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Innovation in Insurance: Survival of the fastest

Change in today's world is happening faster than one can imagine, and insurance companies' survival is increasingly dependent on how fast they respond to change. Innovation is thus all the more important in today's ever-changing risk landscape and customer attitudes, as well as in product and distribution, said Mr Martyn Parker, Swiss Re's Head, Asia Division.


Mr Martyn Parker

Customer attitudes changing

Customers are increasingly using the internet to research on and buy insurance, with members of generation X more likely to purchase insurance online. An Accenture UK research in April, for example, found that 70% of customers planned to buy insurance online in the next 12 months.

Insurers thus need to keep up with customers' increasing use of online technologies. "So do you have an internet proposition? You have to innovate in this area," stressed Mr Parker.


Panel L-R: Mr Masao Seki, Mr Martyn Parker, Dr Ludger Arnoldussen and Mr Anuar Mohd Hassan.

Don't take new product areas for granted

Product-wise, there are several areas insurers take for granted today but could potentially be areas of growth, he said. These include pay-as-you-drive insurance, name-your-price auto insurance, handheld life/medical underwriting terminals, and internet car and other insurance purchase.

In distribution, bancassurance, brandassurance, direct mail, telephone marketing, internet, smart phones/ androids and cross and up-selling present insurers the opportunity to innovate.

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CSR should not be just PR

Insurers' corporate social responsibility (CSR) efforts should not be just PR – hence it is important that they engage their employees in this area, said Mr Masao Seki, Chief CSR Officer of Sompo Japan Insurance.


Mr Masao Seki

"Without empowering the employees, a company's CSR initiative is just PR," he said, adding that companies must train and educate their staff in this area to form an attitude that facilitates actions. "Employers should allow their staff to participate in and experience CSR activities."

Mr Seki also stressed that insurers should serve as catalysts for actions that promote a low-carbon society. How can they do so? Here are some ways:

- **Products and services**
  - promote eco-safe driving
  - promote alternative energy through weather derivatives
  - organise auto parts recycling campaigns
- **Investments**
  - invest in eco-funds and sustainable and responsible investment funds
  - observe the principles for responsible investment
  - engage in carbon disclosure project
- **Carbon footprint reduction**
  - install energy-efficient equipment
  - reduce waste and promote recycling
  - practise green procurement

Climate Change: Threat + Opportunity

Climate change is a threat, but it also opens doors of opportunities to insurers – especially in the area of renewable energy, which is seeing huge investments around the world and in Asia, said Dr Ludger Arnoldussen, Member of Board of Management, Munich Re.


Dr Ludger Arnoldussen

In China, for instance, there is talk of a US$600-billion investment programme in renewable energies and high-voltage power lines. Such investment, he said, offers a huge potential to the insurance and reinsurance industries as many risks are attached to this kind of investment.

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Manage innovation

One thing insurers should bear in mind is that innovation has to be managed. "There's no culture of innovation unless you manage it on a systematic basis," said Mr Parker, adding that insurance companies must always stimulate innovation.

Get Gen X and Y staff

And one way insurance companies can become innovators is to hire generations X (aged 30 to mid-40s) and Y (aged 18 to 29) staff. "But don't just keep them in training school – get them involved in real innovation projects," advised Mr Parker.

Generations X and Y people bring with them fresh perspectives that are necessary for insurance and business sustainability, he said.

East Asian regulators meet at EAIC

At the initiative of host Mr Isa Rachmatarwata, Indonesia's Chief of Insurance Bureau, a guest speaker was invited to the regulators' meeting for the first time to discuss issues relating to regulations in East Asian markets – whether they were too few or too much. Participating regulators said the meeting, which involved a broad exchange of ideas and experiences in their respective markets, turned out to be interesting and entertaining, besides being an eye-opener.

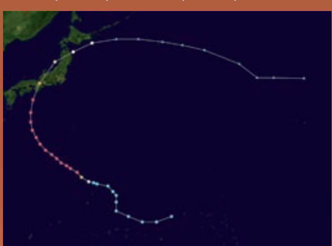
East Asian regulators at their traditional meeting held in conjunction with the 25th EAIC

Get ready for those 'supercats'

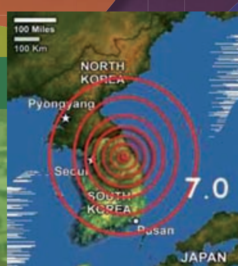
Prepare for future 'supercat' events as the property values and insurance penetration in Asian countries such as Japan, South Korea and China go up, Aon Benfield warns insurers in Asia. Insurers could face huge losses if the major catastrophic events that hit the region in the past were to re-occur, says the reinsurance broker. Below are some supercat loss scenarios, its research revealed:

Japan

Japanese typhoon is a major supercat danger. Repeats of typhoons Mireille (1991), Vera (1959) and Nancy (1961) could all cause supercat insured losses, as could a direct strike of a powerful typhoon on Tokyo.

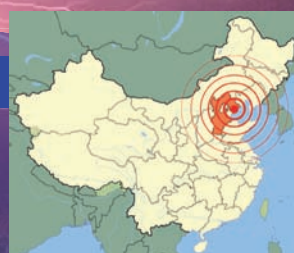


South Korea

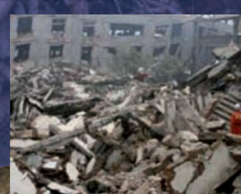


A big earthquake around magnitude 7 hitting South Korea's Seoul today would produce a large-scale, perhaps supercat-sized, insured loss. The city suffered damaging earthquakes in AD 89, 1385 and 1518 with magnitudes estimated to range from 6.5 to 7.5 on the Richter scale.

China



- China's strong economic growth, along with rising insurance penetration, could result in supercat losses in the mainland in the next decade. Should the 1976 Tangshan magnitude-7.6 earthquake happen again, it could cause insured losses of up to around US$3 billion.
- But with 10% growth in underlying values and insurance penetration per annum, this amount could climb to $10 billion if such an event happens from 2016 onwards.



Weathering climate change with innovative risk solutions

Mr Andreas Spiegel

Mr Roman Hohl

Innovative insurance solutions hold the key to driving climate adaptation initiatives in the developing world and securing the development prospects of communities threatened by rising climate risks. Swiss Re's Senior Climate Change Advisor **Andreas Spiegel** and Head of Agriculture Asia Pacific **Roman Hohl** reveal new forms of risk transfer involving public-private partnership.

An estimated 3.4 billion people are threatened by storms, floods, droughts and other natural hazards, most of them in the developing world of Asia. Climate change could put at risk many more.

Economic losses from climate-related disasters are already substantial, and they are on the rise. Insured losses alone have jumped from an annual US$5 billion to $27 billion over the last 40 years. Out of the 20 worst natural catastrophes in terms of victims in 2009, 12 were weather-related, and 10 of them occurred in Asia.

According to Swiss Re's recent report "Weathering climate change: insurance solutions for more resilient communities", without further investments in adaptation, climate risks could cost some countries up to 19% of annual GDP by 2030 and set back years of development gains.

While cost-effective climate adaptation measures could avert a large part of this damage, funds earmarked for adaptation fall far short of what is actually needed globally. The United Nations estimates that by 2030 the world should be spending an additional $36 to $135 billion each year to address the effects of climate change.

Insurance is a key risk transfer tool in managing the growing threats of climate change. It protects communities against catastrophic losses and, by putting a price tag on risks, provides a strong incentive to invest in adaptation measures that promise to yield net economic rewards.

Success stories

However, extending adequate cover to developing countries is often difficult because many lack a mature local insurance market and expertise. But new forms of risk transfer involving the public and private sectors offer ways to insure climate risks and large natural disasters in such instances.

An example of this is the Caribbean Catastrophe Risk Insurance Facility, a multi-country risk pool structured and reinsured by Swiss Re that innovates in its combined use of traditional insurance and capital market instruments. It provides 16 Caribbean governments with rapid access to financing in the event of hurricanes and earthquakes. Asian countries could benefit from a similar scheme that protects infrastructure interests against flood and typhoon risks.

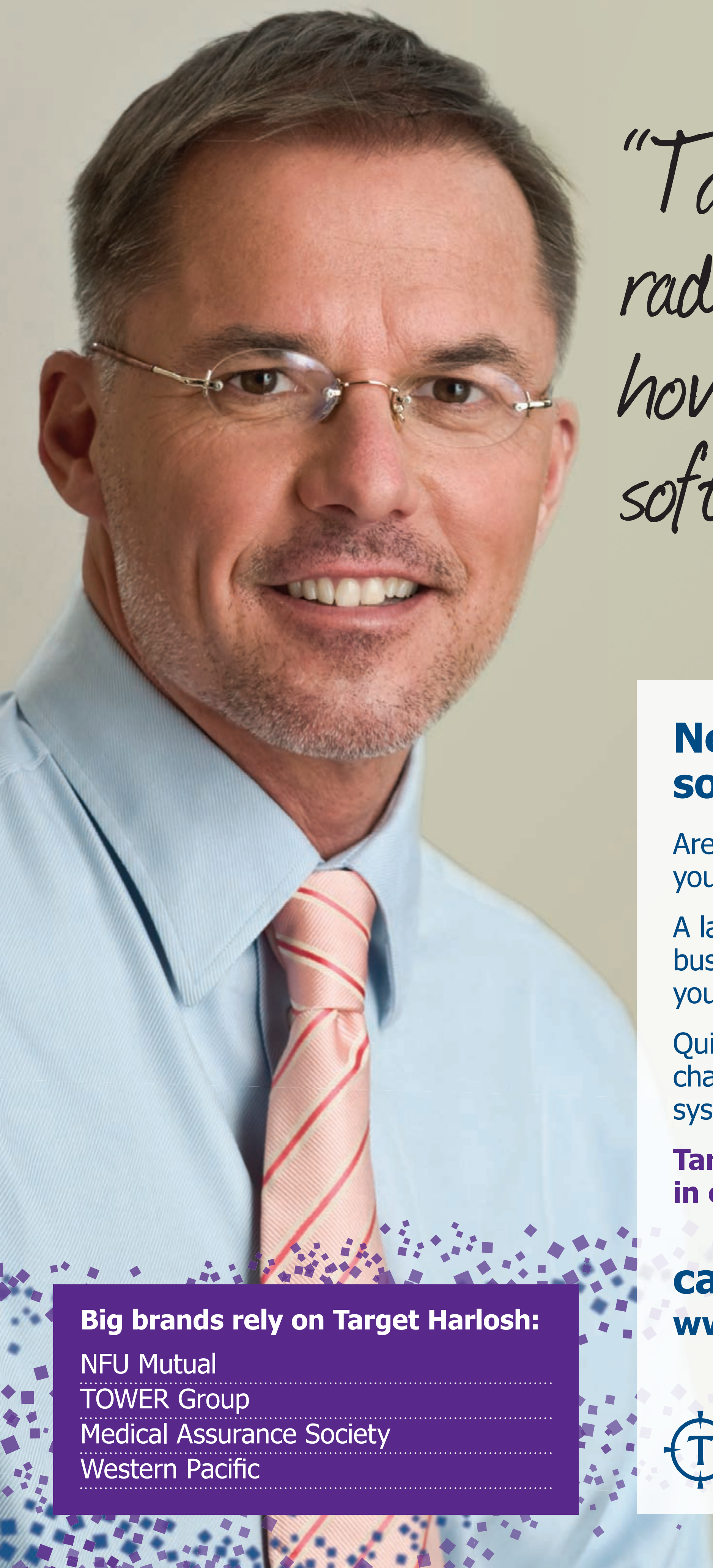
In 2009, Swiss Re entered into an agreement with the Beijing Municipal Government to provide reinsurance coverage for catastrophe risks under Beijing's government-funded agricultural insurance scheme. Supported by the China Insurance Regulatory Commission, this agreement paves the way for furthering the agricultural reinsurance policy framework in China. This innovative public-private partnership also facilitates the sustainable development of agricultural insurance, which helps stimulate agricultural productivity in China amid global concern over food security.

Swiss Re has also been a key development partner with the private Indian insurance sector to offer weather-index solutions to low-income farmers. These policies pay out as soon as a few weeks after harvest when the levels of rainfall and/or temperature deviate from climatology standards. Fostered by government subsidies, the weather insurance market in India has continued to grow and currently covers around 3 million farmers. It is expected to achieve a premium level of about $100 million by 2010.

Disaster risk financing: A paradigm shift

Studies on the economics of climate adaptation in different regions exemplify how climate adaptation works in action. Emerging countries can reduce local climate risks by combining prevention and risk transfer measures and the local insurance sector needs to play a key role in analysing and transferring the risks.

Swiss Re's solutions show how climate risks can be transferred away from public budgets to the commercial insurance market, thus pre-financing disaster recovery efforts. Asia is a key focus for Swiss Re since many countries are highly exposed to potential impacts of extreme weather events under climate change such as floods, typhoons and droughts.



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Is the secret timing?

The Asian market offers a wealth of opportunities, but when should one be taking advantage of them? The secret is timing and Flagstone continues to watch the Asian market with interest, ready to develop opportunities as and when they appear, says Mr Howard Cheetham, CEO of be Flagstone Representatives Ltd.

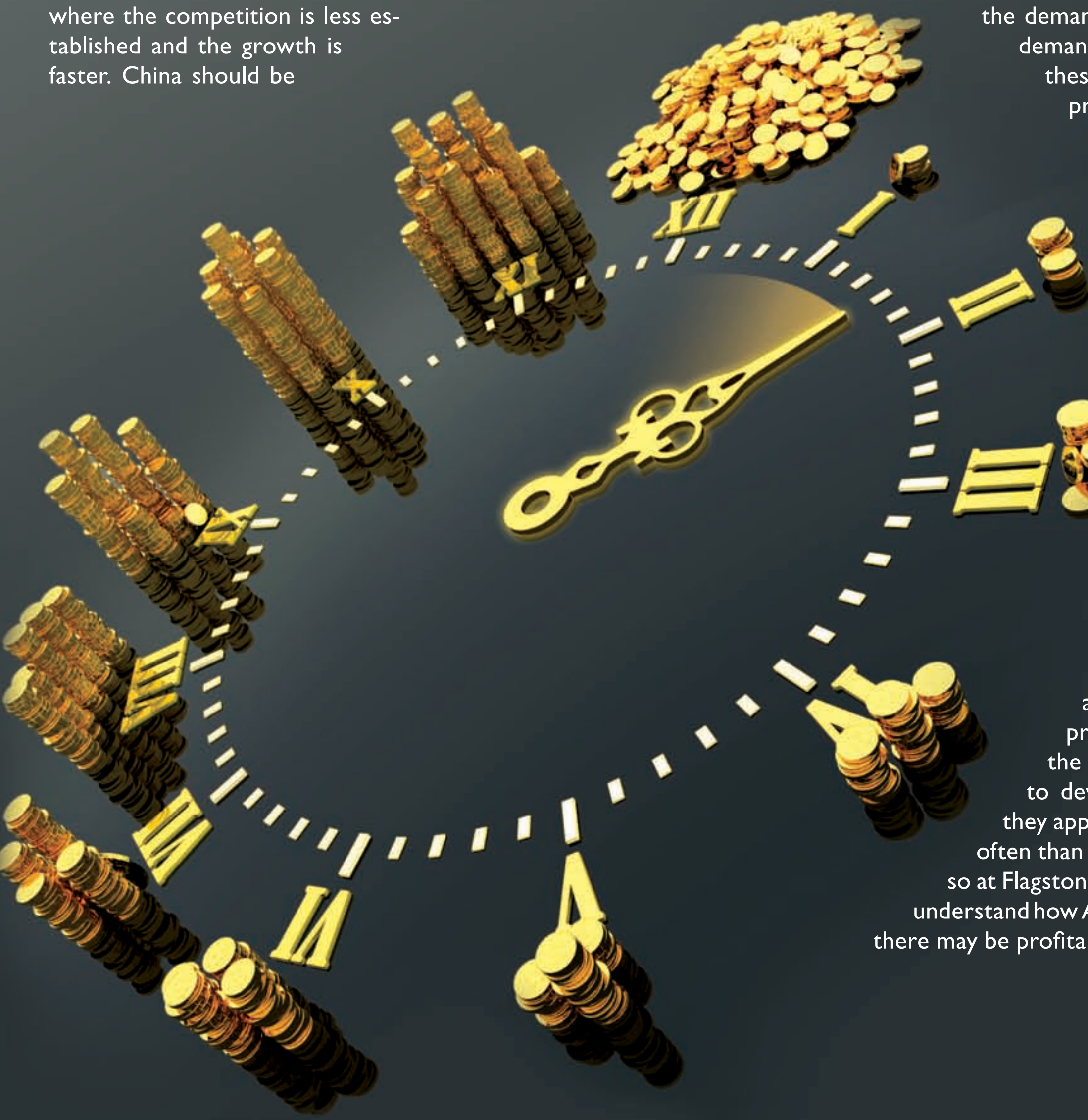
Flagstone has been active in Japan and Australia since inception but has yet to identify truly attractive opportunities in the rest of Asia. Asia's insurance markets remain robust in terms of capacity and demand, and the region has weathered the financial crisis well. Asian corporations are seeking more comprehensive risk coverage, and international players are moving steadily into the Asian market, poised to make the most of opportunities diversification in this region affords. But is it true diversification or diversification at a cost?

The Flagstone strategy

At Flagstone we frequently review our stance on the Asian market, waiting for the right time to develop our established emerging markets business model which is currently in operation in other developing reinsurance hotspots. Brazil, for example, has a growing and vibrant market which offers many features that are attractive to Flagstone: a rapidly growing economy and middle class coupled with very modest insurance penetration at the order of 1.5% of GNP. In the second quarter of 2009 Flagstone began operating within the newly opened Lloyd's offices in Rio de Janeiro. This, and other acquisitions made in global emerging markets, illustrate our strategy to operate in places where the competition is less established and the growth is faster. China should be a perfect example of a target area to increase diversification. Delivering an economic growth rate of 9.2% and with only six foreign reinsurers operating in the country, the opportunities are clear, but inadequate data and very competitive pricing makes it a challenge.

As is the case with our 13 global offices, we always seek to thoroughly understand the data well before committing capital. We are leaders in our field in our use of technology and modelling, and make use of this across all markets. We constantly look at areas where research is required, and where commercial models are not sufficient, we build our own. With this better understanding we find ourselves in a superior position to make more accurate underwriting decisions and attract local business. These two elements are however not mutually beneficial and too often due to data quality and past loss experience the attraction is there but the yield is disappointing.

We have been in Brazil for over a year now, but we write extremely selectively, learning from how others operate in the region and avoiding the pressures of developing large premium incomes, a research and development strategy we may echo in Asia.



Opportunities have to be actively developed

Reinsurers and brokers primarily respond to the demand insurers create, and whilst this demand is increasing in Asia, growth into these regions and new lines can only be profitable if pricing is set at realistic levels. Figures from Aon Benfield show that the worldwide reinsurance GPW volumes have been static in the range of US$140 billion over the last seven years, compared to growth in GPW from $61 billion to $145 billion between 1990 and 2003. This would suggest that although the "risk base" has increased considerably, premiums have not, and in fact, gone the other way.

Diversification is important but is primarily driven by the desire for effective capital deployment, identifying the optimum returns for the capital allocated. Opportunity cannot always be immediately translated to profit and so we continue to watch the Asian market with interest, ready to develop opportunities as and when they appear. However, opportunities more often than not have to be actively developed, so at Flagstone we will continue to work hard to understand how Asian business is growing and where there may be profitable opportunities.

Hot on Bali's *cocktail* trail

When darkness falls, that's when the EAIC's exuberance rises. In true EAIC tradition, delegates hopped around the various cocktails on Tuesday night, and were treated to overflowing cocktails, canapés and 'live' entertainment on a perfect Bali night.










Goodbye Bali, Hello KL!

"In order to accommodate the large number of EAIC delegates, we have tentatively reserved the Kuala Lumpur Convention Centre (KLCC) between 29 October and 3 November 2012. The EAIC Board has accepted this proposal," said Mr Hashim Harun, Chairman of the General Insurance Association of Malaysia (PIAM) and President/ CEO of Malaysian Re.

He added: "The planning for the 26th EAIC will start as soon as we are back in KL and it will be hosted by PIAM, the Life Insurance Association of Malaysia and the Malaysia Takaful Association, the three associations that represent the insurance industry in Malaysia. We are extremely excited about hosting this event in KL."

The Malaysian capital has hosted the EAIC twice, in 1972 and 1988.

"We have also received strong support from all member cities, especially from Jakarta and Hong Kong, the current and past host cities and of course, Tokyo, who mooted and hosted the first EAIC gathering in 1962. EAIC KL, the 26th Congress, will be the 50th anniversary of this gathering and is expected to be very special. KL will endeavour to make this a memorable event," said Mr Hashim.

The stature of the Congress has grown over the last several years and has been recognised as a must-attend event for insurance practitioners regionally, if not globally, he said.

Mr Hashim Harun

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