
*Published by:* Asia Insurance Review

*Media Partner:* Middle East Insurance Review incorporating Global Takaful

*Sponsors:* hannover life re ReMark

# Fight against financial crisis throws up potential

The classic war between good and evil played out on stage during yesterday's opening ceremony highlighted the ongoing fight against the financial meltdown. However, unlike the enemy of old, the current nemesis is a double-edged sword that can bring about opportunities to those companies who are alert enough to maximise them, as reminded by speakers yesterday.


Ms Chantra Purnariksha

In the PIC host country of Thailand for example, GDP contracted 7.1% in the first quarter of this year. But this came on the heels of a 10% growth in gross premium income in the insurance industry in 2008, and this is likely to increase 20% this year, said **Ms Chantra Purnariksha**, Secretary General of the Office of Insurance Commission. Insurance penetration in the country remains very low, and it is hoped that the conference will bring out new concepts and strategies of growth, she added.

## Positive outlook for Thai economy


Dr Pruttichai Pamrongrat

Guest of Honour, Deputy Finance Minister **Pruttichai Pamrongrat** fleshed this out further by highlighting the various measures carried out to stimulate the domestic economy, such as the 116.7 billion baht (US$3.5 billion) budget for fiscal 2009 aimed at boosting domestic demand and mitigating the impact on the poor.

"Fiscal policy has played an important role during this difficult time, and will play an even greater role to strengthen the Thai economy in the coming years", to ensure that the economy becomes more competitive and can grow at a sustainable level over the medium term, said Dr Pruttichai. In store for the 2010 fiscal year is another expansionary fiscal policy amounting to 350 billion baht or 3.5% of GDP. A recent stimulus package of 1.43 trillion baht worth of infrastructure investments has also been launched to boost economic growth to 5.0%-5.5% in the coming years.

As a result of such measures, GDP is expected to turn positive and grow by at least 3.3% next year. "The road to full recovery is not without challenges," noted Dr Pruttichai. "However, I believe that with clear and committed policies and with continued collaboration between public and private sectors, the return of prosperity for the Thai economy is within our reach."

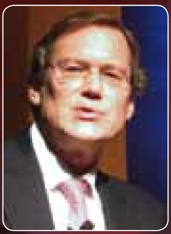
## Potential boom and gloom


Mr Mel Gottlieb

The theme of favourable circumstances resonated further during the panel discussion on surviving the financial meltdown. As Chairman of the session, **Mr Mel Gottlieb** – Chairman of Response Systems International – pointed out, when the financial crisis erupted a year ago, the organising committee had the choice of either dealing with it in the PIC programme or ignoring it completely. The committee eventually decided to use it as a stepping stone to make the industry "better than ever before", and to look ahead at the opportunities.


Mr Stephan Binder

Asia is a land of such opportunities as it grows in importance, said **Mr Stephan Binder**, Director of McKinsey & Co and leader of the Asia Pacific Insurance Practice. Asia ex-Japan has expanded rapidly in the last five years and is expected to continue this trajectory, he said, adding that McKinsey has forecasted a "most likely" scenario of "battered but resilient global credit and capital market" for the region. He also observed that the retirement planning market offered huge opportunities for development which had not been adequately capitalised on yet.


Mr Robert Stein

The conditions in many Asian markets seem to be rapidly returning to pre-crisis status, but there are lingering worries about the recovery's staying power, noted **Mr Robert Stein**, Chairman of Ernst & Young's Global Financial Services Practice in a more conservative take. "Asian markets will likely remain volatile and subject insurers to ongoing risks to capital and earnings as local markets react to the possible failure of Western economies to recover strongly and quickly", he said. Insurance sales will recover more quickly, although the unit-linked savings markets are likely to struggle for some time. Mr Stein raised the need for companies to re-examine the balance of their product portfolios going forward and improve the performance of distribution systems, as well as prepare for changes in the regulatory and risk environments.


Dr Thomas Kabisch

Given the impact of the global economic crisis, it is unlikely that it will be forgotten anytime soon,

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agreed the panellists. "It will take quite a few years before we are back to normal," said **Dr Thomas Kabisch**, Chairman of MEAG Munich. And there will be lasting changes for example in investment strategies, observed Mr Stein.

### Facing the challenges

Reputation risks have also risen but, despite the existing product complexities, we must be careful not to superimpose banks' challenges onto the insurance industry as there are substantial differences, he continued. Mr Binder agreed, saying: "we have done well in dealing with customers. Life products are bound to be complex, and the value proposition of the industry is in providing protection...so complexity is actually good."

As distribution becomes more intermediated, life insurers will face greater competition and lower returns, said the panellists. However, in terms of bancassurance, insurers and banks are likely to co-operate more closely together and this should counter some of the pressures, said Mr Binder.

No one has been able to accurately predict what is to come. Even regulators are still learning and adapting their strategies, said panellists. However, it is not too late to take stock of the lessons learnt to prepare for the challenges of the future.


(L-R) Mr Mel Gottlieb, Dr Thomas Kabisch, Mr Stephan Binder, Mr Robert Stein.

## How companies are dealing with the financial crisis?

"It is a very exciting time for us, and RGA has responded to the crisis very strongly. We have got a lot of capital to purchase and we want to enter into new initiatives. So we are aggressively pursuing all forms of expanding our business hopefully into the next decade, so as to continue our leadership in Asia as well as globally. As we expand in any new venture, we always focus on what we do best which is focusing on underwriting and pricing insurance risk.

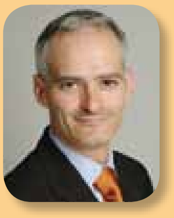
***Mr Tony Cheng**, CEO, Hong Kong and Southeast Asia, RGA Reinsurance Company*

"Cardif has managed to recover from the crisis by diversifying our savings business and expanding the protection business. Bancassurance is a very important channel in Taiwan, and we see tremendous opportunities ahead. This is why our parent company, BNP Paribas Assurance, signed an agreement with Taiwan Cooperative Bank in January 2009 to form a joint-venture life insurance company while many multinational companies were exiting the Taiwan market.

***Mr Ben Ng**, General Manager, Cardif Assurance Vie (Taiwan)*



"We have found it more important than ever to stay very close to our business partners – sharing experiences and ideas has led to a greater pool of wisdom for us all to draw on. Dialogue with regulators has been vital, and we have drawn on our company's pan-global perspective to enrich the substance and inform the outcomes. Above all, the importance of relationships has been paramount."



***Mr Rocco Sepe**, Managing Director, International, Friends Provident (UK)*

"The financial crisis has made consumers more conscious of the need for life insurance and financial planning. Moreover, consumers now have a heightened awareness of the risk-reward equation when selecting an insurer and insurance product. This provides many opportunities for financially strong and prudent insurers with broad product and multi-distribution platforms – such as Sun Life Financial Indonesia – to step in and help meet those consumer needs."

***Mr Chris Lossin**, President Director, PT Sun Life Financial Indonesia*

## Life markets

In 2008, the life business accounted for US$2.49 tln. For the first time since 1980, premiums fell by 3.5%; and the industry's shareholder capital shrank by 30%-40%.

India became one of the world's top-10 life markets for the first time last year, with US$49 bln in premiums.

Japan is the biggest life market in Asia and the second largest in the world, recording US$367.1 bln, trailing the US' $578.2 bln.

Taiwan's insurance penetration is the highest in the world standing at 16.2% overall, 13.3% for life.

Premium volume for Asia (ex-Middle East and Central Asia) accounted for US$683.27 bln, up from US$586.6 bln in 2007 – taking 27.43% of the world market.

South Korea is the second most penetrated Asian market with 11.8% overall and 8.0% for life.

China is Asia's second largest life market with US$95.8 bln.

Source: sigma 2009

# Riding the wave of embedded value: Policyholder marketing

For most life insurers, 2010 will continue to be a daunting race to increase premium growth and profitability. **Mr Stephen Collins**, CEO of ReMark International, explains how to leverage existing customer relationships to maximise value-creation opportunities within traditional life insurance portfolios.

With the focus on generating increased volumes of high-value products to newly acquired customers, innovative products, competitive pricing, increased benefits and more generous remuneration may be important in assisting distributors to achieve their new business goals.

What can be overlooked is the way rider benefits can be used to increase new business premium income and optimise the profitability of new and existing policyholder relationships. Typical rider benefits such as ADB, critical illness, term life conversion and extension options, are among the most profitable products in any company's rate book. Yet for many, penetration rates remain low. This represents a missed opportunity as their impact is both direct and indirect, and at times can be profound – particularly in the following three areas:

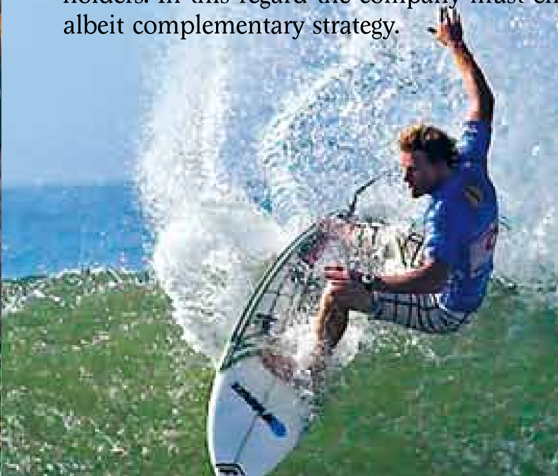
## 1 Increasing levels of protection to policyholders

From a consumer's perspective, the most significant feature of rider benefits is their ability to provide greater scope for higher levels of genuine "risk protection" than many of the base plans to which they can be attached – at a fraction of the cost. This is particularly for the rapidly growing numbers of bank-generated policyholders, whose primary motivation has been the purchase of life insurance for savings and investment.

Participants at recent conferences almost unanimously accepted that, as an industry, we are not selling as much protection business as we should to bank-sourced customers. This is largely because for most agents, especially the less productive, part timers or bank officers, including rider benefits in the sales process may be "complex" and not worth the hassle due to the additional underwriting requirements and/or for what may be relatively "small change" in terms of commission earned.

This is understandable as new customer acquisition is the point of greatest distribution value add. However, by concentrating on high value base plan sales, considerable value is lost to the customer, insurer and distributor by failing to utilise rider benefits more effectively as part of their new business process.

While part of the answer is to ensure agents put greater emphasis on including rider benefits in the initial sale, this still overlooks the need and opportunity for existing policyholders. In this regard the company must engage a different, albeit complementary strategy.



## 2 Increasing the value to and from existing policyholders

The cross-sell ratio in insurance remains extremely low, despite the fact that traditional life portfolios exhibit very healthy cross-sell ratios for rider product offers.

The primary reason for the disconnect is obvious. Utilising traditional agency distribution to "re-sell" these benefits is an inefficient use of the agent's time and company resources. It is far better for the insurer to make these offers directly to the consumer through direct co-ordinated cross-sell programmes, utilising a range of direct-marketing channels.

The older the policy, the more likely the response to such offers. Policyholders are pleased to see they are appreciated and, as a result, rider programmes often achieve triple-digit returns. This creates the opportunity for life companies to create a highly profitable, renewable communication cycle with existing customers.

A well-designed policyholder programme can further leverage return by adding specific riders which release reserves through risk diversification – for example, adding whole life covers to annuity policyholders. The more products an individual has, the more satisfied the customer. The more satisfied the customer, the more "sticky" he is and the greater the value created.

## 3 Higher customer satisfaction, persistency and embedded value

While the relationship between persistency and the embedded value of any life or pension portfolio is axiomatic, significant data shows that problems and improvements in persistency (and subsequent value) do not arise randomly. Instead, they result from the (in)ability of insurers to meet the service quality expectations of a wide range of customers.

A core component of any quality service strategy involves meeting and measuring customer satisfaction. One of the most robust ways of doing this is the propensity of a customer to (re)purchase additional products or services from the original insurer. This "share of wallet", as measured by the number of products held by an individual customer, is a key quantitative measure of service quality. The cross-selling of rider programmes should be a key component of this strategy.

Our experience shows that such a strategy has a multiple effect on the embedded value created for the insurer. In addition to the value created by the rider itself, the neutral-positive impact on persistency provides an additional lift in embedded value across the existing portfolio.

## Adding value to all stakeholders

For most companies, the new annual premium generated by riders cannot replace that received from the traditional sales channel. However, increased rider penetration through working alongside and concentrating on complementary covers not frequently sold by agents can have a disproportionately higher impact on your bottom line.

An effective rider marketing programme benefits policyholders, agents and insurers alike. There is still plenty of time do something about your policyholder growth and retention strategies this year.


# Thai fete fit for leaders

**A balmy riverside night, paired with copious amounts of drinks and canapés, made for the perfect opening cocktail to the PIC, where old friends were reacquainted and new camaraderie developed. The dance performance enhanced delegates' appreciation for Thai culture, while boats streaming up and down the Chao Phraya river provided even more lights and dazzle to the occasion, hosted by the Organising Committee and and sponsored by Pacific Life Re.**

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Asia Insurance Review
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