Asia Insurance Review's
SIRC Daily
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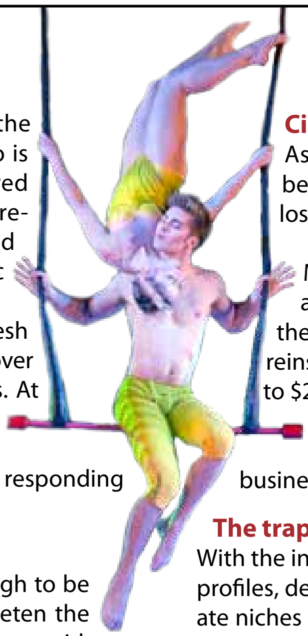
SIRC comes to town

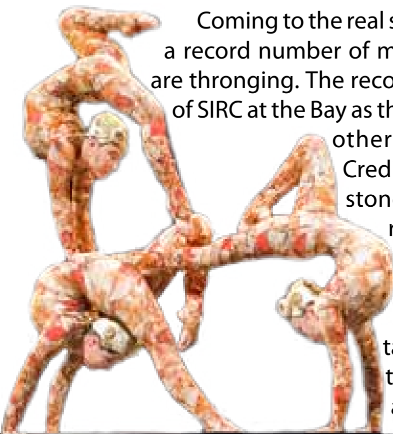
SIRC du Soleil is here at Marina Bay Sands. Which is the best ride? Who is taking the biggest risk, and who is offering the best deal? Can they even be compared given the high premiums still given to the "X" factor of relationship, even when discipline and pricing are accorded revered slots in the ERM, training manuals and public speeches of reinsurers?

In Monte Carlo, alarm bells were sounded over the fresh alternative capacity turning cartwheels in the market, and over reinsurance brokers making a bigger impact on business. At Baden-Baden, the mixed anxiety was that with not enough big bad disasters, Europe has become a buyers' market. With increased capacity and fierce competition, reinsurers are responding with more flexibility and tailored solutions.



A solo feat?

So what course will SIRC steer? Is Asia independent enough to be different? The push for geographic spread will help sweeten the Asian deal, even if reinsurance is very much a global business with no real boundaries.



Coming to the real story of SIRC, the figures say it all: with a record number of more than 900 delegates, the crowds are thronging. The record turnout is a ringing endorsement of SIRC at the Bay as the reinsurance event of the day, when other conferences are losing numbers. Credit goes to the organisers who left no stone unturned in setting the stage for reinsurers and brokers to meet under one roof in private rooms, the Lloyd's Café, exhibition areas and conference halls. Set yourself the task of checking them all out. No prizes though, but information, knowledge and making contacts are still power!

Cirque de nombre

Asia is doing well on the reinsurance scene despite or perhaps because of its contribution of almost 70% of 2011's record losses.

In fact, based on comparative figures extrapolated from Monte Carlo, the region's share of global non-life reinsurance business almost doubled to account for some 18% of the US$166 billion market since the last SIRC. The global life reinsurance business was only $61 billion, bringing the total pie to $227 billion in 2012.

And in terms of cessions, Asia is still around the world average of 8%, with 7.7% of its $388.5 billion of non-life business going into the reinsurance market in 2012.

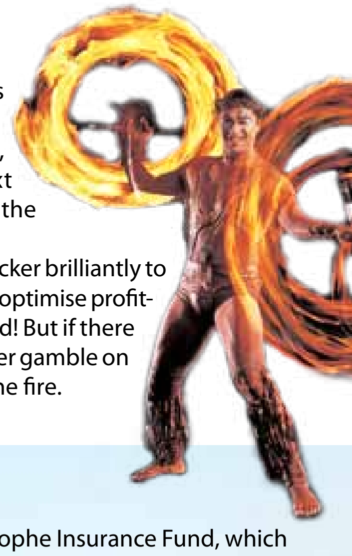
The trapeze artistes

With the increasing sophistication in the economy and changing risk profiles, demand is growing. So reinsurers coming on board can create niches in the areas of specialty risks. Awareness and demand for cyber liability and agriculture risks are increasing, and there are serious efforts to get the private sector more involved in offering CAT covers to the masses too.

The social gymnast

At the SIRC, you have the unlimited pass to all the rides. What you get out of it will depend on your personal enthusiasm, networking and leg work over the next three days. Everyone is here. So make the best out of it.

To use a Diwali image, let the flames flicker brilliantly to reach the sky. It's about managing risks to optimise profitability. If there is no risk, there is no reward! But if there is a risk, there must be a cost to it too. Never gamble on that and that is the simple brilliance of the fire.



Thailand back on stable footing

It was around this time two years ago that reinsurers attending the SIRC were scrambling for information on their exposures in Thailand as the massive flooding made headlines.

The aftermath of that saw one of the costliest loss events in Asia with claims of approximately US$15 billion. The floods led to the exit of several reinsurers from Thailand, including CCR of France.

With capacity in the Thai market set to command a premium, Berkshire Hathaway famously made aggressive inroads into the market offering cover mostly on quota share arrangements. Whether they were knights in shining armour or opportunists who distorted the market depends on whose opinion you sought.

Today, the Thai market is back on firmer footing, supported by arrangements such as the National Catastrophe Insurance Fund, which supplements existing capacity by offering CAT coverage to local companies. Since the beginning of 2012, it has sold 1.4 million active policies with premiums totaling THB804 million ($26 million), of which THB549 million are in reinsurance.

With the floods making a return in recent weeks, albeit not on the devastating scale of 2011, the Thai insurance market looks to be in a stronger position to absorb the shocks.

Building stronger Asian cities

Some of the cities most vulnerable to Nat CATs are in Asia, but residents in these areas tend to be largely unfazed by the threats. **Mr Clarence Wong**, Chief Economist of **Swiss Re Asia**, shares why it is important to have a broader view of catastrophes, and how the reinsurer is doing its part.

Several metropolitan areas in Asia are among the world's most exposed to Nat CAT risks, according to a recent study. The research from Swiss Re ranked the risks facing more than 600 urban areas worldwide and found that Tokyo-Yokohama, Manila and the Pearl River Delta region are the top three at-risk areas globally, with Kolkata in seventh place. The study, "Mind the Risk", also ranked Mumbai third when it came to storm-surge risks.

Just a few weeks before, another Swiss Re output – the "Risk Perception Survey" – had established that residents of these areas were generally upbeat about Nat CATs, when it asked more than 20,000 people around the world to rate the risks they faced. Indian residents, in particular, were largely unfazed by the threat posed by Nat CATs, and were far less alarmed than residents of the UK, Canada or even Switzerland.

Asian cities represent the overwhelming share of the people and economies that would potentially be affected by natural disasters, with the eight most vulnerable cities in the survey all in Asia. Yet, by looking at the results of the "Risk Perception Survey", one also gets a sense that the individuals living in many of these cities are not overly worried about such events. So what explains this optimism?

"Asian cities represent the overwhelming share of the people and economies that would potentially be affected by natural disasters, with the eight most vulnerable cities in the survey all in Asia."

– Mr Clarence Wong

A broader perspective

Perhaps one explanation for the difference in perspective between individuals and (re)insurers is the breadth of focus. Individuals consider what has affected them, their neighbours and their neighbourhoods – dealing with the facts at hand. (Re)Insurers, on the other hand, take a broader view of Nat CATs – they consider not just the threat to life, but also the threat of economic disruption. They also consider how societies respond differently, how to build defences against Nat CATs, and how people can get back on their feet quickly after disasters strike.

This is only fitting, because institutions – both public and private – are there to look both across societies and into the future. Swiss Re is doing its part not only by sharing its research and information with the public (through the surveys and studies mentioned above), but also by taking that knowledge and applying it to create positive change.

Building resilience through CROs

For this reason, Swiss Re has joined with the Clinton Global Initiative (CGI) to build resilience in more than 100 cities worldwide. Through the CGI, the "100 Resilient Cities Centennial Challenge" aims to hire a Chief Resilience Officer (CRO) for each candidate city. The CRO will be empowered to create a resilience strategy, and will make use of a range of tools, technical support and resources for the implementation of that strategy, including access to innovative finance for infrastructure development.

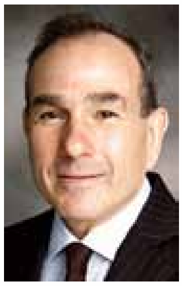
The CRO will concentrate on the measures needed to protect his or her city from extreme weather, seismic events or terrorism. Why the focus on cities? Because by 2050, an estimated 75% of the world's population will live in them, making urban resilience an imperative of the 21st century. When disaster strikes, cities are more severely affected due to population density – often with tragic results. Such disasters affect the poor and vulnerable in particular. Through planning, foresight and better investment, cities can dramatically mitigate these impacts.

Using tools and expertise

At Swiss Re, it is our deep conviction that we should prepare for disasters before they happen, rather than responding after the event. This saves lives, reduces human suffering and protects property. It also helps to speed up recovery and lessen the impact on public and private budgets. Swiss Re can make a unique contribution to the CGI programme with practical risk management insight and tools, including CatNet, a state-of-the-art risk assessment tool. At Swiss Re, we also look forward to using our expertise to help define the role of the CRO, and support the development of the CRO network – a measure that can compound the knowledge-sharing benefits Swiss Re has always believed in.

We look forward especially to being active in Asian cities, where we hope our expertise and foresight will be equal to citizens' pragmatism and optimism.

Solutions for evolving needs



Mr Malcolm Steingold, CEO of **Aon Benfield Asia Pacific**, assesses the impact of capital inflows on the region and the need for sound underwriting to be based on all available tools.

Q With reinsurance capital exceeding demand, what impact will this have on the industry in the Asia-Pacific region?

While the current balance of supply and demand will provide opportunities to purchase additional cost-effective reinsurance, especially for Japanese and Australian insurers, in terms of the Asia Pacific, we need to put the situation into context.

Firstly, outside of some specific areas like Japanese earthquake, supply in the Asia-Pacific region has been exceeding demand for some time now.

Secondly, much of this fresh capital is focussed on providing catastrophe reinsurance in the so-called "peak zones", where supply was more of an issue, and the margins for catastrophe reinsurance higher. Exposures in these zones are also more highly modelled than some parts of the Asia-Pacific region.

One caveat is that many reinsurers writing catastrophe reinsurance in China are starting to reach maximum capacity, and China will start to provide opportunities for the "fresh capital" seeking opportunities in the region.

Q What are the issues currently impacting your clients?

Asia Pacific is far from homogenous, and each market across the region has unique challenges, as does each client within these markets. Japan and Australia are, for example, mature, well-developed markets where achieving domestic growth would be the single most difficult challenge facing insurers.

By contrast, in the developing markets, low insurance penetration rates are both an issue and an opportunity, and one of the biggest client challenges is developing insurance products that are both relevant and affordable.

In markets that are becoming increasingly sophisticated, clients have the challenge of finding sufficient talent with appropriate qualifications and experience. This was the case in Malaysia, when the introduction of a risk-based capital regime led to market consolidation, and it could become an issue in Hong Kong, Indonesia, Thailand and the Philippines, where market consolidation would be beneficial.

Another significant challenge is the development of sustainable premium pools in markets where there is insufficient premium to adequately cover exposures to natural catastrophes. As a consequence, the amount of premiums ceded in the form of catastrophe reinsurance premiums in some markets is not sustainable, particularly at such low levels.

"Refining an existing model may still be of greater value than developing a completely new model in a country where no model exists. The key is appropriate prioritisation."

– Mr Malcolm Steingold

Q In which countries would you like to see catastrophe models developed to support insurers looking to grow in the region?

While catastrophe models are an important capital management tool and may be required to attract reinsurance capital, they are not a prerequisite to growth per se and there is general agreement that great care needs to be taken against over-reliance on models.

The spate of catastrophes across the Asia-Pacific region in 2011 highlighted the danger in relying too heavily on catastrophe models alone, and illustrated that sound underwriting must be based on all available tools, including Realistic Disaster Scenarios (RDS) and a deeper understanding of individual risks.

The development of catastrophe models is also an iterative process in which the models become more robust with continual refinement based on improving the quality of data. The development of a catastrophe model often happens with the benefit of hindsight, as was the case for the Thailand Flood model developed by Impact Forecasting (Aon Benfield's catastrophe model development team).

We would like to see models built for every country in the Asia-Pacific region, as long as they are relevant, supported by high-resolution data, and have undergone a thorough cost-benefit analysis. Refining an existing model may still be of greater value than developing a completely new model in a country where no model exists. The key is appropriate prioritisation.

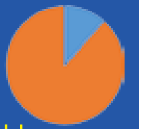
Q How does Analytics work in partnership with Aon Benfield's brokers, and are you looking to invest further in this space?

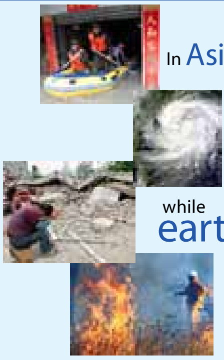
Aon Benfield currently invests US$130 million each year in its Analytics division, and as our analytical capability remains a major point of differentiation in Asia Pacific, we will continue to invest in our Analytics resources. This investment, like model development, must be relevant and based on a sound cost-benefit analysis where the primary focus is "how relevant is this investment in supporting our clients' growth and capital management strategies?".

I have one word to describe how Analytics work in partnership with Aon Benfield's brokers: seamlessly. Our business model is such that the transaction and value-based advice on which the transaction is based are inseparable.

Asia: CAT losses in 2013

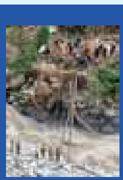
Total insured losses for Asia Pacific stood at $3.41bln, making up 11.8% of total global insured losses, which stood at $28.83bln.





In Asia Pacific floods caused about 70% or $2.40bln, tropical cyclones 12.6% or $0.43bln, while earthquakes and wildfires each caused about 6.45% or $0.22bln of insured losses.

The deadliest event in the region was the floods in northern India and Nepal in June this year, with more than 6,500 human fatalities.



Economic losses exceeded $1.1bln.

All figures in US$ unless otherwise stated.
Source: Aon Benfield for the period of 1 Jan – 21 Oct 2013

For Asia Pacific, the 10-year average (2003-2012) insured losses stands at $11.97bln, below 2011's record of $76.20bln.

Global reinsurance in 2012

The world reinsurance market, at $227bln, was roughly 5% of the world insurance market ($4,612bln).

The reinsurance market grew by about 5%.

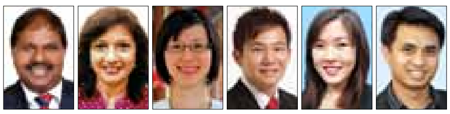
The top 10 reinsurers represented about 32% of the market.

Munich Re, the world's largest reinsurer, recorded net premiums of $35.7bln.

All figures in US$ unless otherwise stated.
Sources: SCOR, Swiss Re *sigma*, IAIS Global Reinsurance Report

Recollecting SIRC 2011

SIRC Daily newsletter team



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