

No. 69, January 2014

Human Capital and Talent Management Issues in the Insurance Market*

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The human capital attraction and retention challenges in the insurance industry continue to intensify due to a combining effect of social, demographic, economic and industry-specific factors. We already observe several signs in the industry. Insurers in the U.S. experienced human capital growth at a rate lower than the national average during the 12-month period ending in October 2012. They saw modest manpower growth in the non-life (0.17 percent), health and medical (0.30 percent), reinsurance (0.36 percent) and intermediary (0.71 percent) businesses, as reported by the U.S. Bureau of Statistics. During the same period, life business even lost 0.30 percent of its manpower. A report by the Insurance Information Institute¹ notes that, during 1990–2011, the industry had: a volatile and gradual downward shift in the non-life market, a fast decrease in the life and reinsurance markets and a gradual, positive growth in the health and medical market, the agency and brokerage market and, with some volatility, in the claims management market. In sum, of all lines, the institute observes more signals of volatility than stability in the U.S. insurance labour market.

Population ageing along with low fertility rates has become a major risk globally, and the assumption that the supply of young human capital will remain sufficient for an economy to sustain its growth may no longer hold. Indeed, the Lloyd's Risk Index reports "a shortage of talent and skills" as the 2nd and 11th most critical risk in 2011 and 2013, respectively. For the 2013 survey, Asian respondents ranked it 6th, well above the risks of climate change and natural catastrophes. The 2011 Lloyd's Risk index reports that less than 50 percent of the respondent companies in all regions are prepared to manage talent and skills shortage problems.

Further, differences in attracting and retaining workers by skills level exist. Towers Watson² finds that 65 percent of employers experience difficulty in attracting critical-skill employees as compared to 25 percent for all employees. Within the critical-skill worker category, the difficulty is felt more greatly in fast developing economies, such as China/India (84 percent) and Brazil (81 percent), than in developed economies, such as Ireland/Spain (49 percent) and the U.S. (52 percent). Similar patterns in employers' difficulty in retaining talent workers are observed. The global retention average for talent workers is 49 percent as compared to 21 percent for all workers. Again, the problem is felt greater in rapidly developing economies such as India/China (81 percent) and Brazil (65 percent), than in developed economies such as Ireland/Spain (29 percent) and the U.S. (31 percent).

Coordination for human capital development and management

Population ageing is a serious risk to the insurance industry. We find evidence of, for example, a skewed distribution of worker ages towards the near-retirement groups in insurance markets in a number of countries. Insurers are indeed in critical need of attracting new human capital and retaining current workers. The search for talent workers in the industry, however, is challenging, in part because of the weak reputation of the industry that, correctly or not, the public and students in many countries perceive. The industry needs to invest more in maintenance and

* This article is drawn from Mr Kwon's article "Human Capital Risk and Talent Management Issues in the Insurance Market: Public Policy, Industry and Collegiate Education Perspectives" (2014) in *The Geneva Papers on Insurance and Risk-Issues and Practice* 39(1): 173–196.

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¹ Insurance Information Institute (December 2012). *Insurance industry employment trend: 1990–2012*, New York: Insurance Information Institute.

² Towers Watson (2010). *Creating a sustainable rewards and talent management model: global talent management and rewards*, Survey Report. New York: Towers Watson.

improvement of human resources management programmes to retain existing workers, especially the older ones. Further, the key for the successful continuation of insurance operations must include the human resources management infrastructure via which insurers generate current and future workers with “the right skills, at the right time, place and cost” (McKinsey).³ Having such infrastructure is equally critical for local and overseas operations.

The field of insurance is, on the one hand, not widely known to the general public. On the other hand, it is viewed as attractive to the students studying the subject and as very attractive to the ones who are already in the industry. Therefore, the employers need to find how to broaden the understanding among the younger population—particularly, college-bound high school students and college students in business schools—of the contribution the industry makes to society and the economy and about the professionalism their workers carry. In a separate study in progress, we find that the study of Risk Management and Insurance (RMI) is becoming popular, albeit not widely, in selected countries.

Based on the findings presented in the full paper, we offer the following recommendations as solutions to human capital risk. First, the industry is advised to be more active in public relations and generate a more positive image of insurance as an academic and professional field. It needs to assist governments in enhancing financial literacy among the public in general as well as local schools to attract more students to the academic RMI field. The K-12 Initiative to foster a more risk-literate society in the U.S., for example, consists not only in helping participating schools develop risk and insurance literacy learning modules, but also in providing high school teachers with workshops and teaching materials. Insurance companies should also target better consumer education.

Second, insurance companies are advised to work more closely with qualified local tertiary educational institutions for the adoption of RMI as a major field of study and, in the case of institutions already with a programme, for coordinated enhancement of students’ learning processes. The learning can be in class (for example, curriculum reviews and industry guest speaker series) and at the workplace—including (academic) internship and mentorship (shadow) programmes and invitations to industry workshops and conferences. In fact, we find that an increasing number of colleges and universities offer for-credit internship courses to their undergraduate and graduate students. We also suggest that companies be active in communicating with RMI faculties and vice versa. The Griffith Insurance Education Foundation⁴ recommends executive education, scholarships and the funding of faculty research and consulting activities. The goal here is development of more academically-viable-and-industry-supported college RMI programmes. Equally importantly, tertiary educational institutions need to constantly review and update their RMI programmes so that their graduates become the future talent with the right soft and hard skills.

Finally, employers must continue to review the effectiveness of existing personnel development programmes and update them as and when necessary. They need to review key developments externally in the social, demographic, political, regulatory and economic environments in order to minimise skill- or geography-based job mismatching risk. This work can be done internally or in conjunction with local insurance associations. Collaboration between the public and private sectors is additionally suggested. Insurance companies need to prepare for talent morbidity across sectors and countries, for which they may consider a customised (localised) programme that reflects the uniqueness of the environmental factors in each country of operation.

Convergence in financial services affects the availability of talent workers in the insurance labour market. As more products become hybrid and distributed via non-traditional channels, insurance specialists may find new opportunities in other financial services markets. Geographical expansion of insurance, banking and investment services—increasingly via financial service conglomeration—is also generating new business and, thus, employment opportunities, in new territories. As such, the search for top-quality senior management, middle managers and professionals continues to expand to outside the insurance industry⁵ or the local market, or both. These phenomena of labour forces in transition across financial services industries and countries signal that insurance

³ McKinsey & Company (2010). *Building a talent magnet: how the property casualty industry can solve its people needs*, New York: McKinsey & Company.

⁴ Griffith Insurance Education Foundation (2011, November) *Report on existing millennial research*. Worthington, OH: Griffith Insurance Education Foundation.

⁵ Deloitte (2006). *How can insurance companies beat the talent crisis*. New York: Deloitte (p. 3).

companies need well-articulated talent attraction and retention plans. The local academic institution and industry organisations should also play a role in producing new employees as well as training and retaining incumbent ones, respectively.

Again, the disparity in academic programmes and industry human capital skills needs can inflate human capital obsolescence risk. The disparity may be soft skills-specific (particularly, oral and written presentation), knowledge-specific (for example, the breadth of courses in the academic major) or both. The narrower the disparity, the lower the obsolescence risk management cost. All parties of interest are thus recommended to coordinate their efforts to find and retain workers—young and older—that are talented and possess the qualifications the industry needs.