

Another step to professionalism in the insurance industry

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The Insurance Institute of South Africa (IISA) Annual Conference 2009 was held at Sun City on 28/29 June this year. An audience of insurance industry stakeholders was treated by a quality panel of presenters. The invited speakers addressed conditions in, and challenges to, international and domestic insurance industries, pension funds reform and climate change – never losing sight of the conference theme – pride (professionalism, research, insurance, development and education). In today's newsletter **FAnews Online** shares some of the insights from the keynote speaker, Mr Peter Miller, president and chief executive officer of the American Institute for CPCU and Insurance Institute of America (IIA).

Tough times for the US

The American insurance industry has survived an extremely rocky 18 months, but it's not the first time. Miller told the audience the IIA was established in 1909 in an attempt to restore confidence in property and casualty insurers in the wake of the US banking crisis of 1907. Data suggests the economic situation at that time is starkly similar to today. US manufacturing, import, employment and housing statistics were all in the doldrums, both during the bankers' panic of 1907 and the 'sub-prime' crisis of 2007/8.

America's economic woes are rooted in the excessive leveraging of individuals' balance sheets. "People who borrowed against the equity in their homes are now facing negative equity," said Miller. But there's a kicker, because Americans borrowed money against their houses to fund consumption expenditure. The US economy is under pressure as these consumers de-leverage, switching from spending to saving. The result: 3.2m foreclosures in 2008 (up 225% on 2006 levels), a 54% decline in housing starts, an 8.9% decline (the worst recorded since the measure was created in 1947) in consumer confidence and 14.2m job losses (and counting).

The switch from spending to saving is indicated by a huge swing in the marginal propensity to save, which is +6.1% from recent levels of -2.1%. "The good news is people are saving more and the notional pool of money available for investments is growing, the bad news is they're not spending anymore," said Miller. Spending accounts for approximately 65% of US GDP and the continued de-leveraging will put a cap on the rate of economic recovery.

Insurance industry feels the pinch

The IIA has conducted a number of surveys among its customers. Miller noted that approximately 37% of all survey respondents had experienced the loss of a home, job or retirement savings. He joked that many Americans now refer to their defined contribution pension plans (the 401k) as the 201k because the assets in these funds had practically

halved. US employees have extended their employment horizons and many states have had to drop plans to enforce mandatory retirement ages.

Other results show that 43% of Americans had taken steps to lower their personal insurance rates. Most consumers perceive direct insurance as a cheaper alternative and this led to a rush for the commodity type direct products offered by US giants such as Geico and Progressive. A worrying factor is the decision by many insured (9% of the survey) to cancel their auto insurance as free cash dries up. Miller pointed to a 1% decline in employment in the US correlating to a 0.75% reduction in the number of insured vehicle owners.

Looking past the financial stress, Miller could report some good news. He said 80% of respondents had a favourable view about insurance companies, with most of these believing insurance companies were stronger than banks. And the US insurance industry as a whole remained profitable in 2008 – only just!

Ensuring success through trying times

Organisations in the insurance space must not lose focus of the risks facing them. Miller identified risk to reputation, supply chain risk, project management risk, regulatory risk and political risk as the major categories in the modern insurance environment. These risks exist in insurance markets around the world, but vary slightly from country to country. There are a number of steps insurance industry stakeholders can take to prosper through economic contagion. Miller says the first prize is to create a culture of control and accountability. A company can achieve these goals by implementing expanded and effective compliance programmes, re-focussing on customer needs and balancing risk and control with process efficiency.

A successful insurance industry hinges on the attitude of its stakeholders. “This is an exciting industry,” said Miller, adding that he was proud to be part of it. **He urged participants in the insurance business to view their daily activities as an essential service to their fellow citizens – the provision of a ‘must have’ product set.** He also stressed the importance of introducing fresh blood to the industry. “Very few Americans think of insurance as a career,” said Miller, adding that the industry needed to communicate the importance of insurance to a wider audience. How important is insurance? “No individual in a market economy can take the risk necessary to start a new business without insurance!”

Editor’s thoughts:

Financial crisis or not, the insurance industry remains critical to the functioning of a modern economy. Do you think the insurance industry is doing enough to encourage new entrants? Add your comments below, or send them to gareth@fanews.co.za

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