

Ravi Menon: Singapore as a global insurance marketplace

Keynote address by Mr Ravi Menon, Managing Director of the Monetary Authority of Singapore, at the 12th Singapore International Reinsurance Conference, Singapore, 6 November 2013.

* * *

Distinguished guests, ladies and gentlemen, good morning.

Asia's changing risk landscape

These are interesting times for the insurance industry. The operating environment has become more challenging.

- Underwriting results are being pressured by a combination of sluggish economic growth, softening rates, and rising claims.
- Investment returns are being depressed by the low interest-rate environment. In Europe, for instance, returns on long-term safe assets are at their lowest since the creation of the European Economic and Monetary Union.
- Regulatory and capital requirements are being tightened as the world shifts toward risk-based regimes like Solvency II.

At the same time, the growth potential has never been better. At a time, when questions are being raised globally as to whether the financial industry has grown too big, no one is asking the same of insurance. Much of the world remains under-insured.

The prospects in Asia are especially bright. The Asian risk landscape is transforming rapidly, generating robust demand for insurance and re-insurance.

- Over the next decade, the insurance business in Asia is projected to grow at about 8% per annum.
- By 2020, Asia is likely to account for almost 40% of the global market.

There are three large factors driving insurance demand in Asia.

First, Asia is growing. Developing Asia is still growing at double the global average. Rising affluence and a growing middle class will underpin a steady increase in insurance penetration rates that are still well below the global average. Continued industrialisation, expanding cross-border trade, and infrastructure development will drive demand for insurance solutions to mitigate a variety of business risks.

Second, Asia is vulnerable. Asia is highly prone to natural catastrophes.

- Asia accounted for 52% of global economic losses from disasters between 2000 and 2009, and 81% in 2011 alone.
- Only about 35% of the economic losses from 2011 were insured, resulting in a heavy economic burden for affected countries.

A growing risk awareness, coupled with rising asset values, will lead to greater demand for catastrophe insurance and reinsurance, including alternative risk transfer solutions. Following the 2011 catastrophes, several Asian countries have already established insurance pools for key catastrophe risks.

Third, Asia is ageing. Asia is facing a rapidly ageing population. By 2050, Asia and the Pacific will be home to 62% of the world's elderly population, with one in four persons aged 60 and above. This will lead to greater demand for health insurance, annuity and other retirement security products.

As the leading insurance centre in Asia, Singapore is well-placed to serve the burgeoning insurance needs of the region. The insurance industry is one of the brightest stars in the constellation of Singapore's financial sector. The industry has done remarkably well, but its story is not well known.

I want to briefly sketch the journey of Singapore's insurance industry from writing pure domestic risks to becoming a regional underwriting hub in just ten years. I will then share our vision and strategies for the next phase of the industry's growth – to become a global insurance marketplace at the heart of Asia.

The journey to a regional underwriting hub

In the early days, the Singapore insurance industry was focused on servicing domestic business, with life insurance being the mainstay. In fact, MAS had adopted a closed-door policy to direct insurers since 1990. In 2000, MAS liberalised the insurance industry, lifting the closed-door policy on direct insurers and the 49% foreign shareholding limit in locally owned direct insurers.

Singapore's development as a regional insurance hub took off.

- Since 2000, offshore business has been on a steady uptrend, growing an average of 13% per annum to US\$5.4bn in 2012. The share of offshore non-life business has increased from 50% in 2000 to 65% in 2012.
- Major insurance groups across different segments of the industry, from direct insurers to reinsurers and brokers, have sited their regional operating and business hubs here.

Today, Singapore is recognised as the leading reinsurance hub in Asia. Amongst the top 25 reinsurers in the world, 16 have regional hubs here.

The market has built up significant expertise in specialty insurance, namely marine, energy, catastrophe, credit and political risks. For example, Singapore is the second largest market for structured credit and political risk worldwide after London.

The number of global and regional positions in Singapore has grown. Most underwriting decisions can be made on the ground instead of being referred back to headquarters. This has enabled the Singapore market to respond more quickly to clients' needs. Most Asian risks, including entire large reinsurance programmes and specialty risks, can now be fully placed in Singapore.

Towards becoming a global marketplace

Our vision is for Singapore's insurance industry to become a global marketplace by 2020, with the ability to accept not just regional, but global risks.

To achieve this, we are pursuing four strategies with clearly laid out initiatives.

- First, to increase supply-side capacity, in both volume and expertise.
- Second, to promote insurance demand, both locally and in the Asia-Pacific.
- Third, to develop a true marketplace, where sellers and buyers come together to negotiate and trade risks.
- Fourth, to foster a conducive business environment.

Increase capacity

Let me begin with our plans to increase supply-side capacity.

We are focused on increasing the quality and diversity of underwriting expertise here. Having expert underwriters on the ground enables insurers to be more responsive to their clients and make underwriting decisions quickly. They will also have a better understanding of the market environment and underlying risks.

Recent events highlight the need to build up a deeper understanding of Asian risks. For example, prior to the devastating floods of 2011, Thailand had not been viewed as catastrophe-prone. The scale of the floods and the knock-on effects of natural catastrophes on global supply chains came as a rude surprise. The floods damaged more than 7000 industrial and manufacturing plants in 40 separate provinces. This affected countries with significant manufacturing capabilities in Thailand, most notably Japan.

The majority of the insurance losses therefore came not from property damage, but from business interruption claims arising from the disruption to manufacturing and supply chains. It is therefore important that insurers have senior experts in the region who understand Asia's multi-faceted and inter-connected risks. This will enable the industry to better price and underwrite regional risks, and achieve sustained growth.

MAS will seek to increase the depth of expertise in Singapore by continuing to work with existing players to build up their specialty and reinsurance underwriting and broking capabilities as well as expand their regional hubs.

MAS will also seek to increase breadth in the industry by promoting growth in emerging business lines, such as cyber risks.

Lack of data is a key hurdle for cyber insurance in Asia. MAS is working with industry to create a test-bed for cyber risks where insurers and potential clients can come together to simulate loss events.

- Cyber insurers will be able to generate sets of valuable loss data and raise awareness about the value of specialty cyber insurance cover.
- Clients will get the opportunity to stress-test their systems, assess the responsiveness of existing coverage to losses, and gain an appreciation of potential losses and the need for cyber insurance cover.

Promote Asian demand

Next, we want to promote insurance demand in Asia.

Asia is already leading the world in premium growth. We seek to catalyse the development of insurance demand in the region via a three-pronged approach.

First, enhancing cross-border access to regional markets. The ASEAN economies are working together on a comprehensive insurance liberalisation framework.

- We aspire to achieve substantial liberalisation by 2020 for all insurance sub-sectors, namely life insurance, non-life insurance, reinsurance and retrocession, insurance intermediation, and insurance auxiliary services.
- Insurers can expect to benefit from easier cross-border provision of services and substantial access across the ASEAN customer base from offices in any ASEAN member country.
- The framework is expected to be discussed at the ASEAN Finance Ministers' Meeting next year.

Second, increasing the pool of Asian risk data. Modelling and loss simulation are key tools to help insurers manage and price their exposures. Accurate and timely data are critical for risk models to predict the impact of a loss event. For example, to predict the vulnerability of an insured risk to catastrophes, a wide variety of data is required, such as geographic location,

soil structures, rainfall, construction materials and urban density, just to name a few. However, there is a severe paucity of data on Asian risks.

Singapore is addressing this gap by setting up several research institutions to gather and analyse data in specific areas of risks.

- For example, the Institute of Catastrophe Risk Management (ICRM) at the Nanyang Technological University is currently undertaking research projects for flood and earthquake risk assessment in selected Asian cities.
- In addition to collecting and analysing the data, ICRM conducts on-site studies and risk assessments of the cities in question, and develops hazard maps and risk models.
- To ensure that its research is relevant to the industry, ICRM actively reaches out to industry players through seminars and workshops.

Third, increasing risk awareness. MAS supports efforts to raise risk management awareness in the region.

- I am pleased to note that Asia's first association for risk managers, the Pan-Asian Risk and Insurance Management Association (PARIMA), was set up in Singapore in April, with strong support from the insurance industry.
- As a platform for dialogue between risk managers and the insurance industry, PARIMA will help to enhance risk culture and risk management capacity in Asia.

Develop the marketplace

I will now move on to our efforts to develop the insurance marketplace in Singapore. We have three key thrusts for marketplace development.

First, expanding the broker network. Singapore already has a vibrant broking cluster, which has played a central role in facilitating business flows. We play host to over 70 insurance brokers. Four of the top five brokers in the world have their regional hubs in Singapore.

Today, brokers are not just intermediaries, but also high-value service providers who drive innovation and collaboration in the industry.

- Many brokers provide a wide range of risk management services. These include dynamic financial analysis, risk management and actuarial consultancy, portfolio and financial modelling, and catastrophe modelling.
- Some brokers have also begun to tap alternative risk transfer solutions to manage more complex and larger risk exposures and liabilities.

We are keen to encourage brokers to use Singapore not just as a placement centre, but also as a centre of excellence for innovation.

- A good example of this is Aon, which recently established its Analytics and Innovation Center in Singapore to provide analytics solutions to the Group's business units on a global basis.

Second, encouraging a subscription market. To underwrite large and complex risks, insurers need to collaborate. Risk sharing enables market participants to diversify their portfolios. We want to promote a true subscription market, where insurers not only share risks, but also expertise. The subscription concept leverages both the deep expertise of the lead insurer and the supporting capacity of the other insurers to cover a variety of large and complex risks.

Such deep collaboration requires contract certainty. Contract certainty ensures the finalisation of terms and conditions of the policy prior to inception of risk and therefore, serves to minimise ambiguity and disputes over claim and coverage.

- I am pleased that our industry players have come together to form a workgroup, which issued earlier this year a set of guidelines and best practices for reinsurance contract certainty.
- The workgroup is now monitoring the industry's progress in achieving contract certainty via monthly submissions by industry players on the level of contract certainty in their reinsurance transactions.
- This is a sterling example of industry collaboration. MAS supports this initiative and has been working with the industry to implement the new standards.

Third, creating more platforms to bring buyers and sellers together. This conference is a good example. The Singapore International Reinsurance Conference has become Asia's version of the Baden-Baden Meeting and the Monte-Carlo Rendezvous. It is a key platform for insurance players not just to share knowledge, but also to negotiate renewals and explore opportunities for collaboration.

Foster a conducive business environment

Finally, I will touch on our efforts to foster a conducive business environment for insurance. There are two critical success factors.

The first is Talent. The insurance industry already has in place some good talent development programmes at the undergraduate and fresh graduate levels.

- Take for instance, the Global Internship Programme (GIP) offered by the General Insurance Association. This is a structured internship programme which gives selected undergraduates exposure in general insurance companies both locally and overseas.

MAS, in partnership with the industry, has recently developed an Insurance Talent Development Framework, which maps out training and career progression pathways for both new entrants and existing insurance professionals. New industry-wide programmes will be launched in 2014 across a spectrum of roles and seniority levels.

At the entry level, we will have two programmes.

- The Insurance Executive Assistant Programme (IEAP) will prepare diploma holders for junior entry-level positions. It will complement the GIP, which is targeted at university graduates.
- The Insurance Management Associate Programme (IMAP) will place and train top-tier fresh graduates through a structured apprenticeship programme.

For existing industry professionals, there will also be two new programmes.

- The Insurance Specialist Programme will deepen participants' specialist and technical knowledge in key functions such as underwriting and claims, as well as in specialist lines such as trade credit, political risks, aviation and marine risks.
- The Hi-Po Leader Programme will provide those with leadership potential with a series of programmes to prepare them for senior management roles in the insurance industry.

The second critical success factor is Regulation. Strong prudential and regulatory standards have always been a source of Singapore's competitive advantage as a financial centre. Through promoting sound risk management and a safe environment, regulation fosters confidence in the industry and helps attract business.

Singapore was one of the early movers to a risk-based supervisory and capital framework for insurance, in 2005. Since then, MAS has been actively refining the regulatory framework and approach. We are currently undertaking a comprehensive review to enhance the risk-based capital framework, taking into account evolving international standards and market developments. In particular, we are seeking to improve the comprehensiveness of the risk coverage and the risk sensitivity of the framework.

Conclusion

Let me conclude.

The operating environment – be it for individuals or enterprises – is becoming more complex and uncertain. Managing risk has become an increasingly important part of our existence, and doing it well has become a key determinant of success. Insurance – at its core – is about managing risk. You are in an industry that serves a larger public purpose.

You are also in an industry that has great promise. Asia offers tremendous opportunity for the insurance industry. As the leading insurance and reinsurance hub in Asia, Singapore is well-equipped to serve the growing needs of the region. But to become a global marketplace for insurance, we have to continually reinvent ourselves.

The industry's support and partnership are critical to the achievement of this vision. Let us work together to build a truly global insurance marketplace in Singapore. Thank you.