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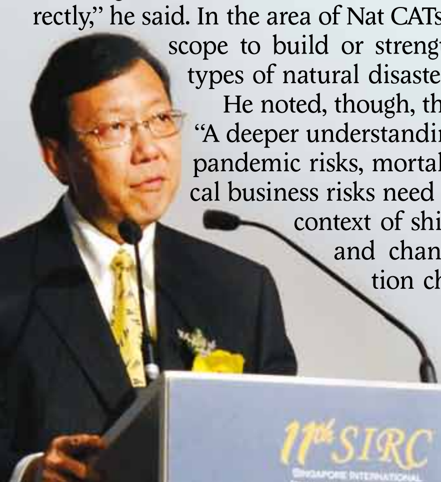
Collaboration needed in understanding Asian risks

While (re)insurers endeavour to meet Asia's protection and risk management needs, they need to work with regulators to understand and address more complex risks in this uncertain global economic environment. One area that needs the collaboration of both parties is in understanding the nature of Asian risks, said Mr Ong Chong Tee, Deputy Managing Director, Monetary Authority of Singapore, in his official keynote address at the 11th SIRC yesterday.

"I believe that more can be done to deepen our collective understanding of Asian risks so that we can quantify and price these correctly," he said. In the area of Nat CATs, for example, there is possibly scope to build or strengthen CAT models for various types of natural disasters in the region.



He noted, though, that this goes beyond CAT risks. "A deeper understanding can extend to areas such as pandemic risks, mortality trends and so on. Even local business risks need to be better understood in the context of shifts in cross-border operations and changing patterns of the production chain."

Mr Ong pointed out that Asia's rapid growth means that the old assumptions of risks cannot simply be generalised from historical experiences. Industry players, he said, need to keep up with the challenges of advising, managing and underwriting bigger and more complex risks that cut across Asian markets.

Insurance pricing and the portfolio health of insurance assets also present an opportunity for regulators and the industry to develop greater discussions and understanding, said Mr Ong. He called on insurers to collect reliable and quality Asia-specific data to develop robust pricing, and to have a good asset-liability management framework to mitigate the impact of interest rates on their assets and liabilities.

Insurance has a key role in Asia's growth

Identifying the role of the (re)insurance sector in the growth of Asian economies, Mr Ong said insurance can support the production of basics such as agricultural goods, particularly amidst the adverse weather conditions that have affected global grain production. "A number of Asian governments already have in place public agriculture insurance schemes. Private sector capacity can complement these public sector efforts," he said.

Insurance can also be a catalyst or enabler to support economic and social developments through, among other things, infrastructure funding. "The risk can be considerable without some form of government guarantee or insurance. Where long-term projects seek funding from the capital markets, insurance can offer investors protection on various fronts, ranging from natural disasters to political risks."

Diversification: Friend or Foe?

The cost of doing business has shot up the agenda, particularly with the impact of Asia's high CAT frequency over the last two years. Diversification is, therefore, crucial and involves the ability and skill of a company to understand where and when to allocate capital, said Mr Michael Butt, Chairman, Axis Capital Holdings, who was also the Session Chairman at yesterday's high-level Executive Panel Discussion on Capitalising on Asia's Growth.

Changing paradigms and risk judgements

Recent CATs in the region are stark examples of good and bad diversification, said Mr Malcolm Steingold, CEO, Aon Benfield, Asia Pacific.

Giving the example of Thailand, which was once considered a "CAT-free" market, he believes that its reputation as a peril-less country "can be put to bed" with the recent flooding.

Moreover, he sensed a changing diversification paradigm – particularly of how CATs are looked at – and expects companies in Asia to revisit the distinctions made between what are considered peak, non-peak zones and correlated risks.

Diversification adds value, but if it is not looked at carefully and with common sense, it can be quite dangerous, he said.

"Pricing stinks" for Asia's CATs amid higher cost of capital

Although panellists agreed that the Nat CAT business can still be profitable, from a CAT-underwriting perspective, Mr Leslie Mouat,

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(L-R): Dr Nikolaus von Bomhard, Mr Leslie J Mouat, Mr Martyn Parker, Mr Michael A Butt, Mr Jose Ribeiro and Mr Malcolm Steingold

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Chairman, Chartis Asia Pacific Region, said bluntly that "pricing stinks and has been stinking for some time", admitting that he has seen "a lot of inadequacies in the pricing sector".

Profitability boils down to adequate pricing, and with the strong competition in this region, he expects to witness a sea change in the way business is done, hopefully from 1/1/2012 onwards.

Relating to the cost of capital and its returns, Mr Mouat gave an example that for a company sitting on a combined ratio of 96% – if the cost of capital is 8% and returns are at 4% – then the company is "not doing too well at all".

Dr Nikolaus von Bomhard, Chairman of the Board of Management, Munich Re, agreed that if players use combined ratios to measure risk, then they risk "getting it all wrong". He asserted that CAT underwriters must take a risk-based approach to ensure a realistic and profitable book.

Demand for Nat CAT coverage will grow

Despite the gripe of CAT frequencies in this region, the demand for covering CATs in Asia is expected to grow pretty quickly, owing to the current low penetration levels in the market place and the huge gap between economic and (re)insured losses, Mr Martyn Parker, Member of Group Management Board, Division Head, Client Markets Asia, Swiss Re, said.

"But the past is not a good indication of the future, and it comes down to the fact that pricing needs to be right for the customer," he said.

Rolling with the beats

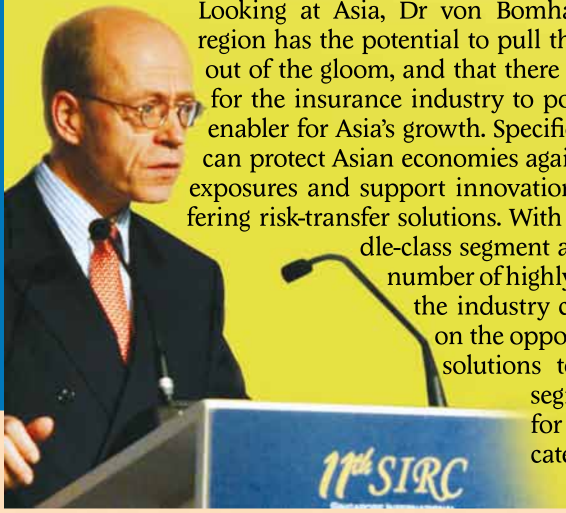
As for the Lloyd's of London, Mr Jose Ribeiro, Director of International Markets, said that due to its strong presence in Australia, New Zealand and Japan, it was hit by big losses from the recent events. "The losses coming in for the first six months of this year were higher than 10 times the average of the losses in the first half of the last 10 years," he said, adding that: "Diversification pays, but you have to be prepared to roll with the beats".

Disciplined financial steering is foundation of profitable growth

Disciplined financial steering and a responsible management culture need to be the foundation of profitable growth, especially in the current unstable economic environment, said Dr Nikolaus von Bomhard, Chairman of the Board of Management, Munich Re, yesterday. The industry has to recognise that it deals with long-term businesses with long-term contractual obligations – hence players are expected to run their businesses sustainably.

In everything that a company does, it must be such that the risk management culture supports the risk strategy, embedded in all the core processes. This will not happen overnight as a change in culture takes years, but a company needs to know its risks and actively manage its risk appetite, said Dr von Bomhard.

In asset management, a solid investment process is key, along with enterprise risk management, assets-liabilities management and tactical asset management. There must also be a focus on creating value on the liability side of the balance sheet. Noting a greater emphasis on technical results since 2003, he said that technical results must be positive, especially in view of the low interest rate environment right now.



Looking at Asia, Dr von Bomhard said that the region has the potential to pull the world economy out of the gloom, and that there is an opportunity for the insurance industry to position itself as an enabler for Asia's growth. Specifically, the industry can protect Asian economies against large Nat CAT exposures and support innovation processes by offering risk-transfer solutions. With the growing middle-class segment and the increasing number of highly-educated Asians, the industry can also capitalise on the opportunity to develop solutions to cater for these segments' demands for more sophisticated products.

ERM, Rating, Solvency II and Regulatory Changes

Regulating Asia

A key issue that has arisen since the announcement of Solvency II is the need for convergence of regulatory systems, said Mr Amer Ahmed, President, Allianz SE Reinsurance. Consistency across different jurisdictions will make it easier for multi-territory companies to operate, said Dr Ludger Arnoldussen, Member of the Board of Management, Munich Re. But this makes it hard for a company to have a risk-based system, as it has to make its approach constant across its different markets. Having to comply with several sets of high-level regulations is tedious and can cause costly decisions, he said.

Convergence – All markets need to be considered

Mr Brandon Sweitzer, Dean of the School of Risk management, St John's University, reminded delegates that though regulation exists to protect policyholders and shareholders, there is no "one-size-fits-all" approach. Mr Shashank Srivastva, Acting CEO, Qatar Financial Centre Authority concurred, saying that though harmonisation is needed, the varying pressures that different regions face need to be taken into consideration.

Meanwhile, Mr Yogesh Lohiya, Chairman-cum-Managing Director of GIC Re, suggested that instead of adopting an "outside" regulatory approach, Asian regulators should come together to find a regulatory system that would work across all the markets.

Focus on regulation needed

Despite the growth in Asia, Dr Arnoldussen cautioned that there needs to be a focus on regulation, reminding delegates that building up regulation is not a trade-off to growth. Given the low levels of penetration and trust in insurance in the region, good regulation is needed to boost confidence in the industry. He cited Australia and Japan as having high standards of regulation, and China as making big strides in improving the sophistication of its regulatory system.

Taking a different stance, Mr Matthew Mosher, Senior Vice President, Global Ratings at A.M. Best, urged delegates to be guided by their company's risk profile – and not by the regulator or any outside forces – when managing their risks.

(L-R): Mr Henry Keeling, Mr Amer Ahmed, Dr Ludger Arnoldussen, Mr Yogesh Lohiya, Mr Matthew C Mosher, Mr Shashank Srivastava and Mr Brandon W Sweitzer

Forecasting the impact of CATs in Asia Pacific

Emphasising the importance of CAT risk modeling in the region, **Mr Rade Musulin**, Chief Operating Officer of **Aon Benfield Analytics, Asia Pacific**, shares how Aon Benfield is helping its clients on this front by setting up a new team of its model development centre of excellence – Impact Forecasting – in Singapore to focus on regional model development.

1 How important is CAT risk modeling in Asia Pacific?

Asia Pacific has been subjected to a wide range of natural disasters as we have seen over the last year. There have certainly been pressures from rating agencies, regulators and even companies themselves to measure the exposures to CATs and protect companies from them. This is so companies can honour their obligations to policyholders, and CAT risk modeling is something that is essential to the development of the insurance industry in the region.

2 How has Aon Benfield been helping its clients in this aspect?

Modeling of CAT losses is clearly very important for our clients. To serve them, our Impact Forecasting team has been developing models in the region for about 10 years, initially out of Australia and Chicago.

However, we felt that by basing a team in Singapore, we can increase our focus on the region and do an even better job. So we made a major investment by forming a dedicated team in Singapore to focus on regional model development. The new Impact Forecasting team in Singapore will significantly increase our capabilities in this area, and help us to better serve our clients in the region.

3 Impact Forecasting is the only catastrophe model development firm integrated into a reinsurance intermediary. How is it different from other CAT modeling firms?

Certainly, risk modeling firms play a very important role in the market, and our model capabilities supplement those very nicely.

But because we are placing reinsurance for our clients across the region, we can better understand the risks they face. This helps us customise our models to suit our clients' needs, giving them greater flexibility and tailored solutions.

4 What lessons is the insurance industry learning from the slew of Nat CATs that hit the region over the past year?

One lesson is the realisation of the value of reinsurance as shown by how well the reinsurance market has responded to some of the major losses we have seen. In New Zealand, for example, reinsurance has been a key component of its economic recovery after the Christchurch earthquakes. Thus I think companies are seeing the real value of reinsurance.

Also, we are seeing new and more complex exposures, such as global supply chain disruptions after the earthquake in Japan. Modeling tools, while presently better than anything available in the past, still need to be refined and improved. This requires us to continue investing and refining our models, and incorporating the lessons we have learnt into them.

5 The role of rating agencies seems to be growing in the region. What should companies note in this development?

Rating agencies focus on the same type of things in Asia Pacific as they do in other parts of the world, such as ERM, CAT risk management and resilience in the face of economic challenges. Companies have to meet those expectations if they want to be rated.

The thing that is different in this region is that many companies have not been rated in the past. So when a company applies for its initial rating, it needs to develop a new skill set to meet the criteria of the ratings agencies. The agencies require a great deal of information. In many cases, significant investments are needed in collecting and organising the information that is required in order to get a rating.

Mr Rade Musulin

15th Asia Insurance Industry Awards honours 15

31 October 2011

Fifteen companies and individuals have emerged as winners at the 15th Asia Insurance Industry Awards.

Japan's newly merged MS&AD Group bagged the General Insurance Company of the Year award for its move to solidify its footprint in Asia while keeping its focus on stakeholders. This year's Life Insurance Company of the Year is Great Eastern Life Assurance for its understanding of the local market and innovation.

For the first time in the Awards' history, Willis was named as Broker of the Year for being in the vanguard of providing risk management solutions. Aon Benfield won the Reinsurance Broker of the Year award for remaining available to its clients amid the natural catastrophes that have hit the region.

Mr David Fried won the Personality of the Year award, in recognition of his achievements as the former Group Head of Insurance for HSBC. Two industry stalwarts – Mr T M Shih of Fubon Insurance and Mr Qin DaoFu of the People's Insurance Company of China – received the Lifetime Achievement of the Year award.

The 15 winners were chosen from a list of 45 finalists by a distinguished panel of 29 judges, comprising leaders and regulators from the industry. This year's Awards presentation was held in conjunction with the 11th SIRC and attended by more than 600 senior executives from the industry at the Shangri-la Hotel in Singapore.

2011 WINNERS

Life Insurance Company of the Year
- **Great Eastern Life Assurance Co Ltd, Singapore**

General Insurance Company of the Year
- **MS&AD Insurance Group**

Educational Service Provider of the Year
- **Australian & New Zealand Institute of Insurance & Finance**

Special Award – Educational Service Provider of the Year
- **Micro Insurance Academy**

Service Provider of the Year
- **BELFOR Asia Pte Ltd**

Risk Manager of the Year
- **Bharti AXA General Insurance Co Ltd, India**

Broker of the Year
- **Willis Asia**

Reinsurance Broker of the Year
- **Aon Benfield**

General Reinsurer of the Year
- **Munich Re**

Life Reinsurer of the Year
- **Swiss Re**

Corporate Social Responsibility Award
- **Samsung Life Insurance Co Ltd, Korea**

Green Company of the Year
- **HSBC Insurance (Asia-Pacific) Holdings Ltd**

Technology Initiative of the Year
- **RMSI Private Ltd, India**

Personality of the Year
- **Mr David Fried**, former Group General Manager and Group Head of Insurance, HSBC

Lifetime Achievement Award
- **Mr Shih Tsan-Ming**, Chairman, Fubon Insurance Co Ltd
- **Mr Qin DaoFu**, former Chairman & President, People's Insurance Co of China

Lloyd's Coffee House

Most of the award winners gather for a group shot

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