

INSURANCE DEVELOPMENTS IN SINGAPORE

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The Insurance Industry in 2010

The Singapore insurance industry got through the global financial crisis largely unscathed, thanks to diligent regulation and supervision, disciplined underwriting and investment, and the overall insurance business model, which allowed insurers to keep steady capacity, business volumes and rates.

In line with Singapore's strong economic growth in 2010, the general insurance industry closed another year of steadfast business, in both premiums and profit. Total gross premium income grew by 3.7% to \$3.03 billion, following the positive growth track of the last five years. Underwriting profits grew by 4.4% to \$198.1 million, consistent with recovery since the plunge in 2008.

Note: Amounts in this report are quoted in Singapore Dollars

Motor Insurance premiums grew by 9%, and the number of vehicles insured in 2010 was an all-time high of 945,829 vehicles. However, Motor underwriting profit was less than in 2009, but far better than the record loss in 2008. Motor therefore remains unprofitable, as it is in many countries, and it is important to manage fraudulent and inflated claims, improve customer service standards, and achieve a 90% adherence to the Motor Claims Framework (described later).

Fire Insurance earned premiums grew by 4% to \$131 million, and its underwriting profit increased by 21% to \$62.9 million.

Work Injury Compensation made a strong turnaround from 2009 to become the brightest performer in 2010. Its profit soared by 141% to \$5 million (whereas in 2009 it made an underwriting loss of \$12.3 million). Earned premiums grew only slightly, to \$233.4 million. This line of insurance is a long-tail business, and one good year is not an indication of a reversal in trend. Insurers need to maintain judicious underwriting discipline and technical reserving.

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Earned premiums for Personal Accident Insurance grew by 10% to \$187.6 million. There was a good underwriting result: a 10% increase to \$49.6 million.

Health Insurance had no noticeable increase in premium and its underwriting profits dropped by 56% to \$4.6 million, making it the biggest casualty in underwriting results. There was rate erosion from keen competition, and increased frequency of claims.

Marine Hull earned premiums increased by 4% to \$55 million, but underwriting profit fell by 20% to \$7 million. Marine Cargo, as in 2009, showed a drop of 14% in earned premium, to \$73.1 million. Underwriting profits also dropped by 8% to \$35.7 million.

The total Incurred Loss Ratios made a modest improvement in 2010, by 0.8% to 57.6%. Work Injury Compensation was the best performer, with a 9.2% decrease to 68.4%. Marine Hull was next best, with a 2% improvement to 61.9% (in contrast to its 22% increase in 2009). Motor also showed further improvement, from 75.3% in 2009 to 73.7% in 2010. Health Insurance had another year of deteriorating loss ratio, with a 4.5% increase to 62.1%.

Looking now at operations, a survey in 2010 by the Institute of Services Excellence (in the Singapore Management University) revealed the highest number of customers so far who found satisfaction with insurance service, at a level higher than the benchmark for the overall financial industry, and an improvement over 2009. Indeed, the general insurance sector was the only sub-sector within the finance and insurance industries to have customers who were happier with the service in 2010 than in the previous year. Most customers were particularly pleased with how general insurers dealt with flash flood claims, and with the streamlining of the accident reporting system and the claims process through the Motor Claims Framework. There are insurance industry guidelines on minimum days turnaround for policy processing and claims handling, but these should be considered as the minimum.

Regulatory and other Key Developments: Life Insurance

MAS Second Consultation on Policy Owners' Protection Fund

The financial crisis in 2008 threw the question of consumer protection into sharp focus and placed it under intense scrutiny. As they say, a picture paints a thousand words, and the images of queues of customers forming at AIA offices in Singapore and other Asian cities provided fodder for media stories and many letters to the press.

The Regulator, the Monetary Authority of Singapore (MAS), crafted replies to assure anxious policyholders that life insurers based in Singapore have to meet certain capital requirements set by the regulator, and that their assets belonging to Singapore policies are ring fenced. The existing law providing for a Policy owners' Protection Fund (PPF) was also cited.

The Life Insurance Association (LIA) also worked with the press to encourage policyholders to remain calm and take a long-term view of their insurance and investment holdings. LIA urged the MAS to expedite the need to operationalise the PPF. The regulator issued its second consultation paper at the end of December 2009.

The life insurance industry endorsed the objective of providing policy owners with certainty of coverage and better protection, and hence supports the change proposed by MAS to raise the compensation coverage from 90% to 100% of protected liabilities of all Life and Accident & Health policies, subject to aggregate caps where applicable.

There is a proposal to impose on each financial institution a minimum contribution levy of \$2,500 (US\$1,871) per annum, calculated on a risk basis ranging from 0.017% to 0.15% of protected liabilities. At these levels, the association thinks that this cost of funding the PPF is unlikely to need to be passed onto customers.

Regulatory and other Key Developments: General Insurance

The Motor Insurance Taskforce

New initiatives have been taken to help bring down the cost of making accident claims for motorists and insurers. The Motor Insurance Taskforce was set up in September 2009 to address the issue of high claims costs and premiums. The taskforce, which is co-chaired by consumer group CASE and AA Singapore, included as members the Monetary Authority of Singapore, the Land Transportation Authority (LTA) and GIA.

The Taskforce's recommendations, which were issued in March this year, are summarised below.

1. Third Party Property Damage Claims

A proposal has been made to legislate the requirement for pre-repair inspections for all claims of this type. GIA has agreed to the shortening of the legal time-bar of six years for bringing an action for motor property damage claims (as stated in the Limitation Act for all property damage claims) following meetings with the Monetary Authority of Singapore (MAS).

2. Accidents Involving Personal Injuries

The Financial Industry Disputes Resolution Centre (FIDReC), GIA, and the Subordinate Courts are working on the Pre-Action Protocol. The authorities are also considering compulsory rehabilitation for whiplash claimants.

3. Accident Reporting

The Ministry of Transport and Land Transportation Authority extended their timeline for completing their review on the recommendations, e.g. treating accident reports as statutory declarations, to the end of 2010.

4. Touting and Staging Of Accidents

The Taskforce's recommendation of making touting on the roads a criminal offence has been rejected by Ministry of Transport. The police can take action against offenders if investigations reveal that a criminal offence, such as cheating, has been committed.

5. FIDReC-NIMA Protocol Claims Limit

The Subordinate Courts announced that the FIDReC-NIMA Protocol Limit will be increased from \$1,000 to \$3,000 with effect from October 2010.

6. Registration of Surveyors

GIA in collaboration with CASE and AA Singapore, will work together to set up an accreditation scheme.

7. Increase of Transparency in Billings

The Taskforce has approached the Singapore Motor Workshop Association on the matter, to improve clarification of repair charges.

8. Consumer Education

A seminar entitled "MOTORING & You" was held in July 2010. It was organised by CASE/AA Singapore, supported by MoneySense, GIA, and the Singapore Road Safety Council.

The Motor Claims Framework (MCF)

The GIA continued its efforts to raise awareness of and support for the Motor Claims Framework, a best practice undertaken by motor insurers, which provides clear and common procedures on what to do in the event of a motor accident. It provides motorists with a more efficient claims experience while helping insurers to contain claims costs. Its Phase 2 commenced in February 2009 with the aim of creating awareness of and encouraging motorists to use digital/MMS picture-taking after a motor accident. In 2010 more than 80% of motor accidents were reported within the 24-hour time-frame. The target is 90% in the next two years.

An independent survey was commissioned in 2009 to find out what was the acceptance level for the MCF by motorists. The survey findings showed that the majority of motorists supported the MCF and that the new reporting system led to an increase of 30% in reports being filed with insurers within the 24-hour deadline.

Industry Activities: General Insurance

A Higher Public Profile

Each year, GIA has been tireless in playing its role in helping to further develop Singapore's non-life insurance sector, in championing the issues and causes of the sector, in assisting its

members, and in forging greater collaboration among Asia's insurance industries. Its active participation in key issues in Singapore, such as the motor claims issue, workmen compensation and the recent flooding incident, has earned it greater recognition in the country. Likewise, its efforts to promote and enhance the image of general insurance, through such activities as the General Insurance Day and by participating in events in Singapore and beyond, have gained for it a higher profile.

Dialogues with the Various Stakeholders

To drive further growth, GIA held proactive dialogues with relevant authorities, stakeholders and other business associates to address industry issues and interests.

Besides its collaboration with the Consumers Association of Singapore and the Automobile Association of Singapore on the Taskforce for the Review of the Motor Insurance Framework, GIA sought out platforms to present its thought leadership. In October 2009, it co-chaired the Asian Motor Insurance and Claims Management Conference Singapore, with the magazine Asia Insurance Review. In his opening address, the GIA President called for collaboration between insurers and regulatory authorities to spur the growth of the motor insurance sector, and to share expertise that can better handle issues facing this sector. The call was well received as the motor insurance sector in Singapore and globally continued to face underwriting losses and rising claims costs.

In its effort to champion other business classes, GIA launched the third series of the Maritime Knowledge Shipping Sessions. At the three well-attended sessions, distinguished speakers and maritime experts presented hot topics in the shipping industry, enabling the participants to gain new insights and perspectives on areas such as risk assessment, piracy and marine dispute resolution – making the series as successful as ever.

Last year, GIA also had the opportunity to interact with some industry leaders in the region, through its participation in the Asean Insurance Council Conference in Laos and a meeting of the general insurance associations of Malaysia, Brunei and Singapore in Bandar Seri Begawan.

Expanding the Talent Pool

One of the key priorities of GIA is to build the talent pipeline and groom future leaders for the industry. It has initiated the Talent Outreach Project and the Global Internship Program to achieve this.

Talent Outreach Project

Despite the resulting retrenchments and hiring freezes in major industries in 2009 in the wake of the economic downturn, GIA continued with its Talent Outreach Project, which reaches out to schools and junior colleges, universities and tertiary institutions, as well as young professionals in the financial services industry.

Last year, GIA conducted several campus talks and participated in career fairs to showcase the career opportunities in general insurance awaiting new talents eager for a chance to develop a meaningful career.

A total of three career fairs and nine profiling talks were conducted to reach out to potential talent in various junior colleges, polytechnics and universities. GIA's Global Internship Program (GIP) interns served as ambassadors as they continued to play a key role in these talks. They were a big draw to their fellow students as they shared their internship experiences and exposure in the international outfit of their host organisations.

Global Internship Program

Launched in 2008 to offer undergraduates opportunities to learn about the wide range of job profiles available in the industry in Singapore and beyond, GIP drew a record number of applicants with more than 400 applications for 2009. As a result, the 2009 intake was increased to 26 compared to the pilot batch of five interns the previous year.

The 2009 internship was hosted by 29 participating companies. For 12 weeks, the interns received first experience and understanding of the different job functions in an insurance law firm, underwriting, claims adjustment, business development, product development and actual brokering. Some of the interns even had the opportunity to visit offices in Paris, Zurich, London, Sydney, Shanghai, and Puget.

GIP's success was evident in a post-internship survey by the Regional Development Committee Secretariat, which found that 42% of the interns expressed desire to work in the industry upon graduation, while 43% will graduate only in 2011/2012. On top of that, 15% of the cohort actually chose to join their host companies after internship. This response effectively met the benchmark percentage set by the Monetary Authority for the conversion of GIP interns into permanent employment within the general insurance sector.

In 2010 the number of internships was increased to 33. GIA expects more of them to embark on a career in general insurance upon graduation. There are again 29 top-class companies participating in this effort to groom a new generation of general insurance practitioners.

Industry Activities: Life Insurance

Underinsurance Remains a Concern

In March 2007, LIA released the findings of a "protection gap" study it had commissioned by Nanyang Technological University (NTU). The study showed that in 2006, the working adult, on average, was estimated to have a life protection requirement of \$480,636. He was estimated to own, on average, \$118,639 worth of life insurance comprising the total of personal life insurance, group life insurance, and dependant protection scheme. The protection needs

translated into 11.3 times the average annual income of \$42,427, while the estimated existing cover of \$118,639 was equivalent to only 2.8 times this average annual income, or 25% of the working adult's protection needs. *This meant the Singapore working adult was underinsured by \$361,997 or 75% of the life protection requirement.*

In 2007, NTU conducted an update survey. While the approach in 2006 focused on the average amount for the working population, Update 2007 used illustration profiles to estimate the amount of underinsurance by age group.

It was found that for male working adults, insurance needs peaked in the age groups of 30-39 and 40-49. For females, insurance needs peaked at the start of their career. Insurance ownership in absolute terms was highest amongst those aged 30-39, but their gap was also the widest due to their greater protection needs.

The estimated amount of underinsurance was \$329,223 (\$361,997 in 2006), which was 67% (75% in 2006) of the protection requirement.

The average death benefit payout reached its highest level of \$58,204 per policy in the fourth quarter of 2009. Given Singapore's average annual income of about \$43,000, this shows that the average family still only has slightly over one year's worth of cash provision following the demise of a breadwinner.

Challenges

The fundamentals of life insurance remain strong to the general public, and opportunity abounds for life insurers to place affordable protection solutions into the hands of ordinary Singaporeans. Changing their mindset to accept the necessity of paying for protection benefit will require more time and further efforts.

LIA continues to spearhead efforts to make life insurance products easier to understand. Effective in 2011, benefit illustrations will be revised to provide greater clarity.

The sector will continue to work with the regulator to enhance the ease of providing products and financial advisory services to High Net Wealth individuals from around the region and the world. Insurance, tax and advisory regulations may need to have hindrances removed or new provisions put in place, without compromising the Singapore brand that stands for high regulatory standards and consumer protection.

On the distribution front, there is an ever-present imperative for advisers to keep up professionally with the newer products coming on stream, acquire expertise, and deliver top-notch quality advice. LIA does not expect the pace of innovation and change coming from competitive and regulatory quarters to relax.

The industry also needs to attract quality new entrants.

Fully restoring consumer trust which was weakened, and rebuilding public confidence which was shaken, by the financial crisis, are of fundamental importance. This cannot be achieved without stakeholders each doing their part – the regulator, product issuers, distributors and the media.

Looking forward

2011 will see even more focus on the FAA-G11 Guidelines on Fair Dealing, which in 2009, represented a major effort by MAS to underpin the enhanced sale and marketing regime by placing the responsibility on the board and senior management to deliver fair dealing outcomes to customers.

The Guidelines apply to the selection, marketing and distribution of investment products and the provision of advice for these products. They also cover after-sales services and complaints handling, and set out five fair dealing outcomes.

One critical issue that calls for an industry philosophy and position to be forged concerns the remuneration structure of representatives and to what extent is it true that traditional schemes tend to incentivise sales based on the adviser's self interest rather than the customer's need.

LIA and the individual companies will have dual responsibility in making the Fair Dealing Guidelines part of what they do in Singapore for the benefit of the policyholders and future customers.

Source of Insurance Data/Figures: Monetary Authority of Singapore, Insurance Statistics on MAS website.