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Changing the perception of insurance needs multi-party collaboration

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

"Some solutions we can look at need not be new, but we need everybody to work together so that 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.

(L-R): Mr Clarence Yeung, Mr Leslie Mouat, Mr Mike Mitchell and Mr Jens Reisch

Communicate and listen to customers

On the need to communicate, he 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 can reach out to the next generation of customers and know their expectations of the industry, then that is the future of insurance, said **Mr Leslie Mouat**, Chairman, **Chartis Asia Pacific**, 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

Saying that the industry can do better in the areas of consumer confidence, product awareness, claims service, and price, **Mr Mike Mitchell**, **Swiss Re**'s Managing Director, Property & Speciality, Asia, noted that insurers tend to take what has worked somewhere else and transplant it to the developing parts of Asia.

"What we miss out is that consumers are very different in 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 ensure their pricing is robust and accurate. "There is 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 return to shareholders."

Meet what is expected of the industry

The industry, he said, 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 remain second-class citizens to the banks, unless we do something about that," he said.

Sustained low interest rate no longer a "Japan scenario"

For a long time, people talked about the sustained low interest rate environment as a "Japan scenario". Many actuaries would factor in the issue in their modelling at the very tail end of the distribution, but people would say: "Don't worry, it will never happen", said **Mr Roger Steel**, CEO of **Sun Life Hong Kong**, at a breakout session yesterday. "I think we all know now, that is not true."

He said that even for countries where the interest rates are still relatively high, like the Philippines and Indonesia, the issue is not just an academic exercise – it is something insurers need to be ready for.

(L-R): Mr Masahiro Hashimoto, Mr Bao-Chung Shih, Mr Chris Ma and Mr Roger Steel

In such a situation, insurers may need to take firm actions. Sharing the experience of Japan, **Mr Masahiro Hashimoto**, Director & Senior Managing Executive Officer, **Sumitomo Life**, said that there was a time when variable annuity with a minimum guarantee was the hottest product in the market. Despite the high volume of sales, many life insurers decided to stop selling such a product to avoid the accumulation of risk when the investment environment continued to deteriorate. He said that life insurers should be well-prepared to adapt to changes in the environment, such as low interest rates, which may be the new normal.

The need for sound risk management

The continuing low interest rate environment highlights the importance of having a sound risk management programme, which begins with a thorough assessment of the company's current financial position and ability to withstand risks, the measurement of its current exposures, and the setting up of relevant stress tests, said **Mr Chris Ma**, CEO, **AIA Macau**.

Insurers which rely heavily on investment income need to shift their emphasis for profitability to underwriting, claims experience, lapse rate and control of operating expenses, he said.

Governments urged to play a role

Calls were also made during the discussion for governments to play a role in helping the industry by issuing long-term bonds and encouraging the development of the long-term bond market.

Without these long-term bonds, asset-liability management will be a challenge for insurers, said **Mr Bao-Chung Shih**, Consultant, **Fubon Life Insurance**.

A valuable partner in East Asia's transformation

As the East Asian insurance market transforms, Aon Benfield is partnering with its clients by improving risk management processes and profitability, says **Mr Rade Musulin**, Chief Operating Officer, **Aon Benfield Analytics**, **Asia Pacific**.

With the 26th EAIC's theme of "Transforming the East Asian insurers", how do you think insurers need to transform? What is Aon Benfield doing for its clients to facilitate the transformation?

The East Asian insurance market is rapidly integrating with the rest of the global insurance system. We see regulators upgrading their risk-based capital requirements and adopting accounting standards based on IFRS, insurers seeking ratings, new catastrophe models being introduced, and increasing demand for capacity from global reinsurers. We also see increased demand for insurance from a wider range of participants in the economy, as insurance moves beyond traditional sectors, like industrial, into motor and residential lines.

Aon Benfield will continue to be a valuable partner to our clients in this journey, bringing them industry-leading tools such as our risk management platform ImpactOnDemand, and our dynamic financial analysis tool ReMetrica. We will bring experts to help with regulatory change and rating agency requirements. We will bring innovative capital solutions to clients, building capacity to serve the rapidly growing market. Most importantly, we will bring global best practices to East Asia to meet the unique needs of a varied and dynamic market.

Are there any perils Asia-Pacific reinsurers should pay greater attention to, based on the ongoing modelling your Impact Forecasting team is doing?

Recent events have shown that significant losses can come from unexpected sources. Asia Pacific has some particular challenges, including uneven data quality, rapid economic growth, concentrations of exposure due to a preponderance of industrial/commercial risks, and significant exposure to unmodelled perils.

Concentrations of industrial exposure in coastal areas and on rivers are driven by transportation needs for shipping. Clearly, flooding, storm surge, and tsunami are perils that need to be assessed. Also, the historical record shows that the region is prone to volcanic activity, which can cause major economic disruption. Overlaying natural perils damage is the secondary issue of supply chain disruption, which was observed following the Tohoku and Thailand disasters.

From a reinsurance perspective, recent events have shown that getting the basics right is critical – insurers and reinsurers must know what and where exposure/accumulation is – then at least they have the ability to worry about "other perils" and apply models or other tools.

Aon Benfield is about to release its Thai flood model – are there any other perils in Asia Pacific that you believe will soon be under consideration for a modelling solution?

Aon Benfield's primary focus in model development for Asia Pacific is addressing current gaps in the modelling/risk identification landscape. Generally, this means working on solutions for perils where existing models (due to vintage/quality) may not reflect potential risk, or where no vendor models exist – as was the case for the Thailand floods. We are releasing our new Thai Flood model at the EAIC. Recent events have highlighted insurer exposure to floods and tsunamis, and we will be looking at providing solutions to clients for these perils.

However, we cannot simply react to events. We must also address gaps important to markets. This was the case with our focus on agricultural modelling in China. We have a major commitment to agriculture in Asia Pacific and will continue to invest in this important sector.

It is important to avoid falling in the trap of thinking the only "solution" to risk assessment is a probabilistic modelling solution. Insurers need to increase their understanding of risk, which can be accomplished in many ways, including the use of realistic disaster scenarios.

How has been the impact of Aon Benfield China crop model on the agricultural business in the country?

Given the expansion of the multi-peril crop insurance in China and the country's vastly complex climate and geography interaction, insurers need a scientific way to assess risk and quantify important metrics. The model helps analyse diversification effect, PML at a portfolio level, solvency requirements (ie, based on a one-in-200 crop loss scenario), and efficiency in risk transfer.

Equipped with the intelligence from the model output, business participants – both insurers and reinsurers – can better understand the underlying risks across many dimensions, including crop type, geographical region, and combinations of the two. Such information can enable better decisions in managing and pricing risk.

The model also benefits potential new entrants by improving understanding of the subject risk. New market participants foster a fast growing and sustainable agricultural insurance market through innovation and new partnerships.

Getting intuition to work again

Mr Hans-Joachim Guenther

Mr Patrick Aeschbacher

Aside from improving the flow of granular data, the industry also needs to get its intuition working again in underwriting and improve its understanding of interests abroad, say Mr Hans-Joachim Guenther, Chief Underwriting Officer and Head of Reinsurance Europe & Asia Pacific, and Mr Patrick Aeschbacher, Head of Reinsurance Asia Pacific at Endurance Specialty Insurance.

The industry needs to invest in new models – proprietary and vendor models – and revamp its underwriting knowledge. While work still needs to be done for more granular data to flow between cedants and reinsurers so more forward-looking views and conclusion on exposures can be made, models are ultimately developed on past experience in order to project the future, said Mr Hans-Joachim Guenther.

"It is not just about improvements in data input, but also about getting intuition to work again. As we have come to rely on more scientific models and advanced tools, the industry has all but forgotten the importance of the human element in underwriting," said Mr Guenther. "You can feed intuition with data quality. The human brain is able to connect much more information in a fruitful manner than any computer that is connected to past experience," he added.

Industry needs to understand interests abroad better

Another area that may have been neglected by many industry players is interests abroad, said Mr Patrick Aeschbacher. "Going forward, we won't be dealing with growing Japanese interest abroad only but also with other countries shifting their industry abroad. We will be confronted with growing regional/global accumulation, growing value concentrations and new industrial zones (Asia specifically). Today, many countries absorb interests abroad – this is something the industry needs to address," he added.

"Our industry experienced significant losses from Japanese interests abroad last year due to the Thailand Floods. However, interests abroad is a common exposure under many reinsurance relationships and across the globe. Large clusters of risks which often exist in fast-growing economies need to be better monitored in order to avoid risk accumulation becoming a surprise factor," he added. "So if we are going to cover clients' interests abroad, we need in-depth information from them on the locations of those risks for us to have a better understanding of this exposure."

Well-regulated markets are more attractive

On regulations in Asia, both said they are manageable to industry players. "Yes, it can get difficult at times, but that is something we have to adapt to," said Mr Aeschbacher, adding that with more stringent regulations, there is more discipline in the market.

"For us, markets that are properly regulated are relatively more attractive, because parties are in an environment where checks and balances and controls are in place," said Mr Guenther. "We would not be comfortable going into an unregulated market where we cannot be sure that proper business practices have been followed."

Stable terms and conditions

Noting that 2011 was a very difficult year in Asia Pacific, Mr Aeschbacher said that the multiple major CAT events in the region affected Endurance's book of business. "Going forward, in those markets where there were major losses, I believe that the terms and conditions will remain stable after improvements were experienced for 2012. However, some clients may need to restructure their programmes."

In markets that are performing extremely well, the reinsurance industry still needs to contend with issues such as growing accumulation. "Underwriting discipline needs to prevail, so I see a stable environment going forward in Asia Pacific," said Mr Aeschbacher.

Following the KL cocktail trail

In true EAIC tradition, delegates flocked to the many company cocktails on Tuesday night in Kuala Lumpur to bask in the company of associates and friends, and relish treats of cocktails, canapés and entertainment.

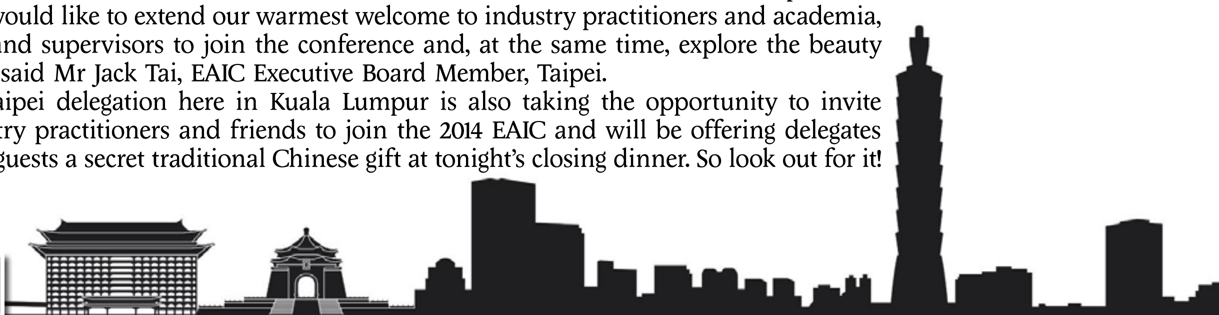
See you in Taipei!

Mr Jack Tai
EAIC Executive Board Member, Taipei

It has been 22 years since Taipei last hosted the EAIC in 1990, when it toasted delegates and guests "Gan Bei" (bottoms up). After the long wait, the City of Azaleas is gearing up to host the Congress for the third time as the EAIC heads to Taipei once again.

"As the host of the 27th EAIC, which will be held on 2-6 November 2014 at the Taipei International Convention Center (TICC), we would like to extend our warmest welcome to industry practitioners and academia, regulators, and supervisors to join the conference and, at the same time, explore the beauty of Taiwan," said Mr Jack Tai, EAIC Executive Board Member, Taipei.

The Taipei delegation here in Kuala Lumpur is also taking the opportunity to invite industry practitioners and friends to join the 2014 EAIC and will be offering delegates and guests a secret traditional Chinese gift at tonight's closing dinner. So look out for it!



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