GIRO Conference and Exhibition 2012
Juggling uncertainty the actuary’s part to play

Insurance 2020 vision
James McPherson
Reeken Patel
There are 32 distinct sub-drivers of change

**Social**
- Customer Behaviors
  - Social Networking
  - Customer Expectations
  - Risk Awareness
  - Health
- Talent Drain
- Stakeholder Trust
- Corporate Social Responsibility

**Economic**
- Urbanization
- New Growth Opportunities
- Fiscal Pressure
- Inflation/Deflation
- Risk Sharing & Transfer
- Social Security & Benefits
- Distributor Shift
- Partnerships

**Technology**
- Information & Analytics
- Devices & Sensors
- Software & Applications
- Medical Advances

**Environmental**
- Climate Change & Catastrophes
- Sustainability
- Pollution

**Political**
- Regulatory Reform
- Geo-political Risk
- Rise of State-Directed Capitalism
- Terrorism
- Tax Treatment
- Sharia Compliance (Takaful)

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Social – Social Networking

Trend: The increasing adoption of social media is creating broader networks of like-minded affinity groups with broad implications of how insurance will be designed, manufactured, marketed, priced and serviced.
Social – Social Networking

Increasing Use of Tablets by Businesses

- According to a 2011 survey by MerchantCircle, a network of small businesses, using Social Media sites is the number one form of advertising.
- Facebook was used by 70% of respondents, up from 50% a year earlier.
- Twitter became more popular as well, moving from 32% to 40%.

Source: "Social Networking is the Top-Advertising Tactic for Small Businesses and Wholesalers," About.com, April 2011

Source: "Businesses embrace iPads, but don’t know why," CNET News, May 2011

Social – Social Networking

Increasing Popularity of Social Networks among Businesses

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Source: "Social Networking is the Top-Advertising Tactic for Small Businesses and Wholesalers," About.com, April 2011
Social – Social Networking
What’s your vision?

1  Social networks lose popularity. Advertising and Targeting businesses through social networks proves to be a “fad”

2  Personal, and small businesses may turn to social networks to obtain advice and share information; but mid-to-large companies would continue to transact through traditional channels

3  Individuals and business groups will pool and retain the predictable layers of risk and insure the higher, less predictable risks

Technology – devices and sensors

Trend: Developments in hardware and software technologies are allowing devices and sensors to connect to the internet and communicate in unprecedented ways
Technology – devices and sensors

Source: http://agriculture.newholland.com

Privacy concerns and costs of devices result in minimal adoption of sensing technology causing very little change in the nature of insurance.

The expanded use of sensing technology will enable proactive risk management where businesses willing to use these technologies will share in the cost-savings.

The utilization and integration of sensing technology will enable a shift from reactive claim payouts to insurers providing proactive and real-time loss and risk management.

What’s your vision?
Economic – Partnerships

Trend: As the insurance market matures in developed countries, there is a greater focus on additional revenue streams. Insurance companies will continue to develop partnerships to create these revenue streams.

Partnerships between airlines and insurance providers:
- British Airways
- Qantas
- American Airlines
- Emirates
- Ryanair
- easyJet

Partnerships between credit card companies, retailers, banks and holiday providers:
- American Express
- John Lewis
- HSBC
- Marks & Spencer
- Thomson
- Ageas
- QBE
- Mondial Assistance
- Bupa
- UK General

*Home and car insurance only
*Car and travel insurance only
Economic – Partnerships
What’s your vision?

1
Some insurers lose faith in partnerships and decide not to invest further in these as a source of revenue.

2
All opportunities to enter into partnerships become exhausted and insurers challenge for a bigger slice of the market

3
Insurers look to add other new partnerships to their portfolio through exploring new markets. (including partnerships in developing countries)

Environmental – Climate change & catastrophes

Trend: Over the past 30 years there has been an increase in the incidence of both natural and man-made catastrophes, in part due to global warming
Environmental – Climate change & catastrophes

“I’d put my money on the sun and solar energy. What a source of power! I hope we don’t have to wait ‘till oil and coal run out before we tackle that.”

*Thomas Edison* (1847–1931)

“How could I look my grandchildren in the eye and say I knew what was happening to the world and did nothing.”

*David Attenborough*

Source: "Flocking to the Coast: World’s Population Migrating into Danger", LiveScience, 2006

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Environmental – Climate change & catastrophes

**What’s your vision?**

1. With catastrophic events on the rise and insufficient data to predict them accurately, insuring highly populated areas becomes less profitable leading insurers to either exit the market or suffer huge losses.

2. Insurers will continue to rely on catastrophe models and sell innovative catastrophe insurance products; they will distribute their risk more efficiently through securitization and reinsurance to remain solvent.

3. Due to significant "green" actions taken by countries around the world, there are no major changes in climate metrics when compared to historical data and advanced early warning technologies reduce loss to property and human lives resulting in better economics for insurers.
Political – Rise of State-Directed Capitalism

Trend: There is a rise of state-directed capitalism in developing countries

Facts and figures

Increasing Regulation in Developed Countries

- The credit crisis created prompted reform of the financial industry. For example, in the US, The Dodd-Frank Act created the Federal Insurance Office, a movement towards Federal regulation in an industry almost exclusively regulated at a state by state level.
  - The Dodd-Frank Act encourages states to adopt a uniform regulatory environment.
- The European Union’s Solvency II is creating a standard set of regulations to insure a “Single Market” for insurance companies across Europe.
- In 2009, the United States instituted a “Maximum Wage” for executives of companies receiving extraordinary assistance from U.S. taxpayers.
- The UK has instituted a “Say-on-pay” system wherein executive compensation and termination packages are voted on by shareholders.
- Solvency II

Decreasing Restrictions on Foreign Direct Investment in Emerging Markets

- Many of the rapidly emerging markets still have a largely state-owned insurance industry. In China, the primary insurance companies are state owned. 4 of the 5 largest insurance companies in India are state-owned. However, these countries are beginning to allow more foreign investment, as the need for capital and “know-how” grows.
  - India recently increased the cap on foreign investment in insurance firms from 26% to 49%.

Top 5 P&C Insurance Companies in India by Market Share

<table>
<thead>
<tr>
<th>Company</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>New India</td>
<td>16.63%</td>
</tr>
<tr>
<td>National</td>
<td>13.87%</td>
</tr>
<tr>
<td>United India</td>
<td>13.87%</td>
</tr>
<tr>
<td>Oriental</td>
<td>12.94%</td>
</tr>
<tr>
<td>ICICI Lombard*</td>
<td>11.13%</td>
</tr>
</tbody>
</table>

* Private sector joint venture, others are state-owned.

Sources: Treasury.gov: Dodd Frank Act, PwC 2010 Insurance Digest
Political – Rise of State-Directed Capitalism
What’s your vision?

1
Financial crisis generated fiscal policies, increased regulations and high levels of deficits result in governments of developed countries exercising greater control in economic development, leading to more state-directed capitalism in developed countries

2
Unchanging fiscal policy and minimal regulatory impacts in developed countries result in a status quo environment

3
Governments of developing countries start adopting laissez-faire policies and allow greater levels of foreign investment and control, diluting the current state-directed capitalism in emerging countries

Over to you

What is your vision for 2020?

What drivers do you think will have the greatest impact?

Oh yes, and where will the Olympic games be in 2020?
Expressions of individual views by members of The Actuarial Profession and its staff are encouraged. The views expressed in this presentation are those of the presenter.