

Regional CFOs lead the change agenda



The insurance business is changing rapidly in Asia and CFOs are now firmly entrenched as the people at the pointy end. The 12th Asian Insurance CFO Summit 2018 in Hong Kong, organised by *Asia Insurance review* and sponsored by EY, saw a fresh roadmap for the new landscape charted.

By Paul McNamara



After transformation, after disruption – it's back to basics. That was the message from EY managing partner Jonathan Zhao in his welcome remarks at the 12th Asian Insurance CFO Summit 2018, organised by *Asia Insurance Review*. "We still have businesses to run," he said, and went on to stress the importance of attracting more people into the insurance net. Other challenges he outlined included navigating the changing insurance landscape and remaining on top of the biggest unknown of the day: Risk. And not just traditional risk like enterprise and financial, but cyber and financial crime risk too.

Insurance Authority (IA), Hong Kong CEO John Leung gave a bracing keynote address in which he revealed that IA needed quickly to beef up its talent bench through an aggressive human capital attraction drive.

Since its establishment in June 2017 the new regulatory body has already recruited 50 staff but needs at least 80 more to bring it up to strength and cope with the increasing demands it faces across licensing, regulation and disciplinary work.



Mr Jonathan Zhao



Mr John Leung

HK aiming to stay on top

The strengthening of the insurance regulatory regime is central to the efforts of Hong Kong to establish its brand and reputation further as a leader in the industry in Asia.

The new recruits will also help IA with its three main areas of focus, which include implementing the new direct licensing regime for insurance intermediaries that is due to take effect by mid-2019, working with industry stakeholders in helping implement the new policyholders' protection scheme and developing the new risk-based capital regime for Hong Kong.

The demands on the regulator ahead of the implementation of IFRS17 also highlighted weaknesses in the system including a shortage of actuaries within the sector in Hong Kong, which in turn is leading to wage inflation, the lack of appropriate IT solutions available in the market to cope with the new accounting requirements and the competing demands of overlapping regulatory initiatives for RBC and IFRS17.

The Hong Kong Federation of Insurers, General Insurance Council chairman David Alexander gave an opening address that gave an broad overview of the market in 2017 that showed that overall gross



Mr David Alexander

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premiums for the year amounted to \$62.8bn. General insurance gross premiums were \$6.2bn (up 5.5% on the previous year), yielding net premiums of \$4.2bn (up 5.1%). The net result of all this business was an annual loss of \$101.5m.

Life total in-force revenue premiums were \$56.6bn (up 9.5% on the previous year) while new office premiums (excluding retirement scheme business) were \$20.1bn (down 15.7%).

Regulatory developments

Mr Alexander went on to outline the regulatory developments that the Hong Kong insurance sector has seen recently including the establishment of IA and the risk-based capital framework that has been widely supported by industry players. IFRS17 will cause some headaches to implement, according to Mr Alexander and the main concern was how to get through it: “the challenge has been likened to building a bridge while you are still designing it,” he said, but went on to outline measures to set up a taskforce to ensure smooth implementation of IFRS17.

Swiss Re chief economist Asia Clarence Wong followed with an industry address that looked at major challenges and predictions for 2018 and beyond. His analysis took a broad macroeconomic view of an industry challenged by an overheating US economy and the inflationary risks this poses.



Mr Clarence Wong

Mr Wong predicted central bank tightening in 2019 from the major players like the Fed, ECB and Bank of England which would affect global liquidity and consequently all Asian economies. Coupled with generally rising inflation and political factors, the net result was for only moderate global growth for 2019.

Closing the gap

He finished by looking at the risk spectrum affecting the world in the year to come and pointed to the rise of populism, return of inflation, extreme weather events, the cashless economy, the fourth industrial

revolution, the gig economy and hijacked money as being the ‘emerging risk and trend insights’.

On the plus side, Mr Wong said, “This is still a growth industry,” and he went on to forecast that Asia will remain the driver behind insurance growth around the world. But he ended on a note of caution, referring to the outstanding \$1.8tn health protection gap in Asia and said, “Unless we close the protection gap we will become irrelevant to society.”

EY advisory partner and APAC IFRS17 implementation leader Martyn van Wensveen gave a broad overview of how different Asian markets were proceeding with adopting IFRS17 standards



Mr Martyn van Wensveen

which he described as being, “the most important change from an accounting point of view in the last 20 years. And I hope that it will be the most important for the next 20 years.”

IT spending on the increase

Mr van Wensveen indicated that half of the expenditure required to get compliant will be on IT spend and already many of the major players will have chosen their system platform. He was quite blunt in pointing out that the industry will have to get used to a new set of KPIs where ‘contract service margin’ will replace premiums and pointed out that in future some businesses will simply not be profitable.

“This is much more than an accounting change,” he said and many insurers will need to appoint a separate accounting lead, actuarial lead, systems lead and project lead in order to manage the IFRS17 implementation process.

He closed by stressing that forward-looking businesses will view implementation as an opportunity to drive major change rather than simply implementing a quick fix that will help firms get by.

EY partner, assurance Doru Pantea



Mr Doru Pantea

continued the theme by looking at the accounting and disclosure changes of IFRS17 and highlighted that income statements will look quite different, but pointed out that many questions still remain unanswered about the alignment of the multiple financial reporting requirements in Asia – with specific regard to statutory, regulatory and tax requirements.

The ‘IFRS17’ word

EY partner, actuarial and insurance advisory services Tze Ping Chng summed IFRS17 neatly as he concluded, “IFRS17 will affect your entire system – not just your entire financial system.”



Mr Tze Ping Chng

The second day of the conference kicked off briskly with a look at the risk-based capital regime in Hong Kong in which IA executive director, policy and development Raymond Tam looked at the three pillar approach taken by the authority.

The pillars identified were quantitative (valuation bases), qualitative (enterprise management) and disclosure but the end result was to adhere to the IA’s guiding principles which focus on protecting policyholders, adhering to international best practices while being fit for purpose.

Additional sessions in a packed agenda looked at cyber risk, InsurTech and data analytics.

The overwhelming message from the crowded two-day agenda was that CFOs in Asia have a busy few years ahead in coping with the many economic, regulatory and technical changes that are heading their way. But the overall sense was one of optimism tempered with the acknowledgement that there is a great deal of hard work to be done.

As IA’s Mr Tam put it, “Today’s world is much more complex than before.” Thankfully the region’s leading CFOs in the insurance sector seem up to the challenge. ■



Mr Raymond Tam