Speech made by Alan S. Ashe, President of The Insurance Institute of Dublin at the Inaugural Meeting of The Insurance Institute of Dublin on Monday, 5th October, 1992.

Members of the Council, ladies and gentlemen, I would like to start my address with a quotation from a speech made some time ago:-

"We have had many important developments since last year - two general elections, two changes of Government, a heated national economic debate, a distressing continuation on unemployment and industrial closure trends and in this years budget a significantly increased imposition on the business sector. We face a picture of a serious situation as a nation. We are all concerned that current trends be arrested and that a structurally sound stable and dynamic economy be built".

This statement was made by Howard Kilroy of the Jefferson Smurfit Group, currently Governor of the Bank of Ireland at the 30th National Management Conference in April, 1982. What has changed?

I would suggest that what we are witnessing in business today is nothing short of a structural change, probably equivalent in impact with the industrial revolution. This is especially so in the financial service industry. I want to examine with you some of the structural changes that are taking place. Firstly, within the insurance industry itself, how we can become more productive and the role which training plays. Secondly, by looking at customer perceptions of the insurance industry and importantly how the industry may or may not be responding. Finally, I take a brief look at The Insurance Institute and question the role it is playing.

If there is one lesson which can be learned from the recession of the early 70's and from the present difficult situation in which we find ourselves, it is that Parkinsons' law will operate so that work expands to fill the time available. All of us, to some extent at least, are not the lean and hungry organizations that we ought to be. The increasing cost of operations, the earnings pressure on the industry, the need to find a better way to deliver insurance services and the competitive pressures in todays environment are all reasons for managements renewed interest in a more effective approach to productivity. It could be argued that productivity in financial service industries appears worse than it actually is because the measures adopted such as output per person per hour do not take into account quality of output. It is, however, probable that in banking and insurance, the opportunities for an increase in productivity are most striking. The most effective management of human resources could add 10% to 25% to productivity growth.

Analysing the problem, the most important steps towards improving productivity involve the selection, placement, training, appraisal and compensation of staff and dealing effectively with employees may be especially rewarding in the insurance business because it is one of the most labour intensive industries.

The major problems in the structure of insurance companies today, is that they are labour intensive, premises costs are high and there is a strong organizational rigidity.

The expectations of staff have been gradually rising along with the increase in standards of living and education. While Ireland has one of the youngest populations in Europe and also one of the better qualified, this could prove to be a problem in the future business structure. How do we satisfy the aspirations of our qualified youngsters if Company hierarchical systems are being restructured to accommodate to a different set of needs.

The policies on the part of the Insurance company for staff training and promotion and the effectiveness of communication and information which staff receive about proposed changes are critical. There is little evidence of staff redundancy resulting from automation in insurance as rapid transaction growth in the past has more than compensated for any staff savings. But if the growth rate declines and staff feel that their jobs are at risk, opposition to change will be inevitable.

It is quite understandable for example that insurance companies will hope to achieve a reduction in transaction costs, a reduction in staff costs, more customer information and more effective marketing. Likewise, the staff will be anxious to ensure that their needs are considered, that retraining will take place in good time and that their jobs will be enhanced. The customer will expect a modern quality service at lower overall cost with perhaps more frequent opportunity for contact within the branch for important matters. The overall objective for the Company has to be towards the achievement of a profitable market share.

Training.

We must start with identifying the training needs and ensuring that young people should be better prepared for work on leaving the educational system. We should train first line and middle management nearer to their potential, not just on the basics of what the Company or organization needs. Too often I feel that Companies are complacent with in-house training and do not give sufficient attention to training their staff towards reaching their true potential. Often their true potential will only be realised outside their current role or department. Training of the intellect is equally important so that flexibility and adaptability are recognised and can take place in a changing environment. Management, at all levels, must get involved in the training and development aspects, counselling, job rotation, learning projects and action learning. The responsibility should not be passed from line management to a Personnel function or to a training function.

An example of the quite startling costs of staff turnover may be useful.

Let us examine what can happen in a typical computer department. The question of turnover and absenteeism in what is a very high technology area, together with the very high cost involved when a computer specialist chooses to leave for another job is something which most management have to be concerned with. It is not unusual to find that jobs remain open for six to seven months before they are filled adequately so that, in effect, the cost of hiring a replacement, together with some costs due to transfer of jobs, the total extra cost to a company can be in the region of IR£10,000 to IR£15,000. In addition to this, there can be a considerable drop in productivity. The extra costs involved in hiring a replacement involve the question of management time, the recruitment selection, the induction orientation and the process of relocation.

Training is the cost effective solution. It must be regarded as an investment. When somebody goes on a training course however, it is essential that the changes of behaviour are determined not immediately after the course but several months later. The basic reasons for this are that the training provides job skills to an individual, gives him/her the extra motivation and indeed it is a great advance to have the skills in-house when needed. A good training policy will, over a period of time, lead to an actual reduction in turnover and this, coupled with sufficient job motivation, will give a true measure of the productivity of investment in training.

Team Work.

Many Managements could do with some basic coaching on how a team should work effectively together and can work constructively together. It does not, in all cases, come naturally and must be learned.

The supply of competent professional managers is essential to success. The large element of competitiveness which relies on the talents of our people also requires a labour force with the education and training and work experience to tackle the skill intensive and knowledge intensive technologies in which our future lies. It is important to realise that increased productivity means long term security.

Managers should make themselves aware of the facilities and expertise available from third level institutions and make the fullest use of this competitive advantage.

How many Companies pay enough attention to ensuring that an individual fits into an organization? How many mistakes are made by selecting someone only on the grounds that they have the skill but not the ability to integrate or to manage people? This is what organization is about. People Management.

One of the big issues of change to be addressed is the role which women are likely to take in organizations in the future. Because of our traditional and masculine values, it is very difficult for women to assert themselves upwards in an organization. In this regard, there is often a hidden hand at work and it would be very much up to our Personnel Managers or our Human Resource Managers to identify and tap the skills which they have. Women make up over 32% of the workforce but the big question is are they succeeding in moving up the managements hierarchy? Women are moving only slowly upwards in Ireland's big businesses and in many cases have yet to break through the glass ceiling into Senior Management.

Positive discrimination is not an option and it is important that women are not given advantages simply because they are female. Educational restraints should no longer be a factor. Females graduating from the countries colleges since 1975 illustrate a dramatic increase in the numbers opting for traditionally male courses. In 1975, 32% of undergraduates and postgraduate degrees went to women. By 1988, that figure had risen to 40%. The important factor is that it is the right person who should fulfil the jobs.

Then perhaps we neglect the real but more intangible assets embodied in skills and attitudes. Skills can be taught but attitudes are formed in the home and by the educational environment. Management in Industry must do a great deal more to improve the awareness of Industry and wealth creation in society. We need a better understanding in our school leavers and in our college graduates of the satisfaction and intellectual challenge of modern industry. We need to relook at our own attitudes within industry. Our traditional notions of authority and responsibility may have been appropriate to the simpler structures of society in the past. They certainly require reassessment in the increasingly urban industrial society of modern Ireland. Can we admit that we ourselves in senior management may be the biggest obstacle because of our preoccupations, outdated formation and often badly reasoned reaction towards change in the widest sense.

We need to involve the people working in the enterprise to a much greater degree of the activities, the problems and the success. We need to design a work environment in which people are continuously encouraged to participate in decisions effecting how they do their jobs. It is the ongoing involvement of the staff in change that is important. A recent study carried out by Arthur Andersen Consulting into the European Insurance Market concluded that key success factors in the future to meeting the fierce competition of other Financial Institutions would be (a) the quality of service which it is believed to be the most important strategy to sustain a competitive advantage, (b) controlling of costs through improved productivity and, (c) the investment in training required to enable an organization to cope with structural change.

But if I choose to examine, as I have done, attitudes towards the changing environment within which our industry is working today, I must also, for consistency, turn the spotlight inwards on ourselves. What about the Industry?

As far as life assurance is concerned with 23 Life Companies, of which the top ten account for 86% of market share, it is surely becoming apparent that there is over capacity in the industry. While I believe that in the next five years the industry will face domestic competition rather than European competition, it is going to become more difficult to maintain market share, especially profitable market share. However, distribution channels may alter and the methods of selling may change.

Specifically, the advent of the life assurance wings of the major banking groups is creating its own pressures and this, together with likely mergers and activity in the market, is presenting Life Companies and Brokers with new challenges. Without a fundamental change in distribution channel policy, some companies are going to find that preservation of market share, not to mention survival, is going to be difficult.

In this regard, it seems likely that the number of Tied Agents will increase and that companies will reposition their efforts and look towards an increase in direct sales forces, but in my view, it will also mean that the role of the Broker in offering independent financial advice will, with a suitable restructuring of the incidence of commissions, coupled with closer co-operation between the Brokers and the Industry, lead to a healthier if more competitive environment.

Financially strong insurance companies will undoubtedly be better placed to survive the more deregulated markets which will follow 1992.

With the Insurance Act now in place, it is becoming more and more important that we look to see how we can improve and continue to improve the perception which the customer has of the Industry. However we have managed to do it, the customer's perception of the Industry appears to be a negative one. In the first instance in the non-life industry, there is relentless negative reaction to high motor premiums at home, coupled with a more global horror at the losses being incurred by Lloyds syndicated business abroad. The negative reaction, of course, ignores the major contribution made by the industry to road safety for example. It also ignores the substantial employment and investment made by the industry.

However, let us look at the problem in another way. Why are motor premiums so high by comparison with some years ago? Undoubtedly, we have a high claims and accident rate. But why were losses so high? What went wrong there? Quite simply it appears Companies were writing business but unprofitable business. Is it possible that the Marketing Departments got it wrong? Should the Underwriters have been King? There is no excuse for lack of focus. Companies must sort out the good risks form the bad. There must be a discouragement of bad practice. Market segregation in other words applies over all levels of business.

On the other hand, in the life industry, there are the pressures occasioned by poor equity returns and the problems incurred by success in the markets of the 1980's, resulting now in a reassessment of bonus declarations as equity returns become more difficult to achieve. We are, in effect, trapped by our own success. Apparent success in the short term fuelled by the equity markets right up to 1989 is now beginning to hit back at us. Life Assurance and investment was never meant to be a short term situation. The market itself is to blame for excessive concentration on the short term results. Publications in the media and elsewhere continue to emphasise the short term. The essential element of life assurance and investment is long term. Our funds are structured in that fashion. Of course there will be turbulence. There is currently. But excessive emphasis on the short term compounds the problem. Short-termism is kicking back at us.

With the pressures on the market place leading to widespread product differentiation, it is becoming more and more important that customers understand fully the products they are investing in. Are our products too complex? Why is the incidence of cost and expense so frontloaded? Why does the seller gain the benefits in year one while the customer has to await a period of years before obtaining a reasonable return on his/her investment? The costs and income should be more evenly matched.

Sir Brian Carsberg, the Director General of fair trading in the UK, questioned the Industry last week about the heavy automatic losses suffered when policies are cashed in early. I would suggest that it is an appropriate moment to consider a review of selling methods, structures and costs. I would suggest that this is part of the solution which must be adopted. Mere disclosure of commission however is not the answer. Restructuring is imperative. In the final analysis, the ultimate criterion is the value the consumer can expect from the premium paid and remember, commission is only one element of costs. Afterall, no other profession or industry is asked to reveal its true costs. Market forces should, in the final analysis, determine the quality products and the quality companies.

If the Industry does not respond, the solutions will be forced upon it. There will be more questioning and even more regulation. This issue is going to require leadership and ignoring it will not be the solution. As an Industry, we are very conservative. We do not like being questioned. We have to strip the veil of secrecy from an Actuarial minded approach into one which is much more consumer orientated. Professional Accountancy has been questioned and is coming under scrutiny as never before. Is it now the Actuaries turn? It could be argued that financial Journalists for example are taking up the cudgels to question the Industry on behalf of the consumer. How are we responding? I would suggest not very well. How many companies for example try to educate the financial journalists? We are all too ready to take advantage of them when we have something good to say. If we cannot explain ourselves satisfactorily to the journalists, is it any wonder that the message does not get across to an increasingly questioning public.

I could suggest to you that we are far too introspective. The quality of newspaper reporting on financial matters has become very effective. Just as the banking industry is being subjected to increasing scrutiny, so we are going to have to face more scrutiny ourselves.

In this regard, as a contribution to the customers' perception of the industry, I must welcome the recent appointment of an Ombudsman. The role of the Ombudsman is an independent one and I feel that both the life and non-life Companies will, themselves, have a major role to play in the success of the new Ombudsman's Office.

Structural change is hitting the Industry hard. We have had it far too good in the 1980's. We must devise strategies to tackle the problems of the 90's. They are different. But we are being caught flatfooted. It is appropriate that the Industry as a whole should emphasise and promote its investment role, its promotion role, its employment role, its contributions through gilt buying through Government finances, its PRSI role, its tax deduction role. Let us not hide our contribution.

A few statistics for the Life Industry may illustrate this. In 1990, Life Companies for example had over IR£8.5 billion invested on behalf of Irish policyholders. 80% of this was invested in Ireland through equities, Government securities and property. IR£86 million was paid out in death claims. IR£260 million was paid out on maturing policies. 5,000 people are employed by Life Companies. A similar number is employed by non-life companies. We must, however, also reform our approach.

What are the other structural changes taking place? For example, the movement of banks into life assurance. The involvement of the major banks in manufacturing products or the cross selling of life products through Banks and Building Societies. I have to stress that selling banking and insurance services are different specializations. They require different skills. The diverse nature of the two types of selling is not easy. As an industry, whether life or non-life, we must address ourselves to the issues created by a complexity of products sold possibly by inexperienced staff.

The close relationship developing between Banks, Building Societies and Insurance Companies should lead to a mutually beneficial development of the overall market. I believe from my own observations that some Financial Institutions are not tackling the issues of life product sales, for example, in a thoroughly professional manner. As an Industry, we have to ensure that those selling products on our behalf have the requisite professional skills and that the structures they set up to sell on our behalf are thoroughly professional.

If Banks and Building Societies sell the products of the Industry, life or non-life, then with increasing regulation and product sophistication, staff must become more qualification conscious. What are we as an Institute doing to foster and ensure this? This is the challenge to us.

But if I turn the focus onto ourselves in The Institute, how are we responding?

The CII itself is undergoing change. It sees the Industry as its customer. It has been subject to rationalization and has recognised the need for change. It is looking towards development in a wider Europe.

I have to ask how we should respond in Ireland to this process. As a constituent member of the CII, we must pursue change. In Ireland, we are in a different market, we have a different culture. I am glad to see that we are finally going to have examination papers recognizing our legislation.

As someone who has newly come into the Industry, I question how it is that we appear to have lost opportunities to develop a policy towards the life as distinct from the non-life side in The Institute. I cannot help but notice the relatively rapidly development of the LIA and the Pensions Management Institute in recent years. Why have we let such opportunities go by?

I am merely questioning so that we may try to point the way forward. Chief Executives within the Industry are often, privately at least, critical of The Institute. Are they not aware of the activities of the Tuition Service, for example, which performs a very valuable role? Are we not promoting ourselves sufficiently? I would also like to challenge the Chief Executives and see more Senior Executives in the Industry participate in and lead Institute Activities and provide some of the visionary thinking required to examine the role of The Institute over the coming testing years.

As far as the LIA is concerned, it is time that we should share some ideas with them. I have initiated a joint meeting for early in the New Year and have invited the Chief Executive of the Insurance Federation to address us on that occasion. I certainly feel that we should talk with our colleagues. We may, indeed, have much to offer each other.

I also welcome the proposed examination of training requirements and structures in the Industry under the auspices of the IIF. I believe that we should participate fully towards the rational development of the educational requirements of the Industry. I look to a full and frank discussion in this regard but to participate we must define our own objectives and be clear as to where we are all going. As far as The Institute is concerned, we have clients to whom we must provide a quality service. Our clients are the Industry. This is no different from the requirements of the Industry to service its customers. Customers who increasingly are beginning to call the tune.