

Asia Insurance Review's

## EAIC

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## EAIC to Keep Corporate Governance as Hot Issue on Agenda of Future Conferences

With interest in corporate governance being overwhelming at the panel session yesterday, Panel Chairman Katsuo Matsushita recommended that the EAIC Board keep the subject under active and continuous consideration at future conferences, while urging insurance education institutes to promote the subject in their curriculum to transfer the torch from one generation to another.

Concluding the highly successful panel with five speakers and a lively spread of questions from the floor that made the session run beyond its allotted time, Mr Matsushita, who is also General Manager of the General Insurance Association of Japan, invited insurance journals to publish success stories of good governance in the region to spread the message across the board.

Although the panelists, who were very well prepared for the session under the active leadership of Mr Matsushita, looked at the different aspects of good governance, they were unanimous in underlining the importance of corporate governance and exhorting every company to embrace good governance as a matter of priority, in line with their business dictates and social and legal

environment.

As Mr Matsushita summed it up: "The study of good governance may be a never-ending journey," Mr Matsushita said. "It is the framework for disciplining corporate activities with the ongoing monitoring scheme of the board of directors and officers, with the main aim of enhancing corporate value on a continuous basis. It does not – and cannot – work without a well designed and effective internal control system, and risk management embedded in each entity and spreading through every level of the company from head office to sub-branch, and from senior executive to younger staff and pervasive in the corporate, underwriting and investment activities of the insurer."

While the range of discussions was rich and varied, constraints of space force us to limit coverage. Hence, we zero in on one key point made by each panelist.



Mr Katsuo Matsushita



### Keeping a Balance of Power

Noting that corporate governance was about who governs the company, Mr CF Choy, Chief Executive, HSBC Insurance (Asia-Pacific) Holdings Ltd, said the balance of power between the stakeholders included bureaucracy and politicians too, in addition to banks and bondholders, managers and owners (which included shareholders, families and groups). Stressing that the Group was

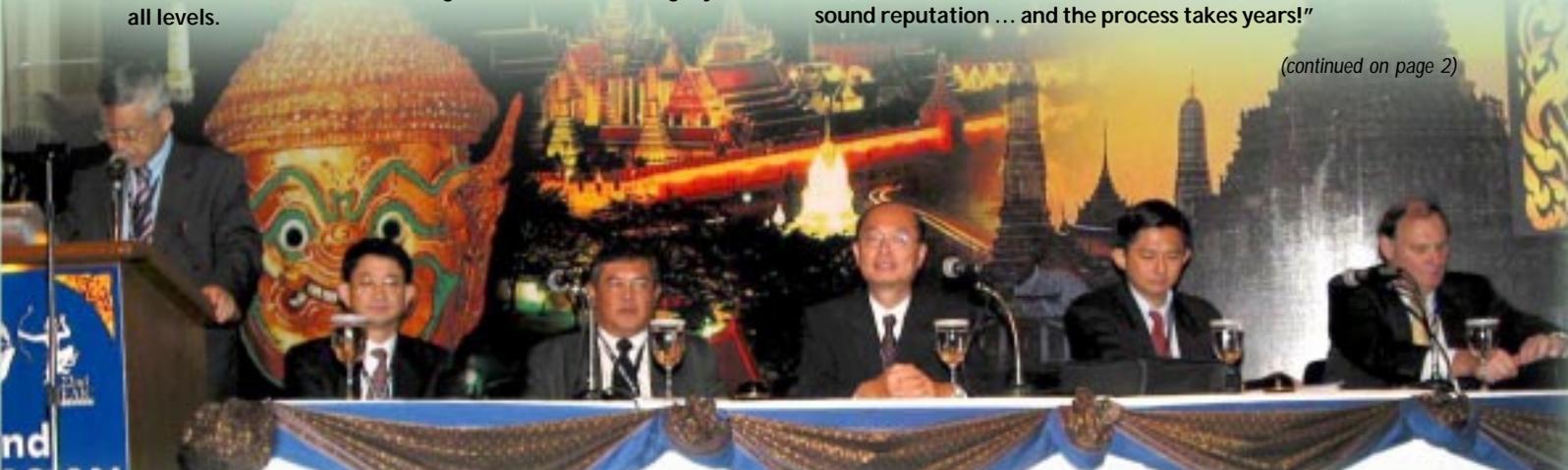
very diligent about exercising corporate governance, he said HSBC culture demanded the highest standards of integrity at all levels.



### Reputation is All

Noting that good governance was basically "applying the lessons we learnt at our mother's knee", Mr Patrick Wale, Managing Director, Aviva Asia Pte Ltd, said: "The disciplines of honesty, fairness and openness transcend culture, language and race everywhere in the world". On the hot topic of escalating costs of compliance, he asked: "Can you pay too much for peace of mind?" He also noted that for an insurance company in particular, "reputation is all" and everything: "Good corporate governance at all levels underpins the building of a sound reputation ... and the process takes years!"

(continued on page 2)



# Asia Moving the World's Centre of Gravity East

With Asia being one of the fastest-growing regions in the world, led by China and India, there is a gradual change in the centre of gravity for the global economy with a definitive shift toward the East said Lord Levene, Chairman of Lloyd's, the first international non-EAIC insurance leader to ever address the EAIC forum in its 42-year history.

Looking at global trends, he said: "If current economic, demographic and technology trends continue, you might conclude that the 21st century will be powered by Asian consumers in the way the second half of the 20th century was powered by those in America."

In a wide-ranging speech that touched on global trends in insurance, including the greater market share enjoyed by the top-five leading reinsurers, Lord Levene noted that one of the main drivers of insurance demand in Asia is the region's vulnerability to major natural perils – earthquakes, windstorms and floods. Asia was the top region reporting natural catastrophes, with some 245 separate events taking place.

Aside from global warming, the higher concentration of people in disaster-prone coastal areas, including the growth of high-tech plants and record-breaking high-rise buildings, are issues of concern in Asia – all this pointing to a major accumulation of exposure in catastrophe-prone areas.

On the good news front, global markets were getting better at managing these risks through the use modelling, and better underwriting systems and loss reduction measures.

2

## No Capacity to Meet Demand

Touching on the implications of these developments, Lord Levene said: "Demand for capacity is expected to outstrip supply in the region." As the market and its clients become ever more global, working with overseas reinsurers provides a very efficient and flexible way for local companies to gain access to external capital, he added, while noting that working with the "right" international insurers and reinsurers will provide a means of building specialist expertise locally

in order to strengthen the market in Asia and develop its capabilities for the future.

## The Need for Stable Local market

In this context, he warned that to attract international capacity, "prices and terms in the Asian market must remain firm", while expressing the worry that "although we have enjoyed some of the best pricing conditions for years, there is increasing evidence that competition is returning to the insurance market – both at a global level and here in Asia".

## Stable Pricing – Writing for Profit

Quoting Lloyd's research in Northeast Asia showing that 85% of insurance professionals there see managing the insurance cycle as a key challenge for the industry over the next few years, Lord Levene said Lloyd's underwriters are "viewing the future with caution – instead of growing capacity to increase market share, they have made it known that they are focusing on underwriting for profit and using their capacity in the most effective way".

He was most emphatic that this "is the only sensible approach for the industry to take to avoid sliding into another unprofitable down-cycle so soon after emerging from the last trough". Stressing that "consistency is something insurance and reinsurance buyers want," he said "a stable environment means that companies and organisations can plan ahead and transfer risk, in a predictable way, at a predictable cost – and manage their finance better".

The message was resoundingly clear and unanimously endorsed in spirit by the rapt listeners, although the sceptics came out in full force at break time to counter that no matter how strongly the spirit is willing to commit, the flesh can be made weak by time and competition.



## Corporate Governance *(continued from page 1)*



### The Extras that Come with Governance

Tackling the question of whether the two "must haves" – corporate governance and competitiveness – could co-exist, Mr Anuar Mohd Hassan, CEO, Malaysian National Reinsurance Bhd, stressed that corporate governance should be embraced as a corporate strategy to increase competitiveness. It is important that all the rhetoric that corporate governance has created be translated to actions. "For the sake of competitiveness, we must mean what we say and let us transform and move the industry forward with good governance," he said. And the answer is simple and obvious – execution! Corporate governance leads to failure when it is misinterpreted or too rigidly applied, or just plain abused. Otherwise, good governance will give a premium to a company, generally making it more attractive to investors and enabling it to raise funds at a cheaper cost.

### Corporate Innovation

Calling for the fostering of sound accounting structures and innovative corporate culture, Mr Kim Yong-Man, Regional Manager, Korean Re, said: "[Companies] need to create an internal environment where creative thinking is central to their values, assumptions and actions." As an unbroken chain of procedure, reformed governance enhances the transparency of government financial operations and creates systems that minimise the scope for making decisions on an ad-hoc basis, he added. The existence and future growth of companies will depend on how strongly they create, interpret and carry out their innovation agenda, and how persistent they are in their efforts.



### Soul of the Company

Panelist Paul Kong Thye Wei, Vice Chairman, General Insurance Association of Brunei, said corporate governance is about the soul of the entity, and therefore cannot be legislated. "Corporate governance will not work just by making management more transparent to the Board, or making the Board take a more active role in overseeing the operations. The drive to corporate governance must come from within the company, as part of its business survival instincts and mission statement."

# Munich Re Upbeat about Growth Up North

Ranked 2nd and 10th in the world in terms of non-life insurance premium volumes generated in 2003, Japan and South Korea are attractive markets to serious players in the insurance industry. For those who are already present and active in these Northeast Asian markets, the challenges for these players in the past few years have been the windstorms and earthquakes that have rocked these economies up north. Mr Bernd Gierl, responsible for Munich Re's business in parts of Asia and Australasia, shares his thoughts on the growth prospects for markets in Japan and South Korea, as well as how the world's largest reinsurer intends to service its clients there.

## What are the growth prospects like for Northeast Asian markets?

We look at individual clients in these countries instead of generalising in terms of markets. What we have seen is that prospects for growth are there. The Japanese economy has recovered in a good way, and the Korean economy is also performing well. We have good market share in both countries; they are positioned for growth because the economy is growing, the risks are growing, and the exposure to natural catastrophes – as we have seen very recently – is there and apparently also growing. There is a great demand for large capacities for natural catastrophes in the region.

South Korea, which is among the top 10 insurance markets in the world, and Japan, the 2nd-largest non-life insurance market in the world, are characterised by a high degree of concentration in the insurance industry. In Japan, 90% of the non-life business is in the hands of six groups. Also in South Korea, there is a limited number of very large companies. And of course we have the national reinsurer Korean Re, which is an important market player but also an important client for us. We bought approximately 1% of Korean Re's stock recently, similar to the small shareholding that we purchased in Toa Re some years ago.

In terms of the mergers and acquisitions that have taken place particularly in Japan, we don't find it difficult to do business because we look at clients on an individual basis. While it is correct that the retention of larger companies is going up, in times of M&As there are also business opportunities to be found, especially if one has a close working relationship with the client. We have observed that clients have reconsidered their panel of reinsurers in the process of merging, and we didn't really see a reduction of business volume.

## Are the current rates and pricing in Japan and South Korea adequate?

We have seen more discipline in pricing and rates. We must move away from the notion of cycles and talk about risk-adequate pricing. We need to look at the prices for windstorm and flood business. I think we can assume that prices are going to rise. We will look at each cover individually and recalculate. Historically, we do not even have three typhoon landfalls per annum. This year we've already had 10, among them two to three very large ones. So we have to look at prices, terms and conditions in this regard.

## How have the natural catastrophes in Northeast Asia affected Munich Re this year?

It is important that reinsurers, and Munich Re in particular, are not seen as being at the mercy of natural catastrophes. We must not think

that we sit here and wait, and if nothing happens then we're lucky. The insurance industry has instruments, ways and means of gearing our business to the exposure, and of limiting exposures. The insurance industry has highly qualified geoscientists, mathematicians and economists to calculate the right price for a given exposure.

And most of all, we have what we call "risk partnership" – we have an understanding among all partners in the value chain: the insured, the insurer, the broker, the reinsurer, and the authorities in the markets, especially if we're talking about natural catastrophes.

Each of these partners has a role to play:

- The insured must make sure that the right cover is purchased and that the risk management is of a high standard
- The insurance and reinsurance companies provide that cover and professional advice
- The authorities make sure that building codes are in place and enforced, and they disallow industrial sites and residential buildings in flood-prone areas. They must make sure that on a country level they sign the Kyoto Protocol so we can begin to control global warming. For instance, we had an extremely hot summer in Japan with the resultant increase in water temperature, and now we have the typhoons – this is an inevitable development.

Apart from limiting exposures and our concept of risk partnership, there is also a fiscal element to be considered: We must allow that if we have a year without natural catastrophes, the profits we seemingly made are not taxed away but can be put aside so that we can cover claims that may occur.

So that idea of risk partnership, which we increasingly see as working, is something that people understand. With the professional tools and means that we have to get the right price for the risk that we assume, we can control it – we are not at the mercy of natural catastrophes. For that very reason we will be able to continue to provide a very high degree of capacity as we have done before.

We serve our clients by maintaining a dialogue with them. We maintain that dialogue throughout the year – not only prior to the renewals. We practice professional exchange; we discuss risk and financial scenarios. We have professional teams in place in Tokyo and Seoul. It's also very important that in times of email and videoconferencing that one has a personal relationship with clients. The business is hard and everybody needs to make sure that there's sufficient money left at the end of the day.

## What are the challenges for Munich Re and the industry on the whole going into 2005?

There is rising risk and a continuous need for more transparency. And I feel that today the reinsurer who has a dialogue throughout the year with his client must be just as fit talking about integrated risk management, capital modelling as compared to risk modelling in terms of natural catastrophes. The scene has changed. Today the actuaries, the mathematicians, the economists, the geoscientists together play a part in the dialogue, as well.

I am confident that the industry will stay sensible in the face of challenges. But I don't see real disturbances on the horizon. I think we are on a good path. At the end of the day we provide a service to society; without insurance there is no investment or economic growth. Insurance and reinsurance is needed by the economies more than ever before. I think we need to meet these needs, and we need to do so in the most professional way. There is learning everyday for all of us.



# Your Comments on the 22nd EAIC Conference

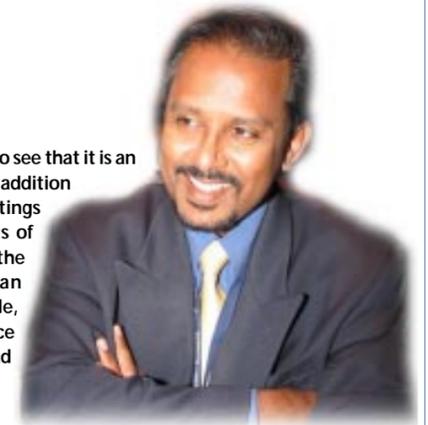


**Ms Agnes Choi**  
General Manager and Head of Corporate Insurance, HSBC Insurance (Asia-Pacific) Holdings Limited  
It is wonderful to have so many participants at this EAIC. This reflects the increasing interest from people towards Asia. With speakers from London, the conference is attracting more attention globally than just from the Asian countries. The conference is also a venue for reinsurers and their clients to meet; the reinsurance renewal is of particular interest to us, although our renewal is in July. We are basically monitoring the reinsurance market and talking with people to see how that will develop.

**Mr Yongyut Borvorn**  
President of Safety Insurance Public Co Ltd  
As part of the organising committee, I am of course very happy with the outcome. The turnout is simply great and I do get feedback that the programme is good. The EAIC also gives us a good opportunity to share our experiences. Not only did we get to hear Lord Levene's view, which is international in nature, but our own Finance Minister was gracious enough to give his view on the insurance industry and what role we can play to help the country. It is indeed a fruitful event for us.



**Mr Donald J Jaganathan**  
Director, Insurance Regulation Department, Bank Negara Malaysia  
I am attending the EAIC for the first time and I do see that it is an important venue for the industry to network. In addition to the sessions, there are also numerous meetings happening on the sidelines, and therefore lots of opportunities to get updates and insights of the various markets. It gives us regulators an opportunity to interact with the industry people, both on a formal and informal basis, and reinforce the good relationships between practitioners and the regulators of the industry.



**Mr Mark Saunders**  
Principal & Managing Director, Asia and Financial Services Business Leader, Asia-Pacific, Towers Perrin  
This is the first time I am attending the EAIC, and as I am from the life insurance side, I find this conference very much inclined toward non-life insurance; there are very few life sessions. As such I would recommend that it would be good if the EAIC could incorporate more life sessions. However, despite that, I do find that it is a tremendous networking opportunity and I can see why it is so popular. It is a great way to develop business relationships and friendships.



**Mr Abhijit Banerjee**  
Senior Vice President, Enterprise Business, ICICI Infotech  
We are very encouraged that there are so many people visiting our booth. We are heartened to note that people are seriously looking at their huge legacy costs and unscalable programmes, and asking how they can solve these problems. The EAIC is a great conference. There is a very good geographical spread of people from all over the world, and the people are all serious about wanting to find solutions for their businesses or to explore partnerships with each other.

4

5



**Mr Pierre Ozendo**  
CEO, Asia Division, Swiss Reinsurance Company  
It is good to note that the number of people attending the event is increasing, thus indicating an improvement in the health of the insurance industry. The EAIC is a great meeting place; a chance for me to meet our clients and to gauge the mood in the various markets. As each Asian market is different, this is an ideal event to gather the "temperature" of each Asian market, all at one location. With this, we can cater to the needs of each local market better.

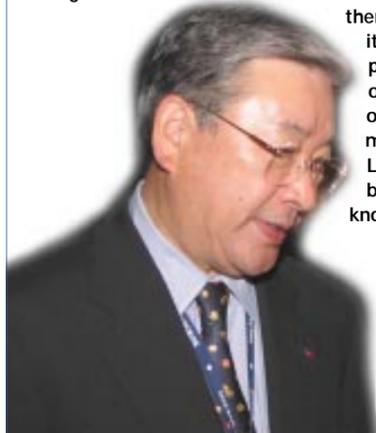


**Mr K C Tan**  
Vice President, Labuan Reinsurance (L) Ltd  
We have our own hospitality suite at the EAIC and it was very productive as we have had many guests. Certainly an ideal event to meet up with your old friends and make new ones.

**Mr David Piesse**  
Insurance Sector Adviser, PowerHouse International  
We are very pleased with the interest we got for MIGO. The timing is perfect as both life and non-life companies need their sales agents to be in constant touch with the office. We gave out more than 50 demo MIGO's and the initial feedback so far has been good. We had also received some co-branding enquiries, so that is exciting. Overall, it has been a very fruitful experience for us.



**Mr Ken Taki**  
Advisor, Mitsui Sumitomo Insurance Co Ltd  
I must congratulate the organising committee for the splendid coordination, from registration time to the technical sessions; the logistics must have been incredible as there are so many people here. The programme itself is also well prepared, and Lord Levene's presence here writes a new page in the history of the EAIC. It is important to have a good mix of people at this conference so that there is a more international outlook to the conference. Like everything else, insurance is an international business, and we should all be together to share knowledge and information with everyone.



**Mr Teo Lai Kim**  
General Manager, SCOR Reinsurance Asia-Pacific Pte Ltd  
We have had many meetings with clients here at the EAIC. It is always one of the best places to see everyone we want to in the shortest time possible, and get meaningful outcomes from the meetings. I must say the Thai organising committee did very well; the entire event has been run very well.



**Mr Marc Haushofer**  
Chief Executive Officer & Principal Officer, Munich Re Singapore Branch, South East Asia  
This is one of the best EAIC conferences I have attended so far, and the organising committee in Thailand has been wonderful to put it all together and attract so many people from all over the world.  
I also noted that this time, there is clear demonstration that the reinsurers are standing more or less unified, and I feel that there is a sense of understanding among us that none of us is able to afford taking any extra or unnecessary risks on our balance sheet. Everyone here seems to have now understood that message, and I think this is a very important and good outcome of this EAIC.

As for feedback on the event, I would say that it would be good to devote more time to interactive workshops where participants can prepare and freely discuss in depth the operational and strategic issues relevant to them; some of the issues could be on corporate governance, underwriting or other strategic issues. Such workshops can be very useful for the growth of the industry. If this component is increased in the programme, I would feel that the EAIC will be an even better event for all.  
But overall, the event has been very productive for all of us in Munich Re, and everything has been running smoothly, Thai style.



## Goodbye Bangkok, Hello Brunei

The 22nd EAIC has come to a close and everyone is going back to their countries. However, don't forget to mark your calendar for the next EAIC to be held in Brunei in July 2006.

Although it is two years away, plans are afoot and we spoke with Ms Dorothy Newn, Chairman of the General Insurance Association Brunei and head of the next EAIC organising committee in Brunei, about this and here is what she has to say:



We in Brunei are very honoured and delighted to be chosen to host the next EAIC conference, knowing that it is the largest and most important gathering for the insurance industry in the region. Although we are a small industry with only 17 insurance companies, we are determined to make it a success and maintain the high standards set by the Thais. It is no easy task, given the meticulous attention they have paid to all details and how welcome they have made all of us feel.

We will of course fall back on the expertise of the EAIC board to help us source international and regional speakers. We have already roped in the resources and expertise of *Asia Insurance Review* as a partner, with its widespread experience in hosting conferences of a high calibre.

I think the main difference when the EAIC is held in Brunei will be the fact that many delegates will be visiting the country for the first time. We will be able to show off our country to them at its most glorious period, during the month-long celebrations of our King, when the whole capital and the country will be decorated and lit up. This will be a major treat to delegates. Plus, I am told by many of the EAIC experts who have visited Brunei that we have one of the best state-of-the-art convention centres which can easily meet the various needs of the EAIC meetings. We are very proud of that.

As Chairperson of the GIAB, I know that the whole industry will have to work very hard for the next two years. But we will not hesitate to outsource some of the functions to the professional convention organisers. We will also involve all the hotels in the city to ensure that there will be more than enough rooms for the visiting delegates. The one major setback is the fact that in Brunei – as it is a Muslim Sultanate – no wine can be served in restaurants. However, visitors are free to bring their own alcohol into the country.

I look forward to welcoming all of you to Brunei in July 2006. We will ensure that the discussions engage the priority issues of utmost concern to the East Asian markets.

## 8th Singapore International Reinsurance Conference

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# A Thai Night Under the Stars

Exotic Thai cuisine and rich Thai culture was the order of the evening on Thai Night as EAIC delegates were taken by boat to the sprawling Royal Navy Convention Centre. The clear night sky added to the relaxed atmosphere as diners tucked into various Thai specialities from different parts of the country. Our roving camerawoman captures some of the special moments here.



## We Dare You

The EAIC is such an institution that everyone pretends to know all about it. But we have been following the mob for all these years and know many still feign knowledge.

So to dare you, we are offering in this daily quiz five questions to prove that you are as hip as ever about the EAIC. And for the first five to come to our booth with the right answers, we will give away the AIR CD-ROM containing all articles published by us in 2003 so that you can be just as hip about the insurance markets in Asia. And for that one person who wins for all the four days of our Quiz, a Very Special Prize awaits you.



1. Who hosted the EAIC of the New Millennium?
2. Name the smallest member of the EAIC (in terms of premium income).
3. Which are the top 3 insurance markets of the EAIC?
4. Which country changed the EAIC format to bring in foreign experts as speakers?
5. Who initiated the idea of the EAIC?