

# “Succeeding in a Disrupted Environment” – Speech by Mr Chua Kim Leng, Assistant Managing Director, Monetary Authority of Singapore, at LIA Annual Luncheon 2016

Dr Khoo Kah Siang, President of the Life Insurance Association,

Distinguished guests,

Ladies and Gentlemen.

1 Thank you for inviting my colleagues and me to the Association’s Annual Luncheon. We are happy to be here. I would like to first congratulate Dr Khoo and members of the Management Committee for being elected to a new term. I would also like to congratulate all of you for the industry’s healthy growth in 2015.

2 The LIA is a valued partner of MAS. Over the years, it has provided strong support for important industry initiatives, and offered useful feedback to our policy reviews. In 2015, these included initiatives under the Financial Advisory Industry Review (also known as FAIR), where the industry successfully launched the Direct Purchase Insurance and compareFIRST web aggregator. The industry also made enhancements to the accident and health insurance framework, particularly for integrated shield plans. At the start of 2016, the LIA launched the Register of Unclaimed Life Insurance Proceeds to help identify rightful beneficiaries of insurance policies. These initiatives will no doubt benefit consumers. I would like to thank all of you for the successful implementation of these important initiatives, and your continued efforts to meet consumer needs and raise the bar of the industry.

## **Responding to the changing environment**

3 Singapore’s life insurance industry continued to do well last year. Despite the more challenging operating environment, the industry reported an annual growth of 8%<sup>[1]</sup> in terms of total weighted new business premiums, and a 14% increase in total sum assured for new business.

4 However, insurers cannot afford to take growth for granted. PwC’s Annual Global CEO Survey indicated that insurance is set to become one of the most disrupted business sectors<sup>[2]</sup>, with CEOs expressing concerns over shifts in consumer spending and behaviour, as well as threats from new entrants and regulations. The 2016 Ernst and Young Asia Pacific Insurance Outlook<sup>[3]</sup> highlighted similar trends, namely, rising consumer demand for digital products and services, increasing competition and more complex regulations. These trends equally apply to the Singapore market.

5 Insurers, especially those with traditional business models, will need to rethink and sharpen strategies, and reposition for the future.

### **Strategising and repositioning for the future**

6 In responding to these challenges, I would like to encourage insurers to focus on 3 key areas:

1. strengthening governance and risk culture;
2. adopting a consumer-centric approach;
3. embracing technology and innovation.

#### Focus 1: Governance and Risk Culture

7 First, it is imperative that insurers have effective governance and sound risk culture. The basic principles of governance remain unchanged, but the environment has become more challenging. A sound and well permeated risk culture serves as a compass to guide an organisation's people and decision-making. We know that today's undesirable practices and behaviours could be the root of tomorrow's problems.

8 MAS will therefore continue to look to the Board of Directors to set the tone at the top, perform the stewardship role, and exercise effective oversight, in order to safeguard stakeholders' interest, and in particular, policyholders' interest. Accordingly, governance and risk culture will continue to have a strong bearing on MAS' supervisory focus.

9 An important aspect to effective governance and sound risk culture is the clear articulation and application of high standards of ethical and responsible behaviours. These corporate values form the back-bone of an organisation's culture. In this regard, the board and senior management of insurers must continue to emphasise the following five areas:

1. Clearly set out corporate values that support proper and ethical conduct of business, and fair treatment of policyholders;
2. Foster a strong risk culture by defining risk objectives, promoting risk awareness and translating it to all aspects of the business;
3. Tightly link employee rewards and compensation to corporate values;
4. Promote open discussions and timely escalation of issues; and
5. Ensure accountability by taking a serious view of undesirable behaviours and practices.

10 To strengthen governance and risk culture, MAS has introduced various rules and guidance over the years. However, these only set the minimum standards. I urge insurers to continue their efforts in strengthening overall governance and in promoting a sound risk culture that permeates effectively across the organisation. Clear directions and commitment from board and senior management in driving these important efforts will make insurers more resilient to both current and future challenges.

### Focus 2: Consumer-centric

11 Let me now turn to the second focus area – consumers. Insurers must place consumers at the centre of what they do, or at the heart of their strategies. This is vital for any business that seeks to develop solutions that truly meet customers' needs. We are all well aware that with rapid technological advancements, consumer behaviours and demands will continue to evolve. Consumers expect prompt service and quality products that meet their needs. Consumers are also more vocal in expressing both their satisfaction and dissatisfaction, and they have many more avenues to convey and share their views.

12 On the advisory process, there continues to be complaints on mis-selling due to poor advice or mis-information. Insurers should review their sales process and consider ways to provide appropriate and sound advice, and communicate more effectively with customers. Take for example participating funds – there is room for insurers to strengthen disclosure on governance for par fund management, bonus determination and the basis for illustration rates. With greater transparency and disclosure, insurers can better assure customers that they are being offered quality products and being treated fairly. MAS will continue to work with the LIA on this front.

13 On life insurance coverage, the industry is aware that Singaporeans have inadequate protection and retirement covers. To address these gaps, I encourage insurers to introduce products with good value proposition that meet changing consumer needs. Besides enhanced disclosures and greater consumer education, consumers would also benefit from product simplification and greater competition.

14 On service-related issues, insurers should ensure that their service quality is up to standard and meet consumer expectations. Last year, close to half of the complaints received by MAS against life insurers were related to service standards. To improve standards on service levels, LIA should regularly review its Code of Practice to ensure that it remains relevant and helps raise standards. Insurers should adopt the Code and be fair, pro-active and prompt when dealing with customers.

### Focus 3: Embrace Technology and Innovation

15 This brings me to my final point. The industry must continue to embrace technology and innovation. Given the tight labour market<sup>[4]</sup>, insurers have to exploit technology to improve productivity and reduce reliance on manpower in areas such as sales, proposals and claims submissions.

16 MAS is heartened to see that a number of insurers have taken a fresh approach to harnessing technology for their businesses. One such example is NTUC Income's Integrated Financial Advisory Marketplace (IFAM), an integrated digital platform for insurance sales. This initiative not only improves consumer experience, it also enhances the workflow and efficiency of financial advisers when submitting insurance applications.

17 Another example is AIA's Digital Underwriter system, where prospective policyholders can receive the results of their medical underwriting almost instantaneously. This initiative won AIA the Innovator of the Year Award for the Financial Services Industry under the Singapore Business Review Management Excellence Awards in 2015.

18 Insurers like AIA and Great Eastern also use lifestyle management programmes to encourage policyholders to stay healthy, and enjoy premium discounts for those who achieve certain targets. Activity trackers such as fitness bands have been used in such programmes to track and encourage healthy activities. These are positive developments, and there is scope for more of such innovation as lifestyle management tools or wearable technology will help insurers promote health improvements and even fundamentally change the way insurers develop, underwrite and price products.

19 Other insurers have set up innovation centres as part of their research and development efforts to enhance product and service offerings to consumers. Notable ones include AXA's Data Innovation Lab and Aviva's Digital Garage. There are lots of exciting ideas being developed in these labs. With greater focus on digital analytics, I am hopeful that insurers can introduce more innovative solutions to the market and improve risk management.

20 The examples I have just highlighted are encouraging developments. The focus is not just about selling products online, but in areas that have a significant impact on customer experience, operational processes and risk management practices. I urge the industry to press ahead with these potentially game-changing efforts.

21 As insurers increasingly embrace the use of technology, MAS is assured to know that insurers are cognisant of the associated cyber risks. The LIA and General Insurance Association have formed a Cyber Risk Committee in 2015 to share knowledge and experience in cyber risk management and discuss IT

security issues. We support such efforts and will continue working with the industry to enhance cyber security readiness.

### Risk Based Capital Framework

22 Before I conclude, let me provide an update on MAS review of its Risk Based Capital Framework, RBC2 in short. Insurers in Singapore are well-capitalised and have demonstrated their resilience throughout the economic and business cycles, and periods of severe market volatility. This is also evident from the results of the annual industry-wide stress tests, and from the RBC2 Quantitative Impact Study that MAS conducted. The objective of implementing RBC2 is therefore not to raise regulatory capital requirements, but to enhance risk sensitivity so that capital requirements are more aligned to an insurer's business and risk profiles. MAS is committed to engaging all stakeholders in further consultations and impact studies. We have taken time to carefully review the feedback received thus far and have taken on board many of the helpful suggestions provided by the industry.

23 If all goes as planned, we aim to conduct a public consultation and an impact study in the second quarter of this year. MAS will only roll out RBC2 after having done a proper calibration and thorough assessment to ensure that it is "fit for purpose". Specifically, the framework must be able to promote sustained long term growth of the insurance sector, and not inhibit insurers from meeting consumers' protection and retirement needs. To be clear, MAS does not expect the industry on the whole to hold higher levels of capital under RBC2.

### **Conclusion**

24 In the coming years, the insurance industry is likely to experience significant changes in the way business is done. By strengthening overall governance, permeating a strong corporate culture, focusing on consumer needs and leveraging technology and innovation, insurers will be able to ride the new wave. MAS looks forward to continuing its close partnership with LIA to foster a vibrant insurance market.

25 Thank you.

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[1] Life Insurance Association Singapore, "2015 year of growth and implementation of key initiatives for Singapore's life insurance industry". Released in February 2016.

[2] PwC's 19th Annual Global CEO Survey. Released in January 2016.

[3] 2016 EY Asia-Pacific Insurance Outlook. Released in January 2016.

[4] Ministry of Manpower, "Statement on Labour Market Development". Released in September 2015.

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