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INDUSTRY REDEFINED ALERT:

Stay Technical, but Get Rates Publicised

With all that jazz about the energy of Berlin being a city of new ideas with new knowledge and new contacts, the 43rd Executive Panel of World Leaders, this time comprising a stellar cast of some of the biggest players in the market, came down neat and straight on the traditional fundamentals. So high calibre was the Panel that they dared to be straight in their takeaway message with no frills or bells. They repeated in no uncertain terms that no matter how innovative one wanted to be, the basic survival strategy in the insurance industry is disciplined underwriting. The long and short of it all is that in insurance, one has to get back to basics in pricing the risk technically from no matter what angle one approached the business, said **Mr Nick Walsh**, Executive Vice President, AIG, who stressed that underwriting discipline should be placed ahead of growth.



Mr Nick Walsh

And the technical rates must be "publicised". The more publicised the rates are, the better will be the positive momentum, as it will force everyone to go for technical underwriting, said **Mr Jacques Aigrain**, CEO of Swiss Re. The publicised rate index would defy any underwriters or market-share hunter to claim credit to write risks below the "much publicised" rate. He lamented that the insurance industry was so far behind the other financial services in pricing its risks.

Another "new" is that one should be more rigorous in pricing the risks using scientific models and taking into account the risks exposures and the probability of the risks, said Mr Walsh, while Mr Aigrain added that the capital markets could be tapped to transfer some of the volatility in earnings.

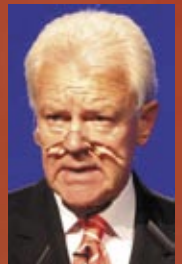
Cycles and Price



Mr Brian Duperreault

The panel tackled the question of whether the involvement of the capital markets can make the cycle disappear with the clear answer that the cycles will always be there as, at the end of the day, there will always be the challenge of the difference between the technical model price and reality of what clients can pay in the market. **Mr Brian Duperreault**, former Chairman of ACE and the incoming new Chairman of the IIS, said that in making profits in a year that the rates were high and the claims were low, the insurance company tended to put back into the system the profits made by lowering the price. These price adjustments invariably lead to the cycle. He felt that companies that succeeded in the long term are those that lose some money in

bad times and make more in good times. **Mr Karl Wittmann**, Panel Chairman, took the lone view that cycles were up to the underwriters who took their cue from the management and hence management can control the cycles.



Mr Karl Wittmann

Terrorism and Unpredictability

On the hot issue of terrorism, Mr Walsh, while noting that the insurance industry survived by underwriting risks that it could price correctly, said that as terrorism was so unpredictable a risk, there was a need for government involvement as the risk bearer of last resorts.

On the issue of regulations with the growth of domestic, regional and international rules, the feeling was that the insurance industry still had a long way to go to make its voice actively heard by regulators. Hence, there was a need for CEOs at every opportunity to make known their specific needs and wants in the direction of uniformity of regulations worldwide. Asia seemed to be moving in the direction of risk based rules, while Europe was going towards a model-based regime. The ultimate hope is that there will be one set of uniform rules to promote greater transparency and efficiency.

Looking at the emerging markets of India and China booming with growth in action and growth in size, **Mr Don Stewart**, CEO of Sun Life said, there is already a talent war occurring.



Mr Don Stewart,

Getting Numbers Rights

The Panel, in looking at redefining the industry, did look at the entire plethora of changes in the fast-changing risk landscape including globalisation, environmental, technological, socio-political trends, global warming, terrorism, growing interdependency of risks with increasing cumulative potential, greater and differing expectations of shareholders, regulators, rating agencies and stakeholders, changing demographics and longevity, increasing public awareness, and the growing role of capital markets. The answer from every angle was to get the numbers right in disciplined underwriting. And as Mr Stewart said, at the end of the day, it is giving the market the products it really needs and wants.



More Dialogue Will Enhance Regulation

“If governments accept responsibility for stability of society, they also must accept responsibility for economic stability,” stressed **Dr Thomas Miro**, Finance State Secretary of Germany in his opening address to more than 500 delegates of the 43rd IIS Annual Seminar.

“The fact is, although globalisation has been criticised for widening the gap between the well off and the not well off, it has led to more equality on an international level. Countries like China and India have improved significantly in terms of their quality of living as a result of globalisation, but it does not come without risks and dangers,” he warned.

Against this backdrop, sound regulation is required, and Dr Miro highlighted the importance of the involvement of market participants to find solutions that work. “For any regulation to be effective, the market must first accept that it is in their best interests, and effective regulation has to be based on extensive dialogue.”

He admitted that policymakers are facing the challenge of providing effective regulation to allow markets to flourish and reduce the risk of failure while, at the same time, offering accessibility.

“There was a need for a regulatory framework that mitigates risks and serves as a guide to market investments – one that creates self-confidence and strengthens individual responsibility.”

Dr Thomas Miro



“Time to make Friends”

In his welcome speech, **Mr Jorg Freiherr Frank von Furstenwerth**, CEO of the German Insurance Association, noted that looking beyond the domestic markets is becoming necessary, and with the imminent introduction of Solvency II, the need for increased information on a worldwide basis is crucial. Hence, the IIS is an excellent opportunity for the promotion of such information and mutual understanding.

Taking a leaf from the World Cup successfully hosted in Germany last year, where the slogan was “Time to make Friends”, and urged delegates to take the opportunity at the Seminar to make new friends as IIS is an excellent place to share new ideas with colleagues and competitors on a worldwide basis. So how many new friends have you made?

Beating the Cycles

At the press conference, the world leaders continued to defend the science of underwriting cycles, pointing out that, with the exception of aviation and excess of loss books, underwriting discipline is evident in the overall results of most major (re)insurers.

“We should not talk down the industry and its professionalism, stressed **Mr Karl Wittmann**, adding that cycles are part of the business.

Echoing this view, Swiss Re’s **Mr Jacques Aigrain** pointed out that cycles cannot be denied, and they exist in all forms of the financial industry, and not just in (re)insurance. “For now, reinsurers seem to be disciplined and although we may be less so in the future. However, we will not manage companies based on the expectation of miracles. Shareholders and ratings agencies expect us to put less capital to work in some lines and arbitrage in others, while keeping our eyes wide open in areas where it is soft.”

AIG’s **Mr Nick Walsh** added that in P&C business, there are variables other than price such as retention, deductibles and

self-insurance that have contributed to maintaining price levels and have made a big difference to the impact on losses. As for the aviation industry, which is a victim of cyclical behaviour, he noted that historically losses of approximately 22 airlines annually is expected and, in recent years, this number has reduced impacting rates.

Mr Brian Duperreault, former Chairman of Ace, said to the laughter of the room that underwriting discipline is just not practised by many during bad times, although most of the industry acts rationally.

Presenting his take on cycles in the life business, Sun Life’s **Mr Don Stewart** said that group life business has similar characteristics as it is annually renewable, and thus witnesses some cyclical pressure. But the life market deals with this by not selling commodity type products. “We recognise the cyclical pressure. It is interesting to look at the US where third-party distributors have embraced technology, thus placing pricing pressures on particular sales channels. We may see in future, pressures similar to the P&C business, if the US industry is any guide,” he added.



The Middle East Beckons...via Jordan.....



The Middle East, with the petrodollars being ploughed back for infrastructural and developmental projects, is the "new star" of the global economy. Even on the insurance front, there are several multinational corporations queuing up for licences, while many are said to be considering. In that race for regional hubs, the Gulf Cooperation Council

(GCC) markets are bringing in names – Bahrain, Dubai and Doha. Here, we bring you a special close-up on yet another regional centre for the Middle East and North Africa region – Jordan with its well-educated population base, strategic location and access to both markets and free trade agreements. It is being hailed for its "model regulatory framework" that drives business.

There are "regional hubs and regional hubs", and Jordan offers an interesting and promising complement or alternative. As experience around the world has shown, there is no finite number for possible regional hubs as each caters to the unique set of needs of the individual users. In Europe, there is London, Paris, Zurich and even Frankfurt. In Asia, there is Hong Kong, Labuan, Seoul, Singapore, Shanghai, Taipei and even Tokyo on the first rung and, to an extent, Sydney as well. In the Caribbean, there is Bermuda, Bahamas, Barbados, Cayman Islands, Virgin Islands, and the list can go on.

So What Does Jordan Offer?

One of the surest assets of Jordan as a choice for regional centre is the proactive Insurance Commission which is business-responsive, but tough at the same time. It is led by His Excellency Dr Bassel Hindawi who is active not just in the country but in the region, having spearheaded the setup of the Arab Forum of Insurance Regulatory Commissions (AFIRC) and currently being its Chair, as well as internationally a board member of the International Insurance Society (IIS) and the International Association of Insurance Supervisors (IAIS) Exco. A driven leader who modernised the insurance regulatory body into an independent commission, Dr Hindawi is determined to bring

the world to Jordan to use it as a complementary regional base to serve the Middle East and North Africa (Mena) region with a win-win multi-centre strategy.

When asked what makes Jordan a regional centre, his instant response is a litany of pluses: "The political stability, security, geographic location, proactive macroeconomic policies, ongoing integration with the global economy, adherence to free market principles, a skilled labour force and ongoing government reforms to create a favourable climate for investments with a more efficient and transparent business environment, improve public administration, modernise the education system and exploit technology and use e-government."

The stress is on free enterprise, individual initiative and market-driven business to underpin the economy. The Government has even turned Aqaba into a liberalised, low-tax, duty-free and multi-sector development zone with a world-class infrastructure. And lastly, there is the human draw of Jordan's relatively young population of 5.4 million, recognised as one of the most educated and empowered societies in the Middle East, with the highest level of literacy and a strong female participation in the workforce.

There are over 1,070 international businesses and regional offices and 550 registered commercial agents representing international firms operating in Jordan.

Jordan: The 10 Reasons

- ❖ Its strategic location near Asia, Africa, and Europe with its network of linkages and Free Trade Deals
- ❖ Abundance of space and land
- ❖ Access to foreign markets
- ❖ Competitive labour costs with abundant labour
- ❖ Conducive investment climate
- ❖ Full foreign ownership allowed
- ❖ Transparent and predictable business environment
- ❖ International investors seeking to diversify their portfolios are offered excellent opportunities in terms of customs, tax holidays, income tax exemptions and unrestricted transfer of capital and profits in most major sectors
- ❖ Regional offices and offshore firms treated on an equal footing with Jordanian firms
- ❖ Jordan is an ancient land yet a modern country where East and West meet in astounding harmony

Come Check It out

Extending an invitation with open arms, Dr Hindawi said: "We offer Jordan as an opportunistic and efficient market in the region for (re)insurance and other related services.

"Jordan is a small market with big hopes and strong potential. It remains one of the most promising and emerging markets in the Middle East and North Africa as it plays a pivotal role in the economic development and political stability of the region. With its large pool of high-calibre intellectual and professional expertise, Jordan is a major supplier of brainpower to neighbouring Mena countries. The low 1% penetration rate indicates a huge potential for growth in the regional insurance markets. So start now, to be a success in business, to be daring, to be first, to be different."

Increase your competitive edge!



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Monte Carlo Rendezvous

Monte Carlo, Monaco,
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While you were enjoying Berlin, seven new wonders of the world were chosen, after 90 million online votes had been cast for 21 sites.



Petra in Jordan



The Colosseum in Rome



Peru's Machu Picchu



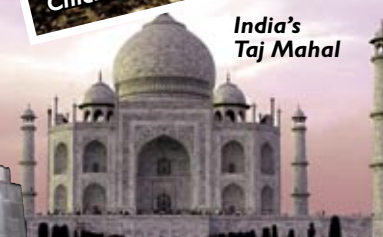
The Great Wall of China



Mexico's Chichen Itza pyramid



Brazil's statue of Christ the Redeemer



India's Taj Mahal



Cocktail Hour at the IIS

GERMANY INSURANCE NUMBERS

The German insurance industry is the **fifth-largest** in the world and **third-largest** in Europe.

There are more than **1,600 insurers** in Germany.

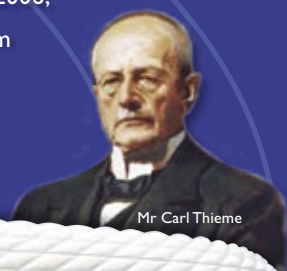
The non-life insurance industry ranked **Number 1 in Europe** and **Number 2 in the world** after the US.



Life premium is **US\$94,911 million** while non-life premium is **US\$109,633 million** in 2006.

Total premium is **US\$204,544 million** in 2006, a growth of about **3%** from 2005.

Munich Re was founded by **Mr Carl Thieme** in 1880 who also founded **Allianz** in 1889.



Mr Carl Thieme

Germany has **5.49%** of the world market share.



The Walking Man statue at Munich Re's headquarters



The Allianz Arena – a soccer stadium in Munich