

# ASEAN INSURERS' SKILL DEVELOPMENT CHALLENGE

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## ABSTRACT

This article sets out to demonstrate that there is an urgent need for skill development in the local insurance companies in Asean countries. The pressures creating this need are the turbulent changes affecting the region, especially globalisation and consolidation. Liberalisation looms ahead: an opportunity and a threat. Rampant change is ever present. All this demands that insurance staff in the region develop a range of sophisticated skills, or be swamped by the foreign incomers from more mature markets and with a greater degree of professionalism. This presents a real threat to local insurers, whose importance to the national economy is increasingly recognised by governments.

The need for skill improvement can be met through companies themselves, through On-the-job-training and other experiential methods, supplemented by other agencies such as Asean, universities, governments, and professional bodies. The internet is transforming the delivery of education and training, but is not a panacea.

However, apart from some of the big companies, and smaller companies in a few countries such as Malaysia and Singapore whose governments actively and strategically intervene, it is unlikely that the formidable skilling need can be met within local companies. For most are not aware of the urgency, or equipped either financially or in terms of skilled trainers, nor do they have a reputation for quality training or other aspects of human resource management. And the staff turnover problem deters them from a training investment which will at best be wasted, and at worst increase turnover.

Perhaps strategic alliances within Asean, with training as part of the package, could be a solution. Or perhaps a global takeover of local markets is inevitable, as an interim period, the transfer of skills from the foreign insurers leading to a later local resurgence

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## **INTRODUCTION**

The world is experiencing continuous economic turbulence. Firms have to engage in 'global corporate Olympics' (Kanter,1990). They must operate in an environment of competitive uncertainty. So attention focuses on their human resources: on the skills they need, and how to acquire them (Gratton,1997).

In practice, the development of human resources is usually accorded low priority, except for ritual acknowledgement in company reports. It is information technology which attracts the glamour and excitement, with a new toy every month. Yet there are no remaining unsolvable technological problems. The deeper issue is how people can best use technology: the problems and challenges will always be people! Consider the vast amounts of money spent on possible Y2K bugs. And yet, by 2005 all present staff and managers will be incompetent, however competent they are now (Woolrath,1999). Perhaps a Y2K5 development programme should become a priority!

## **THE FUTURE CHALLENGES**

We now experience turbulence in every field of life. It affects the economic field, because of the ever growing dominance of capitalism combined with rapid enhancements in computer technology. This spills over into all other fields: social, cultural, legal, and political. The way people live and work is changing exponentially, at a rate never before seen in history.

The insurance community benefits from increased trade, as it means more risk and thus more premium income. It has also been shown that an effective insurance industry is a necessity for economic growth (Skipper,1997). Governments see the growth of insurance as an important component of national trade, with international possibilities, and have high expectations of the industry, often explicitly expressed in national plans (e.g. Singapore Ministry of Trade & Industry, 1991).

The expansion in trade provokes a need for more skilled employees which it is not easy to fulfill. A shortage of skilled staff has long been a problem in the region, for many reasons. When the economies were booming, more people were needed to initiate and manage new ventures and expanding businesses. Turnover became a fact of life, firms fighting to attract and retain skilled manpower. And traditionally, insurers have not been strongly motivated to provide in-house training programmes (Kwon,1999).

Globalisation spreads the turbulent change to all nations. It also brings fierce competition to local markets. Consumerism engenders more competition as

producers seek to satisfy increased expectations for customised goods and services. The first steps to liberalisation have made the Asian market the most significant emerging market for the global insurance industry (Schonhofer,1998). Insurance appears to be one of the most vulnerable industries, as virtually every major change will impact the industry in a major way: it is pushed and pulled in several direction by forces global, technological (Faustino,1997). The great challenge is for insurers to find ways of coping with it all. It calls for a wide-range of expertise never before needed by so many so quickly.

### **SOME EXAMPLES**

Some examples of the skill problem are now given, from some of those countries within Asean which are the focus of this article: Indonesia, Malaysia, Philippines, Singapore and Thailand. Reinsurers have long complained of a thinning of qualified personnel, especially at the lower and middle management level, which had led to the rapid promotion of juniors who did not have sufficient time to develop or perfect their skills (Phua,1993).

In 1996, at the East Asian Insurance Commissioner's' meeting in 1996 (Asia Insurance Review, November 1996), there were many reports of skill problems. In Malaysia, the continuing labour shortage and the need for human resource development were key challenges. Thailand was said to be experiencing severe shortage problems, with more to come: a crisis that needed immediate action. Furthermore as professionalism needed improving, large investments were needed in human resources. Indonesia faced shortage of time to raise the quality of human resources and was instituting a crash programme. Similar things were said about Philippines.

At another conference in 1996 (the Asean Conference on Insurance Liberalisation), several people reported skill and staffing problems, often made evident through the granting of additional licences for foreign entrants.

**Philippines:** There is a serious shortage of local professionals. In fact the insurance industry has been somewhat remiss in developing trained and capable insurance managers. Inefficient insurers will have to shape up in terms of resources, both financial and human (DeDios,1996). **Thailand:** When the market opens up present companies will have to improve their performance, particularly in term of capital, human resources, equipment, and management in order to remain competitive. The human resource issue is a crucial factor in the liberalisation of the Thai insurance business (Potanjee,1996). **Indonesia:** Education and training are the first priority for the insurance community which is facing serious shortages of trained personnel. The resultant increased professionalism is vital to the future. The Indonesian government in a Presidential Decree of 1992 set out minimum standards of professional qualifications, and

stipulated that by 1998 all insurance companies should have properly qualified persons in the head offices and branches (Whittaker,1996).

## **CONSOLIDATION AND FURTHER LIBERALISATION**

The financial crisis of 1997 put a temporary stop to economic expansion, and skill development also suffered as training is usually one of the first costs to be cut. But the recession gave an impetus to globalisation because of the bargain prices of local companies. In 1998, accelerating in 1999, along came 'consolidation' as insurers in North America and Europe merged, as did their local subsidiaries in the region. "Consolidation and globalisation are coming together in the insurance industry" (Kulk,1998,p10). Asia is currently the darling of global insurers, for riding on the wave of global consolidation, traditional global insurers have strengthened their presence in Asia, often through mergers and acquisitions (Sigma,2000). This is certainly evident in Thailand (Lawrence,2000). In theory, this should have created a surplus of skilled staff because of economies of scale. But in practice it is often key staff who are lost. Indeed, "the dramatic and ongoing realignment of the global insurance market has created new imperatives in terms of hiring high-quality professionals. Competition for people is fierce" (Schonhofer,1998).

As if recession and consolidation were not enough, further liberalisation looms ahead. Liberalisation (with its vanguard of consolidation) of the ASEAN insurance industry is now the catalyst which forces every company to plan and use its human resources strategically (Lawrence,1997). The greatest degree of change is needed from these local insurers in regulated markets who got positive results in protected markets in the past without great effort (Bugl,1996). The closed insurance market of Thailand needs opening up to stop it remaining a lifelong infant:there is an urgent and compelling need to liberalise her insurance industry for her own good (Potanjee,1996). This stimulus is greatly needed in some countries whose insurance efficiency and professionalism is poor (Tang,1996). Many have an 'image' problem, which can be improved through education, training and professionalism (UNCTAD,1991).

With liberalisation comes "the law of the jungle and survival of the fittest" (Yong-Kil Shin,1996). "The labour factor will ultimately determine the success of liberalisation in the Asean region" (Senawi,1996). To benefit from liberalisation, local insurers need financial capital and human resources, "but everything hinges on talented or trained human resources" (Tang,1996). The consolidated insurers, fresh from their mergers and seeking to justify them by profitable growth, will compete for the best local staff. Domestic insurers must therefore have highly trained and skilled staff if they are to compete (Kulk,1998). This presents them with "the formidable task of having to complete the catching up process and to

strategise as to how to leap-frog (Ali,2000). Additional strains come from new markets in Asia (such as Vietnam and China) and the maturing of others. The growth of eCommerce will also have an impact.

As insurers in 2000 look as though they have emerged from the 1997 recession, they face even greater pressures, because of fiercer market competition, accelerating pace of consolidation, and unprecedented level of product innovation (Schanz, 2000). The increasing need for higher-level skills because of the effect of technology on innovative possibilities in financial service industries has long been foreseen. "Stiff competition for staff, especially multi-skilled and better qualified workers, will be one of the greatest challenges of the next millenium for insurers" (Asia Insurance Review, September 1997, p66). The shortage of skilled staff has always been serious in the insurance industry but we can expect it to worsen - because of growth, poor image, and the need for a new type of professional (Faustino,1997). The insurance industry must focus on building its intellectual capital, The creation of a qualified, technically competent and proactive workforce is crucial, said the Governnor of Bank Negara, Malaysia, who is also the insurance regulator (Ali,2000).

All this adds up to a formidable challenge to local insurers in the region. They must begin, now, a systematic process of skill development (as part of a wider process of professional human resource management (Kulk,1998).The challenge is not just from global competition. It is also because of the fast-changing nature of the skills that are needed.

## **THE SKILLS NEEDED**

With continuous change, the amount of new knowledge doubles every four to five years (Woolrath,1999). "The insurance industry in the 21<sup>st</sup> century will need a dramatically different and multiskilled manager" (Faustino,1997). Employers and employees now stress the need for global-standard skills. There is need for a broader range of skills and more in-depth knowledge; teamwork and group responsibility skill; multi-skilling; and basic management competences (Ashton,1998). To create the environment for innovation, all staff will be empowered with responsibility, and they will have whole jobs rather than discrete tasks, be expected to handle the routine as well as the unexpected (Koike and Inoki 1990), and be flexible enough to switch jobs within the company

It is not the purpose of this article to list the range and depth of skills needed. The `hard' (technical, factual knowledge) needs are the easiest. The `soft' needs (leadership, strategic thinking, judgement, communication skills, creativity etc) are the hardest to teach or learn. How many managers understand how teams learn, learning styles, the psychology of learning, knowledge management, and

experiential learning? “For too many managers these are closed books. They they are critical to 21<sup>st</sup> century success” (IPD, 2000).

The process of acquiring these skills must be congruent with the skills themselves. This means that for working adults the traditional pedagogy, the passive learning style used in schools, is unsuitable. Experiential learning (one type of andragogy) is essential because of its active involvement in real issues, and because it is the natural way in which adults learn (Kolb,1983).

The evolving future demands an iterative, not linear, mental model, not a mechanistic Weberian model, or push-prod motivation, but an adaptive system that allows and encourages flexible response to rapid changes, where learning is seen as an interaction in which learners are helped to understand the meaning of events (Marsick and Watkins,1990).

There is a distinction between technical-functional skills and general polyvalent skills of the attitudinal and behavioural kind, that can be put to many uses. These latter skills need to be learned in the real environment of the workplace. They are very different from the technical-functional skills which are usually provided by educational and training institutions to meet the huge demand for qualifications and credentials.

## **WHO WILL PRODUCE THE SKILL IMPROVEMENT?**

The main agency to bring about this skill improvement has to be the companies themselves. But this can be supplemented, in varying degrees, by universities and colleges, professional bodies, and Asean, all of whom would find the internet facilities helpful.

### **Companies**

The workplace has to become the focus of the new learning – because On-the-job training (OJT) is more cost effective; knowledge and skills are more organisationally specific; and the training can be customised. However there are problems: in structuring OJT, and in supporting and rewarding learning (Ashton,1998). OJT usually combines learning and practice in one activity - learning by doing: this experiential learning learning, the best form for adults, should be understood and used (Marsick and Watkins,1990). Although it is by far the commonest form, it is also the least regarded and the least well managed. It most closely aligns with corporate success, and yet is rarely seen as a main element in corporate plans (IPD, 2000). Many companies rather than design their own training import it from developed countries, but this ignores cultural differences and national conditions (Arnaldo,1994). Skill transfer can also be obtained by sending people away on courses but that is inadequate, because

“insurance requires learning by doing, and ... its intricacies cannot be mastered without substantial on-the-job training and experience” (Skipper,1997, p30).

A major problem for companies is that wherever there is a scarcity of skilled staff, there is high turnover, as people are lured from one company to another. This deters companies from providing training as the investment cost is lost when the employee leaves, and indeed the extra training makes that person even more attractive to other companies (Lawrence,1996).

The concept of ‘the learning organisation’ (Senge,1997), although it became a fad and is often misunderstood, is well suited to the interactive complexity of modern organisations striving to be creatively flexible in turbulent times. The concept helps to ensure the contribution of training to the formulation and implementation of corporate strategy. Research suggests that of the top ten most frequent problems in strategy implementation, six are training related (Hussey,1992).

### **Internet**

The internet is beginning to transform the delivery of training and education. Some companies have installed it as part of a systematic training programme providing an online self-development and self-assessment centre, plus case studies, workshops – an integrated training scheme with flexibility to enable diversity, change, and growth. “Knowledge and access to knowledge has moved out of the learning centre and into the day-to-day work environment” (Harrison, 2000, p8). Unfortunately, it is often seen as a panacea. As a source of factual knowledge it is unrivalled, but it cannot cope with the higher skills. A person cannot be a full learner without the help of others, because we live in a world composed of others, we are social creatures (Bruner,1985).

### **Universities**

There is a need in the region for greater professionalism and a stress on insurance education (Goenka,1998). The insurance industry needs well-educated professionals, and needs to increase collaboration with educational institutions, viewing them as important sources for human resource development and suppliers of valuable research findings (Kwon, 1999). Universities should focus on theory and principles (leaving companies to provide practical training): they should move away from a descriptive approach towards greater emphasis on risk, risk management, and financial planning (Outreville,1991). The style of learning should also be focused on adult learning, not pedagogy (Bright,1989).

Some academic institutions offer courses specific to the insurance industry. Insurance companies offer scholarships and vocational training (Asia Insurance Review, May 2000, p80). For most insurance education programmes in developing countries, the requirements often outstrip the available resources

## Professional Organisations

There are institutions in the region which provide professional qualification based on examinations, and often provide the necessary study courses. Dominant is the British Chartered Insurance Institute, operating through local centres, and also the Australian and New Zealand insurance institutes. Singapore has also established its own qualifications and study courses which it hopes will also be used by other countries.

Many countries in the region also have professional insurance bodies which provide training courses in technical and supervisory topics. Some of these are helped by government funding or training levies. There has long been an Insurance Training Fund managed by the Malaysian Insurance Institute, with a directive from Bank Negara requiring firms to spend at least 1% of their gross salary costs on this programme. The Malaysian government announced in 1997 the pledging of cash for this fund. Singapore's College of Insurance provides a wide range of technical and supervisory training courses. A Skills Development Fund is funded by employers and allows insurers to reclaim some course fees.

## Asean

The Insurance Institute for Asia and the Pacific (IIAP) was set up in Manila in 1974 to be a regional centre for training and education, based on an initiative of UNCTAD (Arnoldo, 1994). It has achieved only limited success, the UNCTAD funds for its Special Programme in Insurance having decreased. This regional role seems to have been captured by affluent Singapore, through the activities of its College of Insurance.

The ASEAN Insurance Council launched an Executive Exchange programme in 1997. In 2000 it is active in promoting a regional MBA in Insurance, centred in Malaysia but with internet and other links to the other countries. An internet service could be made available for other forms of education and training, as could other forms of regional co-operation in training. It was hoped in 1996 that Singapore and Malaysia should look to win-win situations with other Asean countries: they "must look for strategic alliances based on win-win formulae. We must all ... start looking at long term relationships (Senawi, 1996). But the problem will always be a conflict of interest within ASEAN members. Singapore and Malaysia are part of the globalisation process as they seek to capture a share of the market of other ASEAN countries, and also intend to be the region's insurance capital.

## CONCLUSION

The need is great, for local insurers to increase their professionalism through the skilling of their staff. There are a great many skills to be developed, and this



will be a continuous need in changing times. A variety of ways are possible, although company-based training is the best value and most effective. Supplements are needed from universities, training institutes, and professional studies leading to qualifications. The internet is seen by many to be the total answer (although it cannot be). Some form of national endeavour as well as ASEAN co-ordination, is needed if local insurers are to survive other than as niche players.

The skilling of insurance staff in the region is already happening, through globalisation and consolidation. But that is mainly through skill and knowledge transfer by foreign firms to their local staff, as they reproduce in their host countries technologies used by their parent companies, for, unlike manufacturing, in service companies skills tend to spread to host-country operations chiefly through training (UNCTAD, 1994). It could be argued that these new bigger powerful companies achieve a critical mass of expertise, often home country expatriates who thus bring about the transfer of expertise to the host nation. But is this the beginning of the end of any meaningful local autonomy? The United Nations has long been at work in the field of insurance striving to strengthen the national insurance industries of developing countries through the improvement of education and training in insurance (UNCTAD, 1991).

Based on past behaviour, it is unlikely that local companies will survive the challenge. The big companies have a better chance, as do companies in Malaysia and Singapore whose governments intervene actively and effectively (and strategically) to promote their insurance industries.

Perhaps a period of an industry takeover by global insurers is inevitable. In a liberalised world not every country will be successful in dominating all its trades (consider the foreign ownership of the car industry in Britain). The takeover could be for an interim period, taking advantage of the skill transfer from the global corporates. Foreign insurers are likely to build multi-cultural teams, utilising local skills where possible, supporting this by importing strong business management skills. Employing key people on an expatriate basis is seen as necessary at this stage of the market's development, but as the market evolves and matures, this need will steadily diminish. "Ultimately expatriates committed to Asia will become localised and employees from the indigenous population will have learnt the necessary skills and assumed key positions within the business" (Schonhofer, 1998).

Some academic institutions offer courses specific to the insurance industry. Insurance companies offer scholarships and vocational training (CONCLUSION) (Review, May 2000, p80). For most insurance education programmes in developing countries, the need is great, local insurers to address their professional staff through the skilling of their staff. There are a great many skills to be developed, and this

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