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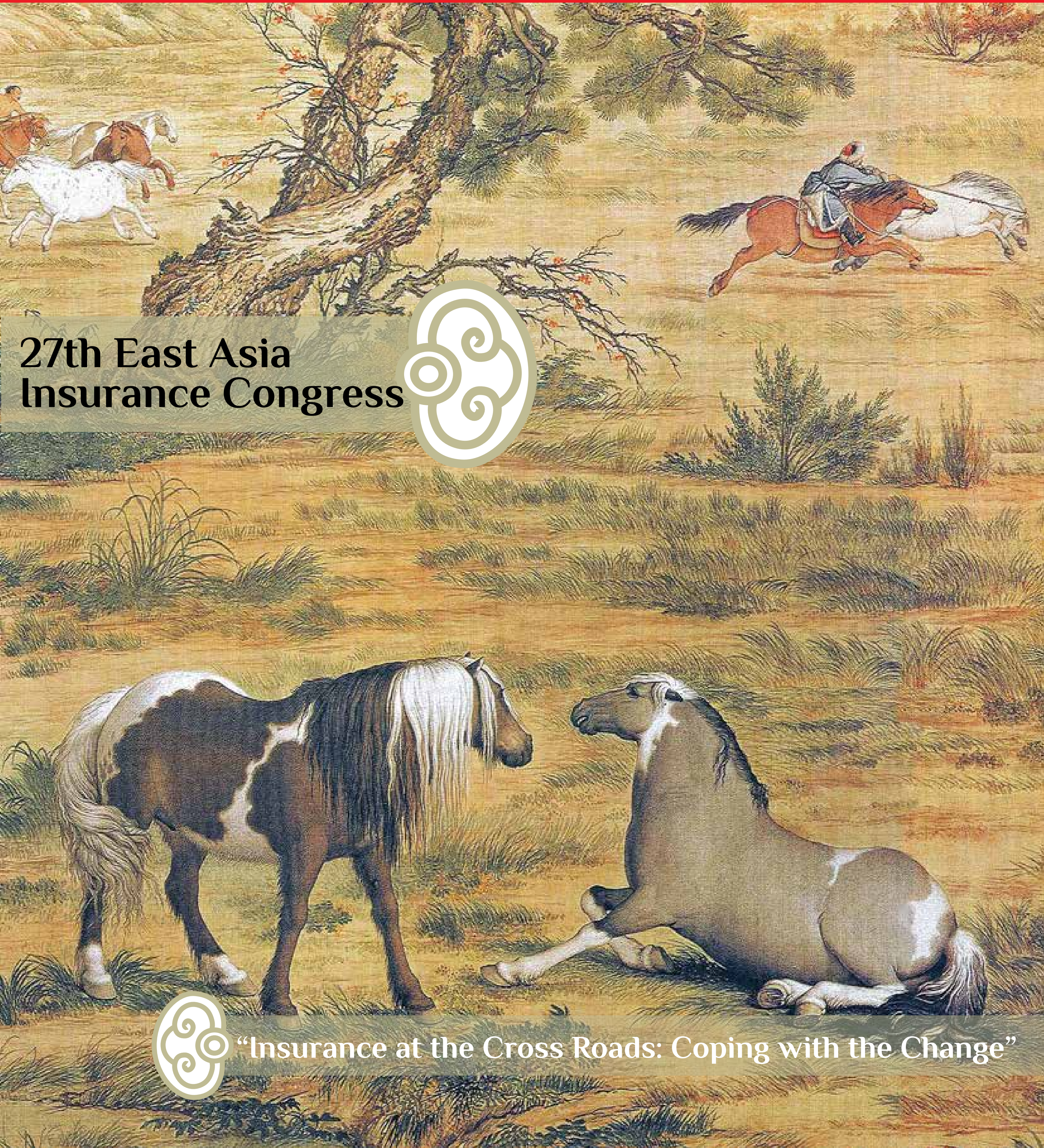

27th East Asia Insurance Congress

"Insurance at the Cross Roads: Coping with the Change"

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A force for good

The potential of the EAIC whose members chalk up premium volumes in excess of US$850 billion with a one-fifth share of global premiums is tremendous. Yet the sheer force and might of the grouping is not being actively tapped. Support for the EAIC is devout as each EAIC draws almost 1,300 delegates at least. This goodwill must be tapped further to generate more concrete and beneficial advantages for the insurance industry.

And to go a step further, the EAIC can become even bigger if it adds the East Asian giant China into its fold. China, now the 4th largest market in the world with a $278 billion market, is almost a third the size of the EAIC in premium terms based on sigma figures extrapolated. So just imagine the dramatic leap for the EAIC if China joins the grouping.

In reaching out to the masses, the EAIC Insurance Day is a major milestone of the industry and it is actively observed by the member markets who go out of their way to mark the day with several CSR activities to reach out to the people.

In Malaysia at the EAIC's 50th anniversary, the key question was how to make insurance a pull factor. And the whole industry is still grappling with this issue. A guru in his meditation of the insurance business, proclaimed that the greatest chink in selling insurance is that the buyers are often unaware of the great peace of mind that they have bought. They are unaware of the peace of mind that the paper should have given them as they are unfortunately unaware of what they bought. So it is looked upon as a wasted investment. The hot struggles of the motorists to pay their own damage to avoid losing their no claim bonus is a farcical truth about buying a product and finding satisfaction only in not using it. What gives?

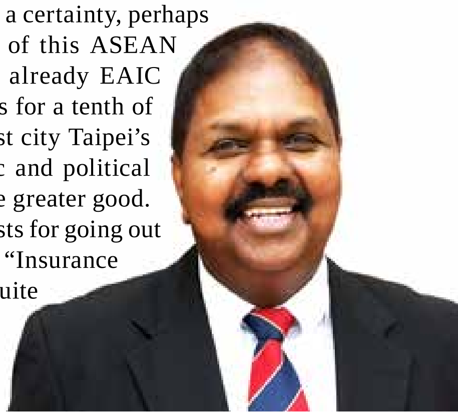
Hence, the answer is blowing in the wind. Simplify the products sold and let the buyer know the amazing and exact peace of mind he has bought. As society gets more risk conscious and worry about risk exposures, buying peace of mind will be a craze. They are ready to pay, God and religion notwithstanding. But the industry needs to sell that peace of mind to them in clear simple terms.

As an EAIC die-hard who has not missed an EAIC since the last time Taipei hosted it in 1990, I share some of the hopes I hear for the movement:

- EAIC should get more "Life". Life account for about 70% of the region's business and yet if you look at the attendance list, less than 30% are life professionals. Why?
- Time to set up a full-time dedicated CEO to run the EAIC as an important inclusive and dynamic platform to boost concrete regional co-operation within the EAIC;
- A more socially conscious EAIC, with the grouping seriously taking on some major corporate social responsibility projects in the region to help the poorer people within EAIC.
- Using the EAIC as a more dynamic caucus group to face the regulators at a time where regulations are listed as increasing the cost of doing business;
- Draw the younger professionals into the inner circle of the EAIC. Perhaps it is time to set up that magic circle of "EAIC under-35s" to jazz up the EAIC and revitalise it.
- Engage risk managers in the region in active regional dialogue to make the insurers be more responsive to the changing needs of their clients as the risk profile is certainly changing and exposures are increasing. Insurers can and are sometimes leading the way as one looks at cyber, climate change and terrorism risks.

Lastly with the Asean Economic Community being a certainty, perhaps EAIC can gear up to exploit the spill-over benefits of this ASEAN grouping as seven of the 10 ASEAN countries are already EAIC members. Though ASEAN ($81 billion) only accounts for a tenth of the EAIC in premiums and is in still smaller than host city Taipei's premium income of $91 billion, ASEAN's economic and political clout is immense. These building blocks will serve the greater good.

I take this opportunity to congratulate the Taipei hosts for going out of the way to make this 27th EAIC with the theme of "Insurance at the Crossroads: Coping with Change" a major C-suite event. The stage is set. The rest is up to you!



Sivam Subramaniam
Editor-in-Chief, *Asia Insurance Review*

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- **From the File: Flashback to EAIC Taipei in 1990**
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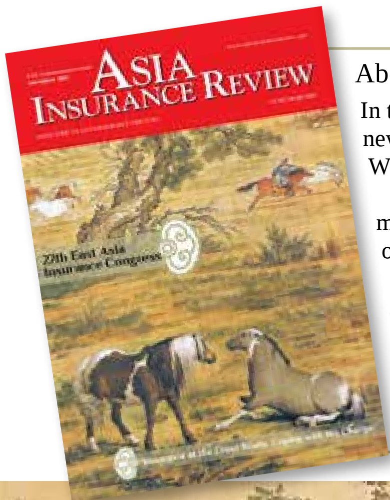


About the cover picture: Extract from ***One Hundred Horses***

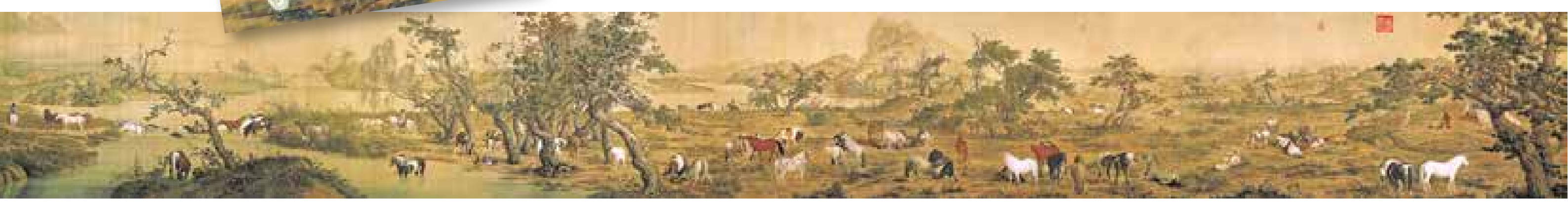
In this silk handscroll measuring 94.5x776.2cm, Giuseppe Castiglione (朗世宁) forged a new style in Chinese painting, combining elements and techniques of both Chinese and Western painting.

Using Chinese painting materials, Castiglione adapted traditional texture stroke methods of Chinese painting to give objects more substance. His emphasis on washes of colour was also based on native techniques.

Western techniques such as shading and atmospheric perspective, normally absent in Chinese painting, gave depth, the effect of light and a sense of realism to the horses which are shown in a variety of activities.

This painting, done in 1728, represents an early masterpiece in Castiglione's syncretic style of East and West.

National Palace Museum, Taipei, Taiwan



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- **Dynamics in East Asian insurance markets: The growth story continues**
  Mr Jonathan Tang from **Swiss Re** gives an update and quick review of the markets in East Asia, most of which are reporting good premium growth for both life and non-life.

- **Superior value creation with distribution**
  Mr Bill Johnston of **Towers Watson** takes a look at what insurers in Asia can do to improve the effectiveness of their existing distribution channels and drive superior value creation.

- **A rating of stable outlook for Asia**
  Generally, the outlook for the insurance markets in Asia is stable but for some markets and for the reinsurance sector, **Mr Michael Vine** of **Standard & Poor's** maintains a negative view.

- **The challenges for Korea, Japan and China**
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- **A scheme for regional disaster risk financing**
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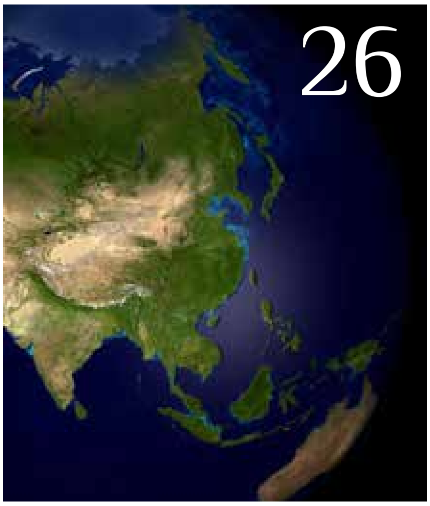
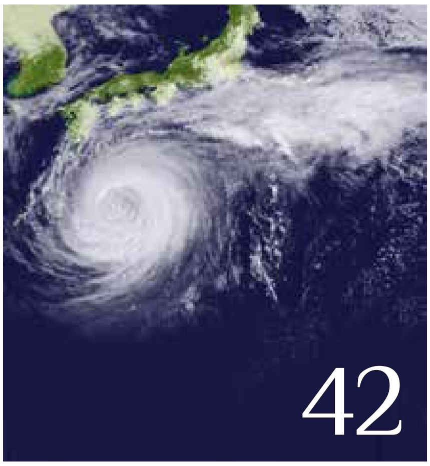
- **ASEAN draws more FDI**
  Dr Tomikazu Hiraga from the **NLI Research Institute**, Japan, looks at the flow of FDI into ASEAN countries as the region get set to launch the ASEAN Economic Community.





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27th EAIC Organising Committee

(Seated from left to right):
Joe Lai • Jack Tai • Patrick S. Lee • Yaotung Lin

(Standing from left to right):
Lin Kuan-Miao • Liang-chin Hsieh • Yi-Jiun Chen • Kathy Lu • Irene Liang
Johnny Li • T.N. Horng • Roy Meng • Martin K. H. Sha • Soledad Liu
Nancy Kuo • Jason Tsai • Tracy Chen • Yann Chang Chen • Julian Tsao

Taiwan has a relatively mature economy. Total insurance assets and premium income in 2013 came to approximately US$500 billion and $90.3 billion respectively.

Insurance industry assets are growing steadily, and their share of total financial institution assets is rising, from 13.6% in 2002 to 28.9% in 2013, which indicates the importance of insurance industry for the whole financial market.

Key policy objectives

The great majority of Taiwan's insurers are run in a very safe and sound manner, and are experiencing stable growth. As the competent authority, the FSC focuses mainly on building up a favourable business climate for insurers.

Our three key policy objectives are to:

- Establish a new order in the insurance market;
- Create an insurer-friendly environment; and
- Bring our insurance market more closely in line with international norms.

The goal is to help our insurers become more competitive.

Addressing adverse interest rate environment and population's needs

Nowadays, our insurers face an adverse interest rate environment, and demographic ageing presents the industry with longevity risk, but we have been working to address these problems, which included setting up the "Competitiveness Promotion Program for Insurance Industry".

The programme's main topics include easing business restriction to improve operation efficiency, meeting the insurance needs of an ageing society, meeting the insurance needs of an internet area, improving the efficiency of capital and financial management, expanding presence in Asia and encouraging products innovation.

Furthermore, in order to urge insurers to have more social responsibility, we encouraged insurers to develop microinsurance for the protection of weak community. For the insurance needs of an ageing society, we encouraged insurance products innovation to increase the need of insurance, set up sales-incentive mechanism to increase insurance policies, encourage insurance funds to invest in long-term care businesses, set up self-directed labour pension mechanism to provide qualified pension products, etc.

Regulations

On the issues of solvency requirement and ERM, we have implemented the risk-based capital requirement since 2003. We also set "The Plan to Integrate Taiwan's Insurance Solvency Regulatory System with the International Regulatory Standards" phase 1 from 2005 to 2009 and phase 2 from 2011 to 2015 to integrate our insurance solvency regulatory system with international regulatory standards gradually.

Finally, development prospects look very good for our insurers. I sincerely hope that insurers and regulators can collaborate to cope with challenges and improve the stable development of insurance industry.

Ms Joanne Tzeng
Director General,
Insurance Bureau, Financial Supervisory Commission Taiwan

The insurance industry is facing ever increasing challenges. Developments in the global insurance markets, new internal standards and requirements, the increasingly complex and interdependent financial markets, and the globalisation of financial services have precipitated reforms on all fronts.

Hong Kong is no exception. Both our industry and our regulatory regime are evolving. This notwithstanding, we believe close co-operation and communication between the regulator and the industry is the key to the success of all these reforms.

The East Asian Insurance Congress provides an excellent platform for insurance practitioners and regulators to get together to exchange views on market and regulatory developments. I wish this year's East Asian Insurance Congress every success.

Ms Annie Choi
Commissioner of Insurance,
Hong Kong Special Administrative Region

In the last decade, the world had gone through changes and suffered disasters that we never experienced before. We saw technology developing at an explosive speed, enabling economy of most countries of the world to thrive further. We saw science breakthroughs that lead to increased human longevity as well as abundant materialism.

Still many calamities

On the other hand, the world economy was severely affected by the financial tsunami in 2008, and has not completely recovered yet. Many countries also faced calamities due to global climate changes that result in large scale earthquakes, super typhoons, frequent cyclones, tsunamis, etc, many of which were said to occur once in a hundred year.

In the past two years, we further saw nuclear leakage in a power station, the outbreak of avian flu and the recent Ebola, as well as the mysterious missing civil aircraft, let alone the ever existing turmoil and warfare in Middle East, Ukraine, and Afghanistan.

These happenings, global or local, benign or misfortune, have made all of us think deeply: Why would a government not respond promptly and effectively to address to these changes? Why would our financial system go unchecked and collapsed? What went wrong and how could we deal with it?

More resources needed to deal with possible future misfortunes

This is of course a broad and heavy subject. There is no way for us in the insurance industry to tackle it solely. Nevertheless, we should try our best to study the reasons behind those changes, particularly those pertaining to our industry. We should put in more resources in the hope to structure suitable and useful strategies to deal with possible misfortunes ahead.

People may say a problem that happened on other side of the globe seemed far away and does not concern us. However, because the distance between countries and between people is so much closer today, as a result of technology innovation, problems unique to a community may not just be its own.

Insurers need to address the changes seriously

Ageing problem, the needs of retirement and medical protection, instability and improper regulation of the financial sector, increasingly-worsening catastrophic weather change, the higher standard for the qualification of the insurance intermediaries, etc, these problems are universal and faced by all insurance practitioners and regulators without exception.

If our industry is determined to move forward, we have to seriously study and address these drastic changes that affect us in the next decade. If not, we would be wiped out.

This exactly matches the theme of the 27th EAIC this year: "Insurance at the Cross Roads: Coping with the Change". EAIC is always a good platform for the insurance industry to share and exchange views on issues related to benefits and faults of the industry. I believe this purpose can fruitfully be reached this year, both for practitioners and regulators.

Taking this opportunity, let me convey the best wishes to the success of the 27th EAIC in Taipei.

Dr António José Félix Pontes
Executive Director & Insurance Commissioner,
Monetary Authority of Macau

My warmest greetings from the Insurance Commission of the Philippines. It is with great honour for me to convey this message and welcome our fellow insurance regulators and distinguished guests from neighbouring countries who will be taking part in the 27th East Asian Insurance Congress (EAIC) with the theme "Insurance at the Cross Roads: Coping with the Change."

Devastating impact of Typhoon Haiyan

The timing of this congress could not have been better as we are indeed at a crossroad of change and moving towards a period in our lifetime where the threat of natural disasters in our region has never been more risky as they are life threatening.

To me and the rest of my countrymen, the month of November would also mark the first anniversary of Typhoon Haiyan (Yolanda), whose devastation was among the costliest in Philippine history with more than 6,000 confirmed fatalities and its aftermath are still being felt to this day.

Though our country is no stranger to tropical storms and typhoons as we get hit all the time (on average at least more than a dozen times a year), Haiyan was no ordinary storm. Despite our best efforts to prepare for the worst, our insurance industry almost could not fathom the utter devastation it brought as the death toll climbed to the thousands and the cost of damage up to the billions.

Fortunately, through sheer will, perseverance and years of experience, our valiant colleagues in the industry had mustered the courage to overcome this huge challenge imposed by a typhoon of epic proportions. For all the catastrophes that hit us over the years, we are as always, going to pick ourselves up and rebuild what was lost. A typhoon like Haiyan may be unstoppable, but it can be survived.

Resolve to protect people from risks and calamities

As we have established time and again, life is a constant change, but so too does our resolve.

I firmly believe that in view of everybody's professional knowledge and experience, learning from the risks posed by natural disasters will greatly contribute in mapping out the financial infrastructure and strengthen each country's capacity to cope with impending calamities (both natural and man-made) while also ensuring that market players develop better products and strategies to compete in the fast-changing regional economic landscape.

Sure, it may be even more costly to provide insurance protection now than it was a decade ago due to the greater risks involved, but realising that we are also offering a peace of mind to the insuring public would surely make it worth the cost.

Harmonising efforts towards a common goal

In a period where safety is paramount and security is an utmost concern, we need a group of selfless and dedicated insurance professionals who are willing to share their time, skills and knowledge for the benefit of the industry and can adapt to the growing needs of our region.

Furthermore, this convention is more than just a meeting of individuals from different countries; it is an event where the best and the brightest men and women of the insurance industry converge under one roof and contribute to the betterment of each other's craft.

As we now live in a world where we are inundated with more information on a daily basis that we can possibly process, the challenge is to set aside our differences; because true success is realised when we harmonise our efforts towards a common goal.

I would also like to commend the EAIC for organising this prestigious event biennially, which is a demonstration of their steadfast commitment to the insurance industry and provide an excellent opportunity to exchange ideas with the international community.

More power and God bless us all.

Atty. Emmanuel F. Dooc
Commissioner
Insurance Commission, Philippines

We are going through a fragile and uncertain period. Asia is operating in a rapidly evolving global risk landscape, while its own demographic, economic, environmental, and technological profile is changing at an unprecedented pace and scale.

Three key risks stand out. A Vulnerable Asia faces increasing natural catastrophe risks, due to climate change and global warming. An Ageing Asia faces increasing longevity risks. An Interconnected Asia remains at risk of knock-on effects from global systemic financial failure, and will be impacted by global regulatory reforms. At the same time, many parts of Asia remain underinsured. The widening protection gap remains an immediate concern for many Asian countries.

Regulations that are "fit-for-purpose"

These changes have profound implications for both insurers and policy-makers. The insurance industry will have to adapt and respond to these changes so as to continue to perform their vital roles as shock absorbers for the real economy, providers of protection and investment solutions for individuals, and as long-term institutional investors

As regulators, we also have to aim for insurance regulations that are "fit-for-purpose" for the insurance sector, adequately addressing risks while continuing to allow the insurance sector to innovate and prosper in the face of current and future challenges. There are also areas where private and public sectors should work together in addressing the long-term needs of our societies.

One strong and consistent Asian voice

In the same spirit that the East Asian Insurance Congress (EAIC) was first formed back in 1962, Asia should come together as one strong and consistent Asian voice. While Asia remains a highly diverse region, there is much scope for collaboration among Asian jurisdictions to devise solutions to issues facing the region today. There is also scope to foster greater cooperative efforts at international fora, and influence the development of global insurance standards that better reflect Asia's stage of development and risk exposures.

I wish you all a productive and interesting congress. Thank you.

Ms Loo Siew Yee
Executive Director, Insurance Department
Monetary Authority of Singapore

On behalf of the Office of Insurance Commission, Thailand, it is my great pleasure to congratulate the East Asian Insurance Congress and the Insurance Society of R.O.C for organising the 27th East Asian Insurance Congress.

For over five decades, the EAIC has contributed greatly to the development of the insurance market in East Asia. It has served as a successful platform for the insurance industry in the region to share valuable information, exchange ideas and updates, and discuss the challenges that lie ahead.

The theme of this year's EAIC, "Insurance at the Cross Roads: Coping with the Change", is indeed appropriate and timely. Many important topics such as ageing society, CAT risks, force of social media in insurance, and investment management, embrace the current and future challenges in the insurance industry. The Congress shall provide us with the opportunity to join forces and explore solutions to these challenges, hence, turning them into opportunities.

For Thailand's insurance industry, certain approaches such as building public awareness of insurance, increasing product innovation, and cooperation between the public and private sectors, are being planned to address these challenges.

Despite the current challenges that could lead to large increases in uncertainty and risk for the insurance industry in East Asia, I strongly believe that this Congress will foster many ideas to further improve the supervision of the insurance industry on a domestic and a regional level as well as to further expand the insurance markets in East Asia for continued growth and stability.

I would like this opportunity to thank the East Asian Insurance Congress and the Insurance Society of R.O.C for organising this productive event. Please also accept my best wishes for a successful congress, and to all delegates, a memorable and enjoyable time in Taipei.

Mr Pravej Ongartsittigul
Secretary – General
Office of Insurance Commission, Thailand

EAIC is an essential and excellent platform for insurance people to share experiences and expertise, exchange views, and discuss current critical issues along with feasible and creative solutions, and promote mutual cooperation of all EAIC members.

With the regional economic integration and outstanding economic growth of Asian countries, we expect and believe that the EAIC is going to play a decisive role in the global insurance industry. With this synergy, we shall be able to build a sound insurance market in Asia.

Taiwan is located in a natural disaster prone area with an outlook of ageing population, excessive competition with limited domestic market, and low returns on investment with restricted instruments.

Additionally, facing the threats of liberalisation and internationalisation of global financial markets, and the disadvantages of regional economic partnerships, Taiwan insurance industry needs to cope with all the imperative issues and strengthen competitive advantages.

Looking ahead, the Financial Supervisory Commission (FSC) and Taiwan insurers will collaborate in the following directions and measures to enhance our international competitiveness:

- Use differential regulation to enhance operation efficiency, encourage well-run businesses, strengthen solvency and expand businesses operation capability.
- Activate insurance policies to help consumers obtain maximum benefits and create more demands for insurance products designed for the elderly, to fulfil the needs of an ageing society.
- Allow the online purchase of insurance, innovate new types of e-commerce insurance products, and provide a diverse range of online insurance services to respond to internet-age insurance needs.
- Ease restrictions on use of funds to achieve better returns, adjust insurance product line-ups to lower the cost of liabilities and improve operating results.
- Develop offshore insurance business, deregulate to encourage M&A activity, and cultivate professionals with the skills needed for international insurance business to expand business in Asia.
- Innovate new insurance products, such as foreign-currency products, unit-linked policies and disaster and parametric weather insurance, to satisfy the customers' needs.

Mr Ted C T Liang
Chief Delegate, **Taipei**,
President, Taiwan Insurance Institute

On behalf of the Brunei insurance industry and as the Chief Delegate from Bandar Seri Begawan, I would like to express my heartfelt congratulations and extend my sincere gratitude to the Taiwanese insurance industry for hosting the 27th East Asian Insurance Congress (EAIC) this year.

Personally, I have only attended the EAIC twice ie in the year 2006 when Bandar Seri Begawan, Brunei Darussalam, was the host city and in the year 2010, when our Indonesian industry hosted the event in Bali, Indonesia.

I would like say thank you to the previous Chairmen and Chairwomen of General Insurance Association Brunei (GIAB), particularly to Mr David Wong, Mr Paul Kong, Ms Dorothy Newn and Ms Helen Yeo, for giving me guidance on being the new Chief Delegate for Brunei insurance industry, of which they have been representing before. Being the Chairman of the newly established association for this industry, it is such a great pleasure and honour to be here today to represent our country in this auspicious event.

The "face-to-face" meeting is irreplaceable

Despite the fact that I have only attended this event twice previously, I found both times to be rewarding. EAIC provides us with an excellent platform to share the experiences and knowledge which I believe will further contribute to the development of the insurance industry in this region.

Going back to the days of the EAIC events that I had attended, I have always treasured those memories where it has been an interesting journey I must say. It had been interesting, listening to the experiences and knowledge of the speakers and panellists from all over the world, and for me, the "face-to-face" meetings still cannot be replaced by the communications through the latest technology especially the social media. This has made us "socially" human, from the sense of touch of the handshakes, the eye contacts, the smiles, the business cards and to the tone of words that we exchanged.

Of course at every EAIC event, the most anticipated cultural performance is the one represented by each country during the gala dinner, it is one of the highlights of the event. I was there and I performed! Being there and witnessing the performance was definitely not the same as watching it via live telecast or live streaming from YouTube.

Scope of EAIC will get bigger

I believe the EAIC will remain relevant for many years to come with the role that it plays for the interests of the insurance industry in this region. With the growth of the industry in the East Asia region, the scope of EAIC will be bigger in strengthening cooperation and sharing of views in the future. We certainly look forward to participate in the future EAIC events.

Again, I would like to take this opportunity to express our heartfelt appreciation to the Chairman and the 27th EAIC Organising Committee of Taipei for their tremendous efforts in organising this Congress. Through their dedication and teamwork, I would like to thank them for everything in making this Congress possible.

I wish you all the best and have a fruitful time in Taipei.

Mr Haji Osman Jair
Chief Delegate, **Bandar Seri Begawan**,
Chairman of Brunei Insurance and Takaful Association (BITA)

It is my great pleasure and privilege to warmly extend our Thai congratulations to the 27th East Asian Insurance Congress Organizing Committee. Today, EAIC has accomplished a new chapter for insurance and reinsurance practitioners within the region to exchange ideas and share information on key issues that we are facing in our insurance industry.

This year's theme "Insurance at the Cross Roads: Coping with the Change" and topics such as Ageing Society, Catastrophe Risk Modeling and Investment Management are timely subjects for us to learn and prepare for the rapid changes in the current turbulent economic and business environment. I do hope that the debate and discussion during the Congress will help us in working together towards a sound development of our insurance industry in the coming years.

Thai insurers taking steps to adapt to changing environment

Despite the Thai political vulnerability toward the end of 2013, our Life and Non-Life insurance businesses have demonstrated double-digit growth of 13.0% and 13.1% from 2012 respectively. The Non-Life insurers have gradually recovered from the flood crisis in 2011.

We are taking steps to adapt to the changing environment, both in terms of frequency and severity of weather events. However, catastrophe management and modeling techniques are still much needed in order to conduct our operations sustainably.

Non-life moving towards gradual rating liberalisation

The overall penetration rate reached 5.4% and the insurance density was THB9,971 (US$312) in 2013. Hence, there is still a great potential and abundant opportunity for Thai insurers to grow in both domestic and international markets, particularly in the upcoming economic integration amongst the ASEAN nations under AEC Framework at the end of 2015.

We are also expecting an enhanced standardised framework on Risk-Based Capital II Regime in the years ahead. The Thai Non-Life insurance market is also moving towards a gradual rating liberalisation. Hence, sound underwriting discipline together with strong management on cost efficiency are crucially important to cope with volatility of risks.

Scarcity of human capital resources and high acquisition costs are key challenges

The key challenge on the future of the Thai insurance markets is the scarcity of human capital resources on both soft skills and technical expertise. The talent movement across ASEAN insurance markets is explicitly imminent.

An increasing demand on higher acquisition costs from various distribution channels is another concerned area that needs to be addressed. Leveraging all the above issues is a challenging task for Thai insurers to pursue a long term sustainability.

Once again, on behalf of the Thai General Insurance Association, may I take this auspicious opportunity to wish the Organizing Committee as well as all delegates across the world participating in the 27th EAIC in Taipei a successful event and happy networking!!!

Mr Arnon Opaspimoltum
Chief Delegate, **Bangkok**

Congratulations to Taipei in hosting the 27th East Asian Insurance Congress (EAIC), one of the most remarkable insurance congresses in the region! This year, I am delighted to be one of the chief delegates of this well recognised industry event.

Ever since the establishment of EAIC in 1962, this meaningful biennial congress has served as an exciting platform for insurance practitioners from close and afar in sharing opinions, learning from each other as well as developing further collaborations in all fields of insurance across the East Asian market.

Changes in the Hong Kong insurance industry

Echoing with the theme of EAIC this year, "Insurance at the Cross Roads: Coping with the Change", the Hong Kong insurance industry is facing tremendous changes in the years ahead. The imminent establishment of the Independent Insurance Authority, the proposed introduction of a Health Protection Scheme, risk-based capital requirement and the Policyholders' Protection Fund are all happening in Hong Kong at the same time. All these will bring about substantial and long-term implications to our industry as well as the insuring public.

These changes are unprecedented challenges for the Hong Kong insurance industry. Through lively discussions and exchange of ideas among industry leaders and reputable speakers at EAIC, we look forward to exploring new solutions and looking at issues from different perspectives to propel our market to new heights while safeguarding the interests of our industry.

Human factor keeps delegates coming again and again

It is our pleasure to be the steadfast supporter to this important and biennial congress over the years. The comprehensive package the EAIC offers, for instance, the excellent programmes, quality presentations, prominent participants and abundant opportunities for business networking, attracts thousands of insurance practitioners year after year.

Apart from these, EAIC provides a unique platform for bouncing off ideas, stimulating innovation and creating business opportunities. The human factor, as the most important attraction, such as the personal touch and "home feeling" which EAIC imparts, definitely keeps delegates joining the regional congress from time to time.

We would like to express our sincere gratitude to the Organising Committee for their warm and gracious hospitality. Rekindling many old friendships as well as meeting new delegates are what I expect at this year's EAIC. Wishing you all a fruitful and joyful time in Taipei.

Mr Jimmy Poon
Chief Delegate, **Hong Kong**

It is indeed an honour to convey a message for the 27th East Asian Insurance Congress's special commemorative supplement of *Asia Insurance Review*.

The 27th EAIC, which will be held in Taipei from 2 to 6 November 2014, has the theme "Insurance at the Cross Roads – Coping with Change". The selected topics for discussion at this Congress will provide a vital platform for insurers to exchange ideas and information which can be explored to address the industry's position at these cross roads.

The EAIC is the single most important gathering in Asia for the insurance fraternity and provides a perfect opportunity for delegates to come together to meet and share. The ultimate goal of the EAIC has always been to bring about positive changes in a conducive business environment and to raise further the level of professionalism and transparency to secure our customers' trust and confidence.

Transitioning into a new era

The insurance industry is now in a period of transition into a new era. Whilst each member city faces different challenges and priorities, we continue to have common goals.

Many of the issues that we have addressed in the past have changed. The 27th EAIC will focus on more current issues such as the ageing society, global warming, frequency and severity of natural disasters and how to manage them, emergence of new risks and availability of protection, customer sophistication, growing use of technology across all aspects of insurance operations, greater collaboration and alignment with insurance regulators and the use of innovation to meet the demands of our customers.

The close collaboration within which the member cities of the EAIC work in has led to the tradition of issuing declarations at the end of each EAIC which started after the Congress in Tokyo in 2002. These declarations have become an integral part of the EAIC membership and are critical pronouncements which reflect the signs of the times faced by the insurance sector and provide a commitment to address issues of the insurance fraternity in this region.

ASEAN Economic Community

In addition to the demands on insurers in this new era, countries in the Southeast Asian region are already embarking on a more integrated economic environment with the ASEAN Economic Community which is targeted to be implemented in 2015.

In the same breath, there are some member cities of the EAIC which are gearing up for the liberalisation of trade barriers, although there are others like Singapore that have already had this in place for a few years.

Malaysian insurance industry

Malaysia is one of the countries that has yet to liberalise and sees this as a challenge. Operating traditionally under a tariff for its two major classes, ie, fire and motor, the key issues and challenges observed in other industries in such conditions was the unhealthy competition which in instances led to extreme cases where the viability of insurance companies was threatened. These observations will form a benchmark for Malaysia.

Conditions in Malaysia may however vary from other markets due to the robust regulatory and supervisory framework that we have, in particular the close supervision by the regulator. The increasing focus on corporate governance and risk management and the dominance of foreign-owned or joint venture of foreign insurers, where the foreign parent company or partner has experience operating in a liberalised environment or has gone through liberalisation will be a plus point.

I take this opportunity to wish the organisers a successful 27th EAIC and to all the delegates a rewarding Congress.

Terima-kasih.

Mr Chua Seck Guan
Chief Delegate, **Kuala Lumpur**,
Chairman, **Persatuan Insurans Am Malaysia** (PIAM)

On behalf of the delegates of the great little city of Macau, I would like to extend our heartfelt congratulations to the 27th EAIC in Taipei.

Every two years the EAIC offers excellent opportunities for delegates from member cities to meet up with one another to share their views on how we may make our industry better to better satisfy the needs of our customers. We also get to hear world class practitioners and speakers enlighten us on what lies ahead and what path should we take moving towards prosperity.

Taipei is very well set for this meeting of great minds and exchange of great ideas. We may look forward to four days of mental nourishment while enjoying the hospitality and warmth of Taipei.

Seeking diversification

We should count ourselves lucky living and working in this part of the world, where we see enviable economic growth and relative stability in most of our markets. This exactly is the environment that we need for the industry to prosper.

We in Macau continue to enjoy a fast paced development driven by the growth in the gaming, tourism and hospitality industries. While Macau is considered one of the largest gaming destinations, with one of the highest per capita GDP in the world, we see the risk of the economy being too one-sided.

The Government of Macau is working diligently to bring about an appropriate level of diversification to counter the possible negative impact of the over reliance on a single sector in the event of a cyclical downturn. While the insurance industry undoubtedly is a beneficiary of the unprecedented economic growth in the past decade, we also have an undisputed role to play to complement the Government's initiatives to diversify the economy.

Right people, right environment, right moves

Given the increased demand for insurance products and services resulting from the expansion of the economy and the growth of the population, the industry will continue to invest in product innovation, system enhancement, process and service improvement, and most important of all, people development.

The aim is to have the right people in the right environment to take the right moves to bring the industry forward. The Macau insurance industry, being an essential component of the economic infrastructure, will then be able to make its mark as an important contributor towards the healthy development of the Macau economy.

We will find many opportunities during the next few days to reflect on what the Macau insurance industry has been doing and, with the plentiful supply of insightful ideas, what it can build on to continue to grow. We look forward to a very fruitful congress.

Macau will host next

Macau is well on its way in preparation to host the 28th EAIC in 2016. We already have many world class attractions in place to welcome you. As Macau continues with its fast paced development, renewing itself every day, by 2016 many more new hotels, convention facilities, entertainment options and fine restaurants will be there to satisfy your every need.

We look forward to welcoming you to the 28th EAIC in Macau to experience the warm Macanese hospitality.

Mr Chris Ma
Chief Delegate, **Macau**

"Insurance at the Cross Roads: Coping with the Change" is a very timely theme for the 27th EAIC.

I am optimistic that the exchange of city updates, the challenges and opportunities we can derive from each report and the relevance of possible solutions each city can strategically benefit from each session, will be achieved.

Indeed, the insurance industry is challenged in the midst of significant global insurance issues. From the challenges of increasing incidence of catastrophic events, to economic growth and consumer demands, we gather so much interest and enthusiasm to create opportunities for stronger and sustainable insurance growth.

Expectedly, this Congress will bring closer collaboration within each country in setting insurance standards to adapt to their respective landscapes' constantly changing insurance needs. In the Philippines, there are a number of insurance thrusts to create structured and dynamic insurance practices.

Goal to increase market penetration in the Philippines

I strongly believe that the Philippine insurance industry, at this time, is firmly aligned with the international insurance standards. We have made several improvements in the regulations, insurance practices (with the passage of the New Insurance Code R.A. 10607) and extensive awareness campaigns in the light of increasing frequency of natural disasters, the upcoming ASEAN economic integration and corresponding regional competitions.

Continued drive towards higher standards

I am confident that this Congress will further boost our industry's drive towards higher standards in the delivery of our services to our markets. Together with the other Philippine insurance leaders, our goal is to increase market penetration and for insurance to be valued as part of every Filipino household. We will adapt to every single change with concerted efforts, reaching the sound solutions that are needed. In this event, sound solutions include technical issues in the acceptances and writing of insurance businesses.

Respected insurance speakers would no doubt deliver the latest developments and achievements in the conduct of insurance practices. I am confident that the organisers will successfully execute the objectives of this meaningful event to meet the delegates' expectations.

I like to consider that in the succeeding Congresses, we maintain and further strengthen the spirit of unity in making insurance not just a worthwhile business, but also that it becomes a necessity in our lives.

On behalf of the Philippine Delegation, I would like to congratulate the East Asian Insurance Congress organisers for this yet, another successful insurance event.

Mabuhay!

Mr Melecio C Mallillin
Chief Delegate, **Manila**

It is with great pleasure that I extend my heartfelt congratulations on the 27th East Asian Insurance Congress (EAIC) held in Taipei, a beautiful city with a splendid blend of traditional and contemporary culture.

I am profoundly honoured to be a part of the EAIC on behalf of Korean Re, one of the long-standing members of the East Asian insurance community. This year's conference is particularly meaningful for me as it is my first time to join as CEO of Korean Re since I took office last year.

Sharing to gain insight and wisdom

I expect this event to serve as a great opportunity for me to meet with a number of leaders and experts in the (re)insurance industry and share inspiring thoughts and ideas on the current market situation. I have no doubt that it is one of the most ideal occasions for insurance business leaders to gain insight and wisdom to work through the many challenges they are faced with.

Over the past five decades, the Asian insurance market has grown significantly, backed by rapid economic development and population growth. The depth and breadth of our insurance expertise and experiences have considerably improved over the course of a relatively short period of time. A huge amount of growth potential still lies in our East Asian market compared to highly mature markets in the advanced western world.

Korean Re's growth is testimony of East Asian players' potential on global stage

Korean Re is a testimony to how far such potential could be realised. Korean Re was established in 1963, one year after the first EAIC was organised. Only 50 years later, it has become the world's ninth largest reinsurer in terms of gross written premiums as of FY2012. This not only represents a gratifyingly successful achievement for Korean Re, but also demonstrates how far East Asian players can advance on the global stage.

Cooperation a key tool of growth for next stage of development

I believe that the growth of our East Asian market has been accelerated by cooperation among ourselves. Deepening the level of cooperation will be essential to take our market to the next stage of development.

This may involve pooling capacity together to cover exceptionally large risks or working to build a stable operating environment where risks in Asia can be underwritten and covered within the region. In this regard, the EAIC has been playing an extremely important role in facilitating cooperation by providing a forum for information exchanges and discussions on our common challenges.

Need to be more nimble and innovative

As suggested by the theme of the 2014 EAIC – "Insurance at the Cross Roads: Coping with the Change", our industry is at a critical juncture in its path toward continued growth. We have to be more nimble and innovative than ever in the face of constantly-changing market conditions and growing challenges such as weakening profit momentum and increasing intensity and frequency of natural catastrophes.

No matter how formidable a challenge might seem, we can turn it into a breakthrough if we properly capitalise on it. And I am confident that this Congress will help us do that.

I hope we have meaningful discussions to figure out what needs to be done to tackle the current challenges, paving the way for closer cooperation among (re)insurers in East Asia to seek growth across the region and beyond. It is also my hope that everyone attending the Congress have a wonderful time building friendships and learning from each other. I wish the 27th EAIC an exceptional success.

Mr Jong Gyu Won
Chief Delegate, **Seoul**
President & CEO, Korean Re

It is with privilege that I, on behalf of the Singapore insurance industry, send my warm congratulations to the 27th East Asian Insurance Congress and to this year's Organizing Committee in Taipei, Taiwan.

Now in its 52nd year since its founding, the EAIC remains the biggest and most important insurance industry gathering in the region, and continues with its aim of helping further the development of the industry in East Asia. But beyond being a regional industry conference, the EAIC has championed the collaboration of our industry in the region to those in other regions and markets—one of its aims when it was established back in 1962.

We expect the EAIC to continue paving the way for such collaboration and sharing with other markets and regions. In this time of much interconnectedness of financial markets and increasingly, financial regulations and regulators, our region needs to keep pace with developments in financial and insurance markets around the world. Our markets have to constantly learn from these developments.

Similar issues that can be addressed together

Within our region, as challenges buffet our insurance markets on various fronts, we need to find more ways of working together. Many of our industry and business issues are shared.

Changing regulations, difficult investment environment, growing competition from within and outside the industry, increasing frequency and intensity of Nat CATs, rising cost of distribution, and more demands from customers—they are issues our markets share.

This means that we can also address them together by exchanging pertinent ideas and experiences. Our issues are far too many to deal with them separately. By engaging in discussions on how we can tackle them, there will be synergy in our responses. We will also be able to avoid the pitfalls and mistakes other markets and regions have committed in responding to a challenge.

Turning challenges to our benefit

As the theme of the 27th EAIC avers, our industry is at a crossroad. We are faced with a lot of changes and challenges and must decide how to take them on. As an industry, we are stronger and more capable of tackling these changes and challenges if we stand as one. With the EAIC taking place this year, let us take the opportunity to do just that: to discuss and ponder how we can together set our hands to coping with change and turning our challenges to our benefit.

Together with the Life Insurance Association of Singapore and the rest of the Singapore insurance industry, the General Insurance Association of Singapore would like to commend the 27th EAIC Organizing Committee and our Taiwanese colleagues and friends for their hard work in ensuring a successful Congress. We look forward to sharing with other delegates the recent developments in our industry in Singapore and to enjoying the renowned Taiwanese hospitality.

Thank you and I wish everyone a fruitful congress.

Mr A. K. Cher
Chief Delegate, **Singapore**
President, General Insurance Association of Singapore

On the occasion of the 27th EAIC and the 8th East Asian Insurance Day

Two years have passed since I took office as the EAIC Executive Board Member for Tokyo at the 26th East Asian Insurance Congress in Kuala Lumpur in 2012. The last Congress marked the 50th anniversary of the founding of the EAIC with the theme "Transforming the East Asian Insurers: Time for Action Now." In addition to presentations by delegates representing each city, a keynote address and general meeting were held on topics such as "Natural Disasters: Effects and Countermeasures."

The 27th Congress will be held this year in Taipei from November 2-6, under the main theme of "Insurance at the Cross Roads: Coping with Change." More than 1,000 people will attend the congress, including not only EAIC regular members from 12 regions of East Asia, but also insurance specialists from across the world.

Post-2015 framework for disaster risk reduction

With each country in Asia achieving steady social and economic development, insurance is playing a greater and more important role in society than ever before. There will be a need to respond appropriately to the various changes that are occurring both in Asia and around the world, such as climate change, population ageing, and increasing globalisation.

In particular, with the "3rd United Nations World Conference on Disaster Risk Reduction" scheduled to be held in Sendai in 2015, the insurance industry will also be expected to take an active role in international attempts at setting out a post-2015 framework for disaster risk reduction.

Opportunity to work together with specialists from all over the world

As the insurance industry stands at an important crossroad, this Congress will provide the opportunity for participants to share and discuss the challenges that need to be addressed, with a central focus on the question of how the industry can respond to change, while fulfilling its mission to contribute to social and economic stability and development through the provision of insurance products. With a number of specialists due to deliver presentations on thought-provoking topics, we anticipate that the Congress will be a valuable opportunity for EAIC members to work together with insurance specialists not only from East Asia but from across the world to develop better solutions.

Establishing a contract inquiry centre

As the Executive Board Member for Tokyo, I will also be participating in the Congress. I hope for the Japanese insurance industry to play a part in the better development of insurance business in East Asia by sharing information in the fields in which we have particular experience.

These include the establishment of a contract inquiry centre for customers affected by natural disasters, through which we aim to draw on the lessons of the Great East Japan Earthquake in order to relieve customers' concerns and ensure the swift payment of insurance claims, as well as our experience of tackling issues arising from population ageing, which is progressing in Japan at an internationally unprecedented rate.

Insurance Day

October 18 is East Asian Insurance Day. This day is an opportunity for each member region of the EAIC to promote awareness of insurance in society and understanding of the importance of the activities led by the EAIC. Carrying out these common initiatives is beneficial in bringing the various regions of East Asia together to help develop a sound insurance industry in East Asia, and to contribute to the daily lives of the people and social progress in the region.

I offer my warmest congratulations on this commemorative day, and hope the initiatives of the EAIC will continue to progress in the future.

Mr Hisahito Suzuki
Chief Delegate, **Tokyo**
EAIC Executive Board Member for Tokyo

Asia: Insurance premiums by country 2013

Country	Total			Life premiums			Non-life premiums		
	Premiums (US$ mln)	% growth over previous year	% of world market share	Premiums (US$ mln)	% growth over previous year	% of world market share	Premiums (US$ mln)	% growth over previous year	% of world market share
Japan	531,506	-15.2	11.45	422,733	-15.3	16.21	108,773	-14.8	5.35
China	277,965	13.3	5.99	152,121	7.8	5.83	125,844	20.7	6.19
South Korea	145,427	-4.9	3.13	91,204	-9.4	3.50	54,223	3.7	2.67
Taiwan	90,977	3.7	1.96	75,013	3.4	2.88	15,964	4.8	0.79
India	65,576	-0.4	1.41	52,174	-1.1	2.00	13,401	2.5	0.66
Hong Kong	36,075	10.6	0.78	32,059	10.9	1.23	4,016	7.6	0.20
Thailand	21,461	17.0	0.46	14,798	16.9	0.57	6,663	17.3	0.33
Indonesia	18,395	7.6	0.40	14,141	7.6	0.54	4,254	7.7	0.21
Singapore	17,962	6.5	0.39	15,092	7.2	0.58	2,870	2.8	0.14
Malaysia	15,146	2.1	0.33	9,985	1.8	0.38	5,161	2.7	0.25
Philippines	5,293	33.5	0.11	4,060	41.4	0.16	1,233	12.8	0.06
Vietnam	2,115	6.9	0.05	984	10.4	0.04	1,131	4.1	0.06
Pakistan	1,667	7.4	0.04	1,048	11.2	0.04	619	1.4	0.03
Macau	853	25.5	NA[1]	620	32.0	NA[1]	233	9.3	NA[1]
Sri Lanka	775	13.4	0.02	333	13.4	0.01	442	13.4	0.02
Brunei*	239	9.0	NA[1]	97	22.0	NA[1]	142	1.0	NA[1]
Cambodia	NA	NA	NA[1]	NA	NA	NA[1]	44	21.0	NA[1]
Total (Asia)	1,230,340	-4.4	26.5	885,745	-6.7	33.96	344,594	2.3	16.95
Total (World)	4,640,941	0.9	100.00	2,608,091	-0.8	100.00	2,032,850	3.3	100.00

* including takaful [1] As total world premium from *sigma* does not include Cambodia, Macau and Brunei, their world market shares are not available.

Insurance penetration 2013
(premiums as % of GDP)

Country	Total	Life	Non-life
Taiwan	17.6	14.5	3.1
Hong Kong	13.2	11.7	1.5
South Korea	11.9	7.5	4.4
Japan	11.1	8.8	2.3
Singapore	5.9	4.4	1.6
Thailand	5.5	3.8	1.7
Malaysia	4.8	3.2	1.7
India	3.9	3.1	0.8
China	3.0	1.6	1.4
Indonesia	2.1	1.6	0.5
Philippines	1.9	1.5	0.5
Macau	1.7	1.2	0.5
Vietnam	1.4	0.6	0.7
Sri Lanka	1.1	0.5	0.7
Pakistan	0.7	0.5	0.3
Cambodia	NA	NA	0.3
Total (World)	6.3	3.5	2.8

Insurance density 2013
(premiums per capita in US$)

Country	Total	Life	Non-life
Hong Kong	5,002	4,445	557
Japan	4,207	3,346	861
Taiwan	3,886	3,204	682
Singapore	3,251	2,388	863
South Korea	2,895	1,816	1,079
Macau	1,404	1,021	383
Malaysia	518	341	176
Thailand	310	214	96
China	201	110	91
Indonesia	77	59	18
Philippines	54	41	12
India	52	41	11
Sri Lanka	36	16	21
Vietnam	23	11	12
Pakistan	9	6	3
Cambodia	NA	NA	3
Total (World)	652	366	285

Sources: *sigma* report, Brunei Insurance and Takaful Association, Insurance Association of Cambodia, Macau Institute of Financial Services

Declarations for determined direction

We recap the declarations made at each EAIC since it started this practice in 2002 to up your expectations for 2014 with the theme of "Insurance at the Cross Roads: Coping with the Change".

2002 • Tokyo

Taking a Broad Sweep

- To rise to the challenge of meeting the changing and increasingly sophisticated consumer needs for insurance;
- To do our best in further strengthening our financial solvency and profitability by improving business efficiency, underwriting skills and asset management capability;
- To adopt and practice good corporate governance, risk management system and internal controls so as to strengthen our capability in serving the long-term socio-economic interest of our policyholders.

2004 • Bangkok

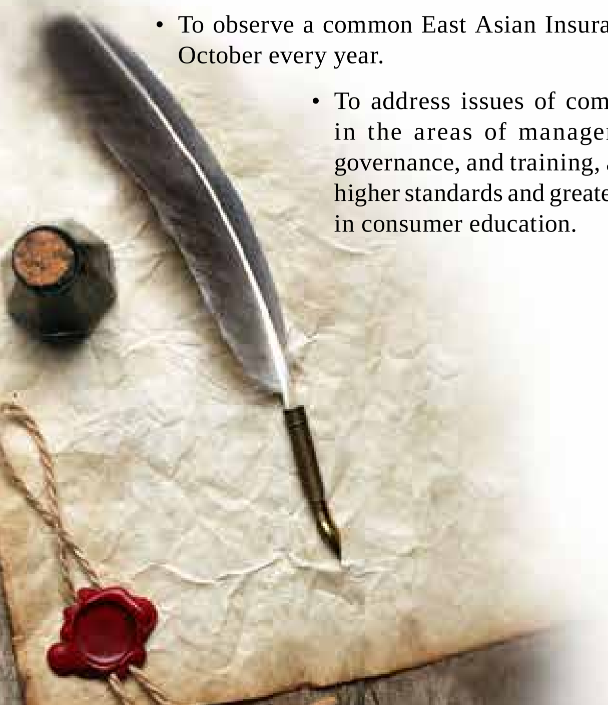
Big with an Action Plan

- To continue to address issues of common importance in the areas of management, corporate governance, training, and consumer education.
- To boost the standards and professionalism in the market while passing the torch on to future generations through training and education.
- To communicate issues of interest to the industry through publications and media with a regular column in Asia Insurance Review.

2006 • Bandar Seri Begawan

The Day is Done

- To use EAIC as a vital non-political forum for dialogue and exchange of ideas and experiences among member cities.
- To observe a common East Asian Insurance Day on 18th October every year.
- To address issues of common importance in the areas of management, corporate governance, and training, as well as aim for higher standards and greater professionalism in consumer education.



2008 • Hong Kong

From Crisis to Basics

- To take urgent action including working closely with respective governments to help restore market confidence and protect the interest of policy holders.
- To get insurers to focus on the "back of basics" philosophy in these times of crisis, to survive and succeed. They should provide protection and peace of mind to policyholders with prudent underwriting discipline, against the backdrop of strict corporate governance and enterprise risk management.
- To stress the need for greater innovation in the market and talent development.

2010 • Bali

Growth and Resilience

- To go back to the basics of insurance to focus on sound and prudent underwriting and business practices.
- To create a conducive business environment and be transparent in all transactions.
- To embrace a dynamic mindset that leverages on best practices and cutting edge technology.
- To put insurance industry into the forefront of financial sector while developing professional human resources.
- To transform the industry into an agile, pro-business force that responds to the changing needs of the market.

2012 • Kuala Lumpur

Making insurance a "pull" industry

- To enhance regional co-operation within the insurance industry.
- To be more proactive in meeting the needs of the marketplace through innovative means to promote the value of insurance to society in an inclusive manner.
- To give top priority to making insurance a "pull" industry.
- To launch an Essay and an EAIC logo design competition so as to re-energise the insurance industry of the East Asian markets for the next 50 years.

26th EAIC:
A case for an insurance world that pulls

The East Asian Insurance Congress celebrated 50 years in 2012, it was a milestone to remember, to ponder and to celebrate. We walk down memory lane and present highlights from that Congress.

The industry should make giant strides now to meet its challenges, with the need for transformation highly perceptible in the East Asian insurance markets. This was the central message conveyed by the speakers at the 26th EAIC in Kuala Lumpur.

Mr Teddy Hailamsah

Saying that insurers in the region should transform now after years of talk about going back to basics, Mr Teddy Hailamsah, immediate past President of the EAIC, urged the industry to learn from catastrophes taking place in and outside Asia. "We have to learn a lesson, with catastrophes taking place one after another. It is a strategic direction for us to really look into what is happening in the world, with the rapid growth of developments," he said.

He also encouraged the industry in the region to look at future issues, such as meeting the needs of the next generation of customers. "It is difficult to serve the clients now. You need to have innovation, to come up with new things, to do things earlier, and to offer all kinds of services," he said, adding that insurers have to change the paradigm of their business as well as prioritise the need to build talent.

Create an insurance realm that pulls

In transforming the region's insurance industry, there has to be a fundamental change in the approach to and perception of insurance by insurers themselves.

Mr Mark Saunders

"I am sick and tired of the old adage that insurance is sold. I know it's true, but it doesn't mean it has to be true. It can be changed," said Mr Mark Saunders, ex-Towers Watson's Managing Director, Asia Pacific, Insurance Sector and Risk Consulting & Software Practice Leader. He said that his dream for the industry is for the insurance world to become a "pull" rather than a "push".

Believing that collectively, the industry can make this dream a reality, he said that in changing insurance from push to pull, insurers need to provide what customers "want". "And we need an industry which we can be proud of, so that at the end of this conference when we go out of this room, the staff are lined up outside and they applaud us because of the great industry we work in. What a lovely world that will be. But the problem is, we are too change-averse."

Promote industry's noble role

In moving minds in the industry, he urged insurers to focus on awareness and appreciation of insurance, customer centricity and the issue of ageing, and to work with governments to build public-private partnerships. He also reminded them of three objectives people and businesses should have:

- Do well by doing good.
- Live long and live well.
- We can make a difference – so let's move minds.

"Provide for people's needs, through pull rather than push," he said as he urged the industry to promote the "good" about insurance: its social and economic role to provide peace of mind to people and businesses. "Insurance is noble at its roots. We should uphold its noble role in society in all we do," he said.

Collaborate to change industry perception

A multi-party collaboration is needed in addressing the problem of low perception of the industry, said Mr Clarence Yeung, ex-Group COO & CUO of ACR Capital Holdings, as he identified check, change and communicate as the three Cs to changing the perception of insurance.

"Some solutions that we can look at don't need be new, but we need everybody to work together so we can get there," he said, noting that the industry's identification, understanding and acceptance of the issue are important. "Perception is unfortunately sometimes turned into reality. At the end of the day, it is the reputation of all of us as individuals, the companies that we represent and the industry as a whole that is important," he added.

Mr Leslie Mouat, ex-Chairman of Chartis Asia Pacific,

(L-R) Messrs Clarence Yeung, Leslie Mouat, Mike Mitchell, Jens Reisch

believes insurance associations in the region should lead the effort in improving the perception and standing of insurance in society. "They have a much larger role to play in this effort and should start shaping our industry," he said.

Communicate and listen to customers

On the need to communicate, Mr Yeung said that industry players need to tell people what they are doing and find different ways to do it. "We need to think of how we communicate, how we make sure we get feedback, and then digest the feedback and do something in response willingly," he said.

If the industry could reach out to the next generation of customers and know what their expectations of the industry are, then that is the future of insurance, said Mr Mouat, emphasising the need to take advantage of technology to understand what customers really want. "We are very good in selling products we think customers want. But when do we start hearing them on what they actually want to buy and what we can't deliver?"

Adapt products to each market's demands

Mr Mike Mitchell, Swiss Re's Chief Underwriter, Property - Asia, noted that insurers tend to take what has worked somewhere else and introduce it to the developing parts of Asia, adding that the industry can do better in the areas of consumer confidence, product awareness, claims service, and price.

"What we miss is that consumers are very different in those different locations," he said, stressing that products need to adapt to and be flexible to each market's demands.

Make sure the price is right

On pricing, Mr Mouat said that insurers have a duty to customers to make sure their pricing is robust and accurate. "And there can be nothing more destabilising for a customer or a business than to find out that his/its rate is going up 30% next year, only to be cut 30% the year after because of the relentless competition and what we perceive as important being market share and size, rather than strong balance sheets and returns to shareholders."

While the main reason people are not buying insurance is price, Mr Mitchell said that interestingly, when one talks to consumers what they would value in terms of mortality risk protection cover, many times they would be willing to buy products at the current pricing insurers are offering. "But somehow we are not getting the message across. That leaves us to assume that consumer awareness and industry reputation are key blockers for us," he said.

Address customers' expectations

The industry, said Mr Mouat, is expected to run well-capitalised and strong insurance organisations, and to produce products and services and develop means of distribution so that customers can buy what they want from the industry the way they want to buy it.

"If we are not addressing that, looking at the future of this industry, we will not be accepted to the corridors of power as a major contributor to economies, and we will still be second-class citizens to the banks, unless we do something about that," he said.

Internalise new realities of business

Tan Sri Zeti Akhtar Aziz

One timely reminder to the industry came from Bank Negara Malaysia Governor Tan Sri Zeti Akhtar Aziz. She told insurers at the Congress that their ability to internalise the new realities of the business and to carry out strategies aligned with these realities will give them the strongest assurance for growth as they look ahead to the future.

"With a clear view of the important role that insurers have in serving and supporting the economy, there is every potential for this to be realised," she said, noting that the trends shaping East Asia's socio-economic landscape suggest continued good growth prospects for insurers.

"Indeed, the insurance industry will assume a much larger role in providing the essential financial underpinnings for economic activity and social development in Asia by addressing the wide range of risks that businesses and individuals face in this new and more challenging environment," she said.

She exhorted the industry in East Asia to pay attention to the much faster pace at which forces of change are taking place in the region, the significantly more demanding regulatory environment of insurers, and the impact of climate change. "This thus calls for a greater urgency in responding to these developments," she said.

From the File:
Flashback to EAIC Taipei in 1990

We go all the way back to our archives to bring you the coverage of the last time Taipei hosted the EAIC some 24 years ago. Has the world changed that much?

Market access for foreign companies should be accompanied by greater responsibility

With increasing pressures on the Asian countries to open up their domestic insurance market to foreign competition, we give you an Asian perspective of the issues involved.

With liberalisation gaining favour, Asian insurers are beginning to accept the need to admit foreign companies into their backyards for a slice of their fast-growing insurance business. But they want foreign firms to transfer capital and technology and help expand and upgrade the Asian markets in the process.

This issue of foreign penetration into local markets was one of the key areas addressed at the conference of the East Asian Insurance Congress (EAIC) held in Taipei last September. It took on a greater significance given the fact that the international trading community as a whole was seized with the question of global liberalisation of services especially financial and insurance under the Uruguay Round of multilateral trade negotiations.

The Taiwanese Minister for finance, Mr Chien-Shien Wang, set the tone for discussions on this issue in his official opening speech at the conference when he said that there were a number of valid reasons for allowing foreign insurers into a national market. They offered greater choice to consumers; introduced more efficient methods of distribution and administration; and facilitated the granting of international cover.

The Taiwanese Minister for Finance speaking at the Opening

But the Minister was quick to add that Taiwan had to take precautions to limit the number of foreign licences granted each year as it wanted to "prevent a sudden invasion by determined foreign insurers with almost unlimited resources" which could "destabilise" the entire economy.

Chief delegates welcoming the Taiwanese Finance Minister at the opening of the EAIC meet in taipei

He however added that in the Taiwanese experience, foreign investors "do not present the threat they were originally perceived by domestic insurers to pose".

The 31 life and non-life foreign company branches and liaison offices in Taipei only accounted for less than 1% of the total premiums in 1989 which amounted to US$4.7 billion for life and $1.36 billion in non-life. But American insurers who are the only foreigners permitted entry into Taiwan claim that it was difficult to penetrate the market as there were strict controls over them especially in the area of product innovations.

Mr Munir Sjamsoeddin of PT Asuransi Bintang, who was the key speaker on the topic of the effects of the entry of foreign insurers on local markets, said foreign firms


The new office bearers of the EAIC

foreign insurers on an equal footing in their own local market. Mr Vajira Hiransomboon of Wilson Insurance Company of Bangkok said he believed Asian insurers, both big and small, could survive in free and open competition with foreign insurers for business in their own local markets.

Echoing this view, Mr Munir added that foreign insurers must come in to "show us how to develop new markets and new products" so that the competition could lead to a bigger profit for all concerned and ultimately benefit the consumers.

could help local industry by transferring technical know-how and skill. They also had access to large capital resources that allowed them to diversify and offer new and specialised products to create new market segments. But in the Indonesian experience with its 15 foreign insurers which only started business in Indonesia after 1968, these benefits were yet to be felt, he added. Noting that Indonesia was not "completely open to free competition", he said that as at 1988, the 12 foreign non-life joint ventures were operating with a very small capital base. They had an average paid-up capital of Rp743.75 million each ($400,000), compared to the average Rp1,673.3 million paid-up capital of each of the 58 local private companies. They had also not shown much interest in developing their business in Jakarta by tapping niche markets or introducing new types of products to create new market segments, he added.

Why are foreign firms flocking to Asia? An Asian perspective

Many Asian delegates felt that the growing interest of foreign insurers in the Asian market was largely due to the economic dynamism and growth potential of the region in the context of the Asia Pacific era of the 21st century.

Minister Wang said that foreign insurers were now really keen to enter local Asian markets because their own domestic markets were rapidly approaching "saturation point" in terms of competition. He described the situation as one "where no matter what marketing strategies were used, it was hardly possible to generate more premium incomes".

Several delegates said this was very different from just 10 years ago when foreign insurers were quite content to participate in Asian markets via "reinsurance acceptance and occasional fronting agreements for their national clients 'with foreign operations". But now, with Asian insurers having increased their retention levels and limiting the profit potential of their cessions to an ever increasing number of willing reinsurers, the foreign insurers were feeling the need to mount "an Asian expansion drive", said Mr Wang.

Can Asian insurance firms compete openly with foreigners?

Many Western insurance firms are clamouring to see the Asian markets especially the more advanced economies like Taiwan, Seoul and Tokyo, become more open to "free and fair competition on a level playing field" with less government restrictions protecting domestic players.

But the Asian delegates at the conference were split on the question of whether local companies could compete with

But a Japanese insurer, who did not want to be named, felt that opening the floodgates to foreign insurers could spell disaster for local companies which may not have the economic might to survive any initial hefty rate undercutting by foreign firms to establish a foothold in the local market. He felt that there was already too much "undue and unhealthy" interest from foreign firms in the business prospects of Asia's insurance industry.

An Indian insurer said insurance companies in developing countries need "infant-industry protection" from competition from the more experienced foreign companies which could easily wipe out the local players in some cases.

A Malaysian insurer said insurance being a service-oriented business would suffer if there was excessive competition for the limited number of insurance professionals in the market. Hence any surge of foreign insurers will mean a tighter labour market with rampant poaching of staff and falling standards of service for the consumers.

Social responsibility of foreign underwriters

The extent of social responsibility to be borne by foreign insurers in the local market was another issue aired at the conference: The Asian delegates emphasised the need for a greater social conscience by foreign insurers.

The non-Asian practitioners felt that insurance companies were obliged to make profits for their shareholders and could not be exected to underwrite bad risks or "service the dirty end" of the insurance business. Mr Richard Lyon of AMP Society in Sydney said that the firm would only underwrite risk with which it was "comfortable", although as a foreign insurer they would be ready to improve the local market, transfer capital and know-how as well as introduce new products to create new demands.

Conclusion

Although the conference did not settle the question conclusively, it gave participants a useful preview of the negotiations that can be expected as the West increases its pressures on the developing Asian nations especially the Newly Industrialising Economies like South Korea and Taiwan to open up and liberalise their insurance markets to all players.

It allowed both sides an opportunity to air their concerns and pre-occupations. The wide divide between the protectionists, the free traders and the "free traders with a social conscience who are ready to bend free trade rules in insurance to serve a social cause" is clear. The signs point towards a protracted bargaining process.

Dynamics in East Asian insurance markets

The growth story continues

Mr Jonathan Tang from **Swiss Re** gives an update and quick review of the markets in East Asia, most of which are reporting good premium growth for both life and non-life.

The insurance industry in East Asia largely reported solid premium growth in the past few years, on the back of robust economic growth following the global financial crisis.

Across all EAIC markets, non-life and life premiums rose by an annual average of 6.0% and 4.1% respectively from 2009 to 2013 in US$ terms. In emerging markets, premium growth has been particularly strong, driven by rising income level and greater awareness of insurance.

M&A on upward trend

Intra-regional M&A has been on an upward trend. There is strong appetite from insurers in advanced markets, especially in Japan, to gain a foothold in fast-growing Southeast Asian emerging markets.

This is because insurers with a shrinking domestic market are keen to expand overseas, while countries in Southeast Asia, with their strong economic growth, favourable demographic profiles and the forthcoming establishment of the ASEAN Economic Community (AEC), offer plenty of attractive investment opportunities for insurers.

Fraught with natural catastrophes

Countries in East Asia are prone to natural catastrophe with frequent typhoons, earthquakes and rain/snow storms. In recent years, a number of significant events hit the region, with huge economic and insured losses.

Extreme winter conditions in early 2014 in Japan resulted in estimated economic loss of US$5.0 billion and insured losses of $2.5 billion, mainly from property-related insurance claims following heavy snowstorms. In 2013, Typhoon Haiyan devastated the Philippines, with over 7,500 casualties and $12 billion in economic loss. Because of low insurance penetration, insured losses were estimated to be relatively small, at $1.5 billion.

RBC solvency regime for several markets

Insurance regulation in the region has been moving towards global standards, with the (planned) introduction of a risk-based capital (RBC) solvency regime in several markets.

RBC has already been introduced in Indonesia, Korea, Malaysia, the Philippines, Singapore and Thailand. Hong Kong is expected to start consultation on implementing RBC in the short term, while Singapore is scheduled to implement a second generation of RBC in 2017. More stringent RBC requirements are set to drive insurers to either de-risk or raise capital, and potentially triggering more industry consolidation.

Country-specific section

Brunei recorded a 15.4% average annual growth of non-life insurance premiums between 2009 and 2013. The strong growth momentum was driven by takaful non-life business (2013: 64% of total non-life premiums), in particular takaful motor business.

Life insurance premiums posted an average growth rate of 9.3% over the same period, mainly driven by conventional life insurance which accounts for 67% of total life premiums in 2013.

Brunei's low insurance penetration (0.9% of GDP for non-life and 0.5% for life in 2013) was due to the country's exceptional high GDP, which is derived primarily from the oil and gas sector. The state welfare system also provides a wide range of protection benefits, thus reducing the demand for insurance products.

Hong Kong's insurance sector is facing a more uncertain outlook given a slowing economy likely to impact on employment and income. Over the past five years from 2009 to 2013, life insurance premiums rose on average by 12.3% per annum to reach 11.7% of GDP in 2013, the second highest penetration rate in Asia after Taiwan. Non-life premiums increased 7.9% per annum between 2009 and 2013, whereas penetration stood at 1.5% of GDP in 2013.

The upcoming formation of an independent insurance authority (IIA) will see the Hong Kong market closer aligned with guidelines issued by the IAIS. At the same time, discussion has moved towards the introduction of a multi-factor risk-based solvency regime to replace the current Solvency I-type regime, although this will likely take place only after the IIA has been formally established.

At the same time, major reforms and discussions are rolling out in Hong Kong in relation to the territory's ageing population and increasing healthcare requirements. A proposed Health Protection Scheme will bring private health insurance policies under stricter regulatory scrutiny, including a range of requirements on operational rules such as guaranteed acceptance and guaranteed renewal. While the government has initiated further studies to look into retirement benefits, it is not expected that any conclusion will be reached anytime soon.

Indonesia

Driven by strong economic growth, rising income level and greater awareness of insurance, premium growth in Indonesia has been strong in recent years. Non-life and life premiums rose by an average of 15.3% and 24.4% respectively between 2009 and 2013. However, insurance penetration remains low compared to others in the region, at 1.6% and 4.4% of GDP in 2013 for non-life and life respectively.

In the short term, the introduction of tariffs on property, motor, special risks including floods, earthquake, volcano eruption and tsunami earlier this year is likely to support premiums and underwriting profitability, while in the longer term, any pro-growth, pro-business economic policies and structural reforms carried out by the new government have the potential to boost the country's economic performance and increase demand for insurance.

The establishment of the OJK in 2013 brought the supervision of banking, insurance and capital markets under one roof. This created a more efficient platform for regulating financial conglomerates and improved cross-sectoral coordination such as regulation on bancassurance. Despite this, regulatory uncertainties remain. The requirements of insurers to optimise domestic reinsurance capacity and the possibility of the government lowering the foreign ownership threshold could create business disruption and reduce foreign investment in the sector.

Japan

The Japanese insurance market was the world's second largest, with a penetration of 11.1% of GDP in 2013. Between 2009 and 2013, life insurance premiums expanded by an average of 4.3% and non-life premiums grew by 2.8%.

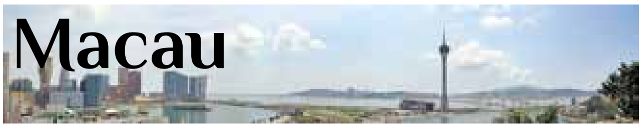
While traditional individual life products remain the core business, the life insurance industry will continue to rely on third-sector products, in particular medical-related products, to drive growth.

Non-life insurers' portfolio retains a heavy reliance on motor business (56% of total non-life premiums in 2013) though poor motor performance has been a drag on non-life insurers' profitability for years. While profitability of motor segment has improved after the revised premium rates, the combined ratio remains relatively high.

Meanwhile, insurers are facing increasingly tight supervision. Japan has tightened solvency requirements of insurers in the aftermath of the global financial crisis. Recent changes in solvency regulations and the expected implementation of IFRS in 2016 will have impacts on insurers' capital and balance sheets.

Although non-life insurers remain largely well-capitalised, the march towards risk-based solvency and fair value principles accounting regime has seen its effects on life insurers' product offers and asset allocation.

Macau

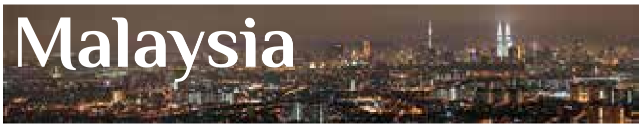


Macau's insurance market is small but has reported exceptional strong growth over the past years on the back of double-digit (17%) real GDP growth. Life insurance premiums rose by an average of 20% between 2009 and 2013, while penetration remains low at around 1% of GDP. Non-life premiums increased by 19% per annum over the same period, pushing penetration to around 0.4% of GDP in 2013.

The growth and expansion of the gaming industry and tourism, as well as construction of large-scale infrastructure have all contributed to insurance demand. This is reflected, for example, in the strong growth of employee compensation insurance over the past years.

Life insurance has also benefited from rising income, but the declining birth rate and ageing population of Macau will increasingly have strong implications for the territory's insurance industry. It is estimated that senior citizens aged above 65 will represent 13.3% of the total population in Macau by 2023, up from 8% as at the end of 2013.

Malaysia



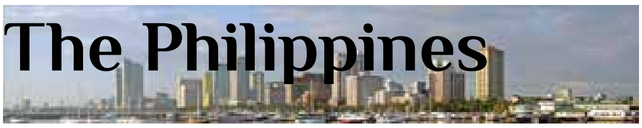
The insurance industry in Malaysia has shown resilience in recent years in the midst of uncertain global economy and domestic politics.

For non-life insurance, penetration reached 1.7% of GDP in 2013, with an average annual premium growth of 8.7% between 2009 and 2013, driven mainly by motor and fire businesses. On the other hand, growth in MAT lines was weak, reflecting Malaysia's relatively uninspiring trade performance. In life insurance, premium growth averaged 7.6% per annum over the same time period, with penetration reaching 3.2% of GDP in 2013.

The new Financial Services Act 2013 which came into force in June 2013 will affect the industry by prohibiting insurers from operating both life and non-life insurance business simultaneously. Composite insurers will need to restructure their operations by separating or divesting either their life or non-life operations within five years.

To develop Malaysia's life insurance and family takaful industry, Bank Negara Malaysia (BNM) issued a concept paper in November 2013 for public consultation. Key measures in the proposal include the partial removal of operating cost limits, allowing greater operational flexibility to promote product innovation while preserving policy/certificate value, diversification of distribution channels to widen outreach and a strengthening of market conduct practices to enhance consumer protection.

The Philippines



Non-life insurance premiums of the Philippines is estimated to have grown by 14.9% on average between 2009 and 2013, driven by the country's solid economic growth, increasing urbanisation rate and rising insurance awareness.

Life insurance premiums posted an average annual growth rate of 31.5% over the same period, underpinned by robust sales of investment-linked policies since 2011. However, insurance penetration remains low at 0.5% for non-life and 1.5% for life in 2013.

The new Insurance Code of the Philippines was signed into law in August 2013 to better prepare the insurance sector ahead of regional financial integration following the establishment of the ASEAN Economic Community in 2015. The new law stipulated staggered increase of the required net worth from PHP250 million in 2013 to PHP1.3 billion by December 2022 ($5.7 million to $30 million).

In response to high occurrence and heavy economic losses from natural catastrophes, the Philippine government intends to establish the Earthquake Protection Insurance Corporation (EPIC), under the Public Private Partnership framework, to initially cover earthquake risks for small-and-medium enterprises and middle-income residential properties.

The insurance market in Singapore is highly developed with a large presence of foreign-owned insurers. Between 2009 and 2013, non-life insurance premiums in the Singapore Insurance Fund rose by 6.2% on average per annum, with penetration reaching 1.6% in 2013.

In the past year, growth in motor and marine businesses has been affected by changes in regulation and global economic uncertainties. In February 2013, the Monetary Authority of Singapore introduced financing restrictions on motor vehicle loans, leading to a more than 30% decline in vehicle sales and a 2% drop in motor premiums.

Being a small and open economy, Singapore's external trade was impacted by weakness in global economy, with trade down 0.5% in 2013 and marine premiums down 2% as a result.

In life insurance, premium growth has remained strong at 9.9% per annum over the same time period, driven by robust though volatile growth in single premium products. Penetration in life insurance reached 4.4% in 2013, the fifth highest in Asia.

More positive outlook in advanced economy and robust growth in ASEAN should support the Singapore economy in the near future, boosting demand for both life and non-life insurance. The implementation of RBC 2, scheduled to be in 2017, is set to make the industry more resilient, reaffirming Singapore's status as the regional insurance hub.

The South Korean insurance market ranked the eighth largest globally, with a penetration of 11.9% of GDP in 2013. Life insurance premiums rose by an average of 7.6% between 2009 and 2013, while non-life premiums increased by 12.7% per annum over the same period.

Saving-type products used to be key growth drivers in life insurance, but insurers are putting greater efforts to promote protection-type products, as the sales of saving-type products plummeted after the end of some tax benefits in February 2013.

Persistently low investment returns and negative spreads have dragged on life insurers' profits, forcing major life players to cut the minimum guaranteed rates earlier this year. For non-life business, its performance was underpinned by the strong growth of the long-term insurance segment (62.7% share of non-life portfolio in 2013).

In Taiwan, life insurance premiums maintained stable growth by an average of 6.6% over the period 2009 to 2013, despite weaker growth in 2011 and 2012 due to the adoption of lower liability reserving interest rate assumptions.

Taiwan continues to hold the title of the most penetrated life insurance market in the world, with a penetration of 14.5% of GDP in 2013. Non-life premiums rose on average by 5.9% over the five years 2009 to 2013. Motor and fire insurance have both benefited from higher premium rates over the years. At the same time, premiums in personal accident and health insurance also saw strong growth.

An impending issue is that the Taiwan market is highly mature and insurers are in need of new avenues to grow. Alongside the conclusion of financial cooperation agreement between Taiwan and Mainland China, some Taiwanese insurers have commenced operation in China. This is in addition to operations in Vietnam and elsewhere in Southeast Asia.

At the same time, the regulator Financial Supervisory Commission (FSC) is mulling measures to enhance competitiveness of the insurance sector so that Taiwanese insurers are able to grasp the opportunities offered by economic growth and financial liberalisation across Asia.

Life insurance premiums in Thailand have largely kept up with a strong growth momentum in recent years, underpinned by robust bancassurance sales.

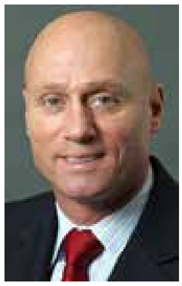
Between 2009 and 2013, life insurance premiums rose on average by 15.1% and penetration reached 3.8% in 2013. Non-life premium growth has derived support from heightened awareness and higher prices after the floods in 2011. Premiums increased 16.6% per annum in 2009-2013, whilst penetration stood at 1.7% in 2013.

Despite recent political turbulence, life insurance sales have largely remained healthy, particularly through bancassurance channels. Growth of non-life business has weakened alongside slowing GDP in the first half of 2014, but has since recovered. Premium growth in motor and other industrial lines slows down in early 2014. On the other hand, health premiums grew strongly. Public liability and personal accident also maintained their growth momentum.

Mr Jonathan Tang is Economist at Swiss Re Economic Research & Consulting

Superior value creation with distribution

Changing consumer behaviour, ever constant regulatory change and an increasing focus on profitable growth is pushing more and more insurers to review their distribution models. Mr Bill Johnston of Towers Watson takes a look at what insurers in Asia can do to improve the effectiveness of their existing distribution channels and drive superior value creation.



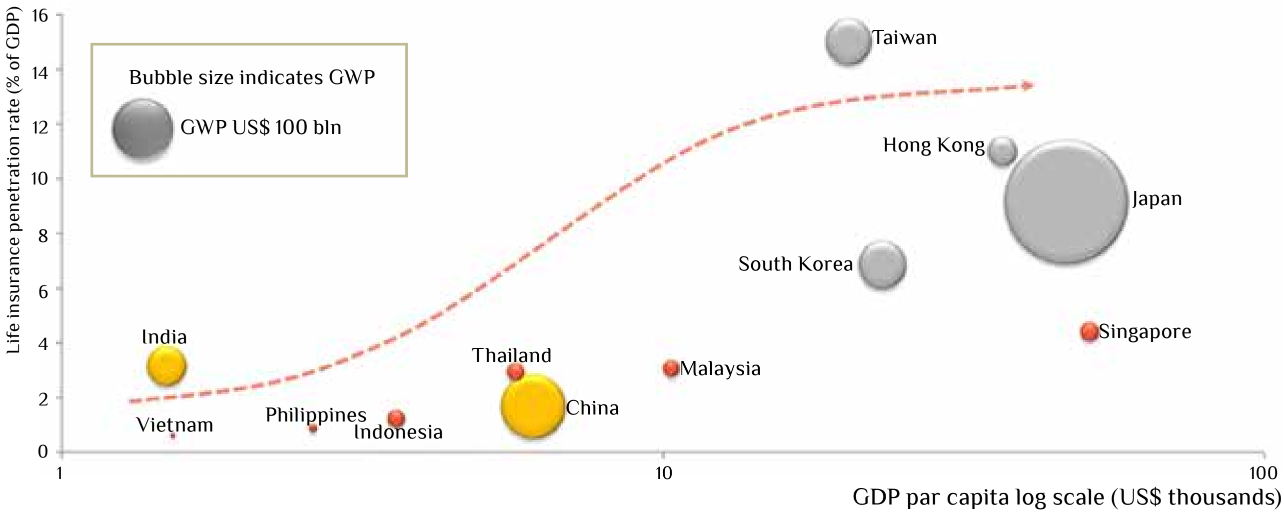
Asia is expected to continue to deliver impressive growth in the life insurance market over the next decade. Diagram 1 below shows there is still attractive opportunities for growth in most Asian markets. Factors fuelling this future life insurance growth include:

- Growth in wealth and an expanding middle class
- Continued urbanisation
- High savings ratios
- Low insurance penetration
- Health and protection gaps
- Ageing populations

Diagram 1: Life penetration vs GDP per capita 2012

	Population 2012 (bln)	GDP 2012 (US$ bln)
North Asia	0.21	7,644
Asian Giants	2.62	10,024
Southeast Asia	0.53	2,213
Total	3.36	19,881

North Asia: Hong Kong, Japan, South Korea, Taiwan
Asian giants: China, India
Southeast Asia: Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam



Sources: IMF World Economic Outlook October 2012, AXCO, Swiss Re, Towers Watson Analysis

Performance and value creation issues

When looking at the agency channels across Asia, there is increased concern and focus on channel economics and performance, such as continued low activity ratios, case productivity and retention.

While the bancassurance channel has demonstrated strong growth in capturing increased market share in many markets, there is a wide range of performance levels across different banks and markets and many partnerships have not achieved anticipated results/value creation.

So, on the one hand, there are macro growth opportunities but on the other hand, there are performance and value creation issues.

Current status of various distribution channels

Before we look at what insurers in Asia can do to improve the effectiveness of their existing distribution channels and capitalise on this growth opportunity, let's look at some additional information around the current status of the various distribution channels:

Bancassurance:

- Increasing number of banks likely to reconsider their insurance holdings with Basel III.
- Increasing competitive intensity for bancassurance tenders – adding to increased expectations regarding future performance

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Direct:

- While Direct Distribution of life insurance is material in Australia, a small number of Asian companies would be considered to have mastered the art of these techniques and channels.
- Increasing acceptance that traditional direct models are under pressure.

IFAs (Independent Financial Advisers):

- The Broker/IFA channel is well developed in Australia and New Zealand and is emerging in some of the other Asian markets, the most developed being Hong Kong and Singapore.
- Some growth is occurring in Malaysia and with the recent formation of the Association of Financial Advisers, this market is perhaps the next most developed in the region.

Agency:

- While Agency absolute production continues to increase, many agencies continue to grapple with relatively low activity, low productivity and low retention issues – particularly in the developing and frontier markets.
- Growing consideration of General Agency Structures, following some high profile successes.
- Growing belief that Agency forces are in need of modernisation or revamping. Companies acknowledge a need for change, but there is still a high level of resistance and fear of implementing the necessary distribution improvements.
- Increasing use of Technology (iPOS, adviser portals etc.) to improve productivity and to attract the younger generations (Gen Y). For some, this includes usage of digital and social media to support their distribution models.

Common across all channels is the fact that regulators are increasing their focus on professionalism, advice and disclosure requirements on such areas as commission structures, product designs and demonstrating value for the customer.

Success in capturing a significant share of the growing insurance market comes by taking a fresh look at what is driving your distribution performance.

Value creation

Value creation can be achieved by improving performance across: (a) productivity of distribution sales people, (b) the level of customer engagement and (c) the efficiency of the sales process, platforms and sales support. See Table 1 below.

The question is where to start? There are many different aspects of a distribution model that can impact the performance metrics outlined above.

Let's look at a structured way to review the key enablers that are driving distribution performance metrics and ultimately value creation.

Four key enablers drive performance improvement and value

There are four Key Enablers required to create a high performing, customer centric sales culture, which will provide a structured and measurable approach to improving performance metrics described in Table 1 above:

- Sales Talent Management
- Customer Proposition
- Sales Process Optimisation
- Performance Management

While focus on any one Enabler can drive results, sustainability is achieved when strategies and business models accommodate all four Key Enablers and their respective components. See Diagram 2 below.

Diagram 2: Creating a customer-centric high performance sales culture

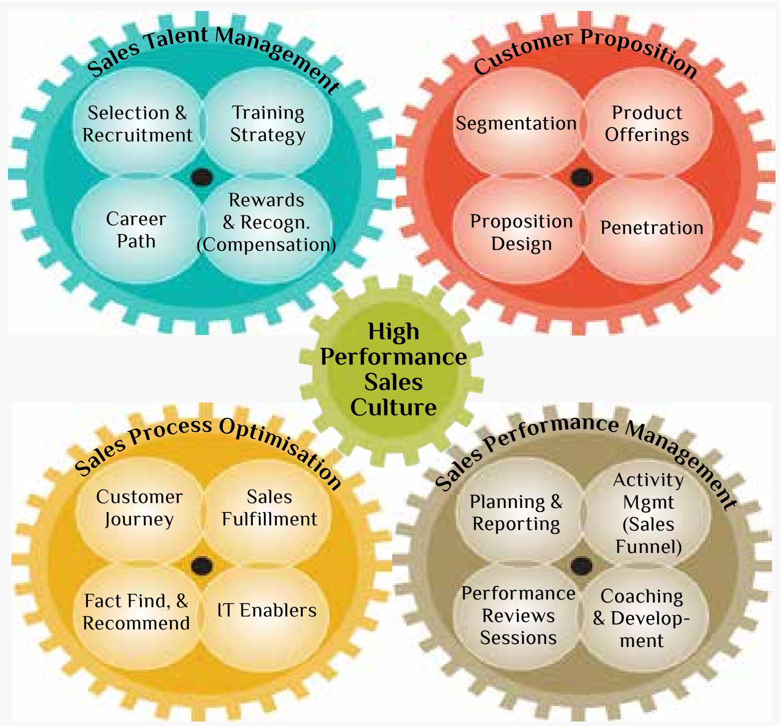


Table 1:

Focus is on driving improvement across some or all of the key distribution performance metrics (listed below)

Productivity	Customer Engagement	Customer Journey & Process
• Higher activity ratios • Higher case productivity • Shift in performance distribution curves • Higher rider attachment ratios • Decreased turnover rates in sellers • Persistency improvements	• Higher customer engagement (penetration) rates • Higher cross product holding ratios • Increased lifetime value of client relationship • Higher net promoter scores (indication of experience and satisfaction levels)	• Decreased time to process data and paperwork during sales process • Significantly lower complaints & compliance issues • Higher sales funnel conversion ratios

Putting it all together – part science, part art

There are quite a few areas that we could discuss here, however I have only highlighted a small number of critical points, which unfortunately are often not given the appropriate level of attention.

Buy-in from stakeholders

Critical to success is deep involvement of key channel stakeholders (influencers) throughout the process. These are not only people with the right titles but include people with influence at various levels of the value chain.

Continuous feedback and impact assessments

Feedback and understanding of current state versus desired state should consist of both qualitative and quantitative information. This should include Sales Force Engagement and Customer Surveys, interviews, field observations and desk top reviews.

Assessing the impact of strategy alternatives ensures you are connecting any improvement in distribution performance metrics to the profitability of the business. This will require a high level of collaboration between your Distribution and Finance/Actuarial teams.

For optimum results and sustainability, Sales Force Engagement Surveys and Impact Assessments should be done twice during the process; once at the beginning, to inform the health check, performance gap phase; and again 9-12 months after implementation, to make any necessary adjustments and ensure a deep adoption of the new model.

There are examples of companies who are trying to make the necessary changes, below are a couple examples:

Example 1: One company in Singapore wanted to improve bancassurance performance. A health check review exposed gaps in strategic alignment between bank and insurer, poor management information and underwriting limits not aligned to customer segmentation. In addition to changing how the insurer compensated/rewarded the bank, execution on these key areas produced an increase in; case productivity, penetration rates, commissions to the bank and value to the insurance company.

Example 2: An Agency force in South East Asia wanted to make a significant improvement in agency productivity and gain market share. To attract a new breed of managers and improve new agent retention, activity ratios and case productivity, the company took a brave step and revamped their agency value proposition, agency structure and compensation design. As a result, the Agency force was able to move up four places, in terms of market share, in two years and increase activity ratio and productivity levels.

The prize is large

In conclusion, many companies will have to consider modernising their distribution channels if they want to deliver superior profitable growth. This will require taking a hard look at the structure of their models, how they pay and reward their distributors and better alignment of products and services not only to customer insurance and savings needs but also their preferred method of sourcing information, getting advice and closing the sales.

Balancing the need to offer value to the customer and generate superior value shareholders will become increasingly challenging as markets continue to develop. Focusing on the four Key Distribution Enablers, set out above, is one route to success.

There is significant change upon us and the winners will be those that can deliver compelling sustainable solutions, but beware, this is not a journey for the faint of heart.

Mr Bill Johnston is Director, Insurance Management Consultancy at Towers Watson.

Come and Experience Macau

THE WONDERFUL MIX OF 400 YEARS "EAST-MEETS-WEST" CULTURES AND A DECADE OF OUTSTANDING GROWTH!

Macau, a Special Administrative Region of China, is located at the Pearl River Delta on the southeast coast of mainland China, 60 km southwest of Hong Kong. The city, which is just 31.3 square kilometres in size, boasts a rich cultural heritage of Chinese and Portuguese cultures when the Portuguese first settled in Macau when it was just a fishing port some 400 years ago. Many of the European-style architectures with Chinese features, which really are one of a kind, are still very much well-preserved, especially after Macau's inscription to UNESCO World Heritage. The co-existence of churches and temples, as well as historical buildings and modern skyscrapers, is another interesting feature of this tiny "East-Meets-West" city.

Macau's unique mix of Portuguese architecture and Old World charm blends magically with Chinese traditions to form a meeting destination like no other. The UNESCO-listed Heritage Sites are testament to Macau's rich cultural diversity and stand side-by-side with the glitz and glamour of new Macau.

Whether you travel by land, sea or air, Macau is easily reached and offers visa-free entry for citizens of over 75 countries.

There are a series of walking tours suggested by the government tourist office, but you can go out and explore the city - visit the wet markets, go to the city's squares where there's usually some festivals taking place there and if you dare, try the world's highest bungy jump at Macau Tower.

Ruins of St Paul's, originally built in 17th century, the façade of Church and destroyed by fire in 1835. Without visiting the Ruins of St Paul's, it means you have not been to Macau

Macau Tower, a tourist spot with cinema, 360° cafes, restaurants and the world's highest bungy jump

A Ma Temple, dedicated to the seafarers' goodness dates from the early 16th century

Because of the Chinese and Portuguese heritage, the food scene in Macau is rather tantalising. Macanese cuisine, possibly the earliest fusion in the gastronomic world, is a mix of Chinese and Portuguese cooking techniques, ingredients and spices, and is one definitely worth a try.

Cotai Strip Macau

In the past decade, the little-known Macau has made headlines around the world after recording gaming revenue that outstripped Las Vegas. The introduction of huge casinos and resort hotels has redefined the entertainment landscape of the city.
Cotai Strip Macau is Asia's ultimate meeting destination, provides an unbeatable range more than ten thousand guestrooms from the international hotel brands such as The Venetian Macau, Holiday Inn, and City of Dreams etc.

City of Dreams Macau is a mega-size casino resort hotel in Cotai. Its "House of Dancing Water" show is one of the best permanent shows in town. The show takes place inside a state-of-the-art theatre that houses one of the largest commercial pools in the world. The water-themed show features choreographed acrobatics, dance and motorcycle stunts.

House of Dancing Water

The Venetian Macau

The Venetian Macau is Asia's award-winning business, leisure and entertainment destination offering 3,000 suites, 30 international restaurants and the 13,000-seat Cotai Arena. Shoppers will find a duty-free paradise with more than 330 stores across Shoppes at Venetian. These entertainment offerings and Asia's best meeting facilities make The Venetian Macau the perfect place to do business with more than 100,000 sqm of purpose-built convention and meeting space including the impressive Cotai Expo. The 28th East Asian Insurance Congress will be held there in 2016.

In addition to these, there are festivals and annual events that take place all year round such as Macau Grand Prix, Macau International Music Festival, the "Parade through Macau, Latin City"- celebration of the anniversary of Macau's Handover to China. So despite being just a small city, Macau does have a lot to offer than meets the eye.

Economy

Besides entertainment, the tremendous economic growth has given rise to many industries. Macau's trade and investment remain as one of the most open in the world by the advantages of its free port policy, separate customs territory, simple and low taxation system. Macau's economy has registered a stable growth in recent years. The average annual GDP rose 14% from 2010 to 2013. There were also significant increases in indicators such as visitor arrivals, retail sales and median income.

While the number of insurance companies in 2003 and 2013 did not see growth (according to statistics, there are 23 insurance companies in Macau in 2013), insurance premium in 2003 was 1.58 billion patacas, but in 2013, it grew to 6.82 billion patacas.

What's worth mentioning is that, non-life insurance premium was 394 million patacas in 2003, and in just ten years, it grew to 1.86 billion patacas.

World Tourism and Leisure Centre

It is always said that Macau is a World Tourism and Leisure Centre. MICE (meetings, incentives, conventions and exhibitions) opportunities through the MICE one-stop shop service and its generous subsidy programmes, supported by Macau government.

Whether your team is visiting Macau for just one day or an entire week, they will definitely want to stay longer to experience the city's rich entertainment and cultural offerings. Macau is the perfect destination for teambuilding programmes, incentives or an evening of great entertainment after a hard day's work.

As there will be more mega casino resorts set to open in the next three years, it is expected that it will bring more diversity in the entertainment industry as well as the economy.

Parade through Macau, Latin City

Grand Prix

A rating of stable outlook for Asia

Generally, the outlook for the insurance markets in Asia is stable but for some markets and for the reinsurance sector, Mr Michael Vine of Standard & Poor's maintains a negative view.

Standard & Poor's views the outlook for the insurance sector in Asia-Pacific as generally stable, with some negative trends identified in particular markets.

We continue to maintain a negative view on the China life market and Thailand property & casualty market, although see signs of improvement, and we have moved to a more negative view on the reinsurance sector, with continued evidence of competitive pressure on premium rate renewal.

Weighed down by negative outlook on Japan sovereign

Our average rating for the insurance sector in Asia-Pacific is 'A+', the second-highest sector rating in the region to Public Finance at 'AA-'.

We held a negative outlook bias (net of positive and negative outlooks and CreditWatch) of 10% at end August 2014 for the insurance sector, which is lower than other sectors which are more exposed to China's slower growth or the build-up of corporate debt over recent years.

The negative bias largely reflects the impact of the negative outlook on the Japan sovereign which flows through to 'AA-'rated Japanese insurers, as well as financial institution subsidiaries which are on negative outlook.

Only a small number of insurers are on negative outlook for a stand-alone rationale, and include participants in the China life, Thailand reinsurance and global multiline sectors.

Risks are biased to global interest rates and China

Key risks to the sector are: the economic slowdown in China and its impact on demand for insurance products in the wider region; ongoing low interest rates which impact growth and earnings; capital pressures in higher growth markets; exposure to catastrophes and un-modelled risks; and reinsurer profitability.

Exposure to investment market volatility has dissipated somewhat as reserves have accumulated during the strong investment market run.

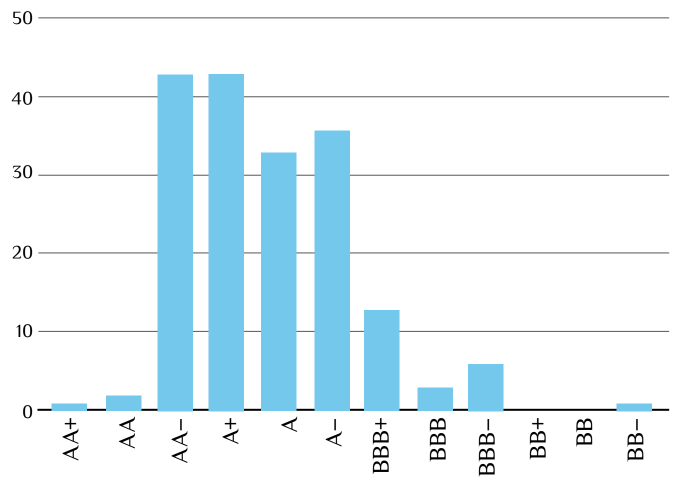
In the life sector, capital pressure exists in rapid growth markets such as China and to a lesser extent Malaysia, although we see more sustainable growth in China now contributing to profitability.

Low interest rates, asset-liability mismatches, and investment market volatility appear to be managed in Taiwan and Japan, with improved demand and investment market conditions flowing through to capital and earnings. The consumption tax in Japan appears to not be affecting insurance product sales. In Australia, higher than normal lapse rates and disability claims continue, but significant pricing and remediation action is taking hold.

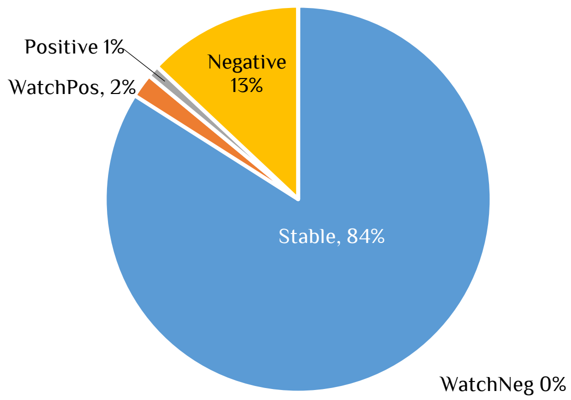
In the property & casualty (non-life) sector, results have benefited from a benign catastrophe environment, generally within insurers' catastrophe allowances, although risk potential remains.

The market benefits from falling reinsurance rates on

Asia-Pacific insurance:
Rating distribution



Asia-Pacific insurance
Outlook distribution



Source: S&P Ratings. Calculated as of 31 August 2014 renewal, although this is now flowing through to softer conditions in the primary market.

We hold the view that Australia is past the peak in the earnings cycle under these conditions. Growth in China remains strong, especially from auto sales, but is exposed to strong competition.

We see continued moderating conditions in Thailand with reserve releases from listed insurers over recent years, although some uncertainty remains around the reserve status in the broader market.

Negative reinsurance sector outlook

Softer reinsurance market-pricing has continued at the July 1 renewal season in China and Australia/New Zealand, against a backdrop of heightened capacity, availability of alternatives, and increased global competition.

The negative reinsurance sector outlook acknowledges increasingly competitive behaviour among reinsurers that we believe will weaken profitability in 2014 and 2015.

A combination of outdated catastrophe models, un-modelled or insufficiently modelled risks, and weakening underwriting standards, at both the insurer and reinsurer level, increase the chance of significant losses, but we expect reinsurers to be vigilant to these changing risks.

The negative reinsurance sector outlook acknowledges increasingly competitive behaviour among reinsurers that we believe will weaken profitability in 2014 and 2015.

Upcoming regulatory changes could increase competition for regional reinsurers

As regulators in Asia-Pacific increase their risk-based capital requirements, many small and mid-sized insurers are conducting capital relief transactions with reinsurers to sustain their growth.

Regional reinsurers could then face a capacity constraint and be unable to meet their clients' coverage needs; while strongly capitalised global players could use this opportunity to expand their reach.

Because market conditions are currently soft, reinsurers' ability to generate earnings to expand their capacity is under pressure. It will be costly to increase capacity through equity capital raises, although debt and hybrid issues are likely to be less expensive while interest rates remain low.

Purchasing retrocession covers from a larger competitor could be the most attractive way for a smaller company to extend its capacity at this stage in the insurance cycle.

The demand for retrocession encourages well-capitalised global reinsurers into a market. They could choose to provide capital relief to both primary insurers and reinsurers in the region.

In our opinion, the markets which they enter and their level of participation depends more on the regulatory capital requirements for the incumbents, than on limits affecting foreign participation.

In Korea, for example, reinsurers face considerable increases in regulatory capital charges, and China is also strengthening its regulatory metrics. We believe global reinsurers' capacity may thus be welcome in these markets.

Asian regional reinsurers still well positioned

Against this global reinsurance capacity, regional reinsurers in Asia-Pacific may be better positioned to withstand such competition than counterparts in other growth markets such as Central and Eastern Europe.

Local reinsurers such as Korean Reinsurance Co (Korean Re) in Korea or Toa Reinsurance Co (Toa Re) in Japan tend to have significant market share, and they are better established, with more defensible competitive positions.

Long-established local reinsurers in Asia-Pacific have built solid relationships in their markets, where continuity of capacity is valued. This has provided some resilience against new entrants or players whose capacity is less certain.

Opportunities for long-term growth in life insurance

Asia (excluding Japan) represents a major long-term growth opportunity for the life insurance and global life reinsurance sectors.

Low life insurance penetration rates relative to the more mature markets in North America and Europe, along with a rapidly expanding middle class with increasing protection needs, has made Asia one of the fastest-growing life insurance markets in the world.

Much of the growth in 2013 was from China as previous regulatory constraints eased, while emerging markets such as Thailand, Indonesia, and Philippines grew strongly from a lower base, partly from new product initiatives and traction of bancassurance distribution.

Direct life insurance premiums in Asia have experienced significant growth since the turn of the new century, increasing to 34.5% of total global life premiums in 2013 from 26.5% in 2000. Although recent slower economic growth in most Asian economies has caused premium growth to decline somewhat, emerging Asia and China's share of global premiums is projected to more than double by 2023.

Room for growth for life reinsurance

Life reinsurance business in Asia has grown in step with growth in the primary life markets in the region. However, local life insurers still do not use reinsurance nearly as heavily as those in developed markets, in part due to the predominance of savings products in the Asian market.

We believe the need for mortality life reinsurance will increase as the primary markets mature and offer more high-risk products.

Moreover, tighter solvency regulations could cause insurers to turn increasingly to reinsurance for solvency relief, which we have begun to see in recent years. Demand for reinsurance of risks related to pandemic disease is still limited in the region, and will likely lead to long-term growth as well.

Mr Michael Vine is Director, Insurance Ratings at Standard & Poor's.

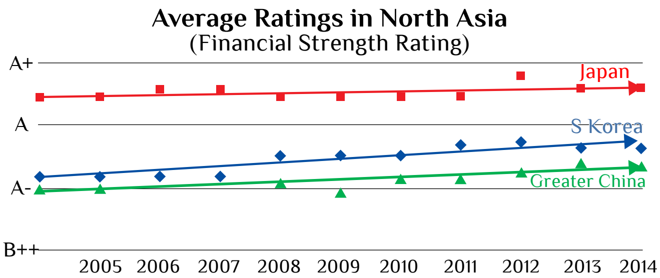
The challenges for Korea, Japan and China

Mr MoungMo Lee of **A.M. Best Asia-Pacific** looks at the rating challenges and developments of insurance companies in Korea, Japan and China. He discusses each of the three markets with their future rating prospects in mind.

Rating levels in North Asia have generally improved over the years.

North Asia's diverse nature means that every country and company face different challenges. Although life companies are orientated more towards their domestic markets, they have all felt the pressure of the low interest rate environment. Of a medium-term concern is the challenge that accompanies demographic changes, and that each country will have to face. Rating challenges for non-life insurers in North Asia differ by country to a much greater degree.

Rating developments in North Asia



Source: A.M. Best

The Korean insurance market's average rating level has improved over the last decade.

A.M. Best believes that the rating levels of existing rated companies will continue to improve gradually, but that across the market, improvements in the average level will slow as newly-rated companies (generally comprising smaller or niche players) join the pool.

Japan's average rating level has been stable at a high level. The industry responded well to difficulties such as multiple equity market shocks and the Tohoku Earthquake. The sharp increase in the average rating in 2012 is due to the integrations and mergers of Japanese non-life companies.

A.M. Best expects that while the rating level of existing rated companies will stay at a high level, the average rating level might decrease as newly-rated companies (Japanese captives domiciled outside of Japan) join the pool.

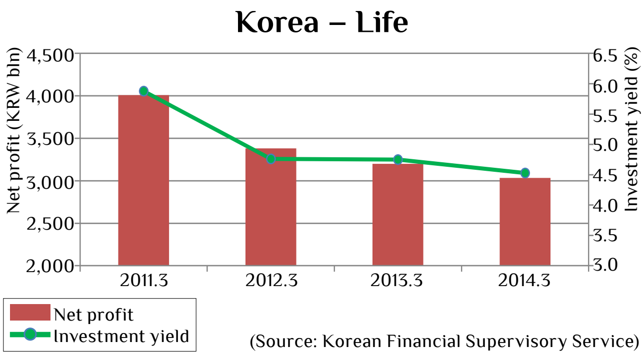
Large Japanese insurers are long-established, with one of their unique characteristics being a high equity composition in their invested assets. In addition, the risk charge used for equity investments for solvency margin requirements was fairly low up until recent years. Ironically, during the last decade, companies maintained their risk-based capitalisation by de-risking their equity portfolios. Going forward, as companies have balanced their risk profiles, if situations arise where they need to strengthen their risk-based capitalisation, this will need to be accompanied by organic profit or external capital.

Average ratings in Greater China showed a slower-paced improvement. Taiwan, an early adopter of a risk-based solvency regime with risk charges in line with international standards, had Greater China's highest average rating level.

China is expected to roll out its risk-oriented solvency system, while Hong Kong's new solvency regime remains under discussion. Improvements in Greater China's average rating level may slow as newly-rated companies join the pool.

Rating challenges to Korean insurance companies

Korea life insurance – Low investment yields



(Source: Korean Financial Supervisory Service)

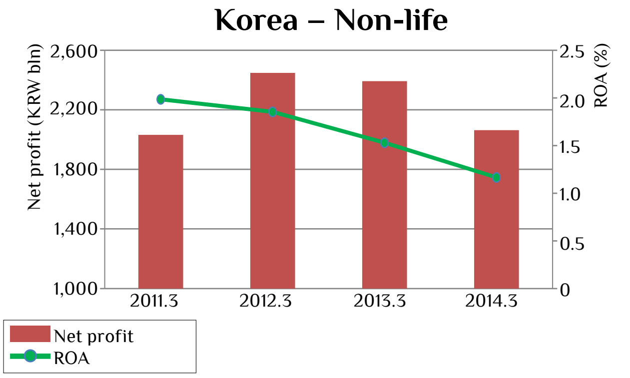
Low interest rates have placed Korea's life industry under tremendous pressure. Investment yields continue to fall and a quick turnaround seems unlikely.

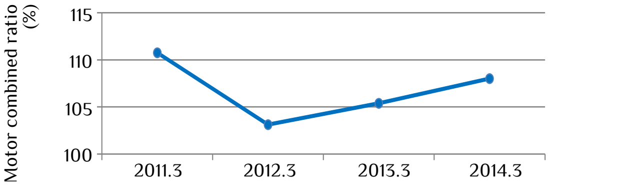
Whereas Japanese life companies have large in-force businesses with good mortality and an expense profit to compensate for low interest rates, Korean life insurers do not seem to have enough mortality and expense margin to compensate. However, market growth momentum still exists whereby companies could take on lower interest rate risk.

Nevertheless, pressure (both in terms of profit and solvency) will affect small and medium-sized companies in particular as they do not enjoy the levels of financial flexibility possessed by larger companies.

A.M. Best believes that life companies in Korea should demonstrate that they have the risk management capability and financial capacity to withstand the low interest rate environment. In addition, companies should have the ability to compete in alternative sales channels and new market segments.

Korea non-life insurance – Motor and long-term products





(Source: Korean Financial Supervisory Service)

Although the trend is similar, Korea's non-life companies face a slightly different situation. Non-life companies do have some life company-like features due to the long-term (maturity refund) business. However, only during the last decade have long-term products with very long-term maturities been introduced for non-life companies.

Non-life growth momentum has been relatively higher compared to the life industry. Companies have focused on selling long-term products in line with market demand and have built risk loading into the product, compensating for the low interest rate environment.

Although non-life companies are better positioned to manage long-term insurance profitability in the low interest rate environment, motor business (which is still the largest line of business if the savings elements are stripped off from long-term products) has been performing poorly throughout the years.

As growth momentum has slowed in long-term products, companies should be able to demonstrate their competitive advantage in the motor insurance segment. Due to the role motor plays in the Korean market, it will be difficult to generate meaningful profit from this line but the losses need to be controlled at an acceptable level.

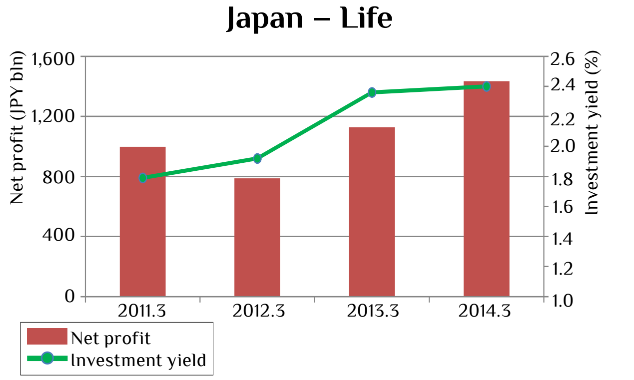
Concentration of profit stream to long-term insurance business is of concern but retention in commercial lines is growing in line with the capital size and with large non-life companies starting to venture overseas to diversify their revenue and profit streams.

Rating challenges to Japanese insurance companies

Japan life insurance – Stagnant growth

Investment yields in Japan have improved for three consecutive years, although it is still too early to say if this is a trend. Net profit has also risen, and while the absolute investment yield is still not satisfactory, the upward direction is very encouraging.

The capital level of Japanese life companies is generally strong and they have been able to withstand the low interest rate environment. However, the market's growth rate has been



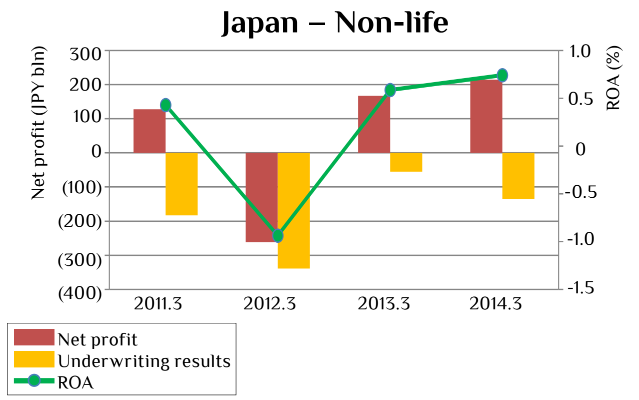
(Source: The Life Insurance Association of Japan)

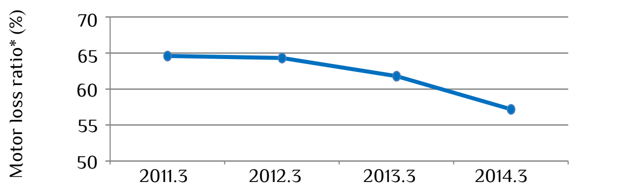
stagnant for more than two decades, with in-force business declining year by year. The primary drivers of this trend, demographic changes and low economic growth rates, are not expected to change.

On a positive note, the size of the current in-force business is large enough so that the decline in the business is happening very slowly; however, any new business opportunities will need to be of a meaningful size for the trend to turn positive.

In general, rating levels will be stable for a while but companies will have to find ways to maintain or improve their profiles. Companies are penetrating the third sector and expanding overseas on a large scale, both of which can present significant challenges.

Japan non-life insurance – Seeking improvements in profitability





* Loss ratio is on paid/written basis and the expense ratio for motor is in the vicinity of 40%

(Source: The General Insurance Association of Japan)

Many of the large Japanese non-life companies generate profits from domestic non-life and life, and overseas business.

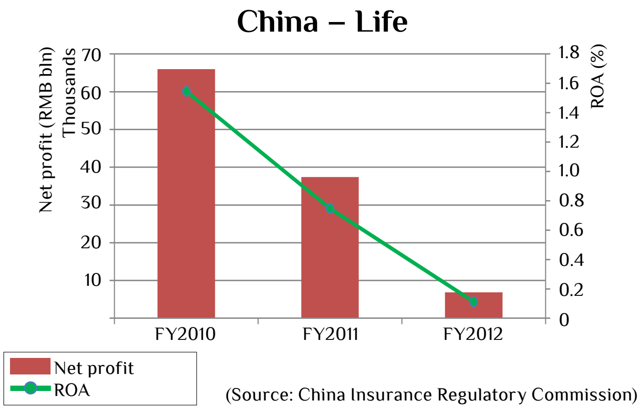
However, for many years, profitability levels of domestic non-life business have been poor. Capital buffers (including the means of releasing capital through improvements in risk management) have decreased to the extent that improvements in profitability have been inevitable since 2012.

These improvements have been accompanied by the motor business which is the largest business line. It is a significant change by the market participants to be able to move up the motor premium in a short period of time. The deterioration of underwriting results for financial year 2013 (ending March 2014) was due to the heavy snowstorm in early 2014.

For both life and non-life companies in Japan, another challenge is how to assess the sovereign risk going forward. Although a sovereign crisis seems fairly remote at this point in time when the Japanese economy is recovering, this issue will re-emerge in the next downward cycle.

Rating challenges to (mainland) Chinese insurance companies

China life insurance – Growth potential still there



(Source: China Insurance Regulatory Commission)

When compared to other North Asian countries, the Chinese life industry has suffered the most from the decline in interest rates, due mainly to the fact that much of the life portfolio comprised savings products.

However, early results for fiscal year 2013 indicate that earnings have recovered somewhat from fiscal year 2012. Premium growth rates will be low as companies begin to focus on risk products in addition to savings products.

As the life industry in China is still young with a low level of market penetration, the problem the industry faces is not as drastic as the exhibit illustrates. With time, there will be a quick turnaround as the government is determined to increase the insurance penetration in the country.

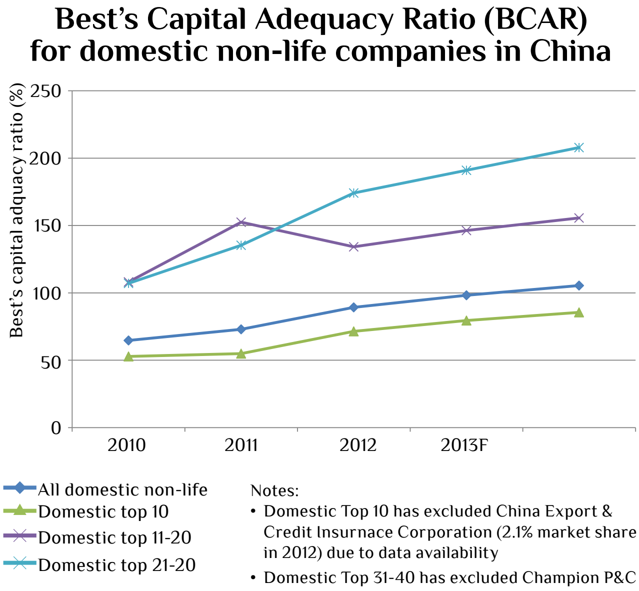
A rating challenge for life market insurers in China will be to keep up levels of profitability in order to be able to source capital which is essential for supporting growth.

China non-life insurance – Proposed solvency calculation likely to ensure improvements

The rating challenge faced by non-life companies in China is the low level of risk-based capitalisation. However, it is clear that the numbers have improved over the years, with expected improvements to continue going forward.

The proposed solvency calculation will not provide a direct incentive for companies to improve their levels of risk-based capitalisation as the risk charge for motor insurance business is quite low.

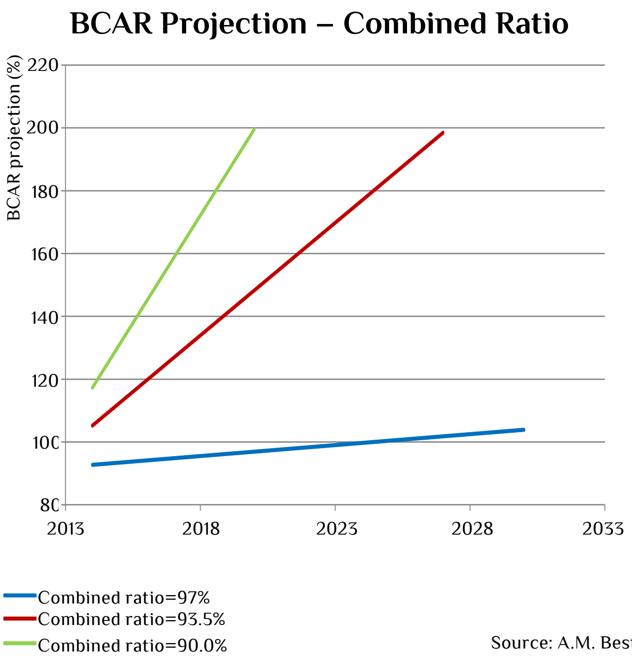
Instead, the qualitative side of the solvency regime (emphasising underwriting discipline and risk management) might provide a greater incentive for companies to improve their profitability or volatility by ensuring continuous improvements in their risk-based capitalisation.



Notes:
- Domestic Top 10 has excluded China Export & Credit Insurnace Corporation (2.1% market share in 2012) due to data availability
- Domestic Top 31-40 has excluded Champion P&C Insurance due to data availability

Source: A.M. Best

China non-life insurance – Profitability and capitalisation



Source: A.M. Best

The BCAR Projection – Combined Ratio graph above assumes a five-year average growth rate to 2012 (21.5%) to show that as long as there is sound profitability in the market, the low risk-based capitalisation issue can also be resolved in the medium term.

However, with low profitability, any improvement in the levels of risk-based capitalisation can be considered fairly remote.

Mr MoungMo Lee is General Manager - Analytics at A.M. Best Asia-Pacific.

Intense typhoon hits Japan: Are you prepared?

What happens when an intense typhoon slams into Japan, causing almost US$30 billion of insured losses? **Dr Kazuya Fujimura** and **Dr Peter Sousounis** of **AIR Worldwide** examine the likely scenario.


Dr Kazuya Fujimura


Dr Peter Sousounis

On average, 29 tropical cyclones develop each year in the Northwest Pacific Basin – more than anywhere else in the world.

Since 1951 (when detailed recordkeeping began), China and the Philippines have experienced the most tropical cyclone landfalls, followed by Japan, which experiences an average of four landfalls per year.

Wind drives most typhoon-related loss in Japan, but flooding is also a significant threat because of Japan's orientation, location, and terrain.

After the destruction caused in 1959 by Typhoon Vera – the costliest weather-related disaster in Japan's history – the government undertook a massive effort to strengthen coastal and inland defences, and most major cities are now protected by sophisticated flood defence systems. With some of the highest concentrations of insured exposures in the world, typhoons that impact Japan can result in large insured losses.

Risk managers can prepare by using catastrophe models to assess the impact of a full range of scenarios on their portfolios. This article examines a hypothetical typhoon that causes JPY3 trillion (US$29.2 billion) of industry insured loss in Japan.

The hypothetical scenario

An intense typhoon slams into Japan in late December.

Fierce winds, some in excess of 160 km/h, lash the prefectures of Mie, Aichi, and Shizuoka. Surface transportation is disrupted, hundreds of flights are cancelled, and factories are stripped of vulnerable light metal siding and roofing.

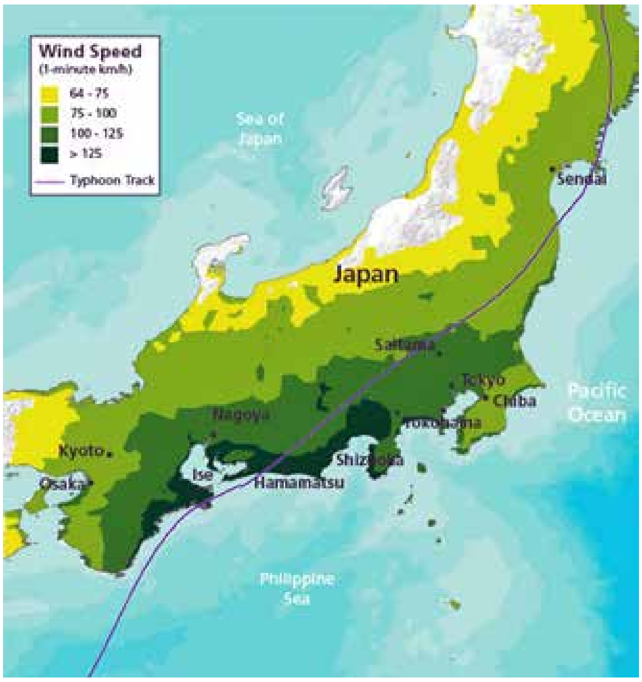
A storm surge more than three meters high plows into the levees surrounding Ise Bay and threatens Nagoya, but the city's flood defences hold. Over land, the storm weakens and passes north of Tokyo, triggering landslides and causing extensive wind damage to the low-lying coastal areas around Tokyo Bay and higher elevations west of the city. As the storm continues to weaken as it travels north, it makes several more landfalls.

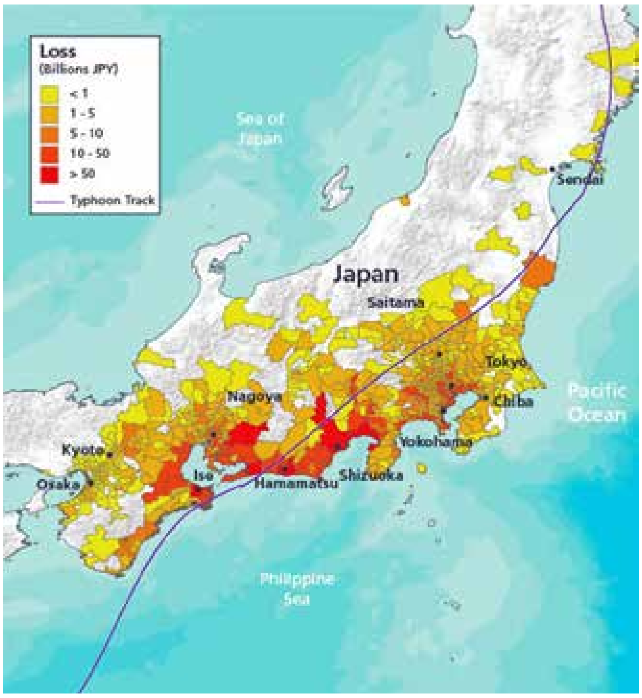
Exposure at risk

Japan's stringent building codes reflect the country's frequent exposure to strong winds and powerful earthquakes.

Modern wood-frame houses, which dominate residential exposures, exhibit good lateral resistance to wind loads; thus, major structural damage is expected to be limited at the wind speeds of the modelled storm. However, damage to roof coverings and windows can allow wind-driven rain to enter buildings and cause extensive damage to their contents. Furthermore, dislodged external components can become wind-borne debris and cause extensive damage to surrounding structures.

Figure 1. Wind intensity footprint (top) **and insured loss by municipality** (bottom)





Source: AIR Worldwide

Larger multi-family apartment buildings and commercial and industrial structures are generally engineered and made of reinforced concrete or steel. Damage is usually confined to non-structural components, such as mechanical equipment, roofing, cladding, and windows.

A significant portion of Japan's industrial stock is of non-engineered light metal construction, which is quite vulnerable to strong winds. These buildings can experience extensive structural damage, and even collapse, at the modelled wind speeds.

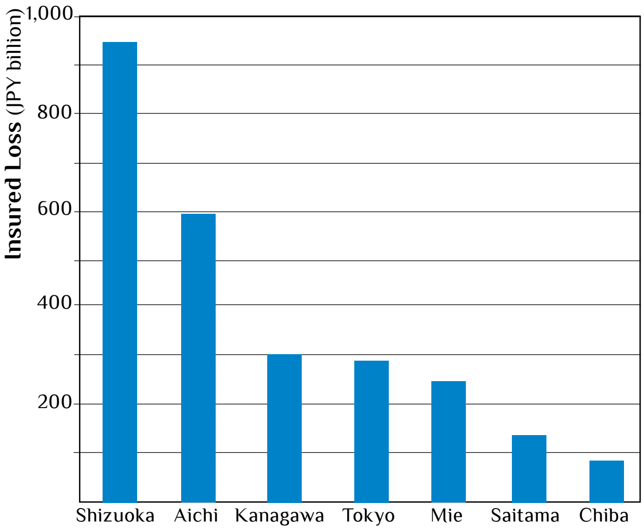
Estimating the impact

According to a study conducted by AIR Worldwide, this modelled scenario would result in insured losses of JPY3.0 trillion (US$29.2 billion) across Japan, including JPY810.4 billion ($7.9 billion) in the Tokyo metropolitan area. These correspond to a modelled annual exceedance probability of 0.5% (roughly a 200-year return period loss) for all of Japan, and about 1% (roughly a 100-year return period loss) for Tokyo.

Almost 60% of all insured loss from the modelled storm occurs in the prefectures of Mie, Aichi, and Shizuoka. Much of this loss is industrial – the region is a manufacturing hub and home to Toyota, Brother Industries, Makita, Yamaha, and Suzuki.

In terms of property damage, residential losses exceed industrial losses in the area. However, because insurance penetration for industrial and commercial lines is typically higher compared to residential lines, insured losses for commercial and industrial lines of business are higher.

Figure 2. Insured loss in the most heavily affected prefectures



Source: AIR Worldwide

Shizuoka Prefecture alone sustains over JPY950.6 billion ($9.2 billion) in insured losses, nearly one-third of all insured losses across Japan.

Most of these losses are due to industrial exposures in Hamamatsu and around the northern portions of Suruga Bay. Shizuoka's residential loss, at JPY293.3 billion ($2.8 billion), is also the highest of any prefecture. To the west, most of the JPY594.8 billion ($5.8 billion) in Aichi prefecture is due to industrial exposures on Atsumi Peninsula and in and around the city of Toyota.

With JPY810.4 billion ($7.8 billion) in insured losses, the densely populated Tokyo metropolitan area (consisting of the prefectures of Chiba, Kanagawa, Saitama, and Tokyo Metropolis) accounts for 27% of the event's total insured loss, most of which is sustained by residential properties.

Strong winds affect all areas around Tokyo Bay and areas to the west, such as Hachioji, Machida, Suginami, and Nerima. Edogawa and Ota, which lie next to Tokyo Bay, are hit especially hard.

Are you prepared?

This scenario is just one example of the extensive and widespread damage a powerful typhoon could produce in Japan. This is not an extreme tail event; far greater losses are possible.

A few modelling best practices can help ensure that your model produces the most realistic loss estimates, whether your exposures are located in Japan or elsewhere in the Pacific Northwest Basin.

- A building's response to potentially damaging winds is highly dependent on location and attributes. Accordingly, collect accurate, detailed information for the properties that make up your portfolio – including location and all primary building characteristics such as construction type, occupancy, building age, height – and a true replacement value. Relying solely on coarse resolution address data can lead to significant over- or under-estimations of risk.
- Be aware that typhoons in Japan can result in high flood losses. While precipitation was not a significant source of loss in this scenario, it is important to separate wind and flood losses, which have different policy conditions in Japan.
- Note that losses from extra clean-up expenses and debris removal can be a significant source of additional insured losses (more than 30% for some policies).
- Consider the potential for business interruption losses. Business interruption can be modelled as a function of downtime, the level of damage sustained, the size of the building, and its architectural complexity.
- Note that highly concentrated losses can trigger demand surge, which is an increase in the cost of materials and labour after a large catastrophe due to limited supply. This event triggers demand surge of about 17%.
- Finally, consider the loss ratio, or how estimated losses compare to the "total insured value" in each affected area. While losses may at first appear high, the loss ratio they reflect (typically less than 10% even in the worst affected region of this analysis) should be entirely consistent with an infrequent but thoroughly plausible catastrophic event.

No model can predict what the next catastrophe will be or when it will occur. The fundamental uncertainty makes it all the more important for companies to use catastrophe models to prepare for such losses.

The careful analysis of model results can help risk managers prepare for many contingencies – thus ensuring that scenarios like the one presented here will not be entirely unexpected.

Dr Kazuya Fujimura is Vice President and Managing Director of the AIR Worldwide Tokyo office. Dr Peter Sousounis is Assistant Vice President and Senior Principal Scientist. AIR Worldwide is a catastrophe risk modelling company.

A scheme for regional disaster risk financing

We bring you the five recommendations coming out of a joint projects by The World Bank, the Global Facility for Disaster Reduction and Recovery, the ASEAN Secretariat and United Nations International Strategy for Disaster Reduction on managing disaster risk financing in ASEAN.

Each year, on average, the ASEAN region experiences annual expected losses caused by natural disasters estimated at US$4.6 billion, or 0.3% of the region's GDP.

Every 100 years on average, the ASEAN region will face disaster losses in excess of $19 billion. Natural disasters have the potential to significantly impact the fiscal budget of ASEAN governments.

How ASEAN is coping with disasters now

ASEAN governments currently rely extensively on post-disaster budget reallocation and donor assistance to finance the cost of natural disaster response. Such a strategy can generate delays in post-disaster assistance and disrupt longer-term public investment plans and hence the development agenda.

Some ASEAN countries, however, are developing national disaster risk financing and insurance plans that promote ex ante budget planning. The Philippines recently signed a $500 million contingent credit with the World Bank, to be drawn down in the event of a natural disaster. Indonesia and Vietnam are also exploring ex ante disaster risk financing strategies.

The development of private disaster risk insurance markets can also contribute to strengthened fiscal resilience of ASEAN countries against natural disasters.

Development of disaster risk financing and insurance in ASEAN

This report recommended five options for the development of cost-effective, affordable and sustainable disaster risk financing and insurance in ASEAN countries.

The five recommendations aim to contribute to an open dialogue between ASEAN governments, international financial institutions such as the World Bank and Asian Development Bank, and donor partners on efficient and cost-effective financial strategies for increased economic and fiscal resilience of ASEAN Member States against natural disasters, as part of their broader disaster risk management and climate change adaptation agendas.

The recommendations also aim to provide a framework for a regional agenda on disaster risk financing and insurance. Each ASEAN country may want to prioritise and tailor them based on its own needs.

1 Develop risk information and modelling systems to assess the economic and fiscal impacts of natural disasters

Few countries collect critical risk data and even fewer have the means to readily share that information.

ASEAN countries could develop a regional risk information platform, including a geo-referenced exposure database and regional catastrophe risk models for major perils.

This platform could build on ongoing national initiatives, such as the development of an earthquake model in Indonesia, and regional initiatives such as the Global Earthquake Model, the Pacific Risk Information System and the Open Data for Resilience Initiative (see Box). Existing national datasets could also be leveraged.

The regional risk assessment and modelling platform would offer ASEAN countries, among other applications, financial tools to assess the economic and fiscal impact of natural disasters. It would also assist the Ministries of Finance in the design of cost-effective national disaster risk financing and insurance strategies, including the size of the annual budget allocation for potential disaster events and disaster risk transfer components (such as insurance).

The platform could also offer tools for regulators to implement risk-based supervision of domestic insurers and reinsurers and to monitor rate adequacy for catastrophe risk insurance products.

Open Data for Resilience Initiative (Open-DRI)

OpenDRI is an initiative of the Global Facility for Disaster Reduction and Recovery (GFDRR) of the World Bank aimed at reducing the impact of disasters by empowering decision-makers with better information and the tools to support their decisions. Tools are currently being offered to 25 countries around the world to improve disaster and climate change resilience.

Examples of OpenDRIs include:

- **Haitidata**: A free, open- source software tool for risk assessment in Haiti that allows organizations and individuals to share disaster-related data and information.
- **Risk-in-a-Box**: A suite of open source tools that close the loop between sharing data and actionable information to support resilient decision-making. Currently being developed for Indonesia earthquake risk in collaboration with government stakeholders, GFDRR, Australia-Indonesia Facility for Disaster Reduction and local partners including PT Maipark.

Source: GFDRR

2 Develop disaster risk financing and insurance strategies at the national and sub-national levels

A comprehensive national disaster risk financing and insurance strategy should be part of the overall fiscal risk management strategy of the state.

It should aim to:

- Manage the budget volatility against natural disasters and
- Provide insurance coverage against natural disasters for key public assets.

Particular effort should also be taken to ensure that the poorest and most vulnerable groups of society receive sufficient support and that the disaster risk financing and insurance strategy reinforces risk reduction principles.

Financial management of the national budget against natural disasters

ASEAN countries could develop national disaster risk financing and insurance strategies, building on a risk-layering approach in conjunction with a risk reduction strategy.

This approach is based on an optimal mix of risk retention (through reserves/contingency budget and contingent credit) and risk transfer such as insurance. Local and national governments need to ensure that they have sound disaster risk financing and insurance strategies in place.

Various strategies

A "bottom-up" disaster risk financing approach should also be considered. Governments should first secure financing for recurrent events (bottom risk layer) through risk retention (reserves and/or contingent credit) and then move up to increase their levels of financial resilience through disaster risk transfer instruments.

ASEAN governments could complement their reserves and/or contingent credit with parametric insurance. Parametric insurance products are insurance contracts that make payments based on the intensity of an event (for example, wind speed, earthquake intensity) rather than the actual loss.

Parametric insurance contracts tend to disperse funds faster than traditional insurance, and allow risk to be transferred in the absence of traditional insurance market infrastructure (such as claims verification). Importantly, it is therefore possible to transfer risk where there are no independent means of assessing actual incurred losses to the insured party (in this case the government).

Other strategies to consider include:

- In very specific cases, the ASEAN governments could complement their disaster risk transfer strategies by issuing catastrophe bonds against extreme losses caused by specific perils.
- Strategies should incorporate comprehensive tracking systems to monitor the flow of all public spending in response to disasters, including the source of related funding.
- National disaster risk financing and insurance strategies should be tailored to the specific circumstances of individual countries.
- Individual disaster risk financing and insurance strategies also need to take account of the speed with which each instrument can be activated.

National insurance programmes of public assets

The national disaster risk financing and insurance strategies should include an insurance programme for public assets.

Public assets, such as schools, hospitals, roads and bridges, can be severely affected by natural disasters and are largely uninsured for catastrophe risk in ASEAN countries. Such programmes would allow governments to reduce their fiscal exposure to natural disasters by transferring these risks to private insurance markets.

In some middle-income countries, where fiscal resources and access to post-disaster capital are limited, some governments require by law that public assets have property insurance coverage against natural disasters.

3 Establish National Disaster Funds

The existing process for securing and disbursing public funding in the event of a disaster is slow in most ASEAN countries.

A National Disaster Fund (NDF) could be established in ASEAN countries as a mechanism for the rapid financing of post-disaster operations.

(It is acknowledged that such a fund may be more relevant for middle-income countries like the Philippines, Indonesia or Vietnam. Further investigation should be conducted for low-income countries like Cambodia, Lao PDR and Myanmar).

The NDF would be established under both the Ministry of Finance and the National Disaster Management Office (NDMO). The NDF would include the following windows:

- An Emergency Fund designed to respond to the immediate needs of the population affected by a natural disaster, hence supporting the NDMO;
- A Program for Reconstruction, providing financial support to rehabilitate and reconstruct physical assets. The Program would focus on the reconstruction of public infrastructure and low-incoming housing.
- An NDF Trust, providing resources for post-disaster recovery and reconstruction activities approved by the Program (eg, for economic recovery). It could also act as the contracting authority for risk transfer mechanisms, including insurance.

The NDF could build up reserves from the unspent portions of its annual budget allocations over time in order to increase its retention capacity. It could potentially be further supplemented by revenue generated from temporary post-disaster tax increases, particularly in middle- and higher-income countries, focussing on geographical areas and sectors of the economy that have been relatively unaffected by a disaster event.

Government regulation would be required to allow the NDF to pay disaster insurance premiums out of its annual budget allocation. With this approval, the NDF would be responsible for designing and implementing a comprehensive disaster risk financing and insurance strategy that could include contingent debt agreements, the purchase of indemnity and parametric insurance, and the issuance of catastrophe bonds or alternative risk transfer mechanisms.

Such funds could also be considered at the sub-national levels such as provincial or municipal to assist local governments in the financial management of natural disasters. These sub-national funds could then be pooled into a larger fund managed by the local governments.

4 Promote private catastrophe risk insurance markets

The promotion of catastrophe risk insurance of private assets would allow ASEAN governments to reduce their (usually implicit) contingent liability for natural disaster losses.

Three key areas for development could be considered by ASEAN governments:

- The development of an enabling insurance regulatory and supervisory framework;
- The development of risk market infrastructure; and
- The facilitation of disaster risk pooling. All three areas are relevant, at various levels, for property catastrophe risk insurance, agricultural insurance, and disaster microinsurance.

Enabling regulation for catastrophe risk insurance

Regulators could work towards developing regulatory regimes that control exposure to catastrophe risk using a full risk-based approach, for example, taking into account probable maximum losses (PMLs) to insurers' portfolios.

Regulation could be used to support the growth of emerging insurance products that have the potential to increase insurance penetration and reach low-income populations.

Governments may also want to consider setting "softer", more enabling regulation for certain products. This could include tax-breaks, lower minimum capital requirements and expanding the list of permitted distributors (for example inclusion of microfinance institutions).

Developing risk market infrastructure

Risk market infrastructure refers mainly to goods and services that will aid the development of a cost-effective, affordable and sustainable insurance market. It includes product development, risk assessment and pricing methodologies, loss adjustment procedures, and distribution channels.

Governments may want to consider how they can partner with the international donor community and private insurance sector to develop public goods and services that will contribute to sustainable market growth.

Facilitating disaster risk pooling

Risk pooling can allow domestic insurers to access international reinsurance and capital markets on better terms.

By aggregating risks into one single insurance portfolio, insurers can approach the international reinsurance market with a larger, more diversified portfolio, which should lead to lower reinsurance prices and reduced transaction costs.

5 Strengthen regional cooperation on disaster risk financing and insurance

Regional cooperation on disaster risk financing and insurance is critical to ensure cost-effective financial management of natural disasters.

Donor partners, International Financial Institutions such as the World Bank and Asian Development Bank, and private stakeholders such as international reinsurers and brokers should assist the ASEAN countries in building a regional framework and infrastructure for the financing of natural disasters.

Regional cooperation is essential in three areas:

- Risk information, assessment and modelling;
- Knowledge exchange and capacity building; and
- Regional vehicles to leverage international reinsurance and capital markets.

A dedicated regional programme on Disaster Risk Financing and Insurance could be established to support the implementation of these activities. Instead of working on a country-by-country basis, this would allow for a programmatic approach in disaster risk financing and insurance.

Regional vehicles to leverage international reinsurance and capital markets

Regional risk financing vehicles could assist ASEAN states in designing and implementing their national disaster risk financing and insurance strategies.

Significant economies of scale may be created when risk financing solutions are developed at the regional level. These vehicles can also efficiently leverage the international reinsurance and capital markets.

Asia's changing foreign direct investment landscape

Ms Anna Tipping of **Norton Rose Fulbright (Asia) LLP** gives an update on the foreign direct investment regulations of some of the countries in Asia, with particular focus on India, Indonesia and the Philippines.

Background

Foreign direct investment (FDI) occurs when an investor based in one country (the home country) acquires an asset in another country (the host country) with the intent to manage that asset.

The management dimension is what distinguishes FDI from portfolio investment in foreign stocks, bonds and other financial instruments. FDI limits are typically guided by country specific commitments to the World Trade Organization (WTO) and regional trade associations of which the Association of Southeast Asian Nations (ASEAN) is just one.

The main driver to allow FDI is the need for foreign capital, which facilitates and drives development and growth of the local markets through enabling the provision of technical, organisational and managerial skills. This is tempered by the desire to protect national industry and resources.

WTO commitments vary widely and the WTO permits each country to maintain "pre-agreed flexibilities". These allow each member to "opt out" of harmonisation for national policy reasons.

It is worth noting that in ASEAN, most members have indicated that they will consider removing the limitations when and in relation to other countries that do the same. So unilateral movement is unlikely.

India – Increasing FDI

For the last 10 years or so, an increase in the FDI limits in the Indian insurance sector has been anticipated.

The latest attempt to increase the FDI cap began earlier in 2014 when Finance Minister Arun Jaitley announced, in his maiden budget speech, that the FDI cap in the Indian insurance sector should be increased to 49% from the current level of 26%. Shortly after, in late July 2014, the Indian cabinet approved the proposal. The Indian parliament is widely expected to approve the increase either in the current Monsoon session (ie, July to September 2014) or in the coming Winter session (ie, November to December 2014).

The current draft of the Insurance Bill implementing this proposal allows for an increase in the FDI cap to 49% provided that: (i) it is first approved by the Foreign Investment Promotion Board; and (ii) management in the joint venture remains under Indian control.

Current position

Country	FDI restrictions for insurance companies
Australia	None, although approval from Foreign Investment Review Board prior to acquiring 15% or more of a company worth >A$248million
China	- Non-life – 100% by foreign investor - Life – 50% by foreign investor - An insurer with ≥ 25% foreign investment is "foreign funded" and different administrative regulations apply
Hong Kong	None
India	26% limit on direct and indirect foreign ownership (NB. See rest of article for proposed changes)
Indonesia	Foreign shareholders of any entity carrying on insurance activities are limited to 80% at establishment (NB. See rest of article for proposed changes)
Japan	None
Malaysia	70% limit on foreign equity ownership >70% considered on a case by case basis for players who can facilitate consolidation and rationalization of the industry
Myanmar	Not permitted – this may be relaxed from 2015
Philippines	None (NB. See rest of article for comments on bancassurance)
Singapore	None
South Korea	None
Taiwan	None
Thailand	Insurance and reinsurance companies: - up to 25% less one share permitted - up to 49% with approval of the OIC - above 49% with approval of the Minister of Finance
Vietnam	None

Indian control condition

It is currently unclear what the "Indian control" condition means and there is no guidance on this yet.

It may mean, as in other sectors in India, that a majority of the management of the insurance company must be Indian nationals. If this is the case, it will need to be clarified whether or not an Indian national appointed by a foreign shareholder would satisfy the "Indian control" condition – in some sectors such an appointment would not satisfy corresponding requirements.

Alternatively, the "Indian control" condition may mean that certain senior positions, such as the Chief Executive Officer, will need to be held by Indian nationals. Some government officials have even publicly suggested that the "Indian control" condition will mean that foreign shareholders will not have proportionate voting rights.

The government recognises that clarification is required as to what is meant by "Indian control" and has indicated that it will soon publish further guidance.

Indonesia – Reducing FDI

Indonesian lawmakers announced on 22 August 2014 a proposal to lower the FDI cap in the insurance sector to as low as 49%. Foreign insurers vigorously lobbied the government and regulators for some clarity as to what the real plan is.

Following the announcement, at a halal bi halal (post-Ramadan ceremony) Firdaus Djaelani, the OJK Director with responsibility for the insurance industry, commented that the limitations will apply to new entrants – with the implication being that the change would not apply retrospectively. However this was not made explicit, nor was there any indication of when the cut-off date for "new entrants" would be.

A parliamentary spokesperson subsequently stated on 27 August that there is a deadlock between parliament which wanted 49% and the government which wanted to maintain the status quo of 80%. As a result, parliament has determined that the administrative department of government will have the power to determine the FDI limits after consultation with parliament and the OJK.

What is clear from this is that there is a populist movement to reduce FDI but a pragmatic commercial recognition of the need for foreign capital.

Philippines – Increasing flexibility

The Philippines has, for many years, required that any bank wishing to enter into an arrangement to distribute insurance (bancassurance), must be part of the same financial conglomerate as the insurer.

The minimum cross-holding was 5%, although many banks and insurers established equity joint ventures at much higher levels. While there is no FDI limit on insurers, this rule has effectively limited foreign insurers' access to the lucrative bancassurance market, as most banks in the Philippines are domestically owned and where an equity joint venture is required, a bank will partner with only one insurer.

In 2012, the bank regulator, Bangko Sentral NG Pilipinas (BSP) commenced a review of how protection (non-investment) products and investment provided by third parties were sold by banks (cross-selling). The review has been carried out in three phases. Phases 1 & 2 are complete.

Under Phase 1, concluded in May 2013, the BSP determined that banks could not cross-sell investment products of third parties at all. Protection products could be cross-sold provided the bank and the product provider were part of the same financial conglomerate.

Under Phase 2, concluded in August 2014, the BSP determined that banks could cross-sell investment products provided the bank and the product provider were part of the same financial conglomerate and could cross-sell protection products without restriction.

It is expected that Phase 3, due over the next 18-24 months, will liberalise the cross-selling of investment products.

The result of the review is likely to be that there will be increased flexibility for the structuring of bancassurance relationships. Many of the existing players will reconsider whether it is necessary to continue their existing equity joint ventures if such are no longer required as a matter of law.

Conclusion

As can be seen, the landscape is changing. While nationalistic sentiment has been the historic driver, it would appear that the interests of the policyholder may now be taking a more important role in shaping the future.

Ms Anna Tipping is Partner at Norton Rose Fulbright (Asia) LLP.

ASEAN draws more FDI

ASEAN is attracting more investment from many companies of all industries in the region as well as from Europe and US. In this article, extracted from papers by **Dr Tomikazu Hiraga** from the **NLI Research Institute** in Japan, he shares that Japanese companies are increasingly shifting their production bases to ASEAN and partly shying away from China which was traditionally the companies' key investment target. And Japanese companies are not the only ones doing so, Korean, Chinese as well as European and US companies are likewise doing so too.

Japanese firms are focussing more on ASEAN countries and partly shying away from China which had traditionally been the companies' key investment target as the Middle Kingdom appears to be undergoing a relative decline due to factors such as soaring personnel costs, said Dr Tomikazu Hiraga, Executive Research Fellow & General Manager for Asia, NLI Research Institute, in his new series on ASEAN Economic Integration and Japanese companies in the IIST's e-Magazine.

Drawing from the 2013 results of an annual survey by Japan Bank for International Cooperation (JBIC) Survey Report on Overseas Business Operations by Japanese Manufacturing Companies, a survey conducted since 1989 which collates the responses of Japanese manufacturers about those countries and regions which they regard as promising for business expansion over the medium term (around the next three years), Dr Hiraga said the FY2013 results were "particularly interesting".

Indonesia displaces China

Indonesia took first place among promising countries/regions for the first time since 1992 when the survey questions took their current format, while China lost its top seat for the first time since 1992 to drop to fourth.

Increasing political stability and a middle class burgeoning on the back of economic development team with ASEAN's largest population (240 million) has made the Indonesian market both important and attractive to companies (service companies included), said Dr Hiraga.

In addition to Thailand (3rd) and Vietnam (5th), which have featured regularly in the top rankings, Myanmar rose to 8th and the Philippines to 11th, with Laos making it into the top 20 for the first time, he said.

These results brought nine of the 10 ASEAN members (Brunei was the exception) into the top 20. (The rankings for the other ASEAN members were 12th for Malaysia, 16th for Singapore and 17th for Cambodia). See Table 1.

ASEAN becoming increasingly important for Japanese companies

Dr Hiraga noted that ASEAN is becoming an increasingly important investment destination for Japanese companies due to:

- Economic development and the concomitant growth of the upper and middle income brackets in a region which boasts a population of some 600 million; and
- The relatively positive attitude of many ASEAN countries toward Japan.

Table 1: Promising countries/regions for overseas business over the medium-term ranking

Ranking				No. of companies		Percentage share (%)	
2013	←	2012	Country	2013	2012	2013	2012
1	↑	3	Indonesia	219	215	44.9	41.8
2	–	2	India	213	290	43.6	56.4
3	↑	4	Thailand	188	165	38.5	32.1
4	↓	1	China	183	319	37.5	62.1
5	–	5	Vietnam	148	163	30.3	31.7
6	–	6	Brazil	114	132	23.4	25.7
7	–	7	Mexico	84	72	17.2	14.0
8	↑	10	Myanmar	64	51	13.1	9.9
9	↓	8	Russia	60	64	12.3	12.5
10	↓	9	US	54	53	11.1	10.3
11	↑	15	Philippines	39	21	8.0	4.1
12	↓	11	Malaysia	37	36	7.6	7.0
13	↓	12	Korea	28	23	5.7	4.5
14	–	14	Taiwan	23	22	4.7	4.3
14	↓	12	Turkey	23	23	4.7	4.5
16	–	16	Singapore	19	16	3.9	3.1
17	–	17	Cambodia	12	13	2.5	2.5
18	↑	20	Germany	10	6	2.0	1.2
18	↑	23	South Africa	10	3	2.0	0.6
20	↑	23	Laos	9	3	1.8	0.6
			Total	488	514		

Source: JBIC, 25th Survey Report on Overseas Business Operations by Japanese Manufacturing Companies, released on 29 November 2013

Other countries interested in ASEAN too

Dr Hiraga also noted that Japanese companies are not the only ones keen on using ASEAN as a production base and consumer market as the ASEAN Economic Community goal looms nearer. Direct investment from Korea, China, Europe and US are also increasing.

He shared that 2014 data on Japanese firms' ASEAN operations reveals that a total of 6,135 companies have an ASEAN presence, right up alongside the 6,276 companies in China.

Within ASEAN, 1,956 have operations in Thailand, 1,149 in Singapore, 944 in Indonesia, 841 in Malaysia, 679 in Vietnam, 479 in the Philippines and 87 in Cambodia, Laos and Myanmar, with the majority accordingly in the five original ASEAN member countries and Vietnam.

Meanwhile, Korean investment in ASEAN has outweighed investment in China since 2010, with many companies moving into Vietnam and Cambodia – around 2,800 as at the end of 2013 – where Japanese companies have a relatively smaller presence, said Dr Hiraga.

"Vietnam in particular has enjoyed a marked drive by companies from a wide range of industrial sectors. In addition to the establishment of a massive mobile phone manufacturing base by Samsung Electronics, which singlehandedly accounts for more than 10% of Vietnam's exports, LG Electronics, Posco, Doosan Heavy Industries & Construction Co Ltd and other major manufacturers are setting up new manufacturing bases, the Lotte Group (which deals in department stores, supermarkets, restaurants and hotels, etc) is moving in, and real estate development is also underway. Many labour-intensive light industries such as textiles have also been quick to set up production in Vietnam," he said.

In the case of China, Singapore is attracting substantial investment capital, particularly as Chinese corporate majors set up regional headquarters there, but this is followed by major investment in Myanmar and Cambodia to secure energy and resources and build infrastructure, said Dr Hiraga.

"In addition, like Japan, both Korea and China are becoming more interested in Indonesia, which is not only attractive in terms of resources and energy but also has a large population which is expected to provide a growing consumer market as the wealthy and middle classes swell," he said.

Table 2: Auto production by country 2013

Country	No. of vehicles
Thailand	2,457,057
Indonesia	1 ,208,211
Malaysia	601,407
Philippines	52,260
Vietnam	40,920
All ASEAN	4,359,855
China	22,116,825
India	3,880,938
Japan	9,630,070
Korea	4,521,429
All Asia & Oceana	45,800,878
US	11,045,902
Europe	19,726,405
World	87,300,115

Source: OICA website

Automobile production in ASEAN

Using the automobile industry as an example where Japanese companies hold a massive share – around 80% of the ASEAN market, with particular dominance in Thailand and Indonesia, he said: "European and American companies, as well as Korea's Hyundai Motor, which stands in fifth place in the world market, have a relatively limited presence in contrast to Japanese firms, but appear to be stepping up their efforts."

He said General Motors and Ford from the US have also begun working to expand their shares in Thailand and Indonesia in particular, typified by General Motors' re-establishing production in Indonesia and building a massive new dealership.

Hyundai too has traditionally focused on the Philippines, Vietnam and Cambodia, but now appears to be moving more aggressively on markets in Thailand and Indonesia.

Other examples he gave include German car parts major Bosch opening a new plant in Indonesia – its sixth ASEAN base – before the end of the year; French tire manufacturing major Michelin setting up a joint venture in Indonesia; and China's Dongfeng Motor Corporation establishing a joint venture in Thailand with the Thai Charoen Pokphand (CP) Group to manufacture vehicles for export.

Dr Hiraga said: "In this market environment, the strategies which Japanese companies devise to maintain and expand their large share will be critical. As German brands become more popular than Japanese companies in high-income Singapore, one key issue will be developing an effective response to the shift toward more luxury car sales that accompanies rising income levels."

He added: "In addition to maintaining and enhancing their technological superiority, brand strength and credibility, Japanese companies need to carefully research their markets, including stage of development, needs and tastes; work out their product lineups, and bolster and extend their sales and marketing base and after-sales service networks."

What Japanese firms need to do

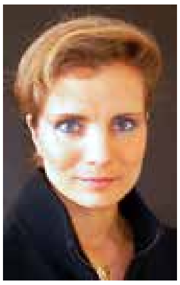
For Japanese companies, this increasingly fierce competition is certainly a threat, Dr Hiraga said but he highlighted that the more important point will be to develop strategies for seizing business opportunities in ASEAN's expanding markets and linking these to results.

"Multinational companies – especially the larger ones – need to take advantage of their strengths in areas such as organisational capabilities, personnel, knowledge networks, capital and IT and use local human resources to help tailor their products and services to local needs and tastes, balancing the twin major proposition of global standardisation and local adaptation. For small and medium enterprises (SMEs), as already proved in many cases, the ASEAN region offers a chance to shake off domestic constraints on business expansion, such as slowing market growth and the presence of rivals, and stretch and grow their wings," he concluded.

The full papers "ASEAN Economic Integration and Japanese companies" from which this article is extracted were first published on the Institute for International Studies and Training (IIST) e-Magazine. The papers draw on Asian government materials, materials publicly disclosed by companies, JETRO materials, and newspaper and magazine reports and articles.

The case for a Southeast Asian agriculture risk pool

In this extract from the Geneva Association's Risk Management Newsletter, **Dr Suzanne Corona** from **Asia Capital Reinsurance Malaysia Sdn Bhd** says adequate protection of agricultural interests is fundamental in managing food security, an area of vital focus for governments and one in which the (re) insurance industry has an important role.



A growing population is only one driver behind the increase in demand for food. The effect of population growth could be easily amplified by changes in food consumption patterns as income rises. How about the supply side? Although the global agricultural land area has increased significantly since 1961, data from the last decade indicate that the trend has started to reverse.

Landowners seek to optimise income from their land. Political pressure is towards maximising tax revenue, an incentive to transform agricultural land into commercial land.

Land area is only one factor; there is also yield-per-area. Over the past 20 years, yield has been increasing. However, the rate of increase is levelling off. This could be attributed to multiple reasons such as the degradation of soils and water quality, toxin build-up and the fact that modern agronomy is reaching its limits.

Water supply is a significant risk factor in agricultural activity. Fresh water only makes up 3% of the global water supply. Most agriculture production uses fresh water, with the exception of salt water fish farms. According to Food and Agriculture Organization of the United Nations (FAO), 70% of the world's fresh water consumed is used by the agricultural sector. Given the projected increase in demand for agricultural products, fresh water scarcity is projected to increase.

Consequently, the cost of agricultural production may increase.

Pan-ASEAN agricultural pool

Asia is a particularly vulnerable region when it comes to the agricultural sector's exposure to calamities. This suggests a major need to protect Asian agricultural interests against disaster risk. As local governments are major stakeholders in agriculture, sovereigns are ideal candidates to participate in a robust insurance-based financial solution.

The establishment of a pan-ASEAN agriculture pool as a collective scheme can mitigate the risks associated with agricultural production and food security in the region. In this scheme, the Member States of ASEAN contribute underwriting capacity based on the relative importance of agriculture trade to their economies.

Using weather-based indices and backed by an insurance policy, farmers will obtain financial coverage for major agricultural disasters that affect their production. Member States which are net consumers of agricultural products will subsidise the insurance premiums of those countries which are net producers, thus promoting food security and political stability across the entire region.

Leveraging on the ASEAN Plus Three Emergency Risk Reserve's experiences

Starting an international venture such as this on the ASEAN level makes sense, as there is already an existing framework of government exchange upon which to build the infrastructure of the proposed public–private partnership (PPP) risk transfer scheme.

Given the experience with the ASEAN Plus Three Emergency Rice Reserve (APTERR) – this includes the 10 ASEAN states plus Japan, China and the Republic of Korea – regarding food security, a pan-ASEAN agriculture pool among the ASEAN Plus Three (APT) states may also be feasible.

A pan-ASEAN agriculture pool would complement APTERR in that the insurance scheme's raison d'être is to encourage farmers to continue producing food, rather than moving to cities in search of a better life, by insuring the costs of production, in contrast to APTERR, which aims to stabilise the market price of the product for consumers.

Geographical diversification

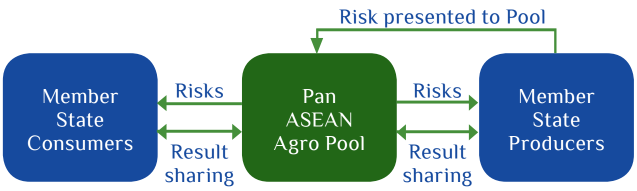
Substantiating the case of a pan-ASEAN agriculture pool is the benefit of geographical diversification in dealing with the perils that affect agriculture risks most.

Similar working and existing reinsurance solutions are based on the same principles. We have calculated the straightforward Pearson correlation coefficients between different countries and regions using again the EM-DAT database.

The pan-ASEAN agriculture pool would bring together capacity from the Member States, who will each take their share of risk in terms of both premiums and losses. This is a manifestation of the principle of solidarity. The innovative feature of this pool is that net importing (consuming) and net exporting (producing) countries are brought together in one scheme as illustrated in Figure 1.

The question will be how to share the risk and, more precisely, the level of participation that should be undertaken by each Member State. We can measure the relative

Figure 1: Schematic Organisation of the pan-ASEAN Agriculture Pool



importance of agriculture products for each country by their net agricultural trade position normalised to gross domestic product (GDP). While this is a somewhat simplistic approach, it offers a basic idea for determining orders of magnitude. Going forward, we would need to refine participation levels based on the actual assets (crop or other) actually ceded into the pool.

Mechanics of the suggested pool

The next step is to understand the risks which are ceded into the pool. This will give an estimate of the amount of reserves the pool will need to be able to handle a catastrophic event loss and also indicate a price for the risks which are ceded into the pool.

The data available today for modelling agriculture risk in Asia is quite dispersed and often biased by state politics or other issues. Our agriculture model covers crops, livestock and forestry. In its first version it aims to cover the main Asian agricultural markets: China, India, Korea, and Japan, and will progressively expand into the Southeast Asian markets.

Statistics on crops, forestry and livestock generally go back to the 1960s or 1970s and give an estimate of the economic damage ratio. Using weather measurements such as rainfall and temperature, we can associate return periods to the level of damage of each year. The data can be fitted onto a distribution to determine its mean and standard deviation.

The final step is to calibrate these results with the actual claims history. Here, the data is limited data in that it covers only back to 2007 in China, but, in time, the model will be refined. The available data also needed cleansing and, where premium was the only exposure, transformation into sums insured. Using sums insured will reduce uncertainty in results that would arise from changes in premium rates.

Microinsurance usually the distribution channel used

These modelled approaches work for risks of significant size (middle-class residential risks or commercial risks), where it makes sense to use traditional insurance techniques (annual policy whereby premium payment is in exchange for coverage of a defined set of risks and perils).

The demographics of Asia, APT countries in particular, introduce a twist. Microinsurance will often be the proper vector of distribution in this PPP proposal due to the number of poor citizens. While the Chinese provincial schemes are using traditional insurance claims management techniques, the experience of India has shown that weather parameters could be more adapted to use as triggers for an event declaration. This approach erases the need to select the risks which are accepted into the pool, as pricing differentials no longer exist. It puts all the risks on an equal footing in terms of price.

Another advantage is that the return periods for different levels of weather parameters are relatively well known from several decades of measurements. Agriculture production can be correlated to these weather measurements and used to define triggers. Satellite imagery techniques could also complete the tool box.

Weather-based indices' issue

One issue with the use of weather-based indices to trigger insurance claims is that they sometimes trigger a claim when there is no loss or, on the contrary, do not pay claims when there is a loss. If the pan-ASEAN agriculture risk pool is calibrated for larger catastrophes, this bias will be reduced.

The premium corresponding to the risks ceded into the pool will be calculated and all members will share this risk proportionally to their interest in the pool, meaning that both the producing and consuming Member States subsidise the premium for the producers (usually producers alone set up these subsidised insurance schemes).

Those premiums will be used to build up a fund which can pay for future claims from extreme weather events. The pricing should be calibrated so that there is some profit. However margin expectations are to be moderated, as evidenced by existing local and national schemes in Asia and around the globe. More importantly, this is not meant to be a risk funding exercise disguised as risk transfer.

Pool should start with agricultural staples

Going forward, all the ingredients are there to create a pan-ASEAN agriculture pool as a PPP initiative between ASEAN or APT states and the (re)insurance industry to manage agriculture risks in the region.

Among Member States, the pool can be formed via a treaty that defines how much capacity is to be contributed by each Member State. For each type of agriculture operation, the insurers will distribute insurance policies to the producing farmers in each Member State.

Do note that a given Member State could be a net producer of one agricultural commodity and a net consumer of another. The pool should limit its cover to key agricultural staples as a first step. Insurance cover of the agriculture risks of APTERR using the pool can also be explored.

Further studies should be pursued by all relevant stakeholders to better understand the risks involved, while keeping in view the overall objective of promoting food security and reducing political risk through a healthy and sustainable insurance market environment with responsible players.

Dr Suzanne Corona is Chief Underwriter, Asia Catastrophe Pool/ Asia Agriculture Pool of Asia Capital Reinsurance Malaysia Sdn Bhd. The author would like to thank Mr Cheam Fong Hong, Senior Economist at ACR Capital Holdings, for the research support he had provided.

Insights into the takaful world today

Mr Brandon Bruce Sta Maria of **EY Malaysia** gives an update on the global takaful scene, with a focus on Asia, and shares the key areas that operators need to address.

The global takaful industry continues to record impressive growth, riding on the back of the strong growth shown by the Islamic banking industry. In 2013, global takaful contributions reached an estimated US$12.3 billion, recording a growth of 14% compared to 2012. This growth rate has moderated somewhat from the five-year 2007-2011 CAGR of 22%, due mainly to slower than anticipated growth in Saudi Arabia and the Gulf Cooperation Council (GCC).

ASEAN region is big, but Saudi Arabia still leads

Given the optimism surrounding global Islamic finance, it is forecasted that takaful will continue to return a growth rate of approximately 14% in 2014 and to reach what may be a $20 billion industry by 2017.

The ASEAN region, making up about 30% of total global gross contributions, will play a significant part in achieving this growth. Positive economic undercurrents and a favourable demographic make-up are crucial factors to support the forecast growth in takaful contributions of approximately 22% within the region. Nevertheless, Saudi Arabia, for the foreseeable future, will continue to remain the core market for Islamic insurance business with a commanding lead of almost half of the total global takaful contributions.

Key areas which impact operations

Whilst growth continues to be on the agenda, the industry continues to be at the intersection of major regulatory developments across key markets.

These regulatory changes are aimed at enhancing financial stability, governance and consumer protection, with the ultimate objective of enhancing Islamic finance participation in the markets.

From a business risk perspective, the key areas that industry players see as having the biggest impact on operations are:

- The need to address an increasingly competitive business environment;
- Complying with evolving regulatory requirements; and
- Enabling business transformation.

These concerns clearly point to the need for takaful operators to review the nimbleness of their business models and to consider the impact of business transformation strategies and enterprise-wide risk management.

Malaysia – "Licence split"

In Malaysia, the buzzword in the industry has been "licence split", espoused under the Islamic Financial Services Act 2013.

The deadline to complete the split is within five years from when the legislation came into place, or longer as Bank Negara Malaysia (BNM) may permit. In August 2014, BNM issued a directive for each composite operator to submit plans for the "licence split" by 30 June 2015. Clearly, this is an immediate concern requiring critical examination by each operator.

Key challenges

To an extent, continuing regulatory reforms have disproportionately increased compliance costs, but each of these must be addressed with the objective of enhancing competitiveness and ensuring financial resilience.

The key challenge for the industry in this respect is its ability to cope with the shortage of the requisite talents and with that, the costs associated with each change.

Financial performance must continue to be a major area of focus for takaful operators across key markets. Whilst improvements have been observed, many operators continue to be burdened by substantial formative establishment costs, with mandatory capital already sunk into the business.

From analysis, takaful expense and combined ratios continue to be higher than the conventional peers although the gap has been narrowing. Whilst this analogy may not be entirely appropriate, it is necessary to benchmark what the industry should strive for in order to compete with its conventional peers who, by and large, have a longer operating history.

Building scale is important but must not be at the detriment of writing profitable and sustainable business. Clear understanding of risk, pricing, distribution platforms and cost structure are crucial.

Sustainable eco-system

Given the strong growth opportunities, market competition and regulatory reforms, the industry must continue to address certain issues to achieve a sustainable takaful eco-system. The key areas include:

- Refocussing strategic initiatives to be aligned with evolving consumer needs.
- Optimising operations to ensure that critical business volume is obtained, diversifying into technical commercial lines and improving distribution and service capabilities. In this respect, the unique takaful proposition must be very clearly articulated and built in order to be attractive to the consumer.
- Addressing solvency, accounting and regulatory reforms and the related risk considerations. Ensuring consistency of practices, continuous regulatory engagement and balancing risks with the need to build scale are key considerations in this area.

Regional takaful operators should provide leadership for industry

In the final analysis, it is expected that the global takaful industry will continue to gain market share especially across rapid-growth markets which show untapped potential, evidenced by low insurance penetration rates and insurance density.

In driving growth, operators must have a clear sense of their business strategies. Inability to differentiate value propositions will mean more intense competition for the same piece of the pie and this will ultimately have the effect of squeezing out the under-performers. The continued strong growth of the Islamic banking sector will help sustain the progress of takaful but it is imperative that the industry continues to chart its own destiny and drive change to become more self-reliant.

In this respect, it is our view that regional takaful champions must emerge to provide leadership for the industry and to spearhead internationalisation. The road ahead is not without its challenges, but somebody, somewhere should step up to the plate.

Mr Brandon Bruce Sta. Maria is a Partner – Financial Services in EY Malaysia.

Disability insurance for Asia:
Seeking affordability for client and profitability for insurer

Disability insurance is mostly unaffordable for the client and unprofitable for the insurer in developed countries. Dr John Harrison of Reed Group Asia Pacific shares the principles and the mechanism Asian insurers can use to make the insurance a success in Asia

What is the "Challenge of the Day" in the East Asian insurance region? There are many, but I shall focus upon one element of the insurance industry – disability insurance.

"Disability" in this context refers to any illness or injury which prevents an individual from earning an income, and which therefore makes their liabilities hard to meet, such as food, rent, children's education, insurances, utilities, etc.

Most developed markets have two basic types of insurance to cover such circumstances, variously referred to as "income protection" or "salary continuance", available as either a retail product for individuals and their families, or available to businesses or organisations such as superannuation funds. This insurance is termed "group".

Total and permanent disablement and trauma insurance are two other disability products – the former usually pays a lump sum when a person can no longer work, and the latter pays out when a person suffers a specified disease or injury.

There are problems in developed markets with each and every one of these products, the pitfalls of which are well known. This paper addresses an approach which new markets can implement, one which can be profitable for insurer and affordable for the client. It avoids the pitfalls of established markets.

Disability insurance hijacked by doctors and lawyers

Let's take a look at what happened to disability insurance in developed insurance markets.

Disability insurance in the developed markets of the US and Europe is a far cry from the original intention of disability

insurance which was to provide resources to return people who were injured or ill, to work.

Over the years, the interests of the stakeholders changed. Doctors and lawyers became the largest stakeholders in the disability industry, controlling both policy wording and claims management. Doctors and lawyers replaced the injured or ill person as the primary stakeholders. The pool of insureds, who were and still are funding disability insurance, became exploited as the pool became contaminated by opportunistic claims driven by doctors and lawyers.

Disability insurance becomes expensive and complex

With the insurance pool contaminated by opportunistic claims, disability insurance became unaffordable, at least long-term disability insurance, policies which respond over a protracted period of disability. As a consequence, the insurers which provided long-term disability insurance in the US and Canada dwindled from many hundreds in 1950 to only a handful today.

Disability insurance had become unprofitable for insurers who were forced to increase premiums to offset losses. Eventually, insurance premiums became unaffordable. In Australia, the number of people who purchase retail income protection insurance is less than 1/3. Surveys clearly reveal two levels of disaffection with the products on offer. They are:

- Price
- Complexity

In respect of complexity, insurers are forced to include more and more definitions and clauses in order to try and minimise fraud and retain profitability. However, this strategy has not worked so that now income protection insurance in Australia is essentially unaffordable for the insured and unprofitable for the insurer. The fraud was mediated, if not directly committed, by the medical and legal professions.

Lesson 1: Insurer must maintain control over the insurance process

The insurer must retain control of the process of both developing insurance products and administrating them. As soon as the insurer abandons responsibility for these functions and hands them over to third parties such as doctors and lawyers who are not party to the insurance contract, they have lost control of their own product.

The insurer must retain control over the principle cost drivers of disability insurance.

Lesson 2: Insurer must not allow doctors to determine the disability duration

Doctors determine disability *diagnoses*. That is the legitimate role of doctors. The insurer does not require doctors to determine the disability duration. In order to make this critical distinction between *diagnosis* and *duration*, we need to consider the following:

If a "patient" attends a doctor for any medical reason, and that attendance is not covered by insurance of some sort or paid for by a third party, the patient is ***not*** provided with a medical certificate by the doctor. There is nobody to whom to submit the medical certificate, so none is required. This situation represents "medicine".

If the "patient" is a "claimant" and attends a doctor, the medical certificate becomes a critical part of the process, since it is required for the claimant to make a claim upon an insurer or third party, or tender to an employer. This is not "medicine", this is "insurance".

Lesson 3: As soon as a medical certificate is issued, the matter is no longer medicine but insurance

The disability *duration* is *insurance* whenever a medical certificate is tendered by any party, and needs to remain under the control of, or at least the predominant influence of, the insurer.

But how does the insurer determine the disability *duration*?

Medical data

In the past 50 year, medical data has grown in size and in sophistication such that datasets now exist for all medical diagnoses.

The insurer can consult a database to determine the likely disability duration for any diagnosis. On the basis of this determination, an insurer can calculate his risk, since that risk is represented by the formula:

> Incidence of the diagnosis x disability duration x salary replacement = Insurer's liability

The first two elements are readily obtained from the data. The last is known to the insurer. The risk is known and the underwriters can price the product accordingly. As soon as the insurer loses control over any one of the elements in the equation, control over the whole equation is lost.

Developing a disability insurance product in an emerging market

The insurer must retain control over the disability duration, since the disability duration predominantly determines insurer's risk.

The product must therefore spell out, unequivocally; that claims will be managed according to *evidence-based medicine principles* which dictate that data is required, along with the experience of the medical practitioner. The experience of the medical practitioner is utilised to determine any variations to the evidence based disability duration data which might be relevant to that particular claim – and *provide the evidence for the variation*.

A fractured femur for example, would ordinarily take approximately 90 days to recover. The data is able to accommodate significant circumstances such as age, gender, job class, co-morbid conditions, etc, and can return either physiological healing times as determined by physicians or actual observed work place absences.

The insurer is at liberty to select which data is most appropriate upon which to base the disability product and take into account price points, intended target insureds, and local claims history.

Medico-legal considerations

Insurers in developing markets have the opportunity to base new and innovative products upon the latest science and paradigms in both medicine and the law.

Legacy products offered in older disability markets are hamstrung by convention and paradigms which no longer apply. One of those paradigms was that doctors knew most about disability. They do not. Doctors of course retain ownership over medical diagnoses, for which medical training and experience is essential.

Emerging medical paradigms

- The critical paradigm to emerge in the past 10 years is that return to work is superior to inactivity when it comes to healing. The old paradigm was: "Go home and rest and come back to work when the condition has fully recovered".

  It is now recognised that if one stays off work for too long, the condition is unlikely to recover at all, and that work activity provides the best environment for recovery, provided that exertion does not exceed the injured part's capacity to handle it. Modified duties may be required to assist return to duties.
- "Return to work assists healing" means that all parties (the insurer, the doctor and the insured) have an obligation to return the claimant to gainful activity in a time frame consistent with recovery.

Emerging legal paradigm

- The Daubert decision in the Supreme Court of the United States in 1993 (*Daubert vs Merrell Dow Pharmaceuticals*) changed the balance of evidence between doctors' opinions and moved it towards data as the most acceptable evidence in a court of law. This decision has been upheld hundreds of times in multiple jurisdictions around the world since.
- The importance of this legal trend to insurers wanting to build a disability portfolio cannot be over-estimated. It means that the insurer need no longer be beholden to medical opinion. It has long been recognised by insurers and peak medical bodies alike that the major cost driver in disability insurance claims is the doctor, through the agency of patient advocacy.
- In many jurisdictions, the insurer has his own legal obligation to return the claimant to work in a time frame conducive to healing. In Australia, this legal obligation is called "utmost good faith".
- The doctor has a legal "duty of care" to his patient to assist his recovery. He has no duty to provide his patient with time on claim at the insurer's expense and the expense of the other members of the insurance pool.

Allied health professionals and claims costs

Critical to creating an insurance product which is profitable is containing claims costs, which, if unchecked, will surely escalate as night turns to day, causing the insurer to raise premiums to the point of eventual unaffordability. This is exactly what has happened in most developed disability insurance markets.

Containing claims costs is essentially achieved by containing the capacity of medical practitioners to determine disability durations, since durations are the prime cost driver and doctors are the determinants of durations in poorly designed disability insurance products.

At the same time, claims costs can also escalate by providing too many stakeholders with a seat at the table whereby they can exploit the claim for their own benefit. In particular, rehabilitation providers must be provided with clear guidelines as to what the insurer wants of them.

Insurance which is culturally sensitive and contributes to the community well being

The exploitation of the insurance pool in developed insurance markets has meant that the insurance pool is contaminated by opportunistic claims driven by doctors and lawyers. Disability insurance products no longer fulfil the criteria of social responsibility in these markets.

As a consequence, an individual in the developed markets can no longer insure himself for his own risk. The product has become unaffordable with the paying out of undeserving claims. This is why penetration of these products in the developed markets is so low, and why the insurer can no longer make a profit from them.

Asian markets have the opportunity to create a disability insurance market which contributes to the public good by providing a vehicle whereby people can pool their risk and cover their individual risk should they need to claim.

Creating a disability market based on the principles above will guarantee a range of innovative products which are affordable for the client and profitable for the insurers.

Dr John Harrison is a Director at Reed Group Asia Pacific.

An insurance revolution in rural India

A quiet insurance revolution is happening in South India where millions of individuals are being covered under various microinsurance schemes. We share the experience of the Society for Elimination of Rural Poverty as a standard setter for anyone looking at microinsurance to reach out to the masses.

By Jimmy John

Poor households in India are hugely vulnerable to risk, both in the form of natural calamities as well as more regular occurrences of illness and accidents.

Self-help groups (SHGs) and their federations play an active role in reducing or protecting against this vulnerability. However, such events still translate into crisis for many poor households and erode the economic gains they have made as members of SHGs.

Credit and savings services are inadequate when households are exposed to risks which cause losses that are beyond their means. In such situations, microinsurance helps in meeting members' needs, and the Society for Elimination of Rural Poverty (SERP) is one such organisation making a huge impact on the lives of millions of people in South India.

Impact of microinsurance in SERP areas

With nearly 10 million members, SERP is a unique and one of the most successful models in delivering community-based microinsurance.

The National Insurance Academy (NIA), through an impact assessment study, found that 72% of the population covered in the scheme in SERP are aware about insurance even though the literacy rate of the covered population is only 11%.

The study also indicates that the perceived benefit from the scheme was very high as 91 % respondents felt secure about future. Respondents felt that social recognition, respect in society, creditworthiness, confidence level have increased after enrolment in the insurance scheme and that the future of their children has become secure. 90% of the respondents said they would continue in the scheme even if subsidies were not available, which is remarkable, as 85% of respondents are agricultural labourers.

Opportunities in the midst of challenges

Another study done by students of NIA in 2011 on the impact of microinsurance schemes on people above poverty line indicates that the scheme has also helped in creating awareness among the population who are not covered under the scheme.

A Self Help Group meeting

In spite of the numerous challenges faced by SERP, it has been successful in getting microinsurance products to the masses. "Demystification of superstitions that if insured the members would die, is a challenge in remote areas," said Mr Chinna Thathiah, Director of SERP.

He further added that in rural areas in India, it is common for women to have two names – one name at her parents' house and another at the in-laws' house. "This gives room for data mismatches and causes undue delay in settlement of claims," said Mr Thathiah.

Another areas of concern is that the only KYC (know your customer) documents available for the rural poor are either their ration card or voter ID card which do not expressively state exact date of birth of the policyholders. In most of the cases, it is inferred by calculating the age recorded on the card and date of issue of the card and it is likely that the age would differ from one card to the other as they are issued at different dates.

Barriers in the spread of microinsurance

The poor have limitations when it comes to purchasing insurance products – both psychological and financial. This may be due to superstitious beliefs or financial hardships which results in most not being able to pay the premium set by insurance companies.

"Though insurance companies have a mandate laid down by IRDA to provide microinsurance in the rural areas, it is not mandated specifically for the poor and vulnerable," said Mr Thathiah. He feels that the service delivery mechanism should also be made effective by optimal utilisation of IT, affordable premium, easy documentation and quick claim settlement.

There are also instances as a result of low insurance literacy, people are not even aware that they are insured and hence the claim amount is not claimed and they are deprived of the real benefits quite often.

Microinsurance to drive insurance sector

Despite these challenges, the microinsurance industry in India has a very promising future.

The sector should look at the issues of current and potential policyholders and their family members, the different insurance providers and their distribution channels and the domestic insurance regulations.

The objective is to make affordable and appropriate user friendly products to the poor. "Providing effective education to members and the creation of an insurance culture in the low economic strata and reaching the utmost vulnerable is a must as has been done to some extent by SERP," said Mr Thathiah.

He feels that the setting up of an enabling environment by the government for building the capacities of all the stakeholders, providing and strengthening management systems and the use of appropriate delivery channels can enhance efficiency and ensure that the policyholders' trust is built.

The future growth of the insurance sector will come from the low income group as two thirds of the population in India earns less than US$1.24 a day. This is the sector that is in need of financial security as it is not currently engaged in financial services so far and will ensure growth prospects for the insurance sector in India.

Treating customers fairly:
An opportunity – not a cost

Mr Stephen Rosling from **TCF Consulting Ltd** introduces the concept of "conduct risk", an emerging term that is an evolution of the principles of treating customers fairly.

With consumer protection reforms beginning to taking hold across the globe, the C-suite and Boards of Directors are beginning to take notice of how they are being evaluated for their actions (or inaction). Some executives may be anxious or even panicky due to recent headlines surrounding fines relating to, ultimately, the poor treatment of customers. No executive wants to wake up to find his company's name, let alone his own name, splashed across the morning newspaper headlines.

To help prevent this situation from happening, what approach do you use to manage and balance corporate behaviour before it is time to panic?

It's really all about managing "conduct risk"

Focus is on the customer

In the financial regulatory domains, the concept of "conduct risk" is an emerging term that many see as an evolution of the principles of "treating customers fairly".

While conduct risk is being discussed and debated within business circles across the globe, the term itself has no universally agreed upon definition. Perhaps this is because defining what constitutes fairness, good conduct or what "good enough governance" entails can be so arbitrary and broad to a financial institution's various stakeholders. What is clear however, is that the clear focus of these regulatory changes is the "customer" – the person who buys and uses the insurance product.

Even without a consensus on a clear meaning of these terms, there does seem to be some converging agreement on what forms the basis of the conduct risk construct.

According to a recent survey of financial institutions sponsored by Thomson Reuters Accelus group, conduct risk encompasses the broad categories of:

- An organisation's culture;
- Corporate governance;
- Conflicts of interest; and
- Reputation.

Other international bodies groups such as the Organization for Economic Co-operation and Development (OECD) and the Financial Stability Board (FSB) take a more focussed view and relate the concept of conduct risk to a principle-based framework grounded on the fair treatment of customers, ie, consumer protection and consumer confidence.

Start dialogue with internal stakeholders

Whatever approach to defining conduct risk might fit your organisation's risk management structure, now may be the time to start a dialogue with internal stakeholders to get a jump start on understanding how this new phenomenon of conduct risk may affect your firm.

Have top-level discussions within your

organisation included topics such as incentive structures, product design and sales processes? (When implemented without the customer in mind, all of these can lead to poor consumer outcomes). If not, perhaps its time for top level management to begin exploring these areas.

Financial services the least trusted organisations

The majority of firms have begun to address some of the key issues. Firms in Europe and Australasia have done the most, whilst firms in the Middle East have more to do.

Specifically, the 2013 Thomson Reuters Accelus survey showed that approximately 50% of firms in Europe and Asia had reviewed sales processes in the last year, yet none of firms surveyed in the Middle East had done so.

A related theme emerged from a 2013 Leadership Roundtable report published by Insight Discovery that surveyed the views of senior figures from insurance firms operating in the GCC countries. It found "a lack of understanding of the products available and a lack of trust of the advisers who actually deal with consumers".

However, even with progress in Asia and Europe, there is still a long way to go – for the last three years, the Edelman Global Trust survey has shown that financial services, (including insurance), are amongst the least trusted organisations across all global markets.

Assessing conduct risk

Much thought leadership in this area is currently coming out of the UK. Specifically, the Financial Conduct Authority (FCA), which regulates firms and financial advisers in order to protect consumers, refers to conduct risk in the context of "consumer detriment arising from the wrong products ending up in the wrong hands, and the detriment to society of people not being able to get access to the right products."

The FCA approach for assessing conduct risk is tied to the organisation's objectives. By looking closely at the drivers of conduct risk, organisations can evaluate how different factors or scenarios (ie, combinations of factors) impact the financial services market and its participants.

Good conduct is good business

Some of you may be asking yourselves: "Well, isn't that simply operational or process risk?" In two words, the simple answer is "not exactly."

While operational components of product design, sales practices, remuneration, and overall culture are all part of the conduct risk equation, viewing these components individually without considering scenario implications to your firm's strategy is simply short-sighted from a regulatory perspective.

According to Chris Perry, Managing Director of Risk for the Thomson Reuters study, "good conduct is good business. The cost of poor conduct is high; not just in terms of enforcement actions, but also in long lasting reputational damage and the wider erosion in trust this creates".

This author would propose that the opposite is true as well; the benefit of good conduct is high, not just in terms of reduced enforcement actions…..but also in terms of reputational and competitive advantage and the wider restoration of customer trust that it creates.

Intuitively, it makes sense that if your firm has a reputation for good conduct, ie being seen as trustworthy by your customers, this can only affect the bottom line in a positive way. This is difficult to argue against.

Thus, integrity and trust are taking centre stage in the assessment of how firms behave.

So what is the opportunity?

Benefits of a good reputation

It is clear that the fair treatment of customers plays an important role in establishing, maintaining, and developing a good corporate reputation and that this, in turn, can contribute to the bottom line:

- Customer preference in doing business with you when other companies' products and services are available at a similar cost and quality;
- Customer preference in staying with you (persistency) when other companies are trying to win your customers;
- Your ability to charge a premium for products and services;
- Stakeholder support for your organisation in times of controversy; and
- Your organisation's value in the financial marketplace.

Although reputation is an intangible concept, research universally shows that a good and trustworthy reputation demonstrably improves financial performance, increases corporate worth and provides sustained competitive advantage.

Objectives can be achieved more easily with good reputation

A business can achieve its objectives more easily if it has a good reputation among its stakeholders, especially key stakeholders such as its customers, opinion leaders in the business community, suppliers and current and potential employees.

If your organisation is well-regarded by your main customers, they will prefer to deal with you ahead of others. And these people will influence other potential customers by word of mouth and social media tools, ie, customer advocacy.

Suppliers will be more inclined to trust in your organisation's ability to pay and to provide fair trading terms. If any problems occur in their trading relationship with you, your suppliers will be more inclined to give you the benefit of the doubt when you have a reputation for fair dealing.

Likewise, financial regulators will trust you more if you have a good reputation, and they will be less inclined to punish you if you trip up along the way. And clearly, a potential employee will be more likely to sign up with you if you have a good reputation for your treatment of staff compared with an employer who may have an equivocal reputation.

Time for top management to know about conduct risk

By whatever means, choose to assess, measure and monitor risk, it is probably about time that your organisation's top level management familiarise themselves with the evolving concept of conduct risk and how it relates to the fair treatment of customers.

How these concepts may affect ongoing operations into your organisation's future will become more and more prominent very soon. If your organisation chooses not to participate in conduct risk discussions, you may be missing the next step in supervisory scrutiny and regulatory evolution.

Mr Stephen Rosling is Director of TCF Consulting Ltd.

TCF Consulting specialises in the strategic and tactical implementation of TCF principles and conduct risk regulations (www.tcf-consulting.com)

The cyber threat facing businesses

Cyber risks policies are still evolving and there are issues that need considerations such as the ambiguity regarding the interruption period; the loss of trust among customers; the different types of costs and the types of possible sales recoveries. Mr Norman Kwan of Matson Driscoll & Damico explains these issues and also the role of forensic accountants.

Cyber exposures are on the increase, as businesses become more reliant on the internet and networking technologies to conduct business and interact with the outside world.

A spate of recent high-profile incidents, such as those afflicting eBay and Target, have drawn attention to cyber risks, now considered to be among the top risks to global business.

Cyber risks policies

Cyber risks typically fall outside the coverage of traditional business insurance policies, thus a specific cyber risk insurance policy needs to be taken out for protection. As the demand increases for such policies, more insurance products are being developed and offered in the marketplace.

Policy wordings differ but typically include coverage for a range of First Party risk exposures and Third Party liability exposures.

Examples of First Party risks include Loss or Damage to Digital or Data Assets, Business Interruption from Network Downtime, Restoration Costs, Cyber Extortion, Reputational Damage (with associated costs such as Crisis Management and PR) and Theft of Money and Digital Assets.

Losses associated with Third Party risks might include Security and Privacy Breaches, Investigation of Privacy Breaches, Customer Notification Expenses, Multi-media Liability, Loss of Third Party Data, Regulatory Fines and Penalties, and Data Warehouse Breach.

Cyber Business Interruption losses – Some issues and considerations

The concept of Business Interruption following cybercrime is not significantly different to Business Interruption resulting

from physical damage.

However, as cyber risk policies are relatively new and still evolving, we observe a variety of new wordings and believe there is larger scope for policy interpretation disputes compared to traditional interruption policy wordings.

Ambiguity regarding interruption period

For example, ambiguity regarding the interruption period – unlike a property loss whereby the interruption period is usually well-defined, the "start" and "end" date may be less clear in a cyber claim.

There may be uncertainty as to when an attack occurred or when the impairment associated with the attack began. It may also be difficult to determine when an attack has ended. To complicate matters further, losses may still be incurred even after systems have been restored. Would this be covered under the policy?

Customers' loss of trust

Another consideration is determining the losses that result directly from an insured cause, as opposed to indirect losses that are outside of policy coverage.

For example, it is possible that negative publicity from a high-profile cyber breach may cause loss of trust among customers to the extent that they do not return, even after systems have been fully restored. This type of loss is unlikely to be covered, although this would be subject to the actual wording of the policy.

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Investigative costs and improvement costs

This consideration could be extended to claimed costs. Many cyber policies allow for costs to investigate an information security breach. Such investigative efforts may involve a number of different disciplines, including both internal and external personnel. Services may also be required to restore networks and data and to repair or replace equipment damaged in the breach.

It is important to distinguish between the costs to investigate and rectify the breach and the costs to improve and strengthen the system, in an effort to prevent a reoccurrence.

Types of sales recoveries

Recovery is a distinct possibility through "make-up" sales, particularly if the product or service being sold is relatively unique.

A consumer unable to purchase a product from a website one day may well try again later and succeed. In such a scenario, the sale has merely been postponed and not actually lost. Another recovery scenario could crop up in the case of businesses that sell online but also have physical stores, whereby potential buyers unable to purchase online visit the stores to transact instead. This type of sales "migration" would not be picked up by an analysis of online sales alone and would result in the loss being overstated.

Likewise, with the earlier example of postponed sales, an analysis of the "downtime" period alone would miss the recovery and overstate the loss. These are only a couple of examples of how loss recoveries could be missed.

Availability of large volume of data both a plus and a minus

One advantage of a cyber-environment is usually the availability of electronic data.

On one hand, the large volume of data can yield lots of useful information that will be helpful in quantifying the loss. Detailed data broken down by geographic regions, store locations and product lines allow trends and buying patterns, as well as losses directly related to the cyber event, to be determined.

On the other hand, large volumes of detailed data could prove challenging to analyse without the proper software and skills.

The role of forensic accountants in cyber insurance claims

Forensic accountants can assist insurers in the measurement and verification of the loss in cyber claims and can work as part of a wider team of experts including claims handlers, IT analysts, lawyers and adjusters.

Forensic accountants ensure that the losses are measured reasonably, accurately and in accordance with the terms of the insurance policy. Their work helps to provide clarity on the financial figures, which assists in settling disputes and helps safeguard insurers from overpaying. As mentioned earlier, the cyber arena is still relatively new; therefore, there is large scope for disputes to arise.

Cyber claims are typically associated with very large volumes of data, which can be overwhelming for most claim departments. Forensic accounting firms have the depth of resource, expertise and experience to handle large volumes of data and target the relevant data to measure the loss.

Forensic accountants can also assist by reviewing claimed costs and providing insight on whether these costs may meet policy criteria. Depending on the individual policy, it could be necessary to distinguish between costs to investigate a potential breach and costs to "beef up" network security (which would be considered betterment and may not be covered).

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