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Plenary Session 2: An industry in Transition

Confidence brims in the new world of insurance

Every socio-economic indicator suggests that the pool of potential customers will continue to increase as Asian economies keep on growing, said **Mr Barry Stowe**, Chief Executive, Prudential Corp Asia and Executive Director, Prudential plc.

Citing figures from Deutsche Bank, he noted that Asia's middle class is currently one of the fastest-growing population groups in the world. As it stands, the region currently accounts for less than 25% of the world's middle-class population, though the OECD projects this figure to double in the next 15 years. The ADB, too, predicts that by 2030, Asia's annual consumption will reach US$32 trillion, nearly 43% of the total global consumption.

"For the insurance company, business planners, staff, distributors and investors, this should not only be very reassuring, but also very exciting," said Mr Stowe.

Do as you say

Yet, the dizzying evolution of the industry continues to be underpinned by the need for higher levels of confidence: from customers that the insurer will deliver on its promises, from regulators that the private insurer will behave responsibly, from investors that the insurer will deliver returns, and from staff and agents.

"Moreover, customer expectations are also evolving, and these include the types of benefits they want, the way they access the insurer, the level of service expected, and whether they consider they are getting value for money," said Mr Stowe.

Customers want simplicity

Turning to products and service innovations, Mr Stowe said that companies often get excited about these things, but for customers, the simplicity of the basic concept of insurance is the key to the longevity of the industry.

He cautioned that with long-term products, particularly life insurance, inexperienced or ill-disciplined underwriters may unwittingly build "time bombs", adding that it is unwise to place blind faith in computer models.

Behind Asia's growth story

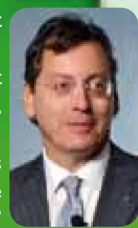
Mr Stephan Binder, Director, McKinsey & Co, identified the key forces behind Asia's blazing growth.

- **Asia becoming the centre of the world**: In his projection, over 50% of the world's gross life premiums will come from Asia in the next five years, led clearly by China.
- **Rapidly burgeoning middle class**: This is generally due to rapid urbanisation and increasing use of technology (social media) in many parts of Asia.
- **More healthcare options**: There is greater awareness of healthcare need. Yet Mr Binder believes there is a disconnect between what insurers are now offering and what the customers actually need.
- **Smarter investments**: Post-GFC, insurers are getting ready for sustainable global returns.
- **"Lean mean" operating models**: Some emerging technologies are helping companies extract more value and ultimately increase growth.

Pay attention to your investments

While insurance companies have certainly fared better than banks during crisis periods, investments have been the Achilles' heel for insurers, said **Mr John Dacey**, Group Vice Chairman for Asia Pacific, AXA Group.

Post-GFC, fixed income and equity returns have plummeted, and investors can no longer expect equity returns of 8-10% going forward, he said, adding that models must be revised.



He advised insurers to be disciplined and ensure that they are investing policyholder funds safely and for growth, as if their own life savings depended on it.

As the audience eagerly anticipated Mr Dacey's insights into an investment "silver lining", to their disappointment, he quipped: "There is no silver lining. There is no silver bullet."

Winning the customer – The China experience

Customising and designing products to best suit consumers' needs is the way to win and retain customers in China, where generic products are a dime a dozen, said **Mr Yuan Siong Lee**, SVP & Chief Insurance Business Officer of Ping An Insurance (Group) and Chairman of Ping An Life.

Sharing Ping An Life's experience, Mr Lee said that it is also important to harness technology to improve efficiency and management support. Other than using SMSes to regularly communicate with its widespread agency force, Ping An uses a mobile integrated terminal (MIT) system which allows for the sale, underwriting and payment of a policy to be done within just one client meeting, leading to better customer and agent experience.

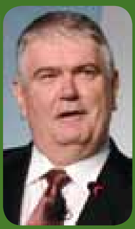
Agency remains highly valuable

Looking at distribution in China, Mr Lee said that though bancassurance has caught on, accounting for 70% of new business there, the agency channel remains a most valuable force because of the relational nature of insurance in the country and its being "more controllable" than banks.

With the rampant talent poaching in the industry, brought about by the increased competition amidst the entry of foreign insurers, Mr Lee underscored the importance of retaining agents to build a stronger business model. He said that, based on Ping An Life's experience, it is important to develop a mechanism that cultivates talent based on their performance, and to have a corporate culture that is focused on people.

Evolving, not fading

With all the talks of how the agency force is slowly becoming a thing of the past, **Mr Robert Cook**, Senior Executive Vice President & General Manager Asia, Manulife Financial, asserted yesterday that the advisory sector is in the process of evolution, not extinction.



"In the history of the insurance industry, we have survived so many challenges including wars and natural disasters and other threats in the past, I am confident that we will evolve and transform ourselves," he said.

He reminded insurers that with the advisory sector being a business, they need to take control of it rather than leave it to nature. To do so, they need a strategic plan – one that looks at their strengths, weaknesses, opportunities and threats.

The sector can leverage on its major strength of being able to offer personal service and handle a wide range of products. In terms of opportunities, it can take advantage of the rise of independent channels and the middle class, as well as the chance to extend value-added services.

At the same time, the advisory sector should look into how it can improve on its key weaknesses, particularly the low retention rate in the region and its not being regarded as a good career choice. It must also deal with the threats to the business, particularly increased regulations and the escalating costs.

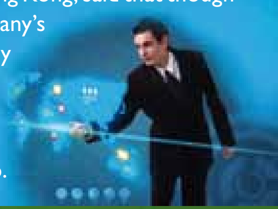
With such a strategic plan, Mr Cook does not see any reason why the advisory sector will not evolve to greater success. "I believe the advisory sector has a very important role to play. Advisors do the best job of helping people with long-term guaranteed savings and security," he said. "Our industry plays an important global role because of the advisory channel."

Get into the social media groove

There was consensus at a panel discussion yesterday that social media presents opportunities to the advisory sector, with **Mr Robert Cook**, Senior Executive Vice President & General Manager Asia, Manulife Financial, saying that by using such networks, agents can generate referrals.

Agreeing with Mr Cook, **Ms Cathy Honor**, President, RBC Insurance Services, said that the agency model is fundamentally about referrals and that social media can help in this area, adding that it can also help insurers in their recruitment.

However, Mr Roger Steel, CEO of Sun Life Hong Kong, said that though the potential of social media is enormous, his company's research showed that click-through rates were very low for financial companies trying to gain traction using social media. Nonetheless, he said that the book on social media is still being written, and it remains to be seen how it will further develop.



Get a slice of that pension pie

Currently having the world's lowest share of pension assets, Asia is expected to see the largest growth in this sector – which no doubt will present vast opportunities to pension asset managers. If insurers want a piece of this potentially huge pie, they need to figure out how they can gain access to the market by zooming in on key success factors, said **Mr Roger Steel**, CEO of Sun Life Hong Kong.

And with banks rising in their popularity as they set their sights further on distributing such products as pension plans, insurers should get their act together and focus their resources on:

- An advisory approach to address customers' complex retirement needs;
- Segmentation to sharpen their resource focus; and
- Approaching life-stage challenge through innovation.

Said Mr Steel: "There really aren't many unique advantages of insurers. Therefore, insurers just have to get better at areas they are good at and strengthen their capabilities to the point that customers recognise these areas as unique propositions."

Insurance Penetration: Who tops Asia's list?

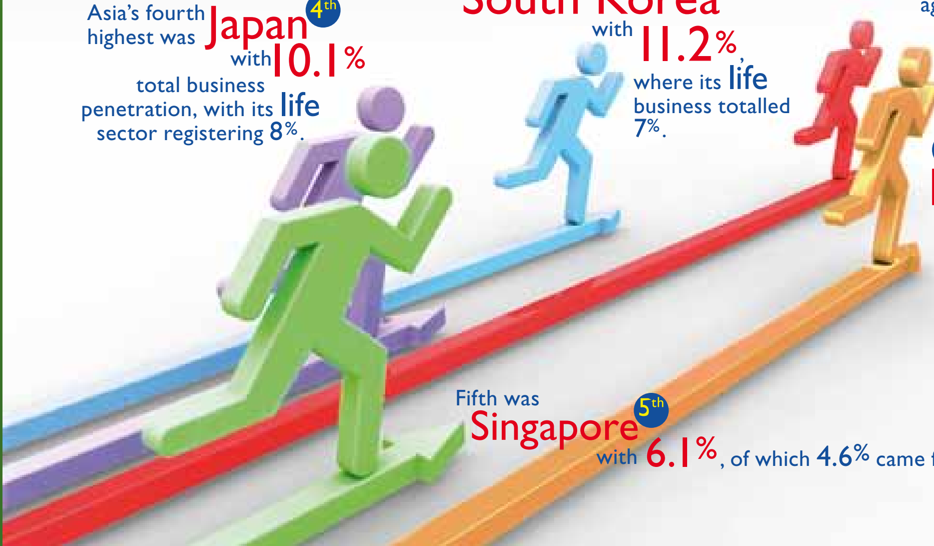
1st **Taiwan** again topped global insurance penetration last year with 18.4%, of which life business totalled 15.4%.

2nd **Hong Kong** was the second most penetrated Asian market at 11.4%, with its life sector accounting for 10.1%.

Trailing closely was 3rd **South Korea** with 11.2%, where its life business totalled 7%.

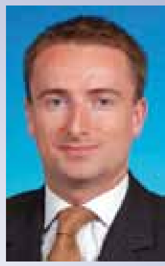
Asia's fourth highest was **Japan** 4th with 10.1% total business penetration, with its life sector registering 8%.

Fifth was **Singapore** 5th with 6.1%, of which 4.6% came from the life business.



Source: Swiss Re *sigma* 2010

Success in Direct Distribution:
Design-Do-Learn-Refine-Do



With the dynamics of direct distribution changing at a fast pace, **Mr Benjamin McDermott**, **ReMark**'s Managing Director, Asia, tells us that companies that will succeed in this arena are those that foster a culture of continuous improvement through "design-do-learn-refine-do".

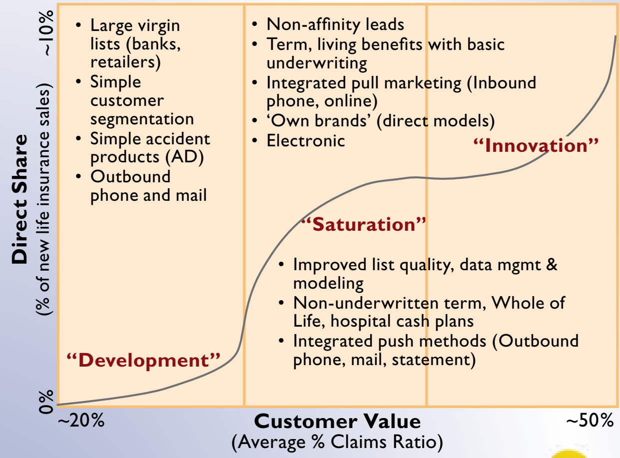
For many, Direct Distribution is an initiative which has yet to meet the original objectives set out for it. While solutions can be found to the problems faced, these take time to embed. Furthermore, it is made even more difficult to get back on track because of the rapidly developing nature of the markets we find ourselves in – in effect, many companies are finding themselves in a situation of "having to run faster up a steeper hill" to succeed.

Initially, companies could "simply" achieve success in direct distribution by approaching lists and databases which had not been previously touched by direct marketing techniques through the delivery of simple products using broadly unsophisticated outbound "push" marketing efforts. Companies differentiated themselves through their effectiveness in managing and fulfilling outbound programmes. However, as markets have developed and lists and databases have become fatigued, the skill sets, knowledge and capabilities required to succeed have grown.

How direct distribution evolves

Figure 1 illustrates the typical evolution of direct distribution, and while the rate of change between the different phases may differ between markets, the concepts hold true across each and every market. In summary, we see three distinct phases (Development, Saturation and Innovation) of evolution for direct distribution (with Asia having markets in each of these phases).

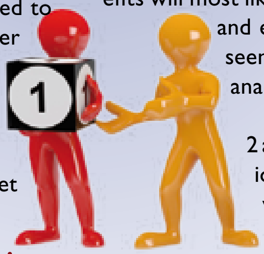
Figure 1: Evolution of Direct Distribution



As markets develop, the changes can be summarised across the following four factors:

- **Product**: Moving from simple accidental death protection offerings to lifestage driven offerings (employing immediate underwriting solutions). Furthermore, of significant impact to insurers, is the need to provide enhanced value to the customer – represented on the horizontal axis of Figure 1 as claims costs taking a higher proportion of gross price.
- **Channel**: Moving from relatively unsophisticated outbound push marketing programmes to fully integrated push-and-pull techniques.
- **Lead**: Moving from sourcing leads from partnerships to developing your own leads from direct-to-consumer activities.
- **Data**: Moving from simple list specifications to a robust modeling cycle of design-do-learn-reflne-do.

Few participants have succeeded in all three phases – with many stumbling to move from Saturation to Innovation as companies struggle to manage an integrated channel offering (often requiring the need to build a more prominent consumer brand for direct-to-consumer activities), offer better value products and build an "always learning" data capability.



In summary, the key success factors (and importantly the priorities of these factors) for direct distribution have changed, and to succeed moving forward, companies must master all of the items set out in Figure 2, including a relentless focus on using and interpreting data to create targeted offers.

No magic bullet to modeling

At a time when we all have to operate in an environment of increased data privacy regulations, trying to improve our data analytical capabilities may seem a challenge. Certainly, any company with ambitions in direct distribution must have a robust and compliant approach to handling personalised data to ensure that it is not misused. Furthermore, and a point which is often underestimated, we must win the hearts and minds of our partners/customers, demonstrating the benefits of having access to more data.

One important myth to clarify is there is no magic silver bullet or black box to modeling – what works at one time with a certain client segment may not work at another time with the same segment. Those companies serious about embedding analytics within their direct businesses must also understand that it can never stand still. Learnings from each programme must be taken and where appropriate applied to future programmes – basically a mantra of "design-do-learn-refine-do" becomes the norm.

While it takes time to achieve those steps set out above (and the benefits will most likely come incrementally), it is certainly worth the focus and effort – recent ReMark Asian based programmes have seen results double by embedding a robust approach to data analytics within our partners' direct distribution business.

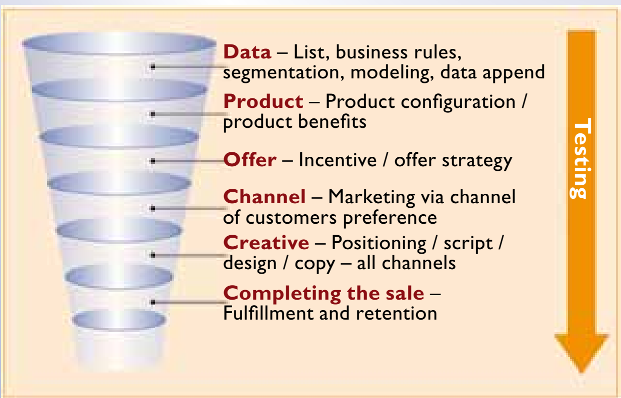
Much has been written on the other five factors in Figure 2 and while they are important, they are, in ReMark's opinion, of secondary importance to Data. The true test as to whether a company is data-driven is how it approaches designing programmes. There are many that start with a product or a channel – these companies, we would testify, are not data-driven and will not maximise results!

Final thoughts

Without a doubt, the dynamics of direct distribution are changing at a rapid pace. Those who will succeed are those who foster a culture of continuous improvement through "design-do-learn-refine-do". This must be supported by two components:

- A robust approach to understanding, utilising and learning from the data we have access to; and
- A desire to acquire and retain the best talent who have the capabilities to implement, manage and adjust new channels in the rapidly changing Asian market.

Figure 2: Key Success Factors for Direct Distribution



Rocking it out, jailhouse style

Last night, unlike any other, saw delegates twisting to the tunes of Elvis Presley as a sketch artist put together a life-size portrait of "the King". Surrounded by a dazzling variety of Singapore's delicacies, delegates wined and dined the evening away, which ended with an auction that raised S$30,000 for the charity, Room to Read.

Mr John Dacey of AXA (*in red tie*) and **Mr Shinnosuke Tateno** of Pacific Life Re (*in light grey pants*) blew the competition away with their moves, and emerged as the joint winners of the night's dance-off by winning the loudest applause.

See you in 香港! (Hong Kong)

Hoping to make the 26th PIC exceptional following the lead of many great PICs before, including that in Singapore, **Mr Michael Huddart** (*right*), Organising Chairman of the event in 2013 (27-30 October), said that the secret to a great conference is the quality of the programme. "With so many of the most senior insurance executives in the region based in Hong Kong, we are confident we can put together a fabulous programme that will benefit all participants."

He shared that one objective of the 26th PIC will be to maintain high attendance from all territories in the region, while at the same time aiming to dramatically increase the turnout from China and India.

"Also, I am glad to announce that **Vic Apps**, who is well-known to most people in the industry, has agreed to be the Conference Chairman."

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