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EXECUTIVE PANEL ON ASIA'S POSITION IN THE REINSURANCE CYCLE

Asia's growth story – too good to be true?

Are the insurance and reinsurance industries really through the worst of the crisis? Is Asia really the land of opportunities, a chip in the diversification strategy of global players or has it outdone itself with pricing pressures?

These topics were debated during yesterday's panel discussion on Asia's position in the reinsurance cycle. According to **Dr Ludger Arnoldussen**, Member of the Board of Management of Munich Re, we are through the worst of the crisis, but the impact still varies from player to player. The long-term effect of depressive growth rates on the industry, he added, will also see increased competitive pressures.

Moreover, this will be compounded by increased regulations as RBC and Solvency II come to Asia, he added. "There will be significant pressure on capital requirements and, in the next few years, we will see significant consolidation in Southeast Asia and increased needs for reinsurance."

His predictions for the upcoming renewals centred on two markets: a "softened sideways market for standard business and a continued hard market for large nat cat exposures."

It is a time of "rational exuberance" for the reinsurance industry, said **Mr James Nash**, CEO Asia Pacific, Guy Carpenter, borrowing a term from Alan Greenspan. Although the industry remains excited about growth in Asia, there has been a rational approach to pricing in markets with significant cat exposures, like China. The challenge, therefore, is how to maintain this "rational exuberance", he added.

Not this year

The reinsurance market will have to wait three to four years to reach the level of adequate technical price. The market, said **Mr Patrick Thiele**, President & CEO of PartnerRe, in his industry keynote address, remains very competitive.

On the global non-life reinsurance stage, slow recovery from recession is leading to slow premium growth for both insurers and reinsurers, but demand for peak risk reinsurance is stable. There is a moderate rise in retentions, and specialty lines insurers continue to heavily use reinsurance.

In Asia, Mr Thiele sees an increased economic resilience, with the region registering a stronger initial recovery than expected. Private wealth is driving growth lines such as motor, savings and investments, and start-up of new companies is on the rise. However, he expects foreign participation in domestic insurers and consolidation in smaller markets to slow down.

Foreign reinsurers will further seek diversification in the region, while domestic investors will continue to be attracted to Asian reinsurers, added Mr Thiele.

A diversification play?

But with all the talk about Asia being the golden goose, is the region just a chip in the diversification game? Reinsurers, said **Mr Hans-Peter Gerhardt**, CEO of Paris Re Holdings, "sit at the end of the food chain. Does (growth) translate into business opportunities? Asia is the 'promised land', (but) margins have tended to be thin. When business comes in on the facultative side, I sometimes wonder if it is the rate or the commission I am looking at."

The other issue he pointed out was data quality: "having good, reliable data is a key challenge in properly pricing and rating our business."

The battered lines

Globally, the line hit the hardest by the financial crisis was credit insurance, said Mr Gerhardt. The other classes significantly affected by the crisis were financial institutions' D&O and E&O, the casualty business and the life side, especially annuity business, he added.

Dr Arnoldussen considered life insurance the most affected business not only in developed markets, but also in Asia. "I see a continuing pressure on the life side due to the low interest rate environment," he said. General D&O business for industrial companies also continues to feel pressure from the financial crisis, while the engineering business looks set to suffer a long-term effect from it.

In Japan, motor and commercial industrial lines have suffered significantly, said **Mr Takashi Oka**, Tokio Marine & Nichido Fire Insurance's Head of Reinsurance.

Meanwhile, **Mr Rudi Spaan**, Chartis Insurance's Regional EVP, Commercial Lines, Energy, Marine & Aviation, observed that the economic downturn has led local primary markets to venture into risks that they may not necessarily have the expertise in.

"In the last 12 months, we've seen several insurance companies venturing into difficult liability lines such as export credit liability to the US," he said. This, according to him, has been partly driven by these insurers' reduced income as the economic downturn battered their bread-and-butter lines.

Still promising

Despite weak technical pricing, overcapacity and low barriers to entry, Asia's growth momentum remains strong, panelists concurred yesterday. Therefore, as Dr Arnoldussen summed up, companies "will need to have the best know-how to get a chunk of this growth."

(L-R): Mr Henry Keeling (Session Chairman), Mr Hans-Peter Gerhardt, Dr Ludger Arnoldussen, Mr Takashi Oka, Mr James Nash, Mr Rudi Spaan

Capital hopes and fears

"There has never been such fear in the financial sector over the cost of capital", quipped **Mr Michael Butt**, Chairman of AXIS Capital, as he opened the panel discussion on "Capital – at what costs?" yesterday. "Everyone is petrified that no capital will be available."

But as **Mr Clement Booth**, Member of Allianz SE's Board of Management, pointed out, despite the events of the global financial crisis, "the world didn't come to an end." Moreover, "the insurance industry came through the crisis quite well. On the primary insurance side, pricing is expected to be stable."

Propping up the weak – at what cost?

Not surprisingly, the discussion strayed towards regulatory requirements, as some complained about a "regulatory overload" in the wake of the financial crisis. "I am against any policy to prop up the weak by introducing additional requirements for the rest of the industry," said Mr Booth.

Dr Roger Sellek, Managing Director, Global Financial Services, AM Best opined that too much can be just as dangerous as too little. "In the long term, where (over-capitalisation) may take us are companies defaulting, insolvencies, consolidation and less customer choices. So, more capital is not the solution."

Consolidation may not be the solution

Mr John Tan, CEO of Asia Capital Re, agreed with Dr Sellek that consolidation may result in lack of options for consumers. "For the market to survive and balance, it needs not just a minimum capital but an optimum capital."

Another concern is that "with increased credit sensitivity, it may be more difficult for smaller players with little financial strength to survive in the medium term." Hence, it was comforting to hear from the China Insurance Regulatory Commission (CIRC) that RBC was not high on the agenda as it would squeeze out the smaller players. "They want to see a more diverse market," noted Dr Sellek.

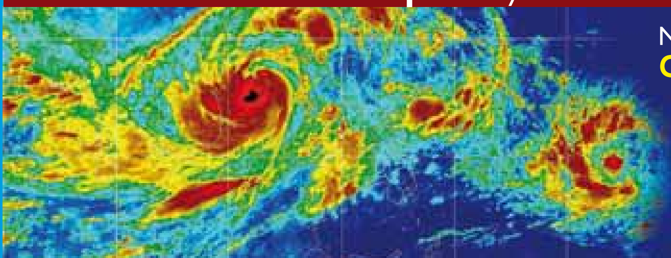
Problems may not escape the bigger players. "Large companies today suffer from 'diseconomies of scale' – they become so large that they lose their focus," said Mr Booth. "Smaller companies are needed for new ideas and a vibrant industry.

"Yes there will be consolidation arising from dislocation (in the market)," he added. "But it is important that each merger leads to new opportunities for others to get involved."

> "Cat bonds have fared well as investments despite the crisis. The market has improved greatly during 2009 and the Q4 pipeline is large. The case for transferring risks to the cat market remains convincing."
>
> **Mr Michel M Liès**,
> Member of the Executive Committee and Head of Client Markets, Swiss Re

(L-R): Mr Clement Booth, Mr John Tan, Mr Michael Butt (Session Chairman), Mr Michel M Liès, Dr Roger Sellek

Asia: Natural Catastrophes *by the numbers*



Natural catastrophes **cost** insurers around **1%** of non-life premiums per year in India, Turkey, Bangladesh, Indonesia, Iran, Thailand and the Philippines.

Insured natural catastrophe **losses** in Asia and Oceania have exceeded **US$2 billion** per year since 2005.

Typhoon **Morakot**, Taiwan's worst storm in **50 years**, led to more than **600 deaths** and around **US$3.1 billion** worth of **economic losses**.

4 typhoons – Ketsana, Parma, Lupit and Mirinae – battered **the Philippines** from late September to October this year.

Total economic losses from destroyed buildings, as a result of the **3 earthquakes** that hit Indonesia in September and October this year, could reach **US$146.6 million**.

Sources: *sigma*, Fitch Ratings, news reports

QUOTE of the day

What are some of the issues on reinsurers' minds? *Brought to you by AM Best*

Although financial markets around the world appear to be showing some signs of recovery, there is still some nervousness among reinsurers. There are a variety of concerns ranging from worries about over capacity leading to competitive pricing and volatility associated to foreign exchange markets.

Nevertheless, despite these concerns, the reinsurance industry knows it cannot risk being inward-looking. The global recession is likely to increase the focus on emerging markets as the key to growth for many reinsurers.

Ms Yvette Essen, Head of Market Analysis, AM Best

SRA: Turning 30 with a brand new look

To mark its 30th anniversary, the Singapore Reinsurers' Association (SRA) decided to create a new logo to reflect the identity of the association in the current day environment, says Chairman Christopher Ho as he traces some of the achievements made so far.

"With modern approaches, fresh challenges and forward thinking, the reinsurance market has come a long way," said Mr Ho. "It has seen companies adopt different business models stressing on transparencies, accumulation controls, mathematical and actuarial models to evaluate business. These changes have made it timely for us to re-brand."

Significance of the logo

A logo competition attracted over 20 entries from graphic art students.

Elaborating on the logo, Mr Ho said: "The new logo, depicted by a constellation of stars, signifies the Association's essential networking with its member companies and industry partners. The constellation of stars is also a metaphorical representation of the core attributes of recognition and assurance."

The different shades of blue for the stars signify strength and steadfastness yet remain light and friendly at the same time. The logo also conveys confidence. Together, the elements of the logo reflect the identity of SRA as a society which performs a pivotal role in the reinsurance industry in Singapore.

Mr Christopher Ho

Biggest achievement

On SRA's biggest achievement, Mr Ho, who is also the CEO of Paris Re Asia Pacific, said it had to be the Singapore International Reinsurance Conference (SIRC).

"The bi-annual conference is an established event in the calendar of the reinsurance industry in Asia. SRA, in collaboration with the Reinsurance Brokers' Association (Singapore) (RBAS) and the Singapore College of Insurance (SCI), ensures that the conference remains relevant. Delegates attending the conference come with a purpose – to keep abreast of the developments and trends, and to meet and network."

SRA wants to continue this great achievement, he noted, adding that the SIRC has been attracting roughly equal numbers of reinsurers, brokers and ceding companies.

30 years and beyond

To reach greater heights, SRA will continue to promote training and education to raise professional standards in the industry. This also includes attracting new talent and this has been done in collaboration with the General Insurance Association (GIA) of Singapore and other institutions, said Mr Ho.

"A number of our member companies participated in GIA's Global Internship Program. This is the direction we will be pushing for and more of our members will take part in this."

Besides education and training, SRA also hopes to engage reinsurers in the region such as in Hong Kong and Labuan. Mr Ho said: "We want to share information and explore areas of co-operation."

With these budding plans, SRA looks set to continue playing a pivotal role in the reinsurance industry.

singapore reinsurers' association

SRA's new logo

Asia's insurance stars shine despite gloom of recession

The travails of the global financial crisis notwithstanding, Asia's insurance industry breezed ahead with many excellent performers and stars at the 2009 Asia Insurance Industry Awards Dinner at the Pan Pacific Hotel, Singapore with some 600 dignitaries from the region attending.

The prestigious annual Awards are very keenly contested by players in the Asian insurance markets in the region each year. Selection is made by peers in the industry with 24 distinguished leaders serving on the Panel of Judges chaired by the Insurance Commissioner of Taiwan. This year, the dynamic Indian market saw the most winners for the Night. Four out of the 14 categories were swiped by the Indian insurance industry which grabbed the Innovation, Risk Manager, Personality and Lifetime Achievement Awards.

The prestigious Life Insurance Company Award went to Kyobo Life for reporting results that went against the grain of the crisis, while the General Insurance Company Award went to Taiwanese insurer, Cathay Century Insurance for its outstanding results and range of services.

The 2009 Asia Insurance Industry Awards was jointly organised by Singapore-based *Asia Insurance Review* and London-based *The Review Worldwide Reinsurance* magazines.

THE WINNERS

LIFE INSURANCE COMPANY OF THE YEAR
Kyobo Life Insurance Co Ltd

GENERAL INSURANCE COMPANY OF THE YEAR
Cathay Century Insurance Co Ltd

EDUCATIONAL SERVICE PROVIDER OF THE YEAR
Australian and New Zealand Institute of Insurance and Finance

INNOVATION OF THE YEAR
Max New York Life Insurance Co Ltd

SERVICE PROVIDER OF THE YEAR
Manheim Asia Pacific

RISK MANAGEMENT: SPECIAL AWARD FOR OUTSTANDING CRISIS MANAGEMENT
Mr Karambir Singh Kang,
Taj Mahal Palace and Tower Hotel

LOSS ADJUSTER OF THE YEAR
Maphilindo International Sdn Bhd

BROKER OF THE YEAR
Marsh

REINSURANCE BROKER OF THE YEAR
Aon Benfield
Guy Carpenter

GENERAL REINSURER OF THE YEAR
Allianz SE Reinsurance Branch Asia Pacific

LIFE REINSURER OF THE YEAR
Munich Re

CORPORATE SOCIAL RESPONSIBILITY AWARD
Mitsui Sumitomo Insurance Group

PERSONALITY OF THE YEAR
Dr David Mark Dror,
Micro Insurance Academy

LIFETIME ACHIEVEMENT AWARD
Mr Ashok Goenka
Mr Chia-Lu Wu

LLOYD'S Coffee SHOP

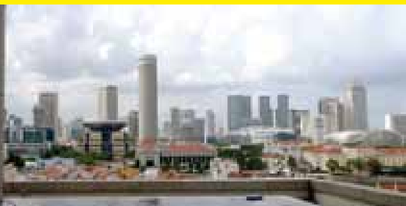
The Lloyd's temporary coffee shop at the SIRC

Lloyd's in Asia *figure-atively speaking*

Lloyd's Asia was established in Singapore in **1999** to give Lloyd's an underwriting base in the region.

Lloyd's Asia enables its syndicates to write both onshore and offshore business from Singapore by setting up local syndicate service companies.

These must be **100%**-owned by a Lloyd's managing agent.



Lloyd's Asia's gross premiums in 2008 soared to US$ **163.8** mln, up from US$ **46.9** mln four years ago.

From just **3** syndicates in **2005**, Lloyd's now has **15** syndicates in Asia.

In 2007, it introduced a **3-year plan** to ensure that its participants could work together to leverage their combined strength under the Lloyd's banner.

Atrium Insurance Agency (Asia) and Argenta Underwriting Asia are the latest **2** additions.

Lloyd's central organisation has **2 roles:**

- To make sure performance and standards are kept to the expected level
- to make the whole greater than the sum of the parts

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