

# **The role of the Actuary in Financial Sector Development in Asia**

(Plenary Session 3: Global and Indian Development)

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**Evolving Frontiers, Exciting Prospects**  
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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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