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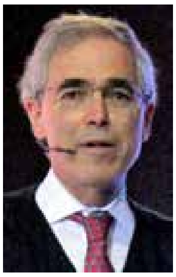
Industry is unprepared for compounding risks of innovation – Priceline.com Founder



The insurance industry has "massively misunderstood" the risks that it is facing in the coming decade, and has "massively mis-priced" those risks, said Priceline.com Founder and TEDMED Curator Jay Walker (right) in his keynote address yesterday. This is because the pace and scale of innovation is unprecedented, and so actuarial models and thinking have "very little relevance about what is coming in the world today".

"The world has changed so much that in 24 hours, a bunch of ordinary people with a budget of a few tens of thousands can knock US$10-20 trillion off a global marketplace, or engineer a virus to kill five million or more people before we even know that the virus has been released." While such examples may sound unbelievable, they are in fact "frighteningly possible", he said.

Raising the alarm on a "potential level of catastrophic risk from compounding innovation", Mr Walker said the lack of focus on events deemed "unprecedented, out-of-the-blue, economy-destroying catastrophes" needs to change as technology is moving so fast that the unthinkable, one-in-a-million events are not just becoming likely, they are becoming probable.

Consider negatives from innovation too

Elaborating on the 10 "superforces" (see sidebar below) that have been unleashed by science and technology, he told delegates that when it comes to thinking about the future of innovation, there is a need not only to think about its positives, but also the negatives which bring a whole new set of risk factors that have not been included in current models. The challenge is "to understand the sheer compounding nature of all of these new technologies, most of which have an amazingly positive upside, but also have an amazingly frightening downside".

He added that insurers are the "first line of economic disaster defence" and thus need to get ahead and start figuring out how to build resilience into societies and how to act preventively. Though the government has a critically important role to play, the industry should not be relying on governments. "As civil society, we need to step up."

"Both the private industry and public institution must be in constant communication with their constituencies. There is no room for insensitivity or aloofness; those who fail to understand the people they serve will certainly fail, be it service providers or political regimes. Often, it's the consumers themselves who invent the new products they need. Often too, it's the unresponsive bureaucracies who stand against the most practical solutions."

The Honorable Jejomar C Binay,
Vice President,
Republic of the Philippines

The 10 "superforces"

1. New sensor technology
2. Connectors
3. Software revolution – artificial intelligence, Big Data, machine learning
4. Feedback
5. Synthetic biology
6. 3-D printing
7. Nanotechnology
8. Robotics
9. Ultra-urbanisation
10. Emergence of the global middle class

Investment panel:

Plan for "war", pray for peace

Interest rates have been "steadily marching down" for the past three decades and is an "unmistakable feature of the investment world", said Mr Dean A Connor, CEO of Sun Life Financial. But going forward, the question will be how the investment environment is going to look like.

He, along with experts at yesterday's "Managing the Investment Challenge" discussion, said that the investment climate looks set to be challenging for a prolonged period of time and insurers must adapt to the sustained low-interest rate environment.

While some are expecting and have asked "when rates will go back up" – a deeply held human instinct of "reversion to the mean" – he said insurers should "plan for war and pray for peace". It is important to imagine what the industry will look like if the rates stay low indefinitely.

Prolonged sluggish growth

The challenging economic climate was highlighted by Ms Johanna Chua, Managing Director, Head of Asia Pacific Economic and Market Analysis, Citigroup, who said that in the next couple of years, growth is going to be much more challenged.

One of the major growth shocks to watch is China's slowdown and transition, she said. In the past 4-5 years, China was a

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very powerful global growth engine – investment-driven and trade-intensive growth. However, its slowdown has resulted in huge shocks to global goods trade not just in terms of volume but prices as well. It is a very different environment now compared to the 1990s, and China's strong boost to global economy is wearing out.

(L-R) Moderator Donald Kanak, Chairman, Prudential Corporation Asia, Mr Dean A Connor, Mr Ken Mungan, Ms Johanna Chua, Mr Charles Scully

Impacting insurers' operations

Other than returns, the investment challenge also affects the operations of insurers such as the legacy distribution system. Mr Ken Mungan, Chairman of Milliman, said that the current era of low yields makes it very difficult to continue supporting the high costs of the legacy distribution system.

Insurers will also need to invest further into their systems and getting the right talent to have a better understanding of risks, he said. Increasing strategic investment and allocation to growth assets and financial alternatives will require enhanced risk management strategy for their equities and hedging investments.

Mr Charles Scully, Chief Investments Officer, Asia, MetLife, added that a solid investment process requires partnership. "Effective asset management requires good internal and external partnerships, a focus on value, efficient execution and steady evaluation of risk."

Opportunity to shine

But it is not all bad news. Mr Scully said that Asia remains the most interesting region in the world to be working in, with immense opportunities. While the more developed countries such as Japan has an aged population, the demographics in many parts of Asia is positive with young populations, spelling growth potential. He added that there continues to be a huge need for infrastructure in the region which requires financing, one that the industry is accustomed to as long-term investors.

There are also many lessons learnt in the other parts of the world, where the industry here has the opportunity to learn from and apply, said Mr Scully who expressed optimism.

Mr Connor said the impact on clients should not be neglected. How does one deal with the greater risk of outliving accumulated assets or the bigger challenge of saving and funding children's education in a prolonged sluggish investment environment?

"The impact of the industry's solutions and advice is more important than it has ever been. There is an obligation on the industry to innovate around product design, to find solutions that work in a lower interest rate world. There is a real opportunity to shine as an industry," said Mr Connor.

Talent & leadership panel:

The buy-build conundrum

While the challenge of talent shortage is not unique to the global insurance industry, the impending talent challenges facing Asia-Pacific may be the most acute in the world, said Mr Michael Magsig, Global Sector Leader, Insurance, Korn Ferry, who chaired yesterday's panel on whether insurers should buy or build talent. Though the conundrum remains, panellists largely concluded the need to balance both approaches in their talent strategies.

Sharing his observations of the talent landscape in Asia, wherein he noted that there is a diminishing culture of loyalty in the talent pool amongst others, Dr Phillip Cole, Global Head of Human Resources at ACE Group, said that the decision to build or buy talent depends on the culture and maturity of the company, as well as the skillsets required of the role.

Buy and build

In roles which call for capability and are experience-based such as agency distribution or channel management, the decision is to buy; in roles which require technical skills and are knowledge-based, such as claims or legal, the decision is to build. Notwithstanding, a balanced build-and-buy strategy needs to be coupled with a culture of development, said Dr Cole.

Build, then buy and build again

For Mr Jan van den Berg, President Asia (ex Japan), Pramerica Financial Asia, building a strong and high-performing team is first dependent on building a strong identity of the company, and the way the company lives its values is a long-term and strategic differentiator.

He said: "We buy talent to accelerate our strategic development and to complement our teams with new capabilities, but they have to learn to live our values," he said, highlighting that this is where on-boarding – both an art and a science – is a crucial aspect of its talent strategy and is a "non-sexy secret to success".

Meanwhile, Mr Andrew Poon, Insurance Practice Leader Asia Pacific at executive search firm Egon Zehnder, made a case for insurers to focus on building talent early. The reality is that the current pool of talent who possess the desired leadership qualities is small, hence "even if you have the budget to buy, you may not be able to". So the way forward is to build, he said.

Spot for VUCA capacity

He added that in today's "VUCA world" where volatility, uncertainty, complexity and ambiguity (VUCA) have become a "simple part of life", insurers should note not to judge potential leadership talent based on past or present performances, but by their capacity to rapidly adapt to unprecedented, unpredictable and increasingly complex responsibilities.

L-R: Mr Michael Magsig, Dr Phillip Cole, Mr Andrew Poon, Mr Jan van den Berg

Smart Data: Answering the call for change

Big Data is not the key to growth for the industry. It can even be seen as a distraction now. **Ms Na Jia**, Managing Director Asia, **ReMark International**, shares the importance of Smart Data to the industry's growth and to be the disruption it fears.

Insurance is at a crossroads. It faces the impact of new channels, the digital revolution, changes in regulatory framework and a global economic slowdown.

Like other industries, the insurance sector has seen a fundamental shift in how people consume media, with smartphones changing our lifestyles and expectations, and a blurring of boundaries between online and offline.

Insurance is also facing fresh competition from within and outside the sector, including other financial service providers, tech giants, health care companies, venture capital firms and eager startups. While the picture presents challenges and opportunities in equal measure, one thing is clear – old ways will no longer work. Customers are calling for change.

Smart, relevant data

Answering that call is the key to growth for the industry. And the answer lies in data.

Not in Big Data, with which the industry was obsessed in the early part of this decade, but in smart, relevant data. While the frenzy of data collection undoubtedly served a purpose in highlighting the potential of digital to a notoriously conservative industry – and brought welcomed efficiencies in the areas of risk and claims – size can be seen now as a distraction.

Not only is Big Data predominantly static and the insight gleaned from it at best generic, the success of new entrants pursuing Smart Data strategies makes such huge investments in quantity look like a burden.

Change in approach

The industry has begun to change its approach, recognising that the key to customer-centricity lies in flexible, live and dynamic data which offers a better understanding of consumer behaviour and a capacity for prediction that informs truly resonant propositions.

Insurers have been too focused on product creation from an internal perspective and, in doing so, have neglected the most important aspect of their trade: the consumer. Insurers will benefit from a change in their approach, from that of being product providers to full service providers.

Smart Data facilitates that change. Dynamic data is coming from an ever-increasing range of sources – from the nascent wearables movement to driver tracking. Such developments may result in a significant change in consumer behaviour. Using it well could profoundly shift the relationship between the consumer and the insurer from a passive policyholder-supplier contractual relationship to a proactive and mutually-beneficial partnership.

For example, the dynamic data that wearables produce encourage consumers to become more self-conscious in their lifestyle choices and, in return, they enjoy a more favourable premium rate and protection from the insurer. Similarly, various driver behaviour tracking applications allow safer drivers to save on their premiums while providing useful data on their driving habits which saves costs for the insurer in the long run.

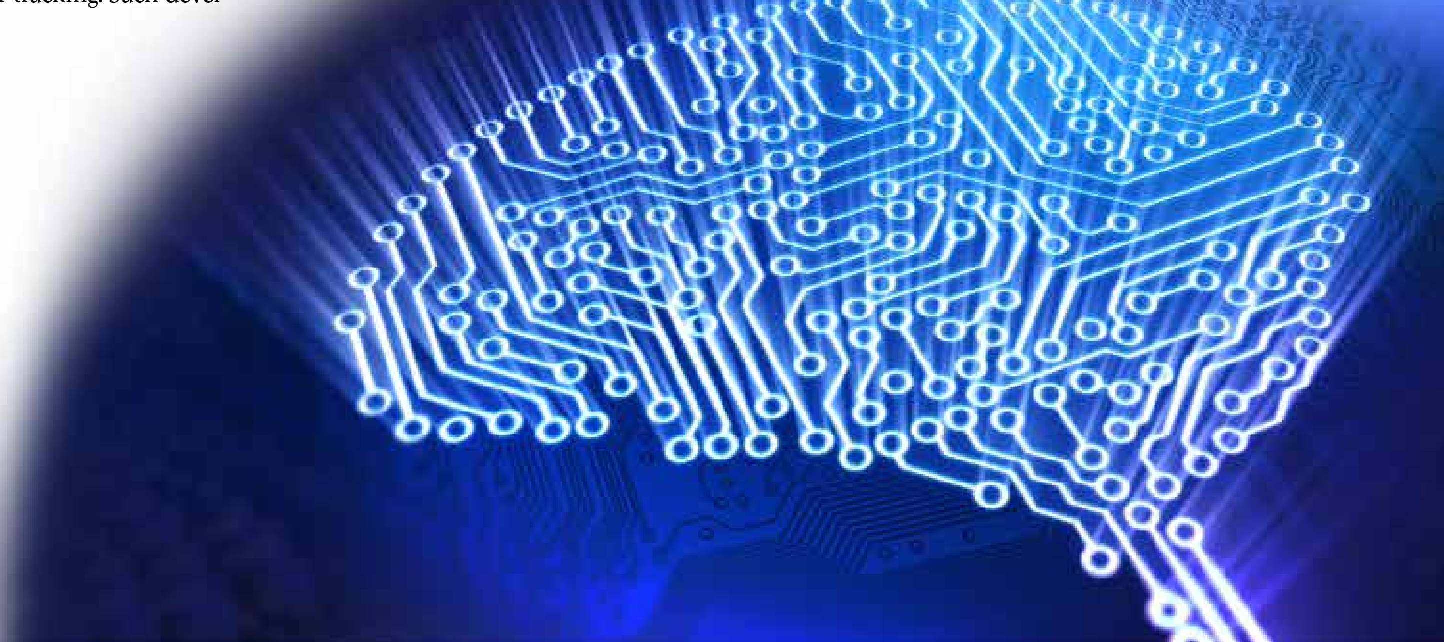
Access to behavioural data

Opportunities abound – and wearables are just one example. The Internet of Things (IoT) – in which everyday objects from thermostats to refrigerators are connected and remotely operable – offers the industry access to all manner of behavioural data. Such lifestyle data offers a myriad of opportunities to both understand and facilitate consumer behaviour; and in so doing, to earn the trust and affinity of those customers by giving them what they want.

Smart innovators are already taking advantage of the widespread availability of revealing data. Companies like Vessyl, which is creating a drinking cup that records the chemical compounds in every drink, provide valuable insight into consumer habits which can help determine their risk profile. Data of this nature, analysed in conjunction with other behavioural data sources, promises to enrich understanding of customers to the n^{th} degree.

Be the disruption

That deep understanding of customer behaviour allows incumbents to exploit disruption – to be the disruption they fear – and thus, ensure they are better able to meet the challenge of lean technology firms which have access to much of the same quality data readily available on the open market.



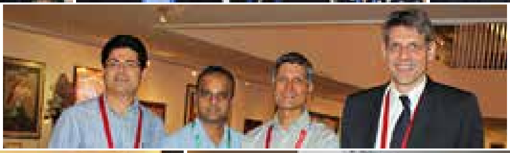
A taste of Philippines

Delegates made their way in jeepneys, the most popular means of public transportation in the country, to the Opening Dinner where they wined and dined at the Metropolitan Museum of Manila which maintains exhibitions of pre-colonial, modern and contemporary Philippine art.














Can the industry encourage healthier behaviour?

We know that our health is important. But are we doing enough to stay healthy? According to the latest research from Sun Life's Asia Health Index 2015, 73% of respondents said that being healthy is very important to them – this is a significant rise from 54% in 2014. 94% rank their personal health as an important aspect of their lives.

Despite the fact that an overwhelming majority say they know how they can improve their health further (93%), that they do everything they can to maximise their health (91%), and that they support and encourage their family to live a healthy lifestyle (95%), over half (58%) are "unhealthy" – defined in the study as those who struggle with lack of time, or are too easily distracted or unmotivated to take action toward a healthier lifestyle. This segment is also least satisfied across all life aspects, from stress management to relationships with family.

"Our research shows people across Asia sincerely want to improve their health, but the majority are not identifying the right incentives that would effectively mobilise them, said Ms Foo Sek Yen (left), Head of Health and Accident, Sun Life Asia. Whilst desire among respondents appears to continue increasing – up 19% across the region – action taken has remained fairly consistent with last year's findings. The key to changing this lies in identifying and offering the right incentives and we believe it is health rewards for healthy living, she said.

Ms Foo noted that in the Philippines, it is encouraging that the importance assigned to one's personal health and motivation to take action are up 18% and 8% respectively and suggest an even greater state of readiness for Filipinos becoming healthier. However, as with most of Asia, awareness does not translate into action.

This gap proves there remains much that the insurance community can do to incentivise and encourage consumers to be healthy. In the Philippines, Sun Life has community programmes like its SunPiology Run, which allows large groups of people to engage in health-focused behaviour, while receiving health rewards for achieving goals from the insurer.

"Beyond the educational aspect of sharing these findings, we have found that one of their greatest impacts has been enabling our advisers to initiate more meaningful conversations with their clients," said Ms Foo.

She urged insurers to step up to the challenge – by offering rewards, encouraging peer modelling and engaging in constructive dialogue with clients, the insurance industry can do much more to encourage Asia's journey towards a healthier lifestyle.

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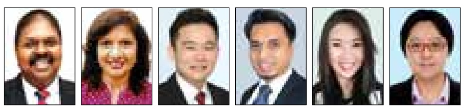

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