RESEARCH ON
THE DEVELOPMENT AND TRAINING NEEDS OF INSURANCE REGULATORS AND INSURERS IN ASEAN

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COUNTRY REPORTS

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PART I

RESEARCH ON HUMAN RESOURCE DEVELOPMENT AND TRAINING NEEDS OF INSURANCE SUPERVISORY AUTHORITIES IN ASEAN COUNTRIES

1.0 INTRODUCTION

Revolutionary changes in the financial services industry (in which insurance forms a vital component) are striking at its very structure. Globalization, internationalization, deregulation, privatization, and digitalization have triggered fundamental changes in the financial and insurance market structures and are creating new operational realities. These, in turn, generate new supervisory issues that demand appropriate regulatory and supervisory responses. Insurance Regulators also face other economic and socio- political pressures and issues that challenge their effectiveness, such as market failures, increasing costs, availability, and access.

Policy makers and Regulators of insurance markets need to examine these issues; determine the specific objectives of insurance regulation and supervision which they must deliver; decide on the regulatory regime and supervisory system; acquire the resources / instruments they will need to regulate; and supervise in more complex and dynamic realities. These are difficult agenda even for authorities in advanced markets.

ASEAN Regulators/Supervisors face a greater need to develop public trust and international confidence in their insurance markets. They have to balance liberalization while ensuring that new forces of competition do not overwhelm their domestic insurers, while at the same time ensuring that consumers must also benefit from competition. As the insurance market globalizes further, insurers and, by implication the Regulators, have also to comply with international standards and international practices which must be applied in the local situation.

It is in this context that ASEAN Insurance Regulators and Supervisors, concerned with promoting a strong and efficient insurance sector, must develop new competencies and capabilities to handle these challenges. It is imperative that the process of human resource development (HRD) and capacity building of the relevant institutions be accelerated. Training and learning becomes an important and urgent agenda.

2.0 AIMS OF THE SURVEY

In view of the above, ASEAN Insurance Regulators commissioned The ASEAN Insurance Training and Research Institute (AITRI) to conduct a research survey to obtain the views of insurance regulatory authorities within the ASEAN region on " Human Resource Development and Training Needs of Insurance Supervisory Authorities in ASEAN Countries" to identify the HR challenges that they themselves face, and to ascertain their preferences and priorities in moving forward.

The survey focuses on the following issues:

1) The insurance business environment and the human resource challenges;
2) Ratings on focus areas for future training;
3) Priority areas for supervisory research and technical focus;
4) Preferred training methodologies and training levels; and
5) Constraints and possible solutions.

The key questions in relation to HR development and training which this research looks into, include:

a) What factors influence HR development policies and training practices of ASEAN Regulators?
b) What are the areas of training needed?
c) How and where is training to be carried out?
d) What are the potential areas of greater collaboration in training and the sharing of expertise, experiences and knowledge?
e) More importantly, the question of consistency of strategies and with actions: Does HR development policy and training direction correspond and commensurate with their organizational needs?

f) What is the extent of the commitment to and investment in HR development and capacity building?

The findings of this survey will identify the issues concerned with human resource development, which reflect the level of preparedness of regulating insurance in an increasingly complex environment.

3.0 METHODOLOGY

A survey questionnaire was developed to obtain the views of Insurance Supervisors in the ten ASEAN countries. Please refer to Appendix 1 to view the sample design of the questionnaire. The questionnaire was based on a series of questions covering a number of key areas. Qualitative analyses were predominantly used to identify patterns and themes in the responses. There was some quantification, using a five-point scale to measure preference. Data was analyzed using cross-case analyses to identify common/differing features of each country. Although the main focus of the survey was on human resource and training needs and priorities, it was considered important that the survey also covered a wider set of business issues, as this would provide a better understanding of the reasons behind these needs and priorities.

The questionnaires were sent to 10 Regulators from ASEAN countries, of which 8 Regulators from Brunei, Cambodia, Indonesia, Malaysia, Philippines, Thailand, Singapore and Vietnam responded. The designations of the respondents, reflecting the organizational level this survey has reached, are as follows:

Country	Designation
Brunei	Insurance Officer, Ministry of Finance
Cambodia	Deputy Chief, Department of Insurance
Indonesia	Directorate of Insurance
Malaysia	Manager, Central Bank of Malaysia
Singapore	Executive Director, Monetary Authority of Singapore
The Philippines	Deputy Insurance Commissioner, Insurance Commission
Thailand	Director, Department of Insurance
Vietnam	Insurance Officer, Insurance Department, Ministry of Finance

4.0 LITERATURE REVIEW

The subject of " Human Resource Development and Training Needs of Insurance Supervisory Authorities in ASEAN Countries" must necessarily be discerned from broader perspectives and in the context of the environment in which insurance operates.

This section provides relevant literature on HR and an overview of the key trends and major factors which are transforming the financial services landscape of the financial services industry, producing new challenges for Insurance Regulators and Supervisors. These are general global trends which also impact developing markets such as ASEAN. Some factors, however, are specific to ASEAN. These developments bring benefits to customers, increase insurance business opportunities while simultaneously introducing as many risks and uncertainties, and as much volatility.

4.1 Human Resource Development

In 1995, Carey and Merrill identified the primary reasons for human resource development as to increase productivity (47%), to stay competitive (38%), to comply with policies (7%), for social responsibility (4%) and others (4%).

Chistensen (1997) points out that human resource development is 'the engine behind the creation of all value' and suggests that human resource development is 'the most challenging and exciting aspect of organizational success being addressed today'. Lenzioni, one of the most influential current writers, places emphasis (2000) on staff motivation and long-term commitment to the employing organization as the key human resource issues. Within the context of the insurance industry, according to a LOMA report (1998), three factors contribute to the increased importance of human resource development: (1) an increasingly complex competitive and operating environment; (2) a dramatic acceleration in environmental changes in such areas as technology and competitive practices; and (3) the need for the horizontal (cross–functional) coordination of business processes.

The first and second factors of these factors highlight that the insurance industry must address the emerging human resource development challenge of managing and retaining ‘knowledge workers’ – people who use their heads rather than their hands to create value. Information, according to Frances Horibe (1999), is now the driver of wealth creation, and those who possess knowledge, and through training can apply it, have the keys to success.

The third factor identified in the LOMA Report, the need for the cross-functional coordination of business process, indicates a challenge for organizational and human resource strategy in the insurance industry.

Gratton (1997) has described ‘the challenge of creating horizontal teamwork’ as the frequently identified future human resource development issue in a major research study called ‘The Leading Edge’ organized by the London Business School. In this study, a number of leading global companies from the industrial and financial sectors were asked to consider the most important human resource development issues of the future. Philip Sadler (2001) points out that cross-functional coordination requires not only effective coordination methods determined by the organization structure, systems, procedures and job profiles, but also a strong organization culture in which the differentiated and specialized parts of an organization fit together effectively into a cohesive whole.

4.2 The Financial Services/ Insurance Industry Environment: Key Trends and Change Drivers in the Industry

- IT and advancements in IT: This reduces information asymmetries, facilitates securitization and reduces costs.

- E- commerce: IT creates e-commerce and the market space, virtual insurers, mobile commerce, and portals, changing the insurance value chain,

- Securitization: The market rather than the institutions is intermediating the flow of funds between borrowers and lenders. The emergence of strong intuitional investors (such as insurers) is increasing the demand for securities. The banking sector is forced to compete for the savings dollars and is entering other financial sectors such as insurance.

- Bancassurance: This is a new phenomenon in ASEAN.

- Globalization: Economic- political factors and IT create the global financial market and are also integrating and globalizing the Re/ insurance markets.

- Internationalization of business is also true for insurance.

- Deregulation: The blurring of barriers and encouraging insurers, bankers and fund mangers to enter each other's turfs.

- Convergence along the lines of ownership, product, services and operations.

- Increasing consumer expectations: Consumers are more demanding and increasingly aware of their rights. Consumer preferences will decide the delivery channels, the levels and the quality of insurance service at ever reducing premiums.

- Intense competition: This reduces or eliminates profitability. Competition will be on many fronts: price, service, capital, technology, knowledge. There will also be competition from traditional and non- traditional players, and between local and powerful foreign players.

- New sales channels: These, for example, telesales, interactive kiosks, nontraditional sales points/ counters such as supermarkets, bring new issues concerning market conduct.

In addition to the general trends highlighted in the preceding section, a key development in the ASEAN region over the last decade has been increased market penetration by foreign insurance companies, especially with the inclusion of financial services into WTO negotiations. Domestic companies have often learned new management and marketing techniques from these foreign insurers and consumers have benefited from new products and improved service quality. The challenges facing the Insurance Regulators and the industry in some of the countries within the region, especially the less developed ones, have been related to outdated or inadequate insurance legislation. This problem has been further aggravated by ineffective enforcement. The trend towards solvency-based capital requirement is currently presenting ASEAN with a major challenge, which could reveal that some domestic insurers are undercapitalized. Cultural and religious barriers, lack of product innovation, and low insurance awareness of the public are also significant factors that are affecting the speed of the development of national insurance markets.

A highly competitive and ever changing environment is making it tougher for insurers to profit and prosper. Regulators are presented with even greater challenges. They must understand the present global market realities; know insurance business operations and the technical intricacies in order to create a sound and efficient insurance market/ sector; protect consumer interest; and deliver public objectives.

According to the OECD Second Conference on Insurance Regulations and Supervision in Asia *(Malaysia, January 2001)*, insurance authorities in Asian economies are focused on the following:

a. Licensing: In most Asian economies, the establishment of insurance companies is subject to a license granted by the insurance regulatory authority and a minimum amount of capital is required.
b. Insurance accounting principles: Most Asian economies have adopted specified insurance accounting principles.
c. Financial reporting: In all Asian economies except Cambodia, insurance companies are required to periodically submit their financial documents to the insurance supervisory authority.
d. On–site inspection: On -site inspections are carried out in most Asian economies.

e. Solvency requirement: All Asian economies except Cambodia have adopted solvency requirements for insurance companies. However, the methods of setting solvency margins are different among countries. In some economies, the solvency margin has to reach a certain fixed amount; in other economies, the solvency margin is determined based on premium income.

f. Policy conditions and premium rates: Most Asian economies supervise policy conditions and premium rates when new products are launched. Besides new products, some economies require that all classes of insurance be subject to the supervision of policy conditions and premium rates. Others require that only several classes of insurance such as motor and fire insurance be under control.

g. Investment regulation: Most Asian economies except Brunei and Cambodia have legal provisions concerning investments by insurance companies. These provisions stipulate a set of maximum limits on certain categories of investment, in most cases together with admissible investments. Some economies also have minimum limits on investment. Portfolio investments abroad are allowed in some Asian economies whereas they are either not allowed or are severely restricted in others.

h. Measures on insurance companies in financial difficulty: Asian countries do not have specific guidelines indicating what kind of measures to take in the particular circumstances. However, some Asian countries do have various measures to deal with insurance companies in financial difficulty. These include: (i) requiring a plan for the restoration of a sound financial situation; (ii) requiring the injection of capital; (iii) prohibiting free disposal of assets; (iv) restricting the acceptance of new business; (v) limiting the amount of premium income; (vi) requiring actuarial investigation; (vii) appointing a special manager or advisor to take over management; (viii) removing any director or person whom the supervisory authority considers unfit; (ix) making reinsurance arrangements as the supervisory authority specifies; and (x) ordering the insurer to cease doing business or to dissolve.

The scope of insurance regulation in most countries tends to be similar, focusing on aspects of licensing, financial reporting, capital control, reserve requirements, investment control and measures on insurers in difficulty. Although countries may take different approaches to resolve issues such as insurance contracts, premium rates and investment control, many insurance regulations tend to have uniform provisions, especially those concerning the supervisory authority's powers and supervisory measures on insurers in difficulty. Solvency control seems to be the central concern of insurance supervision, as reflected in the requirements on minimum capital and financial reports, and the controls on reserving and investments.

The trends and major forces of change highlighted earlier require rethinking on insurance regulation and supervision. ASEAN Regulators / Supervisors will not be immune to the pressures of modernizing their supervisory systems and they will have eventually to adopt international standards to increase their efficiency and effectiveness.

5.0 INDUSTRY STATISTICS

Table I: Macroeconomic indicators in 2003

Ranking by GDP	Country	Population (millions)	Gross domestic product			Inflation rate (in %)		Exchange rate local currency per USD		
			(USD billion)	Real change (in %)				Change		
		2003	2003	2003	2002	2003	2002	2003	2002	(in %)
25	Indonesia	214.5	208	4.2	3.7	6.6	11.9	8 577.20	9 311.20	-7.9
34	Thailand	62.0	143	6.7	5.4	1.8	0.6	41.49	42.96	-3.4
38	Malaysia	24.7	105	5.2	4.1	1.1	1.8	3.80	3.80	0.0
39	Singapore	4.3	91	1.1	2.2	0.5	-0.4	1.74	1.79	-2.7
45	Philippines	81.4	80	4.5	4.4	3.0	3.1	54.20	51.60	5.0
57	Vietnam	81.5	38	7.2	7.0	3.2	3.8	15 509.00	15 280.00	1.5

Table II: Premium volume by region and organization in 2003

Total business	Premium volume (in millions of USD)		Change (in %) inflation-adjusted		Share of world market (in %)	Premiums in % of GDP	Premium per capita (in USD)
	2003	2002	2003	2002	2003	2003	2003
OECD	2 709 757	2 439 058	1.3	4.8	92.15	8.99	2 339.9
G7	2 286 491	2 082 165	1.5	4.9	77.75	9.58	3 213.9
EU, 15 countries	931 012	773 039	0.6	3.7	31.66	8.58	2 385.1
EU, 25 countries	947 509	786 343	0.7	3.7	32.22	8.35	2 030.0
NAFTA	1 125 562	1 067 351	2.6	8.8	38.28	9.03	2 653.0
ASEAN	**24 287**	**22 368**	**3.9**	**0.5**	**0.83**	**3.35**	**47.7**

Table III: Life

Life business	Premium volume (in millions of USD)		Change (in %) inflation-adjusted		Share of world market (in %)	Premiums in % of GDP	Premiums per capita (in USD)
	2003	2002	2003	2002	2003	2003	2003
OECD	1 533 183	1 418 146	-1.8	2.0	91.67	5.12	1 331.3
G7	1 293 804	1 208 415	-1.5	2.2	77.36	5.45	1 828.1
EU, 15 countries	541 935	464 323	-2.3	1.4	32.40	5.07	1 410.3
EU, 25 countries	547 995	469 109	-2.2	1.5	32.76	4.90	1 192.2
NAFTA	507 990	507 130	-2.5	6.3	30.37	4.08	1 197.3
ASEAN	**14 643**	**13 804**	**1.5**	**-8.3**	**0.88**	**2.20**	**31.3**

Table IV : Non-Life

Non-life business	Premium volume (in millions of USD)		Change (in %) inflation-adjusted		Share of world market (in %)	Premiums in % of GDP	Premiums per capita (in USD)
	2003	2002	2003	2002	2003	2003	2003
OECD	1 176 574	1 020 912	5.6	8.9	92.78	3.88	1 008.6
G7	992 687	873 750	5.7	8.9	78.28	4.13	1 385.8
EU, 15 countries	389 077	308 716	5.0	7.2	30.68	3.50	974.8
EU, 25 countries	399 514	317 234	5.1	7.2	31.50	3.45	837.8
NAFTA	617 572	560 221	7.2	11.1	48.70	4.96	1 455.6
ASEAN	**9 643**	**8 563**	**8.3**	**0.76**	**0.76**	**1.15**	**16.4**

Table V: Total premium volume in USD in 2003

	World Ranking	Country	Premium volume (in millions of USD)		Change (in %) 2003		Share of the world market
			2003	**2002**	**Nominal (in USD)**	**Inflation-adjusted**	**2003 (in %)**
ASEAN	29	Singapore	8 898	9 146	-2.7	-5.8	0.30
	33	Malaysia	5 609	4 881	14.9	13.6	0.19
	34	Thailand	4 932	4 102	20.3	14.1	0.17
	41	Indonesia	3 107	2 579	20.5	na	0.11
	49	Philippines	1 192	1 155	3.2	na	0.04
	58	Vietnam	550	504	8.9	na	0.02

Table VI: Life insurance premium volumes in USD 2003

	World Ranking	Country	Premium volume (in millions of USD)		Change (in %) 2003		Share of total business	Share of the world market
			2003	2002	Nominal (in USD)	Inflation-adjusted	2003 (in %)	2003 (in %)
ASEAN	28	Singapore	5 561	6 111	-9.0	-11.9	62.5	0.33
	31	Malaysia	3 455	2 921	18.3	16.9	61.6	0.21
	32	Thailand	3 222	2 648	21.7	15.4	65.3	0.19
	38	Indonesia	1 373	1 140	20.5	na	44.2	0.08
	42	Philippines	702	681	3.2	na	58.9	0.04
	50	Vietnam	331	304	8.9	na	60.3	0.02

Table VII: Non-life insurance premium volumes in USD 2003

	Ranking	Country	Premium volume (in millions of USD)		Change (in %) 2003		Share of total business	Share of the world market
			2003	**2002**	**Nominal (in USD)**	**Inflation-adjusted**	**2003 (in %)**	**2003 (in %)**
Asia	**30**	**Singapore**	**3 337**	**3 036**	**9.9**	**6.5**	**37.5**	**0.26**
	36	**Malaysia**	**2 154**	**1 960**	**9.9**	**8.7**	**38.4**	**0.17**
	39	**Indonesia**	**1 733**	**1 439**	**20.5**	**na**	**55.8**	**0.14**
	40	**Thailand**	**1 711**	**1 454**	**17.7**	**11.6**	**34.7**	**0.13**
	55	**Philippines**	**489**	**474**	**3.2**	**na**	**41.1**	**0.04**
	76	**Vietnam**	**218**	**200**	**8.9**	**na**	**39.7**	**0.02**

Table VIII: Insurance penetration: premiums in % of GDP in 2003

	Ranking	Country	Total business	Life business	Non-life business
Asia	18	Singapore	7.59	6.09	1.50
	29	Malaysia	5.35	3.29	2.05
	42	Thailand	3.45	2.25	1.19
	71	Indonesia	1.49	0.66	0.83
	72	Philippines	1.48	0.87	0.61
	74	Vietnam	1.45	0.87	0.57

Source: Sigma, Swiss Re
Statistics on other ASEAN countries are not available in the Sigma Report

Table IX: Concentration ratio (share of top-5 insurers by gross premiums written)

	Non-life insurance	Life insurance
China	96%	98%
Vietnam	92%	NA
India	86%	99%
South Korea	78%	83%
Japan	63%	60%
Taiwan	48%	73%
Singapore	45%	91%
Thailand	40%	86%
Indonesia	40%	59%
Philippines	38%	73%
Malaysia	34%	73%

Note: Figures are based on 2002 premiums.

Table X: Foreign market share

	Non-life insurance	Life insurance
Singapore	53%	57%
Philippines	26%	61%
Indonesia	25%	48%
Malaysia	25%	79%
Taiwan	12%	33%
Vietnam	7%	54%
Thailand	7%	50%
Japan	6%	17%
South Korea	1%	11%
China	1%	2%
India	0%	0%

Note : Foreign market share is defined as the share of premiums collected by foreign majority-owned insurers, including branches and subsidiaries. Figures are based on 2002 premiums

Source: Swiss Re

Table XI : Market access regimes in Asia

	Majority ownership in existing domestic companies	Establishment of subsidiaries	Establishment of branches	Expected changes
Australia	no restrictions	no restrictions	no restrictions	none
China	not allowed (maximum 25% foreign shares)	no restrictions (mandatory joint venture for foreign life insurers)	no restrictions (mandatory joint venture for foreign life insurers)	none
Hong Kong	no restrictions	no restrictions	no restrictions	none
Taiwan	no restrictions	no restrictions	no restrictions	none
Japan	no restrictions	no restrictions	no restrictions	none
South Korea	no restrictions	no restrictions	no restrictions	considering lowering the minimum capital requirement to attract more new establishments
India	not allowed (maximum 26% foreign shares)	not allowed	not allowed	49% foreign shares being considered
Indonesia	no restrictions	not allowed	not allowed	more flexible approach to foreign shares in joint ventures
Malaysia	not allowed (exceptions are noted)	not allowed	not allowed	none
Philippines	no restrictions	no restrictions	no restrictions	none
Singapore	no restrictions	no restrictions	no restrictions	none
Thailand	not allowed	not allowed	no restrictions	raise foreign share to 49% from 25%
Vietnam	no restrictions	no restrictions	no restrictions	liberalisation under the US-Vietnam bilateral trade agreement

Source: National Insurance Regulators.

6.0 SURVEY FINDINGS

6.1 Regulators' Perception of the Business Environment and Regulatory Challenges

Respondents were requested to identify the key regulatory challenges they face in the context of the present business environment in their own jurisdictions.

Table 6.1 summarizes the survey findings on the key challenges and concerns of regulating the insurance market in the present business environment.

Table 6.1: Business Environment Challenges Faced By ASEAN Regulators

Country	Business Environment Challenges
Brunei	• Absence of comprehensive Insurance Act • Lack of comprehensive regulation of financial institutions
Cambodia	• Price competition and undercutting among insurers • Non-existence of insurance association • Non-establishment of minimum rates • Low public awareness of insurance • On-going review of all insurance laws since mid 2002
Indonesia	• Low capital • Human resources • Corporate governance
Malaysia	• Management of increasing financial complexities • Management of globalization and liberalization processes • Effective supervision of cross-border exposures • Development of a more competitive domestic industry to play a larger role in supporting economic development • Management of consumer expectations and increasing sophistication of consumer needs
Philippines	• Need for more expertise and facility for evaluating insurance products • Examination of insurance companies (life and non-life) • Settlement of claims and other insurance controversies • Use of computers in insurance regulations.
Singapore	• Threat to the solvency and profitability of insurance companies posed by the volatile and changing business environment. The need for insurance companies to have clear business strategies and strong financial and risk management disciplines to survive in the new environment • The greater- than- ever- before effect of financial markets and related companies on insurance companies. The strengthened need for consolidated supervision and cooperation with foreign Regulators to enable group-wide supervision • The need for integrated supervision so as to avoid regulatory arbitrage and provide level playing field for Regulator's financial institutions, due to the convergence of financial products • Relevance of insurance regulatory and supervisory practices to the times
Thailand	• How to increase customer base for the insurance industry, especially for the lower income customers • How to reap the full benefits of the long-term financial stability brought about by the progressive insurance market
Vietnam	• Lack of experienced and qualified staff • Limited IT infrastructure in both regulatory authority and industry • Insufficient regulatory and supervisory standardization • Limited public awareness of insurance

The eight ASEAN insurance markets fall basically into two groups: (1) the more established and sizeable markets in Malaysia, Philippines, Singapore, Indonesia and Thailand and (2) the smaller and less established markets in Brunei, Cambodia and Vietnam. By comparing the business environment faced by Regulators from the eight countries, we identify the themes and the factors which are dominant within ASEAN and across the two groupings. The responses differ between countries, and significantly between the less developed markets of Cambodia and Vietnam, and the rest.

The less developed countries are currently focused on the basic issues of establishing their regulatory systems or dealing with the problems of inadequate regulation. In Cambodia, for instance, unhealthy competition based on aggressive price undercutting at this early stage of development can destabilize the market and raise the problems of consumer protection and public confidence. Lack of public / consumer awareness of the benefits of insurance will not only slow down growth and but also leave many individuals and corporations exposed to risks which could have been efficiently managed through insurance.

Regulators from the more established markets (Indonesia, Philippines, Malaysia, Singapore and Thailand) emphasize the need to develop a viable insurance market which can contribute more effectively to the development of their national economies. Regulators are also conscious of the need to develop their own competencies and technical insurance knowledge. Most are in the transition state and are upgrading their supervision system. Regulators with more open market access are concerned with attracting capital (Indonesia). They indicate the need for more powerful IT (Philippines) as timely information is needed to supervise more complex and expanding markets, and to implement international standards of insurance supervision. They are equally concerned with expanding the consumer base and increasing the penetration of insurance into the larger population, especially the rural sector (Thailand). They are making efforts to increase consumer sophistication (Malaysia). Insurance consumers in these markets have higher expectations of the performance of insurers and, by implication, of the Regulators' performance as well. They are concerned also with the larger forces of change such as globalization and internationalization of business, and increased cross-border exposures. Liberalization of the markets is also expected to pose renewed challenges for Regulators. Singapore shows more concern with external factors, reflecting the more enhanced trend of convergence of its financial sectors. Thus, the challenges of ensuring a level playing field for the Regulators of financial institutions, of group-wide supervision, of systemic risks, among others. The risk-based supervision approach also requires that insurers have enterprise risk management capability.

6.2 Human Resource Development Challenges

The central question of this survey is the identification of human resource development issues and challenges faced by ASEAN Insurance Regulators within their organizations. Table 6.2 shows the key human resource development issues and challenges identified by the Regulators.

Table 6.2: Human Resource Development Challenges Faced by ASEAN Regulators

Country	HRD Challenges
Brunei	• Shortage of manpower • Limited number of experienced and knowledgeable workforce • Long periods to recruit new staff and fill vacant posts in the insurance industry
Cambodia	• Limited HRD and capacity building
Indonesia	• Lack of number of people • Lack of training (internal and external) • Inadequate facilities
Malaysia	• Developing and retaining expertise in risk assessment, actuarial assessment, financial risk analysis, alternative risk transfer and risk based supervisory framework • Transitioning staff from a compliance-oriented to a performance-based supervisory regime that emphasizes the ability to effectively identify, assess and mitigate risks associated with individual institutions
Philippines	• Funding constraints
Singapore	• Need for Insurance Regulators and Supervisors to build up their competencies to enable them to carry out their responsibilities against a rapidly changing environment, both with respect to financial institutions as well as new supervisory frameworks
Thailand	• Training staff to develop professional and managerial skills • Encouraging staff to become members of insurance professional association • Long- term planning of human resource development due to services liberalization
Vietnam	• Acute shortage of skilled and experienced professionals • Budgetary constraints and procedural limitations, making outsourcing impossible • Mismatch between training provider and industrial needs • Absence of insurance institute

While the underlying problem of availability of qualified human resource and talents is the same for all ASEAN Regulators, there are significant differences in the emphasis, variations and degree of their fundamental problem. There is a serious need for qualified, and more importantly, experienced staff who can contribute to training and development. This shortage of experienced staff is glaring when compared with the better situation of Regulators in developed markets, with their years of institutional experience and vast accumulation of knowledge in regulating and supervising the insurance markets. The authorities in developed markets have experienced staff to handle complex issues and to train and guide the newer staff.

Budgets for training and re-training staff are also inadequate. Budget constraints are prevalent, as highlighted by Cambodia and Philippines. These may apply both to the salary scales for those employed in the insurance supervisory authorities compared with the "more important" government ministries. Some ASEAN Insurance Regulators face problems in attracting and retaining personnel with an appropriate level of expertise in insurance and risk management. The issue of attracting and retaining key staff, especially highly trained staff, is acute in most of the countries surveyed. This is more so in the case of Regulators in the lesser developed ASEAN insurance markets where the pay and job service levels of the Insurance Regulators / Supervisors may not be commensurate with the level of their responsibilities.

There was a general view that staff salary scales and training budgets need to be increased if insurance supervision is to be brought up to best international standards; however, it was felt that these were issues for national governments to address. With the commitment to apply the Core Principles of the International Association of Insurance Supervisors (which have been accepted by national governments, IMF and World Bank), a greater financial commitment to meeting these human resource challenges is required.

There is a noticeable difference in the knowledge and skill areas needed in the countries studied. For the more developed markets, the emphasis is more on strengthening the technical and professional competencies of the Regulators in risk management, actuarial science and the more advanced aspects of insurance and finance. This is also related to their regulatory models/ supervisory systems, discussed below. In the smaller offices, it is not possible to specialize and the small teams have to handle every aspect. The problem is aggravated by a lack of managerial and leadership skills to run a tight operation.

The HR issues also reflect the basis or the approach of the supervision of financial institutions. Factors such as the regulatory history, legislative expectation, philosophies, objectives and the stage of development of the regulatory authorities influence HR development.

In the more developed ASEAN insurance markets, Regulators are shifting towards risk – based supervision. This a more structured and focused approach, with the Regulator acting like an "external auditor" to an internal risk management system. This mode of supervision requires the creation of a robust supervisory framework that also depends on the existence of a technical or professional infrastructure. Professionals such as auditors, actuaries, lawyers, judges, accountants, risk managers, and equally competent management/ professional staff and Board of Directors are needed to provide the check and balances to support a risk – based regulatory supervisory system. The case of Singapore provides a glimpse of the regulatory system and human resource development strategies of a Regulator/Supervisor in an advanced ASEAN market which aims to be a regional financial services and insurance hub this side of the time zone. Table 5. 2 also highlights the need for the long-term planning of human resource needs as qualified and experienced staff cannot be available overnight. The need for strategic human resource development for regulatory staff has never been greater as the ASEAN insurance sector takes off for rapid expansion. Holbeche (1999) stated that "Many strategic blunders can be avoided if human resource issues are carefully considered in the formulation of strategy and the decision process." This can apply to ASEAN Regulators, especially if they are in the process of transition to a new risk –based regulatory system.

6.3 Specialized Institutions for Training of Regulators

Only the Insurance Institute for Asia and the Pacific (IIAP) in the Philippines provides specialized training and education programmes for Insurance Regulators. AITRI was not mentioned, perhaps due to the fact that it is still in the process of being established. Other insurance institutes mentioned are The Philippines Insurance Institute and the Singapore College of Insurance. The Malaysian Insurance Institute (MII) conducts technical training courses and facilitates AITRI courses.

6.4 Focus Areas for Future Training

The survey sought views on the importance of the future training priorities of ASEAN Regulators in 28 subject areas. Insurance Regulators were asked to rank these areas on a "1" to "5" point scale, with "5" being the highest priority. Table 6.4a indicates the focus areas by countries and the preferred location of training. Table 6.4b gives a matrix of the responses in terms of subject areas, countries and their points scores. The un-weighted mean scores across countries for each subject area and the mean scores by country across all subject areas are given at the end of the columns and rows in the matrix of responses. The subject areas indicated in bold letters are top priority areas (with an overall mean of between 4.00 and 5.00) across the eight supervisory bodies. These are listed below in order of stated importance, even though some of these subjects are given equal ranking:

Priority Areas:

- Capital adequacy and solvency supervision
- Risk-based supervision
- Insurance (IAIS) core principles
- Reinsurance regulation and supervision
- Disclosure and transparency
- International insurance accounting standards
- Financial conglomerates and financial sector convergence
- Supervision of insurance intermediaries
- Asset-liability management techniques.

Other important areas:

- Valuation of insurance assets and liabilities
- Methodology and assessment of insurance core principles
- WTO and insurance: policies, national positioning and negotiation
- Supervision of insurance groups and international insurers.

Table 6.4a: Important Focus Areas by Countries and Location

Focus Areas	Mean	Indonesia		Singapore		Thailand		Vietnam		Cambodia		Brunei		Malaysia		Philippines		R / J*
		R	J	R	J	R	J	R	J	R	J	R	J	R	J	R	J	
Capital adequacy and solvency supervision	4.88				√	√			√	√		√	√		√		√	J
Risk-based supervision	4.75				√	√		√		√		√	√		√	√		R
Insurance core principles	4.38						√		√	√		√	√	√			√	J
Reinsurance regulation and supervision	4.38				√		√	√		√		√	√	√			√	R/J
International insurance accountancy standards	4.25					√	√		√	√		√	√	√		√		R
Disclosure and transparency	4.25		√				√		√	√		√	√	√		√	√	J
Financial conglomerates and financial sector convergence	4.13				√		√	√		√		√		√		√		R
Supervision of insurance intermediaries	4.00						√	√		√		√	√	√			√	R
Asset-liability management techniques	4.00						√	√		√		√	√	√		√		R

*R / J indicates the preference for the training to be held, at regional or jurisdiction levels.

Table 6.4b: Comparing Focus Areas for Future Training (5 = High Priority)

No.	Focus Areas	Indonesia	Singapore	Thailand	Philippines	Malaysia	Vietnam	Brunei	Cambodia	Mean
1.	Capital adequacy and solvency supervision	4	5	5	5	5	5	5	5	**4.88**
2.	Risk-based supervision	4	5	5	5	5	4	5	5	**4.75**
3.	Insurance core principles	3	5	4	3	5	5	5	5	**4.38**
4.	Reinsurance regulation and supervision	4	4	4	4	5	4	5	5	**4.38**
5.	Disclosure and transparency	5	0	4	5	5	5	5	5	**4.25**
6.	International insurance accountancy standards	4	0	5	5	5	5	5	5	**4.25**
7.	Financial conglomerates & financial sector convergence	4	5	4	5	4	4	4	3	**4.13**
8.	Supervision of insurance intermediaries	4	0	4	5	5	5	5	4	**4.00**
9.	Asset-liability management techniques	4	0	4	5	4	5	5	5	**4.00**
10.	Valuation of insurance assets and liabilities	4	0	4	5	3	5	5	5	3.88
11.	Methodology & assessment of insurance core principles	5	0	5	0	5	4	5	5	3.63
12.	Supervision of insurance groups & international insurers	4	3	4	0	3	4	5	5	3.50
13.	WTO and insurance	4	0	0	5	4	5	5	5	3.50
14.	Corporate governance	5	0	0	4	4	4	5	5	3.38
15.	Private pensions	4	4	0	5	5	3	2	4	3.38
16.	Money laundering and insurance	5	3	0	5	0	3	5	4	3.13
17.	Alternative risk financing	4	0	0	4	5	3	4	5	3.13
18.	Investments regulation	4	0	4	4	0	4	3	5	3.00
19.	Credit insurance and credit risk securitization	4	0	0	5	4	3	3	4	2.88
20.	Enterprise risk and operational risk management	4	0	4	0	4	3	3	5	2.88
21.	Captive insurance companies & risk retention schemes	4	0	0	5	0	3	3	5	2.50
22.	On-site inspection	5	0	0	0	0	5	5	5	2.50
23.	Organization of insurance supervisory authorities	4	0	0	0	0	5	5	5	2.38
24.	Understanding insurance company account	4	0	0	0	0	5	5	5	2.38
25.	Regulation of compulsory insurance	4	0	0	0	0	4	5	5	2.25
26.	Role of auditors and actuaries	4	0	0	0	0	5	4	5	2.25
27.	Health insurance	4	0	0	0	5	3	2	3	2.13
28.	Liability insurance	4	0	0	0	0	4	4	5	2.13
29.	Others 1					3	5			
30.	Others 2					5				
	Overall mean (maximum value = 5.00)	4.14	*1.21*	2.14	3.00	3.10	4.21	4.36	*4.71*	

Based on Table 6.4a, most of the courses on high priority areas are required to be conducted at regional level. Training on insurance core principles is to be conducted within own jurisdiction while training on the subjects of capital adequacy, solvency, disclosures and transparency are needed at both jurisdiction and regional levels. While Brunei and Cambodia require most training at the regional level, Singapore is self-reliant.

In Table 6.4b, the overall mean values by countries indicate the degree of the need for HRD and the training of ASEAN Regulators in the focus areas which they have selected and ranked. The mean values infer the levels of knowledge and competencies /skills of Regulators in the identified areas. A low mean value indicates that they already have adequate knowledge and are sufficiently trained in the focus areas and vice versa. Therefore, based on the results in Table 6.4b, Singapore and Cambodia have the lowest and the highest mean respectively (boldfaced and italicized).

6.5 In- house Training Programmes for Regulators

Table 6.5 presents the responses to the survey on the in-house training activities and programmes in the technical knowledge areas, conducted or planned by Regulators for the period 2002 to 2004. Malaysia, Philippines and Thailand have some training programmes which they conduct on a regular basis and training in new areas are being planned. The answers indicate the knowledge areas in which each jurisdiction is competent and self-reliant in providing its own staff training, and are potential sources for other Regulators to participate in or to request assistance for training.

Brunei, Cambodia and Vietnam do not conduct any in-house training at all, due to a lack of critical mass or funding constraints. At the other end of this spectrum, Singapore has training programmes in a wide range of topics conducted and planned for staff training.

Table 6.5: Technical Programmes Conducted In-House

Country	Training Requirement		
	2002	2003	2004 (Planned)
Brunei	-Nil-	-Nil-	-Nil-
Cambodia	-Nil-	-Nil-	-Nil-
Indonesia		• Money laundering	
Malaysia	• Insurance supervision programme 2002 • Intermediate Insurance supervision programme 2002	• Insurance supervision programme 2003 • Intermediate Insurance supervision programme 2003	• Insurance supervision programme 2004 • Intermediate Insurance supervision programme 2004
Philippines	• Seminars for insurance specialists who conduct examination/audit on companies' financial condition & methods of doing business, held every January	• Seminars for insurance specialists who conduct examination/audit on companies' financial condition & methods of doing business, held every January • Understanding variable insurance contracts & related transaction recordings & audit	• Seminars for insurance specialists who conduct examination/audit on companies' financial condition & methods of doing business, held every January • Understanding variable insurance contracts & related transaction recordings & audit
Singapore	• As per 2003	• Foundation module on asset securitization • Foundation module on credit derivatives • Introductory technology course • Industry talk: Captive insurance and protected cell companies (PCC) • Counter-party risk in trading • Industry talk: Collaterized debt obligation (CDO) • Equity derivatives/equity-linked structured products • US Securities Act • Convertibles • Hedge funds • Balance sheet management & asset liabilities committee (ALCO) function • Objectives and principles of financial supervision • Industry talk by Deutsch Bank • Supervisory case study by insurance department	• Operations risk management • Securities and failures department case study • Developments in accounting standards • Payment systems • Insurance Act, regulations and notices • Introduction to investment banking & corporate finance • Commercial lending/credit principles • Trade finance & documentary credit • Credit support-netting & collateral arrangements • Equities & structured products • Introduction to corporate governance • Introductory technology course • Market risk management & value at risk • Foreign exchange and FX derivatives • Managing unit trust business • Insurance department's risk-based capital framework
Thailand	• Capacity building for examination & supervision • Risk-based capital • Disclosure & transparency • Unit-linked product • Health insurance workshop • Derivative warrant • Economic model for insurance business forecast • Claims management • Legal enforcement for insurance • Internal control system & duty of auditor for insurance business	• Evaluation for efficiency & planning ability on internal control • Portfolio & risk management • Disclosure & transparency • Claims management & risk survey • Unit-linked product • Financial products & markets	• Risk assessment for examination practices • Risk management & unit-linked products • Workshop on solvency & risk-based supervision
Vietnam	-Nil-	-Nil-	-Nil-

6.6 Importance of Research & Development and Priority Areas for Research and Technical Focus

Most ASEAN Regulators believe research to be important. However, there was no response from two Regulators, as indicated in Table 6.6a.

Table 6.6a: Rating on Importance of R&D in Insurance Regulation

Country	Rating on Importance of R&D in Insurance Regulation (1= Not Important, 5 = Very Important)
Brunei	5
Cambodia	5
Indonesia	5
Malaysia	5
Philippines	No response
Singapore	1
Thailand	3
Vietnam	No response

The survey sought the views of Supervisors on the priority areas of research. The results are summarized in Table 6.6b. Research on areas related to risk –based supervision such as corporate governance, risk management, audit, actuarial and early warning systems /solvency-related issues are priorities for a majority of Supervisors, especially from the more developed markets. Brunei, Cambodia and Vietnam require research on basic supervisory operational topics such as on- site inspection and understanding company accounts, compared with the 'established' Regulators. Thailand, Philippines and Malaysia also identify topics reflecting contemporary developments in their supervisory approach and their insurance and financial sectors. Malaysia, for instance, indicates research requirement in regulating health insurance and regulation in a de-tariffed market. Market conduct, supervision of insurance intermediaries and transparency are research areas identified by Thailand. Thailand has also cited topics relating to new market or regional developments such as the supervision of financial conglomerates, financial sector convergence and risk assessment of regional companies.

Table 6.6b: Priority Areas for Supervisory Research

Country	Priority Areas For Supervisory Research
Brunei	(1) IAIS Core Principles (2) Regulation of compulsory insurance (including third party liability insurance) (3) Capital adequacy and solvency supervision (4) Corporate governance (5) On-site inspection
Cambodia	(1) Asset-liability management technique (2) On-site inspection (3) Valuation of insurance company accounts (4) Understanding insurance company accounts (5) Methodology and assessment of insurance core principles
Indonesia	(1) Policyholder guarantee fund (2) Risk-based capital (3) Insurance technology premium development (4) Human resource / fit and proper
Malaysia	(1) Regulatory/supervisory requirements for medical and health insurance (2) Risk- based supervision framework (3) Market conduct regulation/supervision (4) Sales disclosure from the consumers' perspective (5) Supervision of de-tariffed market (6) Consumer satisfaction (7) Regional insurance companies' risk assessment analysis
Philippines	(1) Research on captive market (2) Margin of solvency requirement (3) Risk- based capital (4) Rates and rate making (5) Early warning systems
Singapore	Not applicable
Thailand	(1) Corporate governance (2) Role of auditors and actuaries (3) Solvency margins (4) Supervision of insurance intermediaries (5) Financial conglomerates and financial sector convergence
Vietnam	(1) Capital adequacy and solvency supervision (2) On-site and off- site inspection as well as understanding insurance company's accounts (3) Corporate governance (4) Reinsurance regulation and supervision (5) WTO and insurance

Regulators identified a variety of priority areas for technical focus required, as presented in Table 6.6c. Cambodia, Brunei and Vietnam have a greater preference for research on technical operational topics, compared to 'established' markets (Thailand, Philippines and Malaysia) which indicate their preference for subjects concerning contemporary supervisory issues ranging from solvency supervision and risks assessment to new product development to customer satisfaction issues. As Singapore does not give high priority for research, no research topics were proposed.

Table 6.6c: Priority Areas for Technical Focus

Country	Priority Areas For Technical Focus
Brunei	(1) Understanding insurance company accounts (2) Core principles methodology and assessment of insurance ore principles (3) Disclosure, transparency and sanction (4) Actuarial investment- related issues and technical assistance
Cambodia	(1) Insurance accounting (2) Inspection on-site and off-site (3) Assessing company assets and liabilities (4) Formation of insurance statistics (5) Auditing
Indonesia	(1) Retention (2) Investment (3) Risk profile (4) Catastrophe risk (5) Developing rating
Malaysia	(1) Development of pension product (2) Regional insurance companies' risk assessment analysis (3) Consumer satisfaction
Philippines	(1) Research on rating of market (2) Margin of solvency requirement (3) Risk- based capital (4) Rates and rate making (5) Early warning system.
Singapore	Not applicable
Thailand	(1) Health insurance (2) Asset-liability management techniques (3) Capital adequacy and solvency supervision (4) Risk-based supervision (5) Private pensions
Vietnam	(1) Corporate governance (2) Investment skills (3) Financial management (4) Product development, pricing and distribution (5) Consumer protection schemes

6.7 Qualifications of Regulators

Regulators' views were sought on the need for a formal specialist qualification in insurance regulation. Table 6.7 shows the level of qualification needed for training of Regulators. Most of the Regulators believe that formal training is needed at least at the diploma level.

Table 6.7: Levels of Qualification Required

Country	Certificate	Diploma	Degree	Master
Brunei		√	√	√
Cambodia		√		
Indonesia	√			
Malaysia				
Philippines	√			
Singapore			√	
Thailand	√	√		
Vietnam		√		

6.8 Constraints Faced by Regulators and Possible Solutions

Table 6.8 shows that ASEAN insurance supervisory authorities have similar constraints of either limited budgets for training and lack of experienced and qualified personnel to conduct the training, or both. The exception is Singapore. Some issues such as limited budgets and lack of experienced trainers are discussed in the earlier sections of this paper on the HRD challenges faced by Regulators.

The possible immediate and long-term solutions proposed for each of the problems identified are summarized in the table. Regulators are conscious of the need for greater budgets and committed efforts to improve their staff knowledge and competencies, and of the longer-term need for developing a cadre of professionals who can handle the emerging issues in insurance regulation arising from the constant changes in their insurance and financial sectors. Practical suggestions such as outsourcing, motivating staff interest in their own professional development, seeking technical assistance, and continuous exchange and sharing of ideas and experiences with other Regulators are relatively easy to implement in the long term. More strategic solutions will require more commitment and determination as they will be more difficult to resolve.

Table 6.8: Constraints and Solutions

Country	Constraints	Solutions
Indonesia	Inadequate budget available for training, inadequate internal personnel to conduct training courses and inadequate external training facilities in the country	None given
Singapore	Not applicable	Not applicable
Thailand	Inadequate internal personnel to conduct training courses, inadequate budget available for training, and inadequate motivation of staff to participate actively in training	Establish a long-term commitment to training system
Philippines	Inadequate budget available for training	Continuous exchange of ideas and devices on new products and services during meetings, conferences and seminars
Malaysia	Inadequate internal personnel to conduct training courses	Outsourcing for expertise from both local and international market
Vietnam	Inadequate budget to conduct training programmes and inadequate internal personnel to conduct training courses	Incorporation of training of Regulators into a broader training programme for the Ministry of Finance staff to benefit from budget allocation (optimization); seek financial support and funding from regulatory partners and the industry through cooperation and technical assistance programmes; and focus on training of trainers

Brunei	Inadequate internal staff to conduct training programmes	The key to strengthening the Brunei insurance industry is to pay greater attention to cultivating and retaining professional expertise in the insurance field. Need to address the lack of experts and high skilled professionals in the Brunei insurance industry. Need to increase knowledge and to raise awareness of insurance among the public through education and communication
Cambodia	Inadequate budget to conduct training programmes	Create more opportunities to motivate personnel to participate actively in training

7.0 CONCLUSIONS, OBSERVATIONS AND POSSIBLE SOLUTIONS

1. The ASEAN insurance market will continue to expand from its present small base to be a vital sector of a more integrated financial services sector. The regional market is diverse, as reflected by the different stages of development of the insurance markets in member countries. Insurance is vital as a risk management, savings and investment vehicle, thus contributing importantly to economic progress. For those ASEAN countries aiming to attract foreign direct investment, the existence of an efficient insurance market is important for the protection of assets invested and is also a sign of financial sector stability. These are some of the key factors which influence national interests in insurance market legislative and supervisory objectives and they, in turn, influence human resource development (HRD) and the training needs of the Regulator- the subject of this research. This is glaring in the HRD and training practices of, for instance, Cambodia with its insurance sector at its infancy stage, to Malaysia with an established market, and to that of Singapore with its strategic positing as an Asian regional financial services hub.

2. It is important to recognize that regulatory objectives <u>cannot</u> be delivered without qualified and competent staff as well as a long-term plan for strategic human resource management.

3. Most ASEAN Regulators face the inherent problems of being small markets, such as limited budgets and not being accorded due importance by higher authorities in relation to their responsibilities, lack of experience, technical knowledge/ expertise and managerial skills.

4. The forces of globalization, internationalization, deregulation and convergences increase complexities which require equally complex regulatory actions and responses. Regulators in ASEAN must learn on the job, learn from other Regulators, and to cope with the fast changes, they must at minimum, learn at the rate of change.

5. HRD and training to develop expertise is costly and time consuming and therefore requires a more strategic approach and to be an integral part of the plan for capacity building.

6. With few exceptions, Regulators in ASEAN, as Regulators in most developing countries, are biased towards regulation for solvency and consumer protection and tend to adopt a prescriptive regulatory stance. The move towards market ideology and relying more on "market regulation" requires an efficient competitive market to impose "market discipline" on unsuccessful weak players – this runs counter to consumer protectionism. Increasing consumer sophistication and demand for greater choice and higher service standards require creativity and innovation of insurers and their intermediaries. As the financial sectors converge, financial products become indistinguishable. There will be increased competition for consumer savings. In this environment, those selling insurance must have the qualification and the ethics to advise consumers. The survey indicates that ASEAN Regulators are aware of the issue of educating the consumer to take responsible risk management and to ensure the ethical and fair conduct of insurers and their intermediaries. Regulators must look into the issue of regulatory arbitrage amongst financial sectors as consistency of regulation for similar products is important to consumers.

7. The implication for HR here is that Regulators must have knowledge of personal financial planning and the wider spectrum of financial services products. Regulators must acquire knowledge in new products in the insurance industry as well as risk management, derivatives and other hybrid products as insurance and capital market products converge. Training is also needed to familiarize staff with supervisory work practices such as early warning test ratios, problem solving in

relation to insurers' financial, governance and risk management performance, on-site inspection, etc.

8. Common to all of the countries surveyed is the need for Regulators to place greater emphasis on human resource strategy, and on justifying budget allocations for training and human resource development. The budget problems in training and human resource development also indicate the need for attitudinal change, and for Insurance Regulators and the industry in all of the countries involved to regard staff as human capital or resources to be developed, and not as costs to be minimized. This in line with modern human resource thinking, as put forward, e.g., by Friedman, Hatch and Walker (1998), who state that many companies and industries do not know how to value their human resource development policies and practices based on the concept of 'human capital' – that people become more valuable when we invest in them.

9. Clearly, a long-term philosophy relating to building staff capability and sound institutions is required in ASEAN.

10. This relates to another recurring issue identified by this survey: the lack of critical mass. This inevitably points towards the necessity for greater collaboration at ASEAN and international levels. AITRI and other relevant institutions will need to play a greater role in providing training for ASEAN Regulators and conducting relevant research. What is needed is a long-term integrated action plan at the regional level, perhaps spanning 3-5 years along the following lines:
    a) Develop regional research collaboration in the areas identified by the survey.
    b) Design curriculum for training and human resource development in the areas identified and seek expert trainers from ASEAN and internationally.
    c) Assuming that other established institutions in ASEAN/at country level can provide training on routine areas, the focus at the regional level should be on advanced and specialist level programmes in the focused areas identified by ASEAN Regulators.
    d) Collaboration with international agencies such as IAIS, National Association of Insurance Commissioners (NAIC), World Bank, Asian Development Bank (ADB) and UNCTAD should be sought for expertise as well as

funding assistance, especially to assist those ASEAN members who have funding/budget constraints.

e) Longer-term programmes should include the development of ASEAN trainers/experts who can complement international faculty. Experienced industry or regulatory staff may be recruited and given androgogical training to become competent trainers.

f) Provide scholarship or funding for advanced studies/research.

g) Create programmes involving industry experts and practitioners to apprise Regulators of contemporary issues and future trends. The survey clearly indicates where expertise in the various relevant subjects is available within ASEAN jurisdictions.

h) Plan exchange of visits and practical training at ASEAN and international levels.

i) Seminars in coordination with international agencies and other developing countries.

PART II

RESEARCH ON HUMAN RESOURCE DEVELOPMENT AND TRAINING NEEDS OF INSURERS IN ASEAN

1.0 INTRODUCTION

The determinants of a competitive insurance market are as follows:

1) Sufficient number of producers/insurance companies to provide consumers with adequate choice.
2) Availability and public access to information about insurance products/services
3) Qualified and competent staff and intermediaries of insurance companies and other complementary technical services, e.g., loss adjusters, lawyers, actuaries, etc.
4) Competent and independent (free from political influence) Regulators able to balance regulatory objectives of solvency, stability, and consumer protection with developmental/national objectives and encouraging entrepreneurship to ensure that the insurance market is able to deliver availability, consumer choice and high service quality at “market price”.

Arguably, the key determining factor of a successful market and of value creation in insurance is talented and highly competent human resource.

Insurance contributes to economic growth in its role a risk transfer mechanism and a financial intermediary. Insurance enhances the financial system by creating liquidity and increasing its stability. However, in most ASEAN countries, the insurance industry has yet to be fully developed, and the current level of consumption of insurance remains low. The share of insurance premium as a percentage of gross domestic product (GDP) in a number of ASEAN / Asian (excluding countries such as Japan, Taiwan, Singapore, Hong Kong and

Korea) economies is significantly less than in developed countries and the insurance penetration is very low.

Thus, the potential for growth of the insurance and reinsurance markets in Asia is tremendous in view of the robust economies in some countries, the emerging new economies, and the expected overall long-term trend of economic development and expansion in ASEAN. The current trend towards the liberalization of insurance markets and internationalization of insurance companies will also contribute to the expansion of insurance markets in Asia / ASEAN. Analysts expect Asia to become one of the world's major insurance regions in the future (Goh and Low, 2001).

At the same time, insurance markets in ASEAN are also faced with increasingly complex challenges alluded to earlier in section <u>3.2 in Part I</u> of this report**.** Liberalization, technological advances, and deregulation are the main trends that account for competitive pressures (Becker and Gerhart, 1996; Dessler, 2000). The performance and profitability of insurance is also exposed to the vulnerability of systemic risks, as seen during the Asian financial crisis. As such, the insurance sector needs to proceed strategically to ensure stability and security for consumers

Given such dramatic changes taking place in the economic environment and corporate strategies, the human resource development (HRD) challenge in the insurance industry is unprecedented.

2.0 AIMS OF THE SURVEY

Human resource is becoming the most important resource as the insurance industry sector undergoes dynamic changes (Gray and Herr, 1998; Thurow, 1992). Extensive research is timely to understand the role of HRD in improving organizational performance and the creation of shareholder values in the insurance sector

The objectives of HRD and training programmes must be aligned with the current developments, the new strategies being implemented and the challenges of performing under a more complex, highly competitive environment. There has been a shift towards market-based economies, ubiquitous IT requiring new ways of organizing work.

Treen (2000) states "Given the warp speed of change, creating the future by reinventing and regenerating core strategy has never been more important. Success, however, demands the fundamental and critical contribution of HR".

It is against this dynamic backdrop that ASEAN Insurance Regulators deemed it important that a study be conducted to assess the human resource development and training needs of Insurers in ASEAN. The study is focused on the following objectives:

1) To highlight major market developments and related HR challenges faced by insurers at local and ASEAN levels;
2) To identify HR objectives, strategies and practices in the context of these wider market and strategic challenges;
3) To determine the human resource development needs, knowledge and skills requirements;
4) To identify specific training and educational programmes required;
5) To identify possible HR priorities, directions and solutions;
6) To identify possible areas of collaboration within or outside of ASEAN for long term insurance expertise development.

3.0 METHODOLOGY

A survey questionnaire, targeted at top management of insurers in ASEAN was developed using five point scales for rating assessment and open-ended questions to obtain input from respondents. Please refer to Appendix 2 to view the questionnaire. Insurers' views were sought on the strategic issues influencing HR practices and HR challenges at macro and micro levels.

The questionnaire is divided into 3 sections, covering: background information, challenges and solutions, and strategies. Qualitative analyses were predominantly used to identify patterns and themes of the responses that will be categorized based on the comments from the open ended-questions (refer Miles and Huberman, 1984). Descriptive analyses were further conducted on the collected data. Stratified sampling technique was used to develop the sampling frame that comprised 138 insurance companies.

4.0 LITERATURE REVIEW

This section is organized into 6 parts, namely (i) theories and practices, (ii) current challenges, (iii) needs assessment, (iv) training and development, (v) trends and (vi) HR issues in the insurance industry.

4.1 Theories and Practices

4.1.1 Theories in HRD: HR concepts and best HR management practices.

HRD is a field that defines itself as “the integrated use of training and development, organizational development and career development to improve individual, group and organizational effectiveness,” (Rothwell and Sredl, 1992, p. 3). HRD relies on more than one subject matter or discipline. HRD is described as “an applied field . . . drawing on theories and insights from many disciplines,” (Rothwell and Sredl, 1992, p. 2).

The field of strategic human resource management (HRM) has grown extensively in the last two decades. Sculer and Jackson (1999) describe its evolution from personnel management as a two-phased transformation: the first, from personnel management to HRM; and the second, from HRM to strategic HRM (see below).

HR is a critically important resource in a knowledge- based economy. An organization’s success in a dynamically competitive environment will be dependent upon its ability to acquire knowledge as a resource and integrate knowledge throughout the organization (Grant, 1996). Essentially, this means people are the source which fuels innovation, flexibility and growth which all create a sustainable competitive advantage (McDermott, 1996). HR is the key factor in determining an organization's fate in the new marketplace and realities.

When examining the issue of how best to develop the human potential in any organization, it is important to give time and attention to the person or persons endowed with the responsibility for this task. According to Rothwell and Sredl, (1992) the professionals responsible for this task must pay attention to the methods of improving organizational, group and individual effectiveness (i.e. performance) and seek to meet this challenge by providing a framework for professionals to improve organizational effectiveness using all the theoretical information and methods available.

Durand (2000) has developed a simple integrated model that can be applied to both individual and organizational competency. The model, known as the Dynamics of Competency Building, identifies three dimensions of competence: knowledge, know-how and attitudes with no particular priority or preferred order of dimensions. The dimension of knowledge that encompasses the access of data, and the ability to enact the data into acceptable information and integrate them into pre-existing schemes, which obviously evolve along the way. The know-how dimension is action- oriented, and relates to the ability to act in a concrete way according to predefined objectives or processes and is concerned with the ability to apply knowledge to a given situation. It presupposes learning of the skilful application through such activities as observing others perform a job, or by personally doing the work over a period of time. It also implies the use of technique and, by its nature, is active and requires the individual to be fully "engaged". Finally, the attitude dimension is composed of diverse social, cultural and self-image factors that act upon the individual's ability to develop his or her competence.

Another theory that may be applicable in the area of HR is the expectancy theory developed by Vroom (1964) which postulates that people will behave based on the perceived likelihood that their effort will lead to certain outcome and on how highly they value that outcome. This theory consists of three main dimensions, namely: expectancy, instrumentality and valence. A study by Girard and Heinz (2001) on 142 articles related to human resource management discovered that this theory was most used by HR trainers in their training programmes. Thus, it is also relevant to training programmes conducted specially in the insurance industry for their employees to improve their productivity and efficiency. Additionally, it is equally important for insurers to match the training needs of current employees to their expectations and competency levels.

4.1.2 Strategic human resource management practices

Strategic human resource management (SHRM) is defined as the linking of the HR function with strategic goals and objectives of the organization in order to improve business performance and develop organizational cultures that foster innovation and flexibility (Truss and Gratton, 1994; Tyson, 1997).

Treen (2000) indicated that enabling the company to execute its strategic plan is the essence of strategic HR. "Once HR understands the gaps, it can make plans to improve the organizational competencies needed to make the overall strategy a successful one" (p.64). He discussed the HR strategic role from the organizational aspects of: future performance capabilities, value and culture, learrning and system thinking. passion to improve, partnering and collaboration, and lastly, communication and commitment.

In sum, "the key idea behind overall strategic management is to coordinate all of the company's resources, including human resources, in such away that everything a company does contributes to carrying out its strategy" (Anthony, Perrewe, and Kacmar, 1996. p.14). Organizations that have adopted SHRM will receive such benefits as: high job performance: high problem solving, change, and innovation; high cost-effectiveness; low turnover, absence, grievances; and attitude and behaviour changes at the workplace, resulting in highly desirable increases in competitive performance (Baker, 1999; Guest, 1992; Storey, 1992). As Treen (2000) summarized, strategic HR must create value by providing learning to develop intellectual capital and core competencies to meet the organization's strategic needs.

4.1.3 Human resource management practices

Arthur (1994) found that HR practices that focused on enhancing employee commitment were associated with the high organizational performance. In contrast, he observed that HR practices focusing on control, efficiency, and the reduction of employee skills and discretion were related to increased turnover and poorer manufacturing performance.

Based on several survey studies, Pfeffer (1994) summarized 14 HR activities: job enlargement, job rotation, job design/redesign, formal training, personalized work hours, suggestion systems, quality circles, salarying blue-collar workers, surveys of employee attitudes, production teams, labour/management committees, group productivity financial incentives, profit-sharing incentives and stock purchase plan. Pfeffer indicated that there is a somewhat stronger relationship between the rated success of these practices and the extent to which they have been adopted.

To see whether changes in the business environment and corporate strategies are leading to changes in the human resource function, McMahan, Morhman and Lawler III (1999) conducted a study of the human resource functions in 130 large companies. Sixteen practices were included in the study to investigate the change in focus on human resource activities: HR planning, compensation, benefits, OD, employee training/education, management development, employee relations, union relations, HR information systems, performance appraisal, selection, recruitment, career planning, employee record keeping, legal affairs, and affirmative action. McMahan, Mohrman and Lawler III concluded that “there has been a shift in human resources roles: away from auditing and record keeping and toward more business partner and change management support”.

According to Delery and Doty (1996), “Strategic HR practices are those that are theoretically or empirically related to overall organization performance“ (p. 805). Based on previous theoretical works, Delery and Doty identified seven strategic HR practices: internal career opportunities, formal training systems, appraisal measures, profit sharing, employment security, voice mechanisms and job definition. There are other HR practices that might affect organizational performance. However, the seven practices they identified appeared to have the greatest support across a diverse literature. They believe these seven practices to be critical characteristics of employment system in organizations.

Best Management Practices

Recent trends indicate that the financial sector is growing increasingly customer- oriented, developing commitment in its employees, developing employees to serve these needs and becoming increasingly socially committed. A research conducted by Travis Perera (1999) identified and analyzed best practices that were consistently present in the management of successful companies in the financial sector of Sri Lanka. The 5 best practices that were consistently present in the said companies were identified:

- ***Lifetime partnership with customers, namely:*** (i) Identifying potential growth customers under innovative schemes: the concept of barefoot banking identifying entrepreneurs located in villages and remote regions of the world and mobilizing them into action; (ii) Retaining customers: once customers have been identified and linked up, it is vital to provide financial products that are competitive in terms of being value adding through innovative augmentations and extensions to realize and ensure continuous customer commitment; (iii) Developing the partnership emphasizes the continuous development of the customer in terms of capability, and of products in terms of quantity, quality and complexity. Developing the customer becomes the basis for mutual development of the partnership.

- ***Dedicating skills to the organization*: ** In order to ensure that an organization has a competitive edge in the industry, it is vital that it develops the skills of its employees to be as unique and non-replicable in the industry as possible as well as able to give a high quality performance. This will enable the core skills of the people to be dedicated to the organization as well as give meaning to brand identity and unique value in the industry. The development of these core skills can be made possible through an organization that learns by doing, learns by listening, and learns by making/ creating. According to Nevis *et. al.* (1998), all organizations are learning organizations and the three learning- related factors that are important for their success are: well developed core competencies that serve as launch points for new products and services; an attitude that supports continuous improvement in the businesses' value added chain; and the ability to fundamentally renew and vitalize.

- ***Building effective commitment:*** It is important that the organization builds, sustains and exchanges commitment amongst its employees, as it is central to their motivation and productivity. This organizational commitment also depends on the focus (the extent of individual's commitment to top management and organization) and base (the extent of individual's commitment to supervisor and workgroup) of commitment.

- ***Now before how:*** Employees need to be empowered and have the necessary power, authority, responsibility and access to resources including information to make effective decisions. This would make the employee flexible and confident to cater for customers' needs. For this purpose, the organization structure has to be made flatter and the company's functional divisions reorganized into self-directed teams led by team leaders, thereby enabling customers to be serviced from a single contact point.

- ***Well-orchestrated controls*:** for long-term success, the organization should orchestrate all processes and controls to perform in harmony. The organization's mission statement provides the direction for long-term actions. The virtuosity of the employees must build up through a process of skill dedication to be capable of performing in harmony. Networking and cross-functional teams were commonly backed in accordance to the level information technology available in the organization.

Another case is that of Siebel Insurance (health care and insurance) which illustrates best practices in every aspect of customer-facing processes from Marketing and Channel Management to Policy Sales and Service to Claims Management. These best practices that were embedded into a consistent set of integrated business processes consist of the following:

- ***Profitability-driven policy renewal processing:*** This integrates customer profitability analysis into the renewal process, leveraging it in the design and execution of segment-based retention strategies to proactively manage renewal opportunities. This approach proactively targets profitable customers. Retention strategies are defined and executed to retain high-value customers and improve the profitability of borderline customers.

- ***Intelligent claims segmentation and routing:*** Intelligent Claims Segmentation and Routing flexibly decomposes a claim into segments while optimizing the assignment of these claim segments to claims adjusters and service providers. Score-Based Assignment is used to automate and optimize the assignment of the claim to the claims adjuster and service providers based on a broad range of criteria including skills or expertise, region, language, workload, and so on. Claims are segmented by coverage type and claim coverage this combination results in a faster and more accurate claims handling. Overall, automated task plans based on claim segments improve policy adherence, tasks follow-up and appropriate management escalation.

4.2 Current Challenges

Findings of a research / survey on the Malaysian Insurance Industry HR Practices (MII, 1997) found that an organization's external and internal environments have strong influence on its HR strategies and practices. The top three HR challenges identified are customer services, compliance with regulation and keeping up with technology. The technology issues at the time of survey, relate more with operational or IT technology within companies rather than the broader technological changes which will bring new types of insurance challenges such as e- commerce and new risks associated with the industrial developments of the Malaysian economy.

Ulrich (1997) postulated that HR holds the keys to success in overcoming eight major challenges facing executives universally, namely: globalization; value chain for business, competitiveness and HR services; profitability through cost and growth; capability focus;

continual changes; technology; attracting, retaining and measuring competence and intellectual capital; and turnaround is not transformation. Collectively, these challenges bring about a new competitive reality that necessitates new and innovative ways of thinking that inevitably impact on HR practices, HR functions as well as HR professionals. In other words, the new competitive reality requires that HR practices add measurable value; HR functions need to deliver business results; and HR professionals proactively develop the discipline of a profession, play new roles and demonstrate new competencies.

4.3 Needs Assessment and Transfer

Many studies on HR practices identified certain barriers to the transfer of training; however, they failed to address front-end activities needed for the improved transfer of newly acquired skills. Rouiller and Goldstein (1993) suggested front-end needs assessment as a requirement for improving training transfer. They concluded that the more positive the organizational transfer climate, the more likely that trainees will transfer key behaviours learned in training back to their jobs. Conducting up-front needs assessment in order to proactively identify possible barriers to transfer and to remove them prior to the training was also suggested by Robinson and Robinson (1985). Wexley and Latham (1991) concurred with this suggestion and recommended the development of a survey instrument that potential trainees and their supervisors would complete in order to identify and remove barriers before any employee time was invested in training.

Brinkerhoff and Montesino (1995) based on their study that included 91 trainees within a Fortune 200 company who were participating skill development courses, added two more techniques to the needs assessment process: a pre-training expectations discussion followed by a post-training follow-up discussion between the supervisor and the employee. The Brinkerhoff and Montesino study concluded that there is a significantly higher level of training transfer for individuals who received the above-described management interventions than for those who did not.

Campbell and Cheek (1989) suggested that developing a workable action plan as a part of the needs assessment process was an additional means to enhance training transfer. Employees and their supervisors mutually design action plans; and they outline objectives for a training session, as well as specific tasks to be performed back at the worksite using newly acquired skills. The goal of these action plans is to more formally identify specific transfer strategies for each employee to use. Such plans could include identification of objectives for training, specification of actions that will be taken, clarification of inputs and assumptions, identification of evaluation methods, and listing of support personnel (Campbell and Cheek, 1989).

Rouda and Kusy (1995) defined a needs assessment as a systematic exploration of the way things are and the way they should be. They suggested that it was important to consider the benefits of any human resource development intervention before it was initiated. Questions to ask should include: What learning will be accomplished? What changes in behaviour and performance are expected? Will they be achieved? What are the expected economic costs and benefits of any project solutions? Rouda and Kusy (1995) also contended that companies are often in too much of a hurry, implementing solutions without the correct interventions. Rouda and Kusy (1995) identified four steps to conducting a needs assessment:

i. Perform a gap analysis to determine the current state of skills, knowledge, and abilities of employees and to identify the desired or necessary situation.
ii. Identify priorities and importance.
iii. Identify causes of performance problems and/or opportunities.
iv. Identify possible solutions and growth opportunities.

4.4 Training and Development

Transfer of training refers to the extent to which what is learned during a training event results in better performance on the job. As Gagne and Medsker (1996) stated, “because the goal of most training is to improve human performance in the workplace, the transfer of learning from the classroom to the job setting is a matter of crucial importance. Further, because today's worker is called upon to solve novel problems and not just follow routine procedures, helping trainees transfer learned skills to new situations is of growing concern." (p. 150)

Broad and Newstrom (1992), in the book Transfer of Training, stressed the importance of organizational or social support systems for facilitating or sustaining transfer – if and when it should occur (Haskell, 1998).

Despite the importance of transfer of learning to the job, many training practitioners argued that such transfer is typically low. Brinkerhoff and Gill (1994) contended that most training does not transfer to the job. Kelly (1982) theorized that only 10 percent of what is learned in training transfers to the workplace. Broad and Newstrom (1992) reported on a study that analyzed the perceptions of HRD professionals of the transfer of content from management development programmes. The professionals believed that only about 40 percent of the content was transferred to the job immediately, about 25 percent was used six months later, and 15 percent was used at the end of a year.

Many barriers can exist that can negatively impact the transfer of training to the job. One such barrier is the existence of an organizational climate and a work environment that are inconsistent with what the training programme presents. Other barriers include the employee's view of training and development activities as unimportant or peripheral to the work of the organization; the employee's individual characteristics and attitudes, and the failure of the training planners to build transfer into training events (Kelly, 1982). Kelly's study was further validated and confirmed based on a recent study by Amran, Shakir and Hishamuddin (2003) which identified non-conducive organizational climates and lack of incentives as two barriers to effective transfer of training.

Baldwin and Ford (1988) determined that the work environment was a significant factor in the transfer of training both before and after training. Their research with U.S. Air Force aviators found that work environment, specifically the opportunity to perform new skills, was a critical factor in the transfer of training. Rummler (1983) stated that a lack of a supportive work environment would have such a negative effect on a newly trained employee that he or she eventually will not use the skills learned during the training.

Quinones et al. (1993) researched the impact of the opportunity to perform the trained tasks on the job. Their study of the Air Force Aerospace Ground Equipment (AGE) technical training course attempted to identify a correlation between the transfer of trained skills and the extent to which individuals receive opportunities to perform trained tasks on the job. Results of the study showed a strong correlation between these two variables. The basis for this correlation was that individuals who obtained many opportunities to perform trained tasks on the job were more likely to retain and maintain trained skills than those obtaining few opportunities.

Broad and Newstrom (1992), through interviews with trainees and training professionals, identified a number of other transfer barriers, including lack of reinforcement of the training content on the job, problems in the work environment such as work schedule conflicts or the pace of work, and a non-supportive organizational climate. Wexley and Latham (1991) concluded that social influences within the work environment are the major barriers to transfer, including the trainees' interactions with peers and supervisors. In their critique of transfer research, Baldwin and Ford (1988) outlined several variables in the work environment that could determine the degree to which trained tasks are transferred, including supervisory perception of the training, work group support, and the pace of work in the primary work area.

For transfer to occur, Brinkerhoff and Gill (1994) maintained that fundamental changes must be made to the way training is managed and delivered. According to Rothwell and Kazanas (1994), the most common method of delivering training was in a classroom format with live instructors. However, in strategic, future-oriented training, learners must be given opportunities, through role-plays, case studies, and job scenarios that simulate workplace conditions (present and future), to gain experience before they confront real situations (Rothwell and Kazanas, 1994).

The training must accurately reflect realistic job conditions if learning is to transfer rapidly to job performance (Gagne and Medsker, 1996). In addition, Noe and Schmitt (1986) maintained that, “a supportive work climate in which reinforcement and feedback from co-workers are obtained is more likely to result in a transfer of skills from the training environment to the work environment” (p. 498-499).

4.5 Some Trends Influencing Insurance and the HRD and Training Implications

The most important aspects of management that have impacted on Human Resource Management (HRM) seem to be decentralization, IT development and flexibility (Lipiec, 2001). The five trends identified by Lipiec are: (a) strategic approach to HRM – an important plan which correlates a company’s plans, goals and objectives to the HR strategy; (b) standardization, referring to two kinds, i.e., legislative and culture; (c) decentralization of HR concepts leading to improved decision making and communication in the units of the organization; (d) development of new competencies and/or refinement of existing ones, in line with the company’s aim to be market leader; and (e) education and training. The role of HR managers in future should be adapted in accordance to these trends.

Chiavanato (2001) too had indicated fundamental advances in human resource management was required in the face of environmental challenges and summarized trends that will face HR management. The 12 trends which reflect the need for competitiveness in a turbulent and changing world are: a new philosophy of action; a rapid transformation from staff service to internal consultation; a gradual transfer of functions and decision making to middle managers; close correlation with the company’s mission; a move towards clear and accelerated tendency toward downsizing; a work environment which emphasizes participative and democratic culture; increased utilization of motivational tools for improving personal achievement; development of flexible HR policies and practices that are responsive to the needs of the people involved; an orientation towards customer service be it internal or external; a strong concern for developing and/or adding values based on a positive work culture within the organization; a strong concern with knowledge management and generating intellectual capital; and an overriding concern with preparing the organization and its employees for the future.

Enterprise Risk Management

Insurance, being in the business of underwriting risks, must acquire expertise in enterprise risk management (ERM) to be the core expertise. ERM is a rigorous approach to assessing and addressing an organization's risks from all sources to increase the value of the enterprise. The need for ERM in the financial services sector is driven by external pressures common to all businesses (corporate governance reforms) and regulators' and legislators' concern with protecting policyholders, customers as well as the financial system as a whole. The internal pressures come from business conditions and risks that are unique to the insurance industry, specifically those that arise from operating in a more competitive environment (Miccolis, November, 2000). A host of operational problems in the insurance sector - convergence of the banking and insurance sectors, decreasing margins, increasing competition from unconventional sources, advances in technology, new distribution systems and customer expectations, more demanding stakeholders and too much capital pursuing too little business - bring additional uncertainties and levels of scrutiny.

Thus, in the wake of a riskier environment, financial institutions especially insurers, which can demonstrate mastery of ERM internally will certainly appear more credible in the marketplace, and thus will be able to increase the chances of attracting and retaining their clients and customer.

Miccolis (November 2000) identified a five-step systematic management process which represents the logical flow of activities in developing ERM strategy: assessing risks, articulating strategies, evaluating strategies from policyholders' and owners' perspectives, implementing strategies, and monitoring performance and refining strategies. He pointed out that the relative preferences for maximizing value versus averting risks will differ for each management team, well as the circumstances under which the team must develop its strategy.

Strategic Flexibility Framework for Insurance Companies

In the present state of flux, the strategic framework used for predicting the future must incorporate uncertainty into its framework. According to a study by Deloitte Consulting Analysis (2001), the strategic framework should consist of four phases, i.e., Anticipate (Identify drivers of change, Define the range of possible futures, Develop scenarios), Formulate (Develop an optimal strategy for each scenario, Compare optimal strategies to define "core" and "contingent" elements), Accumulate (Acquire those capabilities needed to implement the core strategies, Take options on capabilities needed for contingent strategies) and Operate (Execute the core strategy, Monitor the environment, Exercise or abandon options as appropriate).

Management must respond appropriately to new information and knowledge as it is acquired. Thus this framework is events-driven and reiterative in nature whilst planning for flexibility. By using this approach, managers can rapidly synthesize new information and react accordingly to those changes. Hence, there is a constant need for retraining employees' development, learning and relearning of new skills and knowledge.

Bancassurance

The emergence of bancassurance enables banks to offer a package of financial services that can fulfill both banking and financial needs. Banks gain additional fee income, insurers can increase their market penetration and premium turnover, and customers benefit from bancassurance in terms of reduced price, and the convenience of getting their banking and insurance services under one roof.

Collaboration is the key to making this new joint venture a success by combining the capabilities of the banking sector (tapping into their databases for middle market, leveraging their name recognition and reputation at local and regional levels, managing multiple distribution channels, cross selling banking products, and using direct sales) with the experience of the strong insurers (substantial product and underwriting experience, strong "push" channels capabilities and investment management expertise).

E-commerce

E-commerce in retail insurance has already made an impact in developed markets. It is not clear to what extent the Internet will be used for commercial lines, especially more complex liability and property coverage. E-commerce, however, is likely to impact the insurance industry in those behind-the-scenes, "back-room" activities and the activities that are not transparent to customers such as risk assessment, policy processing and administration, claims and loss control (Amran et al., 2003).

The sheer volume of information involved in these areas points to the significant opportunities for efficiency in using the Internet. Increasing competition is pushing the industry to continually improve the efficiency of its products and services – in particular, to reduce transaction costs.

The electronic economy, however, will have a major impact on the industry in terms of insurance exposures - the risks for which customers expect companies to deliver protection and security. Risks associated with e-commerce span a broad spectrum, from computer systems fraud to personal injury, from false advertising, slander or libel to copyright and trademark infringement. High-tech companies involved in e-commerce also have unique needs in such areas as errors' and omissions' liability, protection from computer viruses, and other exposures. While computer penetration may be more limited in some markets, it will expand quickly – and the window of opportunity to develop new products to address those needs will be limited. The Internet is today's reality. Insurers who will succeed will be <u>those who are innovative and have the competencies</u> to respond to changing client and customer needs.

Outsourcing

Outsourcing is a strategic choice to purchase some activities from outside suppliers. Firms often purchase a portion of their value creating activities from specialty external suppliers who can perform these functions more efficiently. Strategic rationales for outsourcing are to improve business focus, provide access to world-class capabilities, accelerate business re-engineering benefits, share risks, and free resources for other purposes.

Within the insurance industry, outsourcing of non-core business activities such as call centres and training have become common phenomena. Cheaper options to move call centres elsewhere and diseconomies of scale for training have made outsourcing a favourable option for some companies.

Takaful

Insurers with appropriate knowledge and skills can gain from providing insurance products that comply with Islamic principles to cater for the special needs of the Muslim population in ASEAN countries such as Brunei, Indonesia and Malaysia. The Takaful industry has evolved to become an important constituent in the overall Islamic financial system. Since the concept underlying this product differs from that of traditional insurance, it is appropriate that the strategic human resource management as well the delivery of customer services is re-orientated in line with its concepts, i.e., Al-Mudharabah, Al-Takaful and Tabarru'.

According to the Malaysian Insurance Annual Report 2003, market penetration in terms of Takaful policies over the total population is only 3.8%. This indicates untapped potentials in Malaysia and the ASEAN Muslim markets and ultimately, the global Muslim market (Yusof, 1996). Challenges in this sector include the lack of uniform terminology, Syariah interpretation, human resource development, product innovation, retakaful, and promotional and marketing strategies (Yon Bahiah, 2003).

Knowledge Workers:

Insurance is a knowledge- based industry, as reflected by the number of qualified staff from various disciplines needed to provide insurance services. Knowledge workers must be managed differently. They respond to responsibility rather than command and control. It implies that there are no "subordinates", only "associates". In knowledge- based organizations, staff must be able to control their own work through feedback of their efforts and actions in relation to the objectives. The key question that should be in their minds is: "What are the contributions to my company and its mission that I can make?"

4.6 HR Issues in the Insurance Industry

Successful insurance companies are the ones that continuously upgrade their talents through well-planned HRD and training programmes. Qualified staff focusing on building core specialization such risk management, underwriting and claims in niche markets become essential elements of competing in a highly competitive environment. Guerinni (1996) identified seven major concepts as relevant HR issues faced by the insurance industry: (i) Cost effectiveness of training; (ii) Cultural training; (iii) Evaluation of training; (iv) Follow-up training; (v) Global training; (vi) New developments in training and Virtual computer training, 21st century training; and Just-in-time (JIT) training.

5.0 ANALYSIS OF FINDINGS

Descriptive analysis was used to assess the responses of participants of the survey. Valid percentages were used predominantly in this report due to the high number of unanswered responses from most of the respondents. For the analysis on items using 5 point scales, the means were also calculated.

5.1 SECTION A: Profile of Respondents

A total of 138 respondents from 8 ASEAN countries participated in the survey. A majority of 40 companies (or 29.0%) of the companies that participated in this survey are from Indonesia as indicated in Table 5.1a.

Table 5.1a: Country of Origin

Country	Frequency	Percent
Indonesia	40	29.0
Malaysia	27	19.6
Philippines	18	13.0
Thailand	18	13.0
Brunei	17	12.3
Singapore	11	8.0
Vietnam	4	2.9
Cambodia	3	2.1
Total	**138**	**100.0**

Table 5.1b: Type of Company

Type of Company	Frequency	Percent	Valid Percent
General	71	51.4	53.0
Life	36	26.1	26.9
Reinsurance	14	10.1	10.4
Composite	13	9.4	9.7
Total	**134**	**97.1**	**100.0**
Unanswered	4	2.9	
Total	**138**	**100.0**	

Table 5.1.b shows that 53.0% of the respondents are general insurers and 26.9% are life insurers. The remaining are re-insurers and composite insurers.

5.2 SECTION B: Challenges and Solutions

5.2.1 Challenges faced by the local insurance industry

This is a strategic dimension of this study. Twelve challenges faced by the local insurance industry were listed and respondents were requested to identify and assess the strategic impact/importance. They were requested to identify and assess any other additional factors.

As indicated in Table 5.2.1, increased liberalization due to greater market liberalization (mean 4.23), is cited as the factor of extreme importance. This is followed by: lack of qualified and trained workforce (mean 3.88) and low economic growth (mean 3.88).

Other key challenges identified are lack of public awareness of the benefits of insurance, entry of banks into the insurance sector, quality of current marketing / distribution systems and adequacy of ethical standards in the insurance industry. Surprisingly, the lowest important HR challenge was identified as E-Commerce, with a mean score of 3.12.

Table 5.2.1: Challenges aced by the local insurance industry

	Challenges Faced by the Local Insurance Industry	Strategic Challenge					Mean
		Low	Below	Average	Above	High	
1.	Increased competition due to greater market liberalization	0.9	1.7	14.5	39.3	43.6	**4.23**
2.	Lack of qualified and trained workforce	3.5	4.4	24.8	35.4	31.9	**3.88**
3.	Low economic growth	2.8	10.3	18.7	32.7	35.5	**3.88**
4.	Lack of pubic awareness of the benefits of insurance	0	9.5	26.3	35.8	28.0	**3.83**
5.	Entry of banks into the insurance sector	2.0	10.0	18.0	47.0	23.0	**3.79**
6.	Quality of the current marketing/distribution systems	0	9.9	23.8	47.5	18.8	**3.75**
7.	Adequacy of ethical standards in the insurance industry	3	8.1	33.3	38.4	17.2	**3.59**
8.	Coping with advances in information and communication technologies	2.0	8.1	35.4	39.4	15.2	**3.58**
9.	Access to capital resources to absorb increasing operational risks	2.6	10.4	39.0	28.6	19.5	**3.52**
10.	Increased operational risks	13.0	0	30.4	39.1	17.4	**3.48**
11.	Coping with the current regulatory and supervisory environment	2.0	12.0	48.0	29.0	9.0	**3.31**
12.	E-Commerce	5.8	31.4	24.4	22.1	16.3	**3.12**

5.2.2 HR Challenges predominant in the local market

Respondents were asked to state three most important HR challenges prevailing in their domestic market. This is a subjective question to depict the local HR issues at the macro level. The survey also sought their views of measures to overcome the challenges they had identified.

Their responses are as in Table 5.2.2. The three most important HR challenges are: (1) competency, relevancy and experience; (2) strategic planning management and (3) training and development while the top three important solutions identified are: (1) competency and experience relevant to the industry; (2) provision of adequate and relevant training and development activities; and (3) incorporation and implementation of strategic HR planning.

Table 5.2.2: Important HR Challenges and Solutions

Important HR Challenges/Solutions	Challenges	Solutions
Competency, relevancy and experience	150	148
Strategic planning management	137	122
Training and development	132	139
Recruitment	108	29
Leadership	77	55
Staff retention	44	25
Wages and benefits	43	37
Response to change	33	11
Total quality management	28	38
Ethics and corporate governance	8	6
Compliance with industrial standards and guidelines	8	7
Public awareness/education	8	13
Perceptions of product features	7	4
Performance appraisal systems	6	22
Authority of regulators	2	4
Smart partnership and cooperation	2	10
Review of education systems	1	4
Review industry structure, regulation, etc.	0	16
Outsourcing	0	3

5.2.3 Human resource challenges faced by own company

The survey asked insurers to state the most pressing human resource issues faced by their companies and to assess the strategic impact of the issues/ challenges they had identified on a scale of one (1: lowest strategic impact) to five (5: highest strategic impact). A microanalysis was done and based on the mean scores, the top three key internal HR challenges are: (1) low productivity of agents; (2) inability to attract high quality/qualified entrants; and (3) lack of multi-skilled staff.

Table 5.2.3: Key Human Resource Challenges Currently Facing the Company

	Major HR Challenges Impacting your Company	Strategic Challenge					Mean
		Low	Below	Average	Above	High	
1.	Low productivity of agents	1.2	12.2	26.8	45.1	14.6	**3.60**
2.	Inability to attract high quality / qualified entrants	3.3	9.8	32.6	37.0	17.4	**3.55**
3.	Lack of multi-skilled staff	3.4	10.1	30.3	43.8	12.4	**3.52**
4.	Lack of underwriting, claims, actuarial and other skills	9.1	10.4	27.3	37.7	15.6	**3.40**
5.	Staff not able to provide good customer service	7.0	12.8	32.6	30.2	17.4	**3.38**
6.	Lack of leadership and decision making skills	8.9	20.0	25.6	22.2	23.3	**3.31**
7.	Lack of technical expertise	7.8	12.2	34.4	33.3	12.2	**3.30**
8.	Inadequate promotion and other incentives for staff	7.5	12.9	39.8	23.7	16.1	**3.28**
9.	Lack of general management skills, inability to implement strategies	5.9	16.7	36.3	27.5	13.7	**3.26**
10.	Low productivity of employees	3.1	21.4	33.7	31.6	10.2	**3.24**
11.	Staff not able to work as a team	8.0	29.5	20.5	23.9	18.2	**3.15**
12.	Lack of exposure to international best practices and techniques	8.4	15.7	39.8	27.7	8.4	**3.12**
13.	High level of staff turnover	17.9	20.5	21.8	29.5	10.3	**2.94**

5.2.4 Level of competency of brokers and adjusters.

Brokers and adjusters provide very important functions to insurers (one is in marketing and the other in claims), and both have direct impact on revenue and costs respectively. In other words, both have direct influence on the level of the satisfaction of insurance clients with the insurers' products/service experience.

Respondents assessed the overall competence of the broking and loss adjusting services based on a scale of one (1: lowest competence) to five (5: very competent). The survey indicates that respondents rate the competency of loss adjusters only slightly higher than that of brokers. However, as seen from Table 5.2.4 the low means indicate that the level of competency of both brokers and adjusters is only average.

Table 5.2.4: Assessment of Competence of Brokers and Loss Adjusters

	Competency Level	Low	Below	Average	Above	High	Mean
1.	Loss adjusters	4.9	11.8	45.1	33.3	4.9	**3.22**
2.	Brokers	6.6	10.4	46.2	33.0	3.8	**3.17**

5.2.5 Factors influencing manpower growth

Respondents were requested to provide the factors that would influence the growth of manpower in their organizations in the medium term. Based on Table 5.2.5, the respondents rate business growth highest with a mean of 4.28. The second is competition with a mean of 3.92 while the third is products and services diversification with a mean of 3.77.

Another level of analysis was conducted to determine the impact of these factors on manpower growth. Table 5.2.5 shows that the highest impact is business growth, followed by products and services diversification, and staff costs. The study also reveals that the first two factors (business growth and products, and services diversification) have positive impact on manpower growth while the third factor (staff cost) has a negative impact.

Table 5.2.5: Factors That Influence Growth of Respondents' Organizational Manpower for the Next Three Years and the Impact On Manpower Growth

	Factors that Influence Organizational Manpower Growth	Strategic Challenge					Mean	Impact
		Low	Below	Average	Above	High		
1.	Business growth	1.5	1.5	16.2	28.5	52.3	**4.28**	**.84**
2.	Competition	2.5	4.9	19.7	44.3	28.7	**3.92**	**.13**
3.	Products and services diversification	2.5	4.9	28.7	41.0	23.0	**3.77**	**.52**
4.	Advancements in IT	2.5	10.0	32.5	28.3	26.7	**3.67**	**-.40**
5.	Staff cost	4.3	8.6	26.7	38.8	21.6	**3.65**	**-.43**
6.	Liberalization of insurance market / AFTA	6.5	10.2	32.4	26.9	24.1	**3.52**	**.08**

5.2.6 Important factors influencing company's competitive position

The heart of the matter for strategic human resources management is ensuring that staff possess what it takes for their companies to compete effectively. An analysis on factors which were identified by respondents to have high impact on the company's competitive position is as indicated in Table 5.2.6.

Respondents (54.6%) perceive high quality of customer service (mean of 4.48) as a factor with the most influence on their company's competitive position. This is followed by knowledge and competency of employees and agents (mean score 4.36), and having a strong brand name (mean score: 4.33). These most probably reflect the reaction of insurers to the competition from banks in the retail insurance market segment. Other significant factors in descending order of importance to competitive positioning are:

- technical and operational capabilities
- having a professional image with customers
- efficient IT systems and computerization
- improved existing products.

Table 5.2.6: Important Factors Influencing Company Competitive Position

	Factors Influencing Firm's Competitive Position	Impact					Mean
		Low	Below	Average	Above	High	
1.	High quality of customer services	0	0	7.3	37.9	54.8	**4.48**
2.	Knowledge and competency of employees and agents	0	1.5	13.1	33.1	52.3	**4.36**
3.	Having a strong brand name	0	3.3	8.3	40.8	47.5	**4.33**
4.	Technical and operational capabilities	0	1.6	12.8	43.2	42.4	**4.26**
5.	Having a professional image with customers	0	4.3	12.8	41.9	41.0	**4.20**
6.	Efficient IT systems and computerization	0.9	1.8	19.3	37.6	40.4	**4.15**
7.	Improved existing products and services quality	1.7	0.9	13.8	49.1	34.5	**4.14**
8.	Adequacy of capital resources	0.9	2.8	25.2	35.5	35.5	**4.02**
9.	Introduction of new products and services	0.9	3.6	26.4	40.9	28.2	**3.92**

5.2.7 Training objectives

Of the 13 factors listed, 64.2% of the participants of this survey believe that in the next three years the most important training objectives will be: improving quality of service and customer satisfaction (rated the highest at 4.55), followed by providing training that supports business objectives, and providing training to improve operational efficiency, as indicated in Table 5.2.7.

Table 5.2.7: Rating of Importance of Training Objectives for the Next 3 years

	Firm's Training Objectives for the Next 3 Years	Importance					Mean
		Low	Below	Average	Above	High	
1.	Improving quality of service and customer satisfaction	0	0.8	7.5	27.5	64.2	**4.55**
2.	Supporting business objectives	0	4.1	5.8	33.1	57.0	**4.43**
3.	Improving operational efficiency	1.7	0	9.2	35.3	53.8	**4.39**
4.	Increasing the number of qualified staff	0	0	11.5	42.5	46.0	**4.35**
5.	Improving competitive edge	0.9	0.9	15.0	36.4	46.7	**4.27**
6.	Creating more favourable attitudes, loyalty and cooperation	0.9	0.9	17.8	33.6	46.7	**4.24**
7.	Improving managerial skills	1.8	2.7	13.6	41.8	40.0	**4.15**
8.	Improving supervisory skills	1.7	0	18.6	45.8	33.9	**4.10**
9.	Developing expertise/competency in new areas	0	3.8	17.3	54.8	24.0	**3.99**
10.	Helping employees in their personal development and advancement	2.5	2.5	21.2	42.4	31.4	**3.97**
11.	Orienting and informing employees	1.0	5.0	31.7	26.7	35.6	**3.91**
12.	Introducing new corporate culture	5.3	7.4	24.5	37.2	25.5	**3.70**
13.	Obtaining ISO certification	11.5	11.5	19.2	35.9	21.8	**3.45**

5.3.1 SECTION C: Strategies

5.3.1. Importance of HR to company's competitive advantage and HR vision

The question on the importance of HR in relation to the company's strategies to succeed in the market also reflects management commitment to HR. Consistency of vision with actions as reflected by budget commitments and other training practices will determine the success of HRD in relation to its vision and objectives.

The majority (47.0%) of the respondents consider that HRD contributes very importantly to their company's competitive advantage and positioning, as shown in Table 5.3.1a.The overall mean for this item is 4.40 and is considered to be very high in terms of strategic importance.

Table 5.3.1a: Strategic Importance of HRD with regard to Competitive Advantage

HRD Importance	Frequency	Percent	Valid Percent
Very important	54	39.1	47.0
Above average importance	49	35.5	42.6
Average importance	12	8.7	10.4
Total	115	83.3	100.0
Unanswered	23	16.7	
Total	138	100.0	
Overall mean			**4.40**

Based on Table 5.3.1b, most participants stated that the HR vision or policy statement of their companies was centred upon performance and efficiency. The second most widely used HR vision theme was quality and continuous improvement, followed by professionalism.

Table 5.3.1b: HR Vision/Policies

HR Vision Policy Themes	Occurrence
Performance driven, efficiency	41
Quality driven, continuous improvement	33
Professionalism	22
Concern for own personnel/staff	21
Leadership	13
Conducive environment	13
Customer focus	9
Change or challenge oriented	4
Strategic partnership	4
Ethical, equal opportunity	3
Market oriented	2
Communication	1
Cost conscious	1

5.3.2: The company's training unit and HRD budgets

Based on Table 5.3.2a, out of the 49 respondents who completed this item, most of the insurers surveyed have small training units, and most companies have between 1 to 4 full-time trainers and instructors. Considering the wide range of topics of which have been identified, it can be implied that the insurers surveyed use external training providers extensively, as indicated in Table 5.3.2b. They have also been able to conduct various training programmes through industry collaboration. In some ASEAN countries, there are established training and educational institutions that are well supported by their respective markets. Surprisingly, respondents did not mention the role of universities in supporting insurance education and research.

Table 5.3.2a: Number of Full-Time Trainers/Instructors

Number of Staff	Frequency	Percent	Valid Percent
4	12	8.7	24.5
1	10	7.2	20.4
2	9	6.5	18.4
3	4	2.9	8.2
6	3	2.2	6.1
11	3	2.2	6.1
7	2	1.4	4.1
10	1	.7	2.0
12	1	.7	2.0
18	1	.7	2.0
20	1	.7	2.0
38	1	.7	2.0
40	1	.7	2.0
Total	49	35.5	100.0
Unanswered	89	64.5	
Total	138	100.0	

As seen in 5.3.2b, the majority of the respondents stated that most training programmes in their companies are coordinated internally through the coordination and involvement of branch manager, top management, or the HR department. The next popular mode was through outsourcing coordinated through the insurance associations in their countries or private training course providers. Many companies outsource their training to external providers and by attending courses, seminars and conferences.

Table 5.3.2b: Mode of Training

Mode	Occurrence
Internal/branch manager/top management/HR department	41
GIAP/PIAM/outsource	20
Tapping into external training programmes	15
No training	1

Respondents were asked to indicate the size of their training budget as a percentage of staff costs and as a percentage of agents' commission for the training of their staff and their agents respectively. As indicated in Table 5.3.2c, the majority or 74.2% of the companies that responded to this survey allocate between 1%-5% of their staff cost for the training budget.

Table 5.3.2c Training Budget for Company Staff as Percentage of Staff Cost

Percentage	Frequency	Percent	Valid Percent
1-5%	72	52.2	74.2
6-10%	19	13.8	19.6
21-25%	2	1.4	2.1
26-30%	2	1.4	2.1
11-15%	1	.7	1.0
16-20%	1	.7	1.0
Total	97	70.3	100.0
Unanswered	41	29.7	
Total	138	100.0	

64% of the respondents stated that their budget for training of agents is between 1%-5% of sales commission, as shown in Table 5.3.2d.

Table 5.3.2d: Training Budget for Agents as a Percentage of Commission

Percentage	Frequency	Percent	Valid Percent
1-5%	36	26.1	**64.3**
6-10%	9	6.5	16.1
11-15%	6	4.3	10.7
16-20%	3	2.2	5.4
21-25%	1	.7	1.8
26-30%	1	.7	1.8
Total	56	40.6	100.0
Unanswered	82	59.4	
Total	138	100.0	

It would be interesting to know if insurers' training budget for staff and agents will actually be increased over the years to reflect the increasing importance of HRD and training.

5.3.3 Educational priorities

Recognizing the importance of knowledge/professional workers in insurance, it is important to assess the areas and extent of importance and commitment attached to ensure that companies would have the required talents to meet the challenges identified earlier. Based on Table 5.3.3a, respondents rated technical insurance knowledge for underwriting as the most important HRD/educational priority. The second highest rating was for customer relations/services, followed by technical insurance knowledge for claims. This reflects the seriousness of companies in developing core competencies in underwriting of risks, marketing and servicing their clients/customers. Insurance rating and pricing is also given high ranking. Respondents also expressed that their organizations would also be concerned with developing competent managers and leaders, as reflected in the high rating given to:

- Management development targeted for middle management, and
- Leadership development for top management.

Table 5.3.3: Rating of HRD/Educational Priorities

	Priorities	Low	Below	Average	Above	High	Mean
1.	Technical insurance knowledge for underwriting	0	2.4	5.7	33.3	58.5	**4.48**
2.	Customer relations/services	0	1.0	9.6	32.7	56.7	**4.45**
3.	Technical insurance knowledge for claims	0	2.6	6.8	36.8	53.8	**4.42**
4.	Marketing and salesmanship	0	2.8	13.2	33.0	50.9	**4.32**
5.	Technical insurance knowledge for rating and pricing	1.0	1.0	15.4	38.5	44.2	**4.24**
6.	Management development for middle managers	0	1.9	17.9	39.6	40.6	**4.19**
7.	Leadership development for top managers	1.0	2.0	16.0	42.0	39.0	**4.16**
8.	Risk management	0	2.0	19.2	41.4	37.4	**4.14**
9.	Team building	0	3.0	18.8	41.6	36.6	**4.12**
10.	Management development for top managers	1.0	4.9	16.4	39.8	37.9	**4.09**
11.	Agency development	1.2	3.6	18.1	42.2	34.9	**4.06**
12.	Quality control	1.1	5.3	16.8	44.2	32.6	**4.02**
13.	IT / Computer	1.0	2.0	22.5	47.1	27.5	**3.98**
14.	Personal growth and development	0	3.2	20.0	56.8	20.0	**3.94**
15.	Business communication	0	5.7	29.5	48.9	15.9	**3.75**
16.	Internal audit and control	2.2	7.6	33.7	29.3	27.2	**3.72**
17.	Investment	5.7	12.5	18.2	37.5	26.1	**3.66**
18.	Accounting	3.1	7.1	34.7	33.7	21.4	**3.63**
19.	Actuarial	8.4	10.8	21.7	31.3	27.7	**3.59**
20.	Finance	4.8	7.2	34.9	33.7	19.3	**3.55**
21.	Law	2.6	10.5	42.1	30.3	14.5	**3.43**

5.3.4 Incentives for staff education

To motivate staff toward educational achievement, most companies provide some kind of incentives. As seen in Table 5.3.3b, the most popular form of incentives provided for staff educational needs is sponsorship or loans for courses. The second most common incentive provided is in the form of paid leave to attend courses, followed by the provision of subsidy for course fees/examination fees.

There is room for companies to be more creative in this area as this may prove to be rewarding in the long term. Companies sometimes are ambivalent about providing generous incentives for staff education because this will increase the “marketability” of their staff. This will eventually result in their losing qualified and trained staff to other companies or competitors. However, if this attitude is pervasive in the market, it may lead to a vicious cycle of “lack of qualified staff”, resulting in a permanent market issue.

Table 5.3.4: Incentives Provided for Staff Educational Needs

Incentives	Occurrence
Sponsorship for course (including loans)	**30**
Paid leave for courses	**25**
Subsidy for fees/examination fees	**9**
One-time incentive for passing course	**5**
Paid leave for examination	**5**
Provision of allowance/pocket money	**4**
Case-to-case basis	**2**
Encouragement	**2**
Text book allowance	**1**
Advancement for fees	**1**
Rice subsidy	**1**
Bonus for successful completion	**1**
Salary increment upon passing	**1**

5.3.5 Training areas/topics

Knowledge and skills related to insurance are specialized areas that are not normally provided by non-specialized training providers. 28 focus areas were listed and respondents were asked to identify and assess the importance of these topics in relation to the training needs of their companies. Based on the survey findings, the highest priority is given to training on decision making on insurance levels and reinsurance buying strategies (4.05) as well as setting underwriting standards, followed closely by strategic management and effective claims management in general insurance.

Most respondents consider advanced areas such as alternative risk financing and derivatives in insurance, treasury risk management, ALM and scientific pricing less important, reflecting that theses topics are either too advanced for their stage of development or that the functions are outsourced to consultants or their reinsurers. The majority of respondents are presently more concerned with the fundamental areas of insurance operations and marketing.

Table 5.3.5: Training Needs on Focus Areas

	Priority	Low	Below	Average	Above	High	Mean
1.	Deciding on insurance levels and reinsurance buying strategies	0	2.3	33.7	38.4	24.4	**4.05**
2.	Setting underwriting standards	1.0	2.1	21.9	40.6	34.4	**4.05**
3.	Strategic management	.9	3.7	25.9	33.3	36.1	**4.00**
4.	Effective claims management in general insurance	3.4	3.4	17.2	42.5	22.3	**3.99**
5.	Risk Management	2.1	1.1	21.3	47.9	27.7	**3.98**
6.	New product development - general insurance	4.5	7.9	12.4	37.1	38.2	**3.97**
7.	How to manage the underwriting cycle	0	7.0	17.4	48.8	26.7	**3.95**
8.	Developments in IT	1.1	6.7	21.3	41.6	29.2	**3.91**
9.	Direct marketing	2.1	6.4	33.0	29.8	28.7	**3.77**
10.	Brand name development	2.3	5.7	30.7	37.5	23.9	**3.75**
11.	Setting efficient organizational structures	2.5	11.1	22.2	40.7	23.5	**3.72**
12.	Enterprise risk management	0	10.3	37.2	32.1	20.5	**3.63**
13.	Market research in insurance	1.1	4.3	35.9	7.8	10.9	**3.63**
14.	New product development-life insurance	12.3	7.0	12.3	43.9	24.6	**3.61**
15.	Developments in international reinsurance	2.8	11.3	31.0	35.2	19.7	**3.58**
16.	Treasury risk management in insurance	0	17.9	28.4	32.8	20.9	**3.57**
17.	Bank assurance and financial sector convergence	1.2	16.3	25.6	39.5	17.4	**3.56**
18.	Scientific pricing in insurance	4.5	9.0	29.9	41.8	14.9	**3.54**
19.	Investment of insurance company funds	1.4	13.5	35.1	31.1	18.9	**3.53**
20.	Alternative risk financing and derivatives in insurance	1.5	13.2	36.8	35.3	13.2	**3.46**
21.	Captive insurance and risk retention pools	10.2	8.5	30.5	27.1	23.7	**3.46**
22.	Asset-liability management in insurance	1.4	13.9	40.3	31.9	12.5	**3.40**
23.	Reserving methods in general insurance	7.6	6.1	40.9	31.8	13.6	**3.38**
24.	International insurance accounting standards	2.8	8.3	52.8	26.4	9.7	**3.32**
25.	Outsourcing insurance	11.1	15.9	42.9	25.4	4.8	**2.97**
26.	Meeting management challenges in joint venture	15.2	23.9	30.4	30.4	0	**2.74**

5.3.6 In-house training

Table 5.3.6a indicates that the most highly subscribed training activities are in the areas of management and leadership. The second most popular training activities are related to agent product knowledge, followed by customer care.

Table 5.3.6a: Training Activities Planned for 2003

Training Activities	Occurrences
Management and leadership	**27**
Agent product knowledge/competencies	**17**
Customer care	**14**
Claims	**11**
English and communication	**10**
Basic insurance	**7**
General insurance	**7**
Underwriting	**6**
Marketing	**6**
Induction/orientation	**6**
Risk management	**5**
ISO and quality management	**5**
Electronic data processing	**5**
Personality development/career development	**5**
Information technology	**4**
LOMA	**4**
GDMII/IPGD	**4**
Accounting	**4**
Supervisory development/mentoring	**4**
Strategic planning	**3**
Finance	**3**
Actuarial science	**3**
Contract drafting	**3**
PCEIA/LPAI	**2**
Others (motivation, teamwork and non-insurance related training)	**13**

Based on Table 5.3.6b, the most popular form of training activities planned for the year 2004 is in the area of management and leadership. The second most popular training activities are related to insurance claims, followed by underwriting and total quality management.

Table 5.3.6b: Training Activities Planned for 2004

Training Activities	Occurrences
Management and leadership	25
Claims	11
Underwriting	9
Total quality management	9
IT	8
Product knowledge	8
English/communication	8
Strategic planning	8
Customer services	7
Management development	7
Influencing/negotiation	6
Introduction/orientation	6
Staff development/mentoring	6

LOMA	5
Teamwork	5
Covey-related/personal development	5
GDMII/IPGD	5
Technical insurance	4
Marketing	4
Key performance index	4
Risk	4
Career development	4
Presentation	3
Recruitment	3
ACII	3
PCEIA/LPAI	3
Basic insurance	2
Soft skills	2
Interpersonal skills	2
MBA	2
Problem solving skills	2
Non motor	2
Investment	2
Others (internal services, licensing, AAMAI, brokerage)	9

5.3.7 Success of company's development and training programmes

Table 5.3.7 reveals that the majority of the participants feel that the level of success of their training activities is above average.

Table 5.3.7: Opinion on Success of Training Activities

Opinion	Frequency	Percent	Valid Percent
Below average	7	5.1	6.1
Average	48	34.8	42.1
Above average	52	37.7	45.6
Successful	7	5.0	6.2
Total	114	82.6	100.0
Unanswered	24	17.4	
Total	138	100.0	

5.3.8 Problems and issues of training

No surprises here. Based on Table 5.3.7, most of the respondents feel that problems with regard to existing training programmes evolve around issues such as motivation, non-applicability of training programmes, limited budget, poor planning, trainer ineffectiveness and high staff turnover. If these problems can be overcome, the effectiveness of HRD can be increased.

Table 5.3.8: Problems with regard to Existing Training Programmes

Problems	**Occurrences**
Motivation	**7**
Applicability/relevance/mismatch	**6**
Limited budget	**3**
Planning	**3**
Trainer effectiveness	**3**
Staff turnover	**3**
Alignment with company objectives	**2**
Follow-up training	**2**
Performance appraisal	**2**
Attitude problem	**2**
Others (training material, lack of trainers)	**7**

5.3.9 Perception

Respondents were asked to indicate their perception on various aspects of operational issues and market developments. The top three perceptions on operation plans and current issues are centred on the following: (1) more focus on risk management in the next 5 years; (2) the practice of "promotion from within"; and (3) the focus on current insurance lines in the next 5 years. Respondents surveyed also believe that insurance companies should not rely on agents to determine new products and to expand their products/services range in the next 5 years. Opinion is more divided on the importance of the Internet as a channel for insurance distribution in the next few years, and formal succession planning. While respondents are concerned about the negative impact of liberalization on local insurers, they are more concerned with the competition from banks, and large global insurers.

Table 5.3.9: Perceptions on Operation Plans and Current Issues

Operation Plans and Current Issues	Opinion	
	Yes	**No**
My company will focus more on risk management in the next 5 years	89.8	10.2
My company strongly believes in the practice of "promotion from within"	81.6	18.4
My company will continue to focus on current insurance lines in the next 5 years	75.3	24.7
Bank assurance will gain substantial market share in the next 5 years	73.2	26.8
Banks and other financial services companies are serious threats encroaching into the insurance market	65.3	34.7
With liberalization, the local insurance industry will be dominated by large global insurers	62.2	37.8
The Internet and electronic commerce will be major distribution channels in the next 5 years	54.5	45.4
In the next 5 years, consumers will prefer electronic (the Internet or on-line computer service)	49.0	51.0
There is a formal succession plan in my company	48.0	52.0
Liberalization of the insurance market is bad for local insurers	44.6	55.4
My company will rely less on agents in the next 5 years	37.6	62.4
Job rotation is compulsory for executives in my company	24.5	**75.5**
My company relies on agents to determine new products	20.4	**79.6**
My company will focus on fewer insurance lines in the next 5 years	20.2	**79.8**

5.3.10 Five- year trend

The survey indicates that according to respondents, although e-commerce is not an extremely important current issue, it will be so in the future/medium term, particularly for bancassurance as banks are very adapt at providing services through IT technology. Respondents believe that the most important HRD trend is related to strategic HRD, followed by E-commerce. The third most important HRD trend is related to the areas of talent management, new product development and ISO certification. This gives some indication of the direction of HRD efforts which will be very close to the long-term direction of companies as well, given the strategic alignment of HRD to the current business objectives and performance targets of companies.

Table 5.3.10: HRD Trends and Occurrence

HRD Trends	Occurrences
Strategic HR	15
E-Commerce	8
Talent Management	5
New Product Development	5
ISO	5
Leadership	4
Risk Management	4
Staff Development	3
Capability Development	3
IT	3
Multi Skill	3
Operational	2
Strategic Alliance/Partnership	2
Best Management Practices	2
Outsourcing	2
Soft Skills	2
Communication	2
Learning Organization	2
Change Management	2
Others	9

5.3.11 Recommendations on HR strategies

Overall, there is increased commitment to HRD and insurers indicate a high level of awareness of their training needs. Most respondents propose increased training, retention of talents, and training relevance, as indicated in Table 5.3.10.

Table 5.3.11: Developing Strategic Plan for HRD and Occurrence

Strategic Plan	Occurrences
More training options	18
Retention of talents	8
Training relevance	8
Succession planning	5
Incentives/scholarships for training	4
Benchmarking	3
Gap analysis	2
Others	6

5.3.12 How to support HRD

Most of the respondents recommend that companies review their training and development activities. The second most popular recommendation to support HRD is that companies conduct strategic HRD, followed by provide incentives, time and subsidy as well as budget for training, as indicated in Table 5.3.11.

Table 5.3.12: Recommendations to Support HRD and Occurrence

Recommendations to support HRD	**Occurrences**
Review training development	**18**
Strategic HRD	**9**
Incentives, time, subsidy	**5**
Budget for training	**5**
Training needs analysis	**4**
Support of top management	**4**
Knowledge sharing with others	**4**
International exposure	**3**
Develop training department	**2**
Collaboration	**2**
Public awareness on insurance importance	**2**
Improve concern for staff	**2**
Career development	**2**
Mentoring	**2**
Share best practice management	**2**
Others	**9**

5.3.13 Exposure to international practice

Respondents believe that top management should have more international experience and indicate the subject areas as in Table 5.3.12. This reflects the desire to be aware of best practices and the need for top management to broaden their horizon. Developments in developed markets could be precursors of things to come in the developing ASEAN markets. In the age of regionalization, top management should look out for regional and international opportunities. Moreover, it will be increasingly difficult to ignore global developments.

Table 5.3.13: Should Top Management have More International Experience and Occurrence?

Response	Occurrences
No	4
Maybe	2
Yes	59
• Underwriting	17
• Marketing	10
• Claims	8
• Risk	8
• Product development	6
• Customer services	5
• Strategic management	4
• Best practices	3
• Leadership	3
• IT	3
• Communication/English	3
• Others	12

5.3.14 ASEAN collaboration

Most respondents believe that greater collaboration can be achieved at the ASEAN level through conferences/forums to exchange ideas, practices and experiences, followed by exchange of expertise within ASEAN.

Table 5.3.14: How Greater Collaboration can be Achieved and Occurrence

Methods of Collaboration	Occurrences
ASEAN-level collaboration	18
Forum to exchange ideas, practices and experience	10
Exchange expertise at ASEAN	4
Networking	2
Realize the importance of human capital	1
Culture building	1
Programme standardization at ASEAN	1
Website to share best practices	1
Regional journey	1

PART III

COUNTRY REPORTS

1.0 COUNTRY REPORT: BRUNEI

1.1 Insurance Industry of Brunei: Overview

Traditionally, Brunei has been heavily dependent on its oil and gas industry. Realizing the danger of being too dependent on the oil and gas industry, the Brunei government made a conscientious effort to diversity its portfolios while at the same time strengthen its service industry, especially the financial sector. Activities of all financial institutions that comprise banks, insurance and finance companies in Brunei Darussalam are supervised and monitored by the Financial Institutions Division (FID) of the Ministry of Finance. However, the insurance industry in Brunei has yet to fully develop and as a result, the current level of consumption of insurance remains low.

The FID monitors and supervises insurance activities in Brunei. Its major activities include granting licensure to applicants of insurance business, although no new insurer has been registered since 1984. An applicant of non-life insurance business must meet the minimum paid-up capital of B$1 million. Once admitted, it must maintain a solvency margin of 20 percent based on premium income, net of reinsurance, of the previous year. For insurers writing motor insurance business, the ministry requires a deposit of B$1 million with the government.

As of 2003, the insurance industry is serviced by 21 active companies which can be classified as 13 locally incorporated companies, including 3 takaful branches, 6 branches of foreign insurance companies, and 2 underwriting companies represented by locally incorporated companies. The Brunei market is considered to be small but with too many players. On the basis of class of business, these companies can be categorized as 15 general insurance companies, 3 life insurance companies and 3 composite companies. In addition, there are 2 brokers and 3 loss adjusters. Brunei allows only takaful insurers—insurers offering products complying with Islamic principles - to operate as composite insurers. The only insurance-related law in this country is the Motor Vehicles (Third-Party Risks) Act of 1998. The government is expected to introduce an insurance act in the near future. Once introduced, this insurance law will govern both conventional and takaful insurance matters.

The insurance industry in Brunei Darussalam can be considered as one of the smallest in Asia. The question may be asked: What are the reasons for this limited development? As mentioned earlier, the Brunei economy is dependent on its oil and gas industry. Because Brunei is the richest nation in ASEAN with its high per capita income, as in the past, the non-life business is still dominated by the motor business which forms about 52% of non-life business. Other major classes are fire (20%), workmen's compensation (9%) and others (14%).

Additionally, one has to consider that the lack of insurance consciousness, or possibly even distrust towards insurance by the Brunei public could be due to misperceptions on the status of insurance according to Islamic principles. Although public awareness of the benefits of insurance is generally low, insurance companies, and particularly life insurers, manage to market a moderate amount of their products, especially hospital/surgical and retirement schemes. Due to the majority of Brunei citizens being Muslims (67% of the 400,000 population: 2004 estimate), the industry recorded an increase to 3 Takaful operators in 2002. Generally, the performance of these 3 Takaful companies can be considered encouraging, despite the decrease by 2.7% in the total gross contribution collected in 2001 as compared to BND 15.5 million in 2000.

1.2 Survey Results

The results of the AITRI study on Insurance Regulators indicate that Brunei Darussalam has two major business environment challenges in the form of the absence of a comprehensive insurance act and lack of comprehensive regulation of financial institutions. This problem is further compounded by the absence of a central bank. Accordingly, the survey also shows that key human resource development is hampered by the shortage of manpower which is aggravated by the limited number of experienced and knowledgeable workforce, which has inevitably resulted in long periods to recruit new staff and fill vacant posts in the insurance industry. This small market syndrome forces Brunei to send its workforce to neighbouring countries for training due to the unavailability of a specialized institution providing training and education programmes for the Brunei Insurance Regulator.

Focus areas for future training identified are presented in Table 1.00 -below.

Table 1.00: Focus Areas for Future Training

No.	Focus Areas	Importance (1-5)
1.	Insurance core principles	5
2.	Methodology and assessment of insurance core principles	5
3.	Health insurance	2
4.	Corporate governance	5
5.	Regulation of compulsory insurance	5
6.	Disclosure and transparency	5
7.	International insurance accountancy standards	5
8.	Investments regulation	3
9.	Money laundering and insurance	5
10.	Organization of insurance supervisory authorities	5
11.	Private pensions	2
12.	Reinsurance regulation and supervision	5
13.	Role of auditors and actuaries	4
14.	Liability insurance	4
15.	Risk-based supervision	5
16.	Capital adequacy and solvency supervision	5
17.	Supervision of insurance groups and international insurers	5
18.	Valuation of insurance assets and liabilities	5
19.	Supervision of insurance intermediaries	5
20.	Alternative risk financing	4
21.	Captive insurance companies and risk retention schemes	3
22.	Credit insurance and credit risk securitization	3
23.	Enterprise risk and operational risk management	3
24.	Understanding insurance company accounts	5
25.	Financial conglomerates and financial sector convergence	4
26.	Asset-liability management techniques	5
27.	WTO and insurance: policies, national positioning and negotiation	5
28.	On-site inspection	5
	Overall mean (maximum value = 5.00)	**4.36**

The high overall mean of 4.36 shows the high priority of the 28 items to measure the focus area for future training activities. This illustrates the under-development of training activities for the Brunei Insurance Regulator. In addition, most of the training programmes are not conducted in-house due to the small number of participants.

1.3 Priority Areas for Supervisory Research and Technical Focus

The outcome of the survey indicates that the priority areas for supervisory research for the Brunei Regulator according to the order of ranked importance are as follows: IAIS core principles; regulation of compulsory insurance (including third party liability insurance); capital adequacy and solvency supervision; corporate governance; and on-site inspection.

In addition, the survey identifies priority areas for technical focus for the Brunei Regulator according to the order of ranked importance as: understanding insurance company accounts; core principles methodology and assessment of insurance core principles; disclosure, transparency and sanction; and actuarial investment related issues and technical assistance.

1.4 Preferred Training Methodology and Training Level

Based on the survey results, the Brunei Regulator prefers training through the informal mode via seminars, conferences, workshops, external expert consultations, facilitated dialogues with other Regulators, and attachment programmes elsewhere. The Brunei Regulator is also interested in training in formal specialist qualifications at the diploma, degree and masters levels.

1.5 Constraints

The findings of this AITRI survey indicate that the Brunei Regulator does not have major problems in budgeting for training, external training facilities and motivating staff for training. The only constraint is in the form of inadequate internal staff to conduct training programmes.

1.6 Solutions

The Brunei Regulator proposed no possible solutions to the human resource problems. However, based on the analysis done, the research team proposes the following:

- Paying greater attention to cultivating and retaining professional expertise in the insurance field, the key to strengthening the Brunei insurance industry.
- Addressing the lack of experts and high skilled professionals in the Brunei insurance industry.
- Addressing the need to increase knowledge and to raise awareness of insurance among the public through education and communication.

2.0 COUNTRY REPORT: CAMBODIA

2.1 Insurance Industry of Cambodia: Overview

Cambodia has a very underdeveloped economy. Only few financial institutions are financially, or operationally, competent. Likewise, the insurance industry in Cambodia is at its infancy with only one state-owned insurance company, Caminco. There are four insurance brokerage firms—including Indochine Insurance, established in 1993, and Asia Insurance (Cambodia)—operating in Cambodia.

The insurance law, which was passed by the National Assembly in June 2000, prescribes that an entity must seek approval from the Ministry of Finance before it commences insurance business. The law makes motor third party liability insurance, construction all risks insurance, and passenger transportation insurance compulsory. Before the enactment of the law, certain projects and assets could be insured overseas. The insurance law no longer allows such practices, and all projects and assets located in Cambodia must be insured locally and by a licensed insurer. This provision is added to the law as a measure to stop outflow of premiums from the country. The insurance company in Cambodia is subject to some provisions of the country's tax law, which was amended in 1997. The law prescribes that the insurer residing in Cambodia be subject to five-percent income taxes based on its gross premiums for risks in Cambodia. If an offshore insurer underwrites risks in Cambodia, the government may withhold 15 percent of the premiums for such risks for income tax purposes. For income from non-insurance activities, insurers are subject to income taxes of generally 20 percent of their profits.

2.2 Survey Results

The results of the AITRI study on insurance regulators indicate that Cambodia has five major business environment challenges in the form of price undercutting among insurers; non-existence of an insurance association; non-establishment of minimum rates; unfamiliarity of the public regarding insurance; and an on-going review of all insurance laws since mid 2002.

Accordingly, the survey also shows that key human resource development is hampered by the acute shortage of skilled and experienced manpower, aggravated by infrastructural deficiencies. This extremely small market syndrome forces Cambodia to send its workforce to neighbouring countries for training due to the unavailability of a specialized institution providing training and education programmes for the Cambodian Insurance Regulator.

The focus areas for future training identified are presented in Table 2.00.

Table 2.00: Focus Areas for Future Training

No.	Focus Areas	Importance (1-5)
1.	Insurance core principles	5
2.	Methodology and assessment of insurance core principles	5
3.	Health insurance	3
4.	Corporate governance	5
5.	Regulation of compulsory insurance	5
6.	Disclosure and transparency	5
7.	International insurance accountancy standards	5
8.	Investments regulation	5
9.	Money laundering and insurance	4
10.	Organization of insurance supervisory authorities	5
11.	Private pensions	4
12.	Reinsurance regulation and supervision	5
13.	Role of auditors and actuaries	5
14.	Liability insurance	5
15	Risk-based supervision	5
16	Capital adequacy and solvency supervision	5
17.	Supervision of insurance groups and international insurers	5
18	Valuation of insurance assets and liabilities	5
19.	Supervision of insurance intermediaries	4
20.	Alternative risk financing	5
21.	Captive insurance companies and risk retention schemes	5
22.	Credit insurance and credit risk securitization	4
23.	Enterprise risk and operational risk management	5
24.	Understanding insurance company accounts	5
25.	Financial conglomerates and financial sector convergence	3
26.	Asset-liability management techniques	5
27.	WTO and insurance: policies, national positioning and negotiation	5
28.	On-site inspection	5
	Overall mean (maximum value = 5.00)	**4.71**

The very high overall mean of 4.71 shows the high priority of the 28 items to measure the focus areas for future training activities. This illustrates the need to enhance basic training activities for the Insurance Regulator in Cambodia. Further to this, most of the training programmes are not conducted in-house due to the small number of participants.

2.3 Priority Areas for Supervisory Research and Technical Focus

The outcome of the survey for this AITRI study indicates that the priority areas for supervisory research for the Cambodia Regulator according to the order of ranked importance are as follows: asset-liability management techniques; on-site inspection; valuation of insurance company accounts; understanding insurance company accounts; and methodology and assessment of insurance core principles. The aforementioned research areas are considered 'fundamentals' by Insurance Regulators from more advanced countries.

This survey also indicates that the priority areas for technical focus for the Cambodian Regulator according to the order of ranked importance are as follows: insurance accounting; inspection on-site and off-site; assessing company's asset and liability; formation of insurance statistics; and auditing. Once again, the aforementioned priority areas appear to be at the basic level, further illustrating the gap between the Cambodian Regulator and the other ASEAN Regulators.

2.4 Preferred Training Methodology and Training Level

Based on the survey results, the Cambodian Regulator prefers training through seminars, conferences, workshops, external expert consultation, facilitated dialogues with other Regulators, attachment programmes elsewhere, distance learning programmes, and series of structured training modules on specific topics. The Cambodian Regulator is further interested in training in a formal specialist qualification at the diploma level.

2.5 Constraints

The findings of the AITRI survey indicate that the Cambodian Regulator does not have major problems in identifying internal personnel for training, external training facilities and motivating staff for training. The only constraint is in the form of inadequate budget to conduct training programmes.

2.6 Solutions

Creating more opportunities to motivate personnel to participate actively in training is proposed as a solution to the Cambodian Regulator.

3.0 COUNTRY REPORT: INDONESIA

3.1 Insurance Industry of Indonesia : Overview

After the 1997 Asian economic crisis, the Indonesian government, with financial and other aid from international organizations, has continued its efforts to improve its economic condition. Through the Indonesian Debt Restructuring Agency, it has taken several actions including the closure of banks with a large amount of non-performing loans as well as leading mergers and acquisitions of many other banks. In Indonesia, the Directorate General for Financial Institutions with the Ministry of Finance (MoF) regulates the insurance industry, which is served by 178 insurers (as of 1998). State-owned insurers (e.g., Asuransi Kiwasraya and Asuransi Jasa Indonesia) and subsidiaries of local conglomerates dominate the market.

3.2 Market Access Regulation

The minimum paid-up capital is 2 billion Indonesian rupiah for domestic life insurers, or 4.5 billion rupiah for joint ventures in the life business. In non-life insurance, it is 3 billion rupiah for domestic insurers, or 15 billion rupiah for joint ventures. Locally incorporated reinsurers are required to have a minimum paid-up capital of 10 billion rupiah while in the case of other reinsurers, the amount increases to 30 billion rupiah. The licensed insurance entity must place 20 percent of its capital with a commercial bank in Indonesia. The deposit increases annually by one percent of the increase in premiums if it is in non-life insurance business, or five percent in the increase in premium reserves if in life insurance business. A foreign insurance entity must satisfy several conditions before it is allowed to do insurance business in Indonesia. It must locate an Indonesian partner. It must have its equity capital being at least twice the amount of its investment in the joint venture. The local partner must have been operating for at least two years while satisfying the authority's requirement for solvency test. The applicant must submit a plan describing how the foreign partner's ownership in the joint venture will be reduced over a specified period of time. In particular, a registered joint venture must limit its foreign ownership initially to 80 percent of its total share, and gradually, i.e., within 20 years, reduce it to no more than 49 percent of its total share. The joint venture must employ an adequate number of insurance professionals (commonly actuaries), whether Indonesians or foreign, who have at least five years of experience in their specialty areas, and appoint Indonesians to its board of directors. Finally, the license holder can do business in only one class of insurance business, life or non-life.

3.3 Solvency Regulation

Life insurers must maintain a solvency margin of at least one percent of premium reserves for life insurance and 10 percent of net premium for health and accident insurance. Non-life insurers should meet a solvency margin being at least the sum of the initial minimum capital and 10 percent of net premiums. Non-life insurers are not permitted to assume any risk if the coverage amount exceeds 10 percent of their equity. The total amount of premiums, net of reinsurance, that non-life insurers can write is limited to 300 percent of their equity. The Ministry of Finance may also employ risk-based capital models to determine solvency requirements of insurance companies operating in Indonesia.

3.4 Financial and Accounting Regulation

Several regulatory measures related to the investment activities of insurers and accounting standards exist in Indonesia. In the case of a life insurer, its total investments, excluding investment in mortgage loans, must be at least equal to its technical reserves. It must maintain a premium reserve the amount of which is determined in accordance with the Ministry of Finance guidelines, as well as a liability provision for future policy benefits as approved by a registered actuary. In the case of non-life insurers, the total investments, excluding investment in mortgage loans, should be at least equal to the sum of the technical reserves plus 25 percent of equity. Non-life insurers must estimate their unearned premiums using one of the two prescribed methods – per policy estimation on a daily basis or in aggregate of all policies in the line based on a percentage basis. With regard to the valuation of invested assets, insurers must use book value or market value, the choice being dependent on the type of invested asset.

3.5 Market Conduct Regulation

The Ministry of Finance (MoF) has issued several guidelines governing the scopes of insurer's business and reinsurance transactions. For example, an insurer must obtain prior approval from the Regulator to open a branch office. An insurer is not permitted to own equity of an insurance brokerage firm or agency. Besides, the Indonesian Insurance Council, an industry association, publishes a tariff book for various non-life lines of insurance that insurers must abide by. Non-life insurers are subject to commission limits of 15 percent for brokers and 10 percent for agents. The MoF requires direct insurers, especially those in the non-life insurance business, to have a treaty reinsurance arrangement with at least one reinsurer; to retain at least 30 percent of the original risks based on premiums; and not to exceed 10 percent of their equity for any single risk. The authority permits direct insurers to place risks to offshore (non-admitted) reinsurers, provided that those reinsurers are of good reputation in the country of domicile, have a treaty (reciprocal) agreement with at least one domestic reinsurer in Indonesia, and have their paid-up capital being at least equal to the minimum capital required for domestic joint venture reinsurance companies, i.e., 30 billion rupiah.

3.6 Survey Results

The results of the AITRI study on insurance regulators indicate that Indonesia has 3 major business environment challenges in the form of low capital, human resources and corporate governance.

The major human resource development challenges faced by the Indonesian Insurance Regulator are the lack of number of skilled people, the lack of training (internal and external), and inadequate facilities.

Focus areas identified for future training are presented in Table 3.00.

Table 3.00: Focus Areas for Future Training

No.	Focus Areas	Importance (0-5)
1.	Insurance core principles	3
2.	Methodology and assessment of insurance core principles	5
3.	Health insurance	4
4.	Corporate governance	5
5.	Regulation of compulsory insurance	4
6.	Disclosure and transparency	5
7.	International insurance accountancy standards	4
8.	Investments regulation	4
9.	Money laundering and insurance	5
10.	Organisation of insurance supervisory authorities	4
11.	Private pensions	4
12.	Reinsurance regulation and supervision	4
13.	Role of auditors and actuaries	4
14.	Liability insurance	4
15.	Risk-based supervision	4
16.	Capital adequacy and solvency supervision	4
17.	Supervision of insurance groups and international insurers	4
18.	Valuation of insurance assets and liabilities	4
19.	Supervision of insurance intermediaries	4
20.	Alternative risk financing	4
21.	Captive insurance companies and risk retention schemes	4
22.	Credit insurance and credit risk securitization	4
23.	Enterprise risk and operational risk management	4
24.	Understanding insurance company account	4
25.	Financial conglomerates and financial sector convergence	4
26.	Asset-liability management techniques	4
27.	WTO and insurance: policies, national positioning and negotiation	4
28.	On-site inspection	5
	Overall mean (maximum value = 5.00)	**4.14**

3.7 Priority Areas for Supervisory Research and Technical Focus

The Indonesian Regulator feels that R&D in insurance supervision is important, and proposes priority areas for supervisory research in the following areas: policyholder guarantee fund; risk-based capital; insurance technology; premium development; and human resource (fit and proper). The technical focus for the Indonesian Regulator is in the following areas: retaining key staff, investment, preparing risk profile, catastrophe risk, and developing rating.

3.8 Preferred Training Methodology and Training Level

Based on the survey results, the Indonesian Regulator prefers training through conferences, workshops, external expert consultations and attachment programmes elsewhere. The Indonesian Regulator is also interested in training in a formal specialist qualification at the certificate level.

3.9 Constraints

The Indonesian Regulator faces constraints in the following areas: inadequate budgets available for training, inadequate internal personnel to conduct training courses and inadequate external training facilities in the country.

3.10 Solutions

No solutions were proposed.

4.0 COUNTRY REPORT: MALAYSIA

4.1 Insurance Industry of Malaysia: Overview

Malaysia has a relatively developed insurance industry. It introduced the Insurance Act of 1996 and the Insurance Regulations of 1996, which are currently the bases of insurance regulation in the country.

The Ministry of Finance is the *de facto* regulatory supervisor of the insurance industry, but has long delegated the duty of administering the insurance law to Bank Negara Malaysia (BNM), the Central Bank of Malaysia. BNM also administers special directives issued by the Ministry of Finance; issues its own guidelines, circulars, notices and codes; and works very closely with major industry associations. Malaysia introduced the *Takaful* Insurance Act in 1984 permitting insurer operations based on Islamic principles, and opened the Labuan offshore insurance centre in 1990.

Perhaps, a new challenge that most Malaysian insurers face would be the government's plan, as indicated in BNM's Financial Sector Master Plan of March 2001, for mergers and acquisitions within the industry, either voluntarily or following government orders. Since 1999, eight mergers and acquisitions have been completed, and more insurers are involved in various stages of implementation. BNM expressed in March 2000 that there would be 10 to 15 insurers left after completing the consolidation of the industry by 2003. There were 54 direct insurers (including two *takaful* insurers) and 10 re-insurers as of 1 March 2002. Additionally, there were 59 insurance and related companies in Labuan as of the same date.

4.2 Market Access Regulation

Upon receiving an application for insurance business, BNM may make a recommendation of the application to the Ministry of Finance that has the actual power to license new insurance companies. BNM has only the power to license insurance brokers and adjusters. As regard minimum paid-up capital, BNM requires, from September 2001, a minimum paid-up capital of RM100 million for insurance business in the country.

There are two specific provisions regarding foreign investment in the Malaysian insurance market. For one, BNM allows foreign investors to hold up to 49 percent of ownership equity of any Malaysian insurance company. Foreign shareholders who had made their investment prior to the enactment of the Insurance Act of 1996 are exempted from this requirement, and may continue to hold equity up to 51 percent in aggregate. For the others, the Insurance Act made it mandatory for all branches of foreign insurers to be domesticated, i.e., locally incorporated as a subsidiary, by June 1998.

4.3 Solvency Regulation

The current solvency margin requirements, which became effective on 1 January 2001, state that a licensed direct insurer and re-insurer should maintain at all times a fund margin of solvency of RM50 million and RM10 million respectively, for each class of business. In addition, they must maintain an insurance fund for each class of their insurance business. Hence, an insurer underwriting substantial risks in both life and non-life classes must maintain a life insurance fund and a non-life insurance fund, and cannot co-mingle its premiums, claims and other expenses across the funds.

The Insurance Act of 1996 additionally prescribes that all licensed insurers maintain admitted assets of no less than the sum of the liabilities of the insurance fund and the fund margin of solvency.

4.4 Financial and Accounting Regulation

Insurers operating in Malaysia are subject to the *Bumiputra* investment recommendation that the Malaysian government made in its 1996-2000 National Development Plan. To abide by this recommendation, insurers must maintain, unless a relief is granted, at least 30 percent of their investment in *Bumiputra* share—ownership share by ethnic Malays. Additionally, licensed insurance players must obtain prior approval from BNM for any changes in ownership share. If such a change is regarding an acquisition or sale of an interest in excess of five percent of the shares of a licensed insurer, the insurer must obtain prior approval directly from the Ministry of Finance. All life insurers in Malaysia are required to submit annually to BNM an actuarial certification of their liabilities, prepared by an appointed actuary of the company. The central bank may require non-life insurers to submit an actuarial valuation of the company's IBNR claims and any inadequacy in loss reserving for outstanding claims.

4.5 Market Conduct Regulation

The Insurance Regulator maintains the Insurance Guarantee Scheme Fund that provides some compensation for bodily injury to those policyholders and claimants who have a third party liability or workers' compensation-related claim with a financially troubled insurer. All non-life insurers participate in the fund, and pay a levy of not less than one percent of their direct premiums earned during the preceding financial year. The Insurance Act and the Insurance Regulations, both of 1996, have provisions regarding insurer expenses and premium rates. BNM also issued two guidelines on insurers' operating costs. Key points of these regulations and guidelines include the following: The General Insurance Association of Malaysia sets premium rates for fire and motor insurance businesses, and its member non-life insurers must abide by the tariff rates. All insurers must comply with the act when designing their insurance application forms, contracts and marketing brochures. BNM also sets the maximum percentage of agency commissions on insurance policies.

4.6 Survey Results

The results of the AITRI study on insurance regulators indicate that Malaysia has five major business environment challenges. They are: managing increasing financial complexities; managing globalization and liberalization processes; effectively supervising cross-border exposures; developing a more competitive domestic industry to play a larger role in supporting economic development; and managing consumer expectations and increasing sophistication of consumer needs.

The human resource development challenges faced by the Malaysian Regulator are in the form of (i) developing and retaining expertise in risk assessment, actuarial assessment, financial risk analysis, alternative risk transfer and (ii) risk-based supervisory framework as well as (iii) transitioning staff from a compliance-oriented to a performance-based supervisory regime that emphasizes the ability to effectively identify, assess and mitigate risks associated with individual institutions.

Focus areas identified for future training are presented in Table 4.00.

Table 4.00: Focus Areas for Future Training

No.	Focus Areas	Importance (0-5)
1.	Insurance core principles	5
2.	Methodology and assessment of insurance core principles	5
3.	Health insurance	5
4.	Corporate governance	4
5.	Regulation of compulsory insurance	0*
6.	Disclosure and transparency	5
7.	International insurance accountancy standards	5
8.	Investments regulation	0
9.	Money laundering and insurance	0
10.	Organisation of insurance supervisory authorities	0
11.	Private pensions	5
12.	Reinsurance regulation and supervision	5
13.	Role of auditors and actuaries	0
14.	Liability insurance	0
15.	Risk-based supervision	5
16.	Capital adequacy and solvency supervision	5
17.	Supervision of insurance groups and international insurers	3
18.	Valuation of insurance assets and liabilities	3
19.	Supervision of insurance intermediaries	5
20.	Alternative risk financing	5
21.	Captive insurance companies and risk retention schemes	0
22.	Credit insurance and credit risk securitization	4

23.	Enterprise risk and operational risk management	4
24.	Understanding insurance company accounts	0
25.	Financial conglomerates and financial sector convergence	4
26.	Asset-liability management techniques	4
27.	WTO and insurance: policies, national positioning and negotiation	4
28	On-site inspection	0
29	Evaluation of insurance programmes	3
30.	De-tariffing	5
	Overall mean (maximum value = 5.00)	**3.10**

4.7 Priority Areas for Supervisory Research and Technical Focus

The outcome of the survey indicates that the priority areas for supervisory research for the Malaysian Regulator according to the order of ranked importance are as follows: regulatory/supervisory requirements for medical and health insurance; risk-based supervision framework; market conduct regulation/supervision; sales disclosure from the consumers' perspective; supervision of detariffed market; and regional insurance companies' risk assessment analysis.

Priority areas for technical focus for the Malaysian Regulator according to the order of ranked importance are pension products and consumer satisfaction.

4.8 Preferred Training Methodology and Training Level

Based on the survey results, the Malaysian Regulator prefers training through seminars, conferences, workshops, external expert consultations, facilitated dialogues with other Regulators, attachment programmes elsewhere, distance learning programmes and series of structured training modules on specific topics.

4.9 Constraints

The only constraint is in the form of inadequate internal personnel to conduct training courses.

4.10 Solutions

The Malaysian Regulator proposes outsourcing for expertise from both the local and international markets.

5.0 COUNTRY REPORT: THE PHILIPPINES

5.1 Insurance Industry of The Philippines : Overview

The Philippines maintains the principle of free enterprise, and emphasizes the role of the private sector for its economic development. Not surprisingly, 40 life insurers, over 100 non-life insurers (including two composite insurers), and four re-insurers were operating in the Philippines in 1997. This included eleven insurers newly admitted in 1997. The Insurance Commission (*Komisyon ng Seguro*) regulates and supervises the insurance industry in accordance with the Insurance Code. The commission also issues circulars and guidelines that govern insurer activities.

5.2 Market Access Regulation

In the Philippines, a firm may engage in the insurance business by owning voting stock of an existing domestic insurer, investing in a new insurance or reinsurance company or intermediary incorporated in the country, or establishing a branch. Specifically, the Republic Act No. 8179, which was passed on 26 March 1996, states that up to 100 percent foreign ownership of local insurance and reinsurance companies is permitted in the country. Currently, the minimum paid-up capital for direct business is 75 million pesos for direct business or 150 million pesos for reinsurance business.

With regard to foreign insurance operations, the licensing guideline issued by the Department of Finance in 1994 states that the minimum capital varies depending not only on the type of business, direct or reinsurance, but also on the percentage of foreign ownership. Besides, the Insurance Commission examines the following factors before it makes a decision on an application by a foreign insurer: (1) geographic representation and complementation; (2) strategic trade and investment relationships between the Philippines and the country of incorporation of the applicant; (3) demonstrated capacity, global reputation in underwriting innovations and stability in the competitive environment of the applicant; (4) reciprocity rights that Philippine insurance or reinsurance companies or intermediaries can enjoy in the applicant's country; and (5) the applicant's willingness to fully share its technology. As for the third criterion, the commission has specified that it would accept applications from those listed in the top 200 insurers, re-insurers or intermediaries in the world or the top 10 in their country of origin. The applicant must also have at least 10 years of experience as of the date of application. To qualify as a branch or as a new company incorporated in the Philippines, the applicant must be widely owned or publicly listed in its country of origin, unless it is majority-owned by the government. A new foreign insurer is not allowed to hold a composite license. It may, however, apply for a separate license for life and a separate license for non-life business. The Insurance Commission requires any foreign insurer or re-insurer seeking entry as a branch to deposit with the commission, securities satisfactory to the commission. The required minimum paid-up capital, at actual market value, is 300 million pesos for direct insurance business, or 500 million pesos for reinsurance business. Fifty percent of the said security deposit must be in the form of government securities, and the rest in other acceptable Philippines securities.

5.3 Solvency Regulation

All insurers must maintain the margin of solvency prescribed in the Insurance Code. For the life insurer, the total admitted assets must be greater than the sum of the total liabilities plus paid-up capital plus revaluation reserves, and the difference must be the greater of (1) 0.5 million pesos, or (2) 0.2 percent of the total amount of all policies (except term life insurance) for the preceding year.

In the case of a non-life insurer, the amount should be the greater of (1) 0.5 million pesos, or (2) 10 percent of the total amount of net premiums written during the preceding year. In the case of a foreign branch insurer or re-insurer, its head office must guarantee prompt payments of all liabilities of the Philippines branch.

5.4 Market Conduct Regulation

An insurer must obtain approval from the Insurance Commission before it commences marketing an insurance product. In the case of pricing, life insurers are required to obtain approval from the commission of the premium rates for their life insurance products. In contrast, the Philippines Insurance Rating Association recommends premium rates for non-life insurance tariff lines, notably, motor insurance and bond (surety) insurance. All non-life insurers are members of this association and must abide by the recommended premium rates. Insurers in the Philippines have, since 1996, been allowed to market insurance products where the premiums and benefits are expressed in foreign currencies.

With regard to management control matters, the existing regulatory measures state that non-Philippines nationals may become members of the board of directors of a joint venture insurance or reinsurance company to the extent of the foreign participation in the equity of such company.

5.5 Survey Results

The results of the AITRI study on insurance regulators indicate that Philippines has only one major business environment challenge, which is the need for more expertise and facility for evaluating insurance products, examination of insurance companies, settlement of claims and other insurance controversies and use of computers in insurance regulations. The human resource development challenges faced by the Philippines Regulator primarily concern funding constraints.

Focus areas identified for future training are presented in Table 5.00.

Table 5.00: Focus Areas for Future Training

No.	Focus Areas	Importance (0-5)
1.	Insurance core principles	3
2.	Methodology and assessment of insurance core principles	0
3.	Health insurance	0
4.	Corporate governance	4
5.	Regulation of compulsory insurance	0
6.	Disclosure and transparency	5
7.	International insurance accountancy standards	5
8.	Investments regulation	4
9.	Money laundering and insurance	5
10.	Organisation of insurance supervisory authorities	0
11.	Private pensions	5
12.	Reinsurance regulation and supervision	4
13.	Role of auditors and actuaries	0
14.	Liability insurance	0
15.	Risk-based supervision	5
16.	Capital adequacy and solvency supervision	5
17.	Supervision of insurance groups and international insurers	0
18.	Valuation of insurance assets and liabilities	5
19.	Supervision of insurance intermediaries	5
20.	Alternative risk financing	4
21.	Captive insurance companies and risk retention schemes	5
22.	Credit insurance and credit risk securitization	5
23.	Enterprise risk and operational risk management	0
24.	Understanding insurance company accounts	0
25.	Financial conglomerates and financial sector convergence	5
26.	Asset-liability management techniques	5
27.	WTO and insurance: policies, national positioning and negotiation	5
28.	On-site inspection	0
	Overall mean (maximum value = 5.00)	**3.00**

5.6 Priority Areas for Supervisory Research and Technical Focus

The outcome of the survey for this AITRI study indicates that the priority areas for supervisory research for the Philippines Regulator according to the order of ranked importance are: captive market; margin of solvency requirement; risk-based capital; rates and rate making; and early warning systems.

Priority areas for technical focus for the Philippines Regulator according to the order of ranked importance are as follows: rating of companies; margin of solvency requirement; risk-based capital; rates and rate making; and early warning systems.

5.7 Preferred Training Methodology and Training Level

Based on the survey results, the Philippines Regulator prefers training through seminars, workshops, facilitated dialogues with other Regulators and attachment programmes elsewhere. In addition, the Philippines Regulator is interested in training in a formal specialist qualification at the certificate level.

5.8 Constraints

The only constraint is in the form of inadequate budgets available for training.

5.9 Solutions/Additional Comments

The Philippines Regulator proposes the continuous exchange of ideas and devices on new products and services during meetings, conferences and seminars.

6.0 COUNTRY REPORT: SINGAPORE

6.1 Insurance Industry of Singapore: Overview

The economy of this island country is based on a free enterprise system with few restrictions on foreign ownership or capital inflows and outflows. Not surprisingly, the insurance market in Singapore is very competitive, and is served by about 50 players in each of the direct, reinsurance and captive insurance markets.

The Insurance Department of the Monetary Authority of Singapore (MAS), the de facto central bank of Singapore, is responsible for the regulation and supervision of the insurance industry. The department issues notices and directives to insurers and other players in the Singapore insurance market. It also maintains a close relationship with various insurance industry organizations to foster self-regulation. It introduced the Insurance Intermediaries Act of 1999 to regulate the activities of insurance agents and brokers in life and non-life insurance business. Singapore last amended its insurance law in October 2000.

6.2 Market Access Regulation

Singapore has not put any restrictions on the admission of new reinsurers or captive operations. However, it had not admitted new insurers since the mid-1980s for direct non-life insurance business – unless a new insurer had expertise in a specialized line of insurance that the incumbent insurers lacked – and since 1990 for direct life insurance business. It was only in March 2000 that Singapore re-opened its door to direct insurers. At the same time, it lifted the then 49 percent restriction on foreign ownership of locally incorporated insurers. Nevertheless, new applicants can be subject to a needs test, e.g., commitment to Singapore's development as a regional insurance hub and international financial centre, a practice short of full liberalization of the insurance market.

The Insurance Department has the power to grant licensure to qualified applicants wishing to do insurance business in Singapore. For such qualified applicants in direct insurance and reinsurance business, the department requires a minimum paid-up capital of S$25 million. The minimum paid-up capital applied to captive insurers is S$400,000. The department may grant specialized licenses, holders of which can operate in selected lines of insurance (e.g., financial guaranty insurance).

6.3 Solvency Regulation

The solvency margin requirement is based primarily on the size of insurance business and liability reserves. The Insurance Department plans to introduce comprehensive risk-based solvency requirement models, one for life insurers and the other for non-life insurers. As such, the discussion in this study is based on the existing solvency margin requirements to which all insurers in direct, reinsurance and captive insurance business are subject. The solvency margin requirement comprises two requisites, the fund margin of solvency and the company margin of solvency. To meet the former margin requirement, an insurer must set up and maintain a separate insurance fund for each class of insurance business, which is further segmented into the Singapore Insurance Fund (SIF) for domestic businesses and the Offshore Insurance Fund (OIF) for offshore businesses. Particularly, a direct life insurer must maintain its SIF margin of solvency not less than the higher of (1) S$5 million, or (2) the amount calculated based on a formula that takes into account the insurer's actuarial liabilities, the sum insured at risks, and net premiums from accident and health insurance policies. A direct non-life insurer must maintain its SIF margin of solvency of the highest of (1) S$5 million, (2) 50 percent of net premiums in the preceding accounting period, or (3) 50 percent of loss reserves at the end of the preceding accounting period. A life reinsurer or a captive life insurer must maintain its assets not less than its liabilities of the fund in order to meet its fund margin of solvency. In the case of a non-life reinsurer or captive non-life insurer, SIF margin of solvency is the highest of (1) S$1 million (S$400,000 for captive insurer), (2) 20 percent of net premiums in the preceding accounting period, or (3) 20 percent of loss reserves at end of the preceding accounting period. Rules regarding OIF solvency margin requirements also exist, and are summarized in the full report.

To meet the second solvency margin, the company margin of solvency, all insurers, other than captive insurers, must maintain S$5 million per class of business, or S$10 million for both classes. Captive insurers are subject to a company fund margin of S$400,000.

6.4 Financial and Accounting Regulation

The Insurance Regulations of 1999 lay out statutory accounting principles for insurance companies. In particular, those regulations require direct non-life insurers to use at minimum a 1/24th method for the valuation of unearned premium reserves. For direct business in cargo insurance, however, they may maintain such a reserve of no less than 25 percent of the related premiums. In the case of non-life reinsurance business, the reinsurer must maintain an amount not less than 25 percent of the premiums of marine and aviation policies, and 40 percent of the premiums in other policies. Non-life insurers must estimate their claims liabilities based on their claims statistics. The Insurance Department does not allow them any discounting of their loss reserves, and may require them to have their estimates certified by a qualified professional.

Direct life insurers are subject to the statutory minimum valuation basis for computing their actuarial reserves. The statutory basis is a net premium valuation assuming four percent interest and mortality rates according to the Commissioner's Valuation Table 92 for life business. For annuities, insurers may assume five percent interest rate and mortality rates of Table a (90) rated down two years.

The Insurance Regulations of 1999 prescribe investment limits of the SIF by asset type and exposure. For example, an insurer may invest up to 45 percent of the fund in equities, 30 percent in overseas assets, and 25 percent in real properties. The insurer may invest beyond the prescribed limits, but part or whole of the assets in excess of the maximum limits will not be admitted for the purposes of meeting the fund margin of solvency. There is no specific investment requirement for offshore business, but insurers are expected to exercise prudence in their investments. Some exceptions to these limits can be found in MAS Notice 104 of December 4, 2001.

6.5 Market Conduct Regulation

Direct insurers must have suitable reinsurance arrangements at all times, and their reinsurance partners must be of good securities. If an existing reinsurance arrangement has been, or is likely to be rendered inadequate or ineffective, the insurer is required to inform MAS immediately. Insurers operating in Singapore must obtain the approval of the Insurance Department regarding the appointment of their principal officers and directors. In the case of life insurers, they must also seek approval regarding the appointment of the appointed actuary.

6.6 Survey Results

The results of the AITRI study on Insurance Regulators indicate that Singapore has 4 major business environment challenges:

- The volatile and changing business environment poses threats to the solvency and profitability of insurance companies. Insurance companies need to have clear business strategies and strong financial and risk management disciplines to survive in the new environment.
- The effect of financial markets and related companies are greater on insurance companies than ever before. Consolidated supervision and cooperation with foreign Regulators need to be strengthened to enable group-wide supervision.
- The convergence of financial products calls for integrated supervision so as to avoid regulatory arbitrage and provide a level playing field for the Regulator's financial institutions.
- Insurance regulatory and supervisory practices should be relevant to the times.

Major human resource development challenges faced by the Singapore Insurance Regulator lie in the need to build up competencies to enable the carrying out of responsibilities against a rapidly changing environment, both with respect to financial institutions as well as new supervisory frameworks.

Focus areas for future training identified are presented in table 6.00.

Table 6.00: Focus Areas for Future Training

No.	Focus Areas	Importance (0-5)
1.	Insurance core principles	5
2.	Methodology and assessment of insurance core principles	0
3.	Health insurance	0
4.	Corporate governance	0
5.	Regulation of compulsory insurance	0
6.	Disclosure and transparency	0
7.	International insurance accountancy standards	0
8.	Investments regulation	3
9.	Money laundering and insurance	3
10.	Organisation of insurance supervisory authorities	0
11.	Private pensions	4
12.	Reinsurance regulation and supervision	4
13.	Role of auditors and actuaries	0
14.	Liability insurance	0
15.	Risk-based supervision	5
16.	Capital adequacy and solvency supervision	5
17.	Supervision of insurance groups and international insurers	3
18.	Valuation of insurance assets and liabilities	0
19.	Supervision of insurance intermediaries	0
20.	Alternative risk financing	0
21.	Captive insurance companies and risk retention schemes	0
22.	Credit insurance and credit risk securitization	0
23.	Enterprise risk and operational risk management	0
24.	Understanding insurance company account	0
25.	Financial conglomerates and financial sector convergence	5
26.	Asset-liability management techniques	0
27.	WTO and insurance: policies, national positioning and negotiation	0
28.	On-site inspection	0
	Overall mean (maximum value = 5.00)	**1.21**

6.7 Priority Areas for Supervisory Research and Technical Focus

As the Singapore Regulator feels that R&D in insurance supervisory is not important, no areas of priority areas for supervisory research and technical focus were proposed.

6.8 Preferred Training Methodology and Training Level

Based on the survey results, the Singapore Regulator prefers training through seminars, workshops, external expert consultations, attachment programmes elsewhere and series of structured training modules on specific topics. The Singapore Regulator is also interested in training in a formal specialist qualification at the degree level.

6.9 Constraints

No constraints were provided.

6.10 Solutions

No solutions were proposed.

7.0 COUNTRY REPORT: THAILAND

7.1 Insurance Industry of Thailand :Overview

The Thai insurance market had been closed for decades until the government adopted in the late 1990s a three-stage development plan. This new plan resulted in 100 insurance companies operating in the market (2000 data). Among them, 20 companies were in life insurance, 68 in non-life insurance, five in composite insurance, six in health insurance, and one in reinsurance.

Of the 100 companies, five are branches of foreign life insurers, and four are of foreign non-life insurers. Insurance business in Thailand is relatively liberal, and national treatment is generally observed.

The Life Insurance Act and the Non-life Insurance Act, both of 1992, empower the Department of Insurance of the Ministry of Commerce as the Regulator and Supervisor of the insurance industry. The department encourages insurance companies to be more responsible for their intra-company activities via corporate governance and for their inter-company activities via self-regulatory bodies (e.g., the Thai Life Insurance Association and the General Insurance Association).

7.2 Market Access Regulation

The Thai government is liberalizing its insurance market in three phases. In the first phase, the government amended its 1992 life and non-life insurance acts, and permitted new domestic insurers to form a joint venture with up to 25 percent foreign ownership. This resulted in licensing 28 new firms, of which 16 in non-life business, by the end of 1998. The Department plans to allow foreign equity participation up to 49 percent once the existing insurance laws have been amended.

Foreign ownership restriction is likely to be eliminated after another five years from the date the new laws have become effective. Newly licensed life and non-life insurers are now required to raise a minimum paid-up capital of 500 million baht and 300 million baht, respectively.

7.3 Solvency Regulation

All insurers must maintain a solvency margin. For this, life insurers are required to maintain a capital fund of not less than four percent of the insurance reserve, or not less than 500 million baht, whichever is greater. However, the government has placed an interim measure such that an insurer may meet a capital fund of not less than 300 million baht within three years and increase the fund to 500 million baht within five years from the date of implementation of this new capital requirement.

Non-life insurance companies must maintain a capital fund of not less than 20 percent of net premiums written in the previous year. Non-life insurers are also given a relief such that they meet only 200 million baht within three years and increase the fund to 300 million baht within five years from the date of implementation of this new capital requirement. The Insurance Department may impose additional requirements on Thai branches of foreign insurers.

7.4 Financial and Accounting Regulation

In 1993, The Ministry of Commerce introduced a guideline that requires insurers to make investment within Thailand. Insurers may invest outside Thailand in shares and debentures of reinsurance companies incorporated under ASEAN or ESCAP agreements or in others for which they have obtained approval from the authority. The government believes that the success of supervision of insurance companies depends on the success in monitoring their investments, which can be achieved by regulating the amount and the quality of investment.

7.5 Market Conduct Regulation

Several regulatory and supervisory measures regarding insurer operation are in place in Thailand. First, in 1999, the government banned insurers from concurrently operating life and non-life insurance businesses. Second, non-life insurers are subject to tariff rates for their motor insurance business. Fire insurance premiums are also subject to tariff rates. Third, all direct insurers have entered into a gentleman's agreement to cede on a quota share basis at least five percent of their assumed risks in fire, marine, transportation, and miscellaneous insurance to Thai Reinsurance Public Company. They must also maintain a proper reinsurance arrangement if the aggregate fire risk they have assumed in a geographical zone exceeds 10 percent of the solvency margin, or the total risk in their motor business portfolio exceeds 10 percent of the solvency margin, or the risk of any individual policy exceeds 10 percent of its surplus.

7.6 Survey Results

The results of this AITRI study indicate that Thailand has two major business environment challenges: how to increase customer base for the insurance industry, especially for the lower income customers; and how to reap the full benefits of the long-term financial stability brought about by the progressive insurance market.

Three major human resource development challenges faced by the Thailand Insurance Regulator are identified as: training staff to develop professional and managerial skills; encouraging staff to become members of insurance professional association; and long-term planning of human resource development due to services liberalization.

Focus areas identified for future training are presented in Table 7.00.

Table 7.00: Focus Areas for Future Training

No.	Focus Areas	Importance (0-5)
1.	Insurance core principles	4
2.	Methodology and assessment of insurance core principles	5
3.	Health insurance	0
4.	Corporate governance	0
5.	Regulation of compulsory insurance	0
6.	Disclosure and transparency	4
7.	International insurance accountancy standards	5
8.	Investments regulation	4
9.	Money laundering and insurance	0
10.	Organisation of insurance supervisory authorities	0
11.	Private pensions	0
12.	Reinsurance regulation and supervision	4
13.	Role of auditors and actuaries	0
14.	Liability insurance	0
15.	Risk-based supervision	5
16.	Capital adequacy and solvency supervision	5
17.	Supervision of insurance groups and international insurers	4
18.	Valuation of insurance assets and liabilities	4
19.	Supervision of insurance intermediaries	4
20.	Alternative risk financing	0
21.	Captive insurance companies and risk retention schemes	0
22.	Credit insurance and credit risk securitization	0
23.	Enterprise risk and operational risk management	4
24.	Understanding insurance company accounts	0
25.	Financial conglomerates and financial sector convergence	4
26.	Asset-liability management techniques	4
27.	WTO and insurance: policies, national positioning and negotiation	0
28.	On-site inspection	0
	Overall mean (maximum value = 5.00)	**2.14**

7.7 Priority Areas for Supervisory Research and Technical Focus

The outcome of the survey indicates that the priority areas for supervisory research for the Thai Regulator according to the order of ranked importance are: corporate governance; role of auditors and actuaries; solvency margins; supervision of insurance intermediaries; and convergence of financial conglomerates and financial sector.

Priority areas for technical focus for the Thai Regulator according to the order of ranked importance are as follows: health insurance; asset-liability management techniques; capital adequacy and solvency supervision; risk-based supervision; and private pensions.

7.8 Preferred Training Methodology and Training Level

Based on the survey results, the Thai Regulator prefers training through seminars, conferences, workshops, external expert consultations, facilitated dialogues with other Regulators, attachment programmes elsewhere, distance learning programs and series of structured training modules on specific topics.

7.9 Constraints

The only constraints are in the form of inadequate internal personnel to conduct training courses; inadequate budgets available for training; and inadequate motivation of staff to participate actively in training.

7.10 Solutions

The Thai Regulator proposes the establishment of long-term commitment to training system.

8.0 COUNTRY REPORT: VIETNAM

8.1 Insurance Industry of Vietnam: Overview

Vietnam is a socialist country. However, in 1989, Vietnam implemented the *Doi Moi* (renovation) Plan to transform its economy to be market-oriented. Its economy has since grown rapidly, and the country has attracted a number of foreign financial entities to its local market. As depicted in the *Doi Moi* Plan, the government ended its decade-long monopoly operation of the state-owned Baoviet, and created several state-owned insurers as well as the Vietnam National Reinsurance Company. Foreign insurers have been selectively admitted since 1999. At present, 16 insurers operate in Vietnam. The first insurance law, which became effective in December 2000, covers several basic rules of regulation and supervision. It also states clearly that the government will compete with the private sector in providing insurance coverage, and that direct insurers are subject to compulsory reinsurance cession. The insurance law does not apply to social security, health insurance, deposit insurance, and other types of insurance that are provided for by the state, and are of non-commercial nature.

8.2 Market Access Regulation

An entity wishing to do insurance business may file an application with the Ministry of Finance. In the case of a foreign applicant, it must additionally submit evidence of its licensing status and financial soundness in insurance operation in the country of domicile. The insurance law no longer requires the foreign applicant to apply to the Ministry of Planning and Investment for an investment license. A new insurance company may be formed as a mutual company, a stock insurer, a joint venture insurer, or a wholly-owned subsidiary. Composite insurance business is not permitted in Vietnam. The minimum paid-up capital required is 70 billion Vietnamese dong for Vietnamese non-life entities, or US$5 million for foreign non-life firms. For life insurance business, the minimum required capital is 140 billion dong for Vietnamese insurers, or US$10 million for foreign-owned insurers. All insurers must make a security deposit, five percent of the required capital, with a licensed bank in Vietnam.

8.3 Solvency Regulation

All insurers must maintain assets in excess of liabilities by an amount of no less than the sum of the paid-up capital plus compulsory reserve funds and retained profits. In addition, they must meet the following requirement: for non-life insurers, 20 percent of the total premiums for the risks they retained from the previous financial year; and for life insurers, 0.1 percent of the aggregate coverage of all policies in force during the previous financial year.

8.4 Market Conduct Regulation

Several guidelines regarding insurer operations and market conduct exist. For example, insurers are restricted from opening more than one branch in a city. Non-life insurers are subject to compulsory cession—presumably 20 percent of their assumed risks on a quota share basis—to the Vietnam National Reinsurance Company. The Ministry of Finance plans to phase out this cession requirement over the next few years. In the case of foreign insurers, they are committed to investing all premium revenue in Vietnam, and must contend with public doubts over the stability of Vietnam's official currency. Wholly foreign owned insurers may remit overseas their retained profits after meeting all reserve requirements. Foreign parties of joint venture insurance companies may also remit overseas the amount of distributed profits after meeting all reserve requirements.

8.5 Survey Results

The results of the AITRI study on Insurance Regulators indicate that Vietnam faces four major business environment challenges: understaffing; limited IT structure; insufficient regulatory and supervisory standardization; and limited public awareness of insurance.

Accordingly, the survey also shows that key human resource development is hampered by the acute shortage of skilled and experienced professionals; budgetary constraints and procedural limitations, making outsourcing impossible; mismatch between training provider and industrial needs; and the absence of an insurance education and training institute.

Focus areas identified for future training are presented in Table 8.00.

Table 8.00: Focus Areas for Future Training

No.	Focus Areas	Importance (0-5)
1.	Insurance core principles	5
2.	Methodology and assessment of insurance core principles	4
3.	Health insurance	3
4.	Corporate governance	4
5.	Regulation of compulsory insurance	4
6.	Disclosure and transparency	5
7.	International insurance accountancy standards	5
8.	Investments regulation	4
9.	Money laundering and insurance	3
10.	Organisation of insurance supervisory authorities	5
11.	Private pensions	3
12.	Reinsurance regulation and supervision	4
13.	Role of auditors and actuaries	5
14.	Liability insurance	4
15.	Risk-based supervision	4
16.	Capital adequacy and solvency supervision	5
17.	Supervision of insurance groups and international insurers	4
18.	Valuation of insurance assets and liabilities	5
19.	Supervision of insurance intermediaries	5
20.	Alternative risk financing	3
21.	Captive insurance companies and risk retention schemes	3
22.	Credit insurance and credit risk securitization	3
23.	Enterprise risk and operational risk management	3
24.	Understanding insurance company account	5
25.	Financial conglomerates and financial sector convergence	4
26.	Asset-liability management techniques	5
27.	WTO and insurance: policies, national positioning and negotiation	5
28.	On-site inspection	5
29.	Reserving (non-life and life) method	5
	Overall mean (maximum value = 5.00)	**4.21**

8.6 Priority Areas for Supervisory Research and Technical Focus

The outcome of the survey indicates the following priority areas for supervisory research for the Vietnamese Regulator according to the order of ranked importance: capital adequacy and solvency supervision; on-site and off-site inspection as well as understanding insurance company accounts; corporate governance; reinsurance regulation and supervision; and WTO and insurance.

Priority areas for technical focus for the Vietnamese Regulator according to the order of ranked importance are: corporate governance; investment skills; financial management; product development, pricing and distribution; and consumer protection schemes.

8.7 Preferred Training Methodology and Training Level

Based on the survey results, the Vietnamese Regulator prefers training through seminars, conferences, workshops, external expert consultations, facilitated dialogues with other Regulators, attachment programmes elsewhere, distance learning programmes and series of structured training modules on specific topics. The Vietnamese Regulator is interested in training which is in a formal specialist qualification at the diploma level.

8.8 Constraints

The findings of this AITRI survey indicate that the Vietnamese Regulator does not have major problems in identifying external training facilities and motivating staff for training. The only constraints are in the form of inadequate budgets to conduct training programmes and inadequate internal personnel to conduct training courses.

8.9 Solutions

The Vietnamese Regulator proposes (1) incorporating the training of Regulators into a broader training programme for the Ministry of Finance staff to benefit from budget allocation (optimization), (2) seeking financial support and funding from regulatory partners and the industry through cooperation and technical assistance programmes, and (3) focusing on the training of trainers.