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Opportunity for Reassessment

“Hurricane Katrina is a timely reminder of the significant challenges facing the reinsurance industry today”

Although the global reinsurance industry has managed to weather the challenges of 2004 well, with the help of stronger balance sheets and prudent risk management, the industry has no room for complacency, stressed Mr Low Kwok Mun, Executive Director (Insurance) Monetary Authority of Singapore to more than 500 delegates gathered for the 8th SIRC, the event's second-largest turnout ever.

Reinsurers should take this opportunity to reconsider pricing models and risk-management strategies, to ensure that they are able to meet their obligations, especially with the increasing frequency and severity of natural catastrophes, he added.

Mr Low, who was the Guest of Honour at the conference, told delegates that, in order to minimise the occurrence of boom and bust cycles of the past, insurance supervisors around the world also have an important role to play in promoting better risk management and underwriting discipline.

With the extent of insurance supervision varying across jurisdictions, Mr Low welcomed initiatives by the IAIS to adopt a Standard on Supervision of Reinsurers in 2003, which encompasses areas of financial strength, supervisory review and disclosure requirements.

Another significant development of the IAIS is the recent passing of a EU reinsurance directive earlier this year which introduces a standard level of supervision which would enable European reinsurers to operate across the EU.

Turning to Singapore, Mr Low revealed that the guiding principle of MAS'

regulation for reinsurers in the country is to ensure a balance between having sound regulations and providing adequate business flexibility. It is definitely in the interest of the MAS that reinsurers operating in Singapore remain financially sound and well managed.

Call for Greater Clarity

Referring to recent debate surrounding claims from Hurricane Katrina, on whether losses were the result of one event, or if the flooding that followed the hurricane constitutes a separate event, Mr Low said these complications, although not unique, highlight the deficiencies in reinsurance contracts.

Calling for greater clarity and certainty in insurance and reinsurance contracts, Mr Low recognised that it was impossible to craft a reinsurance contract so tight that it would not give rise to any legal disputes, especially in relation to catastrophes. He urged the industry to come together and work out solutions to problems that have already been identified.

“We cannot control the forces of nature, and natural catastrophes will continue to occur, we can only be better prepared to face the consequences. Much can be done to mitigate the financial consequences,” he said.

Risk Management

A key lesson to be learnt from the events of the last few years is the importance of risk analysis and management of accumulation of risk arising from natural catastrophes.

Going forward, Mr Low said that reinsurers will need to adopt more sophisticated risk-management techniques to identify, model and monitor risks.

“In order to ensure their long-term viability, reinsurers will need to invest in appropriate risk-management systems that will allow them to access and accept only the risks they are able to bear,” he said.

Mr Low Kwok Mun



“Cycles Can Be Managed”

With a resounding and unequivocal “YES”, Mr Karl Wittmann, Member of the Board of Management, Munich Re, told delegates of the 8th SIRC in his Keynote Address, that insurance cycles can and must be managed, not just in Asia, but anywhere and everywhere in the world, and it was the critical responsibility of the management to implement and ensure the sustainability of a consistent market for all.

“We talk about cycles like it cannot be avoided or managed. But we have to remind ourselves that our business is not cyclical. Of course, we cannot eradicate cycles all together because of the movement of capital markets, but cycles that we will see in future will be lower in amplitude than what we have seen in the past,” said Mr Wittmann, stressing that cyclical behavior must be stopped and not be allowed to resurface again.

The Cardinal Sin of the Business

Highlighting eight key forces that drive cycles—overcapacity, lack of sophisticated tools, lack of transparency, herd instinct, focus on market share, double-digit market returns, sudden and major losses, patience of investors – Mr Wittmann also noted that the cardinal sin of the business in many cases is that the pricing of business is still based on history.

“The industry has been taking a retrospective view and not a prospective view on pricing risks. This has to change, and we have to change as an industry. The effect of taking a retrospective view is very detrimental,” he said.

The Mantra of Saying “No”

He also stressed that there was an essential need for the market to adhere to risk pricing in line with the risk assumed, and urged the industry to make writing profitable business the primary goal, and managing the cycle as a second-best strategy.

“Management has to learn to incentivise underwriters and staff not to write business if they

see a trend of softening rates. The industry has to learn to reduce exposures if price and terms and conditions are insufficient. It has to maintain a firm stand and learn to say ‘no’ to unsustainable business,” Mr Wittmann said.

9/11 Taught Importance of Integrated Risk Management

Noting that in the past, reinsurance market cycles were supported by the tendency of many players to defend market shares, Mr Wittmann said that, while this strategy may have worked well in the 1990s when the strong investment climate often compensated for negative underwriting income, the collapse of the capital markets in the aftermath of 9/11 drove home the importance for reinsurers and insurers to have an integrated risk-management strategy.

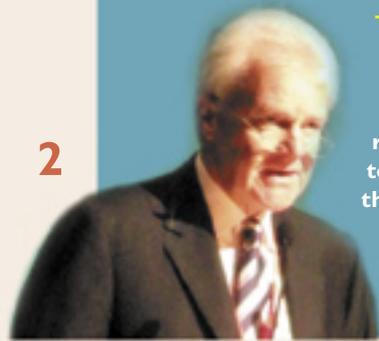
“With the capital market crisis, in the aftermath of 9/11, hurting the insurance industry more than four times the WTC attacks, the industry learnt that the asset side of the balance sheet can hurt as much as the liability side,” he said.

The Munich Re Way

Stressing that Munich Re is committed to its clients, Mr Wittmann said the company reinsures clients and cedants, not markets. It looks for true partnerships which involve mutual trust and respect. That is how it manages its cycle management.

Looking ahead, Mr Wittmann said that, although cycles will continue to be a characteristic feature of the reinsurance industry, their amplitudes will reduce significantly. “Stakeholders, including shareholders, analysts and rating agencies will continue to demand a consistently positive performance from reinsurers. The medium-term outlook for capital market returns is not promising. Therefore, we will need to continue to concentrate on making technical profits. A professional cycle management needs to be employed on a worldwide basis to mitigate the negative impact of a downward cycle. While active cycle management is essential, risk-adequate pricing at all stages of the cycle remains the ultimate road to success.”

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The Key “Cs” – Cycles, Catastrophes, Capacities, and Capital

Cycles, catastrophes, capacities, and capital were all the key issues dwelt upon at the first panel discussion. **Mr Clarence Yeung – Head of SEA, Member of the Executive Team Division Asia, Swiss Re**, chaired this session which gives a continuing affirmation of the view that cycles can be managed, and the importance of differentiating your clients at the end of the day.

Mr Hans-Peter Gerhardt, CEO, AXA Re:

2005 will not be a good year for reinsurers because of natural catastrophes, the meltdown of the global equity market, and historically low interest rates. As a reinsurance provider, we differentiate our clients and it is important they know that capacity and security should be their number-one consideration when looking for capacities; they should note that these are more important than pricing.

Mr Kenneth Ng – CEO, China International Re:

Cycles can be managed although it is not easy. My advice to fellow reinsurers is – think twice and be careful if a broker tells you that this programme is quoted and led by a mighty reinsurer with a big share. The most important part of managing reinsurance cycles is to keep cool, stick to core clients, keep underwriting discipline, and remain committed till the next market cycle.

Mr Tan Kin Lian, CEO, NTUC Income:

As an insurer, we look at the needs and risks of customers and see how they can manage these risks at

the lowest possible costs. What we would like to see from reinsurers is for them to look at our needs in the same way, to help us find solutions, and charge fair costs that can cover claims and expenses, and provide a modest level of profit. Reinsurers should also help insurers build competencies and manage risks.

Ms Wee Choo Neo, CEO,

Ikatan Asia Pacific Reinsurance Brokers

I don't believe in reinsurance cycles. An exceptional client will get best of both markets – people are getting to see the real value of capital. Companies can resist reinsurance cycles by focusing on right fundamentals, knowing the value of capital, and keeping underwriting profit in mind. Insurance companies which are steeped in excellent underwriting philosophy will recognise that cycle management is a thing of the past.

Mr Karl Wittmann, Member of the Board of Mgt, Munich Re, on pricing:

In catastrophes, there is a payback element. We will not charge insurers who did not cause losses in other parts of the world. However, there are certain classes of business which are global – this depends very much on supply and demand. We need to find ways of pricing, not to earn back the losses, but to get prices commensurate with exposure.



(L-R): Mr Kenneth Ng, Mr Hans-Peter Gerhardt, Mr Clarence Yeung, Mr Karl Wittmann, Mr Tan Kin Lian, Ms Wee Choo Neo

AROUND & ABOUT The SIRC

On the Market



It has been a difficult time as the market has softened somewhat in the last two years. The market today must respond to the changes and the worldwide losses. All parties must understand the situation and that rates cannot continue sliding further.
Mr Ow Hea Sea, Senior Manager, Facultative Dept, Odyssey Re

We will evaluate the impact of Katrina and Rita and see how relevant it is for Asia and reach a conclusion. But we believe that every client, every region needs to be look at differently. We are convinced that we can do better for our clients and should not just look at markets.

Dr Reto Brosi, Principal Officer, Singapore Branch, General Manager, South East Asia, Property & Casualty, Swiss Re (Singapore Branch)



Direct insurers must also play their part in managing the cycle. We must give proper rates for the risks, if not, the industry will not be viable very long.
Mr Chua Soon Chiang, Business Services Manager, Aviva GI Asia

We hope for a better future in the reinsurance market as the situation is not too bright today. I hope to see the tide turn for the better soon.

Mr David Wee, Deputy Chairman, Treaty Reinsurance, JLT Risk Solutions Asia



I fully endorse what Mr Low said about the market. I believe insurers and reinsurers will have to take an increasing role in managing their liabilities to cat exposures.
Mr Scott Ryrie, Senior Vice President, General Manager Asia-Pacific, XL Re

On SIRC Conference

The SIRC conference is an informative session and it is an opportunity to meet many friends from Asia and to cement those relationships.
Mr Charles J Catt, Adviser to the Management Board, Moscow Re



There is a good discussion of issues. It is also a good opportunity to reflect on the current events, and think about pricing and the management of the cycles going forward.
Mr Patrick Kenny, President and CEO, International Insurance Society



With the spate of catastrophes around the world, it is very timely that we meet to discuss and share experiences. It will be a tough time ahead, and I hope the conference will shed some light on how we might cope with the increasing frequency and intensity of these catastrophes.
Encik Anuar Mohd Hassan, CEO/MD, Malaysian Re



I hope to get clear signals for the coming renewal.
Mr Silvius von Lindeiner, CEO, Arthur J Gallagher Asia (L) Bhd



This conference gives me a chance to see what the trend for the future would be. It is also a great opportunity to renew old ties and make new acquaintances.
Mr Nehemiah Neo Lian Sun, MD, Insight Group of Companies

The gathering of so many people of the same industry together is very convenient and efficient as we meet and discuss issues. It is a one-stop meeting place where we can learn a lot from each other around the world.

Captain Solomon Chiu, Executive Director/President, Central Re



This is a fantastic opportunity to meet people, high-level insurance practitioners, and find out what they think about the future, especially after Hurricane Katrina.
Ms Susan Zajac, General Representative & MD, Lloyd's Asia



The conference is very good, interesting and informative. For reinsurance companies, it is an especially good opportunity to exchange experience and to network.
Mr Jiang Zhixi, Vice Chairman & President, China Property & Casualty Re



Congratulations to the winners of the Asia Insurance Industry Awards 2005

- Life Insurance Company of the Year
 - **AFLAC Japan**
- General Insurance Company of the Year
 - **Mitsui Sumitomo Insurance**
- Reinsurance Industry Contribution Award
 - **Central Reinsurance Corporation**
- Educational Service Provider of the Year
 - **Taiwan Insurance Institute**
- Innovation of the Year
 - **Fubon Insurance Co Ltd**
 - Seismic Risk Evaluation System

- Service Provider of the Year
 - **3i Infotech Ltd**
- Risk Manager of the Year
 - **Ray Mattholie, Group Risk Manager, Jardine Matheson**
- Broker of the Year
 - **Jardine Lloyd Thompson Asia**
- Reinsurance Broker of the Year
 - **Aon Re Asia**
- Reinsurance Company of the Year
 - **AXA Re Asia Pacific**

- Loss Adjuster of the Year
 - **Maphilindo International Sdn Bhd**
- Website of the Year
 - **NTUC Income - www.income.coop**
- Personality of the Year
 - **Jose L Cuisia Jr, Philam Life**
- Corporate Social Responsibility Award
 - **Ceylinco Insurance Co Ltd – Life Division**
 - **Life Insurance Corporation of India (Merit Award)**
 - **Millea Group (Merit Award)**

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All information is accurate and updated as at press time

WELCOME

Cocktail

The 8th SIRC, which officially started with a welcome cocktail sponsored by Lloyd's, saw the gathering of more than 500 insurance and reinsurance executives.



Members of the 8th SIRC Organising Committee

MUNICH RE COCKTAIL

The revelry continued at the Munich Re cocktail held above the bright night lights of Singapore at the New Asia Bar.

