

# Human Capital Risk and Management for the Insurance Industry: An Emerging Market Perspective

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# **Geneva Papers on Risk and Insurance (January 2014 )**

<http://www.palgrave-journals.com/gpp/journal/v39/n1/abs/gpp201311a.html>

# Human Capital Valuation and Factors

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- **We use no explicit human capital valuation function**
  - Simply as an intrinsic capital that simultaneously supports the entire functional areas of an organization
- **Human capital attraction/retention challenge intensifies due to a combining effect of**
  - Social (demographic), economic and industry-specific factors



# The Environments

# Population Aging and Gray Dependency

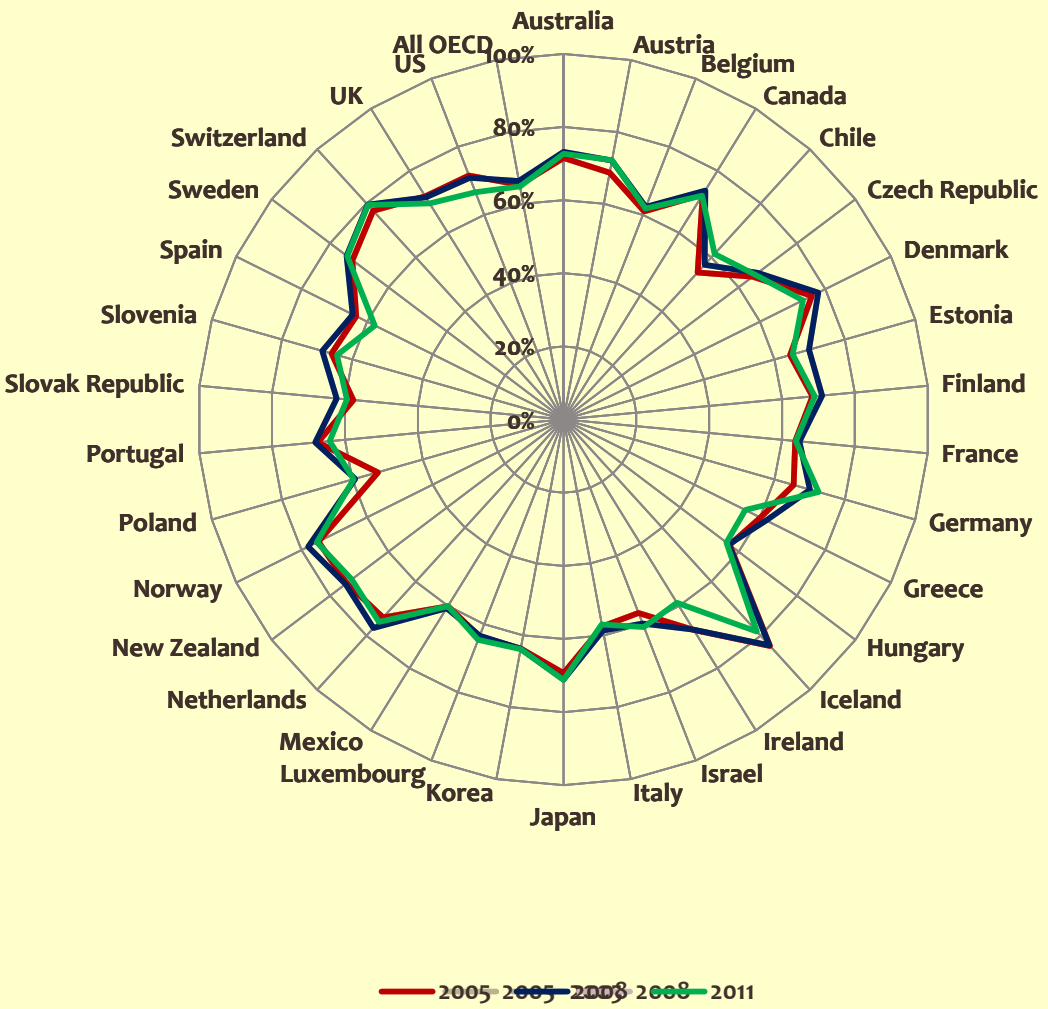
- Population aging along with low fertility rates. In Europe:

- 80% of workforce growth in the 50+ age group.
- 60% of working age population in the 60+ age group in 2050.

- Gray dependency ratios in OECD and BRIC:

	<u>2010</u>	<u>2030</u>
OECD	4.62	3.02
Brazil	9.81	5.32
Russia	5.86	3.48
India	11.37	7.33
China	8.71	4.08

# OECD Employment to Population Ratios



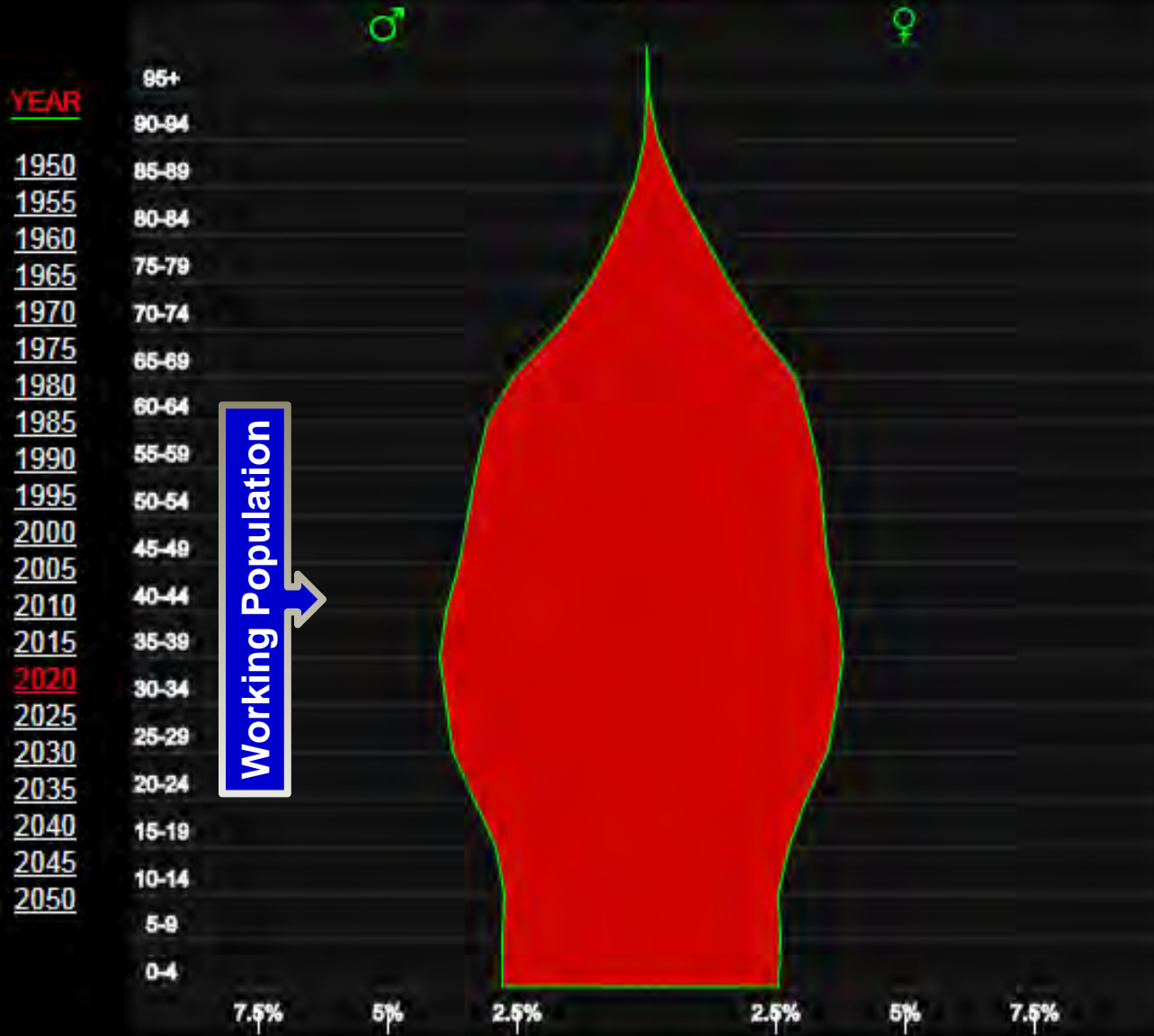
65.3% in 2005 to 64.8% in 2011

Growth in Austria, Chile, Germany, Israel and Poland

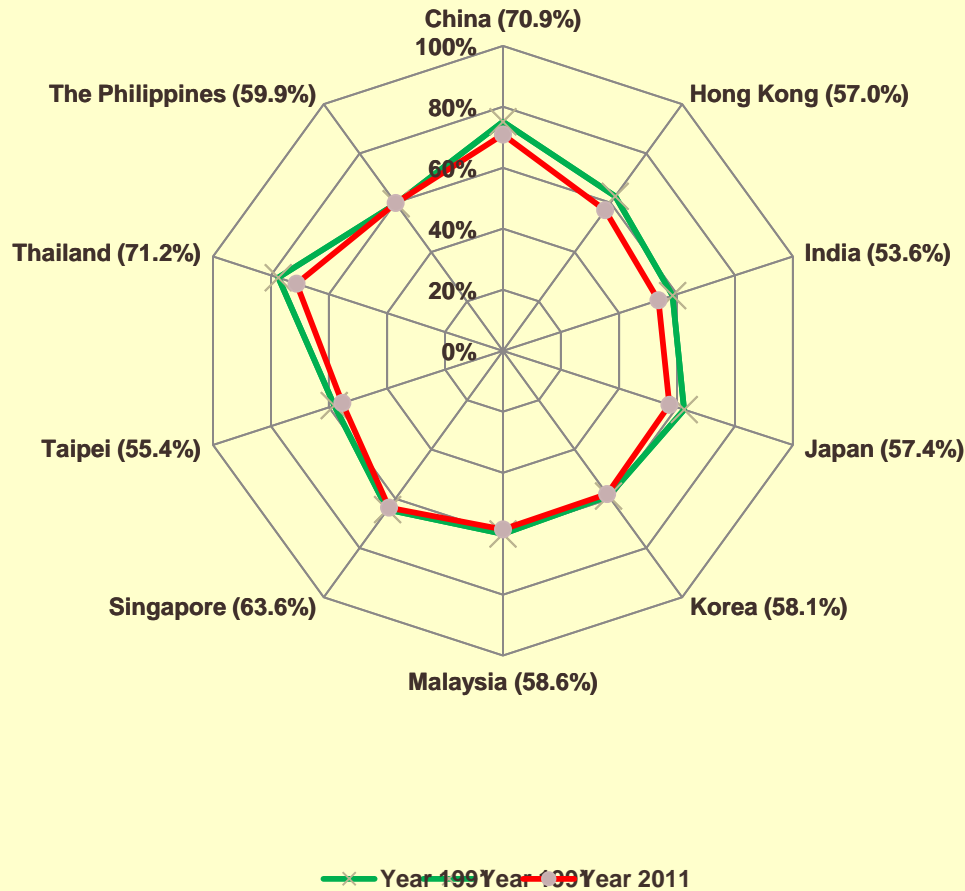
Reduction in Greece, Iceland, Ireland, Portugal, Spain and the U.S.

# MACEDONIA POPULATION PYRAMID

2,046,000  
Play Pause



# Asia Employment to Population Ratios\*



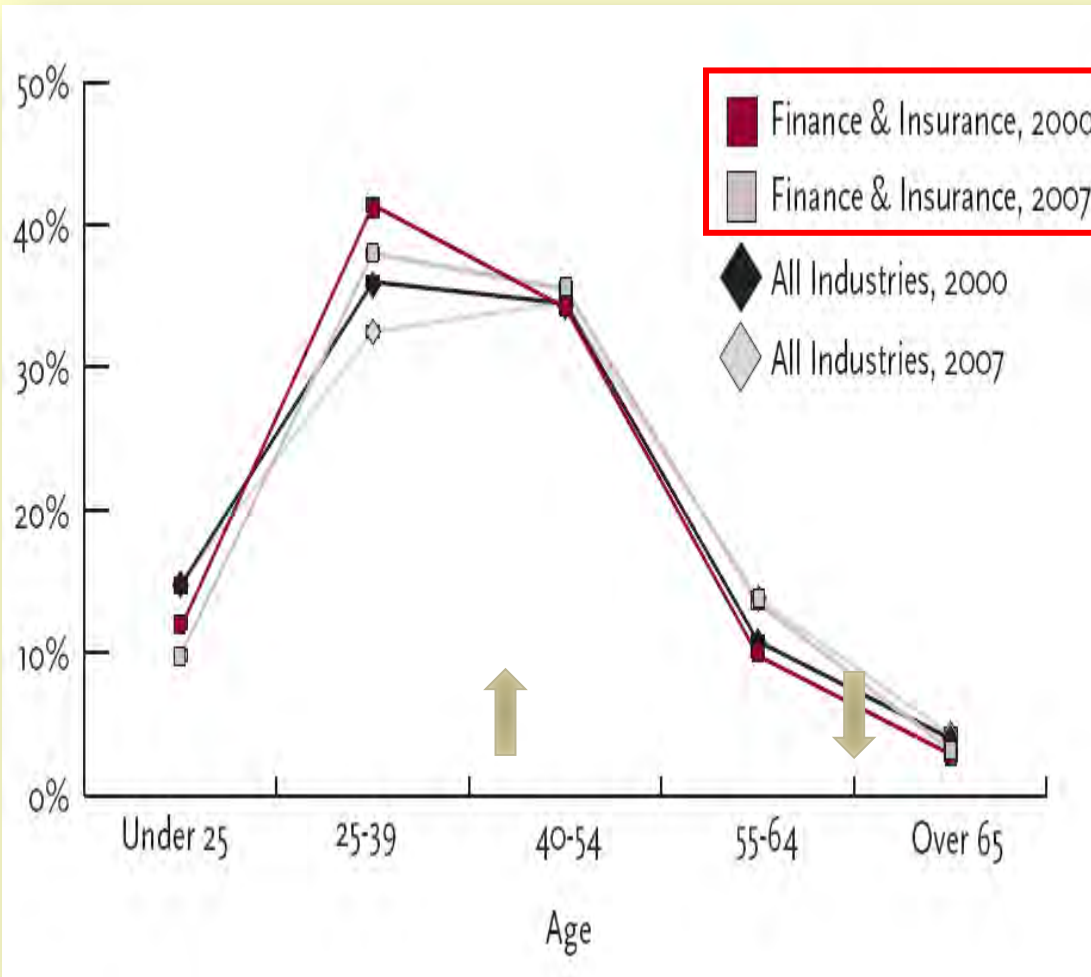
Reduction in general

Significant reduction in Thailand (6.3%) and **China** (4.2%)

Small growth in the Philippines and Singapore



# Aging in Finance & Insurance Labor Force (U.S.)\*



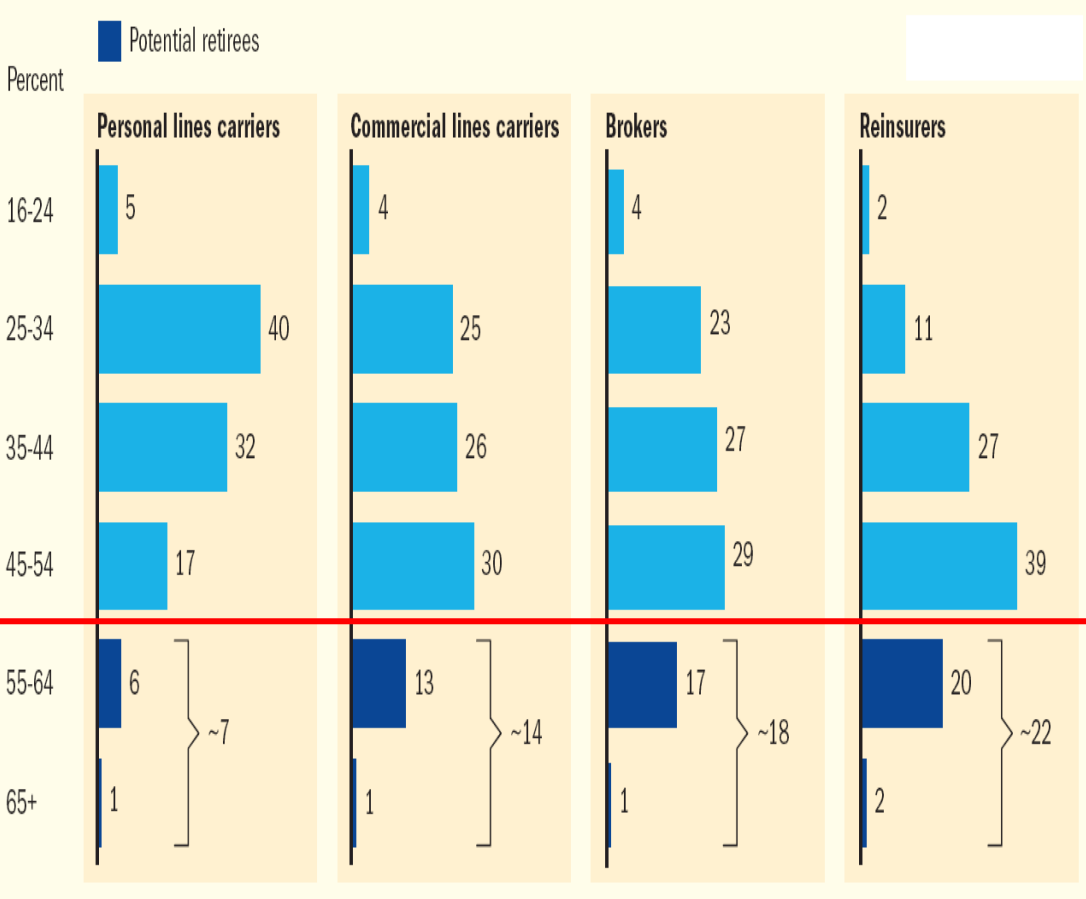
During 2000~2007:

The 55-64 age group rose by 38%

The 65+ age group rose by 10%

The changes in the finance & insurance sector greater than the national average

# Older Talent Exodus in the Insurance Market (The U.S.)\*



Employees aged 55+ grow at a fast rate

25% of employees at near retirement in 2018

At a greater risk are:

- \* Reinsurers & brokers
- \* Underwriters

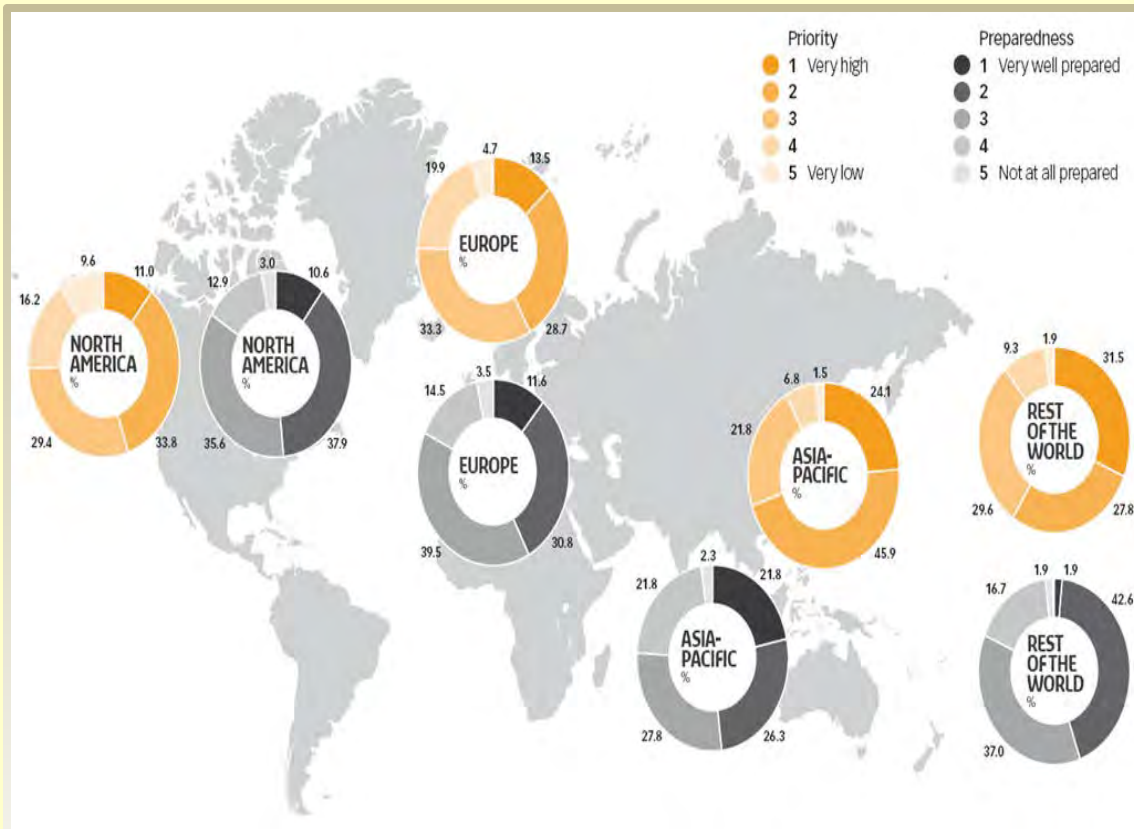
Source: McKinsey

# Talent Supply Risk Management: Public Policy

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- Recent changes in government/public policies in part to manage this risk
  - France                      Retirement age to 62
  - Japan                        Retirement age to 65
  - Korea                        Retirement age to 60
  
  - Germany                    Fachkräftemangel
  - The U.S.                    STEM and immigration law amendments

# Talent and Skills Shortage Risk and Management



Second most critical business risk globally in 2011\*

Most critical in Asia, particularly Japan

Less than 50% of the respondents in all regions are prepared to manage this risk

\* Lloyd's Risk Index

## Employee Attraction/Retention Difficulties

	Global	China/ India	Other Asia- Pacific	Ireland/ Spain	Other Europe	Brazil	Canada	U.S.
<b>Problems Attracting</b>								
Critical-skill Employees	65%	84%	78%	49%	62%	81%	61%	52%
Top-performing Employees	61%	76%	71%	52%	67%	69%	57%	45%
High-potential Employees	56%	68%	70%	47%	58%	67%	54%	40%
All Employees	25%	36%	41%	22%	19%	30%	22%	15%
<b>Problems Retaining</b>								
Critical-skill Employees	49%	81%	69%	29%	44%	65%	35%	31%
Top-performing Employees	45%	77%	63%	22%	41%	67%	35%	25%
High-potential Employees	45%	75%	60%	29%	43%	64%	38%	25%
All Employees	21%	39%	39%	14%	12%	26%	12%	11%

# Human Capital Skills in Financial Services

## ▪ Required

- Cognitive abilities
- Social perspectives
- Management knowledge
- Communication skills

## ▪ Not so strongly required

- Technical skills
- Physical/sensory skills
- Engineering skills

## ▪ Competitors (selected)

- Social science research
- Law enforcement
- Government
- Other professional fields



# **The Insurance Industry Reputation**

# Reputational Risk of the Insurance Industry:

## Global

Source: Reputation Institute (2012)

- Ranked 17<sup>th</sup> out of 25 industries, meaning the likelihood of consumers'
  - Buying the product is 41%
  - Recommending the product is 37%
  - Working in the industry is 37%
  - Investing in the industry is 31%

- No insurers listed in
  - *Global Top 50 Companies*
  - *European Top 50 Companies*
  - *Asian Top 50 Companies*



# Reputational Risk of the Insurance Industry:

## The U.S.

Source: Reputation Institute (2012)

- The insurance industry was ranked at the 11th out of a total of 18 industries
- In the top 100 preferred companies are:

- Berkshire Hathaway (16<sup>th</sup>)
- State Farm (53<sup>rd</sup>)
- Hartford Financial (62<sup>nd</sup>)
- MetLife (65<sup>th</sup>)
- Chubb (74<sup>th</sup>)
- New York Life (77<sup>th</sup>)
- Aflac (80<sup>th</sup>)
- Allstate (86<sup>th</sup>)
- Liberty Mutual (89<sup>th</sup>)
- Travelers (92<sup>nd</sup>)
- Prudential (94<sup>th</sup>)
- Assurant (100<sup>th</sup>)

# Positive Views After Being Exposed to the Industry

- **A Spencer Foundation survey**
  - Selected insurance for:
    - Job opportunities (56%)
    - Advancement (47%)
    - Industry stability & job security (44%)
  - Interested in:
    - Risk management (37%)
    - Underwriting (27%)
    - Sales & marketing (19%)

- **A McKinsey survey of RMI graduates**
  - The industry:
    - Offers a good work-life balance (83%)
    - Provides frequent intellectual challenges (93%)
    - Provides significant value to society (94%)



**Supply of New Talent Workers by  
Academic Institutions:  
2013 Survey (Preliminary)**

# Collegiate RMI Curricular in North America:

## Sample of 23 Universities

### ▪ Less popular courses:

- Actuarial (Risk) Modeling (4 institutions)
- Alternative Risk Transfers (3)
- Risk Theory (1)
- Claims Management (1)
- Reinsurance (1)
- Insurance Marketing (1)
- Ethics (1)
- ...

### ▪ Academic internship (11 institutions)

- More universities seem to offer it as part of curriculum (3~6 credits)
- Undergraduate and graduate
- Extensive summer training programs offered by several large insurers, reinsurers and brokerage firms

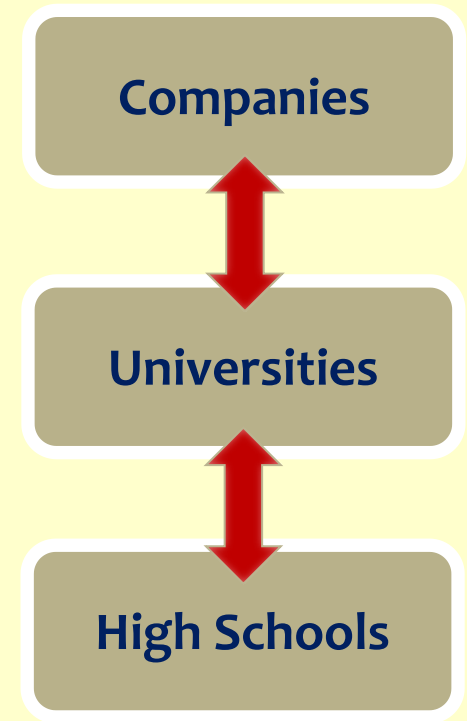


# **Coordination for Human Capital Development and Management**

# Recommendations

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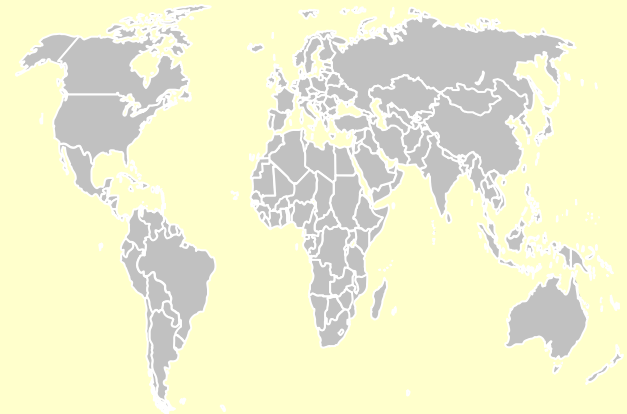
- **Generate a more positive image of insurance as an academic and professional field**
  - Targeting high school students as well
- **Work more closely with local institutions for the adoption of RMI as a major field of study **and** for coordinated enhancement of students' learning process**
  - Academic internship, shadow/mentor program



# Recommendations

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- Review the effectiveness of existing personnel development programs and update them as and when necessary
- Prepare for talent morbidity
  - Across sectors in financial services
  - Across economic borders



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