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# Reinsurers and the rite of rates and renewals

Who calls the shots at these annual rituals? What will the renewal look like? Will rates harden? Should rates harden? Will Asia have its own parade following the increased frequency of floods, storms and earthquakes? Or will the globalised reinsurance world dictate terms everywhere?

These questions always get asked and always remain answered with differing degrees of certitude and vagueness to remain perennial.

But it is always said that Asia is a particularly competitive marketplace with greater price sensitivity, and there are always many new players with new offers and the rush to get market shares. Then there are also the great national and regional sentiments with priority given to local reinsurers and regional exchanges. But at the end of the day, the tunes are dictated by the big boys and the real directions are determined by how disciplined they have been in following the dictates preached on risk selection and risk adequate pricing.

### From Baden Baden to Singapore

In Baden Baden, it seemed clear that other than for very specific classes like aviation, credit risk and D&Os in the aftermath of the global financial crisis, there was little push for a real hardening. It was reported that "at best, rates would stay flat". The various rating agencies had predicted the outlook for the global reinsurance industry to range from "negative" to "stable" based on whether you are focused on current capital or price increases. But generally the sentiment is turning positive now that the 2009 catastrophe season has been benign to date.

On a global basis, 2009 has to date been heralded as a very good year for reinsurers globally, made better by improved investment results. There is also a rush of new capital into the reinsurance market.


Mr Chris Klein

As Mr Chris Klein, Guy Carpenter's head of research, said: "The swift recovery of investment markets in 2009 has helped reinsurers' and insurers' balance sheets to recover largely without recourse to external sources of capital. Reinsurance supply appears to be ample again, providing choice for buyers and reminding reinsurers of the need for disciplined underwriting and active capital management."

There has been no change in mood since Baden Baden. Hence, the setting for the 10th SIRC is indeed exciting for both buyers and sellers. It provides a platform for both sides to come together to tackle issues of priority concerns and to see if they want to do business just for the moment or to look at sustainable deals. Horse trading and switching partners and reinsurers is part of the norm but in so doing make sure you are getting a better deal on paper that will buy you reinsurance credits in RBC terms and not cost you more capital injections. And for sellers, make sure when you walk away from a deal, you are doing the right thing for the right reason! Do compare the risks in total: in words of coverage, scope, price and depths of management inside of the company.

### More for less or less for more

Also as many reinsurers and cedants lament, the comparison on rates is unreal. While rates remain the same, the coverage and conditions could be seriously reduced or enlarged thereby making the game different. Reinsurers seem more aware this time round of the cost of free coverage thrown in. In the wake of global warming and with rising standards of living where unlimited covers mean so much more than ever before, reinsurers are assessing the full import and accumulation of all the risks assumed even if for free. At least the move towards RBC has made this mandatory for them.

At this 10th SIRC, some 700 delegates including cedants and reinsurers and brokers from almost 40 countries representing all the big players will get the chance to set directions for the renewals and the future of the business. The theme "Asia's Position in the Reinsurance Cycle" will hopefully signal a unique path for Asia with its growing dynamism and growing global independent influence to ride the rough spots of the reinsurance with emphasis on technical underwriting with a focus on sustainability.

### The dream reinsurer?


Mr David Fried

Reinsurance cannot just be about price. It is more than just a commodity and it is a greater service. Hence reinsurers, despite their best intents, cannot go strictly by the book on Reinsurance 101 for beginners. At the end of the day, cedants are looking for a reinsurer with a forward-thinking mindset. As Mr David Fried, Chairman and CEO, HSBC Insurance for Asia-Pacific, said: "We are looking for a reinsurer who wants to be our long-term partner ... and is prepared to work with us to find practical solutions. We would like a reinsurance partner with a forward-thinking mindset who can assist us with the 'what if's', and whose timetable is our timetable. A friend with a sense of humour and capacity for a good philosophical debate. A partner we can rely on work side by side."

Any takers? There are rich pickings to be made. The challenge is yours and the SIRC forum is fertile ground for the brave in heart and diligent networkers.

# Rating agencies: Reinsurers' partners or foes?

The economic environment may have altered the way rating agencies are regarded, but this should not negate the benefits of being rated, writes **Ms Yvette Essen**, AM Best's Head of Market Analysis.

Whenever there is an economic turmoil, concerns mount that increased regulation will follow to help prevent a repeat of any recent mistakes.

The credit crisis has unsurprisingly brought about those fears of excessive red tape. Although the insurance industry is fighting against being caught up in new rules targeted towards addressing the weaknesses and failings of the banking sector, already the desire for increased disclosure has become inescapable for the reinsurance community.

## Not enemies

Rating agencies could be viewed as adversaries to reinsurers in this regard as there is a need for more information from companies which are being rated. Yes, businesses understandably have to devote more of their time to simply focus on their core operations and with widespread redundancies also being a key result of the recession, staff are often overstretched.

Ratings agencies are certainly not intended to be adversaries of the reinsurance market, especially during these anxious times. In one respect, many things are unchanged despite the crisis, and AM Best's methodology for evaluating balance sheet strength through liquidity and cash-flow analysis has not fundamentally changed. There has been much debate on the pitfalls of principles such as mark to market, but we tend to look beyond accounting treatment and weigh up both the long-term and the short-term issues.

There are certainly elements that AM Best is focusing on more which we believe can benefit the company's stability. For example, the financial crisis has demonstrated that Enterprise Risk Management (ERM) matters and is one of the many tools that help improve a business. For AM Best, ERM is not a separate component to the rating process as it impacts all three areas of our ratings evaluation – capitalisation, operating performance and business profile. We evaluate it as part of our overall analysis of an organisation's financial strength.

## Supporting companies

In general, ratings should be seen as helpful to companies, providing an independent and unbiased third-party evaluation of a group's overall strength. While a rating is not a guarantee of a company's strength, it does provide value; a secure rating (B+ and above) demonstrates the reinsurer's relative ability to honour its obligations to ceding companies, regulators, investors and insurance brokers.

A rating can also be a useful method of allowing companies to assess themselves against their peers and the industry. This benchmarking information can be used to identify ways in which the company can improve their rating.

Going through the rating process can be a focal point for companies, but this need not just be an internal project. When AM Best issues or alters ratings, we set out our rationale in the company's reports and press releases, which are in the public domain. Reaching a certain rating level can provide the rated entity with a target, a motivation which is not beneficial just internally but could be rewarded externally as well.

Furthermore, this continual assessment can help assure the company and the outside world of its performance and strength. While ratings may be "date stamped" when annually issued, they are constantly monitored throughout the course of the year. Such reassurance is especially important amidst these continued turbulent economic conditions.

Businesses are looking to distinguish themselves and prove that they are able to withstand the current pressures and market volatility. Secure-rated companies may look to ratings to help them demonstrate their strength. The fundamentals of the rating process remain strong, which is why ratings are used in insurance legislation around the world, in countries including Thailand, China and Malaysia.

## Keeping with the times

For new start-up companies, the volatile economic conditions are especially challenging. While many years ago AM Best required a company to have at least five years of experience before obtaining a rating, this is no longer a prerequisite and today we assign ratings to new companies willing to interact and share information with us. The type of information we ask from a new start up includes demonstrating that the new enterprise is well-capitalised, it has a clearly defined five-year business plan, and management has a successful track record related to the new venture's core business.

Time is precious, and no business wants to dedicate more time or resources to demonstrating to regulators, ratings agencies, or the rest of the world that they are in good financial health. But the events of the past two years have demonstrated that there has been an increase in the number of risks that need to be identified, understood, measured and managed in the global (re)insurance market today.

# Validus Re: Committed to Asia

Validus Holdings was in the limelight recently for its acquisition of IPC Holdings, a fellow Bermuda-based reinsurer, for US$1.7 billion. On the Asian front, industry veteran, **Mr Marc Haushofer** of Validus Reinsurance Ltd (Singapore), Asia Pacific, expects to foray into the region. He shares his views on what sets Validus Re apart from the rest, and how Singapore is an ideal regional reinsurance hub.

Among its financial brethren, the reinsurance industry has been classified as one of the few which have weathered the financial storm decently well. Indeed, the second half of 2008 through 2009 has been a difficult period for most businesses globally, and reinsurers have had their fair share of challenges. "The slowdown and in some cases, contraction of the economy have dampened insurance demand. Notably, insurance covering trade activities are immediately impacted," said Mr Haushofer.

An insurer with a diversified portfolio would certainly be in a better position to ride through this difficult period, and this is an offering Validus Re believes it has. In order to leverage on the current challenges, Validus Re's strategy in Asia has a strategic move to achieve a more diversified geographical and business portfolio, Mr Haushofer said.

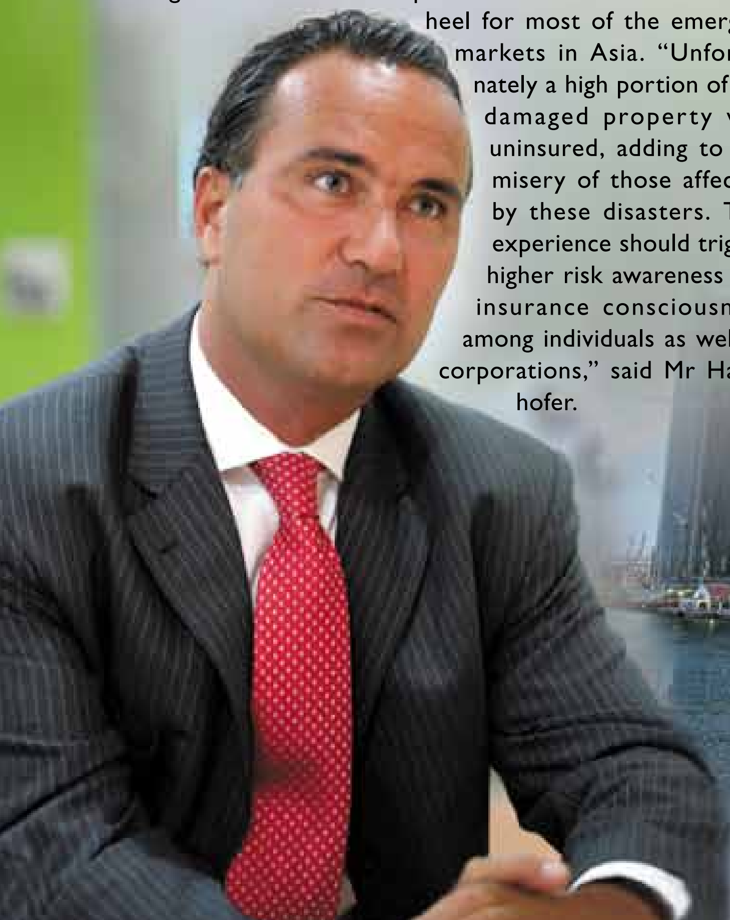
Validus Re's differentiating factor lies in creating powerful reinsurance options supported by prime technology and analytics as well as experienced local know-how tailored for its Asian clientele, he added.

The company is no stranger to the region, having transacted business in the Asia Pacific for almost four years -- though only having set up an office in Singapore earlier this year. "Our presence in Singapore will allow us to build brand awareness, client relationships and broker connections throughout the entire region. The incoming team in our Singapore office has excellent knowledge and experience working with industry participants in the various Asian markets for many years."

### Involving all stakeholders for cat risks

Asia's recent spate of natural catastrophes, one of the topics to be discussed during the SIRC, is due worthy of attention because of the substantial loss in lives and property.

Raising awareness levels for protection has been the Achilles' heel for most of the emerging markets in Asia. "Unfortunately a high portion of the damaged property was uninsured, adding to the misery of those affected by these disasters. This experience should trigger higher risk awareness and insurance consciousness among individuals as well as corporations," said Mr Haushofer.



Perhaps governments of the affected countries can play a more active role in increasing the insurance penetration for such calamities, he suggested. "Validus Re is prepared to work with the relevant stakeholders to achieve this goal."

### Singapore as a regional reinsurance hub

With much talk about the "ideal" reinsurance platform, it is the past 10 SIRCs that can attest to Singapore's increasing role and sophistication in the reinsurance space. Anyone in Asia knows of Singapore's competitive nature and fight to gain the ultimate status – with competition from equally impressive Hong Kong, and sprouting from Beijing, Shanghai and Labuan.

Mr Haushofer however, believes that Singapore deserves the throne. "The presence of the entire insurance value chain from risk surveyors to loss adjusters, from brokers to insurance lawyers and trainers to conference organisers in Singapore has enhanced its standing as the vibrant, competitive and open market place for Asia. Validus is happy to be in Singapore and to contribute to this leading reinsurance centre."

Furthermore, the growing number of reinsurers and Lloyd's syndicates in Singapore has immensely broadened the product range and technical capabilities to better serve the region. Mr Haushofer observed that with "the added advantage of being in the same time zone, we are confident of seeing more risks placed here, instead of flowing out into other reinsurance centres."

He also pointed to the regulator's involvement in evolving the market, saying: "to its credit, the authorities in Singapore have been in the forefront in promoting the city state as a reinsurance centre for the region. The key business infrastructures are already in place in Singapore, attracting talent both locally and from abroad to the industry."

Concluding, he said: "I wish all delegates successful and fruitful discussions in the 10th SIRC. Enjoy meeting new friends as well as old acquaintances in this prestigious gathering of insurance executives from all over the world."

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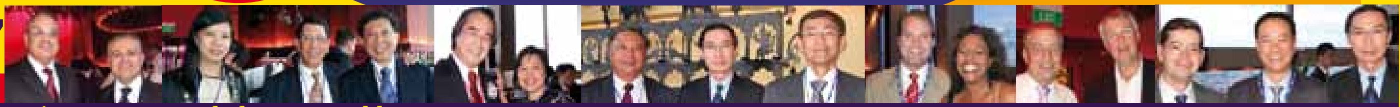
***Mr Marc Haushofer of Validus Re, on Singapore as a reinsurance hub***

# 10 rounds of SIRC

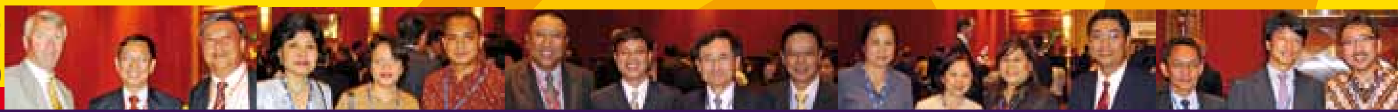
## 2007



*Theme: "Reinsurance – A Whole New World"*

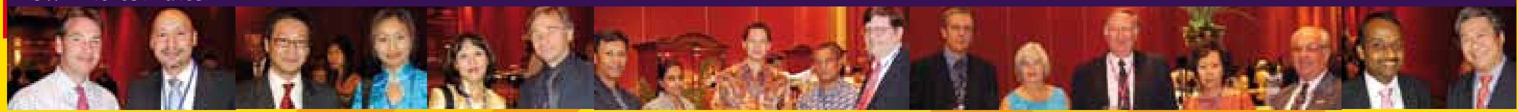
Although the industry had invested in research to better understand risks and provide innovative solutions and products, more had to be done. Though risks were rising, the measures to manage and mitigate these risks were still inadequate.

## 2005

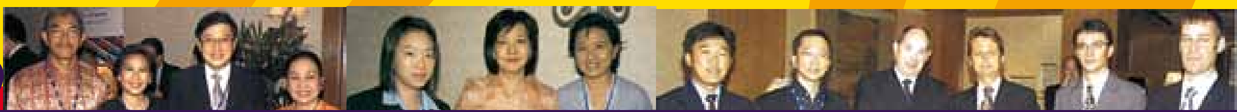


*Theme: "Can Reinsurance Cycles Be Managed?"*

Cycles can and must be managed and it was the responsibility of management to implement and ensure the sustainability of a consistent market for all. It was said that many reinsurers would not survive this year because of catastrophes, global equity market meltdown and low interest rates.

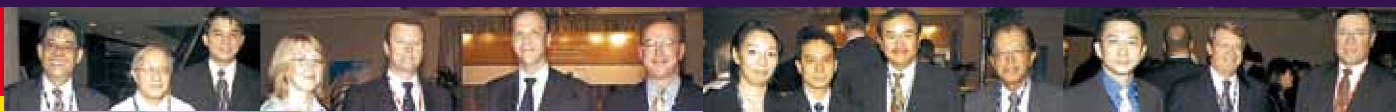


## 2003



*Theme: "Coping with the Paradox of Price and Affordability of Reinsurance for Asian Companies"*

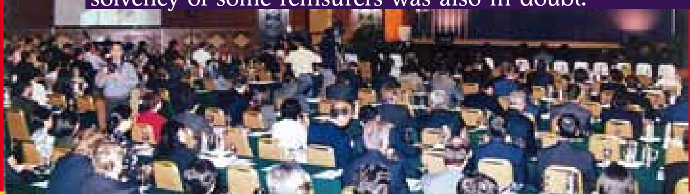
With the absence of new capacity, the message was that the hard market must continue. But reinsurers and ceding companies had to be well-prepared to price the risk right and to have the right risk management measures to meet exposures and provide long-term security to their clients.



## 2001

*Theme: "New Frontiers in Reinsurance – Redefining Strategies to Meet Changing Clients and Shareholder Demands"*

Dominating the discussions were the 9/11 terrorist attacks as well as concerns about reduction or cancellation of reinsurance cover, restrictive coverage, and higher premium charges in the forthcoming renewals. The solvency of some reinsurers was also in doubt.



## 1999

*Theme: "Riding the Wave of Competition in the Wake of Greater Market Liberalisation and Consolidation"*

The role of reinsurers was changing to that of financial advisers as clients started looking for highly customised reinsurance approaches and solutions. Hence, demands for professionalism, innovation, client orientation and technology for financial resources and shareholders' support were on the rise.

## 1997

*Theme: "Beyond 2000 – Implications for Asian Insurance and Reinsurance Markets"*

Japan was in the limelight. Financial reforms led to industry upheaval on an unprecedented scale. Rates were expected to fall as the compulsory tariff systems were scrapped or reformed. To survive after the Big Bang, Japanese insurers were compelled to expand overseas.

## 1995

*Theme: "Underwriting Profitability-Key to Survival in Reinsurance"*

This year laid stress on underwriting profitability for reinsurers as a realistic demand. Reinsurers had to re-engineer their operations to write on the basis of sound and prudent underwriting principles, with a strict eye on accumulation control while devising creative avenues to generate investment income as well.

## 1993

*Theme: "Managing Challenges of the '90s"*

It was a difficult year for reinsurers with a likely shakeout that would lead to a shortage of capacity. Some pointed out that there was a crisis of confidence in the reinsurance system with shareholders worrying about insufficient return on investments and cedants concerned about the long-term security of their reinsurers.

## 1991

*Theme: "Challenges of Reinsurance into the '90s"*

Heavy catastrophe losses of US$20 billion in the previous two years had led to a shrinking capacity in the retrocession market and the total collapse of capacity in the "spiral" market. The emerging view was that rates were hardening and would continue to harden as capacity shrank.




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