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The road not taken

Being at the crossroads, one gets the golden chance to pause and reflect on the journey and on the road not taken. There are efforts to re-energise the EAIC in its golden age, to inject fresh young blood of professionals into the body. The dynamism will ensure that the EAIC springs into action more frequently than just biennially.

EAIC is all about Energised Action in the Insurance Community, beyond just the EAIC Insurance Day and the odd Essay Competition to boost research in the field. And as insurance touches the very heart of life and the economy, there is much to do.

The road that must be taken henceforth is the high road to spread the nobility of the insurance business and the benefits it brings to life: peace of mind (which is priceless), and immediate settling of claims that allows life and business to continue despite the lobbed balls thrown at them.

This is the road not taken: to make insurance a pull factor that makes people wake up thinking what additional covers they need to lead a peaceful life. And insurers who refuse to offer cover or exclude those who want to buy insurance as “uninsurable” should be brought to task.

The Virgin Routes

The other road not taken is that despite the constant moans of under penetration, insurance companies are choosing to compete on the same turf. Why is the world so small? Why not tackle the expanse territory of under-insurance and uninsured? Why compete on price only and shortchange on covers? The Myanmar Deputy Finance Minister's declaration at the Myanmar Summit that they are opening the market but will keep price and terms fixed and force licensed insurers to compete on customer service was an epiphany. Can the modern world look back to tariffs, or is that road blocked?

At a time when insurers themselves moan about the pricing models of their competitors and reinsurers, where the risks are increasing phenomenally and where customers are getting more risk-savvy and wanting to pass their risks on to insurers, and uneconomic price competition is hurting the industry, should the vistas of tariffs be revisited? Or has the road been closed too long to be re-opened?

The Silk Road

Another interesting road not taken is the silk route to China whose premium volume now is 32% of EAIC's total of US\$886 billion last year according to *sigma*. China is geographically part of East Asia. Yet why was this road not taken?

Be it politics or bureaucratic difficulties, the time is ripe to make an all-out effort to include China into the EAIC for it to stay in fashion and relevant. China's non-life market is larger than even Japan today, though its life market is only half that of Japan. Nonetheless, China, with a premium might of \$278 billion, accounts for 6% of the world market.

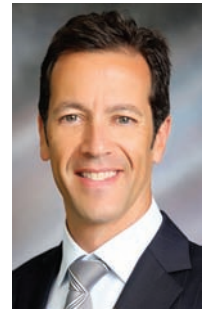
Clearing the Forest – the Frost Way

At the crossroads with life making up more than three quarters of the EAIC business, and general only accounting for 23%, the woods look “lovely, dark and deep” as the Scottish would say. Yet the light shines through as we return to the instincts of survival to focus on the magic of underwriting for profit, getting reinsurers to do their bit to make the industry more technical and more professional and we invest in social media to sell the real story of insurance – trust & benefits.

We have miles to go before EAIC hits the diamond jubilee. But take the road not taken to get there, selling real peace of mind, plain and simple, to carry on towards a better tomorrow to be sustainable.



Mitigating Asia's CAT challenges



With the increase in frequency of natural catastrophes and greater severity of claims observed in Asia, how are businesses and countries in Asia preparing themselves for these risks? **Mr George Attard**, Head of **Aon Benfield Analytics APAC**, shares the latest thinking on mitigating catastrophe risk in Asia.

Q: What are the key concerns that your clients in Asia have in common?

A: Asia consists of many different economies, cultures and regulatory regimes, each bringing their unique set of challenges. The region faces challenges arising from significant catastrophe exposure, demographic and wealth impacts and low insurance penetration. However, one of the common themes is the increased regulatory oversight and focus of rating agencies, particularly as it relates to catastrophe risk.

Are clients in Asia becoming more aware of the catastrophe risks they face?

The events of 2011 highlighted the limitations of existing catastrophe models and the importance of understanding non-modelled perils. Singapore is a good example, where we have seen flooding in the past, although economic and insured losses were limited from a regional and global perspective. However, there is an increasing recognition of the potential earthquake risk due to far-field effects of earthquakes in and offshore from Sumatra. This is particularly important when we consider the risk posed to tall buildings on soft soils such as reclaimed land, which has the potential to amplify ground shaking. Impact Forecasting has also developed a Singapore earthquake model to help the industry better understand the potential risk.

How are companies in Asia typically mitigating against catastrophe risks and how effective are these types of strategies?

We place a lot of emphasis on helping clients understand the potential impacts of catastrophes on their portfolios. And not necessarily just the peak perils, such as earthquake and typhoons, but also higher frequent events like floods, storms and bushfires. To better understand potential impacts of catastrophes, quality data and understanding of the underlying portfolio is crucial. This has also received increased attention from regulators, rating agencies and other stakeholders. As a result, we're also seeing data quality improvements.

The models provide us with a number of outputs that can assist with underwriting, pricing and determining appropriate reinsurance arrangements to meet insurer internal risk tolerance requirements along with regulatory and rating agency capital requirements. However, it is also important that clients understand the limitations of the models and those perils or loss components that may not be modelled

What are the key elements of an effective catastrophe management programme that corporate and commercial clients should have in place?

A detailed insight into the catastrophe modelling process along with the associated uncertainty and limitations is crucial. However, the modelling is just one factor in developing an effective programme. A detailed understanding of the underlying portfolio and pricing and underwriting of risk will ensure the program is "fit for purpose". A better understanding of catastrophe risk including insight into the underlying peril and vulnerability allows the development of appropriate risk mitigation strategies, disaster planning and preparedness and importantly, sustainable financial protection via insurance coverage on assets at risk.

How can Asia's reinsurance industry improve its catastrophe management practices?

Insurers need to look at their data as a strategic asset. Improved data quality for use in catastrophe modelling leads to:

- Improved underwriting capability and profitability – traditional drivers within insurance.
- A greater confidence in reinsurance limit setting – decreased uncertainty.
- A better ability to manage exposure – more refined portfolio optimisation.
- Better post catastrophe event analysis and reviews – greater intelligence around impacted risks.



Seizing opportunity in a changing world



Mr Julian James, President, **Allied World Europe**, shares how the organisation is tapping the opportunities from a period of change and challenge in both Europe and Asia, and how it is ambitious and committed to grow in line with the changing dynamics of the global market.

Undoubtedly, the last few years have marked a period of change and challenge for insurers, brokers and our clients. Business is increasingly international, risks are evolving, and the trading environment has been impacted by macro-economic uncertainty and the persistent soft pricing cycle.

Tremendous opportunity

But, as ever, the flip-side of challenge is opportunity. When I joined Allied World 18 months ago, I was drawn by the tremendous opportunity I saw. Our clients are operating ever further afield; and as they do so they need trusted and experienced risk partners to accompany them. Equally, businesses find themselves exposed to new and unfamiliar threats, so they are demanding increasingly innovative products to help ensure that they are adequately protected.

And there was the opportunity to build on a formidable growth story. Allied World has seen extraordinary success. Formed with a team of four staff in 2001, premium written had grown to US\$2.7 billion last year. Europe and Asia still have a great deal of potential for Allied World and we have been taking significant steps to develop that potential. To achieve this, my focus has been – and remains clear – to grow our product suite, invest in distribution relationships and recruit and retain the smartest underwriting talent in the market.

Be local

A key overriding focus in both regions is to be local – understanding the culture and history of the markets in which we operate. For example, in Europe we have built a team that reflects the region – we have hired underwriters and business development staff from France, German, Italy and the Netherlands. They may be based in London, but they are actively engaging with brokers and clients across the continent. We are also concentrating on building truly international lines so that we can genuinely offer global reach.

Seizing opportunities in Europe is only part of the story. Home to many of the world's most dynamic and fast-growing economies, Asia is a prime region of focus for any international insurer with growth ambitions. While the insurance markets in Japan, Korea, Singapore and elsewhere are well-established, countries such as China, Indonesia and India are under-penetrated but share a number of characteristics which suggest this won't remain the case for long. Huge populations, rising wealth and burgeoning middle classes all point to significant potential for insurers in the coming years.

Allied World has had an established commercial insurance business in the region for some time and we recently announced our signing agreements to acquire the Hong Kong and Singapore operations of Royal & Sun Alliance Insurance plc. The business includes a niche group of specialty lines, including casualty, construction and engineering, marine and property. RSA has a long history in the region, with connections that go back over 40 years in Hong Kong and over 180 years in Singapore.

This is a truly unique opportunity to acquire leading specialty businesses in key Asian markets and will significantly deepen and broaden our presence in Asia. The transaction, which is subject to regulatory and court approvals, will complement our global specialist insurance strategy by providing meaningful additional scale in the region and will bring with it regional market leadership, complementary product offerings, extensive distribution and an experienced and talented management team.

Ambition and commitment

Most importantly, it underlines Allied World's ambition and commitment to growth in line with the changing dynamics of the global market. As we continue to invest, to attract top-class underwriting talent and to develop new products, we will do so in areas where we see opportunities and where we can deliver against the changing needs of our buyers and our broker partners. The next several years promise challenge and progression – not just for Allied World, but for the wider insurance world as well.



Blast from the past: EAIC 2012 Kuala Lumpur

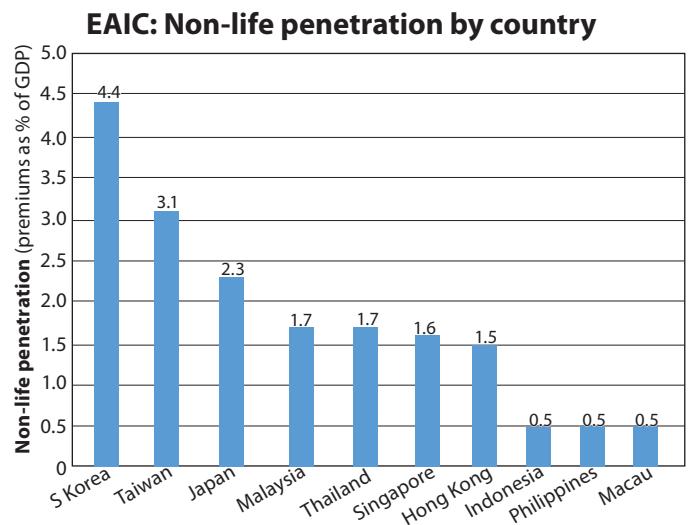
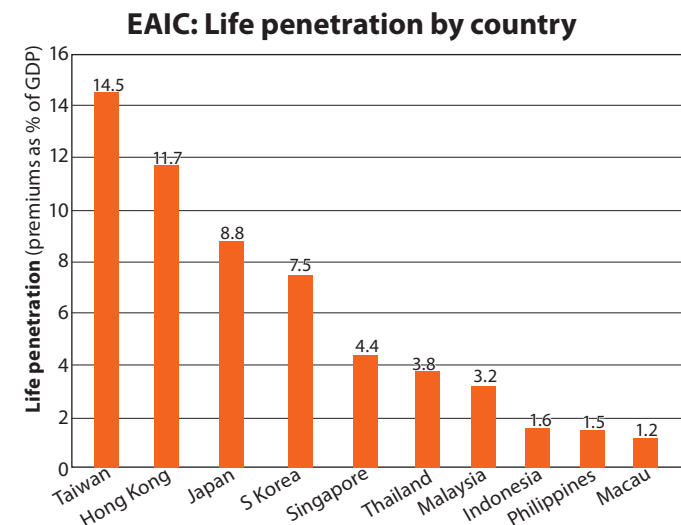
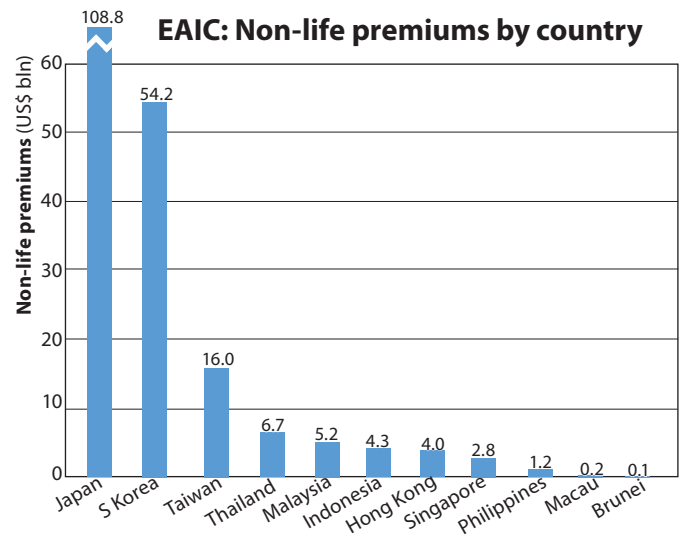
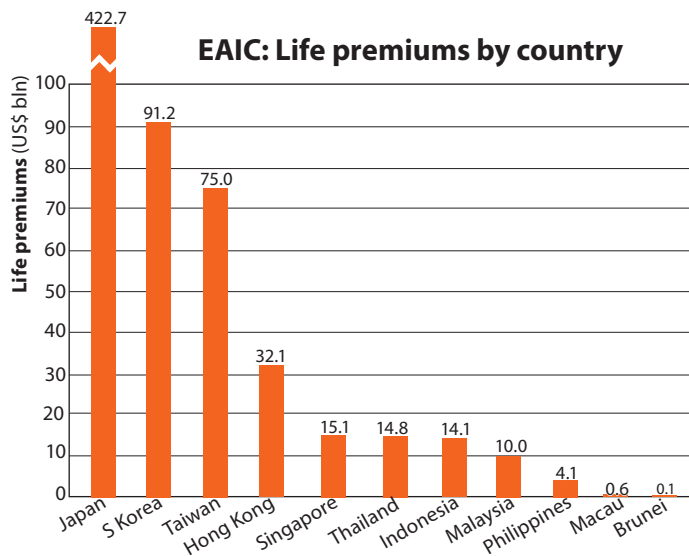


EAIC markets in numbers

The latest *sigma* figures for 2013 compiled by Swiss Re showed positive signs for Asian markets, with China, India and the Southeast Asian region being the main drivers for both life and non-life premium growth. But with Asia's largest market, Japan, recording a considerable decline of 15.2% in total premium, the overall net growth for the region was somewhat flat.

In fact, Asia recorded a contraction of 4.4% in total premiums in 2013 to US\$1.23 billion, although when factoring in inflation-adjusted local currencies, a small growth is likely to be evident.

Below is a snapshot of the premium volume and penetration amongst EAIC member countries.



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Source: *sigma* report. All figures are for 2013 unless otherwise stated

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