

**David:** Welcome everybody to the second instalment of the Actuaries Institute, Inside Asia podcasts and we're very excited to have with us here today, Matthew Maguire who's an experienced Australian general insurance actuary in Asia. So, Matthew can you just tell us a bit about yourself.

**Matthew:** Hi David thank you very much for the introduction and yes everyone, welcome to the podcast. As David mentioned, I'm an Australian qualified general insurance actuary however I've spent the last years or so in Singapore and 11 years before that in London. I've worked for an insurer, a broker, managing agent, reinsurer and for the last 10 years as a consultant around Southeast Asia. I'm also currently the president of the Singapore Actuarial Society and the chair of the upcoming Asian Actuarial Conference in Singapore which will be hosting in October later this year.

**David:** Fantastic! So just for the benefit of our listeners just tell us a bit about the general insurance market in Asia.

**Matthew:** first off, I'd like the reiterated key point that Asia is not homogenous people often refer to experience in Asia or having an Asian strategy however countries in Asia are very different and they have a wide range of capabilities. That's one of the things that makes working in Singapore so interesting. It's just a three to four-hour flight we know around Singapore covers countries with an amazing variety and capabilities. So, my experience has mostly been in Southeast Asia, so my comments will generally exclude you know like the likes of Japan, China and India, however I feel these countries probably had a you know a lot more commentary around them anyway.

Southeast Asian markets are in general relatively unsophisticated, some still have tariffs or nominally free markets or the lost payment recording distribution. They're generally pretty short term as a both of the exposures properly with I'd say very limited liability books in most countries. I mean I've seen countries where the claim settlement KPIs are measured in hours or days rather than weeks or months as the liability triangles tend to look a little bit different to those when I was doing my exams based on New South Wales motor insurance for example. The triangles were a very different shape.

**David:** Well hopefully that's good news for the customers anyway.

**Matthew:** Yeah you can see that payment metrics are certainly a key thing that the industry is measured against and so some of these companies that are very proud of just how quickly they are they are paying out to their customers. It does raise questions for outsiders to come in and query what is the likelihood of some of these claims being reopened and revalued just because they've been settled so quickly but you know because of the mindset in G.I, in the big markets that has intended to be an issue that companies can settle you know 50-60% of their claims by the end of the week.

The other thing to remember is that there's also pretty low GI penetration relative to Western markets and it's the insurance market that are aiming to you know leapfrog over the delays and the process and the countries that are now developed processes, they went through the developing countries are trying to leapfrog those and learn from the errors or the pitfalls that they had as to you know what works and what doesn't.

I mean this introduces its own set of issues around the training and development of staff you know there's a whole load of black boxes sitting in there where people may not have gone through the learning process that other countries have to understand how things work but they're just want from A to D without really understanding what happened in B and C but you know the companies are really looking to expand and develop quickly and catch up and using enhanced technology to really try and catch up to names or develop markets.

I'd also find in countries also means developing infrastructure, a developing middle caste and a developing awareness of loss and benefits insurance and to the growth in the GI markets in many Asian countries is significantly greater than what we've seen in other parts of the world, but there is still a long way to go for most of the countries, hence the global interest in the ageing insurance markets.

**David:** Got you and when we think Asia GI, I guess we also think about catastrophes don't we?

**Matthew:** That's correct there tends to be a lot of knock out exposure in the region. Singapore and Hong Kong have positioned themselves as reinsurance hubs for the region with significant growth in recent years both in terms of the number of players and their GWP. So, it's not just the direct market that's attracting the international attention the reinsurance market is also getting a fair amount of attention as well.

**David:** Understood but what would you think you know what's the most key consideration for insurance companies in Asia?

**Matthew:** I'd say for most of the direct insurance of given Asia distribution is still their key consideration top-line is their key driver retentions may be limited so they may be trying to get in a lot from the top and sending out a lot to the reinsurers and so they're not so much interested in the capacity, the risk tension part whether the tails are short enough as I mentioned before and that the actual results flow through to the marketing team pretty quickly. Portfolio monitoring is probably still the key actuarial function in the region.

**David:** I see and just as things sort of go off in a slightly different direction you know tell us a bit about insurance regulation in Asia and how that's unfolding.

**Matthew:** The range of capabilities within the region. You know some countries have very robust regulations and significant actuarial team supporting their regulators while others have much more limited regulations with no internal actuarial support at all. The regulator's however do meet up regularly to discuss updates, global events and how to ensure consistency and there's also frequent back mining mission from the less developed countries to the more developed ones, learning from these past experiences so I'd say that you know there is a lot of sharing and a lot of learning between the different countries within the region.

**David:** Got you and you know what about things like capital requirements and accounting standards and so on. How would you characterize them?

**Matthew:** Yeah, until recently the capital requirements of GIS tended to be pretty simple you know percentage of premium type stuff now however most countries have implemented or are exploring an RBC style requirement.

Similarly many countries are exploring the implementation of the IFRS updates in particularly IFRS17 and while many countries in Asia have yet to commit to a start date I'd say most are exploring it and many companies have conducted studies to see what it means for them.

**David:** So I guess it all does have a pretty big effect on actuaries and their work?

**Matthew:** Yeah, so these regulations you know sometimes they impact directly on the actuarial profession, whether it see the introduction of new reports like a financial condition report or the requirement to sign up by an actuary. I mean in many countries it's only in the last three or four years that the regulators have required General Insurance companies to get their liability signed off by an actuary. In the past, they would require actuarial techniques and the auditors would have a look, but now pretty well everywhere requires an actuary or some actuarial person. Sometimes the level of qualification differs from country to country but pretty well every country now requires some actuarial sign-off, and some countries are taking it further with you know introducing internal actuarial roles as statutory roles like the head of reserving or the head of pricing to be internal resources reporting directly to management or the board.

**David:** Got you and what about the broad area of data analytics? Are actuaries getting involved there?

**Matthew:** I don't think actuaries have really had the same history in Asia and General Insurance as they had in other reason regions and so as a result I'd say that the insurance companies have been more receptive to non-actuaries providing analytical advice and Asia also given the small number of the actuaries in the region, companies have been exploring a smaller or lower human touch techniques to determine things like liability reserves so they'll be getting more algorithms rather than judgment within the analysis. I mean they can kind of get away with it because of the shorter durations as I've mentioned but you don't have those long tail distribution from the liability side.

**David:** How would you sort of characterize the pricing in terms of its complexity or sophistication?

**Matthew:** Pricing still tends to be relatively simplistic in the region. As I mentioned tariffs are still in use in some countries and others effectively have a default tariff system where you know they'll take the old percentage of some insured that the tariff mandated and then they'll apply some discount store depending upon how aggressively the underwriter is getting that day is where only the underwriters and the techniques that they want to apply even on what we would consider to be a mass-market retail product like Moto. Much of the business is still played through agents or brokers meaning it can be quite difficult to capture all of the data that a retail policy and someone like Australia would capture through direct channel. This can difficult to do too much of the detailed analytics and Australian pricing team might routinely conduct.

**David:** I was going to ask you do you see that changing?

**Matthew:** Times are changing quite quickly. As noted earlier developing countries are looking to leapfrog technologies used in other countries and so I was saying break the use of warehousing and you know the single source of truth to that concept which allows greater analytics to become the norm. So, I've seen some of the countries are exploring the data collection process and therefore the data analytics are quite detailed. So, I would say in the coming years that is going to be sort of a key area of growth for the actuarial profession or to the insurance industry around pricing is that analytics particularly in the retail and SME space is going to become much more developed.

**David:** So, let's talk a bit about the actuarial profession in Asia. where have we been and where are we now and where are we going?

**Matthew:** The life actuaries have had quite a lot of exposure in Asia. People have recognized that if you're looking at year durations and so that where you need to be pretty robust in your numbers especially if you're not allowed to change the premiums, however in general insurance given the widespread use of tariffs recently and the short tail durations with the belief that and if they got the pricing wrong it's only 12 months' worth of pain they can sort it out, then why do they need a maybe actuarial techniques so I'd argue that general insurance actuaries are a much more recent phenomenon, however the introduction of statutory roles for actuaries in GI has created more of a compliance role fracturing in the region so unfortunately I think many companies have seen limited or little added value from the use of the actuaries they've been focusing on ticking that box that the regulator's required of them.

**David:** But I understand you've been flying the flag and talking to people about the added value actuaries can bring.

**Matthew:** About 18 months ago, I gave a presentation to the Indonesian Insurance Association on behalf of the SAS and part of their 'ready' project and I was trying to outline the benefits of actuaries to GI companies beyond the liability valuation sign-off role. The Indonesian regulator had set some very optimistic or aggressive requirements around the role of actuaries in general insurance companies around the liability valuation and the companies were you know sceptical or pushing back as they just saw it as a need for expansion. At that point I'm saying earlier about purely compliance, so I was there trying to encourage that there was so much more that the actuaries could be doing. I was there again last week and the Association was very pleased to inform me that the number of Actuaries working for GI companies since my initial presentation have in fact doubled, so I'm hoping this trend will continue and their companies will continue to see a growing space that actuaries can contribute.

**David:** That's fantastic so just talk to us a bit more about you know what actuaries can do to help insurance companies in Asia?

**Matthew:** Personally, I've seen there's so much that we can do to help insurance companies in particularly in Asia. I mean beyond the traditional roles of pricing and serving, there's many areas around Capital Management, reinsurance, business planning, investment for example where the actuarial skills can be useful in many GI companies in Asia as I mentioned distribution has been the key concern and so many of the senior management come from a marketing background, so often a little help and insight around the extrapolation of past trends or modelling of implications and decisions can make a big difference.

**David:** So, if you sort of had to characterize the difference between you know the work actuaries do in Asia & the work actuaries do in Australia, how would you wrap that up?

**Matthew:** For me, what are the differences between the actuaries roles or an actuary in Australia an actuary in Asia can be summed up as breadth versus depth. So, in Australia there are more actuaries for their company so it's possible for an actuary to specialize in a relatively small niche become the technical expert or guru in that field and still make economic sense. However in Asia, I mean there's not enough actress nor enough budget to get into that level of detail hence the actuaries may not get the same depth of understanding however they will tend to get involved in a much broader range of topics, so this is quite similar as my experience when I signed out in Australia 20 odd years ago, yeah there's not so many GI actors around then as there are now and so we were called in to answer a much broader range of questions. I'm sure you can remember from your own experience.

**David:** Indeed.

**Matthew:** So one advantage of this I've seen yeah at that time seeing solely as technical experts we were called in to answer a much broader range of questions and this is what I see still happening in Asia today.

**David:** Fantastic, so we might just talk a little bit about the impact that Australian developments have in Asia.

**Matthew:** Yeah, most insurance companies I talk to and the executives yeah they'd love to hear about what's going on in other markets, especially the companies in developing countries for developing markets and they like to hear what's going on in the more developed market or their peer markets. I mean these countries are trying to leapfrog the development where they can so they're looking to avoid the pitfalls, learn from what work and what didn't work in in other markets, and so for example the payment protection insurance selling in the UK and the impact that is having on the insurance companies and the fines that they pay. I've not worked in Australia for 25 years now as I mentioned what do you see is some of the key thing coming out of the Australian market that you know the listeners to this could be talking to their client or their management in Asia?

**David:** Yeah, so that's a great question and I think you know with the Royal Commission, curiously enough it started out in banking but then spread to include life insurance and then superannuation and then general insurance. Just focusing on the general insurance impacts, I mean there's a serious discussion that's going to go on about whether commissions should be you know perhaps at one extreme, banned or at the very least significantly curtailed from what's allowed currently. There's discussion about hawking so that the Hayne Royal Commission has come out strongly against hawking, but of course the devils in the detail there, what is hawking versus just having it a little bit of discussion with a customer, but certainly there are question marks over add-on sales you know where you take out mortgage and buy the home and contents insurance at the same time as you're taking out the mortgage and other similar insurance sales.

There's some fairly technical stuff that may not end up having all that much impact to do with the duty of disclosure, but unfair contract terms could be an issue it's not for example

clear entirely weather flood exclusions will be allowed on the same basis as they're currently implemented and of course I guess overriding all of this is stronger enforcement codes of practice becoming mandatory and having the force of law and the banking executive accountability regime potentially being applied to insurance. So, those are all things that in various Asian markets could have various, different but quite significant impacts if they are applied there. It'll be interesting to see what the Asian regulators do in response to what APRA and ASIC and other regulators might do here.

**Matthew:** Yeah I agree, because a lot of those comments are pretty standard practice in Asia and just a bit on one the use of commissions, you know in some markets commission can get up to plus 40+ percent because it's all around distribution and so if commissions are thought to be outlawed or significantly curtailed then that will have a pretty major impact on the way businesses develop in Asia.

**David:** Yeah look absolutely and I'm certainly not making a statement about whether those changes should happen but more to note that it's possible that they could happen yeah so look it's been a great chat Matthew and much appreciated any concluding comments?

**Matthew:** I guess final comments would be the future of the general insurance actuary in Asia, I'd say it's fairly mixed any for the traditional signing actuary, there could be struggles and headwinds but the potential for someone with actuarial skills, I think the future is very bright indeed but I think some flexibility may be required and if I may just sign off with a plug for the Asian Actuarial Conference being hosted in Singapore in October this year I hope to see lots of people who count coming up for the for the event promises to be a fantastic couple of days.

**David:** Well, thanks Matthew. I think based on this podcast, there will certainly be lots to learn from that event, so it should be great thanks again Matthew Maguire.

**Matthew:** Thank you very much.