

# Glitz, glamour and a golden jubilee

After a long day of fruitful discussions, delegates swapped out their business suits for dinner jackets and evening gowns as they unwound with good wine and bubbly at the Awards Gala Cocktail Reception, a prelude to the night's gala event honouring the industry's movers and shakers.



## Global CAT numbers



There was a total of **296** Nat CAT events in **2013**.

Total economic losses reached **US\$192 billion**, **4%** below the 10-year average of **\$200 billion**.

Notable events in **2013** included **Super Typhoon Haiyan**'s landfall in the Philippines, and major **flooding** in Central Europe, Indonesia, the Philippines, China, and Australia.

Severe **drought** conditions also contributed to **billion-dollar** losses in Brazil, China, New Zealand, and the US.



**Six** out of the **top 10** global economic loss events occurred in **Asia**.

The disasters caused insured losses of **US\$45 billion**, **22%** below the 10-year average of **\$58 billion** and the lowest total since **2009**.



Asia accounted for **51.5%** of the economic losses, but just **16.6%** of the insured losses.

Flood represented **35%** of all global economic losses during the year, which marked its **highest** percentage of aggregate losses since **2010**.

Source: Aon Impact Forecasting

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## A royal treat



In recognition of the IIS' 50th anniversary, HRH Prince of Wales will be gracing the occasion on Wednesday to deliver his keynote address for the conference. So be sure to stick around!

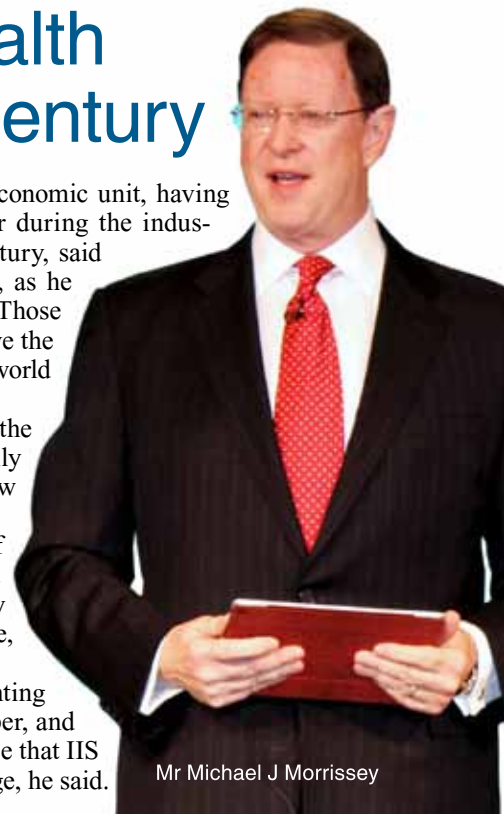
## Data is world's wealth generator in 21st century

In the 21st century, data is considered the central economic unit, having evolved from land in the past millennia, to labour during the industrial revolution, and then to capital in the 20th century, said Mr Michael Morrissey, President and CEO of the IIS, as he delivered the opening address at the 50th IIS Seminar. Those who can best collect, analyse and act upon data will have the economic power and ability to generate wealth in the world today.

"And it is the forces of science and technology that are the de-mystifiers of data that have made this happen. Certainly in the insurance industry, science and technology grow more and more important every day," he added.

In keeping with constant evolution and in the spirit of continuous improvement, Mr Morrissey also announced the establishment of four task forces by the IIS to study specific aspects of society, namely strategic, governance, finance as well as services to IIS members.

The four special purpose committees will be presenting their findings at a special IIS board meeting in November, and actions will be undertaken to help improve on the service that IIS provides to its members as well as to the industry at large, he said.



Mr Michael J Morrissey

## Opportunities for the industry are endless

A lot of the wealth creation today, particularly in the developed world, is taking place in intangible areas such as intellectual property, cyber and technology – new areas of innovation that are just at the beginning stage. "If the insurance industry can remain relevant and evolve along with all of that, the opportunities for our business are just endless," said Mr Evan Greenberg, CEO of ACE Group, yesterday.

This optimism was shared by the panelists in the Global Insurance Leadership Panel chaired by Mr Greig Woodring, Chairman of IIS and CEO of RGA.

### Opportunities in both developing and developed markets

In fact, Mr Barry Stowe, Chief Executive, Prudential Corporation Asia, said: "It is difficult to look around the world today and not be optimistic because there are so many opportunities." Among the opportunities he cited, was the rise of the middle class in Asia over the next 20-30 years that will be driving close to half of global consumption.

But opportunities do not only exist in the emerging markets, he added. Developed markets also hold much potential, such as the retirement in the US of the "wealthiest generation in the history of civilisation",

which presents tremendous opportunities for life insurers and annuity providers.

Also noting the growth potential in both the developing and developed markets, was Ms Inga Beale, Chief Executive, Lloyd's of London. There is vast underinsurance throughout the world. It is not just in the emerging markets where people may not be used to buying insurance yet, but also in the very developed markets such as the US, Japan, and Europe.

"In my mind, there are all sorts of opportunities, and all sorts of reasons to be positive about the insurance industry's future," she said.

(Continued on page 2)



(L to R): Mr Greig Woodring, Ms Inga Beale, Mr Dominic Casserley, Mr Evan Greenberg, Mr Barry Stowe, and Dr Nikolaus von Bomhard

## Perceptions changing but avoid old traps

More positivity was shared by Mr Dominic Casserley, CEO, Willis Group, who said the perception of the insurance industry as a boring industry is changing. It is changing because risk is seen to be rising, and the way in which the industry is trying to manage the risk and come up with the solutions is perceived to be more exciting and more relevant, he said.

Dr Nikolaus von Bomhard, Chairman of the Board of Management, Munich Re, summed up his optimism for the industry simply: "We don't run out of risks to cover". However, he also highlighted that the industry should avoid falling into the "old traps" of competition on pricing and growth for growth's sake, with estimates of excess capacity varying between \$70 and \$90 billion.

The industry has all the tools and institutional experience today to avoid these mistakes. The question is, "Do you, as a manager, have the courage to talk to your board and tell them the truth, to say that in certain areas of our business we should shrink and not grow?"

Otherwise, it is not just horrifying for the shareholders, but also embarrassing for the industry, said Dr von Bomhard.



## Industry is key to future-proofing world

"We need to see value as – and rise to the challenge of – integrating environmental, social and financial factors into a new mainstream view; as well as pay close attention to governments and custodianship. Otherwise we will not be doing what we need to do to manage long-, and indeed short-term strategic risks, such as the risks of global volatility, the uncertainties of population growth especially in the middle class, climate change, and finite resources. Neither will we be good custodians nor contributing to long-term value creation.

What I call an optimal outcome for short, medium and long terms, is not something that involves a bunch of trade-offs driven by an algorithm. That is where the insurance industry has a key role to play and also why the creativity and innovation of the international insurance industry is key to future proofing the world's cities, societies and economies."

– Ms Alderman Fiona Woolf,  
Lord Mayor of the City of London  
on long-term value creation

## On regulations:

"No matter what regulations are introduced, the industry will complain that it is too much and the consumers that it is too little. So my rule of thumb is that if both are complaining, it probably means that the new regulation is about right."

– Ms Annie Choi  
Insurance Commissioner of Hong Kong



"We are not imitating banking rules and IAIS standards are not bank-centric. We take into account banking rules and decide what works best for insurance in terms of macro prudential supervision. The emphasis is not about getting stricter but about having consistent standards."

– Mr Yoshihiro Kawai  
Secretary General of IAIS



## And the survey says...

Despite all the challenges faced in today's dynamic environment where big data and technology reign, 40% of the 400-odd delegates at the IIS Industry Survey expected market profitability to improve in the next 12 months, while 23% voted for a deterioration. More than a third of those votes coming from Europe and about a quarter each from Asia Pacific and North America said the profitability will remain the same as before.



Mr Greg Maciag

The survey conducted by Mr Greg Maciag, CEO of Acord, with 46% being multiline writers, 18% mostly life, and 17% only general, ranked the inconsistencies in regulations and multiple standards as the biggest challenge in coping with regulations.

The final results showed that delegates ranked achieving adequate returns on investment as the top issue facing the insurance industry with a 26% vote. Finding new markets came a close second with a 22% vote, followed by applying risk analysis in business decisions a close third with a 21% score.

## Mark Your Diary!

### General Arab Insurance Federation (GAIF)

Theme: "Golden Jubilee of the General Arab Insurance Federation Launch strategy to the Arab Insurance Industry"

1-4 September 2014, Sharm El Sheikh City, Egypt

[www.gaiif2014.com](http://www.gaiif2014.com)

### 18th East Asian Actuarial Conference

Theme: "Risk, Challenges and Opportunities"

12-15 October 2014, Taipei, Taiwan

[www.actuariesasia.org](http://www.actuariesasia.org)

### The 21st International Association of Insurance Supervisors Annual Conference (IAIS)

Theme: "Enhancing policyholder protection and financial stability through governance and risk management"

20-25 October 2014, Amsterdam, Netherlands

[www.iais2014.org](http://www.iais2014.org)

### 27th East Asian Insurance Congress (EAIC)

Theme: "Insurance at the Cross Roads – Coping with the Change"

2-6 November 2014, Taipei, Taiwan

[www.eaic2014.org](http://www.eaic2014.org)



# Buying behaviour

Mr Stephen Collins, CEO of ReMark International shares their research findings (conducted with NMG Consulting) which reveal that global life insurance industry's growth is still possible in both developed and emerging markets, and the key is to focus on buyer behaviour and purchase motivation.



It is increasingly clear that the global life insurance industry faces demographic, economic, socio-political and consumer behaviour trends that could dramatically curtail future growth.

ReMark conducted online interviews with 8,000 consumers across 14 key life markets in December 2013 and examined some emerging customer trends. Looking at both developed and emerging markets, it identified five key and often interlinked themes.

## 1 Life insurance buying decisions differ between developed and emerging markets

In general, customers say they buy life insurance for four reasons:

1. Debt management – insurance to cover loans and mortgages.
2. Family financial security – to provide financial security for dependents.
3. Health fears – to cover the costs of accidents or ill health.
4. Adviser – because of an adviser recommendation.

Research into these primary purchase drivers revealed some important differences between customer behaviours in developed and emerging markets.

- The more tangible client needs such as debt management and family financial security are the dominant needs in developed markets.
- In emerging markets, clients cited health fears and adviser recommendations as key motivations.

## 2 Persistency management requires an integrated approach

The five main reasons why customers cancel their life policy are: (1) reduced need, (2) affordability, (3) replacement, (4) substitute, and (5) adviser.

Research by NMG suggested that the best – but as yet largely overlooked – approach to persistency management is to consider consumer cancellation behaviours before the sale.

Today, the right tools, big data analysis and smart consumer insights can help insurers avoid the customers most likely to lapse after purchase.

## 3 Demographics and unbundling are key risks to growth and profits

There are downside risks to current penetration levels within key demographic groups in both developed and emerging markets.

**Demographics:** In developed markets, the primary risk is ensuring the next generation of life insurance buyers maintain current penetration levels given a changing regulatory and distribution landscape.

In many developed markets we see a muddled trade-off emerging. Regulators are trying to improve the quality of advice through tougher regulations but in doing so are reducing the number of advisers, and the number of consumers with access to appropriate insurance.

**Unbundling:** At the moment most life insurance sales are bundled with the sale of an investment product on a whole life basis.

The unbundling of life and investment products will have significant impacts – premiums are likely to be much lower than for savings products. At these margins, it will be difficult for companies to sustain the current life insurer distribution networks which are essential to access mass and mass affluent customers.



## 4 Look beyond the channels to see big changes in buying behaviour

We can identify five global buyer behaviour themes:

1. More customers are researching products before they buy.
2. Customers are increasingly involved in the lead generation process.
3. Lead generation is increasingly separate from purchase.
4. Customers increasingly want to interact via digital channels during the research and lead generation phases.
5. Many customers want immediate and transactional advice better suited to lower cost and more flexible remote advice models than traditional adviser channels.

The key take away from the above is that customers want to interact with insurers as well as advisers.

## 5 What do these trends mean for your insurance business?

Responding to the themes addressed above presents different challenges for the four different categories of industry participants below:

**Agency insurers:** Agency insurers with successful direct sales channels and a focus on emerging markets remain in a relatively strong position.

**Intermediated insurers:** Intermediated insurers are typically weighted to developed markets and face the biggest strategic challenges.

But there are strategies that can help intermediated insurers manage these challenges. These include:

- Developing data-driven capabilities to allow more sophisticated customer management around sales and persistency.
- Developing remote advice models to attract the next generation of life insurance buyers.

**Banks:** The outlook for banks is uncertain. They have the ability to meet specific client life insurance needs at lower acquisition costs and with better risk selection than competing models. However, their existing remote advice models have focused on top-line revenues and they now face regulatory pressure – particularly in developed markets.

**Direct Specialists:** The direct specialists who operate remote advice and non-advised models are strategically well-positioned as advice regulation forces advice upmarket and customers seek more flexible engagement models.

## Data-driven techniques

The above five themes highlight the need for a better understanding of customer motivations across different markets and demographics and to not only have better use of data-driven digital marketing but to deploy these techniques strategically too.