



EAIC Daily

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INSIGHT

PLENARY SESSION I

Planning for the Unexpected

Make Claims A Top Management Issue



"As an industry we don't take claims seriously enough," said Mr Peter Newall, Head of Claims & Liability Management, at Swiss Re Asia.

"As insurers, we only sell one product – the promise to pay. But as the industry is being squeezed two-fold firstly, by reinsurers who have contracts that they insist must be honoured and secondly by increasing pressure from claims staff as a result of increasingly complex claims – the industry is faced with fresh challenges.

Mr Peter Newall

In the face of tougher claims environment, Mr Newall warned that failure to handle claims will result in businesses being adversely affected.

Asia Spared for Now

Unlike its western counterparts, Asia has been relatively immune to

mega claims because of comparatively lower insurance density. Quoting statistics, Mr Newall said that insurance spending in the US averages US\$2,100 compared to US\$15 in China, US\$9 in Indonesia and US\$41 in Thailand.

However, he expects the region to see more large scale claims and as the prospect of wealth in Asia grows and people move into cities, new challenges in the form of security and safety in the workplace.

In the meantime more needs to be done in the region and for the industry to take claims management more seriously. "For immediate peace of mind, the industry must make sure proper reinsurance is in place and it provides contract certainty."

"Talk to your reinsurer and don't be afraid to make wording changes," he advised.

In the medium term, claims departments need to be beefed up and for the claims department to have top management mindshare and presence. Regulators also have a role to play in conducting scenario testings to ensure they are adequately prepared in the event of an avalanche of claims like during the 9/11 and Hurricane Katrina.

Coping With Trauma In Times Of Disasters



Highlighting the plight of people caught in a disaster, Mr Bob Neo, Managing Director of McLarens said that people are usually deeply traumatised and the psychological impact on them can be great.

As loss adjusters or insurers who are moving in to assess the damage in a harsh environment, they must be aware that most times, more than physical help is needed from them.

He recommended that a Business Continuity Plan (BCP) should take into account the potential psychological impact on management and staff and post-trauma occurrences, issues which have not been given enough attention.

As for physical losses, Mr Neo said that it is extremely important to protect one's assets and have a plan to restore it following a disaster.

Immediate Needs After A Disaster



Mr Mark O'Dell

to healthcare.

Presenting a life perspective in yesterday's panel, Mr Mark O'Dell, Executive Vice President & General Manager of American International Assurance Company Limited, Singapore, said that what people need in the immediate aftermath of a disaster are cash, food, information and access to healthcare.

As a life insurer, AIA will try to meet these needs as speedily as possible and local resources will be very important in times like these. To provide their affected policyholders quickly with cash, Mr O'Dell said that they work towards speeding up the process of giving them access to their policies' cash values.

Need For Carefully Crafted Policy Wordings



Adjunct Associate Professor Lee Kiat Seng

Stressing the importance of contract certainty, Adjunct Associate Professor Lee Kiat Seng, Partner, Messrs Wee Swee Teow & Co; said that ambiguity will only expose one to potential claims and the uncertainty of what your exposure ultimately is.

Hence crafting policy wording carefully cannot be stressed enough, he said. With trends moving towards more "friendly-worded" policies, Professor Lee cautioned that this has to be done carefully as words which appear to be clear to most people can be ambiguous to legal eyes.

"As far as reinsurance is concerned, most assume that our reinsurers will cover us anyway. This is dangerous," he said adding that while the terms and conditions can be used for the direct policy and the proportional reinsurance treaty, the same cannot be applied to Excess of Loss treaty.

Then there are other clauses such as the Co-operation clause which has its limits and as for the "Follow-the-Fortune" or "Follow-the-Settlement" clause, this clause spells that it will be followed if claims paid are bona fide and in a business-like manner. "In a natural disaster scenario, how can this principle be followed strictly?" Professor Lee asked.

Hence the constraints are real and the environment difficult. One can only minimise such uncertainties as much as possible with carefully crafted policy wordings, he said.

Panel Discussion I



Mr Simon Wu

The Power of Ratings

Mr Simon Wu

Triple A ratings among insurers are increasingly becoming an endangered species, as the industry grapples with the impact of high profile losses in the last five years and poor underwriting results, said Mr Simon Wu, Senior Vice President of Central Re, as he tackled the 'sensitive' and 'complex' issue of ratings in the panel discussion yesterday.

Noting that in the last five years, the average rating quality has fallen from AA to A+, he added that European insurers have especially borne the brunt of downgrades as a result of the bear stock market and their large equity exposures. In his chart of reinsurance ratings in recent years, he highlighted that S&P have downgraded all but two reinsurers while AM Best downgraded all but four.

Despite this, ratings within the industry continue to be much sought after, especially in the wake of the growing phenomenon in Asia for regulators to use ratings to enhance regulation and as a benchmark for peer comparison in their assessment of the overall industry. Ratings are also significant predictive signals for insurers' ability to pay claims.

He added that a strong financial rating has benefited companies in gaining greater access to capital markets and is regarded as a universally recognised measure for credit worthiness.

Irony of the Issue

Mr Wu candidly noted that a good rating was a valuable marketing tool, but very much like hell – once you get in, it's hard to get out!

He believed that rated companies to pull out of the system would raise suspicions among their clients and he questioned the same level of support from both local and international clients.

Stressing that the industry must be mindful of ratings triggers and not fall victim to the game of alphabets – "Ratings aren't everything. The irony is that there are companies that are downgraded to BBB level and still manage to survive, and yet there are others who with their A- rating still fail."

"Rating agencies are major force, in market place, but who gives them the power? It's the users!"

RBC the Way Forward

Mr Ng Lian Lu

Giving an unequivocal thumbs up for Risk Based Capital to be the way forward, Mr Ng Lian Lu, President of the Life Insurance Association of Malaysia said that the RBC framework forces the industry to look at the risk adjusted returns and promotes a greater risk awareness culture within companies.

He added the RBC framework helps build skills internally and provides a disciplined and consistent approach. He warned that the challenge for the industry was to get the details right and strike a balance between adequate protection to consumers whilst at the same time reward insurers.



Mr Kornelius Simanjuntak

Balancing Act

Mr Kornelius Simanjuntak

"The move towards greater self regulation must be done in a gradual process and in stages. Regulators should monitor the process and implementation otherwise greater self-regulation may destabilise the market, and disadvantage policyholders.

We must be mindful that industry associations are established with the primary aim of promoting and protecting the interest of its members. This leads to a very real and potential conflict between furthering the cause of insurers versus ensuring fairness to consumer.

While it is desirable that consumers be empowered to the extent that they are able to advocate on their own behalf within the marketplace and challenge unsatisfactory behaviour by insurers, in reality only a small proportion of our consumers are so empowered."



Mr S.K. Cho

Good Corporate Governance A Way Of Life Today

Mr S. K. Cho

After fraud scandals of several global firms such as Enron and Worldcom, corporate governance has been in the spotlight of controversy, spurring similar concerns around the world, said Mr S.K. Cho from LIG Insurance Company who spoke on behalf of Mr Byung-Hun Kim, Executive Vice President, LIG Insurance Company.

In Asia, corporate governance of the Asian companies, including Korean firms, has continuously developed since the financial crisis, because of rapid diffusion of globalisation, shareholder activism and strong commitment to change by government and companies. "In Korea, many people believe that the inefficient government systems are the root cause of the financial crisis in the late 1990s," he said.

Companies have since actively introduced new systems such as the protection of minority interest, outside director system, and high-level audit and compliance system.

As corporate governance gathers momentum, there must be a need to seek a balance between regulation and voluntary self-regulation. Mr Cho said that a win-win proposition would be for the principles of corporate governance to have diversity, flexibility, and allow for sustainable competitive advantage.



Mr Ng Lian Lu

Tackling the Hard Issues: Through Science, ART and the Heart



The 23rd EAIC did score several records amidst all the accolades pouring in. There were several hard issues that were touched on, with several brave options being kept open in personal lines, underwriting, claims, catastrophes and more perhaps in management cultures, distribution and channel conflict. There is a science to it, but more importantly the art of management and the heart of the business must rule.

Different Management Cultures

We kick off today looking at learning from different management structures, and the stress here must be that insurance managers must compare beyond just their peers within the industry and go beyond in stages to benchmark themselves against the suave bankers and other financial services sector, and even beyond to the rest of the economy. Don't hide behind the excuse that insurance is a commodity that is "sold more than bought", or that it is a "very technical product that needs a differentiated treatment". Be brave to transcend the silos of thought, and measure yourself against the best in the economy.

Personal Lines

There's more about today. So don't pack your bags just yet. Personal lines is a game that is yet to be played in its fullest glory here in this region, although Thailand seems to have achieved a great breakthrough in this area. Personal lines is underwriting, marketing and distribution driven, and all of these issues will be actively discussed in the breakout sessions today.

Getting Re-focused on Life

One of the perennial complaints of the life players in the market is that the EAIC is more a "non-life" rather than a "life" gathering, despite repeated assurances from the EAIC Board and the Organising Committee. This myth needs to be dispelled and maybe Hong Kong, as the next host, can ensure that the life boys return to the EAIC table in full force with zest.

But for today, in the Life Breakout, the secret of channel conflict can be unraveled with the stress on transparency. Gone are the days when we can play one channel against the other through different names. With the Internet being the great leveler of information, it is upfront honesty and transparency that has to be the basic starting point for channel conflict management, after which the issue of fairness, ownership and all can set in.

The burden today is on the life panelists to ensure that the messages they share will reverberate in every life office and distribution outlet that the life players will be queuing up to sign up for Hong Kong.

Catastrophe Management

The region is in the catastrophe-prone zone and, as the recent

earthquakes and Tsunamis have shown, the frequency and severity of catastrophes and the damages wreaked are increasing. Japan was in the happy position of reporting less natural catastrophes for 2005 since the year earlier was their worst ever.

Accurate Predictions of Losses?

Catastrophe management has become not just a matter of urgency but one of utter necessity. As the Keynote Speaker Prof Dr Peter Hoeppe, Head, Department of Geo Risks Research of Munich Re, said in his session on whether natural disasters could be accurately predicted, that the recent mega disasters like the Indian Ocean Tsunami and Katrina showed that you really have to "expect the unexpected" and in the accounting and planning, one has to account for the "unexpected".

While there are scientific models that have been created to predict these losses and their impact, in fact, there is increasing competition among the experts in the field, the best models are all dependent on the data keyed in. And this is where the availability and the accuracy of the data collated matters. Munich Re, with its 126 years of accumulated experience and data, has the edge over the other modeling agencies that have crept up in recent years. The more modeling agencies there are, the better as they all add to the general storehouse of information and in creating greater public awareness of natural disasters and the potential impact and the urgent need to take loss prevention measures.

Despite the best data, the presumptions and assumptions made in the modeling can seriously skew or affect the outcomes of the prediction. So, no matter how scientific the model, there is still some "guestimates" involved albeit with the best intentions.

The Indian Ocean Tsunami of 2004 was caused by one of the biggest earthquakes ever recorded ever, and showed a global dimension with the number of countries affected and took everyone by surprise. No one could have predicted that, leave alone the sad thought that it would be on the day after Christmas when the world is on holiday.

A Humanitarian Response

On the issue of raising public awareness of the need for insurance cover, nothing works better than having public stories on the claims paid out by insurers. And as Mr Nehemiah Neo, Managing Director, Insight Group, said, when giving tips on ensuring efficient and effective claims settlement in times of disaster, there is a need for the insurance industry to show its humanity when disasters require humanitarian and not commercial response as there is a vast scale loss of lives, livelihood at stake, and the urgent need to alleviate suffering.

But keep the communication lines very clear and open as he ended with a poignant reminder that "reinsurers can be your best friend or your worst nightmare foe".



Extreme Weather Events

Dr Peter Hoeppe, Head of Geo Risks Research, Munich Re, Munich, Germany, looks at the issue of global warming and how its effects have impacted the global environment.

The last years have brought new records in the frequencies, intensities and losses from weather-related disasters worldwide. Figure 1 shows the global trend of economic and insured losses caused by great weather-related disasters. In Asia, in 2004, a record number of 10 tropical storms made landfall in Japan. In 2005, the highest ever measured 24-hour precipitation for India reached 944 mm and has caused torrential flooding in the Mumbai area. In other regions, increases in weather-related disasters, especially hurricanes, have even been larger. There is increasing evidence from many recent scientific studies that the increase in weather extremes has a causal link with global warming.

Fundamentals of Global Warming

The 3rd Assessment Report of the UN's Intergovernmental Panel on Climate Change has documented that the global mean air temperature during the 20th century has increased by about 0.7°C. The year 2005 has been the second-warmest one since the beginning of routine temperature measurements in 1856 (WMO, 2006).

Concurrently atmospheric carbon dioxide (CO₂) concentrations have risen from pre-industrial 280 ppm to 381 ppm by 2005 with higher increases year by year. These changes in CO₂ concentrations primarily originate from anthropogenic sources, the burning of fossil fuels. CO₂ is the major "greenhouse gas" closing the atmospheric window for the heat radiation of the earth by absorbing and counter-radiating it.

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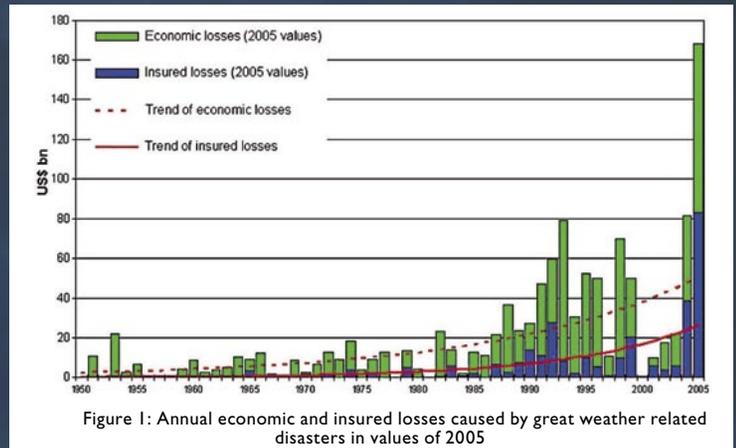
Due to this additional energy in the lower atmosphere, the air and also the sea surfaces are heating up. Recent scientific studies have shown that the surface layers of all ocean basins have become warmer during the last 30 years (Figure 2) and that this trend is caused by anthropogenic global warming (Barnett et al, Science 2005). Of all factors influencing tropical storms, only this continuous increase in sea surface temperatures can explain the increases in their intensities (Webster et al, Science 2006).

Increase Of Typhoon Intensity Due To Global Warming

Due to global warming and the associated increase in sea surface temperatures, the probability for the occurrence of strong typhoons is increasing. Prof Emanuel from the Massachusetts Institute of Technology has recently shown that the annual power dissipation index of typhoons (PDI), a measure for their destructiveness, has increased in the NW-Pacific already in correlation with the rising sea surface temperatures (Figure 3 – Emanuel, Nature 2005).

These findings are in line with results from climate model calculations on future tropical storm intensities which clearly see increasing wind velocities and 18% more precipitation by 2050 (Knutson et al, 2004). Webster and colleagues have found that, since the 1970s, the worldwide average number of Category 4 and 5 (Saffir Simpson scale) tropical storms has increased from 8 to 18 per year.

Currently the conditions in the North Atlantic, where in 2005 the strongest (Wilma), fourth strongest (Rita) and sixth strongest (Katrina) hurricane on record (since 1850) have been observed, are influenced also by an adverse



phase in a natural climate cycle (Atlantic Multidecadal Oscillation).

The Western Pacific shows a similar climate cycle which, however, these days, is rather in an advantageous phase. This oscillation may swing to the other phase very soon and then will add up with the ever increasing loss driving effects of global warming.

Together with the changes in the atmosphere, the extremely fast growing economies in the People's Republic of China (PRC) (especially in the Pearl River and Yangtze Delta with megacities like Hong Kong, Shanghai and Guangzhou) and in India drive the damage potential for the respective insurance markets dramatically. Although the Yangtze and the Pearl River Delta have been spared, in recent years, by major typhoons, the potential for and consequences of a really catastrophic event are increasing. PRC is hit on average by six to seven tropical cyclones per year of which four to five reach typhoon strength. The 2005 events in the US have shown that the combination of increasing values and storm intensity can lead to new loss dimensions. Reinsurance is indispensable for the survival of primary insurers in case of such calamities. The prerequisite for this is a functioning risk partnership.

Munich Re A Reliable Partner For Nat Cat Insurance

For 125 years, Munich Re has been a financially strong and reliable partner worldwide and provides tailor-made insurance and reinsurance solutions to its clients. With a strong expertise in natural hazards, its Geo Risks Research Department (founded 1974) has developed IT-based tools for the calculation of loss potentials of natural disasters and owns the world's largest database on natural disasters. Part of its team is now based in Hong Kong to assist our Asian clients in all natural disaster-related issues.

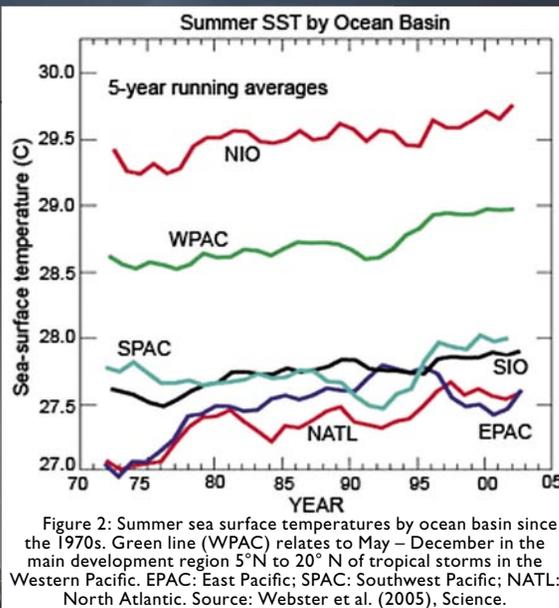


Figure 2: Summer sea surface temperatures by ocean basin since the 1970s. Green line (WPAC) relates to May – December in the main development region 5°N to 20° N of tropical storms in the Western Pacific. EPAC: East Pacific; SPAC: Southwest Pacific; NATL: North Atlantic. Source: Webster et al. (2005), Science.

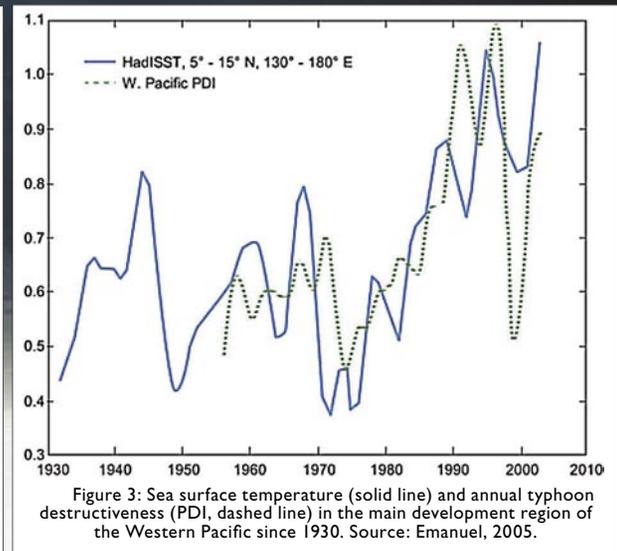


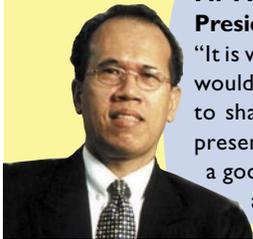
Figure 3: Sea surface temperature (solid line) and annual typhoon destructiveness (PDI, dashed line) in the main development region of the Western Pacific since 1930. Source: Emanuel, 2005.

CONFERENCE Buzz

We surveyed delegates on their impressions of this year's EAIC and found not just positive feedback but suggestions for future conferences.



Mr Yassir Albaharna,
CEO, Arab Insurance Group (Arig):
"This is my first time attending the EAIC, and I think the venue is excellent and the networking opportunities are great. The event is indeed well-organised. As for expectations, I hope to make as many contacts as possible."



Mr Majid Mohamad,
President/ CEO, Labuan Re:
"It is well-prepared and the hospitality was well-arranged. I would also say that it is good to bring in international people to share as I learnt a lot from that. The chief delegates' presentations are also getting better, and lastly, it is always a good opportunity to get re-acquainted with old friends and to make new ones at the EAIC."

Mr Xia Guang,
Deputy Chief Auditor,
China Pacific Life Insurance Co:
"We are very interested in the Asian insurance industry and hope to draw some lessons which can be beneficial to China. We expect to have deeper co-operation and dialogue with the rest of industry in the region."



Mr Ngiam Tee Lim,
Risk Manager, Asia Pacific Breweries
"Day three's sessions have been very interesting, for example, the discussions on claims and ratings, which provided good insights on how the insurance business works, which risk managers do not often see."



Mr Fong Kum Seng,
Deputy General Manager,
Incombank – Asia Insurance Co:
"It is a very interesting event. I would suggest that the country reports should be summarised and circulated instead of being presented in a sit-down session."

Mrs Herminia Jacinto,
Consultant, Universal Malayan Re:
"The topics are very good, especially the plenary session on claims which touched on grey areas. As a reinsurer, this event offers excellent opportunities for networking."



Mr Leslie Mouat,
Regional President, Southeast Asia, AIG Southeast Asia
"The event has been very successful and the agenda features some great issues, discussed in a frank way as the industry has always done. AIG hopes to see this grow from strength to strength. We'd also like to see membership extended to include some of the bigger markets as we believe the EAIC should be embraced by the rest of the region, providing a platform for communication and co-operation."

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Mr R Chandrasekaran,
General Manager, General Insurance Corporation of India:
"The EAIC has been excellent with regards to the conference arrangements, topics presented and networking opportunities. Apart from the transportation logistics, I have no complaints for a country which has limited human resources to handle a conference on such a magnitude. All in all, we feel very positive about the event. For future EAIC events, we hope there will be more participation by companies and more countries will join the EAIC group. The EAIC should also look at how best to bring ancillary institutions in the industry, for example, brokers and loss adjusters, into the conference fold for the benefit of the entire industry."



IMMEDIATE ALERT FOR TODAY:

Don't Miss This Inaugural
Special Session at EAIC on Avian Flu
Brought to you by the Singapore Reinsurers' Association

So much has been said about the Bird Flu almost on a daily basis with new findings made each day. Some are already jaded by it – more out of ignorance rather than knowledge. So little is really known of this pernicious threat that is rated as far worse a menace to the Asian economies and the world than SARS was.

Make sure amidst all the preparations for the local cities' performance practices this afternoon, you set aside priority time to attend this Special Panel on Avian Flu between 2 pm to 4 pm. This session has been put together by the Singapore Reinsurers' Association to share with the market the serious impact that a pandemic of this nature could have on the market. The Panel comprises a doctor, a cedant, a broker, a reinsurer and a regulator who will all share with the serious impact of such a scare becoming a pandemic.

Mr Mark Haushofer,
CEO & Principal Officer, Munich Re Singapore:
The event has been remarkably well-organised. Whatever is missing has been compensated by the heart of the people and their passion to make the event a success. I'm looking forward to a few interesting issues, such as the avian flu, to be discussed. The country reports are a good overview, but we should make these reports more concise and to the point, and spend more time on burning issues. For future events, I would like to see the industry take more controversial stances and engage in more debates."



Hello HONG KONG!

As we bid farewell to the Abode of Peace, Brunei, we look to the bright neon lights of Hong Kong, the venue for the 24th EAIC in 2008.

Speaking to the *EAIC Daily*, Mr CF Choy, Chairman of the 24th EAIC in Hong Kong 2008, said that the conference has been specially timed to coincide with the closing of the 2008 Olympics in Beijing so that people who attend the sporting event can make a stopover in Hong Kong for the EAIC on the way home.

Bookings at the Convention Centre in Wanchai, Hong Kong, have already been made, and Mr Choy added that, due to the limited availability of the Convention Centre, the EAIC will be held earlier than traditionally.

"Even with two years of lead time, the venue is fully booked, and this is the only date that is available," he said.

Efforts are also underway to identify a suitable keynote speaker, possibly the Chief Executive of the SAR. While an official theme has yet to be finalised, Mr Choy said that given Hong Kong's role as a gateway to China and Asia's insurance centre, the conference will focus heavily on these themes. He added that he also plans to include

sessions on promoting ageing population issues such as pensions, fertility and medical reform.

"This will hopefully draw a larger number of life delegates and dispel the stereotype that the EAIC is predominantly a non-life gathering. It will be one of my key priorities to lobby the life industry to actively participate in the conference," he said.

Mr Choy is extremely excited about welcoming delegates to the 24th EAIC and is expecting about 1,500 industry leaders to attend. This will be the second time that Hong Kong will host the prestigious event, the last time being more than 20 years ago.

* On behalf of all delegates, we'd like to thank our gracious Brunei hosts for their warm hospitality and for making this an EAIC to remember. See you in Hong Kong!



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9th Singapore International Reinsurance Conference

Mark Your Calendars!

4 - 7 November 2007

Swissôtel The Stamford, Singapore

www.sirc.com.sg

Global Insurance Indicators in 2005

Total insurance premium is

US\$3.4 trillion

which is

Out of these, **59%** came from **life** and **41%** from **non-life**

7.7% of worldwide economic value creation.

The top five countries in terms of premium are



The US:
\$1.1 trillion



Japan:
\$476 billion

The UK:
\$300 billion



France
\$222 billion



and



Germany
\$197 billion



Total premium volume grew by **2.5%** in real terms with

Life premiums increased by **3.9%** in real terms compared with 2004.

and **Non-life** increasing by **0.6%**

Asian countries accounted for **22.18%** of the global insurance market.



Source: Sigma



Avian Flu Pandemic – How Prepared Are Companies?

Like tsunamis and earthquakes, the rarity of flu pandemics make them difficult to predict. But the question that companies have to address is not “if” but “when” and “how”. In this preview of the avian flu workshop to be held tomorrow, we take a brief look at how the industry is facing the issue.

Assessing the timing and severity of a possible avian flu pandemic has not been easy, but the insurance industry continues to make its calculations, with predictions constantly evolving.

The Insurance Information Institute (III) estimates that an outbreak similar to the 1918 Spanish flu, which claimed more than 50 million lives worldwide, could cost the US life insurance industry US\$133 billion in additional death claims. A less severe outbreak on the scale of the 1957 or 1968 pandemics would generate US\$31 billion in additional death claims, said Mr Steven Weisbart, Economist at the III.

Closer to home, Risk Management Solutions (RMS) has predicted that an avian flu pandemic in Japan might rake up US\$58 billion in group and individual life insurance payouts.

So just how prepared are insurers in facing the challenges ahead? Depends on who you ask, and where.

Mr Weisbart predicted that if the bird flu reaches the proportions of the 1918 pandemic, eight of the top 30 group life insurers will be “under stress.” Under this worst-case scenario, even the best insurers could fail, though not all.

According to Mr Norman Sorensen, President of Principal Financial Group, the insurance industry is still “half-prepared”, with those insuring larger numbers of lives taking a more active approach. Speaking at a press conference at the International Insurance Society Chicago Seminar in July, he pointed out that “companies in markets like China, Indonesia and Vietnam where these pandemics are likely to arise, are working more assiduously to cope and manage these issues.”

These are the companies who have more cause for concern than their international counterparts, since the initial countries to be affected by the H5N1 virus – Indonesia, Vietnam, Thailand and Cambodia – were in Asia.

A study by LOMA in April found that Asian life insurers are better equipped to cope with a flu pandemic than their North American counterparts. Of the North American companies surveyed, only 33% had put measures in place to cope with a pandemic, compared with 67% in Asia.

One reason why North American life insurers could be less worried is because most are well-capitalised and heavily reinsured.

Dr Robert Gleeson, Medical Director of US-headquartered Northwestern Mutual Life Insurance Company told a US House panel in June that the US life insurance industry has more than US\$4 trillion in assets and is “well-positioned to absorb the impact of an influenza pandemic without jeopardising its commitments to policyholders and their beneficiaries.”

Mr Rodney Clark, Director of Financial Services specialising in life insurance at Standard & Poor’s said that besides having a greater proportion of life insurance being reinsured, many US companies’

Flu Pandemic Scenarios

Severe Outbreak: Modeled on the 1918 pandemic, the potential cost of additional life insurance claims could reach US\$133 billion.

Moderate Outbreak: Modeled on the 1957 and 1968 outbreaks, the potential cost of additional insurance claims could reach US\$31 billion.

Source: Insurance Information Institute

According to catastrophe modeler Risk Management Solutions (RMS), another pandemic is overdue, since pandemics return every 10 to 50 years. It added that a pandemic caused by the present H5N1 strain could be more lethal than the H1N1 virus of 1918, and that there is a 20% chance that the next flu pandemic will be worse than the 1918 outbreak.

recent sales consist mostly of annuities and retirement savings rather than life insurance, hence less risk is involved.

Fitch Ratings agreed that much of the risk will be borne by reinsurers. In a conference call following the publication of their March 2006 report titled “Bird flu: Will it ruffle the industry’s feathers?”, Mr Chris Waterman, Senior Director of Insurance revealed that “Fitch sees life reinsurers being the most heavily exposed to mortality risk if a flu pandemic were to occur. In addition, large term life and group life players that have little to no reinsurance would also experience significant financial losses.”

Some reinsurers have looked to transfer their catastrophic mortality risks – risks of many people dying at once from a big event - to the capital markets. Swiss Re, the world’s largest reinsurer following its purchase of the reinsurance business of GE Insurance Solutions last year, transferred US\$762 million of its mortality risk by issuing Vita Capital Mortality bonds. Said Ms Lauren Kalinowski, Associate Director of Insurance at Fitch: “Given the terms of the bonds, these bondholders may be protected against a flu pandemic. However, if higher than normal mortality experience is sustained for more than two years, depending on which bond is held, bondholders could be exposed.”

Following in Swiss Re’s footsteps, Scottish Re used special purpose vehicle Tartain Capital to issue US\$155 million of mortality catastrophe bonds. Because it was launched to protect the company against increases in US mortality rates or a global pandemic, it was harder to sell to investors than first believed, conceded Mr Michael Baumstein, Senior Vice President of capital markets at Scottish Re.

Other reinsurers see the costs of securitisation as unnecessarily high for a risk they believe to be remote. Yet, given the risk of a virus that is threatening to spread even faster with the growth in global population and increase in international travel, there is certainly no room for complacency.

COLOURS OF
BRUNEI
 DARUSSALAM

Guests were treated to an outdoor showcase of the graceful Bruneian culture during Monday's theme dinner, which featured national dishes, dances and music and held outdoors at the Jerudong Park Amphitheatre. Dato Paduka Haji Hamdillah bin Haji Abd Wahab (right), Deputy Minister, Ministry of Industry and Primary Resources and Chairman of the Brunei Tourism Board, graced the occasion, candidly reminding attendees of why Brunei has made it as the ninth-happiest country in the world.

