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Ride the trends to beat the woes

The insurance industry needs to consider the global trends affecting it to see how it can respond to them and turn its challenges into opportunities, said Mr Jeong Chan-Woo, Vice Chairman of the Korean Financial Supervisory Commission, at the seminar's opening ceremony yesterday.

Among these trends is the low growth and low interest rates environment, which will bring more changes to the overall financial services industry, especially the insurance industry given how easily influenced it is by growth and interest rates. Insurers, he said, need to take preemptive actions and improve their balance sheets through reserve accumulation and risk management.

"But efforts should not end there. The insurance industry needs to explore what is called the 'white space'. The starting point is the basis. This means insurers should sharpen their competitive edge by enhancing their underwriting capacity, developing new products and improving their asset management ability," he said.

Take on the ageing challenge

The trend of population ageing, which is keenly felt in Korea with its rising life expectancy and very low fertility rate, will definitely bring challenges but will also mean opportunities for insurers, said Mr Jeong.

"Higher life expectancy means more years in retirement. And people don't want to simply live longer – they want to live longer in good health and happiness. So there is a growing demand for pensions and healthcare insurance," he said, urging insurers to come up with a wide range of new products for this segment of the population.

Mr Jeong Chan-Woo

Protect the consumers

A growing trend in many markets now is consumer protection, which if weak results in low consumer confidence. Low consumer confidence, in turn, severely impacts the insurance industry.

"Consumer protection is particularly important for the insurance industry. Insurers must listen to their consumers and consider their views in the areas of products and services," said Mr Jeong.

Acknowledging that it is hard to prepare for the future when there is so much uncertainty, he reminded the industry that every cloud of uncertainty offers a silver lining of opportunity. "Winston Churchill once said, 'The pessimist sees the difficulty in every opportunity. The optimist sees the opportunity in every difficulty'. I choose to be an optimist. If we identify trends and ride with them, the opportunities will outweigh the challenges," he said.

The key to ensuring growth

Risks such as prolonged interest rates, the ageing of populations and frequent natural disasters require active actions from the insurance industry. In this regard, reshaping the industry using global trends and setting the direction for the sustainable growth of insurance is a very timely and productive theme.

We have responsibility for the next generation. Insurance is more than just a financial tool. Insurance is an industry that provides efficient protection for emerging risks as economies develop and the environment changes. By capitalising on new risks, we can create growth engines. I believe this is the key to ensuring the growth of our industry.

Mr Jae-Woo Moon
Chairman & CEO, General Insurance Association of Korea

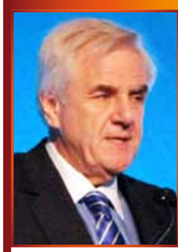
An industry of compassion

The theme of this year's seminar, "Future of insurance: Reshaping the industry to capitalise on global trends", is timely and crucial considering the current environment, which is drastically changing around us. We are living with so much uncertainty. If there is no guarantee for such uncertainty, how are we supposed to make the economy as well as people's lives and families more stable than they are now?

That is where people need insurance. That is why the life insurance industry in Korea is pursuing humanity and contributing to social welfare. Insurance is the best industry that highlights the trait of compassion and the value of cooperation. No matter how challenging the global trends are, there will be no change in this basic principle.

Mr Gyu-Bok Kim
Chairman & CEO, Korea Life Insurance Association

The world listens



IIS has become the most influential insurance resource in the world. We are delighted that the world is listening to us with regard to insurance issues and challenges. And as we go into the next decade, this will become even more important.

Mr Norman Sorensen
Chairman 2010-2013, IIS

Be at the forefront of covering new risks

Having a view of where the emerging risks are is part of the job description of insurance industry leaders. The threat arises if such risks hit a company by surprise, especially if they accumulate across clients and countries in an interconnected world, said Dr Ludger Arnoldussen, Member of the Board of Management at Munich Re, yesterday.

But if the company is at the forefront of covering new risks with good risk management in place, emerging risks offer an opportunity to earn above average margins, he said.

Another opportunity pointed out by the panellists in the Global Insurance Leadership Panel was the trend of demographic changes in the world, which for the first time in history is ageing across the board, said Mr Robert Benmosche, AIG's President & CEO.

In Korea, one of the fastest ageing societies with its fertility rate at only 1.3 compared to other OECD countries (1.7), the demographic change offers great growth potential for the annuities and health segments as the responsibility for retirement planning increasingly shifts from the government to corporates and individuals, said Dr Chang-Jae Shin, Chairman & CEO of Kyobo Life.

The increase in the number of single-person households, which currently accounts for about a quarter of the households in the country, will also contribute to the growth of annuities and health products, as single individuals are more focussed on personal than family protection, said Dr Shin.

Increased regulations can present opportunity

On the regulatory front, Mr Mark Tucker, AIA Group's Chief Executive & President, said regulators in Asia have been observing what is happening in places like Europe and the US, and are now less insistent on a one-size-fits-all policy. Each now looks at their own specific circumstances, he said.

But even with more stringent regulations, the situation presents more of an opportunity than a challenge for companies that are well run and have good corporate governance, he said.

Turning to the issue of fragmentation of regulations, Mr Benmosche said people often talk about cooperation and partnership, but how does one execute that? The role of leaders now is also to work with regulators to help manage and avoid any inconsistencies, and to make regulations more cohesive, he said.

(L to R): Dr Ludger Arnoldussen, Mr Robert Benmosche, Dr Chang-Jae Shin and Mr Mark Tucker

The way to go in investment

(L to R): Mr James Wrynn, Mr Randy Brown, Mr Mark Watson and Mr Sung-Hoon Koo.

Global recovery is subdued and growth rates remain low despite injections of liquidity such as the use of quantitative easing by central banks, said Mr Randy Brown, Co-CIO of Deutsche Asset and Wealth Management. To overcome the low yield in the current low interest rate environment, he recommended adding duration, leveraging and taking more volatility risks, and focussing on non-fixed income asset classes like real estate.

With central banks unconventionally expanding their balance sheets through massive amounts of liquidity injections into the market, this is leading to asset price appreciation. But the down-side of this is financial repression, he said.

"We have gone from 'risk-free return' to 'return-free risk'", he added.

Insurers' investment strategies

Mr Sung-Hoon Koo, CIO and Senior VP of Samsung Life Insurance, said his company is taking a core and satellite approach in its investment strategy. This "core" approach is to continue duration-matching investments in bonds and loans to generate stable income over the long term. At the same time, the insurer looks to enhance investment returns by increasing allocations to assets that offer higher return potential.

Similarly, Argo Group International focusses on a core bond portfolio – made up entirely of bonds or other short duration instruments – with a duration of 3.4 years that matches well the company's liability duration of about 3.6 years, said President & CEO Mark Watson.

"Our capital appreciation portfolio is primarily made up of public equities which tend to be high dividend yield companies, so we're actually getting more from our equity portfolio today than from our bond portfolio," he said.

Winning in the growth darling

Looking to enter or expand in Asia? While there is no one single approach to the region, keeping some dos and don'ts in mind will help you boost your chances of winning in the region's coveted insurance space. Here are some nuggets of advice to help you get started.

Finding an appropriate local partner to work with is fundamental, as is finding the right people who can work in the market, said Mr Roy Clark, Partner and Insurance Leader at PwC Singapore.

While there is no single formula to winning in Asia, finding a recipe to work with local people and businesses – be it joint venture, bancassurance or others – and using local knowledge is probably the single biggest success factor, he said.

Commit to a well-planned strategy

Commit to a well-planned strategy and be aggressive in pursuing your objectives, said Mr Mark Bain, KPMG China's Head of Insurance Consulting. With the increased focus by international players on the region, competition is fierce, and once successful, the challenge is to then grow and retain distribution capacity.

"Choice of partner is critical in countries with foreign ownership limitations, and we recommend that you place priority on sourcing candidates that already have well established distribution capabilities or client bases to which you can cross sell," he said.

Identify synergies

Take a closer look at the organisational design of the business and identify where synergies can be achieved as you expand, what processes and systems need to be changed, and where can economies of scale be achieved, said Mr Jeff Malatskey, Ernst & Young's Insurance Practice Leader, Asia.

"Understanding current regulations around foreign ownership, repatriation of profits, restrictions on investments by insurers, tax implications for the business and products, as well as likely future directional changes in regulations are also important factors to consider," he said.

Be realistic

You must be realistic in what you bring and what is needed to succeed, including acknowledging the organisational and financial commitment required, said Mr Ben McDermott, Towers Watson's Regional Director, Head of Insurance Management Consultancy, Asia Pacific.

The challenge, he said, is working out how you can best leverage your core competencies in a way that delivers sustainable benefits to customers, distributors, partners, employees and the society as a whole.

Avoid hiring too many expats

Try to avoid top loading your business with expats, advised Mr Malatskey. Although it is difficult to do given the short supply of good local talent – and the need to pay a premium for such talent – it is the local insight and experience that you will need to make your business successful, he said.

The greatest fear of all

Immeasurable risks topped the list of the key challenges facing insurers in the ACORD survey carried out yesterday with 200-odd participants, 63% of whom were from the Asia Pacific.

Competitive pricing and adequate profitability emerged as the top issue facing the insurance industry, followed by asset liability management, retaining talent and coping with regulatory challenges.

Within regulatory worries, the presence of multiple and inconsistent standards was rated as insurers' biggest area of concern.

The annual survey, conducted by ACORD CEO Greg Maciag, showed that more than a third expected the market conditions supporting profitability to worsen, while 30% expected them to turn positive, and another third said conditions will remain the same.

While risk management/ERM was ranked the top area of concern for the non-life sector, getting investment opportunities for better returns was rated the top issue for life insurers.

In human resource, retaining talent and competitive compensation came out as the top issue.

Affirming once again the benefits of attending the IIS seminar, the delegates selected leading industry speakers as the top draw, followed by networking and timely topics. Only 8% each picked discussion groups and research presentations as a major draw.

Mr Greg Maciag

Training and development: Cost or investment?

Companies know that by having good training strategies and programmes, they will be in a better position to recruit and retain quality talent. But with the possibility of losing employees to the competition, why should they invest in training them? Is not training and development more a cost than investment?

"If you develop employees and lose them, it is hard to see that the professional investment you made was anything other than a cost," said Ms Karine Kam, Executive Director of Singapore College of Insurance. But this, she said, is not strictly correct because the money spent on training the employees was returned to the company during the time they continued to contribute to the organisation's bottomline.

"If you choose to look at every training and development dollar as an investment, you are not only approaching at your talent acquisition and retention requirements from a positive standpoint, you are, most importantly, sending a message to employees that you are committed to keeping them, investing in them and developing them," she said.

Employers of choice come to have attractive reputation among employees for various reasons. But one of the key characteristics they share is they recognise and exploit the power of using quality training and development programmes as a full-spectrum talent planning tool.

"These celebrated organisations know what they are doing," said Ms Kam. They know that it is essential to the commercial growth and strategic human resources health of their organisations that their training and development directors show courage to maintain a long-term talent development plan, irrespective of natural, and even at times unwanted, attrition.

"People will come and people will go, of course, but by at least having a robust and consistent plan in place, you send a clear signal to your employees, your competitors' employees, and floating talent that you are the place to be," she said.

Sounds of Korea

Melodious traditional Korean music filled the air as delegates mingled with friends old and new at last night's awards cocktail reception, capping a long and productive day on a high note.

World insurance in 2012

- Global insurance premium was **US$4.59 trillion**, of which **$1.28 trillion** came from **Asia**.
- Life premiums stood at **$2.61 trillion**, with Asia accounting for **$924 billion** or **35.4%**.
- Of the **$1.97 trillion** global non-life premiums, Asia accounted for **$360 billion** or **18%**.
- There were **295** separate **catastrophic events** in 2012, resulting in insured losses of **$72 billion**.
- 2012 was the **3rd-costliest** insured loss year on record since 1950, following only 2011 (**$133 billion**) and 2005 (**$123 billion**).
- The year saw a **$109 billion gap** between insured and non-insured economic losses.
- **Hurricane Sandy** was the costliest single event in 2012, causing around **$25 billion** in insured losses.
- The deadliest event of 2012 was **Typhoon Bopha**, which caused more than **1,900** fatalities in the **Philippines**.
- Around **9,500** people lost their lives in **Nat CATs**, while man-made disasters claimed about **5,000** victims.

Sources: Swiss Re sigma, Aon Benfield's Impact Forecasting, Munich Re data

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