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The Financial Crisis: Where's The Good News?

The Economic Summit of the G20 was held on 15 November. If its aims were achieved, world leaders would have "fixed finance" and would be on the mend from the financial crisis world.

But the aims of the Summit remain a pipedream with the New World Economic Order still out there in the cold. The only good news from the Asian perspective is that there seems to be a greater recognition of the importance of Asia in the global system. The all out efforts to ensure that China was at the Summit was reassuring. There was reference to redress the imbalance that was caused by Asian saving and Western spending that had fueled the financial bubble. There was talk of reducing the over reliance on the US dollar and to flesh out multi-currency regime that includes the Euro and one or more Asian currencies plus speculations that a renewed Bretton Woods should include a bigger IMF that was backed by swap lines from the three large regional central banks: the Fed, the European Central Bank and eventually the People's Bank of China.

And the list goes on.

The Crisis – A Quick Recap

But for now, what gives? What ails the insurance industry that has to cope with this financial crisis, created by its "esteemed brethren" in the financial services sector with the world heading into a global recession? Doomsayers are talking of a collapse of the financial bubble. The GDP of the entire world is US\$55 trillion. This is dwarfed by speculative lending in the derivatives markets of ten times that amount – US\$525-\$550 trillion.

The credit crisis, which started with people defaulting on US subprime mortgages, quickly became a global financial crisis affecting every corner of the world. The residential mortgage market continues to deteriorate, with delinquencies and defaults rising even in the prime mortgage market, as home prices fall and the economy weakens. Distress has now spread to auto loans, credit card receivables, commercial mortgage-backed securities and, increasingly, corporate debt. More broadly, new credit is virtually non-existent. Liquidity is hard to come by, and as the economy continues to slow, retail and business spending remains weak.

And economics has now become a major political issue. There is a silent but subtle fight for turf between national sovereignty and international good, though all are agreed that the terrible times require global action led by international bodies. Yet at the end of the day, it is the state that foots the bail-out bill for its own constituents. So the fight is more real than just semantics. But at the regulatory front, supervisors have stepped up co-operation and collaboration to get the right picture.

The Economic Realities

The IMF has lowered its forecast for global growth next year by 0.8 percentage points, to 2.2%. Unemployment, foreclosures and corporate bankruptcies are rising. Stockmarkets are in the doldrums.

There is a need to boost spending and all eyes are looking East. China led the way on 9 November with its announcement of a huge spending plan

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EAIC FACTS & FIGURES

Last year, premium volume for EAIC countries totaled **US\$667.4 billion**, about **16%** of the world insurance market. The world's total premium was **US\$4 trillion** for 2007.



Brunei is the smallest EAIC market, recording **US\$118 million**, in premium volume in 2007,

while



Japan totaled **US\$424.8 billion**.

Taiwan has the highest worldwide insurance penetration at **15.7%**.

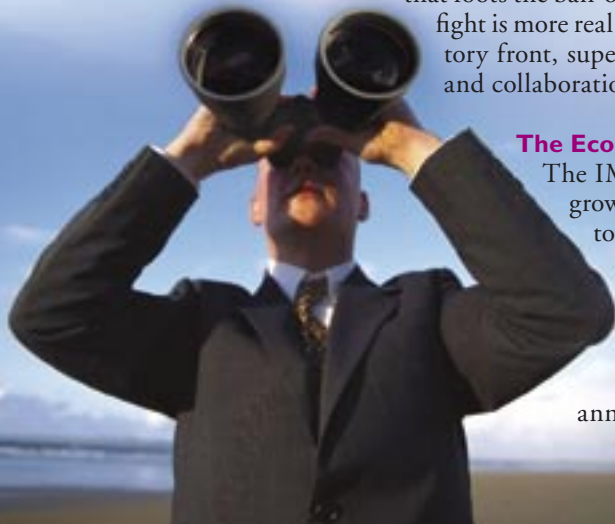
This year, more than **1,000** delegates are attending the **24th EAIC in Hong Kong**, which boasts the largest contingent of more than **200**.

The last EAIC, held in **Bandar Seri Begawan**, attracted **857** delegates.

Hong Kong is hosting the EAIC for the second time since **1986**. **Indonesia** will play host for the **3rd** time at the **25th EAIC**, to be held in **Bali**.

At last count, the EAIC boasts **925** corporate members and **600** individual members. **Hong Kong** has the highest number of corporate members at **157**.

Source: Sigma report



3 Rs in an Economic Crisis



As the financial crisis shows no signs of abating and as world leaders and international bodies try to work out new solutions to these problems, we bring you a view from an experienced insurance practitioner, **Mr Brian O' Brien**, Executive Vice President of Samsung Fire & Marine Insurance's Reinsurance & Innovation Department, who looks at the 3Rs in the crisis as it pertains to us in the insurance industry.

I doubt very much that when the EAIC conference organisers put their heads together to arrive at a theme for our conference, they had envisaged our world to be in the economic turmoil that it is today. The challenge of staying ahead has increased beyond all imaginations, creating an environment where the only certainty is uncertainty.

The financial crisis in its own right has already impacted the global insurance industry, whether through write downs on the value of derivatives backed by mortgage securities, reduced investment incomes and their impact on earnings, or a developing global claims exposure for D&O and E&O-type business.

Now that the financial crisis has triggered a wider economic crisis, the "R" word – Recession – is a reality already for many countries and the predictions are that it may well be an "R" word of global dimensions as we move into 2009, and beyond.

The economic crisis will of course embrace another "R" – Risk, the changing parameters of which will require constant and intense focus.

At the same time, as we move into the hectic end of year period another "R" word has a high profile – Reinsurance. We hear within segments of the reinsurance market of a bottoming market in terms of price, with some statements predicting double digit pricing increases. From a reinsurance buyers' perspective, one could be forgiven for remembering the saying "trouble never comes alone".

Recession

As I write this article, media headlines leap out at me, informing of "Fears of Bankruptcy Grip Builders", "Nearly Half of the Firms [in Korea] Expect Less than 3% Growth in 2009", and "KOSPI Plunges 3% on Concern Over Real Economy". Similar headlines have been charging at us week after week and no one is sure when these will end.

Even the growth engine of the world these days, China, is now showing industrial growth at a level described as a seven-year low, with the slowdown impacting every sector but oil. Expenditure cuts backs, increased unemployment levels, and reduced turnovers may well be common place as we go forward into the next 12 months.

worth 4 trillion yuan (nearly US\$600 billion), or about 15% of GDP. Though not all countries can muster such resources, increased government spending is on the cards to stimulate the economy.

The Leap to Insurance

The crisis has shown how internationally exposed the insurance business is, not only because there are many MNC players in the game, but also because insurers have exposures well beyond the risks assumed from their insurance policies.

Their most urgent need is to ensure that with the massive downturn in equity markets, insurers will be given some grace to value their assets adequately to meet solvency margin requirements. On the other hand, any regulatory softening can equally send out the wrong signals to the man in the street

In times of recession, there is no surprise, therefore, to find P&C premium income under negative pressure, while at the same time underwriting returns and ROEs deteriorating.

So the challenge to stay ahead will require the highest of constant focus on business fundamentals.

Risk

The economic crisis highlights the necessity to get risk assessment, risk measurement, risk capital allocation and risk management, right. The global financial industry, in its quest to grow and achieve constant bigger and better returns to investors and shareholders, slipped into the blindness of diluting or losing sight of the assessment, and quantification of entire risk exposure.

Now, with the added impact of a global recession, where risk will change, be it due to reduction in expenditure for risk management and house keeping, increases in the incidents of fraud, or inadequate sums insured due to currency fluctuation, keeping the finger on the pulse of risk will be critical. Enlightened companies will recognise that to gain competitive advantage and to achieve capital efficiency, an integrated process of risk management will be a key to the challenge of staying ahead, now and beyond.

Reinsurance

Wisely used, reinsurance should be an effective capital management tool. Its effectiveness as a capital management tool is naturally dependent on cost and the security soundness of the providers. As we enter into the December renewals, there are noises in some quarters of pricing increase.

At the same time, the insurance industry overall has had some shocks as to credit worthiness. For buyers of reinsurance, a question is how can a fair and reasonable price be achieved for reinsurance purchase requirements based on individual portfolio performance? And what strategy should be adopted in an environment where there is an uncertainty factor in the insurance industry on the vital issue of security soundness? Additionally, with all segments of the industry are feeling the pinch from reductions in investment portfolios, how can a rational approach to pricing be achieved so that the final premium payer is not encouraged to absorb more self risk at a time of great pressure from the recession as a whole?

Getting Back to Basics

The 3 Rs in an economic crisis are all interwoven in the intense challenge our industry is now faced with. A keen focus on the fundamentals of the business, strong integrated risk management and pragmatic approaches to business issues will all be necessary to stay ahead now and in the future.

whose confidence in the insurance industry has already been shaken when the future of AIG, the most popular icon of the industry, was in the air.

To go back to basics: insurance companies need to protect their assets and capital base, maintain liquidity, and mitigate the exposures to losses that may be developing. They have to be actively engaged in the market to protect ratings and to maintain the confidence of customers and distributors. A tall order no less.

continued from page 1

Welcome to Hong Kong!

The proud host of the 24th EAIC, Organising Committee Chairperson, **Ms Agnes Choi**, shares her experiences of planning the insurance event of the year.



What was the best and most memorable part about organising the 24th EAIC in Hong Kong?

The best part is having the chance to host this important event after 22 years. I have participated in many EAICs before and highly appreciate the impeccable organisation and wonderful hospitality shown by the host cities. When it was Hong Kong's turn to play host, I was thrilled to be given the chance to help in organising the event.

We are also very pleased with the speakers and panellists we have lined up. With the support of our member cities and the organising committee, we are able to have the top ranking executives of insurance companies and reinsurers addressing our conference. When I look at the list of speakers, I cannot help but feel enormously grateful to these insurance experts and prominent speakers for taking the time to come all the way to Hong Kong for this event.

The most rewarding part is receiving staunch support from fellow insurers. We were very lucky to have some very positive response from sponsors at the early stage which enabled us to work on sufficient resources. When registration began early this year, we saw the delegate numbers going up everyday, which was very encouraging. What pleases me most is that the conference has attracted delegates from 43 cities and this truly reflects the internationality of the conference.

What were some of the biggest challenges and how did you overcome them?

Unlike the past EAICs, we decided to form a very small group to make all the executive decisions regarding the organisation of the conference. The advantage is that we can make prompt decisions by shortening the turn-around time which saves a lot of time and effort on meetings and liaisons. But it also meant that we have had to take care of all sorts of things concerning the conference and this was the biggest challenge. Luckily, our very small team from the Hong Kong Federation of Insurers was a very efficient one, and we also appointed a very capable event organiser. They have definitely made my life much easier and I am very pleased with the outcome.

The 24th EAIC has attracted one of the largest turnouts – 1,100 delegates despite the difficult times. What is the secret of your success?

I am sure the theme and discussion topics do help a lot on this end. The list of heavyweight speakers and the prominent figures from the industry are also a draw. Besides this, the geographic location of Hong Kong has given us an edge. Being centrally located in the region, delegates can reach Hong Kong within four hours which definitely helped to attract more participants.

I would also like to think that we have done so well in our preparatory work and promotion that people simply want to come and support us!

What are your expectations of the EAIC's outcome?

The theme: *"Staying Ahead? – East Asian Insurers in the Era of Global Challenges"* embraces the three most pressing challenges that we are all facing in the current era – terrorism, global warming and the ageing population – which present both opportunities and challenges for insurance in both life and non-life sectors. I hope the Congress can provide a platform for everyone to share experiences and exchange insights. Moreover, delegates will be able to pick the brains of the experts and seasoned insurers on how to tackle these challenges and turning adversity into opportunities.

At the same time, our delegates will experience the vigorous hospitality of Hong Kong and bring home with them fond memories of the event.

What advice do you have for the Chair of the future organising committee?

Mr Paul Kong and the organising committee of the EAIC 2006 have shared with us some invaluable experience and sound advice. We would love to do the same for the next host city, Bali.

Insurance is a people's business and organising a conference for this industry is all about the people. My advice would be to get the right people to do the right job and make the right decision at the right time. This is what we have been doing for the past two years and it has worked so far.

Asia Performs Well in Competitiveness Rankings

As the financial markets unravelled in September, the World Economic Forum convened in the Chinese city of Tianjin to discuss emerging champions in the global business community. "This is probably the first transformational crisis of our globalised age," said Mr Klaus Schwab, Founder and Executive Chairman of Forum. "Many things will change."

This statement was reflected in the Forum's Global Competitiveness Report, released shortly after the Tianjin meeting, which showed that China had made it to the top 30 most competitive economies, displacing Thailand. Seven

other Asia-Pacific countries were among the top 30, led by Singapore and followed by Japan, Hong Kong, Korea, Taiwan, Australia and Malaysia.

Singapore, Hong Kong and Australia continued their ascent in the rankings, while Japan, Korea, and Taiwan dipped in their positions. Thailand, new entrant Brunei, India, Indonesia, Vietnam, the Philippines, and Sri Lanka made it to the top 100. Globally, all of the BRIC economies figured in the top half of the list of 134 economies, which was topped by the US overall.

We look at how the EAIC markets fared in the report.



Singapore (No. 5)

The city state is the top-ranked country from Asia on the strength of its institutional environment, moving up two places from last year as a result of a strengthening across all aspects of the institutional framework. Singapore is also placed for the efficiency of all of its markets – goods, labour, and financial – ensuring the proper allocation of these factors to their best use. It has world-class infrastructure, leading the world in the quality of its port and air transport facilities. However, Singapore's overall ranking is constrained by its domestic market size and mixed performance in macroeconomic stability.



Japan (No. 9)

The country enjoys a major competitive edge in business sophistication and innovation. Its overall performance, however, is dragged down by its macro-economic weaknesses. Financial markets also remain an area of concern, traced to a lack of trust in the banking sector. Japan's current ranking is a drop of one position since last year, with a weakening across a broad range of areas, mostly relating to the country's public institutions.



Hong Kong (No. 11)

Hong Kong leads the world in financial market sophistication and also benefits from very efficient goods markets and a high level of macro-economic stability. Competitive disadvantages stem primarily from its small domestic market size and its mixed performance in health and primary education, as well as higher education and training.



Korea (No. 13)

South Korea's strong position is derived from attributes such as its macro-economic stability and an environment characterised by government budget surpluses, which have led to the reduction of the public debt, a high national savings rate, and a very low interest rate spread. The country is also one of the most innovative in the world. Korea's competitiveness would be strengthened further by addressing a number of weaknesses, most notably inefficiencies in its financial and labour markets.



Taiwan (No. 17)

Taiwan draws its greatest competitive strengths from its education sector and related business innovation. It also benefits from high company spending on R&D and strong collaboration between research institutes and the business sector in innovation. On the other hand, financial



Malaysia (No. 21)

Excellent functioning of goods, labour, and financial markets has benefited Malaysia. Other strengths include the quality of the country's transport infrastructure and its strong business sophistication and innovative potential. On the other hand, efforts should be made in the area of education and in improving health. Also, greater fiscal discipline would better ensure sustainable macroeconomic stability in the future.



Thailand (No. 34)

Competitive strengths lie in its market size, efficiency of its labour market and good infrastructure. However, the country lags in technological readiness and in health. Some aspects of the financial market also require attention, especially the soundness of the banking sector. Given the political turmoil over the past year, the decline in the overall ranking this year can be traced in part to a weakening assessment of government institutions.



Brunei Darussalam (No. 39)

The Sultanate enters the rankings for the first time this year, buoyed by its strong macro-economic stability. However, important competitive disadvantages abound, particularly regarding the sophistication of business operations and strategy as well as innovation and goods market efficiency.



Indonesia (No. 55)

The republic enjoys competitive advantages in areas such as labour market efficiency, while main weaknesses lie in the areas of technological readiness, infrastructure, and the quality of public institutions.



The Philippines (No. 71)

The nation benefits from its relatively large market size and an improvement in its macroeconomic stability since last year. Main obstacles to competitiveness are related to the quality of the country's public institutions and a lack of efficiency in its labour market. In addition, the threat of terrorism imposes significant costs on businesses in the country.



Agnes Chang, Senior Underwriter, Swiss Re

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Endurance Reinsurance Brings Specialty Focus to Asia

Messrs **Hans Joachim Guenther**, Chief Underwriting Officer and Head of Reinsurance for Europe & Asia/Pacific, and **Patrick Aeschbacher**, Head of Reinsurance, Asia/Pacific, Endurance Specialty Insurance, share their plans and opportunities for growth in the region.



Mr Hans Joachim Guenther



Mr Patrick Aeschbacher

What is Endurance Worldwide Reinsurance's strategy?

HG: Our goal is to be recognised as the best specialty reinsurer in the world. To achieve that, we focus on an account management strategy where strong local relationships are coupled with the specialty expertise of our underwriters, claims and actuarial colleagues. With this model, Endurance Worldwide Reinsurance brings to our clients the power of a global specialty reinsurer along with depth of experience in the local markets.

How is the Endurance group positioned in the current financial crisis?

HG: We are in a strong position as we have always had a conservative approach to capital and investment management which has translated into a high quality financially strong balance sheet. Our exposure to financial institutions, and in particular those affected by the current global credit crisis, is very limited. This positions us very well to take advantage of opportunities to expand our reinsurance portfolio in the Asia Pacific region.

6 What is your staffing plan for Asia?

HG: Having the right people is critical to our success. We are making great progress in building an exceptional team of senior underwriters and actuaries to support Patrick in servicing our clients across the Asia-Pacific region.

PA: We are very pleased to have hired several experienced professionals with significant experience in the Asia-Pacific markets. Mr Kevin Quek is a Senior Account Underwriter with 16 years' experience in treaty underwriting and claims. Mr Pierre Balthazard has joined us as in a new role, Senior Reinsurance Pricing Actuary for Asia Pacific, with 13 years' experience, and we are looking forward to welcoming Mr Christian Ladoux in December as a Senior Account Underwriter. Christian brings more than 20 years in the reinsurance industry, writing treaty business with a focus on the Japanese market.

What do you see as opportunities in the Asia Pacific market?

PA: The growing commercial environment throughout Asia is fueling demand for more specialty reinsurance products. This growth presents excellent opportunities for companies like Endurance that can offer excellent financial strength and a broad multi-line and specialty capability through a network of international specialists. In addition to our core property and casualty treaty portfolios, Endurance Worldwide Reinsurance offers specialty reinsurance product lines, including property catastrophe, surety, aerospace, personal accident, marine and agriculture.

What other trends do you see besides growth?

HG: Reinsurance buyers are becoming more sophisticated and as a result, rates have come down to a level that is close to fair value for the coverage across almost all lines. We are also seeing a flight to quality because of the current global financial crisis and the catastrophe losses in this region, particularly the China winter freeze and the Sichuan earthquake. Clients will be more particular in choosing their panel of reinsurers and vice versa.

What do you see as the key to Endurance Worldwide Reinsurance's success in Asia?

PA: Building and maintaining strong relationships with our clients and brokers will be critical to our success. As we become geographically closer to these clients and bring to bear our thorough knowledge of the local culture gained through many years in the business, we will gain an even better understanding of their risk portfolios, tolerance levels and business models. This will benefit both us and our clients by differentiating our underwriting approach and also enabling us to deliver risk-management services throughout the year.

HG: Along with the depth of our specialty expertise, knowledge of local business practices and culture is essential. Patrick and his team bring a long history of the reinsurance clients in this market that will position us well to grow our reinsurance portfolio with clients in the region.

Congratulations to the Winners of the 12th Asia Insurance Industry Awards 2008!



Life Insurance Company of the Year

- **ICICI Prudential Life Insurance Co**

General Insurance Company of the Year

- **Tokio Marine & Nichido Fire Insurance Co**

Life Reinsurer of the Year

- **RGA**

General Reinsurer of the Year

- **Swiss Re**

Broker of the Year

- **Marsh**

Reinsurance Broker of the Year

- **Guy Carpenter & Co**

Loss Adjuster of the Year

- **Insight Loss Adjusters**

Educational Service Provider of the Year

- **Australian and New Zealand Institute of Insurance and Finance**

Innovation of the Year

- **Agricultural Insurance Co of India**

Service Provider of the Year

- **John Foord (Asia)**

Risk Manager of the Year

- **Tom Cohen of Swire Pacific**

Corporate Social Responsibility

- **Bangkok Insurance Public Co**

Insurance Personality

- **Joan Fitzpatrick**

QUIZ

To tease regulars and faithful attendees of the EAIC, here's a little quiz on EAIC trivia. The first five delegates to present the correct answers at the Asia Insurance Review booth will receive a complimentary CD-Rom containing all the articles published by Asia Insurance Review in 2007, worth US\$280.



1. How many times has Hong Kong hosted the EAIC and when?
2. Where was the last EAIC held?
3. When is EAIC Insurance Day celebrated?
4. Which is the largest EAIC insurance market (in terms of premium income)?
5. Which is the smallest EAIC insurance market (in terms of premium income)?

Two great reference tools – Now at a special price!

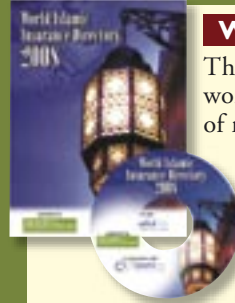
MENA Insurance Directory

This valuable comprehensive directory gives you a much-needed snapshot of the operators in the MENA region – a one of a kind compendium that encapsulates key corporate information in the MENA region with nearly 350 insurance and reinsurance companies across 19 markets. This directory has been most popular since its launch last year! Most CEOs serious about their business keep this tool handy for a quick overview as well as a reference point on the players in the market.



World Islamic Insurance Directory

There is no other directory in existence in the world that captures key corporate information of more than 130 Islamic insurance companies across 26 countries, giving a snapshot of the takaful arena, a hot area of interest right now. It represents a practitioners' reference guide, compiled by two partners with related experience in their own field – ARIG, one of the most recognised Arab-owned reinsurance groups, and MiddleEast Insurance Review – Incorporating Global Takaful, as a leading publication covering takaful developments across the world.



MENA Insurance Directory	Usual price	US\$480
World Islamic Insurance Directory	Usual price	US\$240
BOTH directories	Usual price	US\$720

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Flashback of Past EAIC Events

Taipei

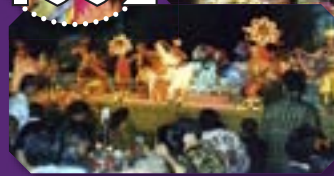
1990



Theme:
"Significant Insurance Developments in East Asia"

Jakarta

1992



Theme: "East Asian Insurance Industry Co-operation Response to a Changing Globalised Economy"

Seoul

1994



Theme: "The Challenges of the East Asian Insurance Industry in the Changing Global Market Environment"

Singapore

1996



Theme: "Towards a More Professional and Efficient Insurance Industry in a Rapidly Changing Environment"

Macau

1998



Theme: "Global Socio-Economics and Environmental Changes - What Impact on East Asian Insurers?"

Manila

2000



Theme: "Rebounding from the Asian Financial Crisis: Strategies for Continued Growth"

Tokyo

2002



Theme: "Challenges and Opportunities for Insurance in the Changing World of Financial Services"

Bangkok

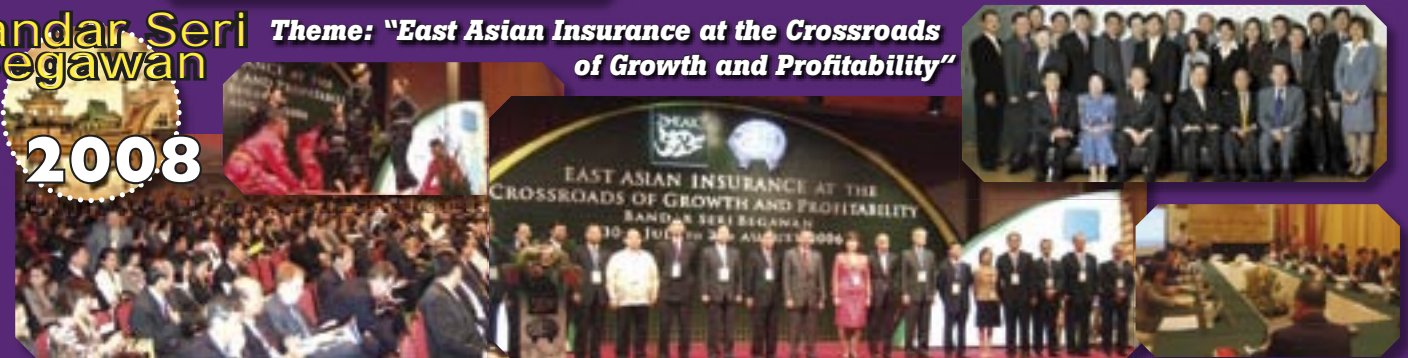
2004



Theme: "Asian Insurers in the New Financial Environment"

Bandar Seri Begawan

2008



Theme: "East Asian Insurance at the Crossroads of Growth and Profitability"

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