

SIRC Daily

Day **2**

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Hot Issues in Reinsurance: "Managing the Cycles & Nature"

Managing cycles is a perennial hot issue. And there was a time we all believed that with discipline and strict underwriting, the cycle could be managed if only the competitors behaved themselves. If only the clients or the brokers didn't push for greater discounts on the technical rates? If only reinsurers could charge stable prices and produce consistent results, without worries that the market was softening again.

Then came Katrina with a double whammy to challenge the very wits, expertise and guts of the insurance and reinsurance industry. Several big names were put under credit watch, many had already confessed in advance that they cannot meet their profit target for the year.

Katrina, though geographically isolated to the Gulf of Mexico and neighbouring areas, has already widespread ramifications on the global insurance industry with estimated insured losses being put at between US\$35 to US\$60 billion, making it the worst ever.

Calling on Relationship

There is talk coming out even in London, that though only a natural catastrophe loss, it will have a strong impact all over the globe across all classes of business, including homeowners and motor cars even in areas not exposed to catastrophes. The premise of this view is that the cost of capital has become a global issue and cannot be isolated anymore. Some, especially the direct buyers, will say this smacks of profiteering or taking advantage of a situation that has no bearing on them. But there are several insurers and maybe even reinsurers already firming up their position on this score. This will be a great hot issue at the SIRC.

This then is a time when your carefully nurtured relationship with your long-term partnering reinsurers becomes a hot issue you can draw upon.

The prevailing view in Europe and the US is that the spoils of Katrina will overtake 9/11. And they believe that although terrorism was more readily seen as a global problem affecting

every market, Katrina will come to be viewed in the same light. Worse still, even markets not exposed to catastrophes have to pay the price of solidarity in the insurance industry calculations for survival.

Modeling Tools Broken

The other serious hot issue that Katrina has patently shown is that, despite the most extolled models and sophisticated tools used, there is really no predicting the ravages of such natural disasters and their toll on society, the economy and the insurance industry. So it is back to the drawing board to find any tools that will help in more accurately predicting the impact of such losses so that they can be priced appropriately.

New Capital?

Lastly, the worst (or is it the best?) hot news is that new capital will be more reluctant to enter the market unlike in the aftermath of 9/11 when a clear opportunity was perceived. Now, which capital will dare come in to cover natural catastrophes when Katrina has shown that the so-called once-in-50-year storms can occur twice within a year. There were many who were awaiting the hurricane season 2005 to see if they should move in to capitalise after Ivan of 2004. So is any investor waiting on the sidelines for the next hurricane season?

On a less acceptable note, Katrina once again drives home the unpalatable point that when the US sneezes, the rest of the world catches the cold too.

So the real hot issue is: "Can Asia immunise itself against the severe storms of the Gulf?" The answer may well be blowing fiercely in the wind. Keep the doors open to get the message as you watch the waves surge beyond even the heights reached by the Indian Ocean Tsunami, another on-going hot issue.

Hurricane Rita's path of destruction

Asia: Top-Five Reinsurers Ranked By Net Reinsurance Premiums Written

S&P Ranking	Group	Country	Net Reinsurance Premiums Written (US\$m)	
			2004	2003
13	Tokio Marine & Nichido Fire Insurance Co Ltd*	Japan	3,455.1	2,579.7
17	Sompo Japan Insurance Inc	Japan	2,052.8	2,027.3
18	Mitsui Sumitomo Insurance Co Ltd	Japan	1,956.1	1,859.8
20	Korean Re	Korea	1,678.4	1,350.8
24	Aioi Insurance Co Ltd	Japan	1,370.4	1,443.5

* In October 2004, Tokio Marine & Fire Insurance Co Ltd and Nichido Fire & Marine Insurance Co Ltd merged to form Tokio Marine & Nichido Fire Insurance Co Ltd.

(Source: S&P's GRH 2005)

Estimated Rita losses from US\$2.5 billion to US\$5 billion, less than feared. More on page 4!

Guy Carp Braves the Storm with its Clients



In an interview with *SIRC Daily*, **Mr Mark Newman**, COO, Asia Pacific Region, Guy Carpenter & Company, reinforces his commitment to help clients mitigate rate increases this renewal, urging reinsurers not to be too carried away by swelling Katrina losses, and to adopt a long-term view.

What is Guy Carpenter's assessment of the Asia market today?

Asia remains a very diverse and dynamic marketplace. The individual characteristics and stage of development of each individual economy, along with the relative maturity of the insurance and reinsurance markets, means that each territory within the region must be looked at in isolation. For Guy Carpenter, that means offering a broad range of services across the region, but that are tailored to each country in which we operate.

The continued M&A activity, increasing regulatory influence and the removal of pricing tariffs all mean that the insurance and reinsurance industries in Asia are undergoing constant change. Local competition in all markets remains strong, but we are now seeing a broad move towards profitability as the key performance indicator for many insurers, as opposed to written premium income which has historically been the measure of choice.

2 What are you expecting in the forthcoming year-end renewal in Asia? What preparations has Guy Carpenter made to meet these challenges?

Until a few weeks ago, we would have generally expected a competitive but routine renewal season in many territories throughout the region. Hurricane Katrina, which is clearly a loss of historic proportion, will certainly change the market

dynamics. It is still too early to have an accurate view of the financial and insured losses – but we would not expect any significant downward revision of those numbers already released. Exactly what Katrina will mean for our Asian clients is still too early to determine, and further natural catastrophe losses may also influence market reaction. It is reasonable to expect that those global reinsurers most affected, with operations or clients in Asia, will exert pressure to stem the downward pricing trend of the last two years. The question is what minimum improvement they will be seeking in renewal terms. As an advocate for our clients, we must ensure that reinsurers take a long-term view in terms of pricing recovery, and that consistency and a sensible approach to renewal terms and conditions be adopted, where adjustment may be required.

Many insurers are still price sensitive, how does Guy Carpenter handle this group of clients?

Our role, is to mitigate as far as we can, any pricing increase by reinsurers, or restrictions in terms and conditions for our clients as a consequence of this year's losses. We continue to believe that improved exposure data, along with refined use of catastrophe models, where appropriate, is essential to enhance reinsurers' understanding of our clients' portfolios, thereby presenting the best available and most accurate underwriting information.

What new technical value-add expertise is Guy Carpenter introducing to its clients this renewal and for next year?

Portfolio management and diversification of risk, especially in catastrophe prone areas, remains critical in a cycle when natural catastrophe occurrence and severity seem to be rising. Guy Carpenter has long been a leader in terms of developing new ways to help its clients better understand and manage their exposures. Reinsurance has become extremely data-intensive and the ability to manage large sets of data has become critical. To this end, Guy Carpenter has been developing a cutting edge exposure management platform, which we call i-aXs. In response to Hurricane Katrina, we accelerated the deployment of some features of i-aXs by introducing a catastrophe mapping tool to give clients an enhanced ability to assess specific properties at risk of loss.

In Asia, in particular, there are other exciting developments in the works. For facultative, in addition to achieving improved premiums, we have devised several portfolio programmes to reduce administration and workload significantly for our clients. Facultative remains a very rapidly expanding business for Guy Carpenter throughout Asia, and we will be broadening our product line and territorial scope further before the end of 2005.

Throughout Asia, we recognise that high-service standards, especially for prompt documentation and claims processing are critical to our clients, and a key differentiator between ourselves and our competitors. To this extent, we will be further expanding our regional resources throughout the remainder of this year and 2006, for both treaty and facultative to ensure that we lead the market in this regard.



I wish, I wish, I wish, ...

We played fairy godmother and asked industry players on their wishlist for the coming renewals. Let's hope the reinsurers are listening ...

Generally reinsurers have elephant memories. They never forget your previous losses and will factor in your history of losses into the rate even though the loss occurred several years ago.

Also, reinsurers should be more encouraging to primary underwriters and assist them in venturing into new areas of business through the training and transfer of expertise, instead of discouraging them from writing new business by adding exclusions.

Mr Ng Lian Lu
CEO, AmAssurance Berhad



Prior to Katrina, we were observing a softening in direct insurance rates, supposedly stemming from increased capacity from reinsurers and competition among them. Katrina globally and the December tsunami regionally should remind all underwriters of the need to consistently price business to achieve an adequate return on capital.

We anticipate rate corrections in both direct and reinsurance markets as we move towards the end of this year. Most Asian insurance markets have shown real growth in recent years coupled with increased product, distribution and regulatory sophistication.

Reinsurers should strive to align themselves with the winning companies.

Mr Patrick Wale
Managing Director, Aviva Asia



Cedants are more focused on the financial strength of their reinsurers as well as support rendered by reinsurers on technical underwriting cooperation. Relationships are secondary compared to capacity, service, and the ability and willingness to pay claims. We wish for more reinsurers with financial strength, good record of claim payment and the ability to equip us with a competition edge.

Mr Chai Sophonpanich
Chairman and President,
Bangkok Insurance



Following Hurricane Katrina, there is uncertainty on how the Asian reinsurance market will react. It is important there is stability, both of reinsurance premiums and levels of security.

Mr John Thorpe
Regional Director – Treaty, Aon Re Asia

My wish is that reinsurers assess contracts on their merits and not resort to following market trends or standard local conditions. And that all reinsurers adopt a company-wide culture of honouring broker-client relationships.

Mr Richard Austen
CEO, Arthur J Gallagher Asia



We should not treat reinsurers as merely capacity and protection providers, but indeed as our stakeholders who provide extra capital in the form of capacity and protection.

Mr Teddy Hailamsah
President Director,
PT Asuransi Central Asia



With Katrina-insured losses expected to be higher than the 9/11 insured losses, insurers must brace themselves for another hard reinsurance cycle like in the aftermath of 9/11. It may be wishful thinking, but since we are not exposed to the similar kind of catastrophes that threaten other parts of the world, we may be insulated from its effect without having to pay the price.

Mr Kong Shu Yin
CEO, Kurnia Insurans (Malaysia)



Reinsurance is like a marriage – both parties are equal; having trust and respect for one another.

Mr Rudy Wanandi
Chairman, PT Asuransi Wahana
Tata and PT Asuransi Mitsui
Sumitomo Indonesia



I hope that insurers and their reinsurers can work out a strategic alliance that can last for several years, and work for their mutual benefit.

Mr Tan Kin Lian
CEO, NTUC
Income



My wish is for treaty reinsurers to place both their local and foreign clients operating in the same market on the same playing field with no double-standard underwriting, and to be transparent about this. We also ask that treaty reinsurers be familiar and understand the actual workings on the ground.

Ms Stella Tan,
CEO, Tenet Insurance

As 2005 has not been a good year for the insurance industry worldwide, it is understandable that reinsurance buyers will face stringent conditions. We fear that catastrophe cover prices this year will see a major spike as a result of Hurricane Katrina, and wish that for the coming renewals, catastrophe prices would be adjusted sensibly and not have unaffected regions subsidise these losses. For example in Taiwan recently, ASE suffered a fire loss of approximately NT\$7.8 billion, which affected many companies market-wide, but some companies were spared as a result of conservative underwriting.

Mr Frank Wang, President, Union Insurance



Newsflash!

Rita Losses Not as Severe as Feared

Damage caused by Hurricane Rita as it swept across parts of Texas and Louisiana over the weekend was perhaps financially only one-seventh as severe as that caused by Katrina, with loss estimates ranging from US\$2.5 billion to US\$5 billion, said AIR Worldwide.

However the storm, which spared many oil refineries in the region from heavy damage, is still regarded as one of the 10 costliest storms to ever hit the US.

The US\$5-billion initial estimate does not include the effects of flooding and the impact on offshore oil rigs, which are not covered in most of the calculations.

The storm struck less heavily populated areas, with less force than Katrina, mostly bypassing Galveston and Houston, where damage of up to US\$30 billion had been feared.

How well do you know your CATs?

See how you score on natural disasters and knowledge of the industry. For the first five to come to our booth with the right answers, we will give away the AIR CD-ROM containing articles published by us.

- 1) When did Hurricane Katrina make landfall?
- 2) What is the total insured loss figure from man-made disasters in 2004?
- 3) What is the latest total insured loss for 2004's Indian Ocean Tsunami?
- 4) What is the latest estimate for the four public sector general insurers in India for the Mumbai floods?
- 5) Which reinsurance company celebrated its 125th anniversary this year?



Mark Your Diaries!

The Sixth CEO Insurance Summit

Theme: "A Renewed Focus on the Market and the Customer"
20 - 22 February 2006, Bangkok

All that talk of consumer focus, consumer sophistication, being customer-centric and the use of CRM have all had minimal impact. Many insurers have failed to walk the talk about the mantra of Consumer being King. This 6th Summit will go straight to addressing this vital gap in reaching out to the consumers. What is the problem? Over reliance on agents and distributors? Insurance being sold rather than bought? Or the policies being too technical to be understood by the man in the street.

The 6th Summit to be held in Bangkok is organised by Asia Insurance Review with The Geneva Association, and the support of the International Insurance Society and the International Association of Insurance Supervisors (IAIS). Over the years, the CEO Insurance Summit has come to be regarded as the leading insurance event in the AIR series of conferences, bringing together leaders in the market, including regulators and CEOs from regional as well as domestic and global companies. At the 5th CEO Summit held in Taipei, there were some 40 speakers including six regulators and 220 delegates from around the world.

So mark your dates to return to the heart of the business – The Consumers. The Summit will, in addition to a Regulators Panel, have a special Consumers' Panel to address in-depth consumer and research ideas on what consumers know of insurance and expect of the industry, as well as provide tips on what needs to be done to boost the image of insurance to rise to meet the dynamic challenges of society and boost consumer awareness in insurance. Register your interest with Loga@asiainsurancereview.com now.



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2004 catastrophes

IN NUMBERS

Sources:
Swiss Re Sigma, ABI, and Guy Carpenter

Total financial losses from catastrophes are estimated at

US\$123 billion

of this figure,

US\$120 billion
is attributable to natural catastrophes.

Of the total losses caused by catastrophes,

US\$49 billion

was covered by property insurance.

Insured storm damage totalled

US\$38 billion,

of which

US\$32 billion

was caused by 13 hurricanes in the US and neighbouring countries,

and

US\$6 billion
by 10 typhoons in Japan and neighbouring countries.

It was the most expensive windstorm losses in history.

Total economic losses from Hurricane Katrina are estimated at

US\$125 billion,

with at least half from New Orleans



Total insured loss for 2004's Indian Ocean Tsunami was

US\$3.8 billion,
with

US\$1.1 billion
from life, health and travel claims.



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