 billion, with Asia accounting for $52 billion.

Of the $52 billion **economic loss** in Asia, **insured losses** represented only 9.6% at over $5 billion.

Insured losses totalled $35 billion, with Nat CAT losses amounting to $28 billion, or 80%.

Asia accounted for 15% of **total insured losses**.

An estimated 12,777 **people** perished as a result of these events, with **Asia** accounting for 55.5% of the **total number** with 7,093 **fatalities**.

Japan experienced the **largest insured loss event** of the year in Asia, with **heavy snowfalls** incurring **claims** of $2.5 billion.

It was also the **second costliest insured loss event globally**.

All figures in US$. Source: Swiss Re *sigma*

Hail the winners!

The Awards Ceremony and Gala Dinner is unarguably the highlight of each IIS Seminar – and now, the Global Insurance Forum – where the industry's leaders and thinkers are recognised.

Last night saw Mr Stephen Catlin (right), Executive Deputy Chairman, XL Group, formally inducted into the Insurance Hall of Fame. Ever the leader and thinker, even in his "Thank You" speech which paid tribute to his family and the team in Catlin who had been instrumental in his career and the growth and success of Catlin Group, he was already looking forward.

"It has been a fantastic journey, which by the way hasn't ended," he said. Following XL Group's acquisition of Catlin Group, he said he is excited to work with a new leadership team. "We are all living in a very dynamic world. The industry needs to react to that and we have to join hands. The job going forward is to grasp the opportunity – see what it is, and make something out of it."

The other award recipients of the night were:

Shin Research Excellence Award

Howard Kunreuther, James G Dinan Professor of Decision Sciences & Public Policy, Co-Director, Risk Management and Decision Processes Center, The Wharton School, University of Pennsylvania

Shawn Cole, Professor of Business Administration, Finance Unit, Harvard University

Kenneth Black Jr Distinguished Service Award

Gordon C Stewart (posthumously), Retired President, Insurance Information Institute and Vice Chairman, IIS (represented by Zanne Stewart)

John S Bickley Founder's Award

Dan Anderson, Emeritus Leslie P Schultz Professor of Risk Management and Insurance, University of Wisconsin-Madison

See you in Singapore!

Come next year, the Global Insurance Forum will be held on the sunny shores of Singapore, from 12-15 June.

Delegates can be sure to expect another exciting and thought-filled programme in the dynamic Asian hub.

We hope to see you there!

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