Exclusive interview with Mike Lombardi, President-Elect of Society of Actuaries:

Actuarial evaluation will exert more significant influence on risk control and investment

By Zhihong Li

Beijing, China – The increasingly mature Chinese insurance market has been attached more importance to actuarial evaluation. “In the Chinese insurance market, actuarial industry has only 25-year-long history. So far, the main role of actuarial industry is pricing and evaluation. As Chinese actuaries become further experienced, I believe they can have greater impact on more sophisticated fields, including risk management, investment, distribution,” said Mike Lombardi, President-Elect of Society of Actuaries (SOA) a few days ago, when being interviewed with *21st Century Business Herald* reporter.

As an executive and an actuary, Mike Lombardi has been watching the development of Chinese market with his unique perspective. For example, he points out that Universal Life Insurance in developed countries took many years to develop; therefore the regulatory department and the market have sufficient time to adjust to the product and investment; this is the reason why Chinese insurance market requires more time to prepare for Universal Life Insurance. The course that every country has taken varies in terms of commercial car insurance reforms; thus it is difficult to draw lessons from one specific model.

Chinese market needs to not only learn from the success and the failure of other mature markets, but also combine its own reality with previous experience and theories to the full, in order to explore a stable, healthy and sustainable path of development.

Universal Life Insurance in other countries has gained experience of years

21st Century: How can Chinese insurance companies satisfy the ever-growing demand for health care, senior care, and public health service? How could the previous experience in US provide insights for the Chinese market?

Mike Lombardi: China population is aging. Statistics tell us that by 2030 the average age of China will be the oldest in the world and by 2050, one quarter of all Chinese will be over 65. The growing middle class is looking for financial security, and at the same time, government policy is looking to the private sector to assist with solutions to address the financial security needs of Chinese population.

So in that range of possibilities, what is needed is that it has started with government policy and clear regulations. We need to understand what role the government wants to play, and what role the private sector plays in different countries for different solutions. For example, in Europe it is very much government solutions and very little private sector solutions. By contrast in North America it is much more private sector, especially health care in US.

Once that is determined, the role falls on that insurance companies come up with innovative products and solutions. I suggest they look at what is working and what is not. Perhaps there should be more use of the free trade zone and a liberal attitude towards foreign insurers and expertise that they might bring. We have seen from IPOs and other insurance companies in China that if a company has a good business model, the capital would be found. And they should play a leading role in health care, senior care, and public health service fields.

21st Century: In a low-interest-rate environment, how can an insurance company develop at a reasonable pace?

Mike Lombardi: The persistence of low interest rate is a common problem faced in many regions of the world for insurance companies, including insurance companies in North America, Europe and Asia. Fortunately, Chinese insurers did not have the same level of the challenge because they did not promise high interest rates and guarantees, but even so it is still difficult to make insurance products attractive in this environment. However, low interest rates often result in lower inflation, so people do not need the same levels of return to retain the purchasing power of their money.

If low interest rates persist, we will see a shift away from investment-intensive products, and less-intensive investment products will gain in popularity, such as term insurance, health insurance products.

21st Century: How do you see the development of Universal Life Insurance in Chinese market?

Mike Lombardi: By contrast to that in China, Universal Life Insurance in the U.S. and in Canada took many years to develop. The market and regulators have time to adjust in terms of consumer information, product sophistication and investment alternatives.

The challenge with Universal Life Insurance in China at the moment is that it is a relatively new product, and people are not aware of its complexity or uses. There is also a thin market in stocks and in government bond and companies seem to look towards investing in oversea market. But at the same time this increases the risk of liquidity asset liability mismatches. So I think what is needed is more consumer education, some more guidance from regulators, and over time this market will develop.

21st Century: How do you see the business car insurance reforms?

Mike Lombardi: Vehicle reforms are different in different countries. I am not sure if there is a good model to look at. However my understanding is that the vehicle pricing now is more related to the risk than it was before. That in general, from an actuary’s perspective is a good thing. So the insurance companies need to manage the risk better. They need good risk management techniques and actuaries are well-equipped to assist companies in risk management.

21st Century: How do you see the role that actuaries and actuarial industry have been played in Chinese market? Any suggestion?

Mike Lombardi: The actuarial profession in China is relatively new. It is probably around 25 years whereas in the developed world perhaps more than 100 years. So relative to North America and elsewhere, actuaries are still defining their role. Their obvious role at the moment is pricing and evaluation. Over time as Chinese actuaries become more experienced, I believe they can move forward to more sophisticated fields, such as risk management, assets, investment, and distribution.

SOA is very active in China, training actuaries and candidates, holding events such as the annual SOA China symposium where actuaries can network and change information on current challenges and solutions. We would like to see further development of Chinese actuaries.

“The Belt and Road” will be a long-term opportunity for life insurance

21st Century: What kinds of opportunities would “The Belt and Road” initiative bring to the insurance company?

Mike Lombardi: I think it will bring more opportunities in terms of property and casualty insurance. Under “The Belt and Road” initiative, more infrastructure and transportation services will be established, which provides chance for property insurance companies and its transportation-related insurance products. Currently, the main business of a majority of Chinese property insurance companies is car insurance. I hope they can shake off the dependence of car insurance and to be more diversified with the help of “The Belt and Road” initiative.

By contrast on the life insurance side, at least initially, it is probably not going to be a big difference and opportunity; however overtime, as the different populations along the “One Belt One Road” become more prosperous, the demand for life insurance of these types of people will be expected to grow. And of course actuaries can play a role in both property insurance and casualty insurance.

21st Century: How do you see the phenomenon that Chinese insurance companies go overseas?

Mike Lombardi: Asset diversity is a good thing. We should not concentrate all assets into one category. Surely, investing in unfamiliar fields will bring additional risk, including investing in oversea markets; therefore insurance companies need to quantify potential risks as well as the benefits they would achieve with the help of actuaries.

21st Century: What do you think of the development of foreign insurance companies in Chinese market? Any suggestion?

Mike Lombardi: Foreign companies have struggled to gain market share and to become profitable. Less than 5% premiums today go to foreign companies, and it is even less than 5% for property and casualty insurance.

Because on the one hand, Chinese regulators show a preference for indigenous companies; on the other hand, foreign companies fail to adapt to local culture circumstances in time. This is especially true for some successful products in European and American markets. Thus for these foreign companies, they should draw lessons from previous experience and regard the Chinese market impartially in order to drum up their business.

Here are five suggestions. Firstly, foreign companies should equip themselves with long-term visions and good patience. Secondly, they should be nimble enough to fast adjust to regulation and market change. Thirdly, they need to commit their shareholders who are willing to not only provide additional funds to support the growth but also to fund initial high operating expenses and lower profitability. Fourthly, they should be more creative and adaptable to distributions, products, operating costs, and efficiency. Fifthly, they could use accumulated, reliable data to price, evaluate and regulate risks, thus better managing the risk.

21st Century: How do you see the prospect of Chinese market?

Mike Lombardi: In this respect, insurance products are not very widespread among Chinese population and are of a low penetration rate. But in the future, I expect a huge explosion in this vibrant insurance market.

###