What Keeps CEOs Awake at Night?

As we approach the last quarter of 2008, it is clear the global economy is on the slide and that Asia's economies are not immune from this. But exactly how bad it is – or could be – is still unclear and many businesses are adopting a wait-and-see approach to their next phase of development. **Mr Nehemiah Neo**, Managing Director, VRS Insight Adjusters Group, independent Pan-Asian loss adjusters, discusses the issues which are – or should be – taxing the minds of insurance leaders in Asia.

The second-half of this year has been notable for some pessimistic predictions about the outlook for the world economy and, in particular, the uncertain state of the world insurance markets.

For the insurance sector, the slowdown certainly affects the bottom line, but other issues such as the generally soft market and lack of major claims (at time of writing) add to the feeling that the insurance sector may be heading for tougher times as we move into 2009.

Although Asia is certainly not immune to what could be a prolonged slowdown, there remains a sense of long-term optimism in the region.

This can be seen by the sheer sense of exuberance which was evident at the recent Olympic Games in China. Such an event became a focal point on the country as she celebrated her coming of age to play a central role in the world economy as this century progresses.

Closer to home in Singapore, events like the Formula One race, the first-ever night race, mean there is a long-term commitment to put on a show and celebrate, even though there may be some short-term setbacks along the way.

Although such optimism should be tempered with caution, there are enough signs that show the long-term future of our region looks healthy.

Top Concerns

So what are the long-term issues that now most tax the minds of business leaders in Asia?

I believe the issues for Asian-based CEOs probably also weigh on their counterparts in other parts of the world – how to maximise the bottom line and how to keep costs under control.

As we move into an uncertain period in the region, these two issues are becoming increasingly relevant to the insurance and reinsurance sectors.

The need for a business to increase its revenues is a central issue for all CEOs . For insurers in Asia, the problem revolves around the differing stages of development of the markets.

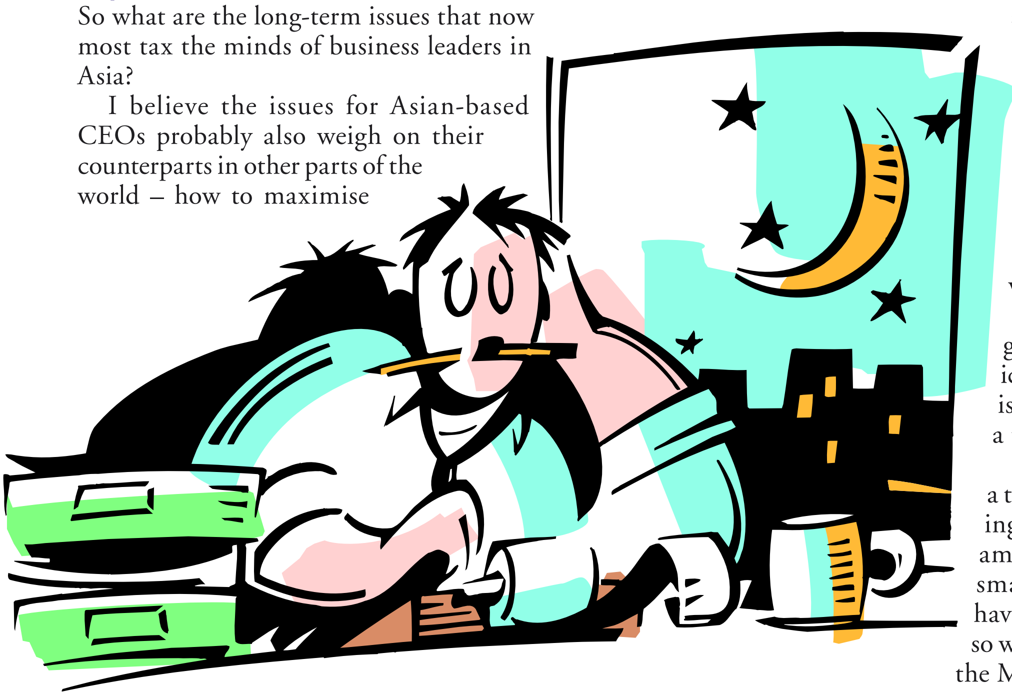
The gambit for major insurers is how much effort and resource should be spent on the differing markets and the calculation of what kinds of returns are adequate.

There are three broad kinds of market in Asia and they fall into emerging, developing or mature. Unlike other parts of the world, these different stages are very marked in Asia and the question of how - and where – to maximise revenues is therefore a tricky one.

Markets such as Japan, South Korea, Taiwan, Singapore and Hong Kong are in the category of mature and those who are keen in these markets have to be committed in the long term as the existing players are, by and large, pretty established.

How to Maximise Revenue?

It seems the best way for business leaders to maximise revenues in markets such as these is via merger-and-acquisition (M&A) moves. Alternatively, talents could be enticed away, which may be a relatively cheaper option given that this is a "people business".



But the credit crunch and overall uncertainty in the market mean that while several mature markets are ready for M&A activity, there is little being done as potential partners wait on the sidelines.

The hope that significant growth can be achieved via organic growth in the mature markets is limited, so M&A is likely to be a trend in future.

Across the region today, there is a trend towards regulators demanding higher capital ratios and greater amounts of capital. There are many smaller companies which do not have the means to achieve this and so will be keen or "coaxed" to explore the M&A route.

Closely linked to the M&A issue is the question of how companies, especially homegrown insurers, transform themselves so the next generation of CEOs can assume control.

Many indigenous insurers in the region remain owned by families which have often set up the insurance company as part of a wider business operation.

As the second- and third-generation families come to the fore, they have to decide how best to take the insurance entities forward – does the insurance "arm" of the family business remain within the wider company? Should it be hived off? Should the company grow via acquisition? Or merge with another to grow? Can professional managers be recruited or groomed to transform the business?

Inflationary Pressures

Looking around the region it is also obvious that another pressing issue for senior management is inflation. Singapore is experiencing its highest rate of inflation for three decades and a similar story is told around the region.

The region's dependency on oil imports is one factor, but there are others. It means that such important elements of cost as wages and rents are under enormous pressure.

Wage inflation is always around at the best of times, but it becomes worse in a sector which is prone to shortages of experienced, trained staff and the increasing incidence of "job hopping".

The Talent Crunch

I read recently that the lack of new blood coming into our loss-adjusting sector means we as an industry are already running at 110% capacity.

This piece of information was put out along with a warning that the loss-adjusting sector could probably not cope if there was a major catastrophe anywhere in the world right now – a chilling thought for any CEO.

The same could be said of many different sectors in insurance and reinsurance right across the globe – there are just not enough bright young people around who can be persuaded that the business is a viable long-term option as a career.

Skyrocketing Rentals

Another phenomenon common to many Asia-based insurance and insurance service firms is the fact that they pay rental for their business offices, rather than owning the property. Multinational corporations generally frown on tying their funds in such capital expenditure.

With rentals and office property values in places like Singapore and Hong Kong continuing to soar, there must be many a CEO in the region wishing he could have persuaded his board to change their mindset and invest in commercial property all those years ago. Gain from capital appreciation would have come in very handy during tough times.

So, quite apart from a soft market and the growing evidence of overcapacity, it is obvious that senior management in the insurance industry has a lot to be concerned about at the moment. Those in Asia can, however, take heart from the fact that despite the wobbling global economy, the region offers the most exciting prospect.