

## **Lim Hng Kiang: Growing Singapore's vibrant insurance industry**

Speech by Mr Lim Hng Kiang, Deputy Chairman of the Monetary Authority of Singapore and Minister for Trade and Industry, at the General Insurance Association 40th Anniversary Dinner, Singapore, 26 October 2006.

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Mr Derek Teo, President, GIA  
Distinguished guests, ladies and gentlemen

### **Introduction**

I am happy to be here celebrating your 40th anniversary with you. As we celebrate this important milestone, let us draw lessons from the past as we consider opportunities for the future.

From \$44m in gross premiums in 1965, the general insurance industry has grown more than 60 times, writing premiums of \$2.8bn in 2005. In real terms, the compound average growth rate is a credible 8.2%, just above Singapore's average GDP growth of 8.0% over the same period.

### **GIA's role and challenges going forward**

GIA has played an important role in shaping the growth and development of the general insurance industry. The Best Practices on Agency Management, the Premium Payment Framework and the revised Code of Practice are examples of the good work done.

Another important role played by GIA is to be the voice for the industry. For example, the Motor Insurance Review Workgroup's initiatives were pivotal in steering the motor insurance sector's return to profitability.

GIA has also taken a pro-active stance in educating consumers on general insurance products. It has issued consumer guides and organized public seminars to educate consumers on fire insurance, property insurance, health insurance and motor insurance under the MoneySENSE national financial education programme.

There is, however, more to be done. As Mr Teo mentioned earlier, general insurance penetration remains low in Singapore. Insurance density, measured by gross premiums as a percentage of GDP, rose from 1.0% in 2000 to 1.5% in 2005, but this is still lower than the 1.8% in Malaysia, 1.6% in Thailand, 2.9% in Taiwan and 3.0% in South Korea. When compared against developed countries like UK and Switzerland, which reported insurance densities of between 3.5% and 5.0%, we are much further behind. There is therefore significant room for the industry to grow.

It would be worthwhile for GIA to focus on improving insurance penetration in Singapore by identifying insurance lines that have greater prospects for growth.

### **MAS' supervisory approach**

MAS believes that there should be a constructive partnership between the regulator and the industry. On our part, we will continue to fine tune our supervisory approach to support the growth of the industry.

Competition is a necessary ingredient for growth, but there are many areas where the industry can work together. In particular, the industry should work together to promote best practices in risk management and professional standards.

MAS will continue to support efforts by the industry to promote sustainable and healthy growth by maintaining an appropriate regulatory framework that recognises innovation. The Risk-Based Capital Framework and Risk-Based Supervisory approach give room for institutions to innovate and take more risks as long as adequate controls and risk management practices are in place.

## **Liberalisation of the general insurance industry**

MAS will also continue to encourage greater participation from a wide range of global insurance players in our market. In 2000, we lifted the moratorium on admission of new direct general insurers and removed the 49% limit on foreign shareholding in locally-owned direct insurers. Since then, the industry landscape has evolved considerably. Today, we have a diverse network of 58 direct insurers, many of whom are specialist insurers, 27 professional reinsurers and 60 captives. Most of the top international insurance and reinsurance brokers are also here. We continue to see interest from more players seeking to establish a presence here. We will consider all applicants that are well-capitalised, have an acceptable rating, and are managed by experienced professionals with a good track record even if the company is newly established.

## **Singapore as an insurance hub**

Singapore has achieved a critical mass of insurance players and activities, becoming an insurance hub. This critical mass means a wide range of insurance products and services are available. Singapore is a logical choice for those seeking to purchase insurance because they know that there are capacity and expertise here. Indeed, Singapore serves as an important regional reinsurance centre as well as the largest captive domicile in Asia.

Asia holds many opportunities for insurance. China and India's emergence as economic powerhouses have driven cross-border trade and fuelled economic growth in Asia. Japan has rediscovered its vigour. Many Southeast Asian economies are enjoying vibrant economic growth. The resultant wealth creation will increase demand for insurance.

To increase our competitiveness as a regional insurance and reinsurance centre, and retain a greater share of the Asian business that traditionally flows outside Asia, it is important for Singapore to deepen its pool of underwriting and broking expertise, especially in the more specialised risks, and to increase the capacity to underwrite such niche risks. We also want to encourage greater specialisation and new techniques in the industry, for example by having specialised service providers to support the industry, and by facilitating access to a wider variety of risk and capital management tools for insurers. Let me share with you some ideas and initiatives we have to help catalyse such developments.

## **Insurance expertise and capacity**

Firstly, regarding insurance expertise. The industry needs to accelerate its efforts to provide more regional and international exposure, and advance training across a broad range of business lines, to raise the level of technical competency and experience of its staff. The industry should take advantage of MAS' Financial Training Scheme (FTS) which provides co-funding for training.

Such efforts should not be focused only on developing the existing talent stock, but also cultivating the talent pipeline. The insurance industry faces strong competition for intellectual capital from other economic sectors. Hence, you need to raise the profile of the career in the insurance industry collectively, to attract the best and the brightest. With the right human capital, the industry will be better placed to capitalise on Asia's growth prospects.

There is also a dearth of underwriting capacity in the region for some specialised risks, for example aviation, energy, political and terrorism risks, to name a few. MAS will explore ideas to enhance our competitiveness to encourage such risks to be underwritten in Singapore. We welcome feedback and suggestions.

## **Specialisation and new techniques**

We recognise the importance of ancillary service providers within the insurance ecosystem, and believe that increased usage of specialised service providers can make our insurers more competitive. Singapore's existing infrastructure, political and economic environment is conducive for such service providers to thrive in, and we will enhance the business case with initiatives to help reduce the cost of operating in Singapore. Examples of specialised service providers include run-off management and related services, claims management and processing services, loss adjusting services and policy administration services, amongst others.

Another new technique that can enhance insurers' competitiveness is insurance-linked securitisation, or ILS. ILS enables insurers to transfer risks to the capital market to strengthen their balance sheets. These securities also contribute to a more diverse and vibrant capital market. The global ILS market saw a record level of issuance in 2005, and 2006 looks set to exceed 2005.

While there are few ILS deals sponsored by Asian insurers, we expect to see more interest as insurers become increasingly sophisticated and focused on efficient management of risk and capital. MAS is developing a regulatory framework for ILS and will consult the industry in due course.

Development of more advanced risk management techniques has to be supported by more sophisticated research. For example, more reliable estimates of catastrophic losses will allow insurers to better price and write larger risks. For ILS to be priced and rated, more robust risk models are needed.

Singapore is well-placed to serve as a centre for Asian insurance research. We therefore encourage the industry to deepen its ties and collaboration with academia, and identify the relevant areas where greater research can make a difference. MAS is prepared to consider supporting worthy projects financially.

## **Conclusion**

Ladies and gentleman, the success of our initiatives to grow the insurance industry is contingent upon active participation from the industry. As new products are introduced and more players enter the market, there will be greater vibrancy in our insurance industry. There will be greater cross-fertilisation of ideas and upgrading of skills, which will underpin the continued growth of Singapore into a thriving insurance marketplace.

MAS and GIA have enjoyed an excellent working relationship over the years, and we look forward to many years of close and fruitful cooperation. It is our collective aim to continue to grow the vibrant insurance industry in Singapore and to bring it to even greater heights.

Thank you.