Published by: Asia Insurance Review
Celebrating 20 years of serving the insurance industry in Asia
Media Partner: Middle East Insurance Review
Sponsors: FAIRFAX FINANCIAL HOLDINGS LIMITED RGA

Don't take much comfort from past success

Past success does not guarantee future success, so insurers should not take too much comfort from the fact that they weathered the financial crisis well. They should not think that nothing needs to change and that risk management systems and practices that were in place before the crisis continue to be adequate, said Ms Julie Dickson, Superintendent, Canada's Office of Superintendent of Financial Institutions.

The insurance industry, she said, should learn best practices from the crisis, including the need to have strong risk management and better governance practices, the need to move to a robust global capital regime and to have common accounting standards, and the need for better aligned supervisory practices globally.

Harmonise global standards

She stressed that the industry has to forge international agreements on key aspects of insurance regulation such as capital. To reach an international agreement on capital, discussions should include the use of full models that go beyond what supervisors accept in banking, the treatment of relationships between risks and the treatment of risk beyond the year.

Another area that needs harmonisation is group supervision, which Ms Dickson believes is a good idea because it allows supervisors to be proactive and to take early action at the group level.

On regulatory arbitrage, although those who defend it suggest that this practice is worked around to address deficient capital rules in one jurisdiction versus another, Ms Dickson said that the better route is to fix the rules directly. Better convergence of insurance capital standards, she said, will help eliminate this issue.

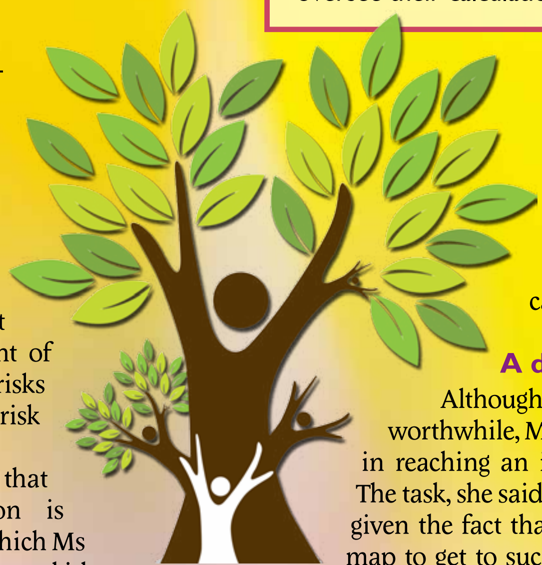
Although accounting is not within insurance supervisors' ambit,


Ms Julie Dickson

Supervisors as referees

Stressing that supervision is as important as rules, Ms Dickson likened supervisors to referees, who she said do more than just blow the whistle during the game to enforce rules. Like referees, supervisors talk to players of what is expected, what is acceptable, and what is not.

The rules, she said, are very important, but ultimately, it is supervision that controls the flow of the game. "Agreeing to the rules is just one part of the equation. Reporting capital number and reserves are only as credible as the parties who oversee their calculation."



Ms Dickson stressed that it is as important as harmonising capital and regulatory approaches. Lack of convergence in international accounting standards means that the strength of global insurers cannot be easily compared and that there can be a very unlevel playing field.

A daunting task

Although putting in place global standards is worthwhile, Ms Dickson admitted that the challenge in reaching an international agreement is daunting. The task, she said, will be extremely difficult, especially given the fact that the industry does not have a roadmap to get to such an agreement.

It's all about people


Mr Patrick Ryan

The tremendous scale of globalisation has created unique niche opportunities, but Mr Patrick Ryan, Founder, Executive Chairman & CEO of Ryan Speciality Group, reminded the delegates yesterday that at the heart of it, the insurance business is all about people.

Stressing that intellectual capital is a differentiating factor, he urged insurers to attract high-quality people and build a business around it. It is important as well to have a client-centric service and continued innovation in product offerings.

"Have an empowering culture that will encourage people to self-optimise," he said, "and people will buy into it and follow."

'Big-fast' beats everything

Delegates were reminded yesterday that changes bring about challenges and opportunities, and that a company that can spot the drivers of change and speedily tap into opportunities will be able to create its own future.

Speaking on the need to mitigate risks and exploit opportunities in a fast-changing global environment, Mr Jamie Yoder, Principal, Diamond Advisory Services, said that 'fast' beats 'big-slow', while 'big-fast' beats everything.

Online distribution inevitable

Distribution of personal lines through the internet is inevitable with technological advancements. "It will be at different paces in different parts of the world, but it will come," said Mr Chris Giles, Executive Vice President – International Field Operations Manager, Chubb. But there is still plenty of room for intermediaries and it will be a long time before strong tied-agency structure breaks down.

A natural evolution

On economic drivers, Mr Yassir Albaharna, CEO, Arab Insurance Group, said that as emerging markets develop, competition will intensify and global companies will look for expansion opportunities in other growth markets. "It is the natural cycle of evolution in new economic development," he said. Moving forward, the next growth markets could be Africa and the Middle East.

L-R: Mr David Law, Mr Yassir Albaharna, Mr Chris Giles, Mr Jamie Yoder

CEOs Urged to Speak Up for Industry

To encourage insurance leaders and executives to further interact and exchange ideas, IIS has unveiled a series of fully interactive web-based products and services designed to enhance members' access to resources and facilitate the development and expansion of professional networks.

The new features include:

- IIS Global 100 Stock Index – performance of the top international insurers
- Regulatory Guideline Alerts – updates on regulatory statutes across the globe
- IIS Member Forum – an interactive exchange of ideas and business strategies
- Leadership Idea Exchange – interviews with global insurance leaders
- Industry Events – a dynamic resource of global industry events
- Global Insurance Directory – access to data from 170+ countries

Mr Michael Morrissey, IIS President & CEO, said that through the IIS Member Forum, "members will benefit from a convergence of opinions, ideas and developments from and by our diverse membership demographics, and the industry as a whole will benefit from ensuing developments".

2011 sets off flurry of M&As

Done deals

US
- Transatlantic Holdings and Allied World Assurance agreed to a US$3.2 billion merger
- QBE sold off Blue Ridge Insurance to Catlin for an undisclosed amount
- QBE bought Bank of America's Balboa Insurance for nearly $700 million

Netherlands
- AGEON sold its life reinsurance business to SCOR for $1.4 billion

Asia
- ACE bought New York Life's Hong Kong operation for $350 million and its South Korean subsidiary for $75 million

China
- For $900 million, Goldman Sachs bought 12% of Taiking Life Insurance

India
- Nippon Life invested $680 million to acquire 26% of Reliance Life

Ireland
- Liberty Insurance spent $148.4 million to buy a 51% share of Quinn Insurance

Japan
- Prudential Financial acquired AIG Star and AIG Edison from AIG for $4.8 billion

Jordan
- Arab Jordan Insurance Group and Al Baraka Takaful merging, pending the finalisation of merger procedures

Latin America
- Zurich bought a 51% share of Banco Santander for its Latin America insurance unit for around $2.1 billion

Malaysia
- Fairfax Asia paid RM216 million (US$71 million) to PacificMas for its general insurer Pacific Insurance
- Zurich Insurance signed a deal to acquire 100% of Malaysian Assurance Alliance's share capital for $115 million

Taiwan
- Metlife sold its Taiwan unit to Chinatrust for $180 million

Still talking

Canada
- Intact Financial Corp has agreed to buy non-life insurer AXA Canada for $2.7 billion

Indonesia
- MS&AD is planning to pay $860 million for a 50% stake in Sinar Mas life insurance unit

Taiwan
- Ruen Chen Investment has received conditional approval from the Taiwanese regulator to acquire AIG's Nan Shan Life Insurance

UK
- Hanover Insurance Group has offered to pay $510 million for Chaucer Holdings
- Lloyd's insurers Novae and Omega Insurance are exploring a £500 (US$818 million) million merger

Lessons from a Cataclysm

The 11 March Japanese catastrophe serves as a reminder to insurers worldwide that catastrophes, including those considered one-in-100-year events, can strike any time and hence having robust catastrophe-related risk management mechanisms and sufficient capitalisation to cover the risks they write is an absolute necessity. The importance of having risk-based solvency and sufficient reinsurance cover has once again come to the fore.

Expect the unexpected

Prior to the disaster, seismologists were sure that the biggest earthquake that would hit Japan would only be at a magnitude of 8.2. Thus the 9.0-magnitude quake that hit Tohoku took everyone by surprise. As a result, there is now a growing emphasis on knowing the unknowns and on having a robust data network to guide insurers and reinsurers in setting risk parameters.

Relook CAT models

The catastrophe has also triggered a relook CAT models, with insurers and reinsurers having to reassess how they write catastrophe-related risks and take into account their unknown risks. Players are urged to make sure their accumulation management factors in the variability of model results and to allow for what models do not and cannot provide for.

Protect the emerging markets

The catastrophe likewise serves as a wake-up call to the urgent need to insure emerging markets against natural disasters. The fact that many of the world's emerging markets are exposed to various natural disasters, and yet are largely uninsured against such events, makes the Japanese catastrophe a reminder of what they may have to face in the future.

Harmonising Accounting Standards:
The debate rages on

The goal of establishing common accounting standards for insurance remains a challenge, with debates on the merits of having an IFRS for insurance contracts still raging. Mr Frank Ellenburger, Partner, Global Head of Insurance at KPMG, said at a panel discussion that such a long lasting debate shows the difficulties in defining an appropriate accounting model for the singularity of the insurance business.

Mr D Allen Loney, President & CEO, Great-West Life, Canada, said that the current IFRS Phase II proposal is disconnected entirely from the business fundamentals. If adopted as drafted, it will introduce material but meaningless volatility, increase the cost of capital, hamper consumer financial security and protection, and discourage longer-term investment flows, he said.

Saying that the Canadian GAAP, which the chief life insurers in the country use, does a good job of being transparent and that with it, "the black box is open", he stressed that IFRS will take the industry back to the black box. He acknowledged, though, that the way IFRS Phase II treats acquisition costs is positive.

On the other hand, Mr Ludger Arnoldussen, Member of the Board of Management at Munich Re, believed that having common accounting standards would be beneficial, from a reinsurer's point of view. "We are a global company and if there is one accounting view of all the reinsurance companies, it would be a great benefit," he said, adding that it would also remove a lot of red tape.

L-R: Mr Frank Ellenburger, Mr Ludger Arnoldussen, Mr D Allen Loney, Mr Alan Zimmermann

Asia's Lure in Figures

Asia (including the Middle East) generated US$989.4 billion in premium volume in 2009, accounting for 24.3% of the global premiums.

Life premiums in the region stood at $732.2 billion in 2009, making up 31.4% of the global figure. Non-life premium volume amounted to $257.1 billion.

Of the estimated $6.4 billion of 2010 global takaful contributions, Southeast Asia accounted for 21%, or $1.9 billion

Taiwan had the highest insurance penetration rate worldwide, at 17.7% last year, up from 17.2% in 2009.

China's total premium income in the first four months of 2011 stood at $88.1 billion, with life insurance contributing 73% of the premiums.

India issued a total of 19.8 million microinsurance policies in FY2010.

Asia Pacific, home to 70% of the world's low-income population, is the largest microinsurance market worldwide.

Households in China and India save the equivalent of 38% and 35% of their GDP, respectively, compared to the 3.9% of their counterparts in the US.

Sources: sigma no 2/2010, AIR database, HSBC's Future of Retirement 2011 Report

Corporate Governance:
Stifler or Enabler?

Mr Bill Palmer

CFOs in Australia and Asia are split on whether corporate governance stifles entrepreneurial activity: 38% disagreed that greater emphasis on corporate governance reduced entrepreneurial activity, while 35% agreed that it did. A further 27% were reluctant to agree or disagree, revealed a survey of 250 CFOs by the Institute of Chartered Accountants in Australia (ICAA).

ICAA Director Asia, Mr Bill Palmer, said that the results suggest that some of the comments from directors and other business people about increased governance requirements hindering their risk-taking may be exaggerated.

"It may also indicate that as a result of the global financial crisis there is greater recognition by CFOs of the fact that good risk management contributes to, rather than detracts, from effective risk taking."

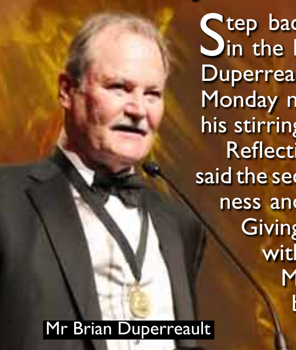
CSR not a priority

The survey of 250 CFOs from listed companies in Australia, Singapore, Hong Kong and Malaysia also found that CSR was not a priority in the region. 65% of the respondents said their company did not report on Environmental Sustainability as this and other CSR issues are not mandatory, while 34% said it was not relevant.

Of those currently not reporting on these areas, 54% indicated they had no intention to do so in the next year.

Mr Palmer said there is still a long way to go in changing the mindset of companies when it comes to CSR reporting. "CFOs can't ignore the fact stakeholders are becoming increasingly aware and concerned about environmental and social impacts. It's just a matter of time before stakeholders make companies more accountable," he said.

D.U.P.E.R.R.E.A.U.L.T Steals the Show



Mr Brian Duperreault

Step back M.I.C.K.E.Y M.O.U.S.E. The new man in the Insurance Hall of Fame is here. Mr Brian Duperreault stole the show at the gala dinner on Monday night with a standing ovation even before his stirring acceptance speech.

Reflecting on his journey to the Hall of Fame, he said the secret is to work with great people and greatness and never ever compromise your integrity. Giving thanks to a list of people he has worked with throughout his career at AIG, ACE and Marsh, and to his family, he ended his speech by attributing his success to God, his career manager.

The late Mr Guy Carpenter, founder of Guy Carpenter & Company, was also inducted to the Hall of Fame posthumously.

We take this opportunity to congratulate the other awardees at this year's IIS Annual Seminar, namely:

- Dr Yehuda Kahane, Tel Aviv University, Israel, 2011 winner of John S Bickley Founder's Award
- Mr Frank Swedlove, President, Canadian Life & Health Insurance Association, winner of the Commissioner General Award
- Prof Michael Adams, University of Wales Swansea, UK, winner of the Kenneth Black Jr Award for Distinguished Service

Dr Yehuda Kahane (R), Tel Aviv University, Israel, receiving the John S Bickley Founder's Award

Mr Frank Swedlove (L), President, Canadian Life and Health Insurance Association, receiving the Commissioner General Award

Professor Michael Adams (L), University of Wales Swansea, UK, receiving the Kenneth Black Jr Award

Olá Rio!

After exploring the new world of opportunities in Toronto, the IIS heads to Rio de Janeiro for its 48th Annual Seminar on 17-20 June 2012.

Mr Jorge Hilario Gouvea Vieira, President of the Brazilian Insurance Confederation, said that the 2012 IIS Seminar will showcase a different atmosphere – something uniquely Brazilian. "We want to take the opportunity to show the world Brazil's beauty, culture, music, dance and food."

The seminar will also give the international insurance community a chance to understand the Latin American market better, and engage the Brazilian insurance industry with the international community, he said.

"Rio is a very sunny city. We will do our best to give the delegates a pleasant stay."

Mr Jorge Hilario Gouvea Vieira

"The decision to take the IIS Annual Seminar to Rio reflects the organisation's drive to explore the developing markets, which present opportunities and challenges to both the local and the global insurance industries. Rio will be an opportunity for everyone to share ideas and develop understanding."

Mr Clive O'Connell
Partner,
Barlow Lyde & Gilbert LLP

Sponsors: FAIRFAX FINANCIAL HOLDINGS LIMITED www.fairfax.ca | RGA www.rgare.com

Published by: ASIA INSURANCE REVIEW Celebrating 20 years of serving the insurance industry in Asia www.asiainsurancereview.com

Media Partner: MIDDLE EAST INSURANCE REVIEW www.meinsurancereview.com

The IIS Daily team

Sivam Subramaniam, Sheela Suppiah-Raj, Manuelita Contreras, Benjamin Ang, Seow Kai Lun, Angeline Tsen

Editor-in-Chief: Mr Sivam Subramaniam • Journalists: Ms Manuelita Contreras, Mr Benjamin Ang, Ms Seow Kai Lun • Design & Layout: Ms Angeline Tsen