International Section News

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The Mysterious East, Part II –
A Review Of Asian Life Insurance Markets — Issues & Challenges

by David Rosier

Editor's Note: the following article is reprinted with permission. It last ran in Vol. 19, No. 1 (2003) in On The Risk. *Part I of "The Mysterious East appeared in the December 2002 issue of* On The Risk.

Executive Summary: Asian insurance markets generally possess enormous growth potential, and insurers from around the world are continuously being tempted to enter the region. From a risk management perspective, much misconception exists concerning the nature of the markets, the approach to risk evaluation and management, and the issues and challenges that are being encountered.

This multi-part article attempts to dispel some of the "myths" around the perceived unique nature of Asian markets. Part I addressed the nature of the markets, the business drivers and the issues and challenges being encountered. Part II takes a risk management perspective.

The current situation is reviewed, including issues concerning the future development of appropriate skills to tackle the inevitable rapid growth in customers under management, and the anticipated diversification in terms of product coverage and distribution approaches.
The world continues to "shrink" and our customers will become increasingly more mobile. Appreciation of international markets will be a key requirement for risk managers in the future.

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Operational Risk Management in Asia

Introduction

I believe the information contained within Part I is vital in terms of understanding the dynamics of the region and in being able to appreciate the challenges associated with effective risk evaluation and management.

All the aspects covered in Part I impact, in some form, upon the risk management function, and failure to appreciate and understand market realities must inevitably lead to inappropriate risk solutions. As a general comment, which is not unique to Asia, I would suggest that far too few underwriters and claim assessors have ambitions to make it to the higher levels of management, and so all too often senior management teams lack the appropriate guidance as to core risks associated with mortality and morbidity risk that they seek to accept so readily.

Whilst underwriting is clearly viewed as a necessity, often the defining of process and requirements are carried out once the product concept has been created and approved. All too frequently, underwriters do not have the opportunity to participate in the process of creating "innovative" products as they are not seen as an area that can contribute positively to a product concept. I know of no company which seeks to position risk management expertise as a marketing strength. Part of the blame lies with the "profession" itself who have the tendency to get overly sidetracked on highly technical issues whilst inadvertently alienating themselves from the overall management strategy—or they simply do not see as part of their responsibilities a need to influence and shape the business model.

Before we consider today and tomorrow, let's briefly consider yesterday. Firstly, let me dispel one of the apparent major misconceptions about Asian markets—the nature of the risks (generally) and the principles by which they are evaluated are *essentially no different* than the established markets of North America and Europe.

Whilst local circumstances related to availability of information, access to records, quality of medical screening facilities, etc., may vary widely, the fundamental approach is the same. Additionally, there are relatively few "unique" risk scenarios linked to medical impairments—prevalence may differ (and often we simply have no statistical data), but the process of determining a level of extra mortality is essentially the same as anywhere else. In my years in Asia, this has proved a constant frustration as the "we are different" barriers are often created and used to block progress either by "local" representatives or those in regional or corporate headquarters. An underlying aversion to change that so many of us have is as strong in Asia (some would argue stronger) as it is in the rest of the world.

So we start with essential practices and principles that represent global accepted practice—classic publications such as Brackenridge are the cornerstone of underwriting as are the leading international reinsurance manuals. Whilst some reinsurers make adaptations for

Asia (i.e., height and weight tables) most recognize these do not represent a major deviation from the core approach.

With our senior underwriters trained in the best that is available from North America and Europe (with some influence out of Australia) it is logical therefore to assume that the core capabilities are sound and professional.

Differences emerge in the application of practices due to market limitations, particularly concerning access to information. Quality of that information is also often a factor dependent upon location.

It is in the adaptation of these global "best practices" where the real challenge exists. Limited experience and/or lack of seniority in an organization can often combine to result in significant levels of inertia in the evolution of risk selection and management techniques.

This has generally resulted in sound but rather conservative, often expensive, risk evaluation. The appropriate senior personnel must be able and willing to challenge the traditional approach—embrace, having understood, the business strategy and deliver appropriate market, product, distribution and customer related solutions where risk evaluation and management are concerned.

All too often, our risk technicians are passive and driven by competitor approaches presented in an environment of confrontation by marketing and distribution management. Whilst senior management often needs to change its views as to the full value of risk specialists, the actual underwriters and claims personnel must also take the initiative to force themselves into business strategy management. To me, this is one of the greatest challenges this area of the business faces in the next few years.

So we start with generally a sound foundation in terms of process and principles, delivered through generally competent personnel. The problem is that the pool of talent is woefully inadequate and companies are generally failing to invest enough resource into the development of additional new expertise, enhancement of existing skills and the effective retention of these specialists.

All too often, the debate centers on "show me the adverse claim experience and we will take preventive action"—as we all know, this is a naive statement borne of a time perhaps when margins were "fat" and assumptions regarding expected claims were so conservative that actual claims never came close to causing a loss (at least for life products as opposed to medical riders). With intensified competition across a broader and more complex set of risks, it will be trend analysis

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Actuaries to Help Students With Sums

by the Royal Gazette | submitted by Mike Gabon

Editor's Note: the following article is reprinted with permission. It last ran in the January 23, 2003 issue of The Royal Gazette. *It can be found on their Web site at* www.theroyalgazette.com.

In one of the first programs for the new Institute for Talented Students, locally based actuaries from some of the world's leading insurance companies have volunteered to provide maths tuition.

Riquette Bonne-Smith, founder and executive director of the institute says:

"I think it's a great opportunity for businesses to come to the classroom at an early stage and teach children to enjoy and appreciate mathematics. If we can develop interest within that group of academically talented students, it may motivate them to pursue further studies within the field of mathematics."

Recognising that Bermuda has the highest percentage of actuaries per capita in the world, Ms. Bonne-Smith decided to tap into this unique pool of talent.

As mathematics experts, actuaries are ideally qualified to teach the select group of students aged 10-14 about maths. The students will also be given the unique opportunity, to learn about maths as applied in an insurance context.

One of the chief actuaries at Scottish Annuity and Life, Mike Gabon, has co-ordinated the group of actuaries which includes, Ted Dew of Chubb Re, Patrick Lesage of Everest Re, Jim McNichols of XL Capital, Dale Mensik of Hampton Re and Dianna Williams of XL Financial Assurance.

Also participating, but not pictured, are Greg Haft of Chubb Re, Arie Haziza of Ernst & Young and David Whiting of Swiss Re. ☐

Back row, left to right, Ted Dew, Patrick Lesage, Jim McNichols, Dale Mensik.

Front row, left to right, Sonia Whayman, Dianna Williams, Mike Gabon, Riquette Bonne-Smith.

which suggest risk management responsibilities, but are, in fact, administration roles. A desire to retain staff drove companies to develop misleading job titles which appealed to individual egos.

The challenges are to create meaningful career paths and status for both administrators and risk technicians and to recognize the importance of both in the organization.

Depth and Breadth of Expertise

Generally speaking, virtually all markets, relevant to their stage of development, have highly competent senior underwriters operating in the large local companies or with multinationals.

Whilst recognising the lack of strength in depth, the actual technical knowledge of the senior risk assessors often rivals anywhere in the world. There is a strong foundation on which to build.

Medical knowledge is generally excellent as is the insight into the fundamentals of risk management. My concern is that this often does not translate into a "leadership" role where product opportunities are identified, processes and practices are constantly evolving, and risk scenarios recognized and exploited to the full.

All too few risk specialists gravitate to the higher echelon of management or even leadership of operational areas. In discussing this with colleagues, there seems an unfortunate resignation that this will not change. As long as that feeling prevails, then this will certainly be a self-fulfilling prophecy!

I believe most "observers" regard underwriting practices and approaches in Asia to be generally conservative but based on global "best practice." Arguably, this leads to a volume of cases being "lost" due to the rigid underwriting approach. Compounding this perception is the issue of over-ordering of medical requirements as natural caution drives underwriters to seek absolute answers.

Change will occur when the skills and experience of the senior underwriters can be imparted to more junior technicians and decisions are made with a full insight into the nature of the risk and the actuarial assumptions as to overall underlying risk.

There is no easy answer as this requires mentoring of underwriters with exposure to ever increasing complexity of risk. These skills cannot be created in the classroom and it is only practical experience that will create these skills. The time and effort required by the senior underwriter must be recognized—time created—rewards given for a task successfully progressed. The ultimate goal is decision makers and risk takers rather than technical "wizards." This remains a major challenge in Asia.

Compounding the skill shortage is the issue of retention. A fear pervades many markets that if you succeed in developing good risk managers they will inevitably be recruited away. Companies will never be irradiated of that risk but, equally, fear of "poaching" should never be an excuse to not develop people.

Whilst remuneration is critical, it is not the only driver of retention—recognition is vital as is access to regional and international meetings where a person can represent his or her company at a senior level. Activity in local insurance associations raises the individual's profile and helps to develop communication skills. None of these should be under-estimated as retention measures but they need active management support.

Training & Development

This is the cornerstone of a credible risk management community and my impression of Asia is that we have become far to dependent upon our reinsurers to tell us what we need to know and be concerned about.

Generally, this "service" has not catered for the basic training needs and regular ongoing development via exposure to current issues and approaches. Whilst having concerns as to the future of "value added" services provided by reinsurers, I have to pay tribute to a reinsurance program that originated in Asia and has been exported to other parts of the world. The GeneralCologne Re Comet program combines modulized training for junior underwriters and then conversion to an ongoing development program via aspects such as case studies and journal review services. An excellent program which represents tremendous value for insurers.

Reinsurers have tended to determine topics of interest and bring seminars and publications of a fairly generic nature to these markets. One has to recognize that these companies do so with a vested interest to promote potential reinsurance products and so certain relevant topics could and do get neglected.

The solution should be with local associations that will determine areas of focus and interest and seek expert input. These groups can operate within life associations or as an independent specialist group. Sadly, there are all too few of such groups and my colleagues regularly cite this as a major shortcoming in most markets. The Philippines has a very active local underwriting association and is a model to

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others in what can be achieved. Unfortunately, these initiatives do not suddenly happen—they need volunteers and much hard work plus a level of company endorsement sponsorship.

The Academy of Insurance Medicine—Asia is a relative newcomer but already has established itself as a leader in the field of dealing with topical risk issues via its biannual regional conference. We desperately need such an organization to survive and thrive and, dare I suggest it, to broaden its membership and mandate to involve the lay underwriting and claim communities.

Whilst international events run by LOMA (i.e., the International Underwriting Congress) and the International Congress of Life Insurance Medicine periodically come to Asia, this is not enough and discussions planned for late 2002/2003 into a possible Asia-Pacific Underwriting/Claims Association and some form of examination/qualification process specific to these markets are to be encouraged. All of this activity requires senior underwriters to see and accept training and development as a core responsibility at a market and company level.

Specific Risk Management Challenges

Whilst I have stressed that most of the challenges faced in Asia are not unique in nature, there are a few risk aspects which present somewhat unique aspects and I want to touch briefly on some of these.

HIV/AIDS

This could warrant a separate article in itself but safe to say the region presents—certainly in the Thailand situation—an arguably unique set of risk characteristics in terms of the prevalence of the disease and the risk profiles.

The challenge faced concerns how unique is the Thailand experience and could the HIV problem be rapidly developing in some other emerging insurance markets such as China and Vietnam and how could this threaten the longer term viability of such markets?

The answer is unknown but the experience gained in Thailand from risk screening linked to underlying prevalence rates, risk group characteristics and random testing provides companies with a very sound model as a reference point.

Hepatitis B-C— and Beyond

It is probably true to say that whenever anyone is asked to identify a particular risk synonymous with Asia, the majority would cite Hepatitis—specifically type B and C. Clearly, there are unique features in terms of disease distribution and, in some cases, the endemic nature of the infection.

Given the known prevalence rates, the constant challenge is one of evaluating those who present with marginally abnormal liver function tests. Opinions differ considerably as to screening approaches and the handling of those who are asymptomatic and yet present abnormalities of liver function. It is certainly exceptional that the approach adopted in "Western" markets is not appropriate (i.e., too harsh) in Asia but we are far from having a clear structure for a generally accepted approach.

Medical Evidence—Quality & Quantity

Rather than dwell on specific diseases and disorders, I believe it is appropriate to comment in more general terms regarding the challenges of establishing an applicant's medical history. Clearly, there are considerable differences between developed markets and emerging countries in terms of quality, availability of medical evidence and health records.

The general rule is that to a large extent companies are dependent primarily on disclosures by the applicant supported by current medical data. To the uninitiated, this could appear at times to lead to over ordering of requirements but this often reflects the difficulty in accessing comprehensive medical records/histories.

The attending physicians report is generally difficult to get, expensive and of questionable value. In most countries, there is no centralized system of medical record collection. The concept of a family doctor/personal physician is relatively new. This creates considerable challenges around determining the medical history and enhances the opportunities to successfully non-disclose a relevant history. Underwriters are, therefore, naturally cautious.

In countries where state-run hospitals exist, there remains problems of access and quality of storage and accuracy of records. Often financial relationships have to be established with hospital administrators rather than dealing directly with the specific doctor.

It’s a very challenging environment in which to evaluate a disclosed medical history (and to evaluate the validity of a suspicious claim).

Turning to the quality and availability of medical screening facilities, the situation varies dramatically according to country.

Companies generally create approved medical examiner panels and try to exert some basic quality controls but normally only minimal training in the concepts of life insurance medicine. Only the largest of companies have in-house, full-time doctors for medical screening although many companies in China, Vietnam, Indonesia and Thailand employ doctors (and nurses) as full time underwriters and claim assessors.

The real challenge comes where more complex tests are required—accessibility, quality and cost are all issues. As business develops and geographical boundaries are pushed back, finding access to quality medical screening capabilities continues to be a logistical problem.

The major labs continue to evaluate the potential of establishing in Asia but struggle to locate a base which would be cost-effective (given perceived volumes) and offer quality facility and staff. In reality, decisions often have to be made on the best of what is available which would not always be acceptable in a developed market and, as a result, the final decision may look overly conservative.

Financial Risk Evaluation

Possibly one of the most problematical aspects of underwriting in Asia concerns the evaluation of the financial status of an applicant and justification for cover levels.

The fundamental issues of access to quality information are global in nature but appear compounded in Asia, particularly in the Chinese community, where financial structures are often complex in order to minimize tax. Additionally, there is often a pathological fear of producing data regarding income, assets and liabilities let alone justification for levels of coverage proposed.

There are even issues of sales being made based purely on ensuring the coverage is bigger than a personal or business rival. Ego and “face” can be a major driving force.

Sources of income—which appear unusually large—in markets where the nature of the occupation would not generate such levels is also an issue. An example would be local government officials applying for large coverages in markets such as China.

Applicants who are entrepreneurs and taking advantage of economies that are liberalizing and have stimulated a culture of free enterprise create issues as to nature and sustainability of their income. Generally, products offered have proved popular and, in most markets, average sums insured are increasing as are maximum issue limits. Coupled with ever-increasing complexity of products and packaging of coverage, this makes ensuring the justification process more complex Often, case law does not exist, and the insurance law remains vague concerning concepts such as insurable interest.

Normally, the “solution” is based upon taking a pragmatic approach to the gathering and evaluation of evidence. Often circumstantial evidence of an applicant’s financial substance and business activities has to be the basis of the decision. Knowledge and trust in the introducing agent are also critical factors.

Whilst the direct writer may feel, on balance, the risk is valid problems often exist in convincing reinsurers who are unfamiliar with the territory and have retrocessionnaires who are very cautious in taking large Asian risks. Constant dialogue, with specific examples, involving all interest parties is the best solution.

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Non-Disclosure and Fraud

When one discusses developing/emerging markets, inevitably it will be suggested that there must be rampant dishonesty driven by an underlying culture of corruption and much business is therefore written with fraudulent intent.

In all my years in Asia, I have not seen that to the extent imagined—the majority of our policyholders are basically honest, and if they understand our needs in terms of information, they generally will provide full and honest answers. As with other markets, there are always exceptions, and unscrupulous agents and dishonest applicants will exploit weaknesses in risk processes and/or deliberately non-disclose.

As markets develop so does the sophistication of the frauds perpetuated. Awareness and understanding of the business will always lead to exploitation of opportunity to defraud by a limited few. It is critical that companies, when they discover such abuses, take a very public stance to punish the perpetrators. All too often, there is a reluctance to act because of fear of

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About the Author

David Rosier has had a career in life and health insurance covering in excess of 30 years and which commenced in the United Kingdom. An underwriter by background, David has had senior management roles in the United Kingdom covering underwriting, claims and operational management.

David has been involved in Asia for more than 15 years and for the past 11 years has lived in Hong Kong. He has held senior management positions for both leading insurance and reinsurance companies in the region and is currently vice president for risk management, Asia, for Manulife Financial.

David has written extensively on risk management issues and spoken at numerous industry conferences globally on risk evaluation, reinsurance and business development strategies. He is a previous OTR contributing editor for Asia. ◻

damaging public perception. This is a mistake—positive action taken early in the history of a market sets the foundations for a secure future.

There remains a responsibility of insurers to educate the buying public—unintentional non-disclosure is often a major issue in very young markets. Insurers have a vested interest to educate the media and public around what constitutes a material fact and the implications of material non-disclosure.

Random screening is commonly performed (medicals on one to two percent of clean applications) to ascertain a level of non-disclosure. This is valuable in terms of not only giving an indication as to overall quality but as a deterrent to those who might deliberately non-disclose.

Generally, there are reasonable levels of honesty but the public (and agents) must be educated and continually reminded of the duties of disclosure. The assessment of claims occurring in remote locations, early into the contract with minimal evidence to support the event, is a common challenge for companies as it has been for any market writing business on clients of different nationalities.

Regulators and Government-Related Organizations

I will finish this section by touching on an issue which I think we as an industry constantly under-estimate in its potential impact. Regulators draw much from the mature and arguably "over-regulated" markets.

The mandate now stretches far beyond financial viability of the insurer. This requires an increasingly in-depth understanding of the mechanics of insurance. The solution has to be a more open and regular dialogue around critical issues and market responses. So who takes on that responsibility?

Clearly, the life insurance associations have those implied responsibilities but have often proved unsuccessful in engaging regulators, government, media and consumer groups in an "educational" dialogue. All too often, communication takes place when the industry has to defend its position—why do we never learn that we gain, on occasions, by being proactive?

In Asia, I believe the issues linked to genetic testing are a golden opportunity for the industry to be proactive, but indications are only a few agree and others will wait until we inevitably come under attack.

This leads me to the issue of consumer groups, often linked with government, who now consider the very important issues of discrimination and privacy, but who, all too frequently, come to challenge the fundamental "Right to Underwrite."

These issues are already impacting markets in Hong Kong and Singapore. Why must we wait until challenged?

Experiences from Australia and United Kingdom will show how bad a mistake that would be.

In Part III, we will consider what the future might hold. ◻

Congratulations!

The following are the newly-elected members of the International Section Council. Each will serve a three-year term beginning in October, 2003.

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