OVERVIEW OF INSURANCE IN ASIA

By
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Asia Insurance Review & MiddleEast Insurance Review
Outline

a) Asia on the Globe: World of Figures. Crises and Change
b) Myth of Asia As A Single Region
c) India & China on the World Stage
d) Current Market Conditions
e) Changing Perceptions of Insurance
Outline

f) What Sets Competition Standards?
g) Foreign Insurers in Asia
h) Distribution Dynamics
i) The Challenge of Statistics
j) Ten Little Areas of Best Practices
## Asia: Total Premiums

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>US$621 bn (26.73%)</td>
<td>US$989 bn (24.33%)</td>
</tr>
<tr>
<td>Premiums as % GDP</td>
<td>7.38% (7.52%)</td>
<td>6.08% (6.98%)</td>
</tr>
<tr>
<td>World</td>
<td>2,324 bn</td>
<td>4,066 bn</td>
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</tbody>
</table>
## Asia: Life

<table>
<thead>
<tr>
<th>Life</th>
<th>1999</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>477 bn (33.8%)</td>
<td>732 bn (53%)</td>
</tr>
<tr>
<td>% of GDP</td>
<td>5.66 (4.57)</td>
<td>4.51 (4.01)</td>
</tr>
<tr>
<td>World</td>
<td>1,412 bn</td>
<td>2,332 bn</td>
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## Asia: Non-Life

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2009</th>
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</thead>
<tbody>
<tr>
<td>Asia</td>
<td>144 bn (16%)</td>
<td>257 bn (14.8%)</td>
</tr>
<tr>
<td>% of GDP</td>
<td>1.71 (2.95)</td>
<td>1.57 (2.98)</td>
</tr>
<tr>
<td>World</td>
<td>912 bn</td>
<td>1,735 bn</td>
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## China/India/Japan (Non-Life)

<table>
<thead>
<tr>
<th></th>
<th>China</th>
<th>India</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>1999</td>
<td>2009</td>
</tr>
<tr>
<td>Ranking</td>
<td>16</td>
<td>9</td>
</tr>
<tr>
<td>Volume</td>
<td>US$6.3 bn</td>
<td>US$54 bn</td>
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<tr>
<td>Market Share</td>
<td>0.69%</td>
<td>3.11%</td>
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<tr>
<td>Ranking</td>
<td>31</td>
<td>26</td>
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<tr>
<td>Volume</td>
<td>US$2.32 bn</td>
<td>US$7.97 bn</td>
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<tr>
<td>Market Share</td>
<td>0.36%</td>
<td>0.4%</td>
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## China/India/Japan (Non-Life)

<table>
<thead>
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<th>Japan</th>
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<tr>
<td>Ranking</td>
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<tr>
<td>Volume</td>
<td>US$102 bn</td>
<td>US$106 bn</td>
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<tr>
<td>Market Share</td>
<td>11.19%</td>
<td>6.16%</td>
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# China/India/Japan (Life)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>China</strong></td>
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<td></td>
</tr>
<tr>
<td>Ranking</td>
<td>17</td>
<td>7</td>
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<tr>
<td>Volume</td>
<td>US$10.5bn</td>
<td>US$109bn</td>
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<tr>
<td>Market Share</td>
<td>0.75%</td>
<td>4.68%</td>
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</tr>
<tr>
<td>Ranking</td>
<td>31</td>
<td>9</td>
</tr>
<tr>
<td>Volume</td>
<td>US$6.1bn</td>
<td>US$57bn</td>
</tr>
<tr>
<td>Market Share</td>
<td>0.43%</td>
<td>2.46%</td>
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## China/India/Japan (Life)

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</tr>
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<tbody>
<tr>
<td>Ranking</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Volume</td>
<td>US$393 bn</td>
<td>US$399 bn</td>
</tr>
<tr>
<td>Market Share</td>
<td>27.8%</td>
<td>17.12%</td>
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</table>
Current Market Conditions

- Insurance Not A Political Issue
- Potential Still Good – Profitability
- Riding on Equity Markets
- Insurance Industry- Stable Outlook
- Back to Basics
- Low Capitalisation
- Intense Competition
- Concentration in the Hands of a Few
- Ratings Issue
- Impact of Climate Change
Changing Perception of Asia’s Insurance Industry

(i) More Than Just One Bloc - Individual Separate Markets
(ii) Figures Distorted by Japan
(iii) New Engines of Asia - India and China
(iv) Life Is Bigger
(v) In General, Motor Biggest Class
(vi) Foreign Vs Local Players Vs Family Owned
Changing Perception of Asia’s Insurance Industry

(vii) Treated With Kid’s Gloves by Foreign Reinsurers
(viii) Easing off of Priority Cessions
(ix) Market Share Fight
(x) Greater Usage of Brokers
(xi) Ageing Population and Pensions
(xii) Growth of Takaful
What Drives Competition in Asia?

Four Quick Answers:

• Regulators
• Consumers
• Industry Players
• Outside Entrants
The Real Driver of Competition

Entry of Foreign Insurers:
• Hungry for business
• Replicate established market practices
• Demanding higher ROI
• Setting higher standards
• Training the people to match HQ standards fast
• Churning out new products
• Marketing and educating the public
• Stricter underwriting discipline (after grabbing market share)
General Competition Drivers

- Globalization and liberalization;
- De-tariffication;
- Foreign entrants;
- Corporate governance;
- Change in reinsurance dynamics;
- Regulatory demands on rating;
- Technology;
- ERM and risk management
Foreign Insurers in Asia

No longer simply opening the doors for business - all markets are competitive

Most markets have at least 20 competitors
  • A few very large traditional domestic life insurers
  • A few very large foreign life insurers
  • Many, many mid-size and small domestic and foreign life insurers

Most product categories and distribution channels exist in most markets
Foreign insurers are generally increasing premium market share and profitability at a faster rate than domestic insurers.

However, there are a few foreign insurers that have had difficulty with market positioning and turnaround execution.

Many traditional domestic insurers find it difficult to evolve perhaps due to weak independent governance, embedded self-interests, few resources with broad market experiences, and a lack of imperative as recurring business hides the decline in new business share.

Margins are under pressure in most markets.

A few foreign insurers are at early stages of developing “regional operating models”.
Life Markets & Multinationals – No Longer Uncontested

Asia: The Land of Opportunity for Insurers?

- Definitely, there is significant upside for premium growth across a highly diverse Asian market

- A key challenge is that the market life cycle is much faster and shorter than in historical Western markets
Expansion in Asia: Too Little, Too Late?

• Every country is now a competitive, crowded, insurance market with product pricing and channel pressures from disciplined and undisciplined, domestic and foreign insurers – imperative for effective strategy and execution

• Vietnam, India, and regions in China are still not yet fully contested … but enter with care (there will be losers)

• Acquisitions are more probable in the future than Greenfield unless discovery of unmet consumer needs or introduction of newer business models
On Being a Multinational

- Early entrants in new markets across Asia did not proactively think about ‘methods’ for protecting home office, transferring knowledge and extracting synergies...nor did they need to given the immaturity of the markets at the time... but they are starting to now.

- The proliferation of insurance operations in Asia has created an acute shortage of skills – key issue in compliance era.

- Operating models will evolve from discrete country units to ‘regional systems’ to concentrate skill shortages; standardize processes and systems to mitigate risks; concentrate transaction volumes for control/scale economies.
• Multinationals which win are more concerned about the “value-add” they can apply across countries

• Domestic insurers now thinking about international expansion should understand their reasons

• Is it simply the prestige and ego to publish in the annual reports?

• What is it that will differentiate your new insurance operation in the marketplace?

• Will international operations simply be immaterial relative to the home market and destroy value?
World of Statistics

- Insurance is information sensitive
- Information Intensive
- Playground for Software Companies
- Yet Lagging Behind in Collation of Statistics
Why?

- Proprietary information
- Reluctant to share competitive information
- Afraid of Benchmarking
- Industry believes its own propaganda that the unique specificities of insurance makes it beyond common international standards of accounting
- No obvious role model or leader?
Urgent Necessity

- To make industry understand that collation of comparable statistics will add to competitive edge of sector;
- Insurance being based on the law of averages need to master its use of information;
- There are tools available that can be tapped.
Who should lead?

- Brokers/Reinsurers/Insurers/Supervisors and Regulators/Independent bodies/Media.

- Insurance Supervisors to create this paradigm shift in industry CEOs.

- That sharing information is in enlightened self-interest.
A Dream or Reality

- Data-driven business plans in the risk business - Dream or Reality or Oxymoron?
Ten Little Areas

1. Regulations:
   - The Magic Wand
   - Formal/Informal
   - Interactive Dialogue
   - Liberalisation and Reforms
   - Well-informed All Knowing
   - Converged Financial Authority
   - IAIS- global standards
   - RBC and Solvency Margin
2. Underwriting Dynamics - Back to Basics

(a) Stricter Underwriting Standards
(b) Greater Discipline
(c) Adequate Pricing of Risk
(d) No More Accommodation Business
(e) Daring to Walk Away from Business
(f) Stay focused
(g) Greater Use of Actuaries
(h) Effective and Efficient Claims Management
(i) Loss Prevention and Risk Management Advice to Client
(j) Charge for Services
3. Corporate Governance

(a) CEO Leadership
(b) Separation of Powers between Board and Management
(c) Asian Mind Set and Deference to Authority
(d) Cronyism and Nepotism
(e) Defined by Corporate Mission
(f) “Unindependent” Independent Directors
(g) Timid Minority Shareholders
4. Distribution Dynamics

- Driven by Distribution
- Alternative Distribution
  (a) Bancassurance;
  (b) Affinity Groups;
  (c) Direct Marketing;
  (d) Online Offerings;
  (e) Strategic Partners and JVs
5. Relations with Intermediaries

(a) Friend or Foe or Partner or Leader
(b) Commission Motivation-Churning
(c) Channel Management
(d) Win-win for all
(e) Demand Greater Professionalism of Them
(f) Risk Information Sourcing
(g) Give them more incentives to make you the preferred partner
(h) Higher Licensing Requirements
6. Association’s Role

- Association Autonomy
- Insurance Day
- Industry-wide Consumer Awareness Program
- Campaigns to Make Industry More Professional
- Insurance Centre of Excellence
7. Customer Service, CRM and Marketing

- Knowing Who Your Customer is and Who Your Customer is Not
- Customer Sophistication - Myth or Reality?
- Preference to Deal Direct
- Anytime, Anywhere, 7/24, On Time Every Time
- More All Rounded Product Coverage
- Giving a Warm Customer Experience
- Understanding Realities of Price & Technical Uniqueness of Product
- Faster Access to Courts
8. Product Innovation and Research

Market Research to Launch New Products

- Opportunistic Launch
- Imitation and Commoditisation
- New & Emerging Risks – Asbestosis, Mould, Bio-Technology, Cloning, Environmental Liability
9. E-world

- Using the Net
- Brochureware and More
- Online Sales
- E-commerce and Technology
- Reaching out to the public
10. Human Resource, Training and Education

- Investment in HR Beyond Lip Service
- Trusting Employees
- Realities of Losing Staff
- Lack of Skilled Resources and Expertise
- No Premiums for Greater Qualifications
- Involvement of Academics in Industry
Conclusion

Aim To Be The Best Always

Quote: “The Best Is Yet To Be”

Robert Browning