From Hong Kong to Chicago:

Betting on the "BRICs"

Last year, at the IIS in Hong Kong, everyone spoke of India and China as the twin engines of growth for the global economy and, hence, the next surefire "hot" spot for insurers looking to expand. Everyone had an eye on China and India and the spectacle of "CHINDIA" or "INDCHIN" was raised.

To add depth to the search for value and in the spirit of spreading the investment dollar and risks around the globe, we draw attention here to the BRIC – Brazil, Russia, India and China – projected by Goldman Sachs to become larger than those of the world's six most developed countries in less than 40 years. Many bet on these four economies as driving global growth, but some have already started to write Russia off as being too dependent on high oil prices. Russia is the world's No. 1 exporter of gas and the No. 2 exporter of oil with energy-related revenues accounting for more than 20% of its GDP. In the other three markets, globalisation is still driving the economic expansion and development, giving hope all round.

The Story Told by the Figures

In its Foresight 2020, the Economist Intelligence Unit, said that while world average growth would be 3.1% between 2006 and 2020, the fastest growth would come from China (6%) and India (5.9%), and Brazil and Russia trailing at 3.3% and 3.2%, respectively. China and India will contribute 27% and 12% of the increase in global GDP in the coming 15 years, while Brazil and Russia trail with just over 2% contribution to the rise.

The US will account for 16% of the world's growth, and remain a world leader, outpacing other major developed economies between now and 2020. It is forecast to grow by almost 3% a year, compared with 2.1% for the EU25, and less than 1% for Japan, whose population will be shrinking. The EU will make up for slower growth through territorial expansion, growing to a club of more than 30 countries, but the average income of the expanded EU will be only 56% of the US average in 2020, said the EIU.

China will have closed the gap in economic size with the US by 2020, and Asia will increase its share of world GDP, measured at purchasing power parity (PPP) from 35% in 2005 to 43% in 2020. But, on a per-capita basis, China and India will remain far poorer than Western markets.

Yet a Different Story By Financial

Analysts in a recent CFA Institute survey in which more than 1,100 chartered financial analysts from BRIC took part, real concerns were expressed about the domestic political risks, ethical standards and corporate governance in their local businesses.

Despite being optimistic about growth, they showed a united concern for the state of ethical standards in business and a particular need for improvement in corporate governance standards. They were confident about their countries' investment potential, especially in the financial services sector. They rated the greatest danger to their investments to come from poorly-governed businesses. Of the 1,184 CFA respondents, 78 were from Brazil, 181 from Russia, 323 from India and 602 from China.

Political Risks: A Cause for Concern

Investors based in China are the least worried about political instability, the survey shows, but in all four BRIC countries, political instability is followed by concerns about local economic issues.

Corporate Governance Standards

Despite Enron and the world's high-profile scandals and raging concerns with corporate governance, the BRICs are still a long way away from meeting the global best practices. Only in India do any investors consider corporate governance standards among resident listed companies to be "excellent" (4%). Chinese and Russian investors are severely critical of standards among their companies. In Brazil, only 24% ranked them as good. In Russia, it was only 8% while in 46% ranked that in India as good or excellent. In China, it was a dismal 3%. The survey found that companies were generally "unconcerned" with ethics, (Brazil 33%; Russia 60%; India 31%; and, China 39%). Most felt that the top regulatory priority should be to address the "use of inside information".

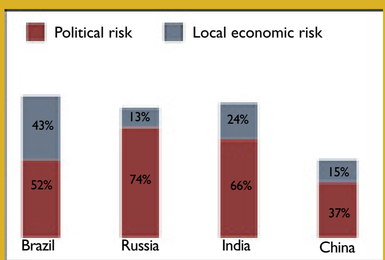
The Story Told By Insurance

In insurance, the BRICs are holding up to their promise. The number of insurers in India and China is far higher than in Brazil and Russia. Russia is ironically the most protected and lobbying the hardest not to be opened up even as it is negotiating to enter the WTO. In Russia, it is said that the strongest protectionist lobby comes from the foreign boys who are eager to protect their beachhead in the market. In Brazil, the insurance industry, only opened to foreign companies in 1996, is highly concentrated and dominated by a handful of large firms, all of which are linked to major domestic private banks. Most Brazilian insurance firms are non-specialized and offer a full line of coverage.

India seems the best success story of the lot. In just less than six years that the market was opened to the private sector including the foreign companies, foreign joint ventures now account for about 28% of the market and have been reporting real profits as well. In China, foreign JVs have less than a 10% share of the market which was opened to foreign investments more than 10 years ago. But the potential and opportunities in these two markets are undeniable. China and India have a middle class with a high purchasing power of 150 million and 60 million households, respectively.

The Story of the Charts

The charts below gives a clearer picture of the comparative size of the BRIC market, penetration and density, where you can see where to put your money in, if you haven't already decided.



BRIC Insurance Stats in 2004

	Total Premium Volume in US$m			Life Insurance Premium Volume in US$m			Non-Life Insurance Premium Volume in US$m		
	Ranking	Premiums (US$M)	Mkt Share %	Ranking	Premiums (US$M)	Mkt Share %	Ranking	Premiums (US$M)	Mkt Share %
China	11	52 171	1.6	8	35 407	1.9	13	16 765	1.2
India	19	21 248	0.65	18	16 918	0.91	27	4 330	0.31
Brazil	21	18 042	0.55	24	8 199	0.44	16	9 843	0.7
Russia	23	16 369	0.5	31	3 547	0.19	15	12 820	0.92
World	–	3 257 436	100	–	1 860 158	100	–	1 397 278	100

COUNTING

Mother Nature's Wrath In 2005

Asia had the highest number of natural catastrophes at 208 while Oceania/Australia had the lowest number at 6

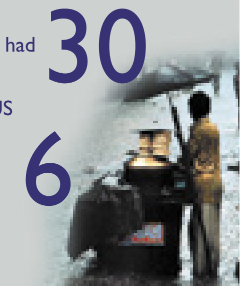
The 2005 Atlantic hurricane season is the busiest on record registering 28 named storms, including 15 hurricanes in which 7 were major (Category 3 or higher)

A total of 97,018 people were killed with 89,633 people in Asia alone.

The Pakistan quake on 8 October 2005 claimed the highest number of lives at 73,338

Property insurers suffered a total of US$83.4 billion in global natural catastrophe losses.

China saw the highest number of catastrophes at 31 while India had 30 and the US 16



Hurricane Katrina was the most costly at US$45 billion followed by Hurricane Rita and Hurricane Wilma at US$10 billion each.

Sigma recorded 149 natural catastrophes and 248 man-made disasters in 2005.

Europe saw 59 catastrophes registering an insured loss of US$7 billion.

National Oceanic and Atmospheric Administration (NOAA)'s 2006 North Atlantic hurricane season outlook indicates an 80% chance of an above-normal hurricane season.

Source – Sigma, EM-DAT International Disaster Database; National Oceanic and Atmospheric Administration

Follow the news around **Microsoft** in the financial industry

"Windows has made remarkable gains in current and planned market share. In fact, 36% of L/H and 53% of P/C carriers plan to use Windows as the OS of choice when updating older systems.

Overall, Celent sees the growth of Windows in the insurance industry as a result of several trends:

- the increasing viability and acceptance of Windows as an enterprise platform
- the general move towards less expensive platforms
- the growth of Services-Oriented Architectures, which reduce the value of technical monocultures and allow easier support of heterogeneous platforms
- the increasing maturity of .NET as a development environment, and the growth of .NET-based vendor solutions.

– **Celent - Legacy and Mainframe Migration: An Insurance Imperative**, *MAY 2006*

"We continue to be impressed by Microsoft's commitment to standards and its support of The Council in its efforts to create a more efficient marketplace." – **Ken A. Crerar**, *president, Council of Insurance Agents and Brokers (CIAB)*

Pacific Life has used the Microsoft .NET platform to build three applications. Microsoft tools let business analysts work with developers.

"This not only gives the Pacific Life division more productive developers, it gives them a better product, because it gets the business analysts and architects involved earlier, helps them communicate better, and makes it easier for them to stay in the loop." – **Brad Sherrell,** *assistant vice president, Life Insurance Division,* **Pacific Life.**

"The benefit of .NET is that the technology promises a faster and lower cost development route, similar to Windows-based systems, which will allow us to respond far better to business changes. And if you hope to be Number One, you need to respond quickly." – **Mark Chapman,** *Global Aerospace's chief technology officer*

Transamerica Reinsurance's private label term business chose .NET-based LifeSuite from VerticalPoint/Fiserv because it could improve workflow and case management and that has resulted in a competitive edge.

"While many underwriting departments require two support staff members to each underwriter, with LifeSuite we feel that as our volume ramps up, we will need only .5 to .75 staff members per underwriter."

– **Underwriting director for Transamerica Reinsurance {Aegon}**

Wealth management firms, like National Life, are adding retirement distribution planning to their portfolio of services, and Impact Technologies is there with its .NET-based Retirement Road Map.

"This software helps the advisor deal with the individual's risk tolerance, and it is simple for the advisors to explain and the clients to understand. It's ridiculously easy." – **Ron Merolli,** *director, advanced sales,* **National Life.**

Allstate of Canada's claims staff armed with a wireless Tablet PC can measure rooms, draw up floor plans, incorporate digital photos, link to vendors, check estimates against local pricing, collect a homeowner's signature, start the repair process and file the claim without ever returning to the office. They are using a .NET-based wireless claims solution from Symbility Solutions,

"Speeding up the settlement process is a critical issue for us. The productivity increases demonstrated by the Symbility system are startling. Symbility is a big part of our expense reduction and customer service leadership."

– **Greg Stephens,** *claims administrator at the Allstate Insurance Company of Canada.* **Wildnet**

Training Blueprint For insurance

Forget about babyboomers and generation X's. Today's generation Y employees are of a different breed and are already challenging employment norms. Today's increasingly "internationalised" and mobile workforce has created intense competition for skilled and quality staff and exacerbated the industry's challenge of labour shortage.

Here, we bring you excerpts of a speech by **Ms Joan Fitzpatrick**, CEO of the Australian and New Zealand Institute of Insurance and Finance (ANZIIF), three-time winner of the Asia Insurance Industry Awards. Speaking at the first Asian Conference on Training and HR Development in Insurance held in Singapore recently, organised by Asia Insurance Review, she raised the need for a unified set of professional standards and consolidation of the insurance industry worldwide.

Training providers need to work towards:

- Having a single set of technical education and training courses of consistent quality and standard, and consistently delivered and assessed;
- Giving insurance industry employees recognition of his/her qualifications on a global basis and offering international portability;
- Localisation in specific areas, such as language and culture, law and regulation, market structure and customer service.

DNA of Today's Workforce

- Employees have a maximum commitment of three years per job;
- They require fast technical knowledge immersion;
- There is increasing use of online education in all markets;
- Distance education will grow in popularity in new markets; but
- Delivery will grow in short, face-to-face intensives locally/globally;
- With competition of skilled people growing, re-skilling of older people may grow;
- Consolidated markets demand for global standards and global best practice education courses will increase;
- New and emerging markets demand for best practice type education delivered locally will continue to increase;
- Education providers will increasingly establish overseas for growth.

Save the Insurance Brand!

Management guru Peter Drucker once said: *"A business has only two basic functions – marketing and innovation."* While most would agree that insurance companies do well in the latter, real success is often hampered by a poor image. How can insurance brands be improved?

We highlight some salient tips recommended by experts at the first Asian Conference on Branding for Insurance, organised by Asia Insurance Review.

Do:

- Get the CEO involved. With branding being so broad and pervasive, the CEO really is the only person that can act as the true brand ambassador. Think Steve Jobs, Bill Gates and Richard Branson.
- Create an emotional and trusted relationship between the brand and the customer.
- Innovate and reinvent – just like Madonna!
- Keep your promises! This is particularly critical in insurance because it involves the well-being of people and the entire business is based on trust and integrity.
- Be imaginative and open-minded.
- Be the first. This is no guarantee of success, but it will be a licence to establish your brand in the mind before anyone else.
- Narrow your focus. Intel and Taiwan Semiconductor Manufacturing Company have enjoyed better business margins just by focusing on one core product.
- Get a good name – one that is short, unique, memorable, easy to pronounce and English-sounding.
- Be absolutely consistent.
- Value your brand to realise benefits to shareholders. Many mergers, for example, are based on brand value.

Don't:

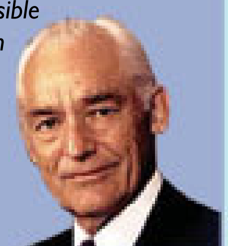
- Be arrogant and complacent.
- Think that the industry reputation is someone else's problem.
- Ignore cultural differences.
- Compete on price, unless you can use that to your advantage in the long run.

Learn from Competitors, But Remain Faithful to the Vision

Imitation is the sincerest form of flattery. Folklore surrounding Walmart's success is massive. There are two precious pieces that are worth remembering.

Words of wisdom from Sam Walton:
"There is only one boss. The customer – and he can fire everybody in the company from the chairman down, simply by spending his money somewhere else.
Almost everything I've done I've copied from someone else…I probably visited more HQ offices of more discounters than anybody else, ever. I'd ask lots of questions about pricing and distribution."

To the insurance CEO:
Who dares admit to such intellectual humility and espionage? Sam Walton actively visited head offices of big discounters and shamelessly asked loads of questions about pricing and distribution and got better at his business. He was a discounter with the rock bottom being a real burning cost – a threshold insurers go below in the name of emulating competition and in the hope of making up with investment income. His strategy was to sell at the lowest price possible with satisfaction guaranteed. An American dream that still weaves magic.



**Sam Walton,
Founder, Wal-Mart**

Place the Customer At the Epicentre of the Business

This is an idea that is slowly catching on. The insurance industry, so used to pushing the products it thought was best for the consumer – believing earnestly that given the technical nature of the product – thinks the consumer really couldn't be expected to understand the product and choose what was best for him.

Words of wisdom from Michael Dell:
"From the start, our entire business – from design, manufacturing to sales – was oriented around listening to the customer, responding to the customer and delivering what the customer wanted."

For the Insurance CEO:
Who is your Customer: policyholder, agent, broker, distributor?

**Michael Dell,
founder and CEO, Dell Computer**

Theodore Lewitt, who fathered the term, "Globalisation" in 1983 as the "emergence of standardised low cost consumer products", died two weeks ago. But the reality of globalisation is so entrenched that it has spread into the high-priced branded segments, too, and is very much a daily part of life, business and politics.

Here, as a salute to the global CEOs gathered and to help the "aspiring wannabes", we choose the essence of the wisdom of three CEOs, past and present of companies whose products are global names today. They are carefully chosen from outside the insurance industry to facilitate cross-border pollination in strategic planning and marketing. The ideas are brilliant in their simplicity and depth, yet, the results are phenomenal because of their sheer commitment to that idea beyond just lip service.

Harness the Intellect of Every Company

The insurance industry, being information-intensive and information sensitive, is harnessing and exploiting technology although it lags behind in e-commerce.

Words of wisdom from Bill Gates:
"The Internet is much more about existing businesses and how they take skills and customer base and move over to use those digital approaches to do things better. That is the most profound thing about this revolution.

Smart people anywhere in the company should have the power to drive an initiative. It is obvious, common-sense policy for Information Age companies where all workers (are knowledge workers) and should be part of setting the strategy.
You very quickly get the knowledge workers more empowered and, in turn, get more value out of them. You can re-define customer service; you can re-define how you plan products and get lots more input and feedback along the way; you can respond more quickly when you hear the marketplace telling you to do something."

To the insurance CEO:
How far down the ladder are your employees involved in strategy other than through suggestion boxes? How quickly can your employee access the corporate memory? Bill Gates' litmus test is 60 seconds – it should not take an employee more than 60 seconds on the laptop to call up any memo or document that might relate to a similar project that was done in the past.

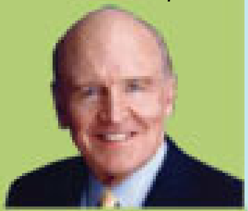
Bill Gates,
Chairman and Chief Software Architect, Microsoft

Create An Authentic Learning Organisation

This is one area the insurance industry is ahead of the others. The industry has been forced by the changing risk landscapes of catastrophes, global warming, terrorism, regulations and market forces, to constantly research and innovate to survive. Over the years, the insurance industry has responded commendably to the vagaries of Mother Nature with scientific modeling techniques and to regulatory demands with dynamic solvency testing, etc. But the last laugh is yet to be heard.

Words of wisdom from Jack Welch:
"Our behaviour is driven by a fundamental core belief: the desire and the ability of an organisation to continuously learn from any source, anywhere; and to rapidly convert this learning into action to its ultimate advantage.
The bounderless learning culture killed any view that assumed that the GE way was the only way or even the best way. The operative assumption today is that someone, somewhere, has a better idea; and the operative compulsion is to find out who has that better idea, learn it and put it into action – fast."

To the insurance CEO:
Are you big enough to readily stand up and admit that the "freshie", wet behind the ears, knows more than you? Haven't you been there, seen it, and tried it all before already?



Jack Welch,
former CEO, GE

Footnote: Quotes for this article were taken from the "What the BEST CEOs KNOW" by Jeffrey Karmes

Issues And Themes: Past And Present

As we gear up for the IIS' 42nd Annual Seminar in Chicago, based on the theme: "Insurance: Now and the Future – Tools for a New Age", join us as we take a walk down memory lane in this pictorial tour of the past four IIS seminars held in Singapore, New York, London and Hong Kong.

HONG KONG

At the Hong Kong 2005 seminar, CEOs were reminded of the industry's pride of place in life, the economy and society and the essential need to boost the industry's image among key stakeholders.

NEW YORK

Getting an "A" through Corporate Governance was the key message during the New York 2003 seminar with CEOs being reminded that rebuilding trust and credibility in the marketplace and restoring profitability are inextricably tied together.

SINGAPORE

Benchmarking, best practices and branding were buzzwords at the Singapore 2002 seminar as management gurus shared tips with CEOs on how to stay ahead and compete effectively in today's increasingly competitive environment.

LONDON

Financial profitability took centrestage at the London 2004 seminar. With a softer market environment, most CEOs ranked pricing as a top priority and discussed ways to stay on the high road to success.

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