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Be on your toes

Although the prospects of Asia's insurance industry look promising, insurers should be alert to potential risks looming over the horizon.

Speaking at the 25th PIC in Singapore yesterday, **Mr Lim Hng Kiang**, Minister for Trade & Industry and Deputy Chairman of the Monetary Authority of Singapore, said that Asia will not be insulated from economic developments in the G3 economies, where the Euro sovereign debt crisis remains unresolved and expectations of growth in the US economy have significantly been scaled back.

Insurers, he said, should have contingent plans to prepare for and manage a potential downturn.

"The insurance industry has long played a pivotal but sometimes invisible role in an economy. But more can be done to further strengthen, broaden and deepen the insurance industry in Asia."

To boost its responsiveness to the population's needs, he urged the industry to:

- Enhance the penetration and availability of insurance,
- Raise financial literacy and consumer education levels, and
- Improve insurance distribution and safeguard retail customers' interests.

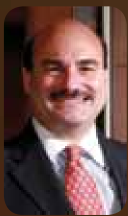
Underscoring the importance of partnership among various stakeholders, Mr Lim said that governments, the industry, academic institutions and the public all have a role to play in enhancing insurance penetration, financial literacy and distribution channels.

He then reminded insurers that their core product proposition is to protect, and that the underlying aim of their efforts is to help ensure people are adequately protected financially against the vagaries of life. "All of you here are important contributors to achieving this aim," he said.

Plenary Session I: Executive Panel Discussion on Bancassurance

Bancassurance: Drumming to the customer's beat

Bancassurance has seen spectacular growth in Asia and is the fastest growing global channel for insurance, said **Mr David Fried**, Group General Manager & Group Head of Insurance, HSBC Holdings plc. Despite this, insurers need to do a better job of serving the depth and breadth of client segments in Asia in terms of customer access and the different channels used by today's integrated models.



Focus on understanding customers

While there are many models out there, **Mr Richard Vargo**, Managing Director, Bancassurance, DBS Bank, said the key is for banks to focus on understanding their customers and serving them through the most suitable products.

Mr Gavin Pearce, Acting MD, Wealth Division, ANZ Australia said that to be successful, "it's important for the sales person to make the right offer, and they must use customer data to sell the right product to the right segment", adding that this will also eliminate mis-selling risks.

He highlighted as well that players must keep up with the times – referring to the need to reach out to the new insurance buyers – Gen X and Y. He pointed out that 60% of insurance research is now done online and through smartphones, saying that this is something players must cater for "as long as it doesn't lower the quality of the advice or product".

Bancassurance yet to strike HNW and corporate markets

Likewise, Mr Fried said that banks still have not had much success in attracting the HNW market and corporate customers – segments that are still dominated by the direct, broker and agency channels.

Why do banks dealing with HNWIs still prefer to use brokers? **Mr Chris Wei**, Group CEO, Great Eastern Holdings, believes that customers may

assume that independent solutions proposed by brokers are more viable, and/or that perhaps some bankers themselves may not be licensed.

Mr Wei however acknowledged that banks are looking into whether or not the use of intermediaries to sell their products is the best model or whether to reel it back in-house, which HSBC has done successfully.

Get ahead of the regulatory curve

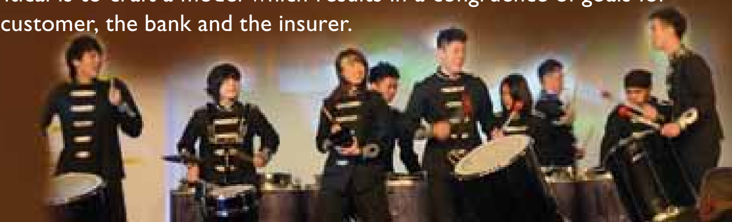
Turning to the bitter pill of regulation, Mr Fried believes it poses the biggest threat to the business. With the implementation of Basel III and Solvency II looming, he expects the industry will run into a number of headwinds for bancassurance going forward.

He said: "What is going to happen now is that banks will have to put up more capital and there's a possibility their insurance business, no matter how high the return on equity, no matter how much profitability it brings to the organisation, the bankers are going to start thinking, 'We're bankers, we are not insurers' and then they will start considering what exactly they should be doing with their insurance businesses."

Mr Pearce advised players to get ahead of the regulatory curve, or else "the regulators will come down a lot harder" on them.

The art of making bancassurance work

Making bancassurance work is as much art as it is science. It requires people and management skills rather than structured processes alone, said Mr Wei. The models may differ from country to country, but what is critical is to craft a model which results in a congruence of goals for the customer, the bank and the insurer.



"Japan will bounce back"

Despite the devastating March earthquake and the country's subsequent woes, **Ms Kathy Matsui** (*left*), Managing Director and Chief Japan Strategist at Goldman Sachs, believes that Japan will bounce back, citing a study that projects a 2.5% growth for the country next year compared to 1.9% for the US and 1.2% for Europe.

This optimism stems from the fact that many companies in the supply-chain business have been able to restart production after the tsunami earlier than initially estimated. The retail sector has also seen a rise in spending, while the property market has hardened. Likewise, the country's core CPI has recorded a positive percentage change, indicating a departure from inflation.

Life tremors

Shining the spotlight on life insurance, Ms Matsui said that the volatility of the capital markets has caused more tremors in the industry than the actual Tohoku earthquake, with the industry's aggregate capital fluctuating from JPY6.6 trillion (US$85.7 billion) to JPY17.4 trillion over the last five years. Thus life insurers are now looking to reduce their exposure to risk.

Another challenge is the shrinking life business due to inefficient insurance distribution and the lack of competition. Nonetheless, she said that the country's aging and shrinking population has opened up opportunities in such lines of products as medical, cancer insurance and savings.

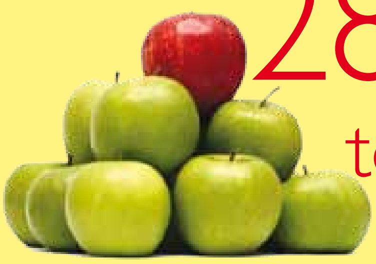
Economy needs more working women

On the issue of rallying Japan's economy, Ms Matsui said that the country cannot use short-term cyclical measures to solve the structural problems that lie within. Instead, she believes Japan should look at going overseas with its manufacturing sector and at expanding further into Asia.

Another possible solution is to engage more women in the workforce, as research has shown that this will not only lift the GDP by nearly 15 percentage points, but will also encourage higher birth rates. All this, said Ms Matsui, could potentially start a cycle that will result in economic growth.

Japan conquers the tsunami

- The Japanese economy is expected to grow **2.5%** next year.
- Electronics sales have gone up **30%** this year.
- Factory output rose **3.9%** in June from the previous month, while household spending went up by **0.8%**.
- Japan remains the world's **2nd**-biggest insurance market – with **15%** share of the global life insurance premiums.



28 insurers among Asia's top brands

Insurers in Asia Pacific are gaining traction in the branding scene with ranking jumps for 16 insurers, four ranking tumbles, and eight new entrants on the playing field, according to Asia-Pacific's Top 1000 Brands survey this year.

The biggest ranking leaps came from China Pacific Holdings (+290 pts), Fubon (+146 pts), AXA (+136 pts), AAMI (+92 pts) and Great Eastern (+84 pts). Shin Kong Life (-102 pts), ING (-20 pts) and NRMA (-20 pts) posted the biggest drops in ranking.

Eight new insurance entrants joined the roster this year: Cathay Life, Nissay, ICICI Prudential, Thai Life, Allianz, Suncorp and Aviva.

Once again, the top brand echelons were dominated by consumer electronics brands such as Sony, which topped the list, followed by Samsung, Panasonic, LG, Apple and HP.

Brand Name	2011 Rank	2010 Rank	Movement	Main Markets
AIA	74	88	+14 pts	Regional
Prudential (UK)	142	161	+19 pts	Regional
LIC	252	290	+38 pts	India
Ping An	310	353	+43 pts	China
Great Eastern	319	403	+84 pts	Malaysia, Singapore
AXA	335	471	+136 pts	Hong Kong, Southeast Asia
Fubon	365	511	+146 pts	Taiwan
Cathay Life	467	NE	-	Taiwan
Nissay	494	NE	-	Japan
China Life	521	520	-1 pt	China
ING	522	502	-20 pts	Hong Kong, Singapore
Manulife	528	626	+98 pts	China, Singapore
China Pacific Holdings	545	835	+290 pts	China
Nan Shan	552	587	+35 pts	Taiwan
ICICI Prudential	563	NE	-	India
Thai Life	585	NE	-	Thailand
AAMI	603	695	+92 pts	Australia
Takaful	675	706	+31 pts	Malaysia
Muang Thai Insurance	715	789	+74 pts	Thailand
RAC	802	803	+1 pts	Southeast Asia
Sumitomo Life	810	849	+39 pts	Japan
Aflac	828	NE	-	Regional
NRMA	840	820	-20 pts	Australia
Allianz	864	NE	-	India
Daiichi Life	901	912	+11 pts	Japan
Suncorp	945	NE	-	Australia
Shin Kong Life	974	872	-102 pts	Taiwan
Aviva	992	NE	-	Regional

NE=New Entry

Asia-Pacific's Top 1,000 Brands survey, by Campaign Asia and TNS, studied 10 markets: Australia, China, India, Japan, Korea, Hong Kong, Malaysia, Singapore, Taiwan and Thailand.

Life in the IT Lane

The Big 3

Life insurers face a number of technology challenges as they grapple with developments in the industry and the changing nature of the life business. Of these challenges, three top the docket:

1 Legacy System Limitations
These cause insurers to have to deal with a generation of less flexible solutions which are not transparent and have idiosyncrasies and limitations which impede investment product design, flexibility and efficiency.

2 Product Capability & Need for Speed
It's vital to create new and sometimes complex fund relationships quickly to meet investor demands and give product teams an environment where they can innovate and compete.

3 Connectivity
It's a whole new world with requirements to support multi-distribution channels with their various demands and protocols.

Source: Milestone Group, a specialist supplier of investment technology and advisory services

Asia Pacific Mortality Protection Gap –

The time for action is *now*

A new study published by Swiss Re in the Asia Pacific quantifies the total mortality protection gap across 12 insurance markets to be US$41 trillion. **Mr Paul Turner**, Swiss Re's Head of Client Management, Reinsurance Client Markets, Division Globals, and **Mr David Alexander**, Swiss Re's Head of Business Development Asia, joint authors of the report, highlight some key findings.

Mr Paul Turner

Mr David Alexander

Despite numerous industry studies and awareness campaigns, there is still a significant mortality protection gap in all Asia-Pacific markets. Swiss Re's recently published study, Mortality Protection Gap: Asia-Pacific 2011 – the first to feature multiple Asia-Pacific markets – finds that the aggregate mortality protection gap across 12 Asia-Pacific markets expanded significantly from US$16 trillion in 2000 to $41 trillion in 2010 (see Figure 1). This equates to a massive opportunity for the industry – the mortality protection gap is worth approximately $124.2 billion in potential premiums to the industry!

The results of the study pose a number of questions on both the demand and supply sides of life insurance.

Demand side:

- Does the traditional reliance on support from the extended family in Asia significantly reduce demand for insurance solutions, and will this continue to be the case in the future?
- Will customers in Asia see the value of life insurance without an investment element and buy the required levels of protection?

Supply side:

- Is the industry doing enough to articulate the value and cost of life insurance products? Clear messages such as "for less than a cup of coffee per day, you can protect your family" can be very powerful motivators to act.
- Do our distribution channels offer the broadest access points to our products?
- Do we need to "reinvent" medical underwriting to remove sales barriers without compromising prudent risk management standards?

Gap in perception offers opportunity

Forty percent (40%) of the respondents to Swiss Re's "Survey of Risk Appetite and Insurance: Asia-Pacific 2011", which aimed to gauge consumer attitudes towards four risk aspects and look into the insurance needs and buying behaviours of target consumers across the region, said their families would or might struggle financially in case of an adverse event, such as early death.

The survey, conducted between April and May 2011 covering 13,800 consumers aged 20 to 40 in the Asia Pacific, identifies the major barriers to purchasing insurance: 1) cost; and 2) lack of available funds. Despite the perception that life insurance is expensive, over half of the survey respondents are willing to pay at or even above the market price for a life insurance product. This gap in customer perception is a clear opportunity for the life insurance industry.

In addition to more customer education on the benefits and costs of life insurance products, life insurers are adopting a number of different strategies, including:

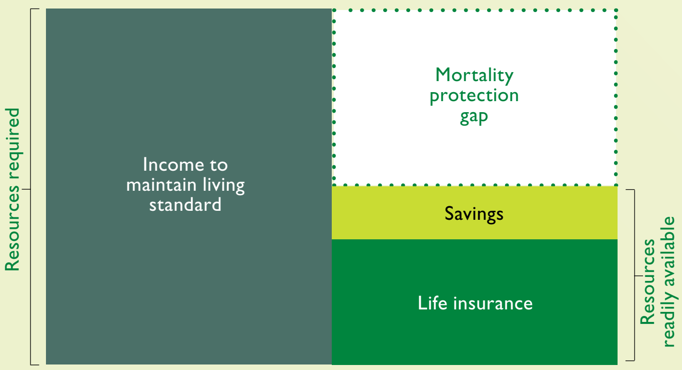


Figure 1: Mortality protection gap

US$ bln	2000	2004	2007	2010	CAGR* (2000 to 2010)
China	3,731	6,521	11,162	18,745	18%
Japan	6,204	6,555	6,314	8,445	3%
India	2,045	3,061	4,876	6,676	13%
S Korea	1,759	2,477	3,688	3,615	7%
Australia	550	822	1,027	989	6%
Indonesia	256	443	531	711	11%
Thailand	294	321	465	533	6%
Hong Kong	396	401	425	473	2%
Malaysia	171	224	288	380	8%
Vietnam	99	142	240	365	14%
Singapore	154	170	225	305	7%
Taiwan	103	234	197	175	5%
Total	15,762	21,372	29,437	41,411	10%

*CAGR=cumulated annual growth rate

- Diversifying distribution channels and aligning channels with customer segments and products: for example, pure protection products such as term life insurance sold via direct marketing channels such as mail, telephone and the internet.
- Proactively topping up the coverage of existing customers as they go through life and protection need changes and increases. Direct consumer marketing channels will often complement agency forces in this space.
- Introducing data analytics to target customers who match certain risk profiles and to significantly reduce the medical underwriting burden.

More needs to be done

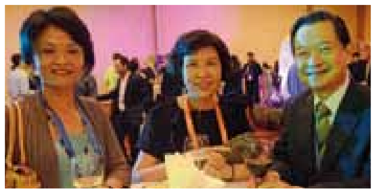
In general, it is clear that more needs to be done in terms of supporting the general public in life insurance matters. The Australian insurance industry has led the way in the region in recent years, working collectively to promote greater awareness of the benefits of life insurance protection to the general public. This work, together with an increase in alternative distribution channels and sales of protection through superannuation funds, has helped reduce the protection gap in Australia.

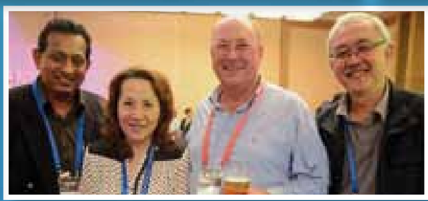
The continuing growth of Asia-Pacific economies will drive the need for life insurance protection. Thus, there has never been a better time for insurers to understand our customers' protection needs, address challenges and work together to capture the opportunities ahead of us.

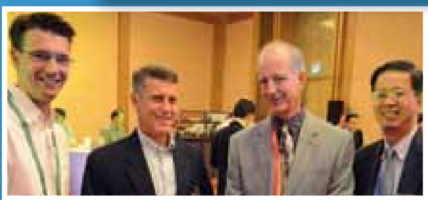
Please contact your Swiss Re client manager for further details on our research and solutions relating to the protection gap.

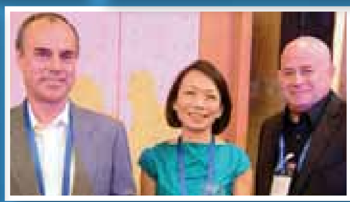
A night of Good friends, good food, & good music

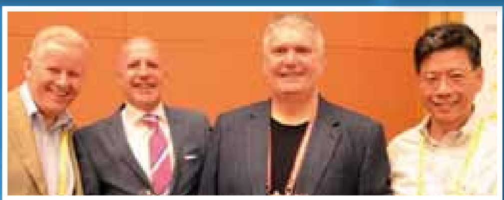
A soothing blend of classical and modern tunes as well as an array of tantalising food were the backdrop to a scene of reacquainting with old friends and getting to know new ones at the 25th PIC welcome reception held at Singapore's Marina Bay Sands. Mingling and sampling of local cuisine was the order for the night which was sponsored by Great Eastern and Pacific Life Re.

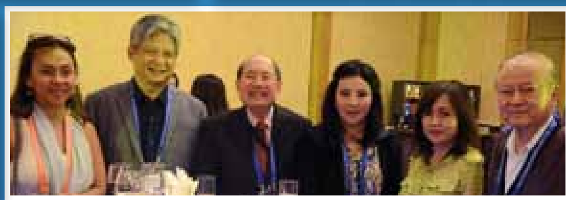


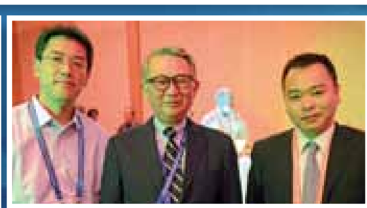












Figuring Singapore out

Life insurance accounted for 74.4% or US$2,101.4 of total insurance density which stood at US$2,823.4.

The citystate's life sector accounted for US$10.183billion of total premiums

Bancassurance accounted for 34% of new business in 1H 2011, a growth of 10% y-o-y, while tied-representatives' share dropped by 9% to 48%.

The Republic's life insurance industry registered a total of S$941.5million (US$777.6million) in weighted new business premiums for 1H 2011, a 38% growth over the same period last year.

Singapore's population totalled 5.07million in 2010, with a median age of 37.4.

It had one of the world's highest literacy rates of 95.9%.

Sources: Swiss Re *sigma* 2010, Singapore Economic Development Board, LIA Singapore

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