

The role of the Actuary in Financial Sector Development in Asia

(Plenary Session 3: Global and Indian Development)

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Overview

- ▶ Emerging Trends
- ▶ Emphasis on financial inclusion
- ▶ Financial integration
- ▶ Challenges for financial sector development and the way forward
- ▶ Role of the actuarial profession
- ▶ Conclusion

Emerging Trends

- ▶ Markets of different sizes and stages of development
- ▶ Rebalancing of economies and recovery in export demand
 - Expanding role of emerging markets
 - Rising burden of expenditure on housing, education, healthcare and household specific uncertainty
- ▶ Demographic change – Growing and aging population
 - Rising affluence – average household income to triple in next two decades
 - Escaping from the “Middle Income Trap”
- ▶ Government policies to stimulate domestic consumption – positive for personal lines
 - Financial inclusion
 - Trade Finance
- ▶ Financial sector integration
 - ASEAN Economic Community 2015

Emerging Trends

- ▶ Asia's financial systems are not intermediating the region's pool of savings efficiently to meet its growing needs
 - Underdeveloped capital markets – limits investment for projects with long gestation
 - Lack of alternative financing mechanisms

- ▶ Household savings rates continues to rise
 - Precautionary motives
 - Rising burden of expenditure on housing, education, healthcare and household specific uncertainty
 - As population ages and income levels rises, demand for health care is growing and not being met by the state financed health care system

- ▶ Financial sector underdevelopment
 - Constraints on borrowing against future income
 - Self finance purchases
 - Low real returns on financial assets
 - Lack of diversification opportunities for financial assets

- ▶ Significant protection gap
 - Low insurance penetration, under insurance, under pricing
 - Hefty recovery costs

Emerging Trends

- ▶ Urbanization – growth in urban population and demand for infrastructure
- ▶ Risks concentrated in urban centers (catastrophe prone)
- ▶ Growing risk awareness
 - Increased demand for specialty and complex instruments
 - Increasing concern for food security
- ▶ With globalization, the impact of loss events will be less confined to a specific sector or geographic region
 - Critical to identify interdependencies between individual risks, and manage accumulation of risks
- ▶ Strong infrastructure pipeline
 - Structured financial products

Emphasis on financial inclusion

- ▶ Financial inclusion
 - Renewed focus on clients (needs and capacity)
 - Emphasis on expanding volume and outreach
 - Technology innovations (Mobile Money)
 - Public Private partnerships (Healthcare and Disaster Risk Financing)
 - Takaful

- ▶ Facilitating cross-border financial products
 - Remittance and savings of migrants
 - Innovative product design (migrant and migrant family)

Emphasis on financial inclusion

- ▶ Financial literacy
 - Financial capability
- ▶ Financial identity
 - Reputational collateral to access credit
 - Access to diverse range of financial services
 - Credit information systems (including cross border data flow)
- ▶ Consumer protection
 - Self regulation
 - Transparency
 - Tracking financial and social outcomes

Financial integration

- ▶ Differing financial products:
 - An uneven insurance landscape in which some countries' regulatory attitudes more permissive than their ASEAN Framework Agreement on Services (AFAS) commitments, and vice versa (ANU Study, 2013)
- ▶ Intra regional trade
 - Intra-regional trade accounted for only 24.5% of the region's total trade in 2009 (ASEAN-ADB Study, March 2013)
 - Structural imbalances, with life insurance featuring prominently in the ASEAN 5 countries (Indonesia, Malaysia, the Philippines, Singapore and Thailand),
 - Foreign equity participation in insurers is patchy
 - Difficult to find an ASEAN-based financial institution that operate in a large number of other ASEAN member states

Financial integration

▶ Banking framework

- ASEAN's goal for 2020 should be a semi-integrated regional banking market, with only a small number of high-quality banks being permitted to access the banking markets in all member states, the retention of some barriers to trade and only slow progress in the all-important area of regulatory harmonization

Financial integration

- ▶ Liberalization of insurance
 - Discrete lines of general insurance
 - International marine, aviation and transit being liberalized faster because of their usefulness to the types of economic activity in priority integration sectors
 - Insurers within ASEAN allowed to carry on insurance originating in another ASEAN member state
 - Approved insurance brokers to place reinsurance
 - ASEAN's focus on a handful of banks – will be promoted into becoming regional heavyweights
 - Strategic underpinning points towards life insurers
 - Product lines best suited to bancassurance
- ▶ Lack of harmony
 - Harmonizing the regulatory framework for financial sector operations

Financial integration

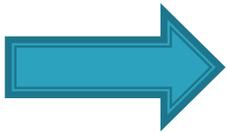
- ▶ With globalization, the impact of loss events will be less confined to a specific sector or geographic region
 - Critical to identify interdependencies between individual risks, and manage accumulation of risks
- ▶ Regional insurance pools
 - Reduce the dependency on unsure post-disaster assistance
 - Access innovative finance and capital mechanisms to manage and transfer risk

Challenges for financial sector development

- ▶ Structural transformation of the global economy
- ▶ Non diversified financial sector
- ▶ Financial Regulatory Reforms
 - Liberalization and deregulation
 - Capital requirements and solvency regulations
- ▶ Mergers and Acquisitions
- ▶ Evolving channel landscape
- ▶ Systematically Important Financial Institutions
- ▶ Consumer protection regulations

The way forward...

- ▶ Making the needed investments
 - Building good infrastructure
 - Ensuring sustainable private sector led growth
 - Investing in human capital
 - Availability of key skills is biggest threat to growth
 - Enhancing governance
 - Promoting innovative technologies



Developing sound and active financial systems and markets

Role of the Actuarial profession

- ▶ Aligning actuarial profession to the needs of the real sector
- ▶ Actuaries need to be in Asia to assess Asian risks
 - Proximity to clients
 - Deepen understanding of underlying risks
 - Robust pricing and risk models (catastrophe / longevity risks)
 - Promote stronger risk management
 - Assess contingent liabilities
- ▶ Support design of innovative financial products aided by sound underwriting decisions
 - Cushioning the burden of restructuring
 - Reducing incentives for households for precautionary savings
 - Developing instruments for saving, borrowing, and hedging risk
 - Increasing the legitimacy of reforms
 - Risk taking by individuals and firms
 - Providing small-scale entrepreneurs opportunity to raise funds without having to create and use their own savings
 - Developing new investible instruments
 - Lengthening maturities in fixed income markets

Role of the Actuarial profession

- ▶ Support implementation of international financial standards and best practices
 - Move towards risk based capital standards
 - Strong financial risk management, credit standards, and internal control procedures

- ▶ Better access to Asian markets due to the strong intra-regional trade and economic ties
 - Provide financial institutions better access to the market with progressive liberalization of financial services
 - Better mobilization of resources – including region’s savings and inbound capital flows – and maximize returns

- ▶ Continued efforts to integrate and harmonize markets across the region
 - Deepen market integration
 - Contributing to regional and global financial stability

Conclusion

Actuaries are part of the solution ...

... can contribute towards the evolution of a robust and resilient financial system that can effectively preserve financial stability and contribute to balanced growth and development in Asia.

For more information



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