Asia Insurance Review's
IIS Daily
Day 3
Tuesday • 15 July 2008
Published by: Asia Insurance Review
Media Partner: Middle East Insurance Review incorporating Global Takaful
Sponsors: Fairfax Asia Limited, Fubon Insurance, MSIG, ReMark, Swiss Re

Life Rocks........ .....if the Customer Swings

The definite strong growth potential in the life market dominated the discussions at the Executive Panel of World Leaders at the 44th IIS Annual Seminar, even as the spectre of a global recession was alluded to by the Chairman at the opening ceremony and even as global warming, the unabated spate of natural catastrophes and the threat of terrorism continue to grab headlines around the world.

The strong direct and latent need for life cover by the people around the world underscore the very resilience of the life sector, even at a time of contagious volatility in the stockmarkets, and even when many life policyholders are heavily invested in unit-linked products. This is the miracle of life.

And the one mantra that must be observed to realise the promise of growth is to make the business focus around the customer's needs and wants. All the four leaders at the Panel – two life insurers, a banker and a general insurer – stressed that business had to be customer-centric and any product innovation or choice of distribution channel or service excellence must revolve around what the customer wants, when he wants it and how he wants it.

Lest one walks away complacent with the old adage of the "Customer is King", the Panelists reminded delegates that today the customers is spoilt for choice, and are increasingly sophisticated and highly demanding. The trend is that "delivering beyond expectations with the surprise factor" is becoming the norm that has to be followed.

Life figured so predominantly at the high- level Panel in Taiwan, the country being the 10th largest life market in the world in terms of premiums. In Asia, life accounts for an overwhelming 74.2% of the insurance business compared to the world average of 58.9% according *sigma* 2007 figures. With several emerging giants in the region, Asia naturally took centrestage with the life sector holding out different business propositions to the "youths of Vietnam" and "the greying men of Japan".

Tips on New Life Growth Areas

For those looking at hot tips for innovation and growth, pensions, retirement planning products, annuities with a healthcare component for the old, guaranteed products with a retirement components, micro insurance for the poor, special products for the rural population as against the urbanites; more short term policies; and unit-linked policies with higher returns were some of the new areas for growth identified at the Panel.

The Magic of Capital

On capital allocation as a strategic issue, Mr Mark Tucker, Group Chief Executive, Prudential plc of UK, said it was the most important of any CEO function as it has to ensure capital efficiency in generating profitable growth. Sharing the secret of Prudential's success especially in Asia where it had grown from being present in just three to 12 countries in just over a decade in a significant manner with no "open cheque book", he said it was evaluated on a global basis with fact-based inputs from local CEOs to ensure sustainable earnings.


Mr Mark Tucker

As a front runner and a leader of the unit-linked market in Asia, Prudential Corporation of Asia had focused on economies which showed a significant number of households with an annual

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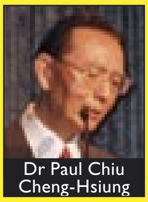
Vice Premier Pledges Strengthening of Market


Dr Paul Chiu Cheng-Hsiung

Welcoming more than 400 delegates from 36 different countries, Dr Paul Chiu Cheng-Hsiung, Vice Premier of the Executive Yuan, Taiwan ROC, said yesterday during his keynote address, that 2008 marks an important year for Taiwan as the newly elected president Mr Ma Ying-jeou has announced bold projects to deregulate the economy to unleash vitality in the private sector. In stressing his commitment to build Taiwan as a regional financial centre, he said efforts will be made to broaden the depth of the local market.

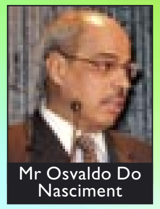
He added that Taiwan is optimistic about strengthening its relationship with mainland China, and believed it was the first step to a win-win situation for both countries in its goal for further deregulation in the financial sector. In emphasising the greater need for collaboration, Dr Chiu said all countries must come together to solve the common issues in the insurance industry, such as accounting principles, solvency standards, climate change, human resource and consumer protection as these challenges cannot be solved by one single country alone.

Dr Chiu noted that Taiwan, hosting the conference for the second time in 34 years, now boasts the world's highest penetration rate at 15.7%. Total premium income in 2007 was US$60.4 billion, an increase of 17.2% from 2006.

(continued from page 1)

income of US$10,000 per annum – a figure which to him was more important than analysing GDP growth or per capita income as the latter came with in-built distortions in determining spending power. With his wide range of experience in Asia and globally, Mr Tucker said their priority was to be the leader in the market for profitability of new business rather than to go for market share.

Spoilt for Choice


Mr Osvaldo Do Nasciment

Touching on innovation and distribution, Mr Ovsvaldo Do Nascimento, Executive Director, Banca Itau SIA, Brazil, said that mining the database to get customer segmentation was fundamental. Through customer relationship management (CRM) systems, one can know the behaviour of customers, and then select the best way to distribute the right product to the right customer. In the current Internet and mobile technology era, insurers were spoilt for choice, including through agents, banks, SMS, email, ATM, video phones and other direct marketing. He was very clear that there is no question of channel conflict as the choice of distribution will and must be determined by the customer always.

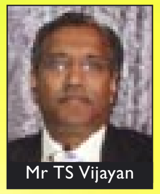
Self Regulation To Be Better

Speaking of India where all the companies, including the newcomers, were heavily reliant on a tied agency force with some 2.5 million agents serving the market with 20 players and 270

The Six Magic Uses of Technology

Among the many uses of technology in insurance which is information-intensive and information-intensive, the World Leaders Panel indentified the following:

- Use technology to segment the customer, but allow the customer to choose the technology he is most comfortable with;
- Use technology as a cost-reduction device to enhance competitive advantage;
- Improve customer service to wow the client beyond expectations;
- Let customers be engaged in the claims management process, including seeing at what stage of repair the damaged car is, for instance;
- Use the marriage of communication and information technology as a big boost to business; and
- An important tool in microinsurance where face to face servicing will be cost-inefficient


Mr TS Vijayan

million individual policies, Mr TJ Vijayan, Chairman of Life Insurance Corporation with clear market leadership, said there was a critical need to develop self-regulation to ensure better market conduct. In a market which has grown rapidly since its opening in 2001, India today is faced with the shortage of professional and experts, and problems of a wage spiral and retention in the life insurance sector.

Going Global & Staying Local There


Mr steve chen

Stressing that insurers were forced to go global to service their clients who themselves were going global, Mr Steve Chen, President of Fubon Insurance, Taiwan, said, to be successful, a foreign company must embrace local needs and talent. Noting that the number of foreign players in the market peaked to 12 in 1997 and came down to only five last year, he said that, despite liberalisation, foreign companies never exceeded a 5% share of the market. Giving his take on the lacklustre performance of the foreign players in Taiwan's

non-life market which amounted to US$410.6 billion last year, he said it was perhaps because of their misguided focus on price competition, lack of localisation of foreign products, lack of local touch in service offerings, and lack of convenient diversified access points for consumers.

A Quest for Higher returns

With not just the shareholders and investors but the customers too demanding higher returns, how will insurance companies deliver? Will the promise of growth and consumer confidence in the life sector fade? Mr Vijayan alluded to the problem that with "the stockmarkets being volatile, can life companies overcome the turbulence? Are life insurers equipped to tide over the storm?"

The question hangs heavily in the air as fears of a global recession increase.

Tips for New Entrants to India

Tackling the question head-on, Mr TJ Vijayan, Chairman, LIC, which from being a single monopoly is today competing with 19 other life companies in the market, said: "I see no reason to stop another newcomer. The tip is focus on the second-tier markets rather than the first-tier like Mumbai, New Delhi, Kolkatta and Chennai, which are now almost saturated in penetration."

Sub-Prime Crisis will be Impetus to Regulatory Reform

In the wake of the sub-prime crisis that has rattled global financial markets, consumers and companies will place greater value on insurance, and regulators will be on the prowl to enhance risk management, said speakers yesterday.


Mr Paul Summerville

Transparency will be enhanced, and this should be embraced, urged Mr Paul Summerville, adding that insurers should improve research capabilities to better cope and respond to emerging risks. He anticipated that the value of guaranteed investment products to certainly rise as consumers seek more stability in their investments.

At the press conference, insurance leaders echoed that the sub-prime crisis make regulatory reform a priority. Although Mr Brian Duperreault, President and CEO of Marsh & McLennan Companies USA, pointed out that the insurance industry emerged relatively unscathed from the credit crisis which has plagued its banking counterparts, the important lesson to be learnt is to have strong regulation in place in respect to asset allocation. He added that the industry's strong focus on enterprise risk management (ERM) helped companies avoid to a large extent any large repercussions to the crisis.

Speaking to reporters, Mr Osvaldo Do Nascimento, Executive Director, Banca Itau SIA, Brazil, pointed out that regulators need to address areas of capital allocation and transparency in asset liability management. Brazil was not impacted by the sub-prime crisis as the country became investment graded only this year, allowing companies to invest overseas. "Regulators must improve in the area of consolidating risks and enhancing transparency in derivative instruments where it is unclear where capital is invested in," he added.

The Impact of Inflation

Responding to how inflation and the volatility of the stockmarket have impacted the pensions and annuity business, particularly projecting long-terms returns and benefits, Mr Nascimento noted that Brazil had important lessons to share since it has faced high inflation rates for several years and that retirement is indexed to inflation, to protect retirees.

Fubon Insurance

Trailblazing Growth and Success

For the 26th consecutive year, Fubon Insurance has maintained the 20.3% lion's share of the Taiwanese non-life insurance industry last year. Here, **Mr Steve Chen**, President of Fubon Insurance, shares his plans to further strengthen and grow the company.

Unrattled by the widespread volatility experienced in the non-life sector last year, Fubon Insurance attested to a better-than-expected performance with an after-tax profit of NT$2.01 billion (US$66.1 million) and an earnings per share of NT$2.46. The financially strong company further galvanised its presence as the market leader after it registered direct written premiums of NT$22.9 billion, out of the overall non-life industry total of NT$112 billion.

Being the first private non-life insurance company in Taiwan, Fubon has followed the business philosophy of stability and pragmatism. With the synergies unleashed by Project One in 2005 (an organisational restructuring plan), it has benefitted from the integration of the Insurance Group's sales channels and its co-operation with other business groups.

The business portfolio mix is generally representative of the market in terms of premium distribution. Among its business lines, automobile flourished, having the largest proportion of 47% of the total portfolio, followed by fire at 21% and casualty insurance at 18%. All major lines of business, including automobile, fire, casualty and marine cargo insurance, maintained an impressive market share of approximately 20%.

Competitive Advantage Created by Loss Control Services

Fubon has been diligent in seeking opportunities to maintain its leading position. Firstly, it expanded its presence in the Asian region with representative offices in China and a few Southeast Asia countries, with plans to further tap into this lucrative market. It is also the second non-life insurer to have received the licence to sell short-term health and accident policies, which is expected to commence in the fourth quarter of 2008.

At the same time, Fubon has made strong efforts to promote insurance coverage at every level of society with an impressive range of diversified products. Particularly notable is the relentless effort made by the Loss Control Department. Currently, the successful applications of unique in-house technologies, such as "Infrared Thermography," the "Steam Explosion Risk Quantification System," and the "Earthquake Risk Evaluation System," have elicit widespread praise and approval from peers and corporate clients.

In addition to maintaining financial excellence, Fubon firmly propagates the concept of being a good corporate citizen, with its parent company having established four foundations, each devoted to different public welfare endeavours.

Dynamics of 2008

The Year of the Rat looks improving; however Fubon forecasts further challenges affecting the industry. In terms of commercial insurance, due to the fierce competition in light of entering the third phase of premium rate detariffication, the company anticipates that the premium rate of commercial lines insurance will continue to plummet. Fubon will engage in and implement key strategies, including promoting specific insurance products focusing on small to medium-sized enterprises, to maintain profit at a favourable level. Other plans include new product development, developing a link between insurance products and professional loss control service to create value-added services for customers, and fully utilising customer databases to further diversify sales channels, to increase the number of small to medium-sized enterprise customers.

No doubt, Fubon Insurance had another outstanding year in 2007, and it hopes that 2008 will be an even more fruitful year.

He added that the real concern lies in the inflation of medical expenses which has increased rapidly. "Brazil is exploring ways, including introducing tax incentives, to help ease the burden of the rising cost of medical expenses, particularly when public healthcare cannot solely handle this burden," he said.

Mr Duperreault, who is also Chairman of IIS, noted that a huge global trend taking shape in the pensions space is defined contributions and the increasing burden on individuals, which epitomise the need for retirement funding.

Mr Vijayan added that the debate surrounding defined contributions was not only about inflation, but also a high growth economy. "Prosperity levels are rising, and the loss of income to due inflation will be a key challenge," he warned, adding that as capital requirements for variable pensions is large, the challenge for the industry is to respond to this. However, he believes that a fundamental shift in the whole economic system is needed before any real change is seen.

The Lure of the BRIC Markets

Sharing the perspective of the BRIC markets which are the currently the target of foreign investors worldwide, Mr TS Vijayan noted that unlike in Taiwan, where foreign companies are experiencing lacklustre performance, in India, companies have been growing very rapidly since the market liberalised seven years ago. "Start-ups are tripling their growth figures, (something) which established players are unable to match," he said, adding that once it reaches a certain mark, growth will ease. He warned that some start-ups are incurring huge losses because of their chase for market share, but soon they will realise that this is an unsustainable strategy and profitability is the only way to go."

Mr Nascimento noted that in Brazil, major insurers are controlled by banks, and the mature and stable financial structure of the country has enabled even the low income to engage in banking transactions. Following extensive government reform to the pensions bill, which boosted the performance of life insurers, ROE stands at 25-30% driven by demand as consumers awaken to the benefits of insurance protection. Non-life business, however, is less profitable, plagued by intense competition and pressure to reduce costs.

(L-R): Mr Patrick Kenny, Mr TM Shih, Mr Brian Duperreault, Mr Osvaldo Do Nascimento, Mr Steve Chen, Mr TS Vijayan

China and India to Lead with Most M&A Activity in the World

Chinese firms have overtaken their Japanese counterparts in leading the world with the most bullish attitude when acquiring companies in Asia, with about 50% of Chinese companies likely to engage in significant M&A deals this year, and 71% saying they expect to make an M&A in the next five years.

Trailing closely behind, 34% of Indian companies expect to do a deal in the coming year, with 76% of expecting to be involved in an M&A deal in the next five years. This may reflect the prospect of a wide-scale deregulation of the banking sector expected in 2009.

The findings are the results of a report by PricewaterhouseCoopers (PwC) and the Economist Intelligence Unit (EIU) – commissioned by Marsh, Mercer and Kroll, based on a survey of more than 600 industry leaders. The report identified that Asia has favourable and flourishing market conditions that are driving more consolidation of the financial services in the region.

According to the PwC report, Japan topped the M&A list, with US$36.2 billion worth of deals last year, more than doubling the amount recorded in 2006. China was the second most active country in Asia for M&As recording US$16.2 billion in 2007, up from US$11 billion in 2006. South Korea came third with US$13 billion worth of deals, up from US$9.4 billion in 2006.

The Lure of Asia

The changing dynamics of Asia and the effects emerging from the subprime crisis are luring more companies to consolidate and seek opportunities in different countries, instead of domestic and local markets.

The growing practice of M&A in the financial services industry has led to deals in the Asia-Pacific skyrocketing 54.6%, from US$68.5 billion in 2006 to US$105.9 billion in 2007. Although Japan, China and S Korea prevailed as the most profitable markets from M&A activities, India, China and Australia reigned as recording the highest amount of deals at 100, 94 and 69 transactions, respectively.

The report attributed the strong and steady GDP growth in the region to the continued emergence of a wealthy consumer class in Asia that has created a healthy environment for further M&A activity in financial services. The EIU found the countries that trumped over others in attractiveness and significance of M&A destinations, over the next 18 months, were targeted and grouped as China, India and Southeast Asia with 57% of respondents citing strong interest in the market, followed by North America recording 43%. Africa, however, saw red, with 19% of respondents alluding that the political and social risks, and labour issues as key deterrents to their M&A interest.

Similarly, the EIU report highlighted that, despite the optimism from surveyed respondents for the long term, obstacles included the stunted regulatory changes and reforms in markets like S Korea and Thailand that might inhibit M&A deals. Other longer-term impediments to deals include family control over many Asian institutions.

"Government-driven consolidation began in 2005, and the number of insurers decreased to 49 from 109. Further rationalisation is expected, but it will be market-driven. There is still a lot of opportunity in Nigeria as the penetration rate is remains very low considering our population of close to 150 million."

Mr Wole Oshin
Managing Director of Custodian and Allied Insurance Plc, on consolidation in Nigeria

"With great support from DIFC, the insurance sector in the UAE is enroute to becoming aligned with international standards. Furthermore, the technological resources that we have are sufficient and, therefore, I believe we are halfway there. Although further growth in takaful is expected, it will still remain small. To increase penetration rates, companies must be more transparent to gain the trust of potential consumers."

Mr Moh'd Mazhar Hamadeh
General Manager of Al Ain Ahlia Insurance Co, on UAE's insurance market

Winners of the Geneva Association/IIS Research Program

Mortgage-Backed Securities and Capital of Life Insurers: Was the Industry Prepared for the Credit Crunch of 2007/08?

In their winning Geneva Association/IIS research presentation, **Ms Etti G Baranoff** and **Mr Thomas W Sager** examine the response of life insurers to the risks of mortgage-backed securities in their portfolios.

- The 2007-2008 credit crunch exposed risk not fully appreciated with mortgage-backed securities (MBS) from a combination of rising interest rates, declining property values, reduced credit underwriting and higher foreclosure rates from bank efforts to cut their losses.
- The authors considered capital positions of life insurers in 2003 and 2006 relative to MBS portfolios. They also created three potential scenarios of different severity for recategorising MBS credit ratings and computed the theoretical impact on measured insurer asset risk and related capital.
- Findings indicate that not only were insurers unprepared for MBS downgrades, but they also reduced capital as they accumulated MBS, as though acquiring MBS should raise the overall quality of the investment portfolio.
- Estimates of required adjustments to capital to accommodate the now recognised increased risks of MBS suggest that an insurer with median MBS exposure might be expected to increase its capital 10% or more to maintain an historical relationship between capital and risk factors, with a moderate recategorisation of MBS risk.
- The analysis further supports the trend toward the use of enterprise risk management (ERM) techniques to better anticipate complex risk patterns that can combine to establish unexpected types and levels of risk and to improve measurement of risk and capital requirements, eg, economic capital analysis, for individual company risk profiles.

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