Wednesday • 31 October 2007

Asia Insurance Review's

PIC Daily

Day 3

Published by: Asia Insurance Review

Media Partner: Middle East Insurance Review Incorporating Global Takaful

Sponsors: ReMark Scottish Re

Achieving the Pot of Gold in Life

Day Two of the 23rd PIC continued on the theme of core issues affecting the life industry – distribution and the customer – where speakers shared experiences on the best ways to achieve profitable and sustainable business.

Passionately discussing the merits of Multi Channel Distribution (MCD), **Mr Marc van Weede**, EVP Group Business Development, AEGON, noted that, as businesses increasingly face a difficult landscape driven by consumer demands, improving technology and regulators levelling the playing field, companies are increasingly embracing a multi-distribution strategy. MCD is not an option, but a necessity in today's challenging business landscape. It is not about complexity and conflict, but about efficiency and providing choice for customers, he stressed.

"Emerging markets are experiencing the evolution of multi-channel distribution more rapidly than developed markets, not only because of the influence of foreign expertise, but also because they are driven by challenges faced by the traditional tied agency," he added.

Observing that direct marketing, in particular, was popular, especially in the wake of brokers moving upstream to service affluent clients, leaving a large inadequately served middle-market, he said: "This gap is an opportunity to be filled by direct marketing, complemented by technology." He added that website marketing was also gaining ground as employers pull back on coverage in an effort to reduce costs, and technology paved the way for ease of distribution.

No Single Channel Solution

Responding to a question from the floor on whether the quality of risk and persistency of business is impacted by a particular form of distribution and how to measure the effectiveness of a multi-distribution strategy, Mr van Weede remained neutral, noting that each form has its benefits and must be evaluated on a stand-alone basis. "Different channels have different lifetime cycles. Some take longer to build and are capital-intensive like agents, while others like bancassurance create volume rapidly, but are volatile. The difference lies in the quality of execution."

"Ultimately," he stressed, "the portfolio of channels, besides allowing you to access clients you otherwise wouldn't be able to reach, must give you overall sustainable growth."

Value-Creating Customers

Presenting a mathematical approach to identifying quality clients, **Dr Wolf Becke**, Executive Board Member, Life and Health Markets – Worldwide, Hannover Life Re, explained the company's unique concept of the value curve of relationship marketing to calculate the customer lifetime value (CLV) of each customer and put them into three categories – Value-Creating Customers, Value-Neutral Customers or Value-Destroying Customers. This helps them select the right customer group and, accordingly, quality risk.

The concept generated an animated discussion among the audience with some raising concerns on the fundamental social obligation of an (re)insurer to meet the needs of the community at large and not to penalise quality clients who, too, have their own shareholders to account to for optimal price efficiency.

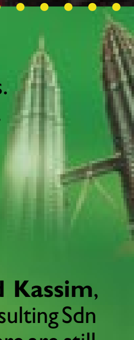
Identifying the Value Proposition

Dr Becke acknowledged the views made and said that their quality clients will have the entire resources of Hannover Life Re at their disposal but at the expense of slightly higher reinsurance costs, and this is the value proposition that is ideal for both partners.

Elaborating, he said: "Sometimes the customer may be a good company, but they fall into the Value-Destroying category because they find our resources and products unsuitable. One example would be a company that gives us 500 businesses for quotations in a year, but only 5% of these are ultimately placed with us. Hence, it is obvious that our products are not suitable for their portfolio, and if we cannot improve the placement ratio, then the relationship between our companies is not an ideal one, and we are both not fully optimising resources. In this case, it is better for both parties to depart on friendly terms."

(L-R): Mr Daud Vicary Abdullah, Mr Jefferey Zain, Mr Zainal Abidin Mohd Kassim, Mr Marc Van Weede, Mr Vicente Aylion, Dr Wolf Becke

Takaful in Malaysia – Unleashing the Potential



Malaysia's aspirations to be a Islamic financial hub is no secret, having been at the forefront of takaful development since the early 1980s. But in yesterday's panel session, chaired by **Mr Jefferey Zain**, Actuarial Consultant, ASH Resources Sdn Bhd, speakers revealed that being a first mover does come with its disadvantages.

Brain Drain

Mr Daud Vicary Abdullah, Chief Operating Officer, Asian Finance Bank, lamented that after vigorously building up a pool of Islamic finance talent, the industry was currently fighting to retain these people who are aggressively being pursued by the rich Gulf countries which are luring talent away with salaries more than four times that of Malaysia, tax free.

"We will need to do a lot to attract, train and retain more people and also to let them understand that there is a significant future here in Malaysia for them, too, as we are in the forefront of development," he said.

Sustainable Value Proposition

Elaborating on other challenges, he said that there are opportunities for improvement in areas of managing cash flow, funding gaps and increased pressure of finding different capital sources. "At the moment, the Malaysian market is still dominated by pricing issues, but we need to move beyond this and offer a sustainable value proposition for all," he said.

Winning Hearts and Minds

Concurring, **Mr Zainal Abidin Mohd Kassim**, Principal and Actuary, Mercer Zainal Consulting Sdn Bhd, said that, as takaful is developing, there are still a couple of issues which needs to be ironed out.

"Issues such as how much bonus do the shareholders and policyholders get and in what percentage split; what happens if the assets of the takaful fund is not achieving as good a return as those of conventional insurance because of the smaller group of acceptable investment funds and how does one cope with the limited experience of Shariah scholars who may not understand the intricacies of the insurance products when these are tabled for their approval?" he said.

Hence, there are still many hearts and minds to win, and Mr Mohd Kassim reckoned that, while conventional insurance will go ahead with the RBC framework next year, the takaful sector will not be heading that way yet, at least not for a few years.

The One-stop Shop – *Reality or Myth?*

The one-stop shop is a beacon shining for both insurers and consumers, offering economies of scale, comprehensive range of products and services, improving professionalism and productivity. But, is this a reality yet? Delegates at the first interactive workshop discussed, debated and delved into the issue "Convergence of Financial Services: Is it a Good Thing for the Industry and the Customer?" Here's a summary of the afternoon's discussions which saw delegates split on the benefits.

Convergence is inevitable, and it is already taking place, but as it is still in its fairly early stages, the industry still has a chance to mould its development. This was the consensus arising from the breakout sessions.

Inevitable Trend


Mr John Lee

Mr John Lee, Senior VP, AEGON Life Ins (Taiwan) Inc, said his group acknowledged that the development is inevitable, and thus it is better to focus on maximising the opportunities in the new environment rather than fret about the disadvantages. "My group is taking a very strong optimistic stance and they do not see any disadvantage in the convergence trend at all," he said.

Convergence, which will usually result in a one-stop shop concept, will see a larger database, opportunities of cross-selling and a stronger brand, he added.

Efficiency is also easier to achieve in a one-stop shop, he said. As for customers, his group similarly stressed that customers stand to benefit, too, from the higher visibility from their financial provider and stronger financial strength. "They will find the one-stop shop much easier to do business with," he said.

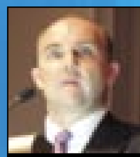
"The Chinese insurance market has grown tremendously. Fifteen years ago, there were only four life insurers, today there are 53. That alone indicates how fast and how much the industry has grown. The key challenges in China are for insurers to show good discipline, that companies do not over-react to the immense opportunities and remember that they should still run a profit-driven business no matter what."

***Mr Marc H Sterling**, Chairman of Manulife-Sinochem Life Insurance Co Ltd, China, on the challenges in the Chinese insurance industry today*

"An average person will need protection cover, healthcare cover, annuity cover and perhaps investment plans if he can afford it in his lifetime. As insurers, we should be a life planner for the people. We should look at the needs of the customers at various life stages and determine their needs – whether it is protection, healthcare, annuity or investment. Insurers should not sell what they want to sell and be driven by high profit margins."

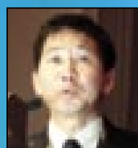
***Mr Lai Pen-Tui**, Chairman, The Life Insurance Association of the Republic of China, on paying attention to customers' needs*

Increased Productivity and Professionalism


Mr Duncan Lord

Equally optimistic **Mr Duncan Lord**, GM, Allianz SE Reinsurance Branch, Asia Pacific's group, quoted statistics from the UK at the end of 1980s, which experienced convergence, that there were 250,000 people selling insurance. Today, the number is reduced to 30,000 people, but the productivity is higher as they reach out to a bigger group of people. Mr Lord added that on the downside, convergence results in a high cost of entry, loss of niche players, concentration of a few players only and training challenges.

Still Early Stage


Mr Tan Beng Wah

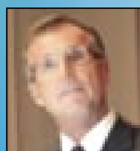
Mr Tan Beng Wah, Director, Malaysian Life Reinsurance Group Bhd's group, was daunted about the future and raised concerns about requiring distributors to learn the details of so many products if the one-stop shop were to fulfil its aim of offering a comprehensive range of products. Hence, they questioned the real value of the model if it were merely to adopt a product-oriented approach.

No Real Success Story


Mr Ooi Say Teng

Pointing out that there is no real success story on the one-stop shop yet, even in developed countries, **Mr Ooi Say Teng**, CEO, Uni Asia Life Assurance Berhad's group felt that in the cases they know, these are usually focused mainly on certain core products and not a comprehensive range as expected. Also, they were concerned that the layman may not be adequately served as the bigger boys will find that it is not economical to serve the mass market.

Differentiate Oneself

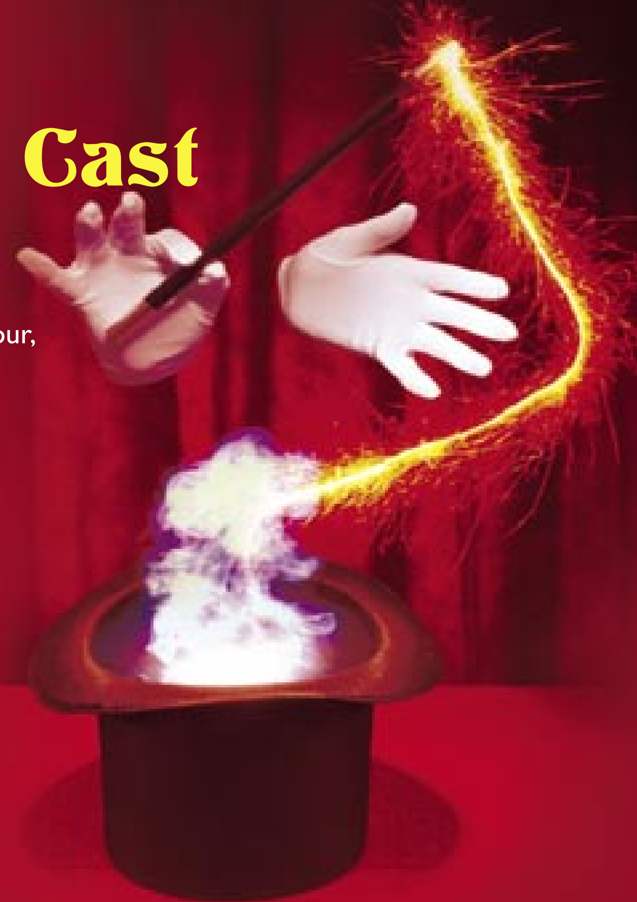

Mr Gary Comerford

Mr Gary Comerford, VP International & GM, India Sun Life Finance, said that his group felt that there are other paths one can take as well besides the one on convergence, such as forming strategic alliances if you are thinking of expanding one's business. "Life insurers should look at their balance sheets and see how they can differentiate themselves and their services using that balance sheets and financial strength and to use technology to compete," he said.

(L-R): Mr Gary Comerford, Mr Tan Beng Wah, Mr John Lee, Mr Duncan Lord, Mr Ooi Say Teng

The Magic of Takaful –
The Spell Has Been Cast

Munich Re recently became the first foreign reinsurer to launch retakaful operations in Malaysia. Here, **Mr Tobias Frenz**, Managing Director Family Retakaful Munich Re Retakaful, Kuala Lumpur, looks at five key issues faced by takaful operators in the region.



Much has been said about the double-digit growth of takaful, or Islamic insurance, in some (Muslim) countries and the bright future of takaful worldwide. Global takaful contributions currently amounting to almost US$3 billion are expected to exceed US$7.4 billion by 2015.

As impressive as the rise of takaful has been, it has to be acknowledged that it is still very small compared with the global insurance market – total takaful contributions make up less than 1% of the global insurance premiums. The enormous potential for takaful lies first and foremost in the Muslim world, which makes up almost a quarter of the world's population but is by and large underinsured.

Achieving Critical Mass Amidst the Competition

Firstly, takaful operators are often in a direct competition with conventional insurers as consumers expect them to be on par in respect of product variety and service quality. But takaful is a relatively young and small market, and achieving critical mass within a reasonably short period of time is difficult though crucial for a better spread of risks and particularly economies of scale. This is why takaful operators are also actively targeting non-Muslims. Bringing in international players is crucial for raising capital levels, enhancing distribution channels, corporate governance, underwriting, claims management and product development. A lack of first-grade retakaful capacity has always been cited as limiting takaful growth, but with the entrance of global players like Munich Re Retakaful has allowed this bottleneck to be overcome.

Mr Tobias Frenz

Investment Options

Secondly, the limited availability of Islamic investment options in general and long-term high-quality instruments in particular leads to potentially lower investment returns, restricts product innovation, and increases the concentration and liquidity risk. It does further raise the capital requirements for takaful operators subject to risk-based capital (RBC) requirements and makes asset liability management (ALM) more challenging vis-à-vis conventional insurance.

Lack of Suitable Expertise

Thirdly, there is a serious shortage of both Shariah advisers well-versed in takaful as well as managers, actuaries, underwriters, accountants, sales agents and investment experts familiar with Shariah principles.

Establishing a Developed Framework

Fourthly, takaful regulations, corporate governance and accounting standards have to be harmonised and convergence with the International Financial Reporting Standards (IFRS) has to be a top priority, thus ensuring the protection of consumers and the soundness and stability of the takaful system.

Enhancing Awareness

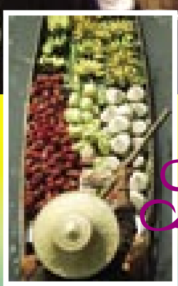
Last but not least, if there is a single challenge that takaful operators could name as their biggest obstacle, it would be the lack of awareness of takaful both among the Muslims and the general public: People either do not know what takaful is or think of it as insurance "for Muslims only". Having its own lingo with terms like operator, contribution, etc, adds only to the confusion.

Outlook

In essence, the future is bright for both takaful and retakaful and the additional momentum it has gained with the entrance of global players will ensure the above challenges will be properly dealt with sooner rather than later.

Malaysian Charm

Malaysia's renowned hospitality was at its best at Monday's Opening Dinner held at the traditional Seri Melayu Restaurant, as delegates were treated to a sumptuous buffet of local delights. Sponsored by AM Assurance, the evening's highlight was a cultural dance performance, representing the colourful and multi-racial culture of the country. Here are some kodak moments from the evening.



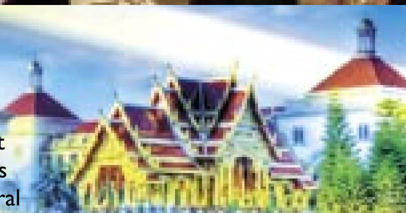
Next Stop PIC 2009

Bangkok, Thailand

Sawatdee krup!

From the home of the famed Petronas Twin Towers, the PIC moves to the Land of Smiles – Bangkok, Thailand. Held for the first time in Thailand, the PIC will be organised by the Thai Life Assurance Association and will take place during the first week of November in 2009.

Speaking to the *PIC Daily*, **Mr Sara Lamsam**, Conference Chairman, and **Mr Sutti Rajitrangson**, Organising Committee Chairman, said the yet-to-be-formed committee will be created by the end of this year and will consist of both locals and foreigners.



As Thailand has a population of about 65 million people from vast backgrounds of which 75% comes from the agricultural sector, the 24th PIC will aim to focus on diverse classes of business – microinsurance as well as high-net-worth individuals. Some of the other issues will include risk-based capital and corporate governance, which is timely as several markets in the region gear up for changes in the insurance landscape, said Mr Lamsam.

He added: "With 24 life insurers, the penetration rate is still very low at 17%. However, the industry is growing healthily at 15% of total premium. Thailand currently also has two takaful companies."

Mr Rajitrangson said: "Learning from the good job done by the Malaysian organisers and the previous PIC in Taiwan, we will take these points and add on to it to formulate a successful conference. We welcome one and all to the lovely Kingdom of Thailand."

See you at the 24th PIC in Bangkok!

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