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Asian reinsurance markets:
Long-term prospects outweigh current challenges

The Qatar Financial Centre (QFC) Authority publishes its 1st Asia Reinsurance Barometer today. Senior executives from international and regional reinsurers and brokers in Asia participated in the study, which provides an overview of the current state and near-term prospects of the US$30 billion Asian non-life reinsurance market.

Positive sentiment may erode

Sharing the findings of the survey, Mr Shashank Srivastava, CEO of QFC Authority, said the overall reinsurance business sentiment in Asia is positive, reflecting a relatively stable political environment, well-established regional reinsurance hubs and strong GDP and premium growth expectations. (Re)Insurance markets are set to expand further on the back of continued population growth, low insurance penetration and an accelerating pace of product innovation.

Mr Shashank Srivastava

Measured on a scale from -5 to +5 (very bearish to very bullish), average sentiment stood at 1.9. However, the trend is negative: about 12 months ago, business confidence was stronger at 2.3. Over the next 12 months, average business sentiment is expected to deteriorate further to 1.7, mainly reflecting an economic slowdown and a negative outlook on reinsurance prices.

Capacity going up

An overwhelming majority (96%) of all surveyed executives expect a further increase in reinsurance capacity over the next 12 months, as the region remains an attractive growth market. The majority of respondents also believe that reinsurance exposure and premium growth will continue to outpace regional GDP growth, driven by a continued accumulation of insurable assets in CAT exposed areas as well as low penetration rates.

More than half (62%) of survey participants expect reinsurance prices to decline over the next year. Many respondents said that the high CAT losses recorded in 2011 only had a very limited and short-lived impact on prices as traditional capacity was rapidly replenished and alternative capacity is beginning to emerge.

On the other hand, 54% of respondents expect stable terms and conditions, which are currently regarded by half as either "tight" or "very tight". This is a direct result of the 2011 CAT losses in Thailand and Japan, which led to a thorough revision of many treaties' terms, conditions and clauses.

Western capacity may have upper hand

As for the composition of capacity, the executives polled estimate that on average, Western firms provide about 75% of current Asian reinsurance capacity, with Asian companies accounting for the remainder. Fifty six per cent of interviewees believe that this split will remain relatively stable over the next 12 months, although 32% expect Western capacity providers to gain market share. The main reason for this is the maturity and increasing sophistication of the market, with increasing demand for complex solutions and services. In this respect, many interviewees believe that Asian reinsurers today are not as well-positioned as their Western counterparts.

Top 10 reinsurance brokers in the world

Reinsurance turnover in millions as at end 2011 (US$)

1	Aon Benfield	1,463
2	Guy Carpenter	1,041
3	Willis Re	763
4	Towers Watson*	180
5	JLT Re	165
6	Cooper Gay	133
7	BMS	85
8	Miller	82
9	UIB	53
10	Lockton	41

*Towers Watson's reinsurance brokerage business was acquired by JLT Re in September 2013.

Source: Business Insurance

Alternative capital influx:
What to make of it?

Alternative + Conventional = Way to go

"The changing capital supply entering the market is not a new phenomenon; it has been happening for a number of years but we're now seeing a broader acceptance of its role in the industry. It is now more widely acknowledged that the supply of capital to the industry has changed permanently.

Part of the role of reinsurers is to provide customers with innovative solutions to meet their individual needs using the most efficient capital that we can. We also need to remember that the new capital benefits from the traditional strengths of reinsurance and that combination will bring the best product to the customer.

It is up to us to help build the next development in reinsurance by partnering with alternative sources of capital. A combination of the strengths of traditional reinsurance and alternative capital is the right way to go for the customer."

Mr Thomas Lillelund
Managing Director, Asia Pacific, Aspen Re

Opportunity to restate value proposition

"It is an opportunity for reinsurers to restate the value proposition of the traditional reinsurance business model. To me, this relates to three attributes: certainty, continuity and flexibility.

The traditional reinsurance product has delivered on its commitment to pay claims promptly in any situation. Equally important is the confidence to continue having cover following a large event, as well as the ability to design protections with the flexibility to address specific needs. The traditional reinsurance product has a lot to offer clients, with the investment in mutual knowledge over years of close working relationships. It provides a solid foundation for delivering on certainty, continuity and flexibility.

Within Asian markets, my view is that the traditional reinsurance product will remain the preferred option to covering losses from natural disasters for these reasons, strengthened by the fact that it is also widely available and has the capability to transfer risk with limited data history and modelling robustness."

Mr Emmanuel Clarke
CEO, PartnerRe Global

Funds continue to flow in

"The monetary easing policies implemented by central banks in advanced countries caused a global glut of money and a decline in interest rates. Funds of investors suffering from poor performance with traditional financial instruments have continued to flow into the reinsurance market.

These funds have put downward pressure on the reinsurance market. Rates declined in US' July renewals, and we are concerned that the same softening will happen in the January renewals in Asia and Europe.

It is possible that alternative capital may flow out at once should major disasters, dislocated financial markets, or higher interest rates occur and the reinsurance market may harden. It will also be necessary to watch how the market will be affected by the end of monetary easing in the US, if this indeed occurs."

Mr Tomoatsu Noguchi
President and Chief Executive, Toa Re

Exciting or frightening? Matter of perspective

"In a world of zero interest rates, a 6% return on catastrophe risk that doesn't correlate with the rest of fixed income world is a very attractive proposition. The increased interest from capital markets in our sector is therefore just a natural development.

Undoubtedly, the reinsurance market is evolving to address the changes resulting from the altered landscape. However, the core operating principles remain unchanged – delivering sound risk protection to reinsurance buyers in a way that provides attractive returns to stakeholders.

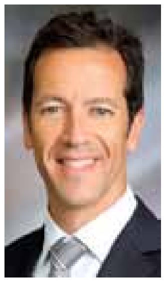
It might depend on your perspective whether this is an exciting or frightening time. Some reinsurers have proactively dealt with this evolution and have started to build up their own fund management platform – Validus, through our AlphaCat Managers, is amongst this group.

Going forward, I believe it will be instrumentally important that our industry use any capital most effectively to cope with future risk exposures."

Mr Marc Haushofer
CEO Asia Pacific & EVP, Validus Re

The new currency of risk

Regulatory and rating requirements as well as a heavier reliance on catastrophe models have placed increased emphasis on data quality. **Mr George Attard**, Head of Analytics, Asia Pacific with **Aon Benfield**, discusses how quality data has become a currency of risk, and other trends facing the insurance industry.



Q How important is quality data in shaping reinsurance and growth strategies?

Quality data, particularly catastrophe modelling data, has become a currency of risk. It is the means by which insurers, brokers and reinsurers describe risk to each other, as well as the foundation upon which an increasing number of business decisions are made. These decisions range from internal judgments such as capital requirements and allocations, through to discussions with external partners such as regulators and rating agencies. This being the case, data has become a strategic asset.

Quality data ensures that modelling better reflects the characteristics of the insurer's portfolio. Whilst many insurers are providing high-quality data for modelling analyses, many are still not able to provide adequate information, meaning modelling input data is compounding uncertainties. Improved data quality for use in catastrophe modelling leads to:

- Improved underwriting capability and profitability – traditional drivers within insurance;
- A greater confidence in reinsurance structuring and purchasing decisions;
- A better ability to manage exposure assisting the portfolio optimisation process; and
- Improved post-catastrophe event analysis and reviews leading to greater intelligence around impacted risks.

"There has been a greater focus on original information from policyholders and insurers in order to assess and underwrite risks including accumulation management. Over time, we can expect to see a gradual move to less reliance on policyholder information and use of big data to provide the relevant information for risk assessment in respect of individual risks."

– Mr George Attard

In general, there has been a greater focus on original information from policyholders and insurers in order to assess and underwrite risks, including accumulation management. Over time, we can expect to see a gradual move to less reliance on policyholder information and use of big data to provide the relevant information for risk assessment in respect of individual risks.

Q How does modelling need to evolve to support this emerging region?

The events of 2011 led to a greater focus on non-modelled perils and elements not captured in modelling – Thai floods, Japan tsunami, Christchurch earthquake and liquefaction. Given the socio-economic trends in the region, ie, urbanisation, risk concentration, increased wealth and so on, there is a greater focus on underwriting and awareness of risk concentrations and the importance of accumulation management. Reinsurers, regulators and rating agencies have also placed an increased focus on data quality, non-modelled perils, accumulation management and of course, underwriting controls!

As a result, there is an increased demand for a better understanding of the potential impact of natural hazards, which has led to a robust evaluation of the existing catastrophe models to identify their strengths and weaknesses. In addition, we have developed a strategy to address non-modelled perils in the region.

Aon Benfield's latest *Insurance Risk Study* pinpoints growth opportunities for insurers.

Q Where are the hotspots in Asia?

This year in the Insurance Risk Study, we have included an analysis that links pure profitability metrics to growth potential and political risk. Three Southeast Asian markets have made the top 10 of our Country Opportunity Index (COI), which identifies the world's most promising property and casualty markets. They have been chosen by analysts owing to their profitability, growth potential and relatively stable political environments. Singapore comes top of the list of 50 countries, followed by Indonesia in second place, with Malaysia in eighth spot. Hong Kong and Australia share 16th position, while Thailand, South Korea and India are all equal 20th.

We created the index using five statistics. The five-year average combined ratio received one-third of the weight, while five-year annualised premium and population growth, five-year real growth in GDP and an assessment of political risk contributed equally to the remaining two-thirds.

The Country Opportunity Index combines demographic, economic, sociological, and political information to identify and rank potential opportunity by country. Importantly, utilising this information in combination with the experience and insight of our local teams means we can provide our clients with market intelligence to assist them in meeting their strategic objectives.

Q Which regulatory challenges will insurers need to tackle going forward?

The region is at various levels of regulatory development, with a general trend toward risk-based capital (RBC) requirements across the region. In addition to more sophisticated RBC measurements, higher levels of minimum capital, adoption of international accounting standards, strengthened catastrophe protection requirements and ERM, as well as an actuarial review of reserve liabilities and a move to stress testing, will present challenges from technical and talent perspectives.

In addition, we may see many regulatory regimes incorporating a specific catastrophe risk charge, as with APRA in Australia, where both vertical and horizontal requirements have been adopted.

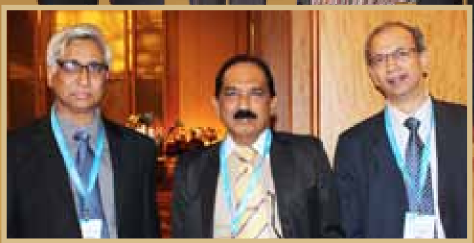
Friends come together

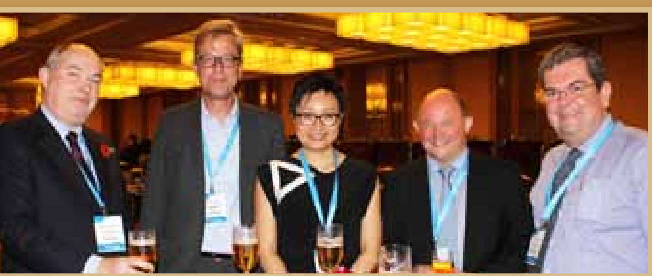
Delegates were present at the opening cocktail which carried a festive mood with Deepavali celebrations still fresh in the air. Asia's wonderful diversity was mirrored by the array of delegates from across the world all coming together to enjoy great food and company.

12th Singapore International Reinsurance Conference

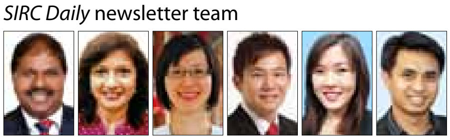
Organising Committee and GIC Re wish everyone a

Happy Deepavali / Diwali





SIRC Daily newsletter team



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