

## **2019 CHINA INSURANCE RENDEZVOUS INTERNATIONAL ADDRESS**

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International Insurance Society  
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Ni Hao! Ladies and gentlemen, good morning. I am delighted and honored to be here in Shanghai for the 2019 China Insurance Rendezvous, my third Rendezvous, I believe. Shanghai evokes many happy personal memories for my wife and I, because our son Scott lived and worked here for several years in the 1990s. In our regular visits we watched in wonder as Pudong grew. We first came to Shanghai about the time the Special Economic Zone was set up, as what they called the Pudong New Area. When the Oriental Pearl Tower was completed in 1994, the area was still mostly warehouses and wharfs. It is a testimony to the foresight and will of the Chinese people to see what Pudong has become today, and indeed how Shanghai has evolved and grown.

Of course as someone who has been in the insurance industry for over 40 years, I have observed with great interest the increasing stature of the Chinese insurance industry. I gave a talk in France recently called "Insurance 4.0", about how the four phases of historical insurance industry development somewhat paralleled the four eras of Industrial revolution. I started by relating that Insurance 1.0, the very beginnings of our industry, occurred right here in China nearly 4,000 years ago. Merchants and traders divided their cargos up between multiple ships and varied their ocean and river routes to avoid losses along the way, the earliest known practice of risk management. So China can be very proud of its role in the origination and development of the global insurance industry.

China's industry growth to the current \$3 trillion worth of assets and over \$600 billion of premium income is impressive in its own right. The future potential, though, is what makes the Chinese insurance industry so fascinating and important for insurers around the world to observe and understand. This already large industry is still at an early stage of maturity, with insurance penetration of only 4.5% in life and just 2% in nonlife premiums. By contrast, Hong Kong and Taiwan are both in the 15% range in penetration, which shows the enormous potential for China's future growth.

In fact, many of you have undoubtedly read the Swiss Re study that projects that the Chinese's insurance industry will quadruple to over \$2.5 trillion worth of annual premiums by the year 2030, overtaking the US to become the world's largest insurance market. While international insurers will continue to participate in the growth of this market, domestic insurers will mature to be the main beneficiaries of the surge in growth, and will be increasingly important economic drivers for the Chinese economy through both your risk management and your investing activities.

The organization I run, the International Insurance Society is comprised of hundreds of insurance industry stakeholders, from nearly 100 countries. They include life and nonlife insurance companies, large and small, from both developed and emerging economies. Our membership also includes other industry thought leaders, like insurance focused consultants and accountants, actuaries, asset managers, regulators and scholars, lawyers, as well as InsurTech entrepreneurs. This is a broad and deep source of knowledge and opinion about our industry's challenges and opportunities.

Aided by our affiliated organization The Institutes, the global leader in insurance education and professional training, we conduct a massive "Global Concerns" survey each year, polling several thousand high level industry participants. We ask the question "What keeps you awake at night?" In other words, what do you worry and think about most? Sivam thought, and I agreed, that your might find the responses to that survey interesting, because they apply to your market as well.

There were several categories of concern for which opinions were solicited. In the Economic Concerns category, the dominant worry by insurance thought leaders around the world was Economic Growth. This issue includes items like growth or decline of GDP, job and payroll trends, inflation, the impact of low interest rates, and the potential for slowdowns or recessions. Considering the link between overall economic growth and insurance industry growth, the concern about the prospects for Economic growth to our survey participants was understandable.

Among Political and Legal Concerns, regulation was the first issue named, by a wide margin. Insurers still worry that legitimate regulatory concerns about solvency, consumer protection and allied issues can sometimes drive regulators into an adversarial position with the industry by over regulating. I know that this is a particular concern in the Asia Pacific region, and certainly in China.

Operational and Business Concerns are many and varied. They range from worry about data analytics, digitizing the customer relationship, updating outmoded legacy systems, enterprise risk management, availability of sufficiently skilled workers, privacy and disintermediation. Topping the list by far, though, was Cybersecurity. While the premium growth opportunity of Cyber was recognized, the potential for this one truly global risk to produce losses difficult to forecast and price for, in terms of either frequency or severity, led to grave concern.

Social and Environmental Concerns were also noted by many survey participants. Climate change and its effect on losses from extreme weather events ranked high among industry leaders' concerns. At the top of this category, though, was the issue of changing demographics, particularly aging populations in many countries. The need for healthcare solutions was deemed urgent and complicated, with a need for public private partnerships to help solve this vast problem. Such an effort is the Insurance Development Forum, of which the IIS is the secretariat. The IDF is a partnership led by the global insurance industry and supported by both the United Nations and the World Bank.

The key takeaways from our 2019 Global Concerns survey were as follows: Cybersecurity was the number one “keeps CEOs awake at night” issue globally, and #1 by a wide margin in Asia. Healthcare ranked second, especially in areas with aging populations: namely North Asia and Europe. Digitizing the customer relationship ranked third among global concerns, as the insurance industry is seen lagging far behind other industries in how we use technology to provide a satisfying customer experience. Regulation, a perennial concern, still ranks among the top five, but shows a somewhat reduced level of worry than it did a few years ago. Interestingly there were few differences in ranking by geographic area, but there were a statistically significant number of comments from Asian respondents indicating a greater need for urgency in addressing these challenges than elsewhere in the world.

These are the issues that insurance thought leaders around the world rate most concerned about, and by the way 48% of our survey participants are from the Asia Pacific region, so these comments are certainly relevant to your market.

I would like to add some comments from my own perspective. In my travels, I have private conversations with well over 100 insurance company CEOs each year. Of course I ask them what their main concerns are. But I am especially interested in the topics they bring up first. The issues that seem so important to them that they don't wait and wonder if I'll ask, they bring it up themselves. For the past two years, and for the first time in my long career, that topic has been talent development. Recruiting, training, motivating, challenging, compensating and retaining talent. The insurance industry has never acknowledged that it was satisfied with less than top level talent, of course, but few companies made a great effort to seek and groom the very best young people they could find. Finally this is changing, because it has to. To many if not most young men and women, a career in insurance just doesn't seem exciting. Many of the best and brightest youth are drawn to technology, entertainment, consulting, investment banking and the like. We can't allow ourselves to settle for what's left! We have to do a better job of showing how interesting and satisfying a career in insurance can be, and how our industry makes the world more resilient , sustainable and safer. This is especially relevant in the large and growing insurance market that is China. CEOs know it: talent is our most urgent priority.

And so, as the Chinese insurance industry continues to grow in size and importance in the global insurance industry, as the Belt & Road initiative, the Greater Bay Area development and other ambitious efforts both require and enhance your skills, I respectfully urge you to participate in international industry organizations. Your unique experiences and skills should become a greater part of the global dialogue of industry professionals, and others have ideas to share with you as well.

Xie Xie! Thank you for your kind attention.