

**Keynote Address by Mr Lim Hng Kiang, Minister for Trade and Industry, and Deputy
Chairman, Monetary Authority of Singapore
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Introduction

Distinguished guests,
Ladies and gentlemen,

1. Good morning and a very warm welcome to everyone. It is my pleasure to join you at the 25th Pacific Insurance Conference.
2. Prior to the financial crisis, from 2004 to 2007, global life insurance markets enjoyed good growth, with annual premiums rising by 4.4% per year on average. Over this period, Asia generated US\$2.3 trillion in life insurance premiums, with a 3.4% average annual growth rate. In Southeast Asia, the growth in the life insurance industry was spurred particularly by strong demand for investment-linked life insurance products. The Singapore life insurance industry also attained a five-year high in 2007, with new business-weighted premiums reaching S\$1.9 billion.
3. With the advent of the crisis, however, life insurance markets took a hit. Global life insurance premiums fell by 3.5% in 2008 after enjoying robust growth of 5.1% in 2007. In Asia, the market value of the life insurance industry dropped by 51% in 2008, and spending per new policy sharply declined. In Singapore, life insurance premiums fell two years in a row in 2008 and 2009.
4. Fortunately, the global economy started to find its footing again in the later part of 2009, led by Asia. Correspondingly, demand for life insurance picked up. In the South and East Asian region, life insurance premiums rose by 18% to US\$238 billion in 2010, with increased sales of investment-linked insurance products. The strong growth continued in 2011, with the Singapore Life Insurance Association reporting that for the first half of 2011, the local life insurance industry recorded S\$941.5 million in new business-weighted premiums, a 38% increase over the corresponding period in the previous year.
5. Though the prospects for the insurance industry in Asia appear promising, the industry should be alert to potential risks looming over the horizon. The Euro sovereign debt crisis remains unresolved, and will have a global impact if the situation deteriorates and financial contagion spreads. Meanwhile, expectations of growth in the US economy have been significantly scaled back as uncertainty mounts over the country's longer-term fiscal indebtedness. Overall, a wave of consumer and investor pessimism appears to be sweeping over large swathes of the developed world.
6. Asia will not be insulated from economic developments in the G3 economies. If another world recession were to take hold, our region will see its trade and investment flows curtailed and economic growth sharply reduced. Barring that, however, Asia is expected to remain resilient, supported by robust income growth and steady domestic demand,

especially in the large economies of China, India and Indonesia. These countries will offer a much needed buffer to the smaller and more open economies in the region should a global slowdown materialise. Nonetheless, it is only wise for the insurance industry to have contingent plans to prepare and manage a potential downturn in Asia.

7. The insurance industry has long played a pivotal but sometimes invisible role in an economy. But more can be done to further strengthen, broaden and deepen the insurance industry in Asia.

8. Let me touch on three areas the industry can focus on to increase its responsiveness to the needs of the population, and to win their confidence and trust:

- First, enhancing the penetration and availability of insurance;
- Second, raising financial literacy and consumer education levels; and
- Third, improving insurance distribution and safeguarding retail customers' interests.

Enhancing the Penetration and Availability of Insurance

9. Insurance penetration levels in many parts of Asia continue to be low. In terms of life insurance premiums and amount assured, much of Asia lags behind Europe and North America. Life business premiums per capita in 2010 for Asia was only US\$208, about five times lower than for Europe.

10. More therefore can be done to increase insurance penetration levels in Asia. The focus for insurers has traditionally been on the middle class, and increasingly, given the rising affluence in Asia, High Net Worth Individuals. However, closer attention should be given to how the insurance industry can meet the specific needs of other segments of the population, in particular, low-income households and the aged.

Microinsurance

11. Despite the growing wealth in Asia, considerable portions of the population are still poor. It is estimated that 70% of the world's low-income population resides in the Asia-Pacific region. The poor have little financial resources to cope with risks and economic shocks, and are often unable to afford conventional insurance products. Therefore, for some of the countries in Asia, the development of a microinsurance industry should continue to remain an important priority. This will also help to contribute to a meaningful increase in insurance penetration levels in Asia.

12. Insurers and reinsurers can play a bigger role in the development of the microinsurance industry. In addition to helping fulfill an important social role, the involvement in microinsurance could potentially create a new client base for its conventional products as segments of low income earners are likely to graduate to become middle income along with improving economic opportunities and rising income levels in Asia.

Annuity and Long Term Care Insurance

13. People in many parts of Asia are also living longer. Japan and Korea are the fastest aging countries with those aged 60 and above expected to account for about 40% of their respective population by 2040, up from 31% and 16% for Japan and Korea respectively at present. In China, this percentage will increase from 12% to reach 29% by 2040. In Singapore, the percentage of the population aged 65 and above is currently 7.3%, and is expected to rise to 19% by 2030.

14. As life expectancies in Asia rise, it becomes increasingly important to enhance the availability of annuity and long-term care insurance products, so that people are able to be financially self-sufficient in their later years. Annuities provide a stream of future income payments, while long-term care insurance products provide regular payouts in the event that the insured becomes severely disabled.

15. The development of an insurance market which can cater to an aging population in Asia presents opportunities to be grasped. More can be learnt from the insurance market's experience in developed countries which have aging populations. Indeed, insurance companies in Japan have already increasingly focused on products which cater to older people, such as policies which offer medical and nursing care.

16. Insurance products catering to longevity risks neednot be purchased only when one approaches old age. Delaying the purchase of long-term care insurance until the onset of old age may result in more expensive premiums or failing underwriting tests. In the US, the average age of purchasers of long-term care insurance products has steadily fallen from 72 years in 1990 to 55 today, suggesting a rising awareness of the need to purchase such products earlier. Arising from this trend, long-term care insurance is now commonly offered to working adults in the USA. The long-term care insurance market in the US also continues to grow with competition bringing more innovative products to the markets. The annuity market is also well-developed in the US, and accounts for a good proportion of premiums in the life insurance industry.

17. In Singapore, however, new annuity business by the private sector accounts for less than 5% of the total new life and health business premiums. While this low annuity level is presently augmented by the government through a basic annuitisation scheme offered through the Central Provident Fund, there is still much scope for private sector insurers to play a greater role.

Role of Governments, Industry and Academia in Developing Microinsurance, Annuity and Long-Term Care Insurance Sectors

18. Developing the microinsurance, annuity and long-term care insurance sectors will go some way to increasing insurance penetration levels in Asia. Governments, industry and academia all have important roles to play in helping to achieve this. A strong collaborative partnership among the parties can lead to fruitful and beneficial outcomes for all, especially for consumers.

19. In Singapore, for example, the government introduced a number of basic insurance protection schemes to meet the needs of the people as far back as 30 years ago. Together with the contributions to the Central Provident Fund (CPF), these aimed to provide a

minimum level of social security. Over the years, the government has increasingly tapped on the private insurance industry to supplement these basic schemes. For example, on top of Medishield, which provides basic health insurance protection, a pool of selected private insurers now offer complementary products, known as Integrated Shield Plans, which allow the insured to enjoy enhanced protection and benefits in the event of serious illnesses. Presently, around 62% of CPF members have purchased additional Integrated Shield Plans.

20. Our Ministry of Health also works closely with private insurers to grow the market for long-term care insurance, and has appointed private insurers to run ElderShield. Eldershield is the national insurance scheme focused on providing long-term care protection for the broad population. The private insurers also offer add-on products, known as Eldershield Supplements, which provide greater choice in benefits such as having a lower disability trigger. The government is currently reviewing the scheme to further enhance the benefits. The pace of development is encouraging: Membership in ElderShield Supplements has increased eight-fold since inception to 189,000 members in 2010.

21. Another area where we can focus our efforts on is deepening research. More comprehensive data on the low-income and aged population segments in Asia can be collected and analyzed, with the aim of better understanding the risks these segments pose and how best to meet their insurance needs. The research findings will in turn assist the development of suitable insurance products, and provide insights into how insurance distribution mechanisms for these segments can be enhanced.

22. In the area of retirement security, the Centre for Silver Security, with the support of the Monetary Authority of Singapore, was launched under the Singapore Management University's Sim Kee Boon Institute for Financial Economics in Nov 2008. The Centre aims to be a premier research centre focusing on retirement security, insurance and pension systems, with the primary focus of facilitating the development of financial retirement security in Singapore and Asia. It conducts and disseminates research on a full spectrum of issues relating to retirement security in the ageing populations of Singapore and Asia.

23. Industry and academia have also come together in the annual Microinsurance Roundtable Forum in Singapore, driven by the Nanyang Technological University, together with Risk Management Solutions, a catastrophe risk modelling firm. Since 2007, this annual forum has served as a platform for discussing how to bring microinsurance to the needy in developing countries. The Forum has also facilitated public and private collaborations on pilot microinsurance projects in Asia.

24. Partnerships between governments, industry and academia are important in ensuring that obstacles and issues, which are likely to go beyond the insurance industry, are surfaced and addressed in a holistic and sustainable manner.

Raising Financial Literacy Levels

25. Next, let me touch on the importance of raising financial literacy levels and consumer education amongst the public.

26. The relatively low insurance coverage in Asia is due in part to inadequate levels of financial literacy among the public. People may not realize the importance of having adequate financial and insurance coverage, or may not know how to do proper planning for their insurance and retirement needs.

27. Financial education is a long term effort requiring partnership from various stakeholders. In the area of educating consumers of the importance of planning for their insurance needs, Singapore's national financial education programme, MoneySENSE, plays an active role. MoneySENSE sponsors media articles which explain the use of life insurance for protection and savings, and the importance of having adequate insurance to cover hospitalisation expenses. MoneySENSE also works closely with the local industry associations to organise insurance seminars and publish consumer guides.

28. Financial literacy initiatives can take various forms, limited only by one's imagination and creativity. Given the use of the Internet and the proliferation of technology, I encourage you to develop innovative methods for enhancing financial literacy standards among the public.

Improving Insurance Distribution and Safeguarding Retail Customers' Interests

29. Next, let me touch on the need to improve insurance distribution and safeguard retail customers' interests. The distribution system must help ensure that consumers have access to affordable insurance and buy what they need.

30. In Singapore, like many other Asian countries, insurance agents remain a major distribution channel for insurance products. Consumers rely on agents to provide them with sound, quality advice. It is important that agents carefully consider their customers' financial needs and risk appetites before recommending suitable products. Agents should not engage in product pushing to maximise commissions. Agents must remember the important social role in helping customers get adequately insured for their future.

31. Insurance companies must also be customer-centric in their approach. They should not encourage the creation of a large agency force simply to compete for market share, or to push sales. Incentive structures must take into account how well the needs of customers are met, not merely sales volume. A strong fair dealing organisational culture will inculcate the right values for representatives to deal fairly with customers at all times.

32. MAS issued Fair Dealing Guidelines in 2009, and we charge the board and senior management of financial institutions with the responsibility to deliver fair dealing outcomes to their customers. MAS will continue to actively engage financial institution to ensure that they deal fairly with customers, including in their marketing and distribution of products.

33. MAS has also introduced stronger safeguards when financial institutions market insurance policies and investment products to retail customers. These include:

- First, requiring financial institutions to ensure the suitability of the investment products they offer to customers;

- Second, requiring financial institutions to provide key information on products sold to their customers in plain language, and in a format prescribed by MAS; and
- Third, requiring financial institutions to ensure that customers understand the products they buy. If customers lack the relevant knowledge or experience, financial institutions have an obligation to advise on whether a product is suitable for the customer.

Conclusion

34. Ladies and gentlemen, the prospects for the insurance industry are good, and the Boston Consulting Group estimates that by 2017, four of the top seven global markets for life insurance will be in Asia, namely, China, India, Japan, and South Korea.

35. However, more can be done to further strengthen and broaden the insurance industry in Asia. Governments, industry, academic institutions and also the public all have a role to play in enhancing insurance penetration, financial literacy, and distribution channels.

36. Finally, insurers should not forget that their core product proposition is to protect. As we recognize the growth potential of the insurance industry in Asia and embark on initiatives to develop the industry, we should always remember that the underlying aim of all our efforts is really to help ensure that people are adequately protected financially amidst the vagaries of life. All of you here are important contributors to achieving this aim.

37. Conferences such as this are very valuable platforms for discussing both how to surmount the challenges as well as harness the opportunities within the insurance industry. On this note, I wish all of you a fruitful exchange of ideas. Thank you.

Last modified on 12/09/2011