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Backing Bali with Basics

There are big numbers here in Bali with some 1,200 attending, thanks to the untiring marketing efforts of our Indonesian hosts. Yet there are skeptics who feel that the draw is the sun, the sea and the traditional lures of this Island of the gods. Hence the challenge for the EAIC at its 25th Congress is to make Bali count in business sense and to leave a “silver” legacy that will give the EAIC more teeth and gumption to mark its 50th anniversary in two years’ time in 2012. Will “back to basics” be enough or can Bali emerge with clear core principle built on these basics which are so inherently embedded in the business?

Many leaders were concerned that the theme of “Back to Basics” is such a retro note and not cool enough as a theme for such a high level gathering as the EAIC. It was perceived to be so fundamental an idea that everyone should be exhorting it and following it in the business as a mat-

ter of course. However, the Executive Board felt the relevance of reminding all and sundry of this survival routine and re-energise this basic breathing technique in the industry. And in true Indonesian spirit, the hosts took care to couch the queasy uneasiness that it might be too simplistic with a Balinese gloss over with “Going Back to Basics with a Dynamic New Mindset in Insurance”.

Highly technical professionals think that “Back to Basics” is too simplistic and demeaning an injunction. Yet there are other sophisticates who boldly assert that “Back to Basics” is a long overdue “innovation” in the market as the underwriting has gone so far off the mark. “Back to basics” is about returning to the “burning cost” of underwriting a risk. But the pricing mechanism has gone so far off the mark that it cannot find its way back to the basics in the traditional way and therefore need a paradigm shift in defining the basics.

Then there is also the whole wave of change in insurance. Still entrenched in the law of averages, insurance is now dealing with a fast changing risk landscape which is so dynamic that history and past statistics are often a mis-indicator of future trends. The frequency and intensity of natural disasters have increased phenomenally and with the rise of big cities, the concentration of risks has multiplied several times. Then there is the trend of even ordinary risks like motor being drawn into CAT losses, as the recent Manila floods showed. The world has changed so much that even the “basics” have changed.

So “back to basics” is therefore a visionary and timely clarion call to redefine the basics. Hence, there is a chance in Bali to roll up your sleeves amidst the sun and the sea and the golf greens to spell out what

Challenge to EAIC: Beware of complacency

By **Mr Katsuo Matsushita**, Special Advisor and Liaison Officer for Japan and East Asia, The Geneva Association

The first EAIC was held in Tokyo 48 years ago with only 140 participants. Now it has evolved into one of the most visible and internationally recognised insurance conferences in East Asia with more than 1,000 delegates from all over the world.

This is a remarkable achievement, and the Asian insurance industry people can be proud of this. But we must not stay in our comfort zone. When challenges end, complacency emerges. So the EAIC must continue to take on challenges to remain an important forum for the industry.

Here are some of the key challenges we, members of the EAIC community, must tackle to bring the Congress forward:



1 Promote the awareness of risk and its mitigation in society and communities. We must encourage the observance of “East Asian Insurance Day” and other events with a focus on sharing best practices and successful cases among EAIC member cities.

3 Explore several avenues to strengthen capital positions and keep them aligned with risks retained.

5 Make every effort to translate the risk-based solvency framework into truly risk-based underwriting, price, and terms and conditions.

2 Promote public-private partnerships to facilitate the implementation of comprehensive policy packages to make our society, community and business more resilient to large-scale disasters.

4 Promote responsible market behaviour as a road to true professionalism and high quality insurance market in order to attract young talent to the industry.

6 Advocate changes to regulators, supervisors and policymakers. As we have learned from the recent financial crisis, regulations are not a panacea and supervisors can make mistakes like market practitioners under the age of fallibility.

I sincerely hope the EAIC further evolves towards being a beacon of the Asian insurance market and a leading source of stimulating discussions – not only among industry people, but also between regulators and the industry.

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these basics are rather than couch them in the time-honoured trite catchphrase of underwriting for profit to ensure that the rate quoted will commensurate with the actual risks assumed.

So back Bali with real weapons for the industry to spell out the basics in the new world-basics that both the industry and the insuring public can understand in its simplicity and in its complexities. Basics that will propel the industry into the new era where climate change,

global warming, accounting mechanics, capital implosions, industrial explosions, technological gains, modern science and research are pushing life and general risks to new frontiers beyond all imaginations.

Will the Balinese magic healing as seen in the just-released *Eat Pray Love* touch insurance too, to achieve the balance that everyone is seeking? Will the EAIC in Bali come out with daring declarations to move the industry forward fast with sustainability?

DERRING-DO WITH DECLARATIONS



The tradition of issuing Declarations only started in Tokyo in 2002, where the host wanted to make a difference and decided to issue a Declaration that was read out at the closing dinner. It then became a trend and each host city has gone the extra mile to come out with a critical pronouncement reflecting the signs of the time then.

Tokyo 2002 – Taking a broad sweep

- To rise to the challenge of meeting the changing and increasingly sophisticated consumer needs for insurance;
- To do our best in further strengthening our financial solvency and profitability by improving business efficiency, underwriting skills and asset management capability; and
- To adopt and practise good corporate governance, risk management system and internal controls so as to strengthen our capability in serving the long-term socio-economic interest of our policyholders.

Bangkok 2004 – Big with an action plan

- To continue to address issues of common importance in the areas of management, corporate governance, training, and consumer education;
- To boost the standards and professionalism in the market while passing the torch on to future generations through training and education; and
- To communicate issues of interest to the industry through publications and media with a regular column in *Asia Insurance Review*.

Bandar Seri Begawan 2006 – And the Day is done

- To use EAIC as a vital non-political forum for dialogue and exchange of ideas and experiences among member cities;
- To observe a common East Asian Insurance Day on 18th October each year; and
- To address issues of common importance in the areas of management, corporate governance, training, higher standards and greater professionalism and consumer education.

Hong Kong 2008 – From crisis to basics

- To take urgent action including working closely with respective governments to help restore market confidence and protect the interest of policyholders;
- To get insurers to focus on the “back to basics” philosophy in these times of crisis, to survive and succeed. They should provide protection and peace of mind to policyholders with a prudent underwriting discipline against a backdrop of a strict corporate governance and enterprise risk management; and
- To stress the need for greater innovation in the market and talent development.



Insurance industry honours cream of Asia's crop

Sixteen winners were feted at the 14th Asia Insurance Industry Awards, held on the eve of the 25th East Asian Insurance Congress and attended by more than 400 senior executives and officials from the insurance industry at The Westin Resort Nusa Dua, Bali.

For the first time, a Chinese company – China Pacific Life – swiped one of the most prestigious titles in the long history of the Awards, winning the Life Insurance Company of the Year. Lonpac Insurance became the first Malaysian winner of the prestigious General Insurance Company of the Year award in recognition of its responsiveness to customer needs and solid financial performance.

Sompo Japan Insurance won the inaugural Green Company of the Year, awarded to the company which has given long-term commitment and resources to a sustainable green programme and has ensured its successful implementation. The other new category was Technology Initiative of the Year, won by Financial Information Network and Operations Ltd (FINO).

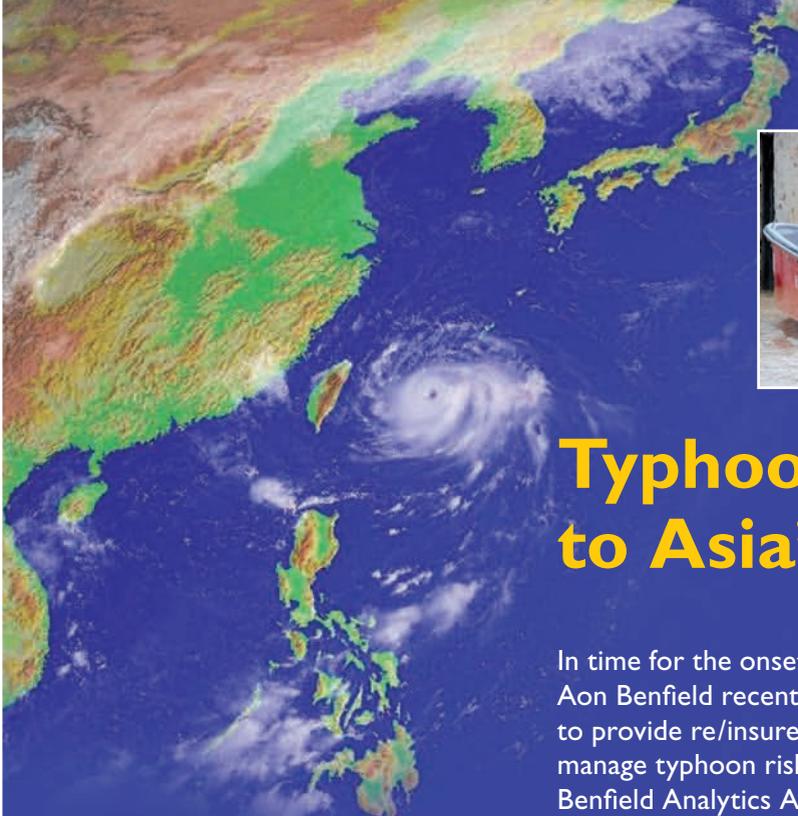
India emerged as the market that won the most number of Awards, winning three of the 14 categories with Technology Initiative, Educational Service Provider and Corporate Social Responsibility.

The winners were selected by industry peers with 27 distinguished insurance leaders serving on the Panel of Judges.

Winners of the 14th Asia Insurance Industry Awards 2010

LIFE INSURANCE COMPANY OF THE YEAR China Pacific Life Insurance Co	REINSURANCE BROKER OF THE YEAR Guy Carpenter
GENERAL INSURANCE COMPANY OF THE YEAR Lonpac Insurance	GENERAL REINSURER OF THE YEAR Allianz SE Reinsurance Branch Asia Pacific
EDUCATIONAL SERVICE PROVIDER OF THE YEAR (Joint Winners): The Australian and New Zealand Institute of Insurance and Finance & MicroInsurance Academy	CORPORATE SOCIAL RESPONSIBILITY AWARD Aviva Life Insurance Co India
INNOVATION OF THE YEAR EQECAT, Inc	GREEN COMPANY OF THE YEAR Sompo Japan Insurance
SERVICE PROVIDER OF THE YEAR ReMark International	TECHNOLOGY INITIATIVE OF THE YEAR Financial Information Network and Operations Ltd
BROKER OF THE YEAR Marsh	PERSONALITY OF THE YEAR Leslie John Mouat
LIFE REINSURER OF THE YEAR Swiss Re	LIFETIME ACHIEVEMENT AWARD Alfonso T Yuchengco & Bernie Fung (1953-2010)





Typhoon model responds to Asia's needs

In time for the onset of another typhoon season in Asia, Aon Benfield recently launched a pan-Asian typhoon model to provide re/insurers more advanced tools to quantify and manage typhoon risks. **Dr Will Gardner**, Head of Aon Benfield Analytics Asia Pacific, shares what sets this model apart and the value it could bring to the region.



After a spate of typhoons killed more than 2,000 people in Asia and caused widespread damage last year, the introduction of a typhoon model specifically meant for the region is no less than a welcome development.

Asian countries most prone to large insurance losses from typhoons – the Philippines, Taiwan, China and Vietnam – have increasing amounts of coastal exposure and face substantial risks from wind and water damage due to typhoons.

Responding to calls

Aon Benfield recently launched its Asia Typhoon Model, in response to re/insurers' calls for more comprehensive and up-to-date tools to quantify and manage the risks brought by typhoons. The model spans the Asian continent and captures the potential loss across multiple territories by modelling the full life cycle of each typhoon event.

The model, says Dr Gardner, also addresses key aspects of Asian typhoon risk, such as the potential for loss from wind damage and typhoon rainfall-induced flooding and storm surge. "These advancements significantly improve the insight available to companies with multi-territory exposures including regional insurers, global reinsurance buyers and reinsurers," he says.

A break from the old models

Previously, re/insurers had to make a number of broad assumptions regarding the correlation of loss between territories caused by storms that affected multiple places when manually combining losses from these territories using a DFA software tool.

Aon Benfield's new Asian Typhoon Model removes such a problem of correlating losses between territories because it has a unified event set rather than one per territory, says Dr Gardner.

He adds that the model uses engineering-based and proprietary vulnerability damage functions, developed by Aon Benfield's catastrophe model developer, Impact Forecasting, and validated against a range of historic events in Asia and globally. Local experience was

also used to build the market exposure database, which formed the basis of the validation process.

This was in contrast to the models previously available in Asia, which were built based on US experience and failed to take into account the region's actual loss experience.

Well-received

The insurance industry across Asia has received the model well because of the timing – which gives insurers time to evaluate the model results ahead of annual renewals – and because of the credibility Aon Benfield has built with global reinsurers in its ability to develop models that produce realistic results, says Dr Gardner.

Provides loss estimates for simple portfolios

At present, the model can provide loss estimates for simple portfolios using its detailed underlying exposure database. Typical data requirements include CRESTA (Catastrophe Risk Evaluation and Standardising Target Accumulations) level aggregates by line of business and coverage including building contents and business interruption, points out Dr Gardner.

The model also includes industry assumptions about construction and policy conditions. Dr Gardner expects it to be able to provide enhanced accuracy and further insight into drivers of risk once, in the future, companies are able to boost their exposure monitoring capabilities and report on individual risk data.

Lends market-leading expertise

The value of the model, says Dr Gardner, is not limited to providing clients with just another model result. The knowledge insurers gain as a result of the model's development also arms them with market-leading expertise in this area.

"The model's development is part of Aon Benfield's wider initiative at developing unmatched talent in catastrophe management within Asia. It is the first of a number of initiatives."



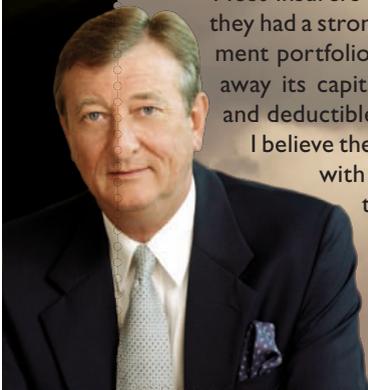
What is your biggest post-crisis challenge and what are you doing to overcome it?

I believe most senior executives in Asia Pacific are breathing a huge sigh of relief that the region's economies have rebounded so impressively and quickly given that our business is closely tied to GDP growth. At the same time, we should all be holding our breath due to soft market pricing and the lack of disciplined underwriting standards in many lines of business, particularly CAT perils. Already this year our industry has experienced a record number of CAT events including floods in China, hail storms in Melbourne, earthquakes in Perth and Christchurch as well as typhoons in Taiwan, Korea and again China. Our region is not immune from a Chile type event and maintaining a strong balance sheet demands underwriting discipline.

Most insurers weathered the global financial crisis because they had a strong capital base despite declining yields in investment portfolios. It would be foolish if the industry frittered away its capital by chasing business at unsustainable rates and deductibles.

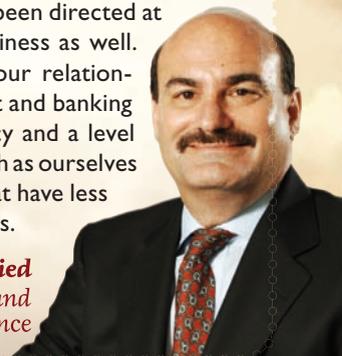
I believe the theme of this congress, "Going Back to Basics with a Dynamic New Mindset in Insurance", is a timely reminder that discipline and generating underwriting profits is essential for long-term success. We must all pay more attention to both risk and capital management.

Mr Leslie Mouat
Chairman of Chartis Asia Pacific



Our biggest post-financial crisis issue is the ever changing landscape of regulation around the globe. Much of the regulation that has been directed at banks affects the insurance business as well. We have to carefully manage our relationships with insurance, investment and banking regulators to ensure consistency and a level playing field for bancassurers such as ourselves and agency-based companies that have less complex regulatory relationships.

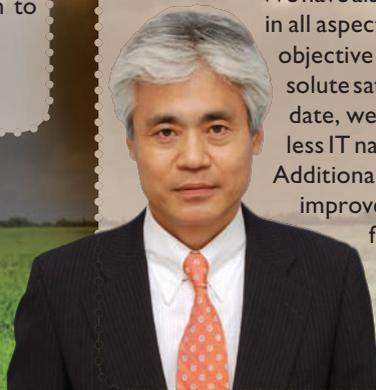
Mr David Fried
HSBC Group General Manager and Group Head of Insurance



One of the key lessons learned from this crisis is the importance of having a comprehensive and robust risk management framework. For this, we have established such a framework and integrated it significantly into our group corporate governance, which also forms part of our corporate value.

We have also enhanced operational qualities in all aspects of our customer services. The objective is to provide customers with absolute satisfaction and utmost security. To date, we have launched an online, paperless IT navigation system for our agencies. Additionally, in claims payment, we have improved our service standards with frequent and due care rendered to our customers.

Mr Tadashi Baba
Managing Director, Sompo Japan Asia

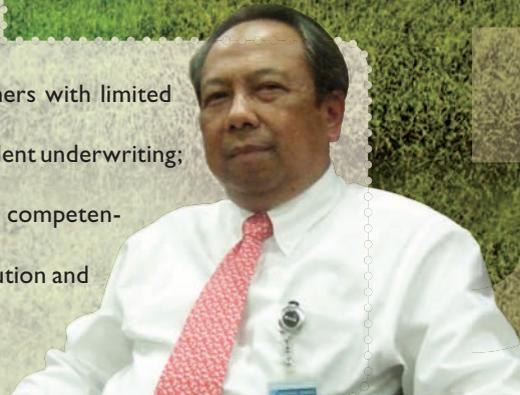


We are currently facing a few major challenges. Firstly, the value of bonds in the international bond market is falling; secondly, huge international financial institutions have suffered from big losses. Expensive overseas reinsurance premiums and fewer existing customers have made things worse. Also, reinsurance capacity is becoming very limited.

To overcome these problems, we shall apply a variety of strategies:

- Build investment-based strategies which lead to a better, prudent, and safe investment portfolio;
- Create terms and conditions that are affordable to customers with limited financial budget;
- Be more selective in setting new business and in choosing prudent underwriting;
- Be more efficient in allocating the cost of claims;
- Try to significantly increase capital, develop human resource competencies, and carry out product innovation; and
- Increase our customer base by extending channels of distribution and providing more training to our marketing staff.

Mr Eko Budiwiyo
President Director, PT Jasa Indonesia



Agnes Choi: The spouse rises to the top

When Ms Agnes Choi attended the 16th EAIC in Bali in 1992, she came as a delegate's spouse. Now, 18 years later, she is back not just as a delegate herself, but as President of the EAIC.

"When I look back at the past 18 years, my participation at the EAIC has made many milestones in my career. I have been active in organising events for the Congress and in encouraging industry people to be part of the EAIC. All these have meant a lot to me and my career," she says.

After the 1992 EAIC, she made sure she would participate as a delegate in the next Congress, and since then she has worked her way through the upper echelons of the EAIC.

"Now as President, my drive and passion for the Congress are still very much in me."





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Bali is a place where there are so many good things to do and enjoy. To help you make the most of your stay, we've made a list of some of the exciting things you can do on the island of beckoning beauty that's Bali.



See the best of Bali from up in the sky by taking a **helicopter** tour of the island. This gives you a panoramic view of Bali's rice terraces, lakes, volcanoes, and even far-flung beaches.

Do a **dolphin tour** in Lovina and see dolphins gather in the morning around the reef.



Experience **rafting** at the Ayung and the Melangit Rivers.



Enjoy an **elephant trek** through the Elephant Safari Park.



Visit **aborigines** in the island's east. Explore Tenganan, where you can find a functioning Aga (original Balinese) village.



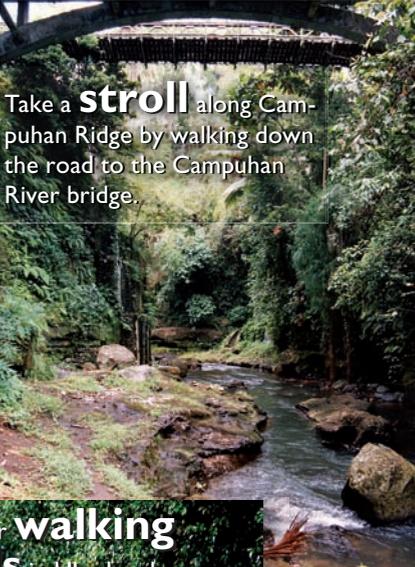
Do a **sea walk** and see marine creatures up close. Instead of swimming, you will be walking up to 4m below the sea level while watching the underwater world go by.



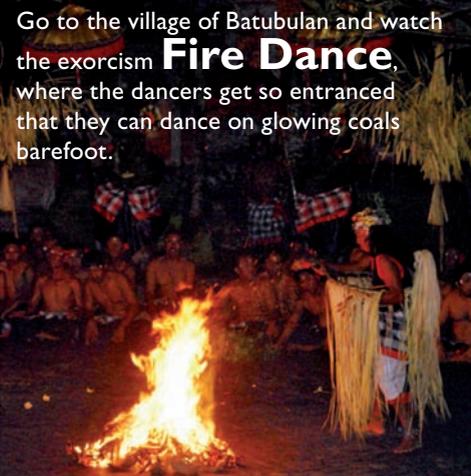
Snorkel and dive to see various species of marine life.



Take a **stroll** along Campuhan Ridge by walking down the road to the Campuhan River bridge.



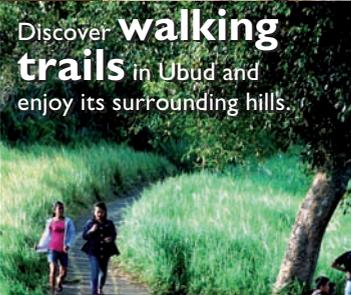
Go to the village of Batubulan and watch the exorcism **Fire Dance**, where the dancers get so entranced that they can dance on glowing coals barefoot.



Visit the early **morning market** in Ubud and shop for local food and items like batik, sarong and wooden figurines.



Discover **walking trails** in Ubud and enjoy its surrounding hills.



For more information, you may contact:
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Hike Bali's mountainous landscape by climbing Gunung Batur and Gunung Agung. At Gunung Batur, a dormant volcano, you can visit its lake as well as artists and their paintings.



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