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Race to net zero: (Re)insurance has critical role, but needs to catch up

A plenary session focused on 'The transition to net zero – commitment or lip service?' got day three of the conference off to a flying start.

In an opening address before the session, Swiss Re CEO reinsurance and group executive committee member Moses Ojeisekhoba said the industry had "a significant role to play in trying to bring about the pledges that many companies around the world have made around net zero, whether the goal is to reach net zero by 2050 or 2060".

Referencing a recent study by Swiss Re Institute, he said that investments of up to $273bn will be needed for companies to reach those goals.

(Re)insurance lagging

During the session, however, Bain & Company partner and head of APAC financial services practice Henrik Naujoks brought up how the insurance industry still lags in its net-zero commitments. Only 35% of the top 20 insurers have made net-zero commitment through to 2050, compared to 85% for the top 20 banks.

Zurich Resilience Solutions, Asia head of distribution, customers and growth Audrey Walls also pointed out that while there are over 20 members in the Net-Zero Insurance Alliance (NZIA), they still represent only 14% of global GWP.

Reinsurers could be doing more. She highlighted how most NZIA members are insurers and called for more reinsurers to lend support to the organisation.

Insurance is complex

Swiss Re head life and health products Asia, managing director Karen Tan said that insurance is not a straightforward business with underwriting activities that go through many layers upstream and downstream.

She talked about how the NZIA has been working with the Partnership for Carbon Accounting Financials (PCAF) to look at how insurers can make change happen.

At the very foundation of it all, measurements are required. "What gets measured gets done," she said. "The NZIA is working together with the PCAF very closely to figure out how we can measure the carbon emissions coming from underwriting activities. And they have a proposal that is due to be disclosed or shared more widely, and with the intention of being finalised towards the end of this year.

"This is a concrete action. We first need to get to measurements before we can talk about targets, because when we don't have a consistent measurement, a commitment is just a commitment. That's why people talk about lip service because you can find it anywhere you want."

Collaboration needed

As to whether companies are just paying lip service with their net-zero commitments, Aon head of credit solutions, Asia Steve Taylor does not believe this to be the case.

He acknowledged the scale and difficulty of the challenge. "We need the

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L-R: Ms Karen Tan, Dr Henrik Naujoks, Ms Audrey Walls, Messrs Steve Taylor and Conor Donaldson

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largest allocation of capital, arguably ever, to reduce global warming, to hit net zero... Is it lip service? No. Is it difficult? Yes," he said.

Taking a political risk perspective and highlighting some of the major issues over the past year, he brought up how China and the US produce a significant proportion of global emissions. He said that collaboration will be needed to hit net-zero goals.

A difficult regulatory topic

Reflecting on the time he had previously spent in IAIS, Global Asia Insurance Partnership CEO Conor Donaldson said the transition to net zero is a difficult regulatory area.

"Sometimes, even though we're all talking about the same thing, we're not talking about the same thing. The taxonomy is a big challenge," he said.

"The insurance sector has a strategic imperative to get this right. I want to see a constructive conversation where a regulator and regulated entity can discuss how we can work cooperatively together to understand the issues and the complexity ... and develop a framework that is sufficiently sensitive to capture credit risk, but also enables the insurance sector to provide the critical role that it has to play in terms of supporting a transition to a net-zero economy."

Intergenerational understanding and communication in reinsurance

Organisations with multi-generational workforces will have to overcome challenges in developing a common understanding with employees from different age groups. Speakers at the 'Future of work – leading the multi-generational workforce' roundtable represented and shared insights from four generations: Baby boomers, gen X, millennials and gen Z.

"I feel that, for most of the time, when I share my problems with senior people from other generations, they're willing to listen, share their experiences and provide me with some comfort," said Nanyang Technological University student Yanbin Xu who has two years of reinsurance practice experience. As a gen Z, he thinks it is important that his contributions at work are recognised.

"I realised that I had four generations in my team. As a people manager, we always need to inspire the team to leverage everyone and deliver a better performance. It is important to create an environment within the team that bridges the gap between different generations and helps them to find the best way to deal with each other.

"This is challenging and needs a lot of effort. You need to listen, understand and lead by example, but before that, you need to have an awareness as well," said Munich Re Asia P&C regional head of claims Donna Zhang. She said it was important to understand different mindsets but at the same time, avoid labels on each generation and overcome biases.

"The younger generations are very fortunate in the environment in which they grew up. It was a very different world in the environment I grew up with professionally because it was very hierarchical. There was a lot of distance between senior people and younger people. You had to be very careful of what you said and be obedient. There was no speaking out in discussions and talking about how you feel. You just had to get on with it," said Eliot Partnership Asia Pacific executive chairman and partner Andreas Thiele.

"I think we need to create safe spaces for different generations to speak up and also allow them to share openly in organisations. I think the biggest challenge for the workplace is to create a safe environment for honest feedback," said SCOR Asia Pacific head of life underwriting risk management Meng Meng.

L-R: Mr Andreas Thiele, Ms Meng Meng, Dr Donna Zhang, Mr Yanbin Xu, Ms Rachele Focardi

Differentiation for cedants in Asia Pacific

By AXA XL Re Asia head of reinsurance Ann Chua and AXA XL Re Asia head of treaty underwriting Mr Dan Bryan

As we head into the busy year-end renewal season, reinsurance buyers in the Asia Pacific region are faced with a market that is seeing property catastrophe rates continue to harden and capacity retract. Against this backdrop, cedants and brokers have a vital role to play in proactively communicating insights about portfolios and sharing more granular risk data to ensure that their reinsurance partners are able to continue to provide secure capacity and effectively underwrite risk.

Reinsurers are looking to deploy their capacity even more prudently and work with those cedants that can demonstrate a good knowledge of the risk make-up of their portfolios. Cedants that can differentiate themselves will be better positioned to secure coverage and capacity in the tight market.

The Asia-Pacific region has seen a number of natural catastrophe events in the past few years in addition to a higher frequency of non-catastrophe claims which have underlined the importance of understanding and managing in greater depth the underlying risks in a portfolio. If we, as reinsurers, can obtain better data about a portfolio we can work more closely with cedants to provide more aligned reinsurance coverage. We want to help our clients grow their businesses profitably. The better the insights we have on their growth strategies, the more appropriate the treaty reinsurance coverage we can provide.

Climate change and catastrophe risk management

Adding to the global economic, pandemic and geopolitical conditions, there is the continuous challenge from the impact of climate change which is also keenly felt in the Asia-Pacific region. According to industry data, natural catastrophes caused more than $22 billion in economic losses in the Asia-Pacific region, with only about $8bn of losses being insured.

On the back of this, catastrophe risk management remains one of the priority areas for all stakeholders – be it buyer or seller. The challenges that are presented by climate change cannot be solved by risk transfer alone and, hence, there is a need for communities, public authorities, cedants and reinsurers to work together to find long-term solutions to mitigate risk in order to facilitate affordable (re) insurance solutions.

Secondary peril challenges

Some property risks are difficult to model or are not currently modelled. This makes understanding the underlying exposures in a cedant's portfolio a challenge.

For example, strikes, riots and civil commotion coverage is typically included in property insurance coverages in the region. There have been multiple incidents of civil unrest and strikes and these result in both insured and uninsured losses. It's important for us as reinsurers, and our clients as cedants, to be aware of these potential challenges. Those clients who are able to demonstrate that they are ahead of the curve and taking steps to understand and manage some of the risks associated with such perils in their own portfolios, will be able to differentiate themselves from their peers when it comes to securing reinsurance coverage.

Preparing to address climate change uncertainty

By Gallagher Re's Ms Yingzhen Chuang

Climate change and its associated impacts continue to have multiple implications for (re)insurance companies. The most obvious is that a change in climate conditions may cause an increase in volatility around the frequency and severity of weather-driven natural catastrophe events.

One example of such outcomes is the change in the intensity and spatial distribution of rainfall, which directly impacts flood risk. Floods in China's Henan province in July 2021 caused economic losses of as much as $19bn, and insured losses that reached nearly $2bn, comprising more than half a million claims. The Henan floods were the costliest natural catastrophe event ever in China for insurers. Global weather continues to change, and the insurance sector needs to continue to react in a positive, measured, and beneficial way.

The industry is in the early stages of quantifying the impacts of the emerging climate risk. (Re)insurers and third-party vendors have developed plenty of catastrophe models to use in the measurement of physical risks arising from weather-related perils such as major tropical cyclones. But when the parameters change because the climate is changing, or when formerly 'secondary' perils are intensified due to incompletely understood changes to the world's climatic conditions, it is prudent to reassess the suitability of existing models to adequately capture the risk that is being managed.

Existing vendor models provide a useful lens to view what may be considered a baseline of physical risk under the current climate. We already work with these models in the course of clients' renewals and are able to customise our analysis to address a model's deficiencies as well as a client's assumptions and claims experience to form a client's 'own view of risk'.

A 'climate view of risk' can similarly reflect a client's approach to the emerging risk, taking care to account for climate signals already incorporated into the specific model. Based on the detailed evaluations we have undertaken to date, that points to the inclusion of a climate signal in some current models for cyclone and flood for Asia Pacific. This may manifest as the incorporation of more severe events at higher frequencies than history has shown, making existing models conservative.

Other factors may contribute toward shaping a client's view of climate risk. Insurers typically have understood the risks they carry, in particular for peak peril exposure, and the hazards which imperil them. What is important is for the focus to expand towards secondary perils, and how the portfolio is distributed for these perils that may not in the past have been large loss drivers. This could potentially transform the underwriting strategy to be more risk based in response to these climate-impacted perils.

These findings and strategies can then be applied to develop for clients a tailored 'climate-change view of risk' that does not simply rely on what tools are available, but on what is best able to capture an 'own view of risk'. Ultimately, we arrive at a tailored 'climate view of risk' aligned with the client's understanding of the materiality of climate change impacts on their business.

All of that will deliver improved confidence in the impact of climate risk on an individual insurer's risk portfolio. With that in hand, insurers should approach the reinsurance renewal armed with practical policies they have implemented or intend to put in place to mitigate these risks, and therefore to alleviate the impact of climate change. Through our multiple offices throughout the Asia-Pacific region, we are here to help our clients combat climate change uncertainty.

Ms Yingzhen Chuang is head of climate and ESG strategy and execution with Gallagher Re.

Were the Henan floods a man-made disaster?

While climate change has increased the frequency and ferocity of Nat CAT events, the lack of adequate and balanced development of disaster and emergency management systems leads to even more severe catastrophic consequences.

By Anoop Khanna

During the 24-hour period between 20 and 21 July 2021, Zhengzhou, the capital city of China's Henan province recorded 612.9mm rainfall. The total annual average rainfall in the region is 640.8mm.

Historic economic and insured losses

The unprecedented precipitation and the consequential flooding led to more than 552,000 filed insurance claims, with the local Henan insurance industry citing total losses of $1.9bn. This has gone down as the costliest weather event ever recorded for Chinese insurers. The overall economic losses in Henan province were around $19bn. A sizeable portion came from Zhengzhou city itself.

The historic economic and insured losses apart, the more than 14.75m people in 150 counties and districts of the province were severely affected and Zhengzhou city itself suffered heavy casualties and property damage. Around 400 people died or were declared missing, with 380 in Zhengzhou alone.

Zhengzhou is billed as one of the star cities of China. From a railway hub a decade ago, the city is today a bustling metropolis with a threefold increase in its GDP over the decade. Zhengzhou has modernised its infrastructure rapidly and has been a pioneer in China's 'sponge-cities' concept.

Investigation committee set up

For these reasons, the huge loss of life in these floods shook the country. To investigate the local response, assess the infrastructure shortcomings and put out measures to be adopted for future catastrophic weather events, China's State Council set up an investigation team in August 2021.

The 46-page detailed investigation report released in January 2022 said the local officials failed to give due attention to the risk on hand and the implementation of Zhengzhou city's emergency systems failed to rise to the occasion.

The report analysed the natural and human factors behind the disaster and casualties. It has made specific suggestions for correcting the shortcomings that exacerbated the losses.

The report said Zhengzhou did not have enough disaster prevention measures and several major infrastructural problems were ignored during its rapid development over the decade.

The city's storm water draining facilities and systems to avoid waterlogging in its subways, tunnels and underground parking lots were poorly maintained or were seriously underdeveloped.

Zhengzhou had only 2,400 kilometres of storm water sewer pipeline, which is only 50% of that of other Chinese cities of similar size. This compounded the problem during the torrential precipitation.

The report says this reflects only implementation of developmental ideals but failure to manage the required safety, security and risk management that should accompany the development of this scale. The report also provides an analysis of the disaster-alerting systems in the Zhengzhou city.

Recommendations

The investigating team found that dithering and delaying the declaration of I-level of emergency response system into action even after four red alerts from the Zhengzhou meteorological department cost the city heavy.

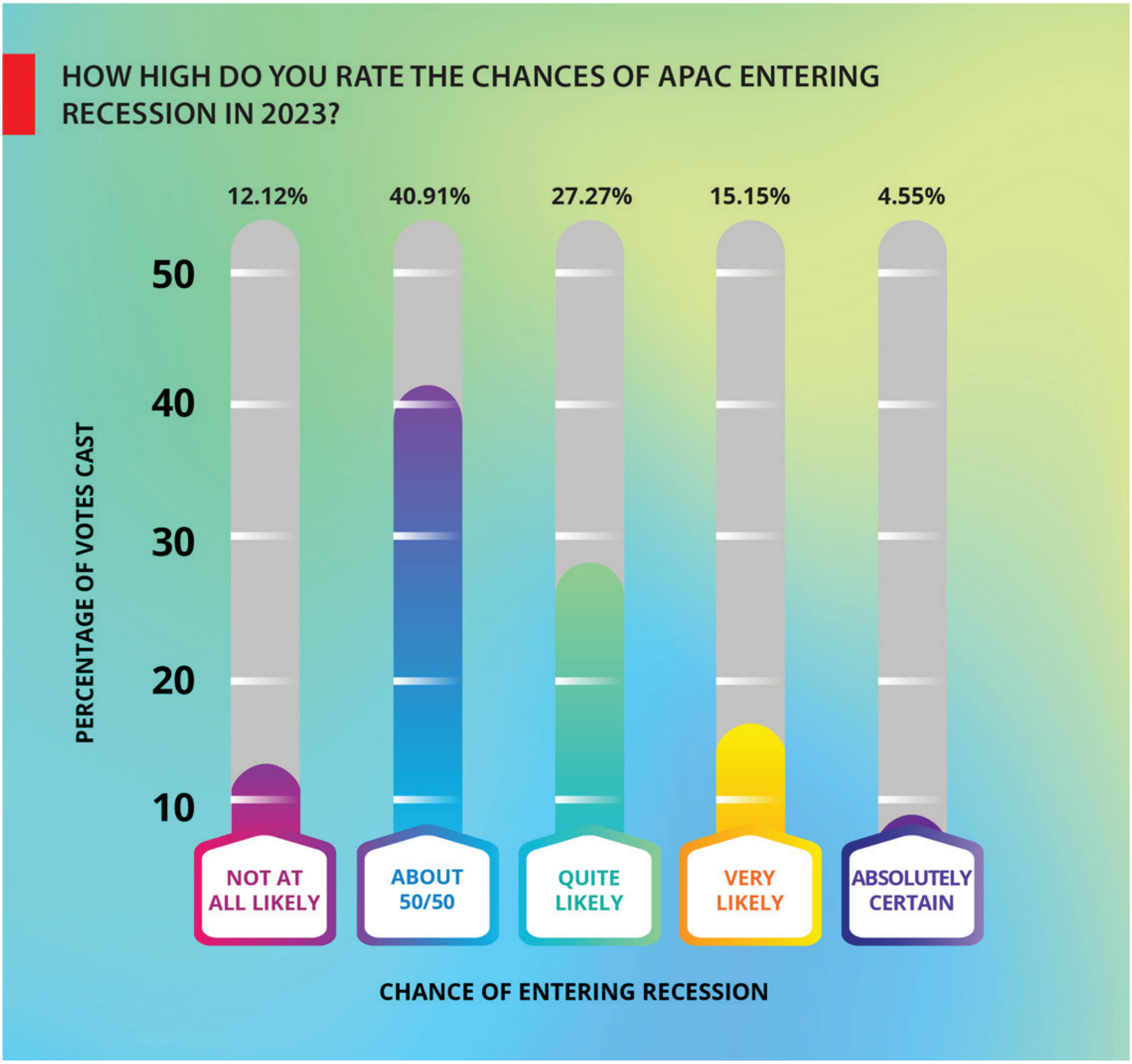
The report has said it is important to improve officials' awareness of risks and their capabilities in dealing with emergencies. Emergency management to promote alerting and response systems also need to be reformed.

The city's resources to prevent and decrease disasters and strengthen the society's awareness and resilience to risks and capabilities in self-rescue need to be enhanced.

The problems and the weak links identified in the investigation can be used to guide the country in making targeted improvements, better prepare it for future major disasters and protect people's lives and property, the investigation team has said.

China's emergency response law that was enacted in 2007 and has played a significant role in preventing and reducing emergencies is now being considered for a revision following the Henan floods.

In an article about the challenges of extreme weather events Chinadaily.com.cn said, "The tragedy in Zhengzhou showed that unless advanced technologies and modern city planning are effectively integrated with an efficient and agile urban management system, subways, tunnels, underground parking lots and other modern urban infrastructure can become death-traps in minutes in an extreme weather event."


HOW HIGH DO YOU RATE THE CHANCES OF APAC ENTERING RECESSION IN 2023?
12.12%
40.91%
27.27%
15.15%
4.55%
50
40
30
20
10
PERCENTAGE OF VOTES CAST
NOT AT ALL LIKELY
ABOUT 50/50
QUITE LIKELY
VERY LIKELY
ABSOLUTELY CERTAIN
CHANCE OF ENTERING RECESSION

Focus on Nat CAT at renewals

It has been a challenging year for the reinsurance industry. The APAC region was hit by multiple Nat CAT including floods, heat waves and hurricanes. Reinsurers, brokers and cedants are looking forward to negotiating better terms in the upcoming renewals to focus on preparing challenges ahead.

"Major discussions will focus on facultative and treaty during the 1/1 renewals. We have been through a pandemic; this will be the point where we need to understand how we must take the reinsurance market further. Our main agenda will be the development of new innovative products. We are looking forward for the reinsurance market to develop products in different lines, such as liability in marine cargo and in the property market as well. There are some new products in extended warranty given that electric vehicles are coming up in the automobile sector."

– Mahindra Insurance Brokers assistant vice president of reinsurance Joydeep Das (India)

"I think the whole Cambodian market is picking up a little this year but we're suffering a little because some of the investments have slowed down, especially overseas investments from China. It's been a tough year but we are ahead of last year. I think it will a hard market for the next three years before we're back to normal. We've already started renewals. We're hoping that we'll get what we want. We're not asking for the moon. We're just a profitable company looking for a reasonable deal."

– People & Partners Insurance senior development adviser Jeffrey Whittaker (Cambodia)

"In modelling Nat CAT, we've got historical data and actual data. We try to close the gap between data and actual losses. It poses a challenge for us and we also need to develop more types of modelling. That's what we are trying to do this moment."

– RMS head of sales for Japan, Korea and Taiwan Takuro Matsumura (Japan)

"We are facing a challenging year, a lot of Nat CAT have caused losses and we are trying to help our clients to find better solutions. We are facing a wide palate of risks starting from cyber, climate change and all related Nat CAT risks. We are now developing more liability risks and that's why we are trying to help our clients to find solutions. It's not easy due to the fact that the market is hardening. We think it will be a tough renewal but we have to cope with it."

– UIB Asia Reinsurance Brokers COO Andres Lorenzana (Singapore)

"We want some new reinsurance policies in Nepal because it's a nascent market and we are just beginning. The insurance industry is developing a lot right now. We are in a search for new products. Digitalisation is a need of today. We want our insurance industry to digitalise for the reinsurers as well as the cedant companies."

– Prudential Insurance CEO Shrawan Rawal (Nepal)

"Historical patterns are no longer a norm. We really need to be mindful of catastrophic events impacting our work. Portfolio management is important. I think we need also to be mindful about business interruption (BI) exposure, mainly driven by global supply chain impacts. As a question to myself and to the industry, are we adequately utilising this kind of huge exposure in our books? We may incur a simple or small physical damage loss but we are incurring huge BI losses because that's an important financial element for our insureds. We need to price it adequately so that we can ride through the business cycle with them."

– Helvetia Asia head of engineering and property solutions Tan Siew Choo (Singapore)

"I think the challenge that we have in Singapore is talent scarcity. It's quite complicated for us to find the right talent for some of our specialties. One of the things we've done to compensate for that is we set up a graduate programme last year, so we're now attracting young talent from local universities and helping them specialise early on and that's really helping us build some depth into the teams. We look forward to bringing more products to the region. We're looking at what products we're still missing in areas such as marine and contingency but we're also looking at which teams need more depth."

– Beazley head of Asia Pacific Lucien Mounier (Singapore)

"It has been quite good for the first few quarters of the year. There's still a quarter to go. So far, we're doing better. Nat CAT exposure is a big topic for us not only at Samsung Re but for other reinsurers as well. So that's the expectation for 1/1 renewals. Hopefully we can do a lot better and terms would be improving."

– Samsung Reinsurance head of facultative Ferdinand Dela Torre (Singapore)

"I will say it has been a challenging environment for the APAC reinsurers. As a reinsurer, the most important thing is to make sure that our cost of capital is covered and to bring it back to the level that our shareholders would like to see to make sure that we have achieved our underwriting margins. Another priority is making sure that our solvency ratio is at a healthy level. We foresee that trends in climate change and Nat CAT will continue. I also think it's important to make sure that when we take on risks, we have sufficient premiums to pay for potential losses. Regulatory changes under IFRS17 keep us very busy now. I think everybody is deploying more resources to tackle that and make sure that we will be compliant starting from 2023." "

– Allianz Re APAC CEO and head of P&C client management Kenrick Law (Singapore)

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