



SOCIETY OF ACTUARIES

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New Frontiers in the Convergence of Financial Services

by Andrew F. Giffin

Convergence, consolidation and globalization continue to be hot topics at international insurance gatherings. But, in Vienna this July, at the International Insurance Society's 37th Annual Seminar, much of the attention was on more basic business issues—response to changing customer demands, organic growth and improving company value.

Headlined by Kees Storm, Chairman of the Executive Board of AEGON, and Chairman of the Society, Henri de Castries, President of the AXA Group, Henning Schulte-Noelle, Chairman of the Management Board of Allianz and Takeo Inokuchi, Chairman of Mitsui Marine and Fire, the three day program covered a range of current insurance industry issues from E-business to measuring shareholder and customer value to managing human resources.

A survey, including responses from 115 of the 534 insurance CEOs and senior executives participating in the seminar, asked for the "three most pressing challenges" facing the insurance industry today. Most often mentioned among the top three were:

- Managing capital and risk (49)
- Keeping talent suitable for today's markets (41)
- Competing amid consolidation and concentration (40)
- Meeting changing customer demands (35)

Of these, "meeting changing customer demands" led #1 choices with 22. When broken down by region, the same four top choices

emerged with slight variations in order. In Europe, keeping talent led the list. In the U.S. and Canada, competing amid consolidation and concentration came out on top. In Asia, managing capital and risk got the most responses.

The survey responses were well represented in the plenary speakers' comments.

Henri de Castries, representing AXA, a company well known for its building of a major global insurance power by acquisition, concentrated on organic growth issues. He spoke of response to growing competition and deregulation and meeting the needs of an aging customer base, with increasing wealth and demands for good advice. He noted the need for developing new, multi-channel approaches to distribution, exploitation of brand power and motivation of employees. Thus, it is not enough to piece together a global empire. You must also establish the global and local structures to make it efficient. Growth by acquisition must be followed by organic growth of revenue.

Doug Leatherdale, Chairman of the St. Paul Companies, spoke of work his company is doing to better understand risk in the insurance business. He pointed out that insurance risk is an obvious consideration, but risk also includes investments, operations and other business concerns. With the difficulties in anticipating the path of underwriting cycles, risk

diversification—allocating capital to the right lines of business—becomes the key focus of activity. Leatherdale warned that the risks of insured losses, catastrophes, changing legal definitions of liability, asset values and competitor behavior must be understood in combination to play this game.

But, risk analysis is not only for the preservation and efficient use of capital. It offers an

opportunity to provide new forms of risk management and protection through new product and service offerings. These can be used to recapture ground lost to alternative risk finance, captives, self-insurance and other new competing risk management tools.

Takeo Inokuchi, Chairman of Mitsui Marine and Fire, described the revolutionary changes going on in Japan as fundamental deregulation has opened markets to new competition, from foreign entrants and from within the country. Life insurers have entered non-life markets and vice versa.

Restrictions on foreign company participation have been relaxed. More deregulation is coming. Consolidation, diversification, introduction of new technology, new products and new forms of distribution have changed the requirements for success in Japan. Mr. Inokuchi reiterated themes introduced by Mr. Castries and Mr. Leatherdale—rethinking many of the fundamentals of insurance in a new market context.



When IIS conducted its annual survey of key issues at its last Annual Seminar in Vancouver in July 2000, the big issue was the impact of the Internet and e-commerce. With the collapse of much of the dot com fever in the intervening year, Jack Fulda, Vice President of Marketing at Channelpoint, an internet company engaged in assisting existing distributors use the internet in their continuing activities, emphasized that investments in internet use must be made very carefully. He noted that the Internet remains a powerful tool for finding, selling and servicing customers. But, moving from simple applications in "e-commerce" to more effective, but complex, applications in "e-markets" requires careful integration of the new technologies with the best of insurance fundamentals.

The survey's emphasis on human resources in 2001 was also present in the 2000 survey. Insurance companies have not tended to place great emphasis in this area historically. However, threats to existing talent pools, demands for new skills, and some prominent examples of new approaches to attracting and retaining talent, have awakened interest. Dr. Claus-Michael Dill, CEO of the AXA Group in Germany, described the development of the AXA culture. From early in its development, AXA began to develop a global culture, seeking the best combination of global synergy and local market sensitivity and response. Global activities are concentrated in areas where global synergies are most likely to be gained, e.g., IT services, asset management. AXA culture is reinforced through "AXAgrams," visual drawings used to convey multicultural norms, and other means of communicating the common elements of corporate culture.

Lars-Eric Petersson, CEO of Skandia, described the latest from the front lines of the "war for talent." He counseled a clear strategy to attract and retain the knowledge-based talent pool needed

national and global experience. Plenary speakers spend a few minutes with the discussion groups to answer questions.

The program concluded with a series of papers presented in the

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to carry the business into the new market environment. "Strategic focus, employment brand-building, recruiting to fit and aid retention, meeting emerging employee preferences through cultural development and leadership, and creating an internal market for talent through continuous investment in people" were cited as keys to success.

In addition to the main plenary sessions, the participants heard a panel on the breaking down of regulatory barriers and opening of markets, including regulators from India, China and the European Union. Each addressed progress toward establishing efficient markets and opportunities for foreign entrants, subject to the realities of local infrastructure needs and conflicting opinions on the proper role of foreign entrants.

An unusual feature of the IIS Annual Seminar is the discussion groups. Following plenary sessions, participants meet in small groups to discuss the key points of the sessions. They also share their own experiences in these areas. It is a rare opportunity for senior executives from many countries to gain new insights by comparing

annual Research Round Table, where these subjects were addressed in more detail. The Research Round Table allows combinations of academic, professional and business perspectives to enrich plenary programs.

The IIS Annual Seminar is also the site of the annual awards of the Society and induction into the Insurance Hall of Fame. This year's Hall of Fame inductees were James C. H. Anderson (1931-1993), former President of Tillinghast-Towers Perrin, Josei Itoh, Chairman of Nippon Life in Japan, and Leo Goodwin, Sr. (1886-1971), founder of GEICO.

Further information about the program, the International Insurance Society and the 38th Annual Seminar scheduled for Singapore, July 14-17, 2002, can be obtained at the IIS Web site, www.IISonline.org or through its offices at 101 Murray Street, New York, New York 10007, telephone: 1-212-815-9291, facsimile: 1-212-815-9297.

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