

IIS Seminar: Insurance CEOs Seek to Capitalize on Shifting Financial Landscape

In the wake of the global financial crisis, insurance executives are optimistic for two main reasons -- their companies weathered the turmoil fairly well, and the drastically altered financial landscape will likely be good for business.

As the International Insurance Society kicked off its 47th annual seminar in Toronto, the chief executives' panel focused on the openings they see worldwide. Norman Sorensen, chairman of Principal Financial Group's international operations, said global capital markets are worth about \$114 trillion, and insurance is 14% of that. "A few years ago, it was only about 12% because the banks have shrunk," he said..

In terms of invested assets, he said insurers are a major player, especially in bonds. "We are the long-term investors in global private debt," he said.

Stephen Catlin, CEO and deputy chairman of Catlin Group Ltd., said the insurance industry should be doing a better job of promoting its value in economies worldwide. He pointed out that insurers are playing a key role in the recovery of Japan, New Zealand and Chile following recent devastating earthquakes.

Insurers could do more to increase the value of their products, but not by cutting prices, said Catlin. "Financially insecure institutions don't do anyone any good," he said.

From the point of view of nonlife insurers, Catlin said catastrophes have cost the industry more than \$60 billion in the first five months of this year.

Pricing is increasingly unsustainable in some lines, mainly certain casualty lines. Insurers are feeling pressure on earnings from a poor interest rate environment.

Catlin added that persistent uncertainty about the impact of the March 11 earthquake in Japan on supply chains also leaves insurers with doubts about the ultimate financial impact.

"We need to remind our central bankers and regulators around the world that insurers as investors are a stabilizing force in times of financial difficulty," said Donald Guloien, president and chief executive of Manulife Canada Ltd.

Insurance companies don't represent systemic risk in the global financial system, though regulators are increasingly looking at them as they do banks, he said. "It's important we keep making that distinction between us and banks," he said.

Manulife has a third of its business in each of its main regions -- Asia, Canada and the United States, giving it a diversified regional balance, said Guloien.

In several ways the financial crisis is creating openings for insurers, from the privatization of pension plans by struggling governments to growing middle classes in developing countries, he said.

Sorensen added that the center of gravity among the world's largest economies is shifting. China, India, Indonesia, Mexico and Brazil will rise in status over the next few decades, he added.

According to Guloien, China and India are resurgent economies, after several centuries of sharply declining shares of the global economy. "Asia is the growth engine of future insurance markets," he said.

He pointed out that India, Vietnam and Indonesia, among those growth markets, have a combined population of 1.5 billion.

Catlin, who had just returned from China, where he took the group's entire board, said insurers will play a big role in the development of rising economies like China and India.

Madhuswamy Ramadoss, chairman and managing director of New India Assurance Co., said India's gross domestic product growth has been averaging 5% to 7% over the past five years. The country's economic growth is similar to that of China, but lags by about six years, he added.

Since 2000, the number of life insurers had gone from one to 23, and the number of nonlife insurers rose from four to 19, with three more set to launch. Life insurance premiums total \$57 billion in India, versus \$6.2 billion in the nonlife segment.

Nonlife premiums are expected to grow by double-digit rates in the next decade, though rising loss costs are a problem, said Ramadoss.

"India is a unique market, needing unique insurance business models," he said. Premium volumes are large but individual policies are small. Claims costs must be tamed and regulatory changes need to be made.

New India Assurance Co. Ltd. currently has a Best's Financial Strength Rating of A- (Excellent). (Published: BestWire - 06/20/2011).

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