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South Asian reinsurers exploring new horizons

South Asia, one of the fastest growing regions in the world in terms of economic growth, has seen several reinsurers set shop over the past few years. They are now ready to explore newer territories and business lines.

By Jimmy John

The South Asian region with three of the most populated countries in the world in India, Pakistan and Bangladesh has been growing at close to 6% over the past few years. The World Bank expects the region to grow at 5.6% in 2023 and 5.9% in 2024. India due to the sheer size of its population and economy dominates the insurance and reinsurance space in South Asia, with the country's national reinsurer GIC Re leading the reinsurance programme of many countries in Asian.

National reinsurers dominate the region

In the last decade the region witnessed the birth of several new national reinsurers and these include GIC Bhutan Re and Nepal Re. India's GIC Re, Pakistan's Pak Re and Sri Lanka's NITF are the other national reinsurers in the region. Himalayan Re, the first private reinsurer in the region was set up in 2021.

The challenges for small players

For new players in the industry, navigating the challenges of the aftermath of the COVID-19 pandemic has been highly complex and slow. A major challenge for these small entities will be to generate new business, as direct insurers are gradually increasing their retention levels, which further squeezes the income for reinsurers.

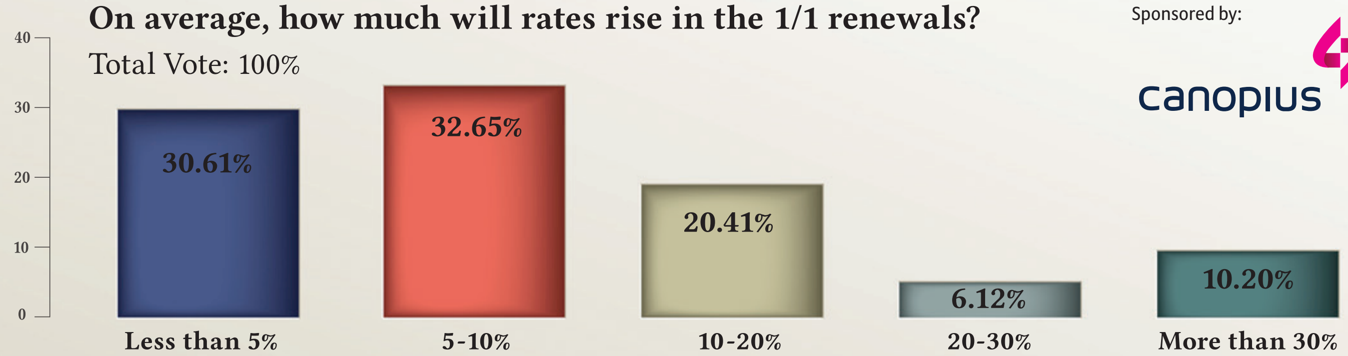
Opportunities abound for reinsurers

The low insurance penetration in the South Asian region offers huge opportunities to all reinsurers to survive and thrive. Regional reinsurers have a very clear understanding of the challenges and opportunities in their domestic and regional markets and can offer value added services to their clients around the region.

GIC Bhutan Re, set up in 2013, is now doing business in several countries, including South Asia, ASEAN, MENA and Central Asia. Nepal Re, set up in 2015, has expanded its operations in the South Asian region, UAE, Bahrain, Papua New Guinea and Africa.

On average, how much will rates rise in the 1/1 renewals?

Total Vote: 100%



This infographic was produced by surveying *Asia Insurance Review*'s website users.

Navigating uncertain perils in the APAC risk landscape

The APAC region is no stranger to the devastating impact of natural catastrophes and extreme weather. Year after year, it experiences significant economic losses due to these events, says Canopius' Mr Yann Marmonier.

Recent developments have shed light on the gravity of these challenges, and how seriously the industry is taking them. Lloyd's, for instance, launched a systemic risk scenario estimating a colossal $5tn in losses over five years due to extreme weather events leading to food and water shocks.

This underscores the importance of understanding the impacts of climate change on our industry, which are linked to changes (and in some cases increases) in severe and disruptive weather events, and how they could lead to global food and water shortages.

The complexity of climate risk

Risk related to the climate is far from straightforward. Much of the recent natural catastrophe losses in the APAC region can be attributed to the intricacies of climate variability (on the timescale of months to a few years) and weather patterns (on the timescale of hours to weeks). One of the primary influencers is the El Niño-Southern Oscillation (ENSO), a cyclical phenomenon that alternates between El Niño and La Niña phases, and measured based on sea surface temperatures in the tropical Pacific Ocean

El Niño typically brings drier conditions to most of the APAC region, while La Niña leads to wetter weather, often causing above-normal rainfall, which can lead to floods. The ENSO phase can also affect typhoon activity, in terms of activity, intensity and tracks.

ENSO is not the only mode of climate variability affecting the region. Other large-scale processes like the Indian Ocean Dipole (IOD), can also interact with the impacts of ENSO, and can affect rainfall patterns such as those associated with monsoons. Understanding these phenomena is critical for predicting both weather and climate, enabling the (re)insurance industry to anticipate and prepare for financial losses in any given season.

What we are seeing

Earlier this year, a rare triple-dip La Niña ended, and El Niño conditions were expected to strengthen. After experiencing three La Niña phases in a row, in July, the World Meteorological Organization (WMO) declared the onset of El Niño conditions for the first time in seven years.

El Niño cycles typically occur between two to seven years and last between nine to 12 months. The expected impacts of El Niño include increased rainfall in parts of southern South America, the southern US, the Horn of Africa and central Asia.

At the same time, it can also cause severe droughts over Australia, Indonesia, parts of southern Asia, Central America and northern South America.

The last time we saw a strong El Niño was in 2016, when the world experienced its hottest year on record. Some experts have also expressed concern that this El Niño cycle could be a particularly strong one. In fact, the WMO recently released analysis using global data from European Union's Copernicus Climate Change Service that September was easily the warmest on record, and 2023 is on a likely trajectory to become the warmest year ever recorded. The next few years could potentially be hotter still, if El Niño persists and intensifies.

The agriculture sector

One industry that bears the brunt of extreme weather is agriculture. The sector's vulnerability is heightened by the chaotic nature of weather patterns, with periods of droughts and heavy rainfall often resulting in substantial losses. Impacts are difficult to predict, partly due to difference in spatial scales between climate and weather patterns and individual farms across a region. Extreme weather impacts can be very localised in nature such as hail damage, while climate variability can affect the

underlying conditions such as drought, soil moisture or even length of growing.

To understand the impact of extreme events, we must also consider advancements in farming methods and soil science. Modern practices, such as planting cover crops between seasons to provide seasonal green cover with benefits such as improving soil moisture holding capacity, nutrient cycling and weed suppression, will mitigate some risk and affect the overall risk profile of farms that implement them.

To improve the accuracy risk predictions and assessments, (re)insurers can simulate various scenarios, stress-testing the impact of weather factors and agricultural science on crop yields. They can then overlay insurance policies onto these simulated scenarios to gauge the results.

Risk assessments using historical data can be made more complex as technology and practices change over time. To overcome this, time-series methods like exponential smoothing can be employed to assign more weight to newer weather and crop yield records, ensuring that the most recent data informs risk assessment for the present day.

Leveraging technology is another crucial aspect. Mobile applications, in particular, are scalable and can reduce distribution costs in serving a large network of small farms. This can make insurance more accessible and reduce the protection gap, which is very important in areas vulnerable to the impacts of climate change.

Embracing new green technologies

The urgency to combat climate change has driven the adoption of new, green technologies in many sectors. However, these technologies bring their own complex risks. The maritime industry, for instance, has come under scrutiny for the carbon emissions of vessels, and is turning to solutions like battery-powered electric vessels and ammonia-powered vessels. These alternative energy sources offer significant carbon emissions reductions in the long term. However, they may introduce or increase other risks, such as fire, explosion, thermal runaway, and ammonia gas containment breach.

As the world shifts toward sustainable energy sources, the (re)insurance industry must be prepared to provide comprehensive risk assessment and management, and insurance coverage tailored to these emerging technologies.

At Canopius, we are working closely with organisations such as the Maritime and Port Authority of Singapore to develop prototype electric vessels and with Fortescue Future Industries for ammonia-powered vessels, ensuring safety and containment measures are in place to mitigate the risks associated with these innovative technologies.

These projects may also have far-reaching implications for sustainability in the maritime sector, setting a precedent for more eco-friendly shipping practices. Their long-term impact is poised to make a significant contribution to reducing the carbon footprint of maritime operations, with potential savings of up to 190kg of CO_2 per hour being suggested for the electric vessels, thereby contributing to its net-zero pathway.

The role of (re)insurance

The (re)insurance industry plays a critical role in providing financial security, promoting resilience, and supporting business as it faces more extreme climate and new ways of managing natural catastrophe related risks. By embracing innovation and adapting to changing circumstances, (re)insurers can navigate the perils of the APAC region, contributing to the region's economic stability and growth.

At the same time, accurately modelling increasingly loss-driving perils, like floods and bushfires, and low frequency events remains a significant challenge.

(Re)insurance companies must invest in technical capabilities, resources and research that will help them understand these perils better to mitigate the associated risks and move beyond their reliance on historical data. This especially important in the context of a changing climate where the past does not necessarily represent the future (or even present day in some cases).

And in the ever-changing and challenging landscape of managing catastrophe risks in the APAC region, it is essential for (re)insurers to maintain a healthy portfolio. A well-diversified portfolio remains a cornerstone of risk management, enabling (re)insurers to spread their exposure across various regions and perils. By doing so, they not only enhance their capacity to absorb losses from catastrophic events but also ensure their own financial sustainability and continued growth.

This diversity acts as a buffer, helping (re)insurers 'weather the storm when losses occur, whether they be climate-related or stemming from other unforeseen perils.

Mr Yann Marmonier is chief underwriting officer – APAC with Canopius.

New leadership goals

The Singapore Reinsurers' Association announced Ms Jeslyn Tan as its new president in September, marking a new era for the association and SIRC. *Asia Insurance Review* was able to talk to her about her aspirations for the role.

By Ahmad Zaki

SIRC 2022 was the first in-person event since COVID hit the world and saw a remarkable turnout. Given the financial state of the world, reinsurance discussions have become more important than ever, lending more weight to events such as SIRC.

"Last year, after two years of virtual conferences, we saw an overwhelming turnout of over 2,200 delegates from 62 countries at the in-person 18th SIRC. This year, we aim to do even better. The theme (Re)Insurance Reset resonates and encapsulates the state of the industry today," said new SRA president Jeslyn Tan.

"The programme we have curated will address current challenges and opportunities that are top of mind for (re)insurance executives around the globe. We have assembled a top-notch and highly engaging slate of speakers and panellists who will share their deep insights and wide experience in the fireside chat, roundtable and plenary sessions that we hope will be thought provoking, inspiring and leave an indelible impression on all our delegates."

In addition, drawing from past experience and participant feedback, the organisers have tweaked the venue layout to maximise opportunities for interaction and engagement while creating the most conducive environment for productive meetings and networking.

"With the strong line-up of high-profile speakers and panellists, highly engaging content and networking opportunities, we are expecting another record-breaking event, in terms of delegate numbers, level of participation, as well as diversity of demographics and country representation," she said.

"We also look forward to more dynamic and controversial dialogue and exchanges at the conference sessions, and more importantly, that all our participating companies and delegates will continue to find great and meaningful value from the knowledge exchange as well as face-to-face interactions on both business and personal levels."

SIRC's future development

"All would agree that SIRC is already acknowledged globally as a 'must attend' reinsurance event in Asia, a result of the outstanding work by Jeffrey Yeo and team, Marc Haushofer and the SRA executive committee over the years," she said.

The event has formed a reputation and brand that SRA plans to defend and maintain, and the organisers aim to do better each year. The focus will be to ensure that the SIRC is a forum synonymous with incisive thought leadership content and diverse networking opportunities, she said.

"We will, of course, adapt the topics, format, and approaches in line with how the industry evolves and to meet the changing needs and profiles of our participating companies and delegates to stay relevant, valuable, and sustainable.

"We will strive to present Asia's finest and most prestigious reinsurance conference and networking event that is most relevant and meaningful to the industry and to entrench the SIRC as a prominent feature in the global industry events calendar."

Ultimately, SIRC must bring value to the industry as a forum to facilitate dialogue, promote professionalism and foster strong business and social bonds within the (re)insurance fraternity while strengthening Singapore's status as a global reinsurance hub, she said.

Ms Tan has over 20 years of industry experience leading consulting, distribution, and market management most recently Crawford & Company as its regional head of market management in Asia. Before that, she led consulting and development for the intermediated distribution channel in Chubb internationally after five years of regional responsibility as head of independent distribution partners. Before that, she managed diverse responsibilities spanning customer service, operations, human resources, and distribution in AIG Singapore.

She also served as the president of the Singapore Insurance Institute, a non-profit organisation in Singapore, from 2020 to 2023, and sat on the agents' registration board, General Insurance Association, in 2020.

Blue Marble – bridging protection gaps together

Blue Marble designs and delivers turnkey protection solutions for the un(der) served. To help improve the resilience of millions, the insurance industry must work together. Shared experience saves time and money and accelerates the roll-out of effective products, says the firm's Mr James Whitelaw.

Severe weather hits the poorest hardest. 'Impact insuring' helps improve their financial security and resilience and enables communities to rebuild rather than relocate after disaster strikes.

Blue Marble was launched in 2016 to build resilient solutions for exposed communities: Working with the World Food Programme, Fairtrade, Nespresso/Nescafe and others, Blue Marble delivers turnkey solutions focused on extreme heat, excess rainfall and drought.

The mission is a big one, too big for one company. We applaud every effort to reduce the protection gap and offer what we have learned in the hope it helps others accelerate their progress towards our common goal.

Find partners, not just counterparties

Blue Marble works with local insurers to ensure that local needs are met and local regulations are complied with. We create coalitions of risk transfer capacity, distribution, public/private subsidies and trade support. Everyone aligns around a common goal, with each contributing their expertise for the greater good of the greatest number. Our programmes include financial inclusion and financial literacy that support national development goals.

We deploy public/private premium subsidies to help allay initial concerns and accelerate take-up and we design smart subsidies that seed new markets then re-cycle for the next venture.

Focus where you can make the most difference

Solutions range from micro through meso to macro. Blue Marble works with meso organisations such as farmers' collectives to create and deliver micro solutions, bringing swift relief to households and small businesses when they most need help. Local voices help define and then refine the solutions we create.

Risks can be managed, not eliminated

A lot of work goes into the design and delivery of a programme. What is the right protection level? Too little won't make a difference, too much will not be affordable. How will new customers access the protection? Access typically requires mobile/digital distribution and service. Do potential customers understand the offering?

We provide clear, frequent communication and publicity around claim payments. Is it fast enough to help? We work with 'last mile' telcos and digital banking partners. Most importantly, Blue Marble builds parametric solutions. We minimise basis risk for consumers through careful program design and stepped payouts.

Extra customer value

Blue Marble is a commercial enterprise that seeks to minimise operating costs in order to maximise claims payments sustainably. At every opportunity, Blue Marble introduces and develops digital workflows to do so. In terms of customer value, we cut costs, not corners.

Making a difference

Blue Marble works with a network of partners to create and deliver effective programmes. Success requires a long-term view to match the seriousness and scale of the challenge with streamlined efficiency to deliver greater customer value. Blue Marble works with purpose and passion to help people escape from poverty, and prevent them returning to poverty when disaster strikes, and we have a track record of success that benefits vulnerable people and strengthens the resilience of global supply-chains.

Blue Marble is making a difference. To learn more or become involved, please contact us. You will be welcome.

Mr Jaime de Piniés is chief executive officer of Blue Marble Microinsurance, Mr Alexander Moczarski is chairman of Marsh & McLennan Companies International and chairman of Blue Marble, Ms Penny Seach is group chief underwriting officer of Zurich Insurance Group, Mr Eduardo Fabrega is chief executive officer of Assa Compañia de Seguro and a past chairman of Blue Marble, Mr Jonny Atkinson is group chief business development officer of Aspen Insurance, Mr James Whitelaw is chief marketing officer of TransRe and is a past chairman of Blue Marble.

You can learn more about Blue Marble's work here: https://bluemarblemicro.com/ or follow us on LinkedIn https://www.linkedin.com/company/blue-marble-microinsurance/

Dynamic solutions for a dynamic market

Following the reset in property catastrophe pricing and retention levels through 2023, the upcoming renewal season is expected to be more orderly; however, a continued focus on these areas will be accompanied by firms aiming to optimise their risk and capital strategies. Aon believes that it has the right suite of talent, solutions and services to address the multi-faceted needs of the (re)insurance industry. We spoke to Aon's Mr George Attard.

By Ahmad Zaki

Following the reset in property catastrophe pricing and retention levels through 2023, the reinsurance market is now in a more sustainable position – with rate adequacy for property catastrophe and strong investment returns already driving improved reinsurer results in the first half, despite above average industry natural catastrophe losses.

According to Aon's Reinsurance Solutions CEO Asia Pacific, George Attard, clients have been mainly focused on the global reset in property catastrophe pricing and structuring. "The hard market dynamics are of particular focus for the upcoming 1 January renewals which are largely dominated by Asia and China," he said.

Whilst renewals are expected to be more orderly, there will be a continued focus on pricing and retention levels. "With increased retentions comes increased retained volatility and our clients need solutions to help mitigate that volatility and optimise their capital position," he said. "Aon is well positioned to help our clients navigate volatility, build resilience and shape better decisions."

As market stability brings optimism, Aon's focus during this renewal season is helping its clients to optimise their capital strategies through accessing diversified capital sources across traditional reinsurance, alternative capital and new sources of capital; and exploring alternative structures including structured, legacy and facultative solutions.

Top risks

One of the main concerns that its clients have expressed is on their capital positions. Factoring in regulatory and ratings agency capital requirements and evolving capital regimes, Aon helps its clients figure out how to optimise their portfolios and review their pricing and underwriting strategies.

"We have seen an increased interest from clients in structured solutions, including legacy and parametric solutions. We have also been exploring facultative solutions to help manage retained volatility," Mr Attard said. "Insurers have a broad array of needs and we provide the solutions to those needs, including profitably growing their portfolio and improving operating efficiency."

He said that Aon is also supporting talent strategies, as competition for manpower grows increasingly stiff amidst an 'employees' market'.

Consulting through technology

Part of the suite of solutions offered to clients is through Aon's Strategy and Technology Group (STG), which combines strategic consulting – such as claims efficiency, performance benchmarking, market share data/trends, actuarial analysis and capital structuring and access – with a technology suite, including Tyche, ReMetrica and PathWise, that helps clients deploy capital efficiently and effectively across an enterprise.

"Our STG consulting arm helps support clients, especially through technology and by responding to market dynamics. Consultants in the group help clients explore growth opportunities, improve operational efficiencies and find out how their expenses benchmark against their peers," he said. "We also look into talent strategies and workforce resilience."

On the technology side, STG helps clients with pricing, underwriting, reserving and optimising hedging strategies on their portfolios.

Differentiating factors (Aon's Reinsurance Solutions)

"Aon's Reinsurance Solutions is a risk and capital advisory partner first and foremost, and our main goal is to optimise and meet clients' risk and capital objectives," Mr Attard said. "Through our Aon United ethos, we have further expertise that we draw from across the risk capital and human capital capabilities of the Aon group, to support the (re)insurance industry. When you consider the huge range of our capabilities, we believe we have the leading platform in the market," he said.

"We look forward to driving differentiation and navigating volatility for our clients, leveraging the strength, relationships and expertise of our team across Asia Pacific, and ultimately helping to shape better business decisions."

Challenges in China's health insurance development

The growth rate of health insurance premiums at 0.06% year-on-year is lower than that of personal insurance overall at 2.78% in China last year, significantly lower than the total industry premium growth rate of 4.58%. What is holding China's health insurance development back?

By Vincent Liu Liang

Last year, the growth rate of health insurance premiums in China was only 0.06%, significantly lower than the total industry premium growth rate of 4.58%. This sluggishness makes it uncertain if China will achieve its goal of surpassing CNY2tn ($274bn) premiums by 2025.

Many life insurers in China are promoting health insurance growth, optimising business structures, and mitigating risk accumulation. With an aging society on the horizon, there is significant potential for commercial health insurance growth. The Chinese government has outlined various initiatives, such as enhancing the serious illness insurance system, establishing a long-term care insurance system, and actively developing commercial health insurance.

However, there's a gap between the potential of the Chinese health insurance market and its actual progress. Factors contributing to this gap include a lack of high-quality products and services, inadequate policy implementation, and insufficient policy support. The market's product structure hasn't seen significant breakthroughs recently. Short-term medical insurance products are increasingly similar, while traditional long-term critical illness insurance faces decline. This stagnant product environment challenges health insurance growth.

In a forum, industry expert Xu Jinghui identified five obstacles to health insurance development:

1. Unclear management logic: The operations of health insurance differ from life insurance due to information asymmetry, medical data disconnection, and conflicting interests. Health insurance mainly focuses on customer acquisition and often appears as supplementary to primary insurance.
2. Limited product choices: There's a shortage of health protection products tailored for the elderly, the young, and those with pre-existing conditions. Additionally, many products overlap in terms of liability with basic medical insurance.
3. Absence of an operating support platform: The decentralized nature of health insurance demands significant system development and external integration, both of which require extensive time and resources. Current insurance companies' capabilities aren't sufficient.
4. Insufficient medical treatment integration: Accessibility to medical resources is a significant issue. Personal healthcare costs in China are around 27% of residents' total expenses, higher than the international range of 15-20%. This indicates potential for commercial health insurance to ease medical expense burdens.
5. Inadequate risk management: Controlling medical expenses remains challenging. Current risk management systems in the insurance industry don't meet the unique needs of health insurance.

The future of health insurance in China relies on bringing together different sectors, working together across industries, and specialized management. The industry's current isolated ways and limited teamwork need improvement. It should prioritize five key areas of integration: objectives, policies, healthcare services, customers, and funding. Also, at a broader level, there's a need for better financial support, clearer regulations, improved infrastructure and better data management.

Single-peril tail, alternative capital and the renewals

Disorderly renewals, retention changes and increased capacity are keeping market participants on their toes. We spoke to Guy Carpenter's Mr Tony Gallagher for an insider's view of how things might reach resolution.

By Paul McNamara

The outcome of the 1/1 renewals may not have been a surprise in terms of rate increases, retention adjustments and tightening of capacity since it was clear something had to happen. But the reality proved to be more bruising than even cynics had suggested.

We spoke to Guy Carpenter CEO Asia Pacific region Tony Gallagher about how the situation developed and how it might be resolved as we head into another set of renewals.

"Last year, we talked about rate increases coming," said Mr Gallagher. "Not everybody wanted to hear the news, but it was clear that there needed to be some adjustments. Some of the placements/markets had more corrections than others, and some placements were challenging to complete. In some ways, this was inevitable but it has left some weakened relationships, which need to be repaired."

Future prospects for rates

Only time will tell if this feeds through into pricing and capacity retention at the upcoming 1/1 renewals.

"I think the markets will be stable," said Mr Gallagher. "When you're seeing the capacity go from 108% to 137%, supply's coming back in. There may well be more demand for capacity, but I would think it's a relatively stable renewal but with market-specific adjustments."

The compressed renewal at the start of the year could have been a tactic, but Mr Gallagher thinks otherwise.

"I think it was a bit of a mistake," he said. "I think we fell into it. Maybe for some companies it was a tactic, for others, it just ended up there. I don't think we'll end up in the same position at 1/1 this year. I think you'll see some early renewals being locked away because there's capacity in the market."

"If you have more capacity available, generally it means it's going to be more orderly, which would lead me to assume, in terms of pricing and coverage, there'd be more of a systematic renewal. That's why I look at capacity and capital wanting to come into the market. It's a good year for reinsurers. There's capital wanting to come in," he said.

Uninsurable versus unaffordable

Does Mr Gallagher foresee a time when some geographies or some business lines will simply become uninsurable?

"Potentially, yes, mainly around natural perils," he said. "Queensland's an example where, if the product becomes unaffordable due to frequency and severity of losses, then coverage will become constrained and a pooling arrangement may be the only option. Around natural perils, I can see it. Around other products, not necessarily uninsurable."

Not even cyber?

"No, I think cyber is actually developing into a mature product in many ways," said Mr Gallagher, "the product being offered, the coverage, the limits and the pricing. In Asia, cyber is still emerging and will continue to grow, but there have been a lot of lessons learned around cyber.

"I think cyber is insurable. Around coverage and claims, we need to learn how to manage it, but it's an important coverage," he said.

Increased Nat CAT could have one positive, according to Mr Gallagher.

"In terms of tail risk, I think Asia will see more CAT bonds coming in," he said. "Single-peril tail is an area that in Europe and America has been very popular and I think that in Asia that'll start to grow. That brings alternative capital into play. I think that will be an emerging development."

To read the full interview, pick up a copy of the November issue of Asia Insurance Review.

Reinsurance rates have aligned with international markets

Central Reinsurance Corporation's Mr Peter Chung says that Taiwan's reinsurance sector still meets market demands.

By Sarah Si

In the year from 2021 to 2022, although the Taiwanese insurance market was showing signs of stagnating, the P&C sector managed to turn a profit of NT$22.6bn in 2021. However, massive payouts of NT$270bn ($8.7bn) to policyholders for COVID-related claims in 2022 led to capital pressure and the FSC directing four non-life insurers to raise new capital to meet solvency requirements when they failed to meet regulated RBC ratios of 50%.

Insurance companies also encountered a rise of more than 20% in P&C reinsurance pricing and self-retention during the January 2023 renewal season.

Coping mechanisms and replenishment

To cope, the P&C market improved underwriting and reduced price competition. Business portfolios shifted to a more niche-orientated focus and insurers raised their premium rates.

Policyholders adjusted by accepting higher deductibles and decreasing policy limits. Following an announcement by the Central Epidemic Command Centre (CECC), the Non-life Insurance Association of the ROC also decided that insurance companies are not required to pay claims from policyholders with mild symptoms arising from COVID-19 infections.

"There is a foreseen continuation of premium income growth in the P&C market throughout 2023. With insurers assuming relatively reduced exposure and adequate pricing. This is anticipated to yield positive effects on market development and the profitability of insurers," Central Re president Peter Chung said.

Market performance

According to the June 2023 consumer price index published by the Department of Statistics, Taiwan's inflation rate is 1.75%. While modest, it nevertheless drove up costs of claims.

"There has been a notable increase in rates and a reduction in capacity for the January 2023 renewal. It is important to note that these rates have predominantly aligned with the expectations of international reinsurers. For international reinsurers, Taiwan business serves as a mean of risk diversification. Therefore, despite the reduction in offered capacity compared to 2022 renewal, it still meets the market demand," he said.

Factors that contributed to the 2023 hard market have started to diminish. Following the announcement by CECC, COVID-related payouts fell 85.8% according to the January 2023 Indicators of Insurance by the Financial Supervisory Commission (FSC). The new allowance by FSC to issue corporate bonds over more than 10 years has also given insurance companies a new avenue to replenish capital.

He said that while the underwriting cycle is anticipated to remain elevated in the future, there are no significant indications that would prompt further market hardening. Future renewals are expected to be more structured and orderly after the market has adapted.

Maintaining and achieving profitability in 2023 and 2024

With most insurance companies looking gradually to recoup their losses through long-term efforts, underwriting

disciplines and business portfolios will have to be adjusted accordingly.

"The industry should also have a comprehensive understanding on the impact of inflation and rising reinsurance costs, and then appropriately incorporate them into pricing," he said.

He said that the industry should pay attention to emerging risks and strengthen risk management mechanisms to avoid systemic risks that can impact business resilience.

The future

According to Mr Chung, although the P&C insurance industry is very responsive to inflation and reinsurance costs, premium growth is anticipated. As of 1Q2023, according to the April 2023 Indicators of Insurance by FSC, non-life health insurance premium income stands at NT$1.189bn.

"In line with past years, casualty line is projected to maintain steady growth, especially general commercial liability insurance. The growing awareness of liability risks has led to an increased demand for insurance among businesses," he said.

He also said that in the non-life insurance industry, the fire insurance rates have shown an upward trend, accompanied by an increase in total sum insured, leading to a simultaneous growth in premiums. Moreover, sales in the automobile line are rising. In line with the trend observed in the past few years, there will be a continued upward adjustment to third-party liability rates.

Squeezing reinsurance margins not a sustainable tactic to lower price of risk

Collaboration is essential in overcoming the existential problems posed by climate change. We spoke to **Hannover Re**'s **Mr Jean-Jacques Henchoz** to find out more about how the reinsurer is growing and adapting to market dynamics.

By Paul McNamara

Hannover Re chairman of the executive board Jean-Jacques Henchoz discussed recent performance, the year ahead and possible outcomes from the upcoming 1/1 renewals with us.

Mr Henchoz sees the trends of 2023 continuing.

"We've seen already a shift in the retention levels on the property CAT business in 2023," said Mr Henchoz. "We've seen this strikingly in the US market, a little bit in Europe and in the CAT-prone territories in Asia. There might be some more moves, although I've seen many clients in the past couple of months who are very worried about managing their own volatility. They will be keen either to keep the retentions as they are or, in some individual cases, try to find a way to manage their volatility of earnings.

"The reinsurance industry globally wanted the increase in retention to be part of the mix in that reset so that there is more balance in who is taking some of the volatility. Frankly, some of these lower CAT layers were chronically underpriced from our perspective. Instead of trading dollars, it's sometimes best to have a higher retention," he said.

This can lead to creative solutions.

"In some instances, you can work with non-traditional structures, multi-year structures designed to smoothen the volatility in these layers," said Mr Henchoz. "This is something we look at, but generally we'll continue to insist on having a suitable level of retention on the business.

"I hope that globally we'll be able to continue the momentum on terms and conditions in casualty. Here, we're probably more concerned about the US market than Asian or European markets, but still in some geographies there is quite some litigation. The inflationary pressure is there, and we need to make sure that the pricing reflects expected inflation. We'll have a lot of focus on these aspects as well," he said.

Mr Henchoz is approaching the renewals season with his eyes wide open.

"In terms of pure reinsurance renewals, 2024 will be a year where we'll look very carefully at terms and conditions," he said. "There'll be a lot of discussions on the wordings and structures. This year was more about rate adequacy, but you see a lot of nitty gritty discussions on the clarity of wordings, clear sub-limits, event definitions, some exclusions in some cases like silent cyber exposures. That will be at the centre of discussions for the 2024 renewals.

"All in all, 2024 is likely to be similar to 2023 because that need for sustainable earnings remains the driving factor for the industry and we're not yet there. There is no significant capital entering the system at this stage. The capacity available may meet the needs at a certain price, but there is no significant excess capacity covering the future needs. That drives the dynamics in the market and is likely to stay that way in 2024.

Uninsurable versus unaffordable

Does Mr Henchoz foresee a time when some business lines or geographies become uninsurable?

"This is a very significant issue and an issue of concern to me," he said. "Climate change is a reality which needs to be taken very seriously. To make these exposures insurable, you need to look into Nat CAT prevention aspects. You need to look into building codes. Can they withstand heavy winds? Are we still building in flood zones? Are the building standards being applied to sustain earthquake shocks? A lot of discussion is needed on climate change adaptation. From my perspective, this is a discussion which is too slow in the dialogue with the governments."

To read the full interview, pick up a copy of the November issue of Asia Insurance Review.

Affordability of insurance

The issue of insurance affordability remains a complex and pressing matter, one that holds personal significance for me. Why? Because I firmly believe that insurance embodies more than just an additional expense; it serves as a crucial instrument for individuals to reconstruct their homes and lives in the wake of catastrophic events. Without adequate insurance coverage, this task becomes notably more challenging and, for some, nearly insurmountable.

By Mr Scott Hawkins

When discussing insurance affordability, we often focus too much on short-term challenges. However, our attention must be directed towards the long-term implications. Why? Because it is the long-term perspective that will fuel substantive and sustainable changes in affordability. It is imperative to acknowledge that short-term pressures, such as inflation spikes and prevailing La Niña phenomena, are transient, whereas the enduring effects of a changing climate are not.

Long-term pressures are primarily influenced by trends such as:

1. The future effects of climate change, which are poised to have a significantly greater impact on the affordability of insurance.
2. Addressing the construction of buildings with improper materials in high-risk areas as a critical priority.
3. The growing population in vulnerable regions, which implies that a larger number of families and communities will inevitably bear the brunt of the impact.

Within the Australian context, it is imperative to identify the most vulnerable and at-risk communities and comprehend their urgent requirements for remediation. This is where the government assumes a pivotal role. In the recent budget, the treasurer affirmed the allocation of 'A$200m ($126m) per year to assist communities in fortifying their preparedness for increasingly frequent and severe natural disasters'. The implementation of the Disaster Ready Fund (DRF) as a five-year investment serves as a lever to alleviate the burden of insurance costs. The Insurance Council of Australia (ICA) is advocating for its extension to a rolling 10-year programme.

The escalation in the frequency and severity of various natural perils will not be confined to existing regions but will manifest in areas that are currently unexposed. Recent data from Munich Re indicates that bushfires under hot and dry conditions, akin to the 'black summer' fires of 2019/20, are now four times more likely than in pre-industrial times. The ICA reports that over the past decade, the average annual household cost of extreme weather has been A$888, a figure expected to surge to more than A$2,500 per year by 2050.

Looking ahead, our current building standards are unlikely to remain adequate. It is imperative to ensure that our present mitigation endeavours are seamlessly integrated into our future planning. The Australian Bureau of Statistics forecasts that Australia's population will swell to 29m by 2029. Over the last decade, three-quarters of Australia's growth has been concentrated in major capital cities, notably Melbourne, Sydney and South-East Queensland, areas that have been ravaged by fires and floods. This underscores the urgency of taking action now.

What can we do? Our focus should be directed toward the following areas to mitigate the impact of climate change on assets and ensure sustainable and affordable insurance products for Australians:

1. Strategically plan the location of future developments, leveraging the latest data analytics and insights into future climate patterns.
2. Enhance the resilience and preparedness of existing homes, buildings, and infrastructure through strategic investments in resilience and mitigation, thus effectively adapting to the consequences of climate change.
3. Ensure that we maintain accurate risk assessments, utilising comprehensive knowledge of the potential costs of claims for homes and buildings.
4. Establish mechanisms to support increased insurance coverage for the most vulnerable communities. When implementing subsidised schemes to enhance insurance affordability, it is vital to ensure that they effectively facilitate the integration of the most at-risk populations into the insurance system.
5. Foster collaboration between the insurance industry, government entities, the construction sector and private corporations to drive the necessary changes in areas such as policy formulation, urban planning, construction practices and regulatory decisions.

We must continually challenge the present status quo and envision what needs to be in the future to manage, mitigate and build resilience. Persistence and tenacity will be crucial.

Ultimately, our goal should be to ensure that as many individuals, families and communities as possible are equipped with some form of insurance coverage, providing them with the support they need during times of distress.

Mr Scott Hawkins is the managing director, Australasia with Munich Re.

The full Monte (Carlo)

If the overarching theme of last year's Les Rendez-vous de Septembre was one of substantial rate rises, what was the corresponding theme for the 2023 iteration?

By Paul McNamara

Fitch Ratings

The ratings agency meetings kicked off this year with Fitch presenting its 2024 Global Reinsurance Outlook. Naturally, the Morocco earthquake was top of mind.

"Certainly, it is very early days," said Fitch Ratings EMEA reinsurance director Robert Mazzuoli. "It is always difficult to give precise numbers, but I would say that insurance coverage of this region is most likely will to be very low. So, it is really a disaster for humanity and I'm sorry for that. But it is unlikely to be a major event for the insurance and reinsurance industry.

For the market overall, he was upbeat. "The sector outlook is improving," he said. "Investment income is now increasingly supportive. Reinsurers can earn more than the cost of capital both this year and next."

This brings the focus sharply onto terms and conditions, he said. In terms of Nat CAT, "The big change is that reinsurers will offer cover for capital," he said. "But if it's a mid-sized event that affects your earnings, then you're on your own."

AM Best

AM Best's Reinsurance Market Briefing saw the agency's managing director, market development and information services Nick Charteris-Black give a realistic assessment of the market when he said, "We all recognise that conditions are improving, but in a very challenging environment."

AM Best senior director, global reinsurance ratings Carlos Wong-Fupuy echoed this and was keen to emphasise the distinction between 'available' reinsurance capital and 'deployed' capital while noting that "inflationary pressures are still here."

AM Best Europe senior director, analytics and head of operations – analytics Angela Yeo said that "Some previously-insured risks are becoming less insurable," while noting that "the protection gap remains quite substantial," and made specific mention of the protection gaps in pensions, health and cyber.

The last word went to Mr Wong-Fupuy who said that "Rate increases will continue at a slower pace. And higher retention is here to stay."

S&P Global Ratings

The S&P Global Ratings Reinsurance Panel that followed echoed the same theme – and highlighted the fact that its reinsurance outlook has been changed to 'stable'.

S&P Global Ratings director Johannes Bender said, "We believe the momentum of hard rates will continue into 2024." He also pointed to "cleaner T&C" and indicated that this should help in the upcoming discussions on claims.

Addressing the issue of 'why now' for the change in outlook to 'stable', S&P Global Ratings senior director Taoufik Gharib said, "The sector has been underperforming for a while with Nat CAT – and then the pandemic was a strain. That was the straw that broke the camel's back," he said.

He concurred that, "Rate increases are now decelerating. There has been a step-change in rates," he said. "These are among the factors that prompted us to move the sector outlook back to stable," Mr Gharib said.

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