

IIS Daily

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Being there forever: A question of sustainability?

The theme of this 45th Annual Seminar is indeed meant to look way into the future. It is not just about surviving the hot struggles of today, but also about being there as a “relevant” profitable insurance company long into the future when the full reality of global warming has hit and when the dust over the current global financial crisis has settled.

However, with the financial crisis still raging and taking its toll, just surviving the day has become a major issue for many an insurer, especially those reliant on investment income. The good news about the crisis for insurers is not that there seems to be nascent though not consistent signs of some recovery in the US, but that insurers have been forced to go back to the very basics of their business – underwriting for a profit, with their *raison d'être* of settling claims. This is not just a simple deal as claims are rising all over the world in every class of the business, be it in the small bread-and-butter class of motor or the big ticket items of oil & gas, despite new fangled risk management and loss prevention gadgets and mantras. In fact, in an august CEO forum in the MENA region in April, the return to basics was even hailed as a necessary “paradigm” shift in the insurance business. Have we lost our way?

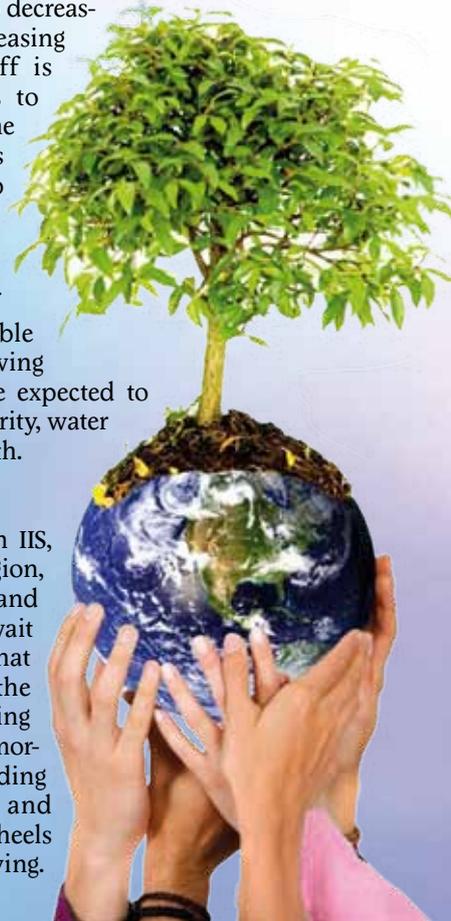
The global warming angle

At another level, sustainability in the changing world is also about the insurance industry making itself relevant to the demands and dictates of the changing environment. In fact, many would argue that insurers can play a proactive role in boosting sustainability by making policyholders go green. There are salutary companies in New Zealand, for instance, that actually settle more on those claimants who repair their damaged homes with eco-friendly materials. There are also insurers which voluntarily report on the reduction of their corporate carbon footprints. Some are reimbursing or at least subsidising their employees' purchase of green goods as a means of being environment friendly.

These are huge imperatives for the Middle East in going green, a movement which is yet to be a fad, as insurers need to feel the push from the buying public, with MENA contributing less than 6% to global emissions. But the Middle East is indeed one of the most vulnerable regions in the world to climate change. The latest scientific projections point to decreasing precipitations and increasing temperature. Water run-off is projected to drop by 20% to 30% in most countries in the region, while temperature is expected to increase by up to two degrees in the next 15-20 years and over four degrees by the end of the century. The full import of this prediction means arable lands, the duration of growing seasons and crop yields are expected to decrease, affecting food security, water availability and public health.

A real wish

Hence the theme of the 45th IIS, the first to be held in the region, is indeed most propitious and relevant to the region! We await with bated breath to see what takeaways the leaders of the world can share on surviving today and being there for tomorrow and beyond, by providing peace of mind to people and businesses in keeping the wheels of economy and society moving.



Welcome to Amman

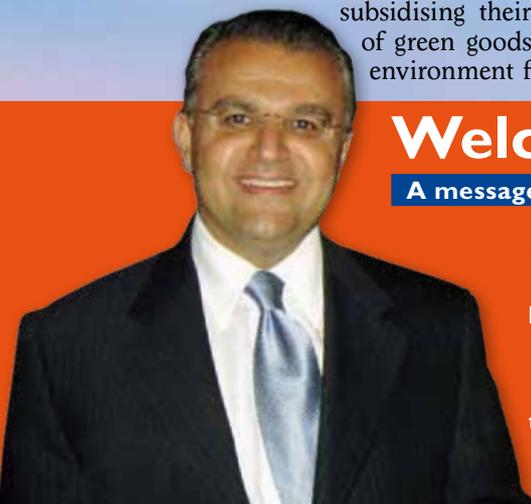
A message from Dr Bassel Hindawi, Director-General, the Insurance Commission of Jordan

On the occasion of the first IIS annual seminar to be held in the Middle East & North Africa (MENA) region, we congratulate the IIS for its continuous success and support to the development of the global insurance industry.

I hope this marks the beginning for future IIS returns to the MENA region.

We wish the IIS and delegates an enjoyable experience in Jordan, complemented with the aroma of majestic archaeological sites, religious shrines and handicraft centers.

Ahlan Wasahlan, Welcome to Amman.



CEOs in the hot seat

CEOs the world over are under siege as they face unhappy regulators, customers and other stakeholders. In the June issue of *Asia Insurance Review*, we interviewed several chiefs on their biggest concerns, and found that it is not all doom and gloom. Here are some highlights.

Safeguarding capital strength

"The insurance industry as a whole faces challenging capital constraints. For our clients, the best benchmark of reinsurance solutions is and has always been their capital market access price. Today, this benchmark is exceptionally favourable to reinsurance solutions. This reality, combined with the quality of exchange we are having with clients about the support we can provide, is creating the most powerful roadmap for growth that I have had the pleasure of seeing for years."

Mr Stefan Lippe, CEO of Swiss Re



Building strength

"It is important to conserve and improve the corporation's strength so that it can tide over this period of unprecedented risk and duration. One of the most effective ways is to make sure that most of the company's activities are focussed to be productive in the near term with acceptable risk under the new risk landscape. In-depth analysis, detail planning, risk adjusted decision making and close supervision on the execution phase are critical success factors."

Mr Patrick Poon, China Pacific Life Insurance



Overzealous approach to managing FIs

"My biggest concern is over-regulation on the part of governments and an over-zealous approach to managing financial institutions which may result in a tight credit squeeze that causes medium size and small businesses to fail. This, in turn, will lead to a dramatic rise of unemployment resulting in further depression of consumer sentiments. Any slowdown in consumption will perpetrate the negative economic cycle and compound the financial crisis."

Mr Bernard Fung, Chairman and CEO, Aon Asia



Protecting customers and staff

"The crisis has certainly made me and my colleagues work harder and smarter. More than ever, we are encouraging our sales people to reach out constantly to our customers and maintain an active dialogue with them, making sure ING is even stronger after the crisis."

Mr Hans van der Noordaa, Member, Executive Board of ING Group



Don't be too pessimistic

"Our industry deals with worldwide risks - risks that we are exposed to and will continue to be exposed to. As a result, there continues to be a demand for insurance cover and this demand is the backbone of our businesses on which the whole industry will continue to grow. Let us jointly tackle the current economic crisis to adjust developments, create new solutions and cater for our client needs."

Dr Tobias Farny, CEO for Greater China & Southeast Asia, Munich Re



Middle East & North Africa (MENA) FACTS & FIGURES

On average, MENA's insurance density is **US\$45** (world average: US\$608) while its penetration rate is **1.5%** (world average: 7.5%)

Non-life dominates the region's insurance market, contributing **0.88%** of the world's premium volume, while **Life** has only a **0.12%** share.

In terms of premium volume, the largest insurance market in the Middle East is the **UAE**,

while **Morocco** is the biggest market in North Africa.

Sudan is home to the world's **1st** takaful company, which was established in 1979.

MENA's insurance sector grew **22%** in 2007.

The Middle East represents just **4%** of the IIS' membership.

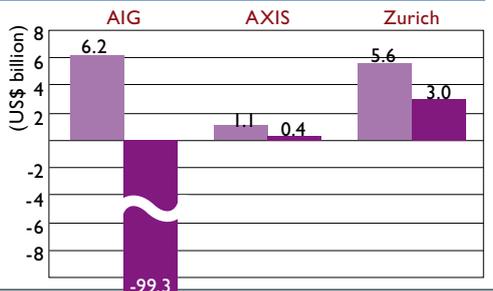
(Sources: sigma 2007, IIS)

Mixed fortunes for industry titans

Blaming investment losses, many insurers and reinsurers recorded lower profits in 2008, while a few dived into the red. We zoom into the latest results of some of these companies.

Selected Companies: Net Profits

Insurers: 2007/2008



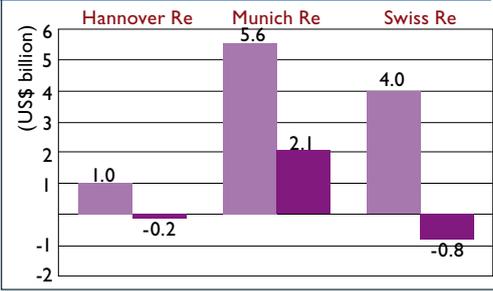
Legend:
■ 2007 Net Profit
■ 2008 Net Profit / Loss

Insurers: 2008Q1/2009Q1

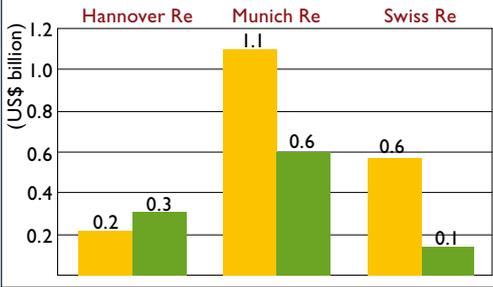


Legend:
■ IQ 2008 Net Profit / Loss
■ IQ 2009 Net Profit / Loss

Reinsurers: 2007/2008



Reinsurers: 2008Q1/2009Q1



Insurers

AIG

After three insufficient rescue loans by the US government amounting to US\$150 billion and a fourth quarter net loss of \$61.7 billion in 2008 – the biggest ever by a company in a single quarter – AIG has received a lifeline of \$30 billion and placed two of its crown jewels into trusts.

As part of the deal, AIG intends to contribute the equity of American International Assurance Co (AIA) and American Life Insurance Co (ALICO) into special purpose vehicles (SPVs) in exchange for preferred and common interests in the SPVs. This will enable the Federal Reserve Bank of New York (FRBNY), or a trust for the benefit of the FRBNY, to receive preferred interests in repayment of a portion of the FRBNY facility.

These transactions will reduce AIG's debt and interest carrying costs, while allowing it to continue to benefit from its ongoing common interests in the SPVs. AIG said that this structure is the optimal solution to maintain the value of these businesses and best position them to enhance their franchises.

AXIS Capital

AXIS said its 2008 results reflected the negative impact of the extreme volatility of the global financial markets on its alternative investment portfolio. Further, the 10% decline in its book value per share was primarily due to the unprecedented decline in asset values globally. Despite this, the overall conservative nature of its investment portfolio and liquidity position has held it in good stead.

Zurich Financial Services

Zurich's decent 2008 results were due to the quality of its business model and the value of its risk and investment management strategies. Its growth was driven by organically expanding and refining its product base, enhancing distribution capabilities and increasing the effectiveness of its brand positioning. In addition, the group continued to successfully integrate acquired operations onto its operating platforms.

Reinsurers

Hannover Re

Significant value adjustments, in particular on equity holdings, resulted in negative group net income after tax for 2008. Hannover Re attributed the loss entirely to the problems on the investment side.

The development of its underwriting business, on the other hand, was satisfactory. The positive one-off effect of US\$115 million resulting from the acquisition of the US ING life reinsurance portfolio this year has given an interim first quarter profit of US\$217 million.

Munich Re

Munich Re attributed its profits to its risk management and diversified investment portfolio. As an investor of about US\$250 billion, it also had to absorb large losses on its risk-oriented investments. It reduced its equity exposure further and has invested strongly in secure government bonds, while increasingly taking selective advantage of good return opportunities especially from corporate bonds.

Swiss Re

Although Swiss Re's property & casualty and life & health business segments performed extremely well under adverse conditions last year, its results were impacted by investment losses. The company has since taken extensive measures to de-risk the investment portfolio and to further protect its long-term financial strength.

How well do you know Jordan?

1. What is the size of Jordan's population?
2. What is the lowest point in Jordan?
3. How many insurance companies are there in Jordan?
4. What is the name of Jordan's former capital?

(for clues, see yesterday's IIS Daily)

Test your knowledge of Jordan and stand to win attractive prizes! The first five delegates to present the correct answers to any of the IIS newsletter team members (below) will receive a copy of the World Islamic Insurance Directory 2009.



Shakun Min Mei-Hwen Osama Erica

Kingdom RICHES

Byzantine mosaics and religious artefacts awaited the delegates on their whirlwind tour of Madaba yesterday afternoon. Proceeding to the Mount Nebo, they indulged in the picturesque surroundings and friendly Jordanian hospitality. At the close of the day, Mr Jamal Al Hussein, Chairman of the Jordan Insurance Federation, officially welcomed guests to Amman.



Mr Jamal Al Hussein



QUOTE of the day Outlook for global reinsurers

Brought to you by AM Best

Last year was unsurprisingly a tough year for the large international reinsurers. They lost about 15% of their capacity, as measured by shareholders' equity.

However, the industry has managed to withstand the barrage of investment charges and catastrophe losses. Prior to 2008, it enjoyed two excellent operating years, sizable increases in capital after Hurricane Katrina, and it significantly improved loss reserves.

Reinsurers have an opportunity to capitalise on market condi-

tions in 2009 and beyond. We expect demand for reinsurance to increase as cedant companies seek capital relief. This year's financial results potentially could be a positive surprise if reinsurers maintain underwriting discipline and reallocate their investment portfolios wisely.

In view of the above, AM Best's current outlook is "stable."

Ms Yvette Essen, Head of Market Analysis

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