

18 November 2015

2015 Asian Actuarial Conference: Milliman Survey

BACKGROUND

Milliman was delighted to co-sponsor the highly successful Asian Actuarial Conference (“AAC”), with the theme of “Innovation: Creating Sustainable Value”, held in Bangkok in early November 2015. During the event we conducted a survey to gauge views of participants on innovation and potential future trends impacting the insurance industry in Asia. We would like to express our sincere thanks to the 290 people who responded. Survey participants included actuaries from all of the main Asian insurance markets, as well as visitors from outside the region.

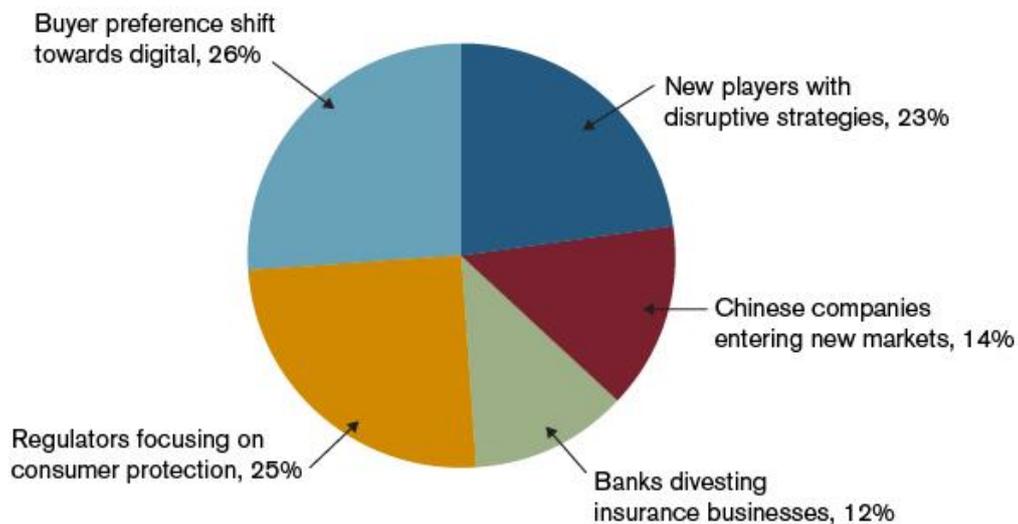
Based on the survey responses, key takeaways were:

- The most significant shift in life insurance in Asia over the next five years is felt to be a move in consumer preference towards greater use of digital technology in the buying process.
- Digital technology is expected to have the most impact on the insurance industry in Asia by generating greater sales through mobile and social media. Few people thought that digital technology will have no material impact on insurance in Asia.
- In general, respondents are least comfortable managing market and asset liability management (“ALM”) risk compared to other risks.
- If people had US\$1 million to spend in 2016 in the actuarial area, they would spend it to enhance risk management frameworks, hire actuarial talent, and improve training.
- Industrialisation of actuarial processes is regarded as the modelling enhancement that will benefit companies the most; and finally.....
- (Rather predictably) Germany is expected to win the 2016 UEFA Football Championships!

The detailed survey findings are shown below.

Q1: WHAT WILL BE THE BIGGEST SHIFT IN LIFE INSURANCE IN ASIA OVER THE NEXT 5 YEARS?

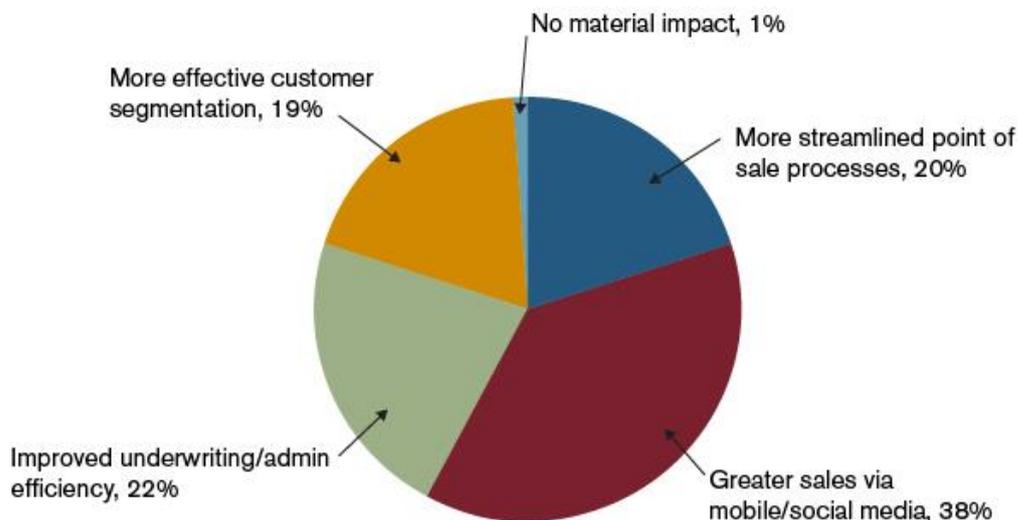
Figure 1: What will be the biggest shift in life insurance in Asia over the next 5 years?



- Whilst respondents felt that all of the five areas above would see shifts over the next five years, the most significant changes are expected to be related to the consumer, with moves in buyer preference towards greater use of digital technology and regulators increasing their focus on consumer protection receiving the most votes.
- Around a quarter of respondents believe disruptors will enter the market, including some with a digital strategy. There continues to be much discussion in Asia about the likelihood, and consequences to existing players, of non-traditional companies with access to data, distribution and leading-edge technology introducing new business models.
- Several participants expect the recent trend of outbound mergers and acquisitions activity by mainland Chinese companies to continue, whilst a number of respondents expect to see banks divesting their insurance entities over the next five years.

Q2: DIGITAL TECHNOLOGY WILL HAVE THE MOST IMPACT ON WHICH ASPECT OF INSURANCE IN ASIA?

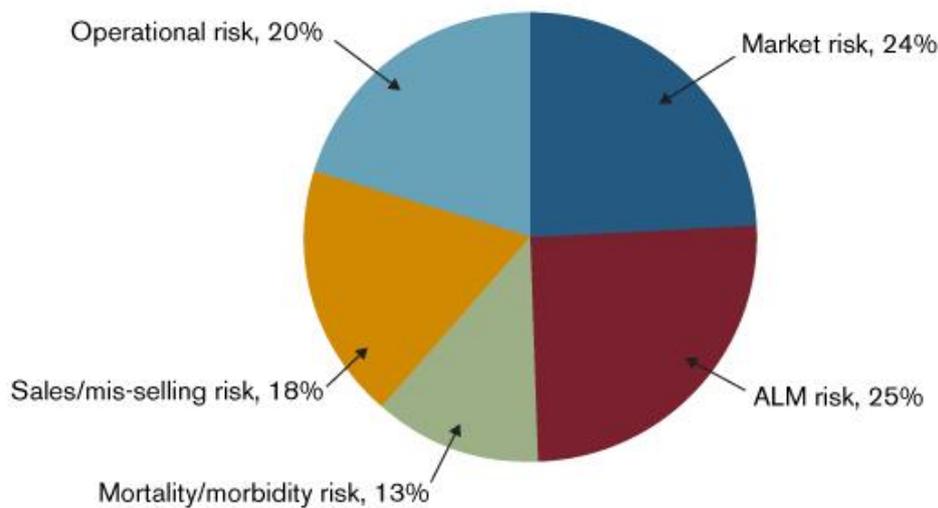
Figure 2: Digital technology will have the most impact on which aspect of insurance in Asia?



- Only a handful of respondents felt that digital technology will have no material impact in the insurance industry in Asia.
- The biggest impact of digital technology is expected to come from greater sales of insurance via mobile and social media. Respondents felt that the industry would overcome the challenges of using digital media to generate sales, although it was not clear whether people see the opportunities more in the life or non-life sectors.
- Roughly equal numbers of respondents (around 20% each) believe digital technology will lead to more streamlined point of sale processes, more effective customer segmentation and improved underwriting/administration efficiency respectively. This is reinforced by the increasing number of insurers in Asia setting up innovation labs and developing digital strategies to take advantage of these perceived opportunities.

Q3: WHICH RISK ARE YOU LEAST CONFIDENT OF MANAGING IN YOUR COMPANY IN THE NEXT FIVE YEARS?

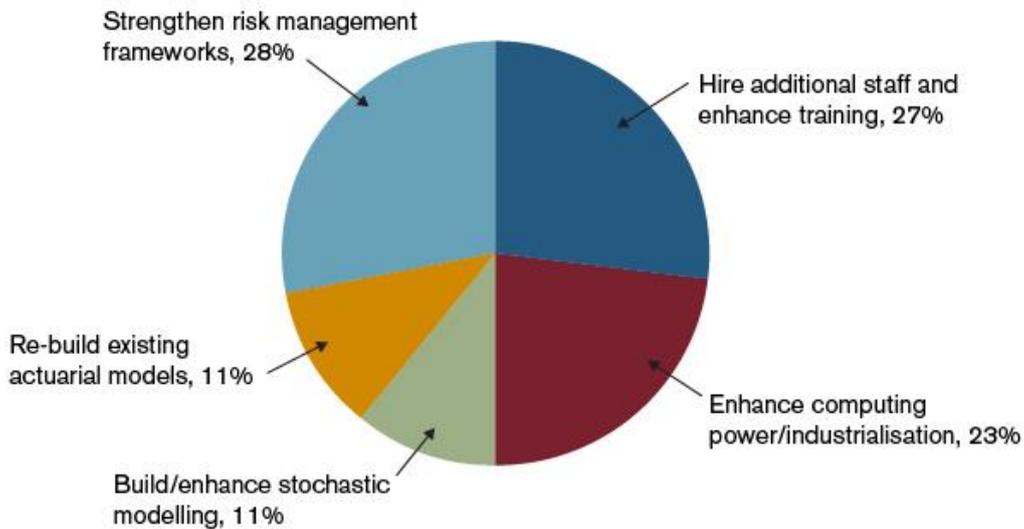
Figure 3: Which risk are you least confident of managing in your company in the next five years?



- In general, respondents were least confident of managing ALM risk and market risk, roughly equally split (around one-quarter of respondents each). This may be expected given the challenges in many markets in the region of closing asset/liability duration gaps, persistent low fixed interest yields and equity market volatility.
- Managing operational risk and sales/mis-selling risk with confidence was a concern for many participants, which is perhaps unsurprising given the challenges of collecting data and quantifying these risks, and of controlling the quality of sales in some markets.
- Respondents were relatively more confident in managing mortality and morbidity risks.

Q4: IF YOU HAD US\$1M TO SPEND NEXT YEAR IN THE ACTUARIAL AREA, WHERE WOULD YOU SPEND IT?

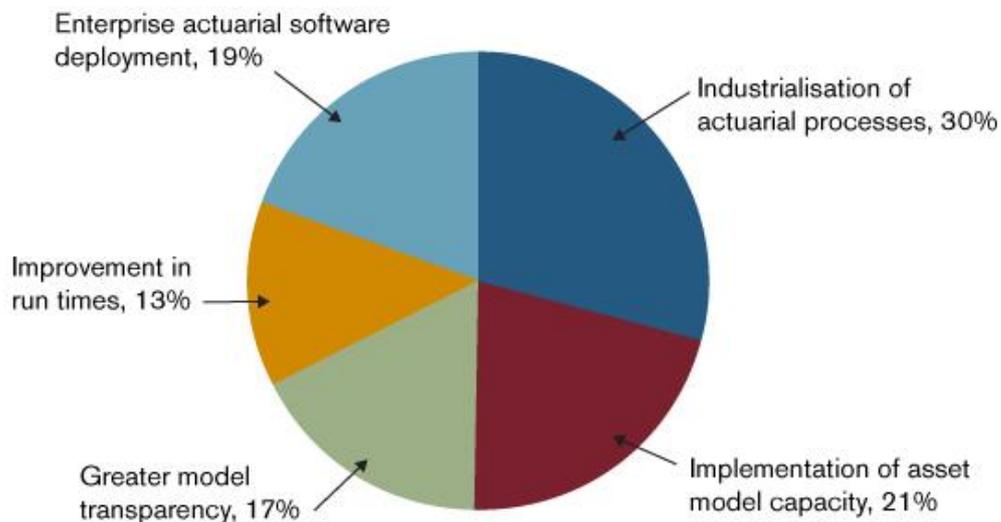
Figure 4: If you had US\$1m to spend next year in the actuarial area, where would you spend it?



- Flush with cash to spend in the actuarial area next year, respondents were most keen to use it to strengthen risk management frameworks. The evolution of risk-based capital regimes in various markets and increasing focus on Own Risk and Solvency Assessment (“ORSA”) in the region undoubtedly influenced results.
- Hiring extra staff and improving training for current teams was the priority for 27% of respondents. A consistent theme throughout the conference was that of the additional demands being placed on scarce actuarial resources from factors such as regulatory changes, increasing business complexity, requirements for more detailed/faster reporting and extra workload due to growing competitive pressures.
- A significant number of respondents, almost one quarter, would spend the money on ramping up computing power and industrialising models/processes. Interestingly, this proportion was more than the number who would spend the cash on re-building existing systems or on building/enhancing stochastic modelling capabilities combined.

Q5: WHICH MODELLING ENHANCEMENT WILL HELP YOUR COMPANY THE MOST?

Figure 5: Which modelling enhancement will help your company the most?



- Consistent with the sentiment expressed in Q4 responses, the most popular modelling improvement was seen to be industrialisation of actuarial processes. From Milliman’s experience in the region, the desire for industrialisation is typically driven by a combination of goals, including:
 - i. Better operational risk management as industrialised processes typically reduce or eliminate key risk points in the process, such as manual processes, which have a higher risk of causing material errors;
 - ii. Greater efficiency, reducing operating costs and freeing up actuarial talent to work on more business focused, value-added activities; and
 - iii. Quicker lead times for management and financial reporting, pricing and risk management.

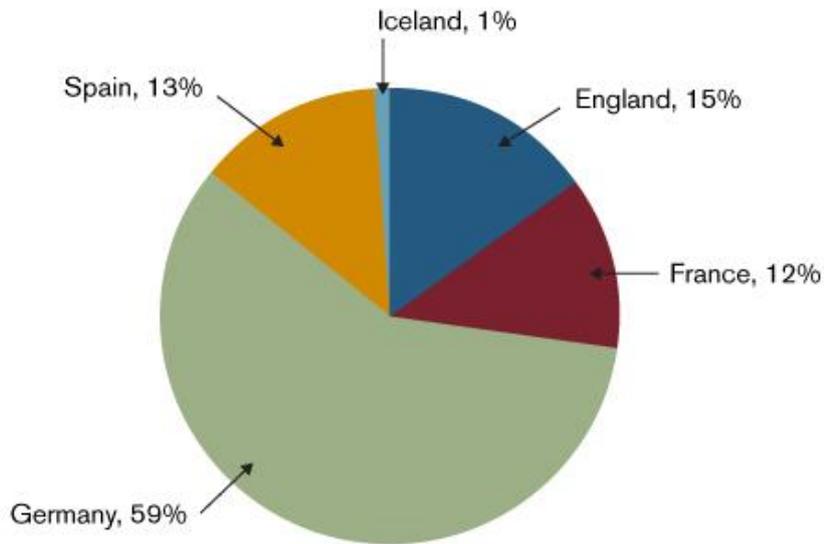
- Around one-fifth of respondents felt that they would benefit most from expanding asset modelling capacity. Whilst many insurers have detailed and well-maintained liability models, fewer companies have such robust and integrated asset models. Many respondents mentioned that enhancing asset models will be a key enabler in alleviating concerns over managing market risk and ALM risk in Q3.

- A similar proportion of participants identified the use of enterprise actuarial software as the most helpful modelling improvement. This would suggest that there are tangible advantages seen from greater use of cloud-based platforms and more industrial-strength mainframe infrastructure.

- Perhaps surprisingly, only 13% of respondents expected improved run times to be the most beneficial modelling enhancement. However, there may be some overlap with the benefits of industrialisation of actuarial processes and enterprise actuarial software.

Q6: WHICH COUNTRY WILL WIN THE EUROPEAN FOOTBALL CHAMPIONSHIP NEXT YEAR?

Figure 6: Which country will win the European Football Championship next year?



- Germany will win the tournament according to the majority of respondents.
- Perennial under-achievers, England has a greater chance to win than either Spain or hosts France, according to some.
- Some people think that Iceland will lift the trophy on its first appearance at a major international football tournament. This would certainly lead to some wild celebrations in Reykjavik.
- We will need to wait until the final on 10 July 2016 to find out.

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