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Standing on the brink of greatness


Ms Inga Beale

Insurers have an opportunity to create Asia's "golden age of insurance" by helping its economies and businesses become more resilient to shocks as the world's economic gravity shifts towards this region, said Lloyd's Chief Executive **Inga Beale** in her keynote address yesterday.

As economic growth creates more assets which require protection, the industry can move to the next level by successfully demonstrating the value of insurance to businesses, governments and society at large.

One area where insurance plays a crucial role is in mitigating the impact of business interruption, which was well demonstrated during the Japanese Tsunami and Thai Floods in 2011.

"Business interruption is perhaps a particularly Asian risk given the high level of natural catastrophe events and globally significant manufacturing," said Ms Beale.

She added the general perception that such products are meant for the big companies is a "huge mistake", given how globally connected SMEs have become. Hence, there is a big opportunity for insurers to educate businesses on their supply chain risks.

Mitigating effects of Nat CAT

Another potential area to capitalise on is the under-penetration of natural catastrophe covers in Asia. A recent report by the Asian Development Bank showed that only 7.6% of Asia's economic losses were insured last year, compared with 67% in the US.

And with low insurance penetration rates, the burden to cover the cost of catastrophes falls on governments and taxpayers, she said.

"This is where we step in and take the risks of natural catastrophes off the balance sheets of businesses and the taxpayer. It is an area where insurers can add very clear value to society."

Grappling with pricing and talent

While the prospects are clearly bright, she cited two factors that threaten the long-term growth of the industry – underpricing and lack of new talent.

"There is no doubt that the capital is creating pressure on prices, and we must stay firm and make sure that prices remain sustainable. The important factors relating to pricing should be both exposure and experience."

As for attracting new blood into insurance, she said the industry is facing a "talent crisis" which is threatening its growth.

Ms Beale said: "As an industry we've not done enough to advertise the advantages of this career."

"I don't think that this industry has had such strong prospects since the US developed its insurance industry 100 years ago."

Embracing change

"The theme 'Insurance at the Cross Roads: Coping with the Change' perfectly describes the environment that the industry faces today.

Change has presented more challenges for the insurance system around the world but change can also create new hope, new market, and new growth. So, we should not be afraid of change.

I believe with all our participation and wisdom, EAIC will come up with many excellent strategies to cope with change and the challenges we face."

Dr Jennifer Li Ling Wang,
Vice Chairperson,
Financial Supervisory Commission, Taiwan


(Right-left): Flanking **Dr Jennifer Li** at the opening ceremony are EAIC President **Vincent Kwo**; 27th EAIC Organising Committee Chairman **Patrick Lee**; and EAIC Vice President **Jack Tai**.

Asia insurance industry at a crossroad


Mr John Tan

The Asia insurance industry has experienced strong growth but should think carefully about what its next steps should be, said **Mr John Tan**, Group Chief Executive, ACR Capital Holdings during his keynote address.

"If we look back in history, we always think that the developed countries will always have excess capital to fund the developing world. But, interestingly, over time the emerging and developing countries are becoming creditors, while the developed countries are becoming debtors," he said, as he outlined the challenges and opportunities faced by insurers across the region.

"Yet, in terms of expertise, processes, systems and standards, we continue to follow the developed western world. Where does that lead us? We should think carefully before we just follow."

One-size-fits-all framework not the panacea

On the issue of regulation, Mr Tan questioned whether having a uniform regulatory framework

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Asia insurance industry at a crossroad *(continued from page 1)*

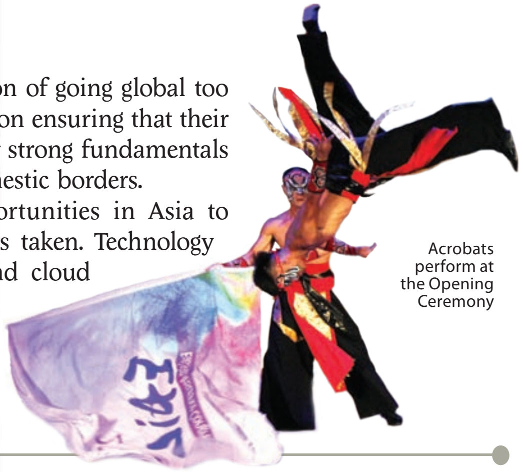
was a right and fair approach in an industry characterised by markets with largely different levels of maturity. Regulators should consider carefully to what extent following Solvency II was beneficial to their domestic industries.

"In boxing, you can't have a heavyweight fighting with a flyweight. If we look at rules, at regulations, it is important to recognise our own capability, our own situation, and also look at what the systemic issues are," he said.

Fundamentals first

Mr Tan also struck a cautious tone, warning that local insurers should resist the temptation of going global too quickly; instead, they should focus on ensuring that their local operations were supported by strong fundamentals before venturing beyond their domestic borders.

There are still significant opportunities in Asia to tap into, if the right approach was taken. Technology advances, such as e-commerce and cloud computing, could provide significant opportunities for insurers to reduce transactional costs and attract new premiums, he said.



Acrobats perform at the Opening Ceremony

EAIC Market Reports by Chief Delegates

Bandar Seri Begawan

Mr Haji Osman bin Haji Md Jair

In 2013, Brunei's insurance market achieved an overall premium growth of 9% from the previous year; premiums for life sector jumped 22%, while premiums for non-life sector grew 1%. Approval was also granted for the setup of a new association to unite all conventional insurers and takaful operators under one banner – the Brunei Insurance and Takaful Association.

Bangkok

Mr Arnon Opaspimoltum

Thailand's life sector saw gross direct premium growth of 13.1% y-o-y for 2013, slightly lower than 2012's growth rate. The regulator has implemented the 2nd Insurance Development Plan comprising four measures that include building confidence and stability in insurance, improving service standards and consumer protection, and promoting insurance infrastructure. For non-life, total direct premiums saw a CAGR of 11.3% between 2002 and 2013; the sector's outlook remains strong despite a forecast of moderate economic growth.

Hong Kong

Mr Jimmy Poon

Hong Kong's market has seen much regulatory and business development. Notable developments include the establishment of the Independent Insurance Authority (IIA); favourable responses to industry suggestions on the Policyholders' Protection Fund (PPF), Health Protection Scheme (HPS), Mandatory Provident Fund (MPF); consultation paper on a RBC framework; and efforts to promote Hong Kong as an international maritime centre.

Jakarta

Mr Ahmad Fauzi Darwis

There are 81 non-life insurance companies and four reinsurers in Indonesia in 2013; this has not changed much since 2012. Gross premiums for the non-life sector grew 18.9% to IDR40,648 billion (US$3.36 billion) in 2013, while profits rose 7.7% y-o-y to IDR6,260 billion. The insurance penetration rate remains low so we are optimistic that the market will continue to grow.

Kuala Lumpur

Mr Chua Seck Guan

The Life Insurance Association of Malaysia (LIAM) played a proactive role in responding to both incidents involving Malaysia Airlines. All its member companies adopted a consolidated approach to prioritise and expedite claims made by next-of-kin of policyholders. RM15.9 million (US$4.81 million) (as at 1 July 2014) and RM11.2 million (to date) were paid out in claims for the MH370 and MH17 tragedies, respectively.

Macau

Mr Chris Ma

Macau's insurance industry continued its trend of positive growth in 2013, as well as into 1H2014. The overall financial health of the industry has improved over the last five years as can be gauged through the loss ratio which stood at 30.2% in 2013 – a significant improvement from 50.3% in 2009 in the wake of the global financial crisis.

Manila

Mr Melecio C Mallillin

The insurance sector is expected to post a significant growth in revenue over the next few years, brought about by increasing household income, purchasing power, improved regulations, and continued growth in life insurance premiums and moderate growth in the non-life sector. The industry is also keen on increasing insurance penetration and protection, and sees a need to focus on education about the value of insurance.

Phnom Penh

Mr Robert Elliott

Cambodia's insurance market has developed at an average rate of 26% annually since 2000; in 2013, the market achieved 16% growth y-o-y. Presently, there is one national reinsurer, six non-life insurers, three life insurers, three microinsurance companies, nine brokers and three agents. The expansion of agents in Cambodia has been limited due to the high deposit requirements for agents.

Seoul

Mr Jong-Gyu Won

Total premium reached US$145.4 billion in 2013, constituting 3.1% of the global insurance market and placing Korea 8th in the world and 3rd in Asia. For 2014, the non-life sector is expected to grow 7.1% in premiums for long-term line, whilst the P&C market is forecasted to grow 5.1%; life sector is expected to be driven by protection products where premiums are expected to grow 6.9%.

Singapore

Mr Derek Teo

In 2013, the general insurance sector registered 3.07% growth in total gross premiums to S$3.7 billion (US$2.96 billion) and 2.94% growth in net premiums to S$2.9 billion – consistent with the past year's performance. It also took on various initiatives such as educational outreach among others, to advance the role and profile of the industry in society and economy. For life insurance, total new individual business for single premium products gained 19.5% y-o-y whilst annual premium product sales grew 27.4% to S$2,402 million in 2013.

Taipei

Mr Cheng-Te Liang

Revisions to the Insurance Act were enacted in June 2014 to enhance Board independence and corporate governance; increase flexibility in investment and M&A strategies; and improve the existing market exit mechanism for insurers. In addition, to enhance the international competitiveness of Taiwanese insurers, the FSC had also proposed the "Programme to Make Taiwan's Insurers More Competitive" in July 2014.

Tokyo

Mr Hisahito Suzuki

Life insurers are helping to create a sustainable and vibrant society as part of its response initiatives to Japan's super-ageing society. The Life Insurance Association of Japan (LIAJ) is developing the Project in Support of Working Parents and Small Children to contribute to societal needs. Meanwhile, the General Insurance Assocation of Japan (GIAJ) also established the Centre for Searching Insurance Contracts and expanded its use to cover natural disasters under the Disaster Relief Act.

Strategising towards new Risk-Based Capital standards

Going through the RBC transition is no easy game. Management needs to be mindful of the range of strategic options to steer the business in the right direction and stay ahead of the game, says **Mr David Alexander**, Head of Business Development Asia at **Swiss Re**.

Risk-Based Capital (RBC) standards have been a subject that has evolved over time. Against the backdrop of International Association of Insurance Supervisors (IAIS) issuing the Insurance Core Principles, there is a global trend that insurance supervisors of different regions are working to bring their respective regulations and standards up to par with this benchmark.

The same is happening in the Asia-Pacific region: Life and General Insurance Capital framework ("LAGIC") in Australia, China Risk Oriented Solvency System ("C-ROSS"), RBC consultation in Hong Kong, RBC 2 in Singapore, Refinement of RBC in South Korea, Takaful RBC framework in Malaysia – just to name a few. Regulators in the region are trying hard to enhance their supervisory framework. Change is happening here and it is happening fast. This brings uncertainties to the markets, but at the same time great opportunities to the prepared.

Malaysia

Back in 2009, Malaysia implemented its first RBC framework. The RBC requirements demand insurers to hold higher capital buffer. The whole RBC transition was done in a relatively short period of time – from a parallel run in late 2007 to full implementation starting 2009. As the timing of the RBC introduction followed right after the Global Financial Crisis, temporary flexibility was granted in 2009, albeit smaller players faced difficulties in seeking capital. As a result, M&A activities has heated up – leading to continued consolidation of the market with better capitalised players.

Korea

Korea implemented its RBC framework in a slightly different way. To minimise the transition impact on an insurer's operation, the regulator chose to set the RBC capital requirements at a comparatively lower level at the start when it was introduced in 2011. A stepped approach was then taken to refine the requirements over time, for example adjusting the risk factor from 95% to 99% sufficiency level. This allowed an insurer enough time to boost up its capital position via different measures, such as share offering, capital injection from parent company or subordinated debt issuance.

Australia

Australia has been at the forefront of RBC standards change with its LAGIC framework. It takes a model-based approach to assess the capital an insurer is required to hold in order to remain solvent with a 1-in-200 year failure level. In particular the Insurance Concentration Risk Charge (ICRC) for the general insurers caused much debate. Instead of purely calculating the required capital based on the 1-in-200 year level event, it has a horizontal requirement component, which measures the cost of multiple smaller catastrophic events happening within a one-year period. This caused many property insurers to re-examine their Nat CAT reinsurance programmes. As a result, insurers sought support from reinsurers to implement aggregate reinsurance covers to protect against multiple smaller catastrophic events and help to ease the ICRC solvency capital burden.

Implications & Actions

These cases demonstrate that there are multiple factors at play when a RBC standard change comes – the market condition, companies' own financial positions, as well as the subtle elements within the standards. Successful companies look beyond purely the formulaic requirements and consider the wider picture and external support to set their strategies.

Prepare for the future

Insurance companies need to be well prepared to navigate through the RBC standards changes. Often the RBC standards come with more qualitative assessments and disclosure requirements. This also means a shift of mindset from being compliant with the rules to effective risk management of the company.

At the same time, insurance companies need to strategise towards the change. This could mean short-term or tactical actions with more immediate impact, like reallocating assets to categories which attract lower risk charges, using reinsurance to transfer the RBC capital-intensive risks out of the company, or restructuring the product portfolio and their features. On the other hand the long-term or high level strategy also need to be taken into consideration, like raising capital, exiting market where the companies do not have the economies of scale, or taking the chance to go for M&A opportunities.

Short-term solutions – Quick-fix for transition ⟷ **Long-term strategies – Restructuring of busines**

Asset reallocation	Reinsurance	Product portfolio restructuring	Capital raising	Market exit / Outsourcing	Merger & acquisition
Allocation to assets consuming less capital	Risk transfer for lower required capital	Run-off of capital demanding books	Debt raising for shorter term capital needs	Selling of capital inefficient entity	Merging of smaller entities for economies of scale
Shift in investment appetite balancing risk and return	Reinsurance with structured feature for capital efficiency	Revamp of product features	Share offering/ capital injection	Outsourcing insurance manufacturing	Acquisition of players exiting the market

On the cocktail trail

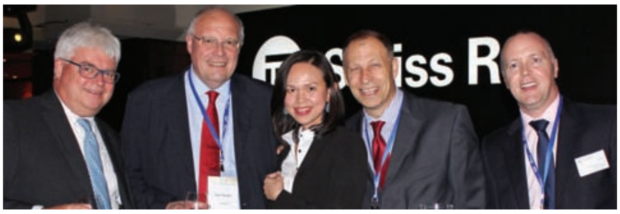
The EAIC is famous for the fancy private parties it spawns. Last evening, some of the cocktails gave delegates an opportunity to check out the city's landmark Taipei 101 and take in the breathtaking views it offers.



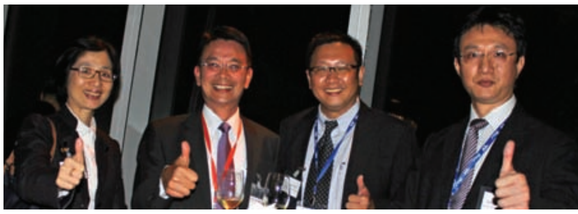
















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