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Tour of the East Asian Cities

An EAIC staple, the Chief Delegates' reports are eagerly anticipated by those looking for quick snapshots of the latest developments in the II markets. Here are the highlights.

Bandar Seri Begawan Diversifying the Economy

In 2007, Brunei's economy had a GDP of B\$18.5 billion (US\$12.2 billion) and per capita GDP of B\$47,500. Oil and natural gas accounted for 96.2% of exports followed by garments at 1.5%. However for 2007, there was a 6.5% decrease in the export of oil and natural gas to B\$7.6 billion.

As Brunei continues its plan to diversify away from the oil and gas sector, it is focusing on two major projects. Sungai Liang Industrial Park is a US\$450 million methanol plant scheduled for completion at the end of 2009, while Pulau Muara Bersar will be developed into a deep sea container port.

Life insurance premiums increased 5% from B\$66 million to B\$69 million, while conventional general insurers recorded a 38% jump in premiums from B\$42 million to B\$57.9 million year-on-year.



Ms Chiaw Yit Ching

Bangkok Tackling Challenges but Still Seeing Growth

While the overall Thai economy is expected to expand by around 5% this year, there is expected to be a downward trend in the second half, due to lower exports. From January till July 2008, non-life direct premiums written was 61.48 billion baht (US\$1.7 billion), while the life insurance industry enjoyed total premium income of 197.6 million baht, a 13.9% increase from 2006. For 2008, life premiums are projected at 222.3 million baht.

The financial crisis, new rules from the Office of Insurance Commission, political instability and the environmental changes are some of the challenges facing the Thai insurance industry.



Mr Jiraphant Asvatanakul

Hong Kong Non-life Sees Less Profits

One of the most crowded insurance markets in the world with 176 players, the market's long-term and non-life premium incomes accounted for 11% and 1.5%, respectively, of the total GDP in 2007. While the life sector continued its growth last year, bringing in a total in-force revenue premium of HK\$173,016 million (US\$22,310 million), an increase of 30% over 2006, the non-life sector still struggled. Its overall underwriting profit fell from HK\$2,487 million in 2005 to HK\$2,398 million in 2007.

The territory may soon see the establishment of an independent Insurance Authority, as the Chief Executive's recent policy address mentioned the need for such an agency to promote the industry's long-term and stable development.



Mr Allan Yu

Jakarta General Insurers Adopting RBC

General insurance premiums hit Rp17.6 trillion (US\$1.4 billion) in 2007, a 13.6% increase from Rp15.5 trillion in 2006. Notably, the number of general insurance companies which failed to meet the RBC requirement of 120% decreased from five in 2006 to three in 2007.

"I believe the next year will be hard for the Indonesian industry as it is a difficult time and players must work hard and get support from the government," said Mr Simanjuntak.



Mr Kornelius Simanjuntak

Kuala Lumpur More Flexibility for Insurers

Malaysia is set to enforce its risk-based capital framework on 1 January 2009, and expects this to "accord flexibility and relaxations for insurers in managing their investments", said Mr Mohd Tarmidzi.

Along with the country's favourable economy, the industry registered positive growth in 2007, delivering an 8.9% growth in life and general businesses' combined premium income, from RM24,885 million (US\$6,923 million) in 2006 to RM27,096 million in 2007. The market remained resilient in the first half of 2008, registering a 19.5% increase in its premium income to RM15.6 billion, compared with RM13 billion in the same period last year.



Mr Mohd Tarmidzi Ahmad Nordin

Macau Transforming Macau and Promoting MICE

Gaming revenues have more than tripled in five years, but despite this success, the government has begun diversifying the economy with incentive schemes for the industrial and commercial sectors, in addition to promote Macau as the destination of meetings, incentives, conventions and exhibitions (MICE).



Mr Ivan Cheung

Life premiums hit MOP2.2 billion (US\$275 million), a 28.6% increase, while non-life premiums grew to MOP971.6 million, a 34% hike from 2006. The total tally was MOP3.2 billion, up 30.2% from the previous year. These figures create positive expectations for the future development of the whole insurance industry.

Manila A New Personal Savings Plan

The Philippine insurance industry's overall premiums went up by 26% from PHP83.6 billion (US\$1.6 billion) in 2006 to PHP105.3 billion in 2007 – with the life sector delivering an increase of 38% and the non-life making a modest 3.3% gain. The reinsurance market, however, posted a decline of 4.6% from PHP414 million in 2006 to PHP395 million in 2007.



Mr Gregorio D Mercado

The industry marked a key development in August 2008 with the enactment of Republic Act 9505, establishing a provident personal savings plan, the Personal Equity and Retirement Account. "This is expected to boost the pool of retirement savings in the country," said Mr Mercado.

Seoul Record Profits Made

South Korea's insurers recorded their best-ever performance in 2007 in terms of profitability. The industry avoided major catastrophes with substantial losses and enjoyed outstanding operating results with a combined 13.9% growth in gross premium written from a year earlier amounting to KRW107.8 trillion (US\$71.7 billion).

The life and non-life sectors maintained their market share in 2007, respectively holding 69.7% and 30.3% of the market in terms of gross premiums. The online motor insurance business continues to expand, while cross-selling of life and non-life products has finally taken off.



Mr Jeong-Dae Kim

However, the current financial crisis is expected to affect the industry. "If the real economy deteriorates, the gross premium income will plunge," said Mr Kim.

Singapore Attracting, Creating and Developing Talent

Key developments in the life sector included enhanced governance and disclosure framework for par business, revision to rules to facilitate the availability of more cost-effective investment-linked products, and the introduction of the framework for insurance-linked securities. The general insurance sector also saw major improvements such as the Motor Claims Framework (MCF) that was launched in June 2008, whereby the GIA plans to provide a one-stop shop for motorists who have been involved in an accident.

The GIA also launched initiatives to promote insurance talent. These included the Talent Outreach Project to build and nurture a future generation of leaders to drive and lead the general insurance industry to its next phase of development. The Global Internship Programme launched by the Regional Development Committee of GIA aims to attract top talent for the general insurance industry. The internship allows undergraduates from the local universities to be exposed to the operations of insurance companies in Singapore as well as overseas.



Mr Derek Teo

In 2007, new business premiums in the life sector hit S\$9.71 billion (US\$6.41 billion), while non-life premiums reached S\$2.62 billion.

Taipei More Liberation with Foreign Investment

To improve capital efficiency, the Financial Supervisory Commission (FSC) has lowered the foreign investment limitation and allowed insurers to enter the China market. As before, the FSC will continue to focus on promoting life products emphasising mortality protection and annuity insurance products featuring adequate retirement planning for consumers.



Mr Warren Tseng

Non-life premiums declined by 1% last year to US\$3.41 billion, largely due to the slump in sales for motor vehicles, competition arising from the implementation of premium rate deregulation and the transfer of small and medium enterprises to China. The life insurance industry enjoyed a healthy growth of 17.8% in 2007 to US\$56.8 billion.

Tokyo Associations Enhance Insurance Industry

Major initiatives of the Life Insurance Association of Japan and the General Insurance Association of Japan included the enhancement of communication with consumers, environmental protection, promotion of traffic safety and auto theft prevention. In December 2007, the ban on banks selling insurance was lifted. In April this year, the compulsory automobile liability premium reduced by 24%. Two online life insurers were also set up this year.



Ms Taeko Yazaki

In 2007, life premium income hit 31,840.4 billion yen (US\$330 billion), while non-life net premiums written amounted to 7470 billion yen.



Opening Ceremony:

Embracing Challenges and Seeking Opportunities

Scottish bagpipes played while delegates stood to welcome this year's Executive Board Members to the stage for the Opening Ceremony of the 24th EAIC on Monday afternoon. With over 1,100 delegates from over 44 cities and countries in attendance, Chairwoman of the EAIC Organising Committee Agnes Choi said the theme "*Staying Ahead? – East Asian Insurers in the Era of Global Challenges*," portrayed the kind of challenges the industry is facing at the moment.



Ms Agnes Choi

Ms Choi added: "In this global village, one can hardly prosper without communicating and interacting with other markets. The EAIC is the perfect platform for industry leaders to share ideas and experience and to discuss what can be done to turn adversity to opportunities."

And what better way to mark this momentous occasion, while the global financial markets are faced with the daily doldrums, than to hold this year's EAIC in Hong Kong, the "City of Life".



Mr Henry Tang

The Guest-of-Honour, the Honourable Mr Henry Tang, HKSAR Chief Secretary for Administration, highlighted the importance of this annual event since its inception in 1962. However, "in recent months, the global financial crisis has sent shock waves everywhere – Asia has not been spared," he said, thus emphasising the need for the industry to tackle the issue and restore confidence.

This year, insurance practitioners must come together to improve regulatory regimes, and enhance the quality of the markets, he urged the industry. Hong Kong, he vowed, will continue to take the necessary steps to protect policyholders and uphold robust regulatory standards.

Hong Kong has enjoyed growth for the past decade, with last year seeing a 26% increase in insurance premiums, totaling US\$23.5 billion. This accounted for 12% of the GDP, rising from 10.6% in 2006. In Asia, it was third in insurance penetration.

Mr Tang added that Hong Kong is keen to explore new growth opportunities, strengthen economic ties with China through the Closer Economic Partnership Arrangement (CEPA) initiative, and bolster Islamic finance. "[Hong Kong] will be in a strong position when the global financial turmoil has subsided," he declared.

Despite the news headlines being dominated by the limbos on Wall Street, there are other issues on the insurance industry's radar, he said, noting that this year's topics on terrorism, global climate change and the ageing population are extremely relevant to the region as it seeks to create a sustainable industry, concluded Mr Tang.



Mr Paul Kong

"What a difference 27 months makes," quipped Mr Paul Kong, EAIC President, noting the sea change that had taken place in the global arena since the last EAIC was held in his home town of Bandar Seri Begawan, Brunei. "Today, even primary school kids are mouthing the words 'financial crisis'."

He urged all the delegates "not to buy into this negative mindset and to actively look for positive business opportunities and look for niche growth areas. This is also the time to review your strategies and operational priorities to get more efficient with greater cost maximisation... the insurance business is fundamentally sound and strong and we should therefore enhance our business potential."

World Equity Markets Suffered Record US\$5.8 Tln Loss in Oct: S&P

Although there have been some news of Wall Street rallying in the past two days, we bring you a report card of the stock market bloodbath in the grim month of October.

The meltdown in global markets, amid a squeeze in credit and worries about a worldwide recession, saw the world equity markets registering their worst month in history as investors lost an estimated US\$5.79 trillion during October, according to Standard & Poor's (S&P) Index Services.

S&P said the loss for the 52 main global equity markets measured in dollar terms topped the record loss of \$4 trillion set a

month earlier. Through the first 10 months of the year, world markets have lost about \$16.22 trillion.

Asia was not spared, with Indonesia registering the greatest loss of 41.58% among regional markets. This was followed by Thailand's loss of 34.95%. Asia Pacific's total losses for the month of October amounted to around \$930 billion.

"What do you get when you add the underlying concern of the economy and the fear of a worldwide recession to a market already devastated by credit issues? You get the worst-ever month for global equity markets in modern history," said Mr Howard Silverblatt, Senior Index Analyst at S&P.

"Overlooked, however, is the fact that the US market has been one of the better performing markets over the past five months – although the losses are substantial," added Mr Silverblatt. "To some extent, the much higher expectations of non-US growth, as well as the expected US decoupling, have caused a much stronger market decline abroad. As a result, the US now represents 45.9% of all global equity issues, compared to 40.5% at the end of May."



Innovative Ways of Financing Retirement



Swiss Re's *sigma* report (4/2008) draws on the experience of several countries to show how individuals and companies have managed retirement risks. **Mr Clarence Wong**, Chief Economist Asia discusses these solutions, many of which are already in the region.

Increasingly, insurance is taking a bigger and more important role in Asia to manage occupational pension schemes and offer voluntary supplementary savings products, while most governments focus on the provision of a more basic level of protection. Among the retirement financing products that are available or could soon be available in Asia are:

Annuities

Life annuities are contracts that guarantee a regular series of fixed payments over a person's lifetime, thereby eliminating the risk of individuals outliving their wealth. Variable annuities are more flexible products that offer retirees various guarantees. Their payouts are tied to the performance of an investment portfolio.

Variable annuities have grown in popularity in the US and Japan, and are now catching on in Europe and the rest of Asia. In Taiwan, the passage of the Labour Pension Legislation in 2005 confirmed the role of annuities as a supplement to retirement schemes. Taiwan's annuity premiums stood at US\$4.8 billion in 2007, 10 times the size of the market just five years ago.

Long-term Care Insurance and Reverse Mortgages

A typical 65-year old person has about a one-in-three chance of needing nursing home care during his or her lifetime. Long-term care insurance helps people to cope with the costs of nursing homes and other types of long-term care.

The government, which often has to step in when elderly people need assistance, has a strong incentive to support private market solutions. Given the large protection gap, it is surprising how underdeveloped the long-term care insurance market currently is.

Reverse mortgages, which are prominent in the US and the UK, have also become increasingly attractive. Swiss Re Economist Lukas Steinmann noted: "They allow retirees to monetise the equity in their homes – often the most valuable asset they own – without selling or moving out of the house." The homeowner receives a lump sum payment, periodic payments for life, access to a line of credit or any combination of these options.

Mr Steinmann added: "Heirs may keep the house by repaying the loan. Otherwise, the lender assumes ownership of the house." If the loan and the accrued interest exceed the value of the home, insurers step in to cover this gap.

Helping Companies Manage Pension Obligations

Providing pension benefits has become increasingly expensive and risky for employers. The *sigma* study noted that employers who wish to eliminate their exposure to pension risks purchase bulk annuities from insurers. Increasingly, companies are opting to transfer pension plan risks to insurers, who are often better equipped to manage their difficult-to-hedge risks.

There is increasing interest in new tools that make it possible to reproduce the characteristics of a bulk annuity within the framework of a pension plan. According to the study, only 1% of the potential UK market of over £1.1 trillion (US\$1.6 trillion) for private sector defined benefit pension plans has been tapped.

In China, the pension market is still at an early stage of development, comprising basic public pension schemes, enterprise annuities and other voluntary savings. Also, different traditional life insurance products are important instruments for Chinese to save for retirement, as evidenced by the high level of savings in various insurance products.

Reinsurance

According to the *sigma* study, insurers offering variable annuity products or long-term care insurance might team up with reinsurers who can provide guidance on product design, share the risk, and help to finance the product launch. Reinsurers also assure industry analysts, rating firms and regulators that the products are appropriately priced and hedged.

Insurers can also team up with reinsurers to transfer pension liabilities of an existing book of business to the reinsurer, outsource administration of policies to reinsurers, and engage in a pure longevity risk deal to reinsure risks while retaining the investment risk.

In addition, capital markets can facilitate more efficient ways of managing longevity risk.

What Governments Can Do

A number of successfully tested solutions can be considered. Governments could ask employers to automatically enrol employees into retirement savings plans, allowing employees to opt out instead of asking them to opt in. Governments should also clearly communicate their limited ability to finance state-run retirement plans and long-term care while promoting the need to save adequately. Moreover, governments should educate the general public about long-term care insurance.

Other options include offering tax incentives on pension savings and limiting the use of pension savings for non-retirement purposes.

Finally, governments could require that a minimum level of pension assets is annuitised to cover basic living expenses.

Education Needed

In Asia, while people often realise the need to better prepare for retirement, most fail to do so. At the same time, retirees should allocate a large proportion of their savings to immediate annuities because they protect against the possibility of outliving their income. Few, however, opt to do so. Many save too late, invest inappropriately, or fail to insure when it make sense to do so.

Better communication and education will be important in raising public awareness of the need to better prepare for retirement, in a region where people are rapidly ageing and living longer than before.



9th CEO Insurance Summit in Asia

24 - 26 March 2009, Four Seasons Hotel, Hong Kong

Theme: Getting CEOs to Harness the Power of Integrated Marketing

A MUST ATTEND for CEOs and Leaders

Mark Your Diary!

Keynote Address by:
Senior Official from the Office of the Commissioner of Insurance, Hong Kong

Special Industry Address I:
The Financial Crisis and the Extraordinary Role of Insurance – Lessons for Them, Lessons for Us
Patrick Liedtke, Secretary General and Managing Director, The Geneva Association

Special Industry Address II:
Paul Heath, Regional CEO, Ogilvy & Mather

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NAT CATs in Asia BY THE NUMBERS

In 2007, the **3** most costly insured losses in Asia-Pacific were

Storm with winds of up to 125km/h, rain, floods **AUSTRALIA** costing **US\$957million**

Torrential rains; 70% of Jakarta city flooded **INDONESIA** costing **US\$450million**

Typhoon Fitow with winds of up to 140km/h **JAPAN** costing **US\$350million.**

In 2008, Total property losses, excluding damage to infrastructure, from the **Sichuan earthquake** is estimated at

US\$ 16-48 billion

Insured losses are estimated at **US\$ 0.4-1.2 billion**

Cyclone Nargis took at least **146,000** lives.

In 2007 **Asia** registered **insured losses** of **US\$3.53 billion** which is **12.8%** of the world total.

It also registered **13,748 deaths** accounting for **63.8%** of the world total.





*Mark Your
Diary!*

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Preparing for the EAIC

As delegates began collecting their name badges on Monday morning, the EAIC held their Executive Board Meeting to discuss various matters including budgets and membership, as well as finalising the Hong Kong declaration. EAIC President Paul Kong chaired the Meeting.



QUIZ

To tease regulars and faithful attendees of the EAIC, here's a little quiz on EAIC trivia. The first five delegates to present the correct answers at the *Asia Insurance Review* booth will receive a complimentary CD-Rom containing all the articles published by *Asia Insurance Review* in 2007, worth US\$280.



1. Which is the EAIC with the largest turnout to date?
2. Which country hosted the EAIC at the turn of the century in 2000?
3. Which four countries have hosted the EAIC thrice?
4. Which two countries have only hosted the EAIC once?
5. In which year did *Asia Insurance Review* first become the official magazine of the EAIC?

▼ Climate change matters at the **Munich Re** booth, where you can not only pick up the latest industry reports but also enjoy freshly brewed coffee.



▲ The **HSBC Insurance** booth highlights the company's regional presence and the accolades won, while a corporate video plays at the same time to showcase their corporate social responsibility activities.



Showcasing Insurance

While on a significantly smaller scale compared to the last EAIC in Brunei, this year's exhibitors nevertheless put in much effort to woo the crowds.

► Commitment to partners and customers appears to be the central focus of the AIG display. Missing from this year's booth is the Manchester United theme.



▼ Capital ideas dominate at the **Guy Carpenter** exhibit, where visitors can also sign up for the sponsored junk cruise.



A Grand Ball at the Grand Hyatt

Cocktails, mingling, meeting and greeting – these typify the EAIC cocktail, and this year's event was no different as more than 1,000 delegates gathered at the Grand Hyatt to celebrate the start of the Congress.

Ms Agnes Koon
HKFI Chairwoman



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Stars Brighten Up the Night

Amid the clouds of the financial turmoil, the 12th Asia Insurance Industry Awards honoured the region's best. We bring you the highlights of the evening.



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