Published by: Asia Insurance Review
Sponsors: Guy Carpenter, Validus Re
Ratings Partner: A.M. Best
Supported by: Singapore Reinsurers' Association, RBAS
Media Partner: Middle East Insurance Review incorporating Global Takaful

Innovate to compete

The rate concerns will never ebb. Although as Mr Conan Ward, CEO, Validus Re, puts it, the capacity requirements in Asia, given the growth in GDP and natural perils exposures, will inevitably go up. To him, it is just a question of "being patient and writing some profitable business. Eventually, the capacity needs will be such that the pricing will become more stable in the future".


Mr Conan Ward

But until then, the pressure on rates remain. It is ironic as insurance is often never about rates. It is more about providing peace of mind and protection to ensure that the wheels of society and economy can move without undue stress and worry over the risks involved.

Yet when it comes to buying reinsurance, the insurance professionals are always talking about rates, rates, and rates! And it gives the wrong impression that price is all that matters in reinsurance. Reinsurance is a unique business and really needs specially trained people to man it. Yet the marketing hot shots have their field day in insurance. Why? This should be a key focus at today's discussions on how the economic cost of capital becomes a sub-text of marketing and how Asia is always treated with kid gloves, given its super-sensitivity to price.

The maths of penetration

Statistically speaking, there is tremendous room for growing the business. In Asia, only 1.88% of the direct insurance business is reinsured. The reinsurance pie in Asia is said to be only US$17.56 billion according to figures released at the Monte Carlo Rendez-vous. Surely there is tremendous scope to expand this share? This is way below the world average of 4.2%. Why is that so? Are Asian insurers retaining too much business? This is not true other than for the bigger highly capitalised big-sized players. The statistics could be somewhat flawed as the aviation and shipping and other petrochemical businesses going directly to the international markets are not captured in these statistics either. But the point is emphatic that reinsurers are not doing enough to expand the portfolio of businesses reinsured.

In the Middle East for instance, the percentage of reinsurance is much higher at 19.23% ($2.5 billion) out of a premium base of $13 billion, said the Gulf Arab Insurance Federation which lamented that only 10% of the reinsurance was going to regional reinsurers. In the Middle East, primary insurers are said to even include reinsurance commissions as part of underwriting results. Hence, the dynamics there is somewhat different where several insurers are still seen as largely frontiers.

Making reinsurers more innovative

So why are not many reinsurers coming out with new products in reinsurance to lure more business from primary insurers? Globally there are also attempts by reinsurers to deal direct with the big business entities. Will Asia catch on?

Most reinsurers are gunning for the same concentrated pie. As textbook economics will say when supply outstrip demand, prices fall. Hence price becomes depressed and keeping costs down become a major part of the strategy. Given the huge uncertainties relating to quantity and quality of data, rates can be defended in analytical terms and not as gambling on Mother Nature.

So whose call is it to make reinsurers more innovative? Can reinsurers innovate? Why are reinsurers stalling in the rush to come out with innovative new products and services? Was ART the last burst? Will the lessons learnt from the global financial crisis relating to CDOs and CDCs have dampened the spirit of innovation?

The colours of change

With global warming, terrorism and increased natural catastrophes turning the business on the head, it is perhaps time to look at new strategies in locking in long-term partners beyond just one-year deals. As the Asian reinsurance old hand, Mr Kenneth Ng, Chairman and CEO, Taiping Re, said: "We believe that reinsurance is a long-term business. A long-term business model would not be possible without long-term business partners." Hence, they are ready to price the business to help "to be accommodative to our long-term business clients in overcoming the prevailing difficult period" as long as it was "justified and commercially viable".


Mr Kenneth Ng

There are, of course, several examples of reinsurers being innovative and client-responsive in different ways beyond price. In this context, some regional reinsurers do offer value for money in terms of excellent services and support, including staff training and benchmarking beyond just reinsurance coverage.

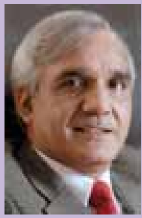

Dr Ludger Arnoldussen

Adding value

As Dr Ludger Arnoldussen, Munich Re Board Member for Asia, said, throughout Asia Pacific, they are seeing much more demand for added services, be it underwriting support or consultancy on efficient risk capital management. He added: "Our clients are starting to recognise reinsurance arrangements as a strategic part of their overall risk and capital management, other than just a pure transaction. Given such change of mind,

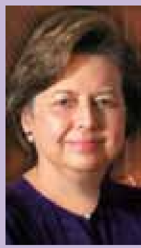
continued on page 2

COMMENT The impact of the global financial crisis



"Amid the global recession, the Indian insurance sector, currently in a transitory phase, has stood its ground. The global insurance sector too has weathered the storm well, as the basic core business model of insurance has not been questioned and insurance underwriting has not faulted. However, it is time to formalise strategies to face similar risks in future. As for India, post-nationalisation has led to a stable and strong insurance infrastructure, while liberalisation was cautious and gradual. The growing middle class and infrastructure development have provided opportunity to players."

Mr Yogesh Lohiya, Chairman and MD, General Insurance Corp of India (GIC Re)



"The effects of the crisis on the financial systems and the re-thinking by the international community on the issues that have surfaced during the crisis will fundamentally change the future financial landscape... Emerging economies, in general, and Asia in particular, have shown a high degree of resilience. The financial intermediation in most emerging economies have remained undisrupted and have continued to support the domestic economic activity. While the emerging economies are expected to lead the recovery process, there needs to be a reassessment of the strategies for future growth. Over-reliance on export orientation to the traditional markets would increase the vulnerability to external developments."

Tan Sri Dato' Seri Dr Zeti Akhtar Aziz, Governor of Bank Negara Malaysia

"Not all is doom and gloom as the world economy has been showing signs of recovery with the international efforts to counter the global slowdown. I am confident that 2010 will see a small positive growth, but there are no real signs of brighter economic prospects in the long term. There are fears of a second-dip recession should there be a premature withdrawal of stimulus, or if monetary policies are tightened. Hence, most countries would do well to continue with stimulus and low interest rates until recovery has been locked in."

Tan Sri Sulaiman Mahbob, Chairman of Malaysian Industrial Development Authority

"Some governments in this region have some headroom to stimulate the economy through a series of fiscal measures, while others are highly constrained by a number of economic factors and so will be slower to recover."

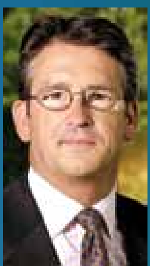
Mr George Kabban, CEO of UIB (DIFC), on impact on Asia and Africa

from page 1

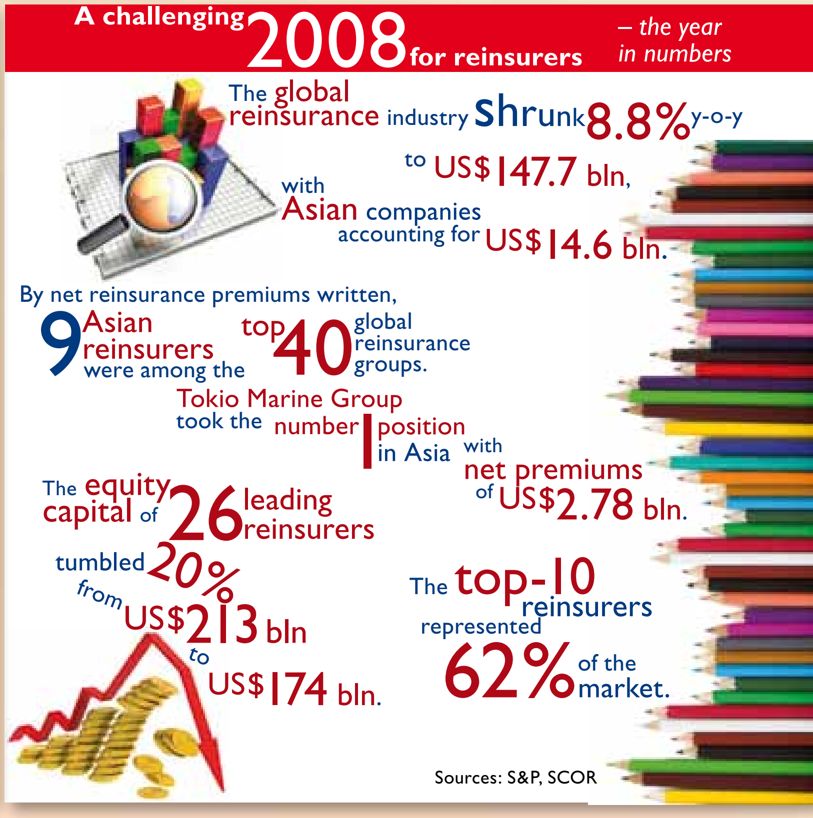
a provider like Munich Re can add enormous value to a client's lines of operations. This could be through solvency consulting, natural catastrophe modelling, new products & distribution, technical support at the front line and, ultimately, our strong balance sheet."

On the Swiss Re front, Mr Martyn Parker, its Executive Board Member/Chief Executive Officer, Asia Division, said: "We will deliver client-specific solutions, rather than adopting a 'broad-brush' approach across industry segments. We will work closely with our clients to develop both traditional and innovative solutions that respond to their individual needs." But their focus is to continue to deploy capacity to those clients and lines with the highest economic returns, after cost of capital.

So make room for innovation even when fighting on rates!



Mr Martyn Parker



QUOTE of the day — What is AM Best's outlook for the Asian reinsurance market?

Brought to you by AM Best

AM Best's view on the Asian reinsurance market is stable. Although many of the Asian reinsurers posted a decrease in capital and surplus driven by realised and unrealized investment losses in 2008, the capital level of these reinsurers has been restored in the first half of 2009.

No major rating actions were taken over the past 18 months, and the current risk-adjusted capitalisation supports the respective ratings of the rated reinsurance companies in Asia. Going forward, as AM Best expects that reinsurance companies will take a cautious approach towards investments, operating performance of the reinsurers will be driven more by underwriting.

Mr Billy Kwan, Senior Financial Analyst, AM Best

Guy Carpenter: Delivering superior solutions

Mr James Nash, Guy Carpenter's Managing Director and Regional CEO, Asia Pacific, discusses Singapore's attraction as a reinsurance centre as well as the company's value proposition and its priorities going forward.

Asia Insurance Review: **From a broker's perspective, what are your views on the importance of Singapore as a reinsurance hub in Asia?**

Mr Nash: Singapore provides the reinsurance industry with a stable environment, easy access to Asian markets and a local talent pool of reinsurance professionals. These qualities, combined with a supportive regulatory and educational environment, have made Singapore a natural choice as a first point of entry to Asia for many international reinsurers.

The future challenge for Singapore is to remain relevant as Asian economies and the (re)insurance markets across the region expand and seek to develop their own centres of excellence.

2008 was a difficult business year, what lessons have Guy Carpenter learnt? What are your comments on broker consolidation occurring in the recent years, and how is Guy Carpenter positioned to succeed?

The financial crisis has highlighted one of the functions of reinsurance, namely that of contingent capital. Despite the much talked-about convergence between capital markets and the reinsurance industry when the debt and equity markets were effectively closed during much of 2008, the reinsurance market remained open for business. Our industry has been a leader in understanding risk and managing it, and this was showcased over the last few years.

While consolidation is part of business life in any industry and reinsurance broking is not immune to this, our focus remains on our clients.

Do you think the recent catastrophes in Asia will put pressure on rates in the upcoming renewals? What are your expectations?

For most territories that renew on 1 January, the supply of reinsurance capacity should exceed demand. With a recovery in the broader economy and financial indexes, the reinsurance community is also more buoyant. As a result, we may see some rate adjustment based on loss experience in territories affected by recent catastrophes, but as a general rule 2010 is likely to emerge as a buyers' market.

What are your priorities going forward?

The first is catastrophe reinsurance. As one of the leaders in this, our aim is to bring cost-effective catastrophe solutions to insurers and governmental institutions, thereby expanding the penetration of risk management at a country level to foster continued economic growth across the region.

The second is agriculture. As Asia expands, the importance of the agriculture sector is increasing, and the role that insurance and reinsurance plays will be enhanced.

What are the opportunities for reinsurance brokers in Singapore and Asia, and what value can Guy Carpenter bring to clients?

The Asia region is a mixture of mature and emerging insurance markets which presents a unique set of challenges for reinsurance brokers. Our value proposition encompasses executing superior reinsurance solutions, quantifying the financial impact of those decisions, and developing and delivering intellectual capital to clients within our region.

Much of the preparatory analytical work for January 2010 has been completed, and our task is now to evaluate market conditions and advise clients of strategies to secure the most favourable reinsurance terms.

> "... we may see some rate adjustment based on loss experience in territories affected by recent catastrophes, but as a general rule 2010 is likely to emerge as a buyers' market."
>
> **Mr James Nash**,
> MD and Regional CEO, Asia Pacific,
> Guy Carpenter,
> on rates in the coming year

Optimism sizzles @ SIRC welcome cocktail

Renewed optimism bloomed at the 10th SIRC welcome cocktail as delegates flocked to the opening fete of the much sought-after conference. It was an apt time for renewing old ties and forging new ones as everyone savoured the night looking forward to the yearend renewals and to a much better year ahead.






















Editor-in-Chief: Sivam Subramaniam • Deputy Editor: Wong Mei Hwen • Journalists: Shakunthala Ashoka Raj, Manuelita Contreras, Min Yong • Design & Layout: Charles Chau