

Lim Hng Kiang: Singapore's insurance industry – investing in future growth

Congratulatory remarks by Mr Lim Hng Kiang, Deputy Chairman of the Monetary Authority of Singapore and Minister for Trade and Industry, at the opening of the AXA University Asia Pacific Campus Singapore, 8 April 2009.

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Mr Henri de Castries, Chairman of AXA Management Board and CEO of AXA Group
Distinguished Guests
Ladies and Gentlemen

I am delighted to be here with you this evening to commemorate the opening of the AXA University Asia Pacific Campus.

This establishment of a full-fledged corporate training campus here reflects AXA Group's continued commitment to people development, in Asia and to Singapore. We welcome the leadership and foresight demonstrated by AXA in investing in future growth of the industry. This investment is especially significant given the current difficult economic environment.

Allow me to first comment on global economic and financial developments.

Overview of economic and financial developments in the world, including Asia

As you know, global financial markets are going through very turbulent times. The sharp downturn in global economic activities has taken many by surprise. Some say that this current macroeconomic condition is like the perfect storm. Sharp tightening of credit conditions, loss of confidence in banking and capital markets and sharp declines in output have resulted in a gloomy outlook for the global economy with projected growth of a meagre $\frac{1}{2}$ percent for 2009. This is probably the lowest rate since World War II.

The global insurance industry was not spared the impact of the volatile financial markets. While the industry has generally been fairly resilient to date, business conditions this year are expected to be very challenging. Insurance companies not only have to manage their capital bases in this fluctuating market, they also need to cope with lower business volumes as a result of the recession. Forecasts are for very tempered growth in the industry this year. However, the long term potential of the insurance sector in Asia remains promising. As such, insurance companies should stay engaged and take this opportunity to strengthen your operational capabilities. This will help us ride the crisis and position for the upturn. In this respect, I would like to share two potential areas that insurance firms can focus on:

(i) Insurance industry to focus on core competencies

First, if there is one thing that this crisis has taught us, it is for us to go back to fundamentals. The financial crisis is a timely reminder for the insurance industry to stay focused on their core competencies and to continually improve and strengthen their risk management systems. MAS has long emphasised the importance of sound risk management to all financial institutions. In February 2006, MAS issued risk management guidelines to enhance financial institutions efforts in this area. This was further supplemented by additional guidelines issued for insurance businesses in November 2007, covering areas such as product development, pricing, underwriting and claims handling. Although it is difficult for the industry to be insulated from an economic downturn, there is scope for more forward-looking evaluation and management of the risks facing the insurance industry as a whole. Rigorous stress testing and risk mitigating strategies for the asset side of the books are examples of

areas that insurance companies should be paying particular attention to in these difficult times.

(ii) Encouraging investments in research and talent development

Second, I would like to encourage the industry to take advantage of the current downtime to channel resources to research and training. Companies should not lose sight of the long term and use this opportunity to invest in trying to identify new risks, new trends and in capacity building.

For research, this is very important. As the insurance industry in Asia develops, there is an increasing need for better understanding of insurance risks in Asia in order to allow for more robust risk modelling. For instance, systemic demographic shifts in Asian countries will pose many retirement planning challenges. Just to cite a quick statistic, from the year 2000 to 2050, the old-age dependency ratio in Asia is projected to rise from 9% to 27%. There is a need for everyone to have a better grasp of this relatively new challenge of managing longevity risk. Many countries have been reviewing and improving their pension systems given this trend. For the insurance industry, longevity risks for the different markets will need to be better understood before appropriate products and services can be developed and offered. To support such efforts, I am glad to note that our local universities have initiated research institutes and projects in these areas. One example is the new Centre for Silver Security under SMU's Sim Kee Boon Institute for Financial Economics. The Centre will focus on research in retirement security issues such as retirement planning and pensions. AXA University could thus leverage on the research community here to enhance the knowledge of risks in our region.

The other aspect is the competency and availability of skilled professionals in the insurance industry. Having a pool of talent with the necessary skills is critical for the industry to maintain its competency and remain competitive. To support the specialised need of the insurance sector, the Nanyang Technological University launched a new minor for Risk Management and Insurance this year. We are also pleased that the General Insurance Association has launched the Global Internship Programme in May last year to provide deserving undergraduates with exposure to the wider insurance industry, both locally and overseas.

We believe that the current downturn is also an opportunity to invest in developing talent for the longer term. We have, as part of a nation wide effort to encourage manpower development, recently announced enhancements of up to 90% co-funding for training schemes under the Financial Sector Development Fund. We want to share the risks and costs with financial institutions in this climate to retain and develop talent. In addition, MAS has also announced that it would set aside S\$15 million to support fresh local university graduates in industry attachments over the next 1-2 years.

Closing

As an international financial centre, Singapore needs to continually build on its fundamentals. We have to retain and enhance trust and confidence among investors and businesses here by continuing to provide socio-political stability, respected regulatory standards and a well-regarded legal regime. Underpinning all these efforts is a highly skilled and professional talent pool. AXA's decision to locate its training centre here will therefore go a long way to support this effort. On that note, I would like to extend my heartiest congratulations once again to the AXA Group for the launch of the AXA University Asia-Pacific Campus in Singapore. I wish you every success in this very important endeavour.

Have a great evening, thank you.