



# Asia Insurance Review's PIC Daily

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Keynote Panel:

## Mastering Life's Challenges

The Pacific Insurance Conference was off to a colourful, thunderous start in Malaysia – the host for the first time in the conference's 23-year history – with the combined display of different drums from Malay, Indian and Chinese cultures, representing the multi-racial country.



Mr Mel Gottlieb

In welcoming delegates, **Mr Mel Gottlieb** – the man behind the PIC – noted that this year's gathering broke a new record by attracting 343 delegates from 25 countries, while General Chairman, **Mr Ng Lian Lu** promised this year's gathering to be bigger and better than past events.



Mr Ng Lian Lu

The keynote speakers yesterday addressed core bread-and-butter issues confronting the life industry – distribution, reducing costs and the convergence of financial services industries.

### All About Agency

Leading the discussion, **Mr Barry Stowe**, Chief Executive, Prudential Corporation Asia echoed the oft-repeated mantra that the dominance of agency distribution was here to stay.

The former AIG-man stressed that if companies were to aspire to build scope and scale in Asia, it would be extremely difficult without an agency network as it forms a major component of distribution. "The true appeal of agency is that it tends to build a huge base of small recurring premium policies. If there is a downturn in the Asian economies, these products will serve the company better as they are less reliant on fluctuating equity markets," he pointed out.

### Success in India

Referring to Prudential's success story in India, spearheaded by an "excellent management team led by Ms Shikha Sharma", where more than 250,000 agents span 1,000 branches countrywide, Mr Stowe said that the extensive scale helped the company achieve sales growth of 54%.

Adding that it was important to resist the temptation of adopting a one-size-fits-all model, he said that it was pertinent that companies strike a balance between scale and productivity, and revealed that in emerging markets like India and China, Prudential is focused on developing agency scale, while in more mature markets like Singapore and Hong Kong, the priority is on agency productivity.

Responding to a question from the floor on how he motivates and monitors the productivity of agents on such a large scale, he nailed it down to maintaining a disciplined and vigorous management execution that includes having a "colossal recruitment machine" that has excelled in recruiting and retaining agents that will surprise many.

### "One Trick Pony" Tactic Insufficient

On the rise of multi-distribution strategies, he discouraged companies from using the term "alternative distribution" because it is not an "either or" proposition, but something that complements the agency force, and there is the risk of getting caught up in semantics.

He candidly said that even if companies adopted the "one-trick pony tactic", no matter how clever the trick, it is still not sufficient to serve customers' diverse needs and the future



## Insurance in Malaysia: A Portrait of Success



YBhg Dato'  
Zamani Abdul  
Ghani

In its drive to develop the insurance industry into a strong, dynamic and innovative component of the financial system, Bank Negara has shifted from a prescriptive regulatory style to one that allows for a more flexible operating system, said Guest of Honour Deputy Governor of Bank Negara Malaysia, **Dato' Zamani Abdul Ghani**, in his opening keynote address yesterday.

In view of the new principle-based regime, he urged senior management of insurers to raise the bar for organisations to achieve best-in-class practices that are aligned with the competitive strategic orientations, rather than merely complying with a minimum set of prescribed rules.

Adding that this regulatory shift also places greater prominence on creating a strong risk-management culture, he said the transition is also in line with emerging trends taking place on the international front, as well as the core supervisory principles of the IAIS.

### Combating Money Laundering

On the rapid developments in technology and the forces of globalisation which has made the world increasingly borderless, Dato' Zamani cautioned that, while such developments are welcomed as they create greater efficiency, it can also facilitate money launderers and terrorist financiers to conduct a range of illegal activities that could risk destabilising the financial system.

In this regard, Bank Negara has complied with standards set by the Financial Action Task Force on Money Laundering to help deter the Asia-Pacific region from being targeted. "Malaysia has been ranked among the top-six countries out of a total of 40 in terms of compliance," he added proudly.

### Rise of Takaful

On the issue of takaful and Malaysia's well-known aspirations to be an Islamic financial hub in the region, Dato' Zamani pledged Bank Negara's commitment to continue to foster the growth of the segment, but stressed there was a clear need for the industry to deliver innovative financial products that were on par with the conventional market.

Assuring neutrality in regulatory treatment to both takaful and conventional insurance, he considered it important to ensure the sustainability of both systems in the economy.



Sponsors of the 23rd PIC receiving tokens of appreciation

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belongs to multi-distribution. Dismissing fears of channel conflict, Mr Stowe concluded that multi-distribution and agency can work in a virtuous cycle and has been proven to help in raising brand awareness.

### Platform Approach

Speaking about the changes or evolution to the insurance landscape, **Mr Trevor J Matthews**, Chief Executive Officer, Standard Life Assurance Limited, Scotland, said that as the industry passes through various phases, achieving growth requires different initiatives. "In the early years, it is all about recruiting the tied sales force. It then moves to attempting to improve agent retention and productivity. Next, we need to maintain the tied system and add new distribution, and finally, we see consolidation of distribution and the merging of distribution companies," he said.

Turning to a different evolution path which may be taken by some companies, Mr Matthews said that this normally includes vertical integration, product unbundling distribution diversification and, finally in some of the most developed markets – including Australia and the UK, the emergence of platforms.

Musing about whether we are about to see a quantum leap in financial services markets around the world to a new model that will help rebuild trust and confidence in our noble industry, Mr Matthews said: "The time to reach the mature market stage has varied. It took the UK about 200 years. It took the US and Australia about 150 years. How long will it take the emerging markets....30 years? Whatever the case, however long it takes, I am convinced we are on the threshold

of a new Golden Age of Financial Services."

### Mastering the Profit Equation

Addressing the issue of profit and bottomlines, **Mr Kevin Hogan**, Vice Chairman, Nan Shan Life Insurance Company, Taiwan, said that AIG's mission is to maximise profit by utilising every resource at every opportunity or "delivering the firm" in AIG's terminology.

"Delivering the firm means using advanced technology to support open platforms for distribution, operations, marketing and sales. It also means running leaner operations, moving towards a production system that emphasises activities that create value for customers and leveraging asset management capabilities to support ever more sophisticated insurance products that compete with financial services providers of all types," he said.

Mr Hogan said that, while optimisation, cost management, risk management and asset management are all important parts of the profit equation, they are no substitute for innovation. "The most important skill set in a company is the creativity and innovation of the people. That's why profit maximisation is ultimately really up to you and me," he said.



(L-R): Mr Mel Gottlieb, YBhg Datuk L Meyyappan, YBhg Dato' Zamani Abdul Ghani, Mr Ng Lian Lu, Mr Md Adnan Md Zain

# Living up to the Nobility of the Industry

As the financial industries around the world face enormous challenges of changing economies, globalisation, integration, increased regulatory compliance, the insurance industry, too, is pushing itself to meet the needs of all its stakeholders. In the Audience Discussion session chaired by **Mr Roger Ackman**, Head of Strategy, Zurich Financial Services, the panel speakers debated on the basic responsibility of the industry – to offer products that customers really need, such as long-term nursing care covers and guaranteed products – to fulfil the well-known adage of the nobility of the insurance industry.

**Mr Andrew Wakeling** of Allianz Life Insurance Malaysia kick-started the session by quoting a line from speaker **Mr Trevor Matthews**, CEO, Standard Life Assurance Limited, who described in his speech that insurance is a "noble profession". Mr Wakeling noted that it was, indeed, a shame that the growing ageing customers need – more than anything else, even annuities – long-term nursing care in their old age and yet not many insurers are providing this. "Isn't it time insurers got involved in the difficult task of providing long-term care insurance instead of focussing on the accumulation of funds? Shouldn't we be living up to the tag of being 'noble'?" he asked to the laughter of the audience.

Responding to the question, Mr Matthews conceded that more can be done in the provision of long-term care, and the neglect in this area has led to a protection gap in certain markets.

### Unplanned Health Incident

**Mr Barry Stowe**, Chief Executive, Prudential Corporation Asia, added that the "principal risk for retired people is an unplanned health incident". This can upset any financial retirement plan made which does not take healthcare protection into consideration. "Prudential spends

a lot of time and research looking into holistic retirement plans for our customers. It is an issue which every insurer must look into. Otherwise you're not doing your job," he stressed.

### Getting Government Support

Roping in the government to help is also critical because of the tax regime they control, said **Mr Kevin Hogan**, Vice Chairman, Nan Shan Life Insurance Company of Taiwan. "We must establish the appropriate handshake with the government on this to get the people in the country to build all these exigencies into their retirement plans," he said.

### Platforms can Help

On the subject of commoditisation of the insurance products as the integration of the financial services become increasingly pronounced, **Mr Matthews** urged insurers not to retreat from offering guarantees in their products.

"Most insurers are concerned about asset-liability matching. They look at their balance sheets and feel that they are hard pressed to offer any form of guarantees. Platforms which use the latest web-based technology can help clients, via their advisers, plan and manage their portfolio of investments. Insurers should operate these platforms as margins are thin, and we should leverage the web to reduce costs and make it viable," he said.

### Guaranteed Products Differentiate Insurers

Mr Hogan noted that investment banks are at the leading edge when it comes to customer services. They are known to be very focussed on customers' needs and wants. However, they do not wish to get involved in providing guarantees as that is not their area of expertise. "For insurers, this is our core expertise, so we should not be forget that as we go into competition with the banks," he said.

## 23rd Pacific Insurance Conference

New Solutions for Traditional Challenges:  
Winning Ideas from Industry Leaders

28th  
KUALA

2007  
LAYSIA

(L-R): Mr Barry Stowe, Mr Trevor J Matthews, Mr Roger Ackman, Mr Kevin Hogan

# Compulsory Annuity – A Panacea for Asia's Ageing Population

Governments in Asia are waking up to the fact that the demographics in their countries are showing an increasingly ageing population that require more resources to support. Scottish Reinsurance Group held a Breakfast Talk this morning together with Dewey LeBoeuf, an international law firm, and **Mr Dave Howell**, CEO International of Scottish Re, gives an insight into the annuity market in UK and touches on the drivers and implications as well as what markets and governments in Asia can learn from the UK experience.



**G**overnments play a very important role in encouraging their citizens to purchase annuities as part of their retirement plans, said **Mr Dave Howell**. Without their support, it is very hard to get individuals to plan their retirement using the annuity path, he added.

## UK and US Experiences

Drawing from the UK and US experiences, Mr Howell noted that in the US, there is no regulation or compulsion for individuals to use their pension funds to purchase any annuity plan and, as a result, only a very small number of payout annuities are purchased. Individuals are left very much on their own to decide what use to make of their accumulated retirement monies. As a result, many Americans risk outliving their funds and becoming a burden to their families and the government.

Contrarily, in the UK, the government requires that no less than 75% of their pension monies must be converted to annuity plans. As a result, as much as £125 billion (US\$250 billion) are on the balance sheets of insurers for current or future annuity payments. Consequently, the insurers are extremely sensitive to the longevity trends and research is being done by them to manage this pool of monies.

## Key Lessons

"The key lessons to learn from the UK and US experiences are that, more often than not, savings alone are insufficient for retirement and without government intervention and aggravated by the low interest rate environment, people will not buy annuities. Also, a lot of research is required on longevity trends so that a range of products can be created to help people manage their finances," Mr Howell said.

He also revealed that in the UK, companies are noting that the liability of the pension funds in a company's balance sheet can break an M&A deal, and as more companies realise this, they are outsourcing these to professional risk takers such as an insurer

to manage the funds for them, hence creating a niche market for some. The increased disclosure of pension liabilities under IFRS is expected to accelerate this trend.

## Compulsory Annuity

When asked what form of retirement plan he would advocate for a country faced with a growing ageing population, Mr Howell said that there should be some form of compulsory annuity requirement in a country if both the population and government wish to have some form of financial guarantee when the people grow old.

## Consumer Education Important

So while government support is needed to legislate the mandatory part, consumer education is also crucial. "Both the insurance industry and governments have to raise the awareness of this among the individuals, to increase the perception of the value of annuity among the people. The buy-in by people is just as important even though you may already have regulation for it," he said.

## Business Enabler

Scottish Re is strengthening its position in Asia, having secured new funding of US\$1.1 billion earlier this year. "We've been in a transitional period that involved new shareholders, a new board and executive team and a more comprehensive approach to risk management. We disposed of some historical portfolios which were not core businesses, and last week, we opened a new office in Japan," Mr Howell said.

On the company's immediate priorities on the international front, he said: "We continue to make progress in our key regions of UK/Ireland and Asia Pacific. We want to help our clients manage their risks using both treaty and facultative capacity as well as our technical expertise. We have a particular focus on the efficient use of capital and can deploy a number of value-enhancing solutions via reinsurance arrangements. Ultimately, we are a business enabler for our clients, bringing value to the table for them."



# *A Warm Malaysian Welcome*

Saying hello and catching up with old friends, PIC delegates attended the Welcome Cocktail in Kuala Lumpur, Malaysia, enjoying the posh and tasteful surroundings in Shangri-la Hotel's lounge. We present here snapshots captured during the evening.



YBhg Datuk L Meyyappan