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Insurers Must Have Will to Sustain Profitability

Financial profitability took centre stage at the opening ceremony of the 40th IIS as luminary speakers stressed the importance for insurers to keep their eye on return on equity. The theme of this year's conference, *Benchmarks for Success*, is most fitting, for "profitability is a benchmark which none of us should be quick to abandon."

Speaking of the benchmarks of success for the 21st century corporation, aside from service levels, professional standards, and social responsibility, Lord Peter Levine Chairman of Lloyd's of London, UK, & Chairman of the Board of Governors for the London Seminar IIS, said that insurance companies had the operational-specific benchmarks of risk modelling, risk

management, and the ability to innovate and keep abreast of the changing environment against which society seeks to insure.

Lamenting that the industry has been wanting in the key financial benchmark of profitability, he asked of the CEOs gathered: "Do we have the will to sustain profitability in the long term?" At the end of the day, it is the will that determines whether our industry continues to prosper, or languishes in repetition of the mistakes of our past.

Why is it a critical challenge for us right now? Because the market is getting softer, implying that industry's economic fundamentals are not right. Most rank pricing as top priority again, and prices are falling even though the recovery has not been completed.

In a passionate warning and plea, Lord Levine said that the industry, which has mended its ways and retreated from the precipice, could not now afford to make the same mistakes again.



Lord Levine

"We must summon the will to resist the economic forces that drive the insurance pricing cycle. Profit management means having the strength to say 'no'. The strength of will to say 'no' is the new reality. Lloyd's underwriters have made it clear that they will not accept risk on uneconomic terms."

Why London is Tops in Regulation

London, the birthplace of insurance is still on top in terms of regulation because of its light touch regulatory regime, said keynote speaker Lord Mayor Alderman Robert Finch. "A guidance-only approach is what we like and this gives greater responsibilities to top management as a result."

Turning to key challenges, he urged top management to bear in mind the 21st century threat of cyberterrorism. "We need to defend ourselves against cyberterrorism and viruses which could cripple our systems, and this is as critical as protecting our buildings against physical attacks," he said adding that the insurance industry forms the essential pillars of protection against such risks. "With the well-being of the industry we can look forward to a world which is better and safer for all of us, our businesses and for our children to follow too."



 International Insurance Society
 40th ANNUAL SEMINAR



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Staying on the High Road to Success

Three top executives from Bermuda, London and Japan shared their advice and wisdom on what makes for success in an insurance company bearing in mind that success is a journey and not a destination.

To devise a successful company, one had to stay on the "High Road to Success" by using benchmarks.

Benchmarking is a useful tool that must result in consequences – with the right action taken to boost profitability and return on equity.

Customer is the Heart of Business

Mr Tomjiro Morita, Chairman Dai-ichi Mutual Life Insurance Company, Japan

The true benchmark for us is to ensure that we are customer oriented and whether our achievements reach the consumer. Our policy, as always, is that the "policyholder comes first".

Alliances and outsourcing allows us to find niches and offer competitive products and services to our clients in all their differing needs at the best value-add possible.



Customer

Three Cs of Success – "It is not a game of instant gratification, it's a marathon"

Mr Brian O'Hara, President and CEO, XL Capital Bermuda

Cycle of Management – Underwriting is a science (mathematical model) and art (judgement). Management must set the direction of not going for growth but for combined ratio. You must have the balance of experience and not just go for exposure.

Capital Management is backed by credit ratings and financial strength ratings. In your capital planning, you have to align rating to the business you pursue.

Culture is the critical success factor of a company that cannot be emulated by your competitors and has to be carefully nurtured by top management. It is the one unique element that will see you through all the changes and challenges to emerge a winner.



Success – the Swiss Re Way

Mr John R Coomber, Chief Executive Officer, Swiss Re

Leveraging on the Capital Market

Given that insurance companies have a lower return on equity and a higher volatility when compared to banks, there is a need for insurers to seriously transfer more risk to the capital market to reduce the burden on their capital. With US\$65 trillion, the capital market is 10 times the size of the P&C market and is a stronger absorber for risks.

Learning to say "No"

We must punish bad behaviour and reward the good. Underwriters must have a clear roadmap as to

how they will succeed by throwing away bad business.

Benchmarking is an invaluable tool

Benchmarking helps stimulate questions, and by asking questions, we might get good answers. It does help identify performance gaps and we need to interpret the message and not explain away underperformance. Benchmarking alone only satisfies intellectual curiosity: there must be consequences as the actions we take are being stimulated by this process.



CASE STUDY:

Union Eyeing the Global Insurer Mark

Union Insurance, one of the top three non-life insurers of Taiwan, has a strategy to go beyond the borders of its national market ranked as the 16th largest in the world. With a US\$300 million premium income, its vision is to become a global insurer, said Mr Frank Wang, President of Union and Chairman of the Non-life Insurance Association of Republic of China, a post he has served for the past 12 years.

For 40 years now, Union led the market in product innovation and growth, and was the first non-life insurer to be publicly traded on the Taiwan Stock Exchange. Following the global trends, it was the first in the local market to merge with another insurer – China Mariners' Assurance Corporation – to become a bigger player to

tap into the synergies for greater growth. And on the product front, Union has won numerous awards, the most recent being its brave response to the SARS scare with the "Union Travel Agency Comprehensive liability Insurance allied with SARS consolatory expense compensation endorsement."

Eager to expand "its business beyond its national borders in volume and scope", Union has been establishing its overseas networks to facilitate its globalisation process. In 1995, Union established its first overseas representative office in Vietnam. Three years later, it expanded its overseas network through an investment in an insurance company in Thailand. In August, 2002, it received approval from the Chinese regulatory authorities to set up its representative office in Beijing. This year, Union invested in an insurance brokerage, registered in the

UK. Mr Wang said: "We intend to use these networks to first provide services to overseas Chinese interests and gradually service its local community either as primary insurers or insurance intermediaries."

And as part of its vision to be global, Union is growing its international inward and exchange business, setting the goal of growing its international business to 20% of its gross premium written in five years. It currently has a market share of 10% of the Taiwanese market which it aims to maintain while developing its international business. As Mr Wang says: "The development of international markets will be the Company's top priority and we will allocate all necessary resources to its success."



Scene+Heard at the Opening Cocktail & London Tour



Mark your Diaries for EAIC Bangkok, Thailand!

Don't miss your chance to hear this year's IIS Hall of Fame laureate Mr Takeo Inokuchi who will be speaking at the forthcoming East Asian Insurance Congress (EAIC) held in Bangkok, Thailand, from 20 - 25 November 2004. Hosted by the General Insurance Association and The Thai Life Assurance Association, the event has the theme "Asian Insurers in the New Financial Environment". It aspires to be strategically thought provoking, and promises to generate many beneficial discussions. To facilitate a greater degree of exchange of ideas and interaction among members, the 22nd EAIC Organising Committee has introduced a new Conference format: Three Plenary Sessions with prominent global experts as guests speakers; Two Panel Discussions with panelists from the EAIC member cities; and One Life and one Non-Life Session each.

Delegates will also have premium time to network with colleagues and friends from all over the world.

Full programme and more details at www.eaic2004bangkok.or.th



Saluting Hall of Fame Laureates

Last night, the International Insurance Society saluted three more members from its fold by ushering them into the prestigious Insurance Hall of Fame at the annual Gala Awards Dinner.

Mr Takeo Inokuchi, Chairman & CEO of Mitsui Sumitomo Insurance, Mr Kees Storm, the retired Chairman of the executive board of Aegon, and Mr Per Hansson, the deceased Chairman of Norwegian insurer Storebrand were the three distinguished personalities named to join the list of laureates in the IIS' Hall of Fame.

Asia Insurance Review extends our heartiest congratulations to all of you!



Mr Takeo Inokuchi



Mr Kees Storm