ASIA INSURANCE REVIEW

SIRC DAILY

DAY 2

TUESDAY • 30-10-18

Minister for finance Heng Swee Keat

Singapore leads the way for a more risk-resilient ASEAN

Singapore is forming the world's first commercial cyber risk insurance pool involving both traditional and alternative capital, with up to $1bn in capacity already being committed. The republic's minister for finance Heng Swee Keat revealed this during the opening of the 15th Singapore International Reinsurance Conference (SIRC) yesterday.

Initiated in collaboration with the Singapore Reinsurers' Association (SRA) and cyber specialist Peter Hacker, 20 insurance firms have indicated their interest in participating in the pool. Mr Heng encouraged more insurers to consider joining it, which would allow corporates in Southeast Asia to be protected against cyber-related losses.

"Asia appears to be the world's most targeted area for cyber attacks, with hackers 80% more likely to target organisations in the region…and more than 60% of Asian companies do not have proper cyber threat monitoring systems. Clearly more needs to be done to strengthen ASEAN's cyber threat resilience.

"We need to invest in cyber security to prevent and deter attacks, and we need to mitigate the consequences of attacks through better risk pooling," he said.

Global-Asia Insurance Partnership

Staying on the theme of partnerships, Mr Heng also announced the setting up of a new centre of excellence – the Global-Asia Insurance Partnership. The centre of excellence aims to foster collaboration between the insurance industry, regulators and academia to deepen capabilities in risk management and insurance.

The initiative consists of a three-pronged approach: A living lab to develop solutions for new risks; a regulatory think-tank; and a talent development pillar.

Commenting on the first prong, Mr Heng said the living lab is not meant to duplicate the efforts of individual insurers which have set up innovation labs in Singapore, rather it would "tackle market-wide issues that cannot be dealt with by a single company."

Further, the centre will also undertake talent development efforts to train a pipeline of insurance talents in areas like big data and artificial intelligence.

The Global-Asia Insurance Partnership will see the Monetary Authority of Singapore (MAS) partnering with Nanyang Technological University (NTU). Mr Yoshihiro Kawai, former secretary general of the International Association of Insurance Supervisors (IAIS), will play a key role in the set-up, in particular to lead the regulatory think-tank effort, said Mr Heng.

Closing ASEAN's Nat CAT protection gap

Mr Heng also provided an update on the government-to-government efforts among

(Continued on page 2)

(Continued from page 1)

ASEAN member states to strengthen disaster risk resilience in the region.

Noting the huge disparity between insurance protection and the pace of economic development in the region, he said the ASEAN+3 finance ministers have endorsed the Southeast Asia Disaster Risk Insurance Facility (SEADRIF) – supported by the World Bank and in partnership with Japan.

SEADRIF, targeted to be established by mid-2019, is a flood risk pool involving Laos, Myanmar and potentially Cambodia. To be hosted in Singapore, it aims to provide climate and disaster risk and insurance financing solutions for these countries.

"Such disaster risk financing will facilitate immediate liquidity financing so that countries can receive help promptly…and reduce disruptions to national budgets and reliance on humanitarian assistance, which can take time or is uncertain," said Mr Heng.

Together with the ASEAN Disaster Risk Financing and Insurance initiative set up in 2016, these efforts will boost the region's resilience to economic losses from natural disasters, he said.

Reinsurance hype abounds in Asia despite global pessimism

Asia is still the growth driver for global insurance despite contributing less than 30% to the world's insurance premiums and less than 15% to the reinsurance pie. "We live in a time of great turmoil, with trade spats, terrorism and pessimism," said 15th SIRC organising committee chairman and *Asia Insurance Review* editor-in-chief Sivam Subramaniam during his welcome address yesterday.

"But with the focus on bridging the penetration gap and the fast embrace of digitalisation and the increasing number and intensity of natural disasters, Asia is catching up with its share of the global market," he said.

Reinsurance is a powerful force for change in the world, he reminded the audience, despite "big-shot reinsurers saying that the reinsurance industry will be all about managing pessimism". He added, "With Reinsurance Reloaded being the theme of this SIRC, reinsurers need to play to their strengths and not be embarrassed that the industry has excess capital, because capital is good and strong."

He also urged reinsurers to flex their tech-savviness and remain ahead of the InsurTech curve with tech-driven analytic solutions, while remaining client-attentive. "To some, big is everything, as the M&A trend shows. But others want focus and attention and plenty of pampering, too."

Brian Duperreault on the acquisition trail

Another highlight of the afternoon was a fireside chat with **AIG** president and CEO **Brian Duperreault**. Here are some highlights.

Q What are your thoughts on the new initiatives announced by Singapore's minister for finance?

I have to acknowledge the enlightened approach that Singapore is taking in these issues we're all facing globally, whether it's Nat CAT or cyber. They don't lend themselves to a solution only by the private sector. There has to be public and private sector collaboration to deal with them. Singapore is showing great leadership on a global scale, and I find a lot of creativity and innovation here.

When you look at Nat CAT exposure, when an event occurs, particularly in ASEAN, the insured loss is so much smaller than the real economic loss. How do you close that gap? There has to be a pooling of resources across all the ASEAN countries, government-wide. The next thing is to address the exposures themselves and the resilience of the country. The countries themselves have to look at risk management, in other words, urban planning, positioning populations. Do they put their people in a position where they are extremely vulnerable to Nat CATs? A lot of work has to be done around where the countries position populations so they mitigate that risk by taking exposure away.

We, as an industry, have been working with ASEAN. We're also involved in the Insurance Development Forum (IDF). We are good at understanding the modelling of these risks, taking data, and using data science to be more precise about what the exposures are. We're assisting the countries to understand their own exposures and, to some degree, helping them with mitigating and transferring risks.

The long-term solution is not rebuilding again and again, like in a place that floods.

Q The minister also mentioned cyber threats. How should the industry approach cyber risk?

It's a growth line in the industry and yet it scares all of us to death as it's so hard to figure out. Cyber attacks are not limited to any place in particular; it's a global exposure. When you think about accumulations, you can't zone in as a single malware could affect anyone, anywhere. How do you model that? We're working on models that can help understand risks better.

There's also the ILS market, which is a necessary ingredient to the solution. The capital in the industry can't handle that kind of risk (in the trillions). So you need to bring in other forms of capital, where you can spread that risk across the broader base of capital and the ILS market is an essential solution to this cyber problem that we have where the accumulation across geographies, industries, individuals and governments is enormous.

Q Where do you see the ILS market over the next three to five years?

The ILS market is a natural place for us as an industry to place risk that is beyond our capacity to handle. It has a great potential in the long term for us – I don't see it as a threat. I see it as a great opportunity for us as risk managers, as another tool. I hope we can find a way to really make it work in the cyber space as it's needed there.

What are your views on InsurTech?

There's the InsurTech group that tries to disintermediate and replace the intermediaries using technology and digitalisation, and there's the InsurTech that's looking at taking risk. We don't see a crowd on the risk-taking side.

If we can go to market more efficiently by having interactions that are efficient, we'll do that. I think the biggest value for us as an industry is in AI, data science and algorithmic decision-making – the use of data to make this whole process so much easier for you as a buyer. I think that's the future of decision-making. You can see a time when there are few underwriters and there's a lot of work that can be done by machines, making triaged decisions about risks, while harder risks fall to the underwriter. That's where the real InsurTech revolution should take place in our business.

What I do know is so far no InsurTech wants to 'take' risks, that's good news for us risk-takers.

Where do you see the InsurTech industry over the next five years?

I think it will look like the last five years, concentrating on software to help you make a decision, trying to replace brokers with other kinds of exchanges. And I think we, as an industry, will be spending more of our time on the AI (decision-making) side.

What do you think about M&As? Is consolidation a trend or a new direction? (AIG bought Validus Re this year.)

I've been in business 45 years and there's been M&As all this while. It's not that hard to start a reinsurance business. You need a lot of money, but you don't need a lot of people. It's cyclical – it starts around big events like 9/11, earthquakes and things like that. There's a flurry of activity, while others run away from the risk, so there's a constant renewal. New companies form, some blossom, some don't make it and don't get past a certain size, and get absorbed.

So M&As are not new, or old, it's the natural way of survival. Company formation comes in waves. The activity today is based on the fact that we had a number of companies formed 10-20 years ago and some have decided they just can't get to the size they want.

Is AIG still looking at more acquisitions?

Yes. Some 18 months ago we were in a selling phase, but not anymore. I'm buying. My rule of thumb is I want a company that will make me better not the other way round where I have to throw resources to bring them up from the bottom. I'd rather have a company that I don't have capabilities in. Validus is a great example – it was in reinsurance, in Lloyd's, they were in the crop business, they had ILS capability – and AIG had none of those. If you can get a complementary business with great people – not just economic but also people, capability and technology synergies then you got a win. It's not easy to find them, but I'm constantly looking.

What are your thoughts about Asia? Where's the biggest growth in Asia?

It's the one place you can really point to in terms of growth. You have the GDP growth, and secondly, society has very low insurance penetration, so this is growing. The growth rate is compounded by an increase in penetration so that's a wonderful penetration.

Asia is not easy, it's quite competitive and there's a barrier to entry in some places. But if you don't have a strategy around Asia, there's something wrong.

China is so big, in absolute terms, it will have to be top of the list. India is also massive, a much less developed insurance market over the years, so it has greater potential. The ASEAN countries generally have good growth rates. Interestingly, the Japanese insurance market has been growing.

How do you see China's insurance market developing?

China's insurance market is probably the second largest (both general and life). It's the second largest economy in the world… The insurance market is still protected and foreign insurance companies are not allowed to operate in the same way as local ones. We have been operating for about 25 years in China, with our origins there a hundred years ago, but we have a really small market share. All the foreign insurers combined have almost no market share.

If you look at the largest insurance companies by market capital, of the top five, two are Chinese and one is Hong Kong-based. They've done a great job of developing their own capabilities and industry. What I think they are missing, though are the innovation and competition that the global insurance market could bring to them. They have protected their marketplace but I think it's now time for them to open it up and let the competition begin. It would make all of us better – I'll learn something from them and they'll learn something from us. I'm ready to go toe-to-toe.

A snapshot of China's belt and road initiative

Swiss Re estimates that the demand for commercial insurance arising out of the belt and road initiative (BRI) could amount to $23bn for Chinese insurers and $28bn for associated projects outside of China to 2030, with the latter benefitting engineering and marine insurers in particular.

Insurance

Political risk and credit insurance have an important role to play - independently and in conjunction with export credit agencies and development banks. Infrastructure projects offer generally stable and predictable cash flows over long periods that are also more suited to investment by life insurance companies. Some insurance gaps in the Chinese market, suitable for provision by foreign insurers include CEAR DSU, political, business interruption, kidnapping and terrorism products.

Risk management and financing

With China remaining a middle-income economy still at an early stage of exporting capital, Chinese firms are less familiar with risks and project execution challenges like financing gaps. Private and international players could offer risk management, product development and innovation in niche areas, is a domain where international players can focus, as it may not be viable to compete with China's huge market on capacity or price.

Collaboration

BRI is a potentially collaborative platform with risks also serving as opportunities to be shared by many far beyond the shores of China. It can be win-win even for competing hubs like Hong Kong and Singapore to work together. Additionally, a collaborative approach, such as the Singapore-based consortium led by China Re, can be a good way for smaller players to pool resources like capacity, underwriting and analytical capabilities to access BRI projects.

Are there opportunities outside of China?

Some Southeast Asian insurers have shared concerns that early overseas BRI projects saw reinsurance ceded mainly to Chinese players with little participation from locals. Project country hosts may need to move insurance up the agenda at the start of project negotiations, and to lobby actively for China to tap local expertise and reinsurer capacity in the first instance.

Recent developments (Swiss Re *sigma* 4Q2018 BRI update)

3Q2018 saw more than $84bn of large BRI projects announced. Of the 92 BRI projects planned or commissioned, 89% were outside China, accounting for about 97% of the total investment value. Africa attracted the highest investments, followed by Southeast Asia. Energy attracted the highest investment, followed by chemicals (in China and abroad). Outside of China, investments in energy and chemicals projects attracted the most investment. The largest project is the Kayan River cascade hydropower station in Indonesia, with an investment value of $17.9bn.

Figure 1

Investments and number of BRI projects by region in 3Q2018

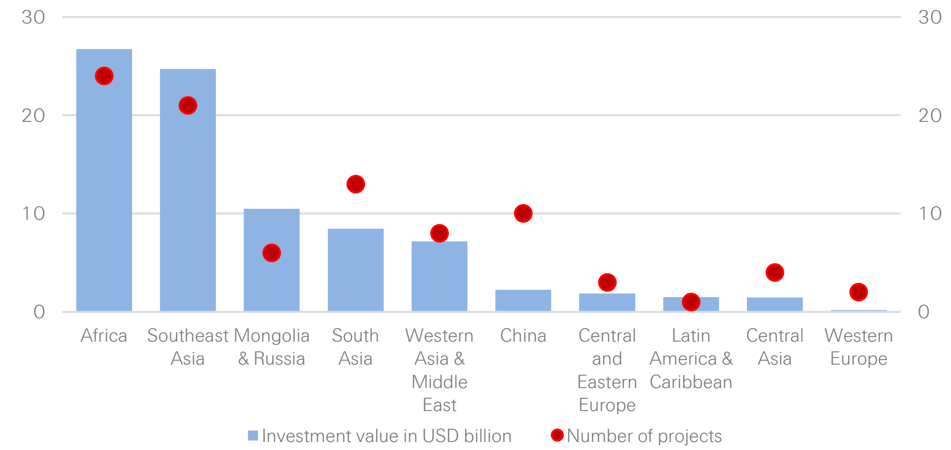
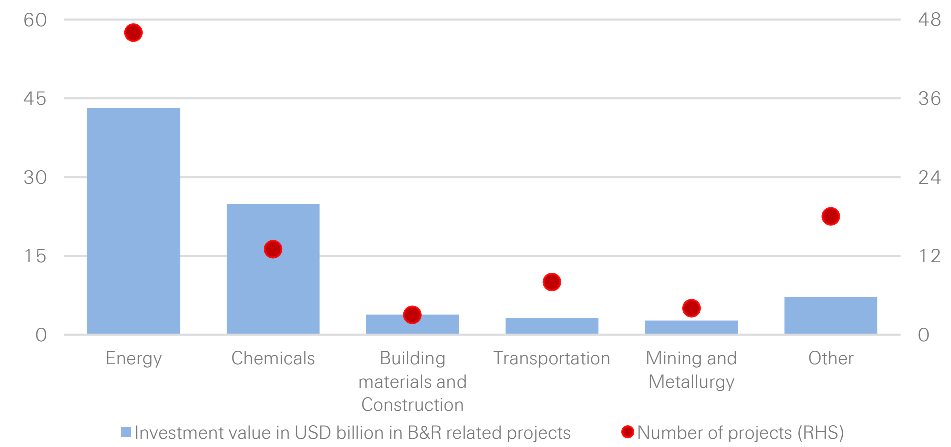


Figure 2

Investments and number of BRI projects by industry classification announced in 3Q2018



Source: Beijing Huaxinjie Investment Consulting (BHI.com.cn), Swiss Re 4Q2018 update

Recent infrastructure investment-related developments:

- Total non-financial ODI of Chinese enterprises investing in BRI countries was $9.6bn
- Value of new project contracts signed was $61bn for the first eight months of 2018
- The "Diamond Silk Road" project (freight rail network linking Antwerp and Shanghai) was enshrined in a MoU
- China and Indonesia will build five hydropower plants in Indonesia, est. value $17.8bn (largest single project in 3Q)
- Kazakhstan and China sign $1.9bn in investment agreements in September
- $115bn of investments signed at the 2018 Western China International Fair

Will ILS pick up in Asia?

Insurance-linked securities (ILS) hold huge potential for Asia and their deployment in the region is steadily picking up with Singapore taking the lead. The country has an enabling corporate, regulatory and tax framework to facilitate ILS issuance.

Current state of ILS in Asia

Data from Artemis indicates that out of the 106 ILS deals that have taken place since 1 January 2017, which amounted to $115.2bn, only five specifically cover risks in Asia. Those five deals were worth $1.8bn, representing just 1.5% of the total, in terms of value. AXA XL executive vice president and head of emerging markets Brendan Plessis believes the data suggests that the ILS market in the region is still relatively untapped. "With the exception of one deal from Panda Re in 2015 for the China earthquake, those deals were limited to either Japanese earthquakes or typhoons. In other words, there have so far been no ILS deals covering risks in countries other than these," he said.


Mr Brendan Plessis

Developing ILS in Asia

Asia is struggling with low insurance penetration and increasing natural catastrophes. Natural and manmade catastrophes can inflict considerable economic costs on developing countries, most of which are uninsured or under insured and these losses ultimately fall on local and national governments.

Mr Plessis feels that there is limited understanding in the Asian region of how the insurance and reinsurance industry works and called for a dialogue between various stakeholders to create awareness. "We need to ensure we keep talking to all stakeholders, governments, sub-governments, regulators, industry associations, multilaterals, academia and NGOs and by making the language of insurance easy-to-understand, the unique and fundamental value it brings to society can only be amplified," he said.

Leadenhall Capital Partners managing partner and head of business development Lorenzo Volpi believes that educating the region about the values of risk transfer is important as the term 'protection gap' is now frequently being used.


Mr Lorenzo Volpi

"Government bodies could help to increase awareness and team up with structuring entities like reinsurance broking and capital markets firms to work on filling this gap," he said.

He mentioned a few examples of where ILS were deployed in reducing the financial impact of natural disasters, like the Caribbean Catastrophe Risk Insurance Facility set up in 2007 and the issuance of sustainable development bonds by the World Bank in 2018, that collectively provide $1.36bn in earthquake protection to Chile, Colombia, Mexico and Peru.

"ILS, together with other risk management solutions, including reinsurance and government pools, have a significant scope to play a larger role in reducing the financial impact of natural disasters," he said. Mr Plessis, however, feels that on the supply side, a lack of data is still a major impediment to the expansion of the ILS market in Asia. "While there is increased appetite among investors for CAT bonds and ILS-backed protection, it is, not surprisingly, tilted toward areas and perils where the data sets and models are more highly developed and sophisticated," he said.

> *Experts believe that the ILS market is bound to grow in Asia, as cedants become aware on the nature of these products and investors seek to diversify their risks.*

Need to develop risk models

Catastrophe risk models also play an important role in the understanding of different perils and regions, ultimately supporting the development of markets by providing a view of potential losses and enabling risks to be priced. "There is a need of more risk models for Asian perils other than the limited number of models currently in existence, which will help promote the development of the ILS market in Asia," said Mr Volpi. On the other hand, Mr Plessis believes that for regions and perils where off-the-shelf models don't exist, which is the case for many parts of Asia Pacific, the reinsurance market does have the expertise to use more traditional forms of risk analysis and risk aggregation. "Until we have better data about the risks in certain regions, the capital markets will either look elsewhere or demand risk premiums that are prohibitively expensive," he said.

Singapore well suited for ILS

Experts believe that the ILS market is bound to grow in Asia, as cedants become aware on the nature of these products and investors seek to diversify their risks and local regulators encourage more collateralised transactions.

Singapore has the unique advantage of being the gateway to alternative capital providers such as pension funds and hedge funds in Asia and is taking a proactive role in developing ILS. The country has a deep debt capital market, with a broad range of bond offerings. SGX, the country's dynamic stock exchange, can facilitate bond trading.

Finding solutions in a changing world

Swiss Re provides an overview of innovative solutions that can be deployed to insure risk in today's fast-changing environment.

Our world is changing fast, particularly in Asia where the pace of change will leapfrog other economies. From the force of climate change on the widening natcat protection gap, to increasing growth opportunities through M&A in soft market conditions, advancements in technology has also brought about both disruptions and benefits in the industry. Innovations have enabled the industry to acquire a wider access to data which has reshaped how we analyse information, build our models and price products to enable more bespoke solutions for our clients.

This is our time to be bolder and faster

Resilience is not a cost – it is an investment into our future. It needs strength in partnerships and an integrated effort among insurers, reinsurers, partners, governments and consumers to innovate and develop effective solutions. By working together, we can stay close, stay relevant and get ahead in insuring our changing world.

Smarter solutions to insure our changing world

NATURAL CATASTROPHES

84%

of catastrophe losses remain uninsured in Asia

–

Floods, storms and earthquakes are the most frequent disasters in Asia

PARAMETRIC SOLUTIONS

Disaster such as typhoons or earthquakes occurs

▼

Third-party data is used to determine disaster magnitude (eg, Richter scale, storm categories)

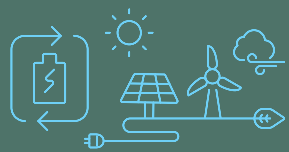
▼

Payout triggered automatically based on agreed index

▼

Faster disaster recovery compared to traditional indemnity-based covers

RENEWABLE ENERGY



64%

of new renewable energy capacity addition in 2017 from Asia

PROTECTION AGAINST RENEWABLE ENERGY VOLATILITY

Tailor-made solution based on agreed indices such as weather resource volatility and efficiency of farm

▼

If turnover falls short, cover provides financial protection.

MOTOR

> 40%

share of motor in global non-life premiums

–

15x INCREASE

increase in telematics-based premium volume expected by 2025

TELEMATICS SOLUTIONS

Devices installed in vehicles to record insured's driving behavior

▼

Machine-based learning scoring platform will better assess driver risk profile with data collected

▼

Insurers are able to price premiums more accurately, thus attracting more profitable drivers

AGRICULTURE

TWO-THIRDS

of global agriculture production currently uninsured

–

Growth of global agriculture premium at approximately

84% PER ANNUM

CROP INSURANCE

Instead of actual farm or field losses, proxies such as rainfall or representative yields are used

▼

Dynamic policy inception possible with improved weather forecasting

▼

Loss is verified with more accurate data sources

▼

Payout triggered automatically based on agreed proxies

Singapore welcomes the world

With over 1,000 delegates representing 50 countries, this year's SIRC has broken all records. But before the world's reinsurance industry gears up for what is undoubtedly a busy three days, delegates first let loose with good drinks, good food and good company.

Celebrating the very best of Asia

The 22nd Asia Insurance Industry Awards announced its winners last night, celebrating their achievements with glitz and glamour. The gala dinner coincided with the first day of the 15th SIRC, and 15 winners took their well-deserved spot on the honour roll, having beaten out almost 800 of their competitors.

Special mention goes to CXA Group, the first-ever winner in the new InsurTech of the Year category, as well as its founder and CEO Rosaline Khoo, who is the first-ever winner in the Woman Leader of the Year category.

Another new category was the Young Leader of the Year, which went to Mr Rotha Chan of Manulife Cambodia. He had also been honoured in the 2nd Trusted Life Agents and Advisers Awards with a special jury award, for being the first person in Cambodia to sell life insurance.

The awards, with strictly defined criteria for each category, saw some 800 entries. The Young Leader, Woman Leader, InsurTech, Innovation and Technology Initiative categories saw the most number of entries. In the first round, the judges went through the entries based on a 1,200-word write-up, which were then narrowed down to 38 finalists. The entire process was audited by KPMG.

Roll of Honour

Life Insurance Company of the Year
Muang Thai Life Assurance Public Company Ltd

General Insurance Company of the Year
AIG Asia Pacific

Educational Service Provider of the Year
Singapore College of Insurance

Innovation of the Year
HSBC Insurance (Asia) Limited

Broker of the Year
Marsh Asia

General Reinsurer of the Year
SCOR

Life Reinsurer of the Year
RGA

Corporate Risk Manager of the Year
Daniel Tan Kuan Wei (National University Health System)

Corporate Social Responsibility Award
Taiwan Life Insurance Co Ltd

Digital Insurer of the Year
Bajaj Allianz General Insurance Co Ltd

InsurTech of the Year
CXA Group

Technology Initiative of the Year
AXA Hong Kong

Woman Leader of the Year
Rosaline Chow Koo (CXA Group)

Young Leader of the Year
Rotha Chan (Manulife Cambodia)

Personality of the Year
Tapan Singhel (Bajaj Allianz General Insurance Co Ltd)

Published by: Asia Insurance Review — www.asiainsurancereview.com
Supported by: 15th SIRC — www.sirc.com.sg
Sponsors: RMS — www.rms.com; Sompo International Reinsurance — www.sompo-intl.com/reinsurance
Media Partner: Middle East Insurance Review — www.meinsurancereview.com

***AIR* team at the SIRC**
(L-R): Editor-in-Chief: Sivam Subramaniam • General Manager, Business Development: Sheela Suppiah
Editorial Team: Paul McNamara, Ridwan Abbas, Zaki Ahmad, Chia Wan Fen, Zuhara Yusoff, Jimmy John
Business Development Team: Koh Earn Chor, Louis Lee, Junaid Farid Khan
www.asiainsurancereview.com • www.meinsurancereview.com