Globalisation on China’s radar

The topic of internationalisation has traditionally been a talking point at FAIR Conferences, and this was also highlighted by China’s leaders at yesterday’s opening ceremony.

Mr Ma Kai, Vice Premier of China, reminded delegates that just as FAIR’s influence is rising, China’s insurance industry has also been growing over the past 30 years of reform. He noted that further measures are being taken to upgrade the industry through regulation and accelerating innovation, for example, through pensions reforms and agricultural and catastrophe programmes.

He also pointed out that China needs to further internationalise by bringing in foreign talent. Giving the assurance that foreign companies in China will be treated as “equals”, he invited global companies to be part of the country’s growth and also urged Chinese companies to venture into Afro-Asian markets.

Mr Ma noted that the challenges in the global economy, including slower growth, is once again underscoring the importance of cooperation. He also highlighted that China is willing to work with other FAIR markets to develop their insurance sectors.

Dr Xiang Junbo, Chairman of the China Insurance Regulatory Commission (CIRC) affirmed the industry’s commitment to remain open and to continue allowing foreign players into the market. He added that as the industry regulator, it will consider the interests of international markets as it formulates rules.

“China’s development cannot be achieved without the world, and the world’s development cannot be achieved without China,” he said. “Let’s work together to create a better future.”

Growing with FAIR, China assumes presidency

It has been close to three decades since the last FAIR Conference in China, and during this time, both FAIR and China have been growing in strength and influence. These were key points raised at yesterday’s opening ceremony which saw the FAIR presidency formally transferred from Egypt to China, with Mr Abd El-Raouf Kotb, Chairman of the Insurance Federation of Egypt, passing the baton to Dr Li Peiyu, Chairman of China Reinsurance (Group).

Dr Li said China’s hosting of the FAIR Conference reflects the world’s confidence in the market, and expressed his confidence that FAIR will serve as a bridge connecting China’s insurance sector with the global industry.

Another significant aspect of this year’s Conference is its theme of “New Technology and Products Innovation: Meeting the Opportunities and Challenges in Afro-Asian Insurance & Reinsurance Development”. Mr Hammam Badr described this as “apt”, and hoped that the speeches would inspire constructive discussions.

Emphasising the need for innovation, Mr Kotb pointed out that the top risks facing companies have changed drastically over the past 10 years, and asked how the industry is preparing to face the challenges over the next decade. He said that in addition to product innovation, companies should also invest in improving internal systems and technologies.

Transforming over the years

At a press briefing yesterday, both Dr Li Peiyu (R) and Mr Hammam Badr reaffirmed the importance of China and FAIR, as well as the significance of this year’s FAIR Conference.

Mr Badr said that from China’s success story over the last 30 years, many areas of cooperation can be addressed. For example, the African markets can learn from China’s expertise in agriculture.

He added that besides the FAIR Pools and Syndicate, another area where FAIR has played an important role is holding seminars and workshops on a yearly basis. This is not just one area where insurers can gather together to learn from each other, but it also provides a platform to instill the belief in cooperation.

Dr Li said this year’s Conference is significant as China’s insurance industry is undergoing transformation in terms of innovation, regulations and liberalisation. He revealed that China Re, too, is changing to become more international in terms of talent acquisition, management innovation and expanding overseas. It has already entered the Lloyd’s market and set up a representative office in New York; closer to home, it is still keen on Asia and exploring the possibility of setting up in Singapore.
Innovation: a game changer

Yesterday’s first plenary session saw the panel discussing innovations in Asia’s and Africa’s insurance industries and how they can be more responsive to society’s changing needs.

Mr. Jiang Bo, General Director, International Department of CIRC said that after China’s accession into WTO, the insurance industry has opened up more to the world, actively introducing capital, technology, talents, mechanisms and concepts from international markets, and has made big strides in upgrading regulations and enhancing the industry’s competitiveness. However, he noted that the industry should be aware of the problems ahead, including insufficient service coverage and service capability.

Mr. Liu Anlin, Vice President of China Life, noted that innovation has been the most outstanding feature and strongest driving force behind 30 years of development in China’s insurance industry. Besides innovation in product offerings, insurers should benefit from the growing need for healthcare covers and reach out to under-penetrated segments, he added.

Coping with new technology

Insurers must understand the impact of the new technologies on their industry and enhance customer experience by making use of it, said Mr. Huo Lianhong, CEO of China Pacific Insurance Group.

In 2012, China had 564 million internet users with retail volume of RMB1.3 trillion, a 60% y-o-y increase. “As consumer demand is driven by new technology, insurers are required to respond quickly to the changes on consumer demand and behaviour by being innovative and customer oriented, analyse customer needs and adapt to their changes,” he added.

More can be done

The insurance industry in Asia and Africa has been innovative, but more can be done, said Mr Sivam Subramaniam, Editor-in-Chief of Asia Insurance Review and Middle East Insurance Review. Tapping into microinsurance and takaful has been a sign of innovation, he added.

He said that insurers should look into the changes in distribution mechanisms, including bancassurance, social media and the internet. And in order to survive and become a distinctive industry, players need to consider innovation as a necessary component in their strategies.

Innovation in developing markets

Mr. Matthew Mosher, Senior Vice President & Chief Rating Officer of A.M. Best, said that insurers and reinsurers must be responsive to the needs of society in order to remain relevant. He noted that innovation is especially important in developing markets where insurers deal more with the value proposition, while in the mature markets, insurers focus on internal risk management and limiting their losses.

Counting the costs of flooding

The first half of this year has seen flooding cause an estimated US$8 billion in insurance claims globally, said Swiss Re. FAIR markets, too, have not been spared from the widespread damage from flood recently. As a backdrop to today’s session on catastrophes, we take a look how some FAIR markets were hit by floods in August.

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
<th>Location</th>
<th>Deaths</th>
<th>Structure/Claims</th>
<th>Economic losses (US$)</th>
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</thead>
<tbody>
<tr>
<td>Asia</td>
<td>1 – 9 Aug</td>
<td>Flooding</td>
<td>Philippines</td>
<td>11 Hundreds+</td>
<td>36+ million</td>
</tr>
<tr>
<td>3 – 31 Aug</td>
<td>Flooding</td>
<td>Pakistan, Afghanistan</td>
<td>283</td>
<td>75,000+</td>
<td>1.9+ billion</td>
</tr>
<tr>
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<td>Flooding</td>
<td>China</td>
<td>18</td>
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<td>490+ million</td>
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<td>Flooding</td>
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<td>118</td>
<td>215,000+</td>
<td>4.1+ billion</td>
</tr>
<tr>
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<td>Thousands+</td>
<td>2.2+ billion</td>
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<td>Flooding</td>
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<td>22 – 27 Aug</td>
<td>Flooding</td>
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<td>23 – 27 Aug</td>
<td>Flooding</td>
<td>China</td>
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<td>9,000+</td>
<td>278+ million</td>
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<tr>
<td>Africa</td>
<td>1 – 4 Aug</td>
<td>Flooding</td>
<td>Sudan</td>
<td>73</td>
<td>40,000+</td>
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<tr>
<td>9 Aug</td>
<td>Flooding</td>
<td>Nigeria</td>
<td>1</td>
<td>1,000+</td>
<td>Unknown</td>
</tr>
</tbody>
</table>

Source: August 2013 Global Catastrophe Recap, Aon Benfield
GIC Re has been making forays into major international markets, in keeping with its policy as “the Indian reinsurer with a global footprint”. Mr Ashok K Roy, Chairman cum Managing Director, tells Middle East Insurance Review how the company is fulfilling this goal, how it is staying profitable, and its role in developing FAIR markets.

Q: Which major international markets is GIC Re planning to enter?
A: GIC Re is already present in London, Dubai, Kuala Lumpur and Moscow. We have strategic stakes in reinsurance companies in Africa. Plans are afoot to be more actively present in that continent. Nearer home, we have established a joint venture reinsurance company in Bhutan. SAARC Countries including Bangladesh, Nepal and Sri Lanka are also on our focus to enhance our presence.

What is GIC Re’s targeted business composition in the next three to five years?
GIC Re has enunciated Vision 2025 to be among the top 10 global reinsurers by 2025. Vision 2025 has a spread of 50:50 for our domestic and overseas portfolio as one of the main features. We have had aberrations due to obligatory cessions being varied over the years. During 2012-13, our foreign portfolio was 40%, while the domestic portion was 60%. On a five-year horizon, we see the ratio at around 45:55 for domestic and overseas, respectively.

What is GIC Re doing to ensure it is writing profitable business, going forward?
We have made our core skill, underwriting of risks, more competent and disciplined. We are also taking up risk modelling; however, it can be only as good as the data we use to generate the modelling results. The insurance industry, especially in the emerging markets, generates a whole lot of data, but not all of it is transparent and good to be used. We are working on this aspect too. We have introduced event limits on all proportional surplus treaties; commission is now strictly based on performance and higher profit commission is being considered. The Contingent Business Interruption clause has been restricted. Indian Interest Abroad (IIA) has been redefined with the primary object of preventing misuse. Various other measures, too, have been initiated to maintain our bottom line in the black.

GIC Re is the largest reinsurer in the GCC in terms of premium income. What measures has it taken to attain this position and write profitable business in a region characterised by low rates and plentiful capacity?
GIC Re has a strong brand in the GCC markets due to its long association. Also, post-2011 CAT events, we have tuned up our underwriting philosophy and taken a slew of measures, as I have spoken of earlier, which are now working to our advantage. Hence, despite plentiful capacity we are able to hold on to the bottom line.

What are the key issues you expect to see in the upcoming 1/1 renewals?
The trend that has now become a norm is expected to continue. The market is expected to be soft during the January renewals. There is excess capacity but still, we will try to hold on to our share if the pricing and terms and conditions are found acceptable.

GIC Re is the lead reinsurer in a number of FAIR markets and a custodian of the newly launched FAIR Nat CAT pool. What additional role do you see the company play in the FAIR markets?
All FAIR markets are emerging markets with low insurance penetration. GIC Re plays a balancing act by building a long-term relationship and helping in upgrading the underwriting skills of fellow members in the FAIR markets. We are always open to extending our arms for cooperation and development of the insurance industry in Asia and Africa, depending on the needs identified by the FAIR forum.
Mr Ashok K Roy, Chairman cum Managing Director, GIC Re

“GIC Re is already present in London, Dubai, Kuala Lumpur and Moscow. We have strategic stakes in reinsurance companies in Africa. Plans are afoot to be more actively present in that continent. Nearer home, we have established a joint venture reinsurance company in Bhutan. SAARC Countries including Bangladesh, Nepal and Sri Lanka are also on our focus to enhance our presence.”