

# **ADDRESS TO CEDA QUEENSLAND**

**Mike Wilkins**

## **In 2020 Series: Opportunities in the Asian Century**

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### **INTRODUCTION**

My thanks to the CEDA for inviting me here today.

It is great to be in Brisbane, I always enjoy catching up with our people as I travel around the country. After a number of years in CEO and leadership positions one thing remains true, and that is getting out of head office and getting into your business as regularly as you can is crucial, as you get the best pieces of insight and information while on the road.

Here in the city we have a call centre and claims and sales operation and we employ around more than 600 Queenslanders. Our brands NRMA Insurance and CGU also have a number of great local partnerships with the Queensland SES, Queensland Fire and Rescue Service, Queensland Salvation Army Emergency Services and our NRMA Insurance business is the naming rights sponsor of the Brisbane Broncos, so we are very much part of the local community.

Queensland is also an important market for us and one where we believe IAG currently has significant opportunity.

I'm also particularly pleased that CEDA is running this 2020 series and that I get to talk on one of my favourite topics - the Asian Century. 2020 is not some far off distant point in time - it is here and now - and any company that is not thinking about what they want to look like in 2020 and planning how they will get there is already behind the eight ball.

So today, I am going to talk to you about where we see the opportunities for 2020 and explain how we plan to get there. I'll also give you my views on what a company must do to be successful in Asia, as well as look at the policy settings and plans that will help Australia better take advantage of the Asian century.

## **ABOUT IAG**

But first, an introduction to IAG and how we have found ourselves looking to Asia as the next logical step in our growth ambitions.

Until recently diversification was the key driver to us becoming a major player in the insurance industry. In the 1990s we were predominantly a motor and home insurer, with about 90% of our risk concentrated in NSW and the ACT. If we hadn't diversified, a major event in those areas would have had a significant impact on the company.

The following years saw us grow in the interests of diversifying our risk, first interstate and then offshore, as we have built operations in New Zealand, the UK and Asia. As a result, IAG is now an international general insurance group, diversified globally and by product line, with household name brands in their respective markets.

IAG will always predominantly be an Australian and New Zealand based insurer. However, given our size domestically, growth opportunities are limited and we can't restrict our view to our largely consolidated home markets.

That leaves us with a few strategic options. We could stay dormant – a position unsatisfactory to us and we believe our shareholders. We could look at other sectors or financial services products but we do general insurance well, it is our expertise and in our DNA. Or we could look offshore, and IAG is looking to Asia.

## **THE ASIAN OPPORTUNITY**

IAG is well advanced in its plans to take advantage of the Asian century. So too if Australia is to extract maximum value from our neighbours' newly found position of economic powerhouse, planning needs to be happening now. I welcome the federal government's actions in producing a white paper on the topic and look forward to its considered contents.

Australia needs a comprehensive approach to making the most of this opportunity and Governments, business and the broader community need to work in unison to strengthen our Asian ties.

While the Asian economic power shift is long term, our window is only fleeting. The immaturity of Asia's markets and Australia's current economic strength are both ultimately transient so the foundations of

longer term co-operation need to be laid now before it is too late. I look to the white paper to deliver the policy blueprint to enable that to occur.

## **IN 2020**

IAG first went into Asia back in 1998 taking an interest in Thailand's Safety Insurance. Since then we have had a slow and steady strategy of boosting our Asian footprint which we've been talking about for some time because it is fundamental to our future success.

I consider Asia a once in a lifetime opportunity, and my greatest fear would be to have to confront the management and shareholders of IAG in future years and have them question why today's management squandered it.

As such I am genuinely surprised we don't hear more about it from a wider spectrum of Australian business.

I would challenge anyone with a view that Asia doesn't represent opportunity for their business or industry.

In line with our theme for the day, by the year 2020:

Middle class consumption in Asia - excluding Japan - will increase 185% to US\$12 trillion. In 2020 Asia will have more middle class consumers than the rest of the world combined.

By 2020 asset ownership will increase 203% to almost US\$100 trillion. The Asian Development Bank goes on to estimate by 2030 Asia's annual consumption will reach \$32 trillion – almost half of all global consumption. Half.

For a company like IAG that increased wealth means increased asset ownership which means growing demand for insurance products in a market where insurance penetration is low. In the long term it is a big play - the Asian markets we are targeting are home to around 3 billion people, compared to less than 30 million in our home of Australia and New Zealand.

I think there are only a few businesses and industries that couldn't find a way to be excited by the economic revolution and increased demand for goods and services right here on the door step of Australia. Even more so for Queensland, positioned comfortably close to Asia in the north with a skilled workforce, good infrastructure and a can do attitude.

The natural resources and mining industry has somewhat dominated conversations around the Asian century but it has also distorted another opportunity. The fact is the Asian boom is not just for resource companies or large multinationals, SMEs have a massive opportunity with the right support and strategy.

## **IAG in Asia**

Before I go on to give you my view on being successful in Asia, let me give you a sense of our Asian businesses.

In Asia IAG has focussed its interests on countries we think are politically, socially and economically ready for growth in their financial services sector.

We are in five of our six target markets, with Indonesia the only identified market we have yet to enter.

In **India** we partner the country's largest bank – the State Bank of India and are now writing around 45 product lines. State Bank is a great partner which gives us access to its 140 million customers and a network of more than 18,000 branches; and we have the option to increase our stake in the joint venture to 49% (from 26%) once India lifts its foreign direct investment caps.

In **Thailand** we operate via a majority owned business in Safety Insurance, and in **Malaysia** we have a 49% joint venture with AmBank.

Both Thailand and Malaysia are large, stable insurance markets, with forecast growth rates above western mature markets. Our businesses in these markets are growing strongly, and producing attractive returns for us. We have successfully grown our presence earlier this year with our Malaysian joint venture announcing it will acquire insurer Kurnia Insurans (Malaysia), that deal to be finalised any day now.

In **China** we have entered a strategic partnership with a Chinese general insurer, Bohai Property Insurance, which has given us a foothold in a region that contributes almost 30% to China's annual insurance premium pool of around US\$60 billion. Our 20% equity stake in Bohai has strong government support, our partner is the economic development arm of the Tianjin government, gives us a well-known brand and a solid distribution network, all of which give us a good competitive position in that market.

China continues to be an extremely attractive market to us and has forecast GWP growth of 10-15% over the next 5 to 10 years.

Lastly, we have 30% of AAA, Vietnam's sixth largest motor insurer.

## **How to be successful in Asia**

Our stable of Asian businesses are performing well and we have some good experience of the markets. It is fair to say we've learnt a lot. We are now moving from an acquisition phase to driving our operational performance. We have made it a key strategic priority for us over the next four years for Asia to grow to represent 10% of Group revenue on a proportional basis - we currently sit at 6%.

In my experience there are four things that are absolutely crucial for any business looking for success in Asia - boldness and belief, a sound model, patience and an appreciation and respect of cultural differences.

### **Boldness and belief**

The first of these is pretty simple. Boldness and belief. In Australia we have a long and fine tradition of knocking off shore expansion - and yes, there have been high profile cases of unsuccessful overseas ventures - but ultimately having worked out a strategy based on sound logic and reason you need to go for it.

And that is just important internally as externally - no strategy will be successful if your people are not on board - or if you don't have the right people to execute it.

It is fair to say that generally the market took some time to back our Asian plans and we frequently confronted calls to ignore Asia and focus solely on our domestic operations. But we knew what we were doing was right - had belief in it - and stuck to our guns. Market perception is starting to warm as the momentum of our Asian division is building.

### **Sound model**

The model you select is fundamental as part of the strategy planning.

I have heard other business leaders be critical of joint ventures, preferring outright ownership. Given that most Asian markets are only partially deregulated from a financial services ownership perspective we look at a robust joint venture model. We like a relationship based approach for our JVs for a number of reasons.

It allows a complementarity in what each partner can bring to the business, and an appreciation between partners of the unique contribution of the other. We bring something they cannot, and vice versa.

For example, our partner may bring brand, customers, distribution channels and local knowledge while we will bring: insurance expertise in pricing, risk selection, data management, underwriting skills and claims management.

Building trust and respect in our relationships allows us to influence the current and future performance of our joint ventures. We spend a lot of time building these partnerships and do it through building a multi-tier relationship model which creates strong engagement and relationships between IAG and our local businesses at all levels of the organisation.

This includes at the Board level where I serve on local boards and board committees along with our Asian CEO and local business heads. At the senior management level IAG appoints personnel into roles in the JVs to create value and operational influence and at middle management level.

This is augmented by providing dozens of other IAG personnel on short term project secondments working on jointly agreed priority areas. The sum of all these interpersonal, multi level relationships is the building of trust and respect between partners – which leads to the ability to influence from a minority position and thereby add value.

Linked to this is the concept of reciprocal giving. Don't force or push your solutions onto your partner – let your partner pull what they need from you - as the best Asian capabilities are developed when resources are shared in a reciprocal way.

## **Patience**

Patience is also key - and a longer timeframe and 2020 thinking is necessary.

IAG has very much taken a long term view of its Asian operations by entering markets now in a considered and methodical manner we get to build our credibility locally over time which puts us in the right position to take advantage of the relaxation of ownership regulations as those economies develop and governments become more comfortable with the concept.

For example, until recently we only held 30% of our Malaysian joint venture until Malaysia's regulations were relaxed enabling IAG to dial up its shareholding to 49% which we did. More recently Malaysian regulations were further relaxed to now allow 70% ownership by foreign investors.

Despite the longer timeframes we will always enter an Asian market with a view to ultimately being a top three player.

### **Difference is just difference**

Last, success requires a suspension of judgement and you and your workforce have to be prepared to learn a whole new way of doing things. The people who survive and prosper in such an environment are those who embrace the differences and understand that difference is just that - difference – it is not better and it is not worse.

The first step for us as business leaders is to practically and honestly evaluate the existing Asia capabilities we already have internally and determine how we grow and develop the appropriate expertise. Not an easy task when you understand that Asia is made up of many individual cultures and countries and your expertise must be relevant to the specific Asian locality.

At IAG we support the embedding of our Asian expertise in a number of practical ways. These include Asian talent development and retention programs, sharing Asian expertise across managers, placing senior staff on the ground and hosting Board meetings in Asia to ensure our Board is thoroughly involved in local market strategies and that there is clarity on the Asian operations at the highest levels.

### **ASIALINK**

Even so we still have work to do to ensure Asia capability is truly embedded in our organisation.

As I mentioned earlier, yesterday Asialink released its national strategy for developing an Asia capable workforce in Australia and I am pleased to be on the Asialink taskforce along with a number of other CEOs from companies including ANZ, Optus, Rio Tinto and Leighton.

I am really pleased with the report and am confident that it will add significant value to the conversation around the initiatives and policy settings we need now to make sure we gain maximum value from the emergence of Asia as an economic powerhouse.

Broadly, the report acknowledges that Australian business must do more to develop the capabilities required, and makes a number of recommendations as to how business, the government and the education sector can work in unison to drive this agenda.

These include tertiary educators and business working together to develop internship programs in Asia, a curriculum audit and subsequent embedding of Asia-relevant content across all disciplines, and businesses integrating Asian capability development into their company reporting.

Its headline call however is for the development of a National Centre for Asia Capabilities.

This centre would be charged with helping create an Australian workforce that is fully capable of capitalising on the Asian opportunity.

I think this is particularly exciting - especially for SMEs - that have less of an ability to focus on doing this in house. But not just SMEs the community generally can benefit from a broadened skill base in its workers.

Asia Link has identified several key barriers the business community faces in developing these required Asian skills. These include limited Asian experience at Board level, scepticism in the investment community, a lack of scale for SMEs that would like to invest in Asia and the lack of practical business focussed Asian courses for the professional development of Australian workers.

The centre would be a platform for overcoming these barriers providing the necessary training and support. I wholeheartedly endorse this idea and hope the government similarly sees its value through funding.

## **CONCLUSION**

In conclusion, this is an exciting time for IAG and an exciting time to be doing business in some of the world's new powerhouse economies.

The time for planning for 2020 is now. The Asialink national strategy and government white paper are a good start, but they are just that, a start. I look forward to a co-ordinated national conversation and action as a result.

**My hopes are that in 2020:**



- The right policy settings, including taxation, trade terms, migration and foreign ownership exist to enable strong reciprocal benefits to flow between Australia and Asia
- Community and Investor support of businesses' Asian strategies is solid
- Our education system, both secondary and tertiary, reflects the new realities of our Asian interdependence
- And of course IAG's Asian division has flourished as a result of our careful and considered planning of a decade earlier.

I hope that more Australian businesses in more diverse industries choose to take advantage of this opportunity to support a continued prosperous Australia.