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The Mysterious East, Part III - Future Market Opportunities & Challenges

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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 took a risk management perspective, reviewing the current situation, including product diversification, competitive pressures, pricing issues, volume drivers, distribution, customer relations, technical skills development and special risks like AIDS, Hepatitis B and C and more. Part III discusses the future opportunities for market growth, appropriate risk models and challenges from claims management.

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.

Opportunities

If you glean nothing else from this article, I hope you come away with the appreciation that Asia represents an area of vast growth potential.

Consumers generally want and value our products. They are motivated by a desire to save and then appreciate the value of packaging protection against death and disability.

The "emerging middle class" will sustain and grow most markets despite economic volatility.

Companies will bring products, operational expertise, marketing skills and technology to Asia in pursuit of growth and profit. Asia will have access to the "best of the best" so long as it can deliver steady profitable growth and allows companies to operate in a commercial environment that demands professionalism but recognizes the need to manage risk in an appropriate manner which protects ALL policyholders.

Customers will become more knowledgeable and whilst more demanding in terms of value and service they will have greater appreciation of the products and overall persistency should improve.

Alternative forms of distribution will ultimately enhance profitability as companies pursue the objective of delivering the "right product, at the right time and at the right price."

Challenges

Market Growth

Overall, I see the largest threat to the industry and particularly risk management as the unrealistic "returns" that companies may set for their operations in Asia.

Unrealistic plans regarding market share, growth of new business and cost efficiency can drive companies to a strategy of short-term growth at all cost whilst potentially sacrificing long-term profitability.

Risk management will be regarded as a hindrance rather than a "gate keeper" of profitability. Companies may seek to not only economise on risk evaluation but highly incentivise new (and inappropriate) products



through minimization of selection criteria. There are already signs of this in certain markets.

Skill Development

We must create more relevant skills and also increase the breadth and depth of those skills.

We need national Organizations who will drive up the professionalism of its risk managers whilst ensuring a sound educational base. Reinsurers should not have to shoulder all of that burden.

Companies should invest in development programs which impart knowledge and create skills. Skills should be regularly evaluated and linked to a meaningful career path and adequate and appropriate reward and recognition.

There is so much still to be done in this area.

Relevant Risk Models

For far too long, we have all been dependent upon the “wisdom of the West.”

As we face up to the defense of the “Right to Underwrite,” this may not be enough as we will be challenged to substantiate that conclusions based on statistical data from other areas of the world are valid in Asia.

Countries should organize study groups—work with actuarial associations and seek help from, but not pass responsibility to, reinsurers.

We need and should have underwriting tools which truly reflect the dynamics of writing business in Asia.

Claim “Ignorance”

High assumptions on expected claim levels (and therefore high premiums)—with resulting “low” actual claim levels cannot be the only measure of effective risk management.

As competition intensifies, these fat margins will be eroded—as risk managers, it is our duty to monitor and identify claim trends and propose—PROACTIVELY—measures that control future risk.

The attitude of waiting until there is a problem with claim levels has to change, but it takes companies who want to be true market leaders to have the courage to do this. Sadly, there are too few companies that see this as their role. The action we take gives a clear message to our distributors, the buying public and government that we know our business and it is not “sales at any cost.” Surely, we all have a vested interest to take positive action to minimize unacceptable selection against the insurer.

Conclusion

Whilst there are so many issues impacting the development of risk management skills and

processes, I trust this article has at least provided an insight, at a high level, of the issues and challenges of this area of the world.

There exists a strong foundation to build upon. Issues, and often solutions, are global in nature and so “best practice” models can and should be exported to Asia and adapted locally. Growth potential is considerable in the medium to long term, but profitability and critical mass will take time, patience and investment to create. This area of the world is not for those with a short-term perspective—durability and realism will characterize those that will succeed long-term. Whilst a few unique challenges exist at a country level, and to a lesser extent in the whole region, generally our colleagues around the world can assist in what are predominately common issues and problems.

There should ideally be a network to permit and encourage sharing of expertise. The IUC coming to Singapore in November 2003 is a major step toward that goal if this gathering can spur an international group willing and able to create this global forum.

I hope this article sets the scene for those who are unfamiliar with Asian markets and who will be in Singapore in November 2003. For others, I hope this may have stimulated an interest in Asian markets with a realization we share so much in terms of approach, issues and challenges.

As the world “shrinks” and international “barriers” collapse, it is vital we understand the environment in which we live and work. For risk management, we must all develop a basic understanding of global markets given the increasing mobility of products, processes and customers. □

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