MIDDLE EAST INSURANCE REVIEW
Member: Beacon International Group, Ltd.

Wednesday | 22 November 2023
DAY 3

FAIR Daily

Published by: MIDDLE EAST INSURANCE REVIEW
Member: Beacon International Group, Ltd.

Sponsor: OMANRe
Reinsurance Protection Beyond Expectations

Media Partner: ASIA INSURANCE REVIEW
Member: Beacon International Group, Ltd.

Creative solutions in alternative risk transfer

The opening plenary session on the third day of the FAIR 2023 conference had the intriguing title of 'Case studies on alternative solutions across FAIR land' – and it delivered in style.

By Paul McNamara

L-R: Dr Corneille Karekezi, Messr Atish Suri, Ayman Al Ajmi and Fareed Lutfi

'Case studies on alternative solutions across FAIR land' was a spirited plenary session moderated by Emirates Insurance Association and GIF secretary general Fareed Lutfi.

Mr Fareed Lutfi

The lively conversation featured African Reinsurance group managing director and chief executive officer Corneille Karekezi, Guy Carpenter chief executive officer India, Middle East and Africa Atish Suri and Braxtone Group chairman and CEO Ayman Al Ajmi.

Africa

Dr Karekezi kicked off the plenary session by "bringing a flavour of the African continent" to the discussion of alternative solutions in the insurance value chain.

Dr Corneille Karekezi

He looked specifically at self-insurance, pools and captives. "Third-party capital complements traditional capital," said Dr Karekezi, and "alternatives can make a lot of sense for investors."

He focused on the advantages of reinsurance alternative solutions as an element of diversification of insurance covers, making it possible to benefit from costs of predictable covers, providing protection at reduced costs, providing access to additional capital and making it possible to diminish credit risk.

He also spoke briefly about CAT bonds, insurance loss warranties, collateralised reinsurance and sidecars. Dr Karekezi concluded with a glimpse at disaster financing in Morocco and in Kenya – and a look at Trade Development Bank captive insurance and the Africa Re Foundation's initiatives with Gallagher Re.

Climate change

Mr Suri gave his focus to global warming and noted that "perils are rising across the world," before going on to highlight the advantages of external risk transfer as a means of closing the protection gap.

Mr Atish Suri

"Protection gaps in major insurance and savings systems represent major social and economic challenges," he said.

Mr Suri then went on to identify the drivers of the Nat CAT protection gap, protection gaps that result in public contingent liability and concluded by looking at an example of disaster-risk transfer for urban settings in Vietnam – working with the Insurance Development Forum.

Case studies

Mr Al Ajmi wrapped up the first section of the plenary by offering a look at two case studies – the first on captive insurance and touched on the incentives of lower insurance costs, providing protection from risks, policy design flexibility, controlling claims and access to reinsurance.

Mr Ayman Al Ajmi

He then went on to look at the industries using captives and the top five reasons why a company would look at setting up a captive – which include cost efficiencies, reduction of insurance premiums, control of insurance programmes, their use as a strategic risk management tool and cashflow optimisation.

Mr Al Ajmi's second case study looked at motor InsurTech – where he hoped "to find shortcut solutions to deal with claims."

He focused on the impediments to MENA insurance industry growth where he pointed to market value bottlenecks, control of claims costs, high-volume manual processes – and indicated that image recognition AI to determine the value of claim could be a game changer.

The session ended with a spirited Q&A led by Mr Lutfi.

AI is the new electricity

The third plenary session for FAIR 2023 looked at AI applications in underwriting, claims and distribution and delivered some fascinating insights.

By Paul McNamara

The third plenary session was moderated by Aon chief legal and compliance counsel, Middle East Mohammad Abandah and included insights from Birla Institute of Management Technology chairperson - programme of insurance business management Abhijit Chattoraj and The Code Consultancy managing director Mina Saheb.

AI is important to insurance

Mr Abandah set the scene by outlining how critical to modern business improvement that AI has already become. According to a recent survey by DLA Piper of around 700 companies with turnover of at least $1bn, 96% said that they intended to implement AI technology in the next year.

Mr Mohammad Abandah

By default, said Mr Abandah, AI is important to insurance – if only because peer pressure will make it so. He was clear, however, that one of the greatest risks of AI in insurance is its inability to explain itself properly. One further risk could be increased exposure to cyber threats because of AI use.

The lesson for all insurers, he said, was to make sure that AI governance measures were incorporated into a carrier's systems. He said that it would also be important for insurers to let their clients know that they are using AI in the work.

View from India

Professor Abhijit Chattoraj

Professor Chattoraj began by offering some insights on InsurTech funding before moving on to look at use cases of AI in underwriting and claims management in the Indian market.

He pointed to AI-powered risk assessment which is presently being used in India by HDFC ERGO General insurance, telematics for risk profiling presently being used by Acko General Insurance, predictive analytics for claims severity being used by Bajaj Allianz General Insurance, automated claims processing using AI, fraud detection and prevention being used by ICICI Lombard – and imaging and video analysis technologies being used by insurers in India.

Professor Chattoraj remained a cynic, however, and said that "the trust deficit is everywhere". In specific reference to AI, he said "I have my reservations."

An ocean of a topic

Ms Mina Saheb

Ms Saheb had no such reservations. "I am very pro AI," she said and made the point that the application of AI in insurance is such a vast area that a single panel discussion could only scratch the surface of what possibilities AI could offer the industry.

"AI should be seen as an accelerator and an enabler of insurance business," said Ms Saheb. "Insurance is the perfect use case for data-driven businesses."

She then went on to highlight the fact that "the quality of data becomes critical – which is why so many insurers are undertaking data cleaning exercises."

L-R: Professor Abhijit Chattoraj, Mr Mohammad Abandah and Ms Mina Saheb

And there are gaps.

"Are reinsurers and brokers leveraging the data they have to be able to let their staff develop products for their customers? Probably not," she said.

"Technology," she said, "can give us new perspectives on how we can leverage our data." Ms Saheb pointed out that an AI that is properly trained will give consistent answers every time – not something that can be expected from actuaries, she said.

Ms Saheb then highlighted the case of Fukoku Life of Japan that is already implementing OCR technology to scan claims documents from customers which can then be compared to the original policy documents and provide an adjudication of a claim very quickly.

"The margin for error is extremely small," she said. Productivity for Fukoku was up 30% after one year of use.

But Ms Saheb left her most powerful point to last. "AI is not about all-or-nothing. It is about integrating it into your existing processes," she said.

The 29th FAIR in 2025 will be held in India

"In the steering committee meeting held on Sunday, it was decided to host the next FAIR (2025) in India. GIC Re, with its traditional relationships in Asia and Africa and the focus that it has always had in this geography, is thrilled with this news and will do everything to make the next FAIR conference an occasion for the Asian and African markets to meet and find ways to improve and expand relationships."

- General Insurance Corporation of India (GIC Re) chairman and managing director/chief executive officer Ramaswamy Narayanan

Reinsurance pricing and affordability

We caught up with **Munich Re**'s **Dr Achim Kassow** to talk about pricing and affordability.

By Paul McNamara

Pricing, capacity, retentions and terms and conditions for reinsurance business have become the core mainstays of discussions during the opening rounds of the renewal discussions during Les Rendez-vous de Septembre. This year was no different.

We caught up with Munich Re member of the board of management Achim Kassow to pick his brains about the upcoming renewal season. Dr Kassow recognises that renewals must make sense for all parties.

"The perspective of the primary insurer is the most crucial," said Dr Kassow. He points to the discussion amongst the Australian public about affordability of insurance. "That's where primary insurers have the first discussion," he said.

"What do they feel is a sustainable pricing level that is technically necessary, but is also acceptable to the public, by the market, by the environment they're operating in? That's the first question.

"The second question is how much capital would I be willing to dedicate to my basic loss expectations? And how much peak scenario do I want to cede out to my reinsurers? Do I, as a primary insurer, believe that my shareholders would be happy to accept more volatility to get a higher return? Or would they expect me to deliver very stable returns so that I need to cede out whatever is there in terms of volatility? I need the reinsurance market for that.

"Structurally, over the last two years, the prices for ceding out volatility have increased and so you need to compare the price of ceding out against your own cost of capital."

For Dr Kassow, considering all of these perspectives is essential.

"That is why I start looking at reinsurance pricing and affordability insurance from a reinsurance perspective," he said. "The question of what you could do in your primary market is for my cedant to assess. The second question is between the primary insurer management and their investors, and what the risk-return profile should be. That is also not part of my business as a reinsurer.

"The third thing is what does that mean for the market and is it sustainable from a reinsurance perspective? That's my business," said Dr Kassow. "It could well be that in the coming months we will see some more primary insurers saying, 'I would rather retain business because I believe that the risk-return of this business is better if I keep it for my shareholders instead of ceding out of the reinsurance market'.

"Those considerations are made in every market by every single insurance player. There is no generic answer, the best solution is always a specific one. In our discussions we say, let's credit our cedents that they understand what they want to do and then we discuss what our contribution could be. This is what we want to leverage, to understand the demands of our clients.

"They may wish to increase their retention, or they may rather go for more reinsurance providers, that's a very individual strategic decision and this is why Monte Carlo is so important, because it's basically the melting pot to find out where each company wants to go," said Dr Kassow.

Affordability of insurance

Does Dr Kassow foresee a time when some geographies or some business lines simply become uninsurable?

"I would rather expect more intense affordability discussions," he said. "Uninsurable is very rare. That applies to some systemic risks. So the main question is not one of insurability, it's rather a question of affordability. My hope is that price signals by the insurance markets will help all stakeholders to take sustainable actions.

"I commit quite a lot of time advocating to officials that the effective and sustainable thing to do is to provide targeted rules and regulations as well as to focus more on prevention.

"There are multiple examples around the globe where people after a catastrophe have taken intelligent prevention measures and that has helped reinsurance premiums come down and overall insurance penetration to increase. The interest of insurers needs to be to help the societies to build sustainable solutions," he said.

Reinsurance pricing, capacity retentions

We caught up with **Allianz Re**'s **Mr Holger Tewes-Kampelmann** to talks about growth opportunities and the year ahead.

By Paul McNamara

We spoke to Allianz Re chief executive officer Holger Tewes-Kampelmann on the sidelines of the annual reinsurance get together in Monte Carlo about how the business is growing and where further opportunities might be found.

China

Allianz Re has significant exposure to the China market.

"We have quite a sizable business in China and we like that it's a core part of our business," said Mr Tewes-Kampelmann. "The growth has been smaller than expected, but growth is not our primary concern. The margin has been good - or okay - definitely not great. But while we see some need for further strengthening, we think that we end up at an acceptable level."

Most metrics indicate that China's economy has been struggling post pandemic.

"Therefore, in China growth is lower than anticipated," said Mr TewesKampelmann. "You had a little less economic activity, so that helped a little bit on the loss ratio side. In some European market, with the reopening, you saw some inflation surge which also led to some deterioration of the loss ratios.

"We haven't seen that in China, so therefore, from a margin perspective, China has been in line with expectation. Nevertheless, if you look at the overall margins in China, given that some of the other markets have improved quite a bit, there's a bit of a gap."

But China will remain important for Allianz Re. "Overall, we are a material player in China and we will continue to be there," he said.

Growth markets in three pillars

Mr Tewes-Kampelmann analyses each market on a standalone basis.

"Currently we find India most attractive with the dynamics in the economy and everything," he said.

"Our share of the Indian market from our portfolio perspective has been a little bit lower. In our portfolio, one significant pillar is China, one is Japan and we want to build up our Indian business to be a third pillar.

"We have made progress on that and we will continue. Maybe Indian business will grow a little bit over proportionally for us in order to improve the overall balance of the market and also reflect what we think is the relative attractiveness of the different markets. The government is also focused on the protection gap, so I think the Indian market is really quite attractive. For the Indian economy, we are rather bullish. India is really on a good path," he said.

Pricing, capacity, retentions prospects

Mr Tewes-Kampelmann is approaching the 1/1 with a profound sense of realism. "It depends a little bit by market," he said. "We have to wait for some things to develop – like the CAT season in Japan and things like that. To some extent it's too early to say, but overall, it's one thing to look at the actual performance of the contract but in comparison to some of the global trends, on the pricing side, on the margin side, there is a little bit of a gap to be filled.

"Retentions sometimes have still to be looked at because what we see globally, in Europe, we have seen quite a bit of change. These climate-change-driven midsize, but still severe losses, we see more of these and that is a big burden for reinsurers if the retentions are too low. There's quite a push, which started last year, to increase retention in the developed world and that is something that I think will also spill over, but it might take a bit of time until it comes through in the local (APAC) portfolios," said Mr Tewes-Kampelmann.

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Member: Beacon International Group, Ltd.
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