Asia Insurance Review
Member: Beacon International Group, Ltd.

SIRC Daily
DAY 1

Monday | 31 October 2022

APAC reinsurance in focus

As the reinsurance industry enters the conference season of the last half of the year with Monte Carlo, Baden-Baden and SIRC, *Asia Insurance Review* offers a roundup of insights into the development of the sector in the region.

Asia Pacific

Resolution Life's Bermudian reinsurance platform, Resolution Re, inked a reinsurance agreement with Dai-Ichi Life that transfers a closed book of whole of life policies with JPY150bn ($1bn) in total liabilities.

This was its first Japanese reinsurance transaction following the opening of Resolution Life's Singapore representative office earlier this year. Resolution Re seeks to continue supporting the primary life industry in Japan and in other Asian mature markets as well.

Australia

Australia's GDP is estimated to have grown by 5% in 2021 and is forecast to rise by 4.5% in 2022 and 2% in 2023, said a Reserve Bank of Australia report.

Munich Re predicts that the global reinsurance market will grow by around 3% per annum (inflation-adjusted) by 2023.

Munich Re Australasia managing director Scott Hawkins said, "The prospects in reinsurance are favourable thanks to the economic recovery that set in after the lockdowns and to price increases following the long soft-market phase."

SCOR APAC mature markets chief underwriting officer and Australia general manager David Johnstone said, "Renewals and profit achieved by the Australian branch were ahead of plan in 2021." Despite that, it was not enough for the reinsurer - and Mr Johnstone expects a similar year ahead.

"The reinsurance market must make an adequate return for shareholders. The earnings over the recent years have not been at the level that the reinsurance industry is required to achieve," he said.

Hong Kong

COVID-19 lockdowns in Hong Kong and mainland China have strained the financial services sector in the territory – and reinsurance has not been spared.

Provisional figures published by the Insurance Authority (IA) for 2021 reveal that reinsurance inward gross and net premiums were HKD15.7bn ($2bn), which decreased by 1.2% from 2020 and HKD8.4bn ($1bn), which reduced by 12.3% from 2020, respectively, as the contraction of motor insurance outweighed an expansion in property damage and accident and health business.

Reinsurance underwriting performance improved to HKD622m from HKD582m a year ago, mainly contributed by a lower net claim incurred ratio of 59.8% (2020: 62.2%).

The IA feels that apart from huge business opportunities, Belt and Road Initiative (BRI) investments can give rise to significant risks. In the BRI risks underwritten by mainland China insurers, the IA sees an opportunity to promote the use of reinsurance coverage to transfer and diversify those offshore risks, by providing capital efficient access to global risk management and underwriting expertise.

India

GIC Re, the sole Indian reinsurer, celebrated its golden jubilee in 2021. The 50-year-old state-owned reinsurer sustained itself over the five decades due to its healthy investment income despite its combined ratio always being more than 100.

COVID-19 impacted two big portfolios of the Indian insurance industry - motor and health. Together they constitute nearly 70% of the Indian non-life insurance market. They are a big chunk of GIC Re's pie too.

South Korea

COVID-19 had a very limited impact on the South Korean insurance industry. Based on data from the Korean Insurance Research Institute, non-life insurance premium grew 5.5% in 2021 and is expected to grow by 4.9% in 2022.

Munich Re Korea CEO Michael Hauer said that motor insurance, which traditionally contributed to the country's P&C insurance industry deficit with a loss ratio of 90-100% before the pandemic, achieved a surplus from 2020 to 2021.

On the healthcare front, Mr Hauer said that long-term business benefitted from a reduced number of consultations and COVID-19 related medical costs and test expenses were mostly covered under the national health insurance scheme. Pacific Life Re head of Korea Philip Hay said that despite being hit by the pandemic the market remains vibrant supported by robust direct insurers sales.

"There is strong competition within the reinsurers, fighting for a pie within this mature market," he said.

Identifying opportunities amidst uncertainties

Aon Reinsurance Solutions's **Mr George Attard** says that partnerships are critical for the (re)insurance industry to grow and stay relevant.

By Jimmy John

Helping clients navigate volatility in the current market environment is of great importance a economies start to rebound from the pandemic.

Aon Reinsurance Solutions Asia Pacific CEO George Attard believes that partnering with clients and viewing their operations holistically will help them protect and grow their businesses.

"The reinsurance market is entering a challenging period, with a unique confluence of uncertainties playing out for the renewals entering into 2023," he said.

He said that macroeconomic and geopolitical volatility was coinciding with an increased frequency of natural catastrophe events in recent years, particularly secondary perils.

"Ultimately, this has caused reinsurers, investors and analysts to take a look and reassess their view of risk and appetite for Nat CAT exposures," he said.

Inflation to impact growth

Mr Attard expects a continued mismatch of reinsurance supply and demand going into 2023 and believes that inflation is going to be the main concern in addition to climate change and its impact.

Aon recently launched a strategy and technology group, which brings together a wide range of insight and software solutions to help the firm's property and casualty, life insurance and reinsurance clients build flexible and resilient enterprise structures that drive strong financial performance and aim to help increase business resilience.

"Our aim is to help our clients drive better financial performance through claims efficiency, performance benchmarking, understanding market data and trends for those that are looking to enter new markets, and areas such as actuarial analysis and capital structuring," he said.

He also believes that there are significant opportunities for intellectual property insurance in the region – an area which Aon had already identified as a driver of growth and had therefore increased its resources and capabilities in other regions.

Nat CAT and secondary perils

Average insured catastrophe losses increased from $60bn to $95bn over the last decade, Mr Attard said and so it is important to understand what is driving those increases.

"Often climate change is the focus, but it is a combination of factors, of which climate change is clearly a significant component," he said. The macroeconomic environment, insured value and demographic influences also affect concentrations of exposures.

Macroeconomic dynamics at work

The pandemic has changed consumer behaviour and economies, with demand shifting from services to goods; stimulus packages being introduced to boost spending; production being scaled down and reducing supply.

Mr Atard said that this ultimately increases demand while a reduction in supply causes unprecedented surges in prices and results in inflation.

"That was further amplified by the Russia-Ukraine conflict with global oil and energy prices increasing, which is having an impact on food security given the region is a significant supplier of wheat and fertilizer," he said.

He believes that reinsurers will be particularly concerned about the systemic impact of inflation on past and future loss costs and insurers will be looking to seek higher limits.

"In the short term, macroeconomic conditions will place continued pressure on supply and demand," he said. "However, in the longer term, higher interest rates will be positive for investment returns, increasing the prospect of improved earnings.".

ILS and alternative capital

Speaking about the role of insurance-linked securities (ILS), he said that the heart of closing the protection gap is in creating additional capacity and accessing ILS, backed by alternative capital.

"We've seen that, globally, the ILS market continues to hover around the $100bn mark and makes up about 15% of global reinsurance capital at the moment," he said. He highlighted the role of Asian-based sponsors, who in recent years have significantly increased their interest in the ILS market.

"ILS will continue to play an increasing part in the market, but it is also correlated to the current macroeconomic dynamics which we'll have to consider as well," he said. He believes that the development of regional ILS domiciles in Singapore and Hong Kong will also help the Asian region in future.

Mitigating agricultural risk

Food security has been a problem for Asia over the past few years, one which has been exacerbated by climate change. Insurers could help mitigate these, but are they making the right moves? **Canopius' Mr Deng Yu** elaborates.

One of the major differences between agriculture insurance and property insurance is the definition of catastrophic risk and the approach to dealing with it. Property insurance mostly defines catastrophic risk by events such as hurricanes and earthquakes, whereas for agriculture a catastrophic growing season is made up of an accumulation of climate influenced factors.

The modelling approach to agriculture differs from the traditional methodology that captures frequency and severity of events separately. Instead, it should focus on post-harvest yield impact as an aggregate outcome.

Efforts have been made by individual insurers and reinsurers to collect sufficient crop-yield data at a policy level statistically to support the hypothesis that there are structural changes in recent years in terms of increases in crop yield volatility that eventually increase claims costs for agriculture insurance.

If more and more studies confirm such hypotheses, suggesting climate change could be a contributory factor, primary rating models and reinsurance pricing models would have to be adjusted to amplify volatility in historical yield data to reflect today's heightened levels.

This process may well generate varied results depending on crop types, farm practices and geographical locations. Due to this heterogeneous nature, the convergence of modelling and pricing views may take some time. However, it is our view that all practitioners should embark on such studies to examine changes in crop yield volatility.

Eye in the sky

In recent years, agriculture has seen a substantial increase in remote sensing and satellite imagery to aid crop assessment and forecasting. The development of various dependent and independent parameters such as the Normalised Difference Vegetation Index have helped model developers to predict crop growing conditions, identifying factors such as the biotic and abiotic stress on crops. Advances have been made in algorithm-based root zone soil moisture assessment for depths up to 50cm.

This plays a significant role in assessing crop stress and drought onset and helps monitor crop growth conditions. With the advent of micro satellites and the use of unmanned flying vehicles operating at lower altitudes, it is also now possible to capture the crop condition at higher resolution and frequency, making valuation and prediction at a granular level possible.

With advances in the linkage of satellite-based parameters and ground-station-based data, scientists are additionally working on a combination of indexes, which are more accurate in terms of assessing crop condition based on remotely monitored values.

Agriculture insurance can be purchased on a smartphone nowadays, which helps to overcome administrative issues created by the large number of small farms across the region. Once a policy is in place, insurers can already use satellite and ground station data to monitor the situation on farms, effectively creating a diary of the growing crop, which can be shared with policyholders. Having this mutually agreed 'diary' can make claims settlement dispute-free and enhance policyholder experience and satisfaction.

Using the right method

Agriculture or crop cultivation is predominately an 'open-roof' business; hence it is exposed to almost all weather events. Climate change is an evolving aspect, whose impact to agriculture is still being studied using multiple models and variables. However, based on recent years' observations, the near-term trend has been an increased frequency of unseasonal weather events such as long duration drought, extreme rainfall with record breaking intensity and late spring frosts.

On the flip side, agriculture has a long history of climate-related adaptation, such as changing crop rotations and the development of irrigation systems.

With the advancement in plant science, more tolerant seed varieties are also being introduced to reduce susceptibility to unseasonal weather events. It is therefore incumbent on the insurance industry to closely monitor and study these changing elements, address the financial ramifications early on and make the necessary product changes to coverage, exclusions and rating, so that agricultural producers can continue to rely on insurance as the most cost-effective risk management tool.

Mr Deng Yu is head of agricultural reinsurance with Canopius.

ESG opportunities in Asia Pacific

By Munich Re's Dr Tobias Farny

While the climate crisis has posed significant economic and societal impacts, two opportunities have also risen alongside this – the growing global demand for increased climate resilience as well as the widespread transition towards a low-carbon economy.

For instance, around 90% of emissions within Southeast Asia could be addressed via the energy transition, valuing nature, and the agri-food transformation, showcasing the rich potential of the region's green economy.

Munich Re has witnessed an increased demand for our portfolio of climate-related risk analysis and risk transfer solutions and opportunities for profitable green investments. To address the growing demand and promote climate change mitigation, we have crafted insurance solutions for businesses to lower the risk of adopting innovative low-carbon technologies and support their upscaling.

In enabling the growth of the renewable energy sector, we have also insured renewable energy in over 800 projects and for manufacturers from around 80 countries in the GreenTech sector alone.

The importance of risk management as the effects of climate change become increasingly evident

As we transition to a low-carbon economy, there are several risks involved. These include risks associated with technology developments, policy and legal risks, and physical risks arising from the increasing frequency of extreme weather events. These could disruptively change the characteristics of insured assets and the ways businesses operate in the fight against climate change. To address this, a comprehensive risk management approach that identifies, analyses and manages climate risks is needed.

Such an approach involves monitoring of changes in climatological drivers of loss events over time, conducting scenario analyses for climate risks to predict future scenarios, and constantly evaluating new and changing risks.

We have also integrated risk management with climate science, not only by employing highly qualified climate experts for risk assessment and modelling purposes, but also by participating in science initiatives, initiating and carrying out projects with scientific facilities.

Investments and initiatives to combat climate change

Reinsurers and the insurance industry can help make societies more resilient in the face of disasters. Improving risk management and resilience are critical elements in mitigating the impact of humanitarian disasters and fostering sustainable economic growth, and industry players can do so by investing in public-private partnerships and innovative solutions.

Notably, public-private partnerships serve as an effective way to close the large protection gap in Asia and provide cover for risks that would otherwise remain uninsured. By partnering with both the private and public sectors, reinsurers can help minimise the negative consequences of pandemic risk by providing innovative insurance solutions and mobilising insurance capital from private and public investors.

One example is parametric products, which help to complement insurance protection by covering the ex-ante risk financing of emergency response and relief measures, especially for policyholders aiming to reduce their risk exposure and bridge the gap between insurable and, so far, uninsurable risks.

Dr Tobias Farny is CEO, Asia Pacific – greater China and Australia, New Zealand.

Reinsurance plays a central role in improving climate justice

By Hannover Re's Mr Ralf Weyand

Asia Pacific as a region is particularly vulnerable to climate change. Generally, low and middle-income countries are more badly affected by such events. In particular, a 2022 report by ratings firm S&P Global has shown that lower-income and lower-middle-income countries are more likely to face GDP losses, with South Asia most at risk. In the Global Climate Risk Index presented during the last United Nations Conference on Climate Change in 2020, four out of the 10 countries most affected by climate change at that time were located in the Asia Pacific region, namely Japan, Philippines, India and Sri Lanka.

Reinsurers with their expertise in areas such as risk management and risk prevention can play an important role. They can help to improve the resilience of the most vulnerable countries and communities. As an expert provider of social protection from natural catastrophes, who looks back at many decades of experience and data, reinsurers can expand their presence in emerging and developing economies to close the protection gap. To do so, they need to provide natural catastrophe insurance in regions, which are not part of their traditional markets. South Asia is one of these opportunities for reinsurers as it faces increasing natural disaster from climate change while at the same time economic development is steadily improving in many countries.

Apart from purely providing reinsurance for primary insurers, reinsurers need to build new partnerships with governments of emerging and developing economies in order to provide guidance and propose solutions to improve natural disasters risk management. Reinsurers that operate on a global level can leverage on their experience and expertise from other regions in order to propose improved risk management in countries, which are much more exposed to these risks than they were in the past because of climate change.

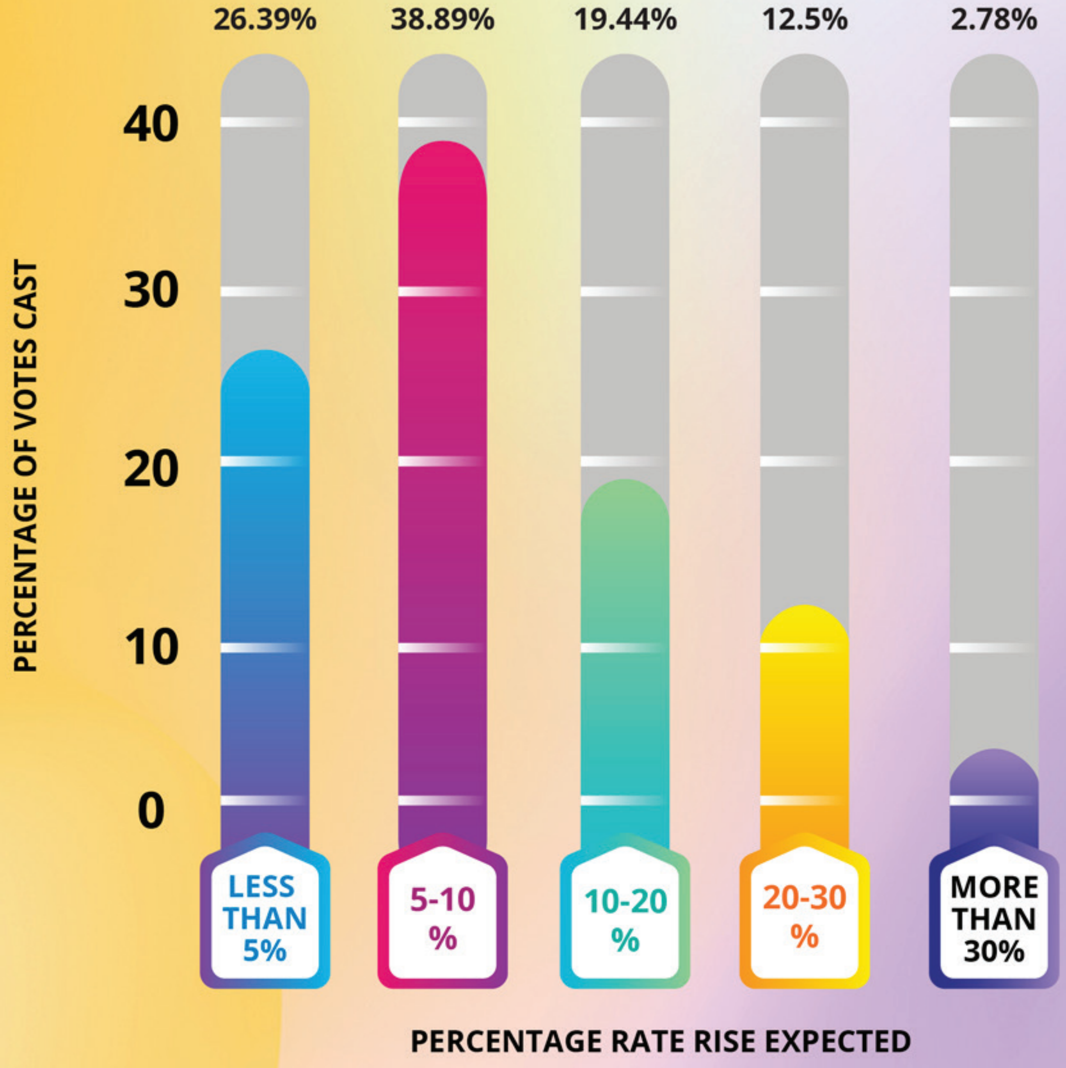
Furthermore, reinsurers can provide new and innovative products to protect vulnerable communities from emerging risks from climate change. For example, expanding parametric-type insurance to cover natural disasters will enable faster pay-outs and thus assistance to the affected communities. These instruments are index-based solutions where claims payments are linked to an objective-based index rather than an actual loss. They are often tied to parameters such as rainfall or wind speeds. The recent example of the Pakistan floods in 2022 was a clear example where accelerated help and funding would have been of great value to the country and community.

Agriculture-related micro insurance products are also a good example of reaching communities in the Asia Pacific region which are most impacted by climate change. The S&P report referred to before has also shown that communities which are more dependent on agriculture are also more heavily impacted by climate change.

Furthermore, reinsurers have the ability to help close this protection gap by utilising technology more effectively. For example, primary enabling smaller insurers with less technical skills to sell micro insurance via telecommunications companies who have wider access to the community. That will enable a wider part of the community to have access to such social protection solutions. Reinsurers can also contribute to regional or local disaster alert systems or information dissemination systems such as the ASEAN Coordinating Centre for Humanitarian Assistance on disaster management by providing information or technology such as geospatial data and systems which local governments or local support systems may not be able to access or process directly.

Mr Ralf Weyand is managing director of Hannover Re.

ON AVERAGE, HOW MUCH WILL RATES RISE IN THE 1/1 RENEWALS?

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Renewals alert: Pricing and T&C in focus

It was almost as if the reinsurance community had got together ahead of Les Rendez-vous de Septembre in Monte Carlo this year and agreed on the message that it was going to give to the market: Get ready for very substantial rate rises in the 1/1 renewals.

By Paul McNamara

It was clear that COVID-19 was very much a thing of the past for delegates at this year's annual reinsurance get-together in Monte Carlo. There is a new reality - and it looks like being a harsh reality - that will see prices for reinsurance rise between 20-30% in some lines come the January renewals.

We offer a roundup of the main messages delivered by some major players of what the upcoming renewal season can expect to deliver.

Munich Re

Munich Re CEO of reinsurance Torsten Jeworrek focused on both the economic market and the environment and the insurance market outlook.

Mr Jeworrek said, "Inflation will peak this year," but would continue for some time – and suggested that this would have a profound impact on 1/1 renewals. "The upcoming renewals will be much, much more challenging than before," he said.

The only course left open to reinsurers was simple: "We have to do the right underwriting," he said, "but getting the price right is going to be very difficult if an insurer's stress test scenarios are wrong."

SCOR

The France-headquartered global reinsurer's chief executive officer Laurent Rousseau started by stating that, "This is one of the best markets we have seen in a few years." He offered an overview of the new reality of climate change, the pandemic and inflation and higher interest rates.

Mr Rousseau was quite blunt. "Reinsurance has not made an adequate return on capital over the last few years." And so there has to be change. "We are going to be one of the drivers of that change," he said. "A lot of it has to do with price," he said, "but the other part has to do with terms and conditions."

Hannover Re

Many of the same themes also emerged during the Hannover Re press briefing where CEO Jean-Jacques Henchoz opened with a stark warning: "COVID is not over yet," and went on to say that, "The general economic environment is very, very volatile," largely because of Russia president Vladimir Putin's invasion of Ukraine, resulting in a position that is "very tense."

"We should temper the feeling that we are heading towards a new normal," he said. Energy supply issues should not blind us to the problems of climate change. "Climate change remains a very prominent topic for us," Mr Henchoz said.

Swiss Re

Swiss Re group chief underwriting officer Thierry Léger began by stating that the multi-polar world and economic dependencies lead to more risk – with the main risks of inflation, the food crisis, energy crisis, supply chain disruption, the geopolitical crisis and climate change identified.

Social and economic inflation are hitting the insurance industry simultaneously – with social inflation trends picking up again. Next, he pointed out that rapid urbanisation, wealth accumulation and climate change were driving Nat CAT losses.

He said that the reinsurance industry had been playing catch-up since 2017 – lacking modelling discipline for secondary perils, with exposure data gaps and too much optimism over loss experience observation windows.

AM Best

AM Best's marketing briefing, headed by managing director, market development and information services Nick Charteris-Black, covered six main themes:

1. Outlook: Stable outlook - drivers remain in flux
2. More complex and changing risk environment
3. Results stabilisation: Improving pricing, terms
4. Market well-capitalised. Subject to asset volatility
5. Continued economic and geopolitical uncertainty
6. The evolving role of reinsurance

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ASIA INSURANCE REVIEW
Member: Beacon International Group, Ltd.
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