



What's On The CEO's Agenda?

As a curtain-raiser to the International Insurance Society Annual Conference to be held in Chicago, USA this July, **Mr Patrick W Kenny**, President and Chief Executive Officer of the IIS, discusses, in this first article of a three-part series, key industry issues on the minds of insurance leaders today based on a survey from delegates at last July's gathering.

At the recent meeting of the International Insurance Society in Hong Kong last July, we surveyed our delegation on "the top industry issues". With 50% of our delegates representing the Asia-Pacific region, we received the following response:

- The role of regulation was the leading concern, coming in at 38%;
- Distribution issues followed at 22%; and
- Corporate governance slightly behind at 19%. Interestingly, consumer issues and the role of multinationals rated far behind at 9% and 3%, respectively.

What are the underlying causes for the prominence of these issues? My observations, based on discussions with CEOs from around the world as well as my own experience as a former CFO of a large multinational, indicates that the priority of a given issue is largely based on market position, stage of development and current issues affecting their organisation.

Regulation

Firstly, let's examine the issue of the role of regulation. There are two primary factors surrounding regulation. The first is the potential for government interference in the marketplace either through the thwarting of competition or punitive issues surrounding items such as distribution channels. CEOs do not want to be constantly looking over their shoulder to ascertain if they're being pursued by regulators. However, they are responsible for keeping regulators adequately informed about market developments. It is my opinion that it is better to over inform a regulator than to surprise them, particularly in a media-intensive, high-scrutiny environment.

Standardisation

Then there is the matter of establishing consistent standards. This is particularly difficult since it involves variations in legal systems, nuances of product development and disparate capital allocation. To the extent that companies can harmonise their products among jurisdictions within the boundaries of regional legal systems, they can achieve economies of scale in product development, shorten time to market, and build a more market-responsive industry.

An accompanying matter is capital requirements since this affects product issuance and availability. If solvency standards can be harmonised and competing jurisdictions can utilise one set of accounting principles, market efficiencies can be achieved, and the role of the regulator will be simplified and unambiguous. That is not to say that a product may require different capital requirements in various regions because of the idiosyncrasies of the product, rather it is due to varying geographical characteristics.

For example, it may take more absolute capital to back

property coverage in a tsunami or flood region, or more capital for a life product in an area with high incidence of HIV/AIDS, but the underlying principles of capital leverage, eg premiums to surplus, should be consistent.

Distribution

Secondly, let's look at distribution issues which is the core of product profitability and success. In the life industry, I have observed an upsurge of activity and focus on attracting, training and retaining agents. In the late 1980s and early 1990s in Australia there was fierce competition to attract agents from other companies who were already trained and had books of business. Similarly, this was the case in Korea in the mid-1990s, and this is currently happening in China as companies seek to establish a foothold in this expanding market. While I don't anticipate that this will diminish, I expect companies will focus on training and agency retention, which has the corollary effect of increasing business persistency.

This matter is more straightforward on the non-life side. The larger commercial-line writers have deferred to the international brokers by default because of their access to international markets, while much of the personal lines business has remained domestic.

This will begin to change as the level of sophistication of the local markets and, by extension, the agents grow, which will ultimately resolve the problem of inconsistent selling practices.

Corporate Governance

The last issue is the role and importance of corporate governance. Triggered by a series of collapses in Australia and corporate scandals in North America, this issue has risen to the top of every CEO's agenda. The industry's response has been a pendulum effect, going from a benign view of corporate governance to a frenzied view. Regulators and capital markets now demand more independent directors, and auditors have become more rigid and selective. The industry is burdened by arcane terminology and esoteric business practices and compliance issues are now demanding an increased focus from directors, making it ever more difficult to establish an independent and effective Board. One could argue that form has overtaken substance, which may be the case, but if the excesses and errors of the past can be avoided in future, the industry, as a whole, will benefit.

These issues were rated most significant by our delegation of insurance executives. However, I must point out that the survey was conducted pre-Katrina, and I would be negligent to overlook the industry's recent focus on image, reputation and corporate responsibility. I will explore this issue, which will be highlighted at our next meeting in Chicago this July, in future articles. ■