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The way into opportunities

The key to creating and seizing opportunities is by altering the way insurance is viewed, according to a panel consisting of Mr Stephen Catlin, CEO of Catlin Group, Mr Donald Guloien, President & CEO of Manulife Financial, and Mr Madhuswamy Ramadoss, Chairman & Managing Director of The New India Assurance Co.

Greater communication with regulators

Although the importance of the insurance industry as a great investor has been highlighted especially through the recent financial crisis, said Mr Guloien, more interaction with regulators to better their understanding of the industry is needed to drive further growth. This is especially so with regard to the distinction between the insurance and banking industries, as similar standards cannot be applied to both.

Concurring, Mr Catlin said that strong, fair and practical regulation is essential but emphasised that the insurance industry does not pose systemic risk. Instead of over-regulation, there is a need for "strong regulation that is fit for the purpose".

Creating better value in insurance

Although insurers already have a product that works, said Mr Catlin, especially given the role they have played in rebuilding post-disasters, greater steps must be taken towards increasing their value, in order to increase their opportunities.

Thus service is of key importance, both in promptly honouring the promise made when processing claims, as well as gaining better technical knowledge to better understand the nature of their client's risk.

The industry also needs to continue attracting top talent to create better value. Although costs may be high, "we can't not afford it", he said. Better communication about what the insurance industry entails is key, so that graduates do not "just fall into" the industry, but see the potential in it and continue to drive growth. "We have to sell our profession just as hard as we sell our products."

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L-R: Mr Norman Sorensen, Mr Donald Guloien, Mr Stephen Catlin and Mr Madhuswamy Ramadoss

Remember where we've been

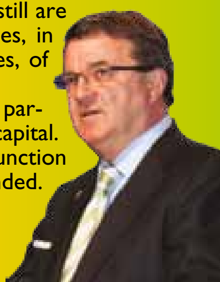
Following an unprecedented financial crisis, the theme for this event, A New World of Opportunity, is most apt. At the same time, we need to be aware of where we have been. The continuing challenge that we have, even now, no one anticipated the extraordinary measures that we would have to take to repair the system that connects all of us.

We must learn well the lessons of the financial crisis. And we need to work together to ensure we don't sow the seeds of a future calamity by believing that our problems are safely behind us, because they are not.

Focus on supervision

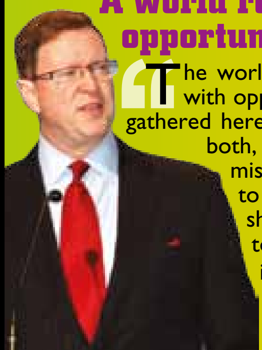
If we would look back at the banks and other financial institutions that failed during the great recession, virtually all of them were regulated. There were lots of rules – there still are lots of rules. But there were many instances, in those places where there were bank failures, of ineffective supervision.

So it is key to have appropriate regulation, particularly in respect to quantity and quality of capital. But it is very important that the supervision function be exercised thoroughly and be properly funded.



The Honourable James Flaherty
Minister of Finance, Department of Finance, Canada

A world replete with opportunities, challenges



"The world that insurance now faces is replete with opportunities and challenges. And we are gathered here to achieve a better understanding of both, with a spirit of confidence and optimism that we, as an industry, will continue to make contributions to our society by sharing ideas and best practice approaches to managing and mitigating risks in an increasingly risky world."

Mr Michael J Morrissey
President & CEO of IIS

Much has changed

"A lot has changed for the Canadian insurance industry since the last IIS conference here in the year 2000. We had demutualisation, acquisitions, expansion of the number of products and services and global expansion. This has led to a very different, dynamic and diverse insurance sector in Canada."

Mr Frank Swedlove
President of the Canadian Life & Health Insurance Association

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Opportunities galore

Despite the recent CATs in Asia, the panel was positive about the opportunities the region holds. Mr Norman Sorensen, IIS Chairman, who moderated the panel, said: "Every minute, there are 40 new households joining the middle class in Asia". The growing young and affluent group represents the opportunities available in the region, especially with its favourable demographic trends and low penetration rates.

Not to be neglected are the opportunities also available in the Western, more developed markets, with wealth management and retirement savings being the areas of growth.

The key question to answer for the insurance industry, according to Mr Ramadoss is, "Opportunities exist, but how to turn them to profit"?

Dragon vs Elephant

The panel identified Asia as the land of abundant opportunities in insurance, with China and India leading the way. China is already an emerging leader, with its insurance industry at a more advanced stage than that in India, thanks to an earlier introduction of economic reforms. However, India does not lag too far behind, having experienced tremendous growth in both life and non-life sectors.

Nonetheless, Mr Guloien said that compared to China, India is still a difficult market to enter, given the tougher restrictions on foreign ownership. Mr Catlin shared the same view, saying that China's infrastructure is ahead of India's and that it has a more stable regulation.

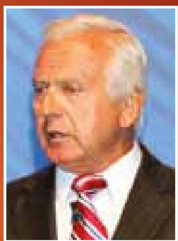
Mr Ramadoss said that this is not the case. He stressed that the country's regulatory systems are definitely more stable, especially given India's standing as the world's largest democracy.

And the Survey Says: It's All about Price!

With the world being seized by the growing number and intensity of catastrophes and a volatile investment environment, it is no wonder that more than half of the 350-odd delegates at the Seminar yesterday ranked competitive pricing and inadequate profitability as the top issue facing the insurance industry today. In the instant survey, where delegates pressed a remote response card, a quarter of the participants ranked pricing as the top challenge.

On the key threats facing the industry, regulatory requirements came up number one, as ranked by a third of the participants, followed by capital constraints, which got 23% of the votes.

Mr Greg Maciag, President of ACORD, USA, who facilitated the survey, said the findings were not surprising given the concerns of the industry today. The survey, with 45% of the participants coming from North America, 25% from the Asia Pacific, 15% from Europe and 5% each from the Middle East and Latin America, had 42% of the respondents writing all lines of business, 24% doing only life, 23% doing only non-life and 11% writing specialty or other lines of business.



Mr Greg Maciag

On the split in priorities between life and non-life, inadequate premium was ranked by 40% of the respondents as the most significant area of concern. For life, 36% ranked the challenge of finding investment opportunities to meet the desired benefits level as the top area of concern.

It was surprising though that efficient distribution was rated by only 2% of the participants as the most significant area of concern for the non-life industry. It was slightly higher for life, with 15% ranking it as the top issue. Insurance, which is still very much sold rather than bought, has traditionally viewed distribution as King.

On the human capital front, 69% of the respondents rated finding and retaining talent as the most important issue, while in terms of operating environment, a third of the participants rated productivity efficiency and expense cutting as the key issue. Risk management-wise, more people rated applying risk analysis as the key factor over understanding and anticipating risks and building a strong risk culture. ERM and measuring risks and assessing new CAT exposures each received less than 10% each of the votes.

Mapping the MENA Unrest

IIS expands reach through mini-seminar

"Through our nearly half century of service to the global insurance industry, our unique seminar, bringing together insurance executives, regulators and academics in an objective, open forum for discussion of the issues, has been a must-attend for industry leaders.

This year, we are proud to launch a series of web-based member services that will provide valuable, proprietary services to members throughout the year, and conveniently accessible around the clock. Additionally, we are announcing the start of a regional mini-seminar programme to expand our reach and provide more interaction with our members around the world.

The new IIS: more information, more networking, more interactivity, throughout the year. Join us!"

Mr Michael J Morrissey, IIS President & CEO

Canadian Insurance Industry: A Snapshot

Ranked the 9th biggest insurance market in the world with a premium volume of nearly US$1 trillion in 2009, the Canadian insurance industry has remained financially robust despite the financial crisis, which saw no Canadian insurer requiring a government bailout. This has led A.M. Best to revise its outlook for the Canadian life and health insurance industry from negative to stable.

Among the largest players

Three of the country's insurance companies are among the largest 20 life insurers in the world, with Manulife Financial ranked the 4th biggest global life company. Canadian insurers are also present in over 20 countries. The market comprises over 200 P&C insurance companies and 95 life and health insurers.

Unique and diverse

According to Mr Frank Swedlove, President of the Canadian Life and Health Insurance Association, the Canadian life and health insurance industry is "unique and diverse" as it administers more than two-thirds of private industry retirement plans as well as finances 12% of Canada's healthcare expenditures, providing supplementary health benefits such as prescription drugs, dental care and ambulance services to nearly 23 million Canadians.

Two-tier regulatory framework

Canada has a two tier regulatory structure, where insurers' market conduct activities are regulated at the provincial level, while solvency requirements are set by the federal regulator, the Office of the Superintendent of Financial Institutions.

Its auto insurance tends to be more heavily regulated than other lines of business, said Mr Gregor Robinson, Senior Vice-President, Policy and Chief Economist, Insurance Bureau of Canada.

Gender-Neutral Pricing Not That Possible

While many industry players support the principle of gender equality, they do not believe that the European Court of Justice's decision barring insurers and pension providers from offering different contracts for men and women will result in gender-neutral pricing.

A study commissioned by the Association of British Insurers (ABI) showed that simply removing gender as a pricing factor does not necessarily achieve gender neutrality in insurance prices given the presence of other pricing factors that correlate with gender.

To really have gender-neutral insurance pricing, the removal not only of the gender factor but also of all rating factors correlated with gender in the pricing models would be necessary – which would be very costly, if not impossible, to achieve, said the report.

Disappointing news

Industry leaders in the EU expressed disappointment with the ruling. "The judgment ignores the fact that taking a person's gender into account, where relevant to the risk, enables men and women alike to get a more accurate price for their insurance," said Ms Maggie Craig, Acting Director General of the ABI.

A burden for customers, headache for insurers

The ruling, scheduled to take effect in December 2012, is expected to drive insurance premiums up in the EU.

Towers Watson said the ruling's possible effects, including the reduction of male annuity rates by up to 5% and a slight improvement in female annuity rates, could give life insurers a headache. This is because they will need to consider capital implications for the risk they take to offer improved terms for some policies, but will not be able to reduce benefits for others.

Likewise Swiss Re said the changes required to comply with the ruling will create a new cost burden on insurers.

Advantage to non-EU insurers limited

Outside the EU, the ruling could be viewed as possibly giving non-EU insurers a competitive advantage by being able to offer gender-based pricing. But Mr Mark Howard, a Partner and pensions specialist at Barlow Lyde & Gilbert, said that so far as the UK market is concerned, this advantage seems limited. Looking at pensions, he said UK occupational pension schemes are restricted to using European Economic Area insurers for securing liabilities.

Watch those premium rates

- Car insurance costs for women under 25 could rise by up to 25%
- Annuity rates of men could go down by 8%, but those of women could rise by 6%
- Cost of life insurance could jump as much as 20% for women but drop 10% for men

Source: Estimates from a 2010 Association of British Insurers research on the impact of gender neutrality ruling

Changes insurers need to make

ABI said insurers will have to make large-scale changes prior to the ruling's implementation, including:

- Amending all affected policy documentation,
- Contacting customers with new information,
- Updating and changing computer systems,
- Ensuring insurance brokers have the right pricing information, and
- Adjusting insurance renewals and updating all sales material.

Tasting Toronto

Delegates to the 47th IIS Annual Seminar got a taste of Toronto in a city tour that culminated in a welcome reception at the Royal Ontario Museum. What better way to get a feel of the city's unique diversity than by tasting its different foods and music in a place that is a repository of the world's cultures?

2011 So Far: Walloping CATs, Whopping Losses

Estimated insured losses in US$

Sources: Insurance Information Institute, EQECAT

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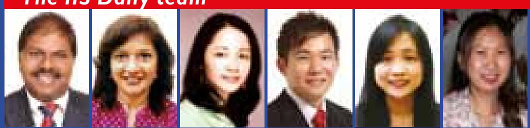

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