TRUST RE

PERSPECTIVES

A SNAPSHOT OF TRUST RE'S SURVEY INTO MARKET TRENDS IN ASIA

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Conducting research on emerging risks and what drives and motivates its clients, are crucial components of Trust Re's Thought Leadership. This year, Trust Re commissioned a UK-based research house to conduct an in-depth survey into the current trends that shape Asian insurance markets. Previously in 2014, the company had already investigated the views of insurers, brokers, regulators and reinsurers of the future of the market place in Sub-Saharan Africa and in 2016 they conducted a similar study on Central and Eastern Europe.

This time the research focuses on a diverse variety of emerging and mature insurance and reinsurance markets in Brunei, China, Indonesia, Malaysia, the Philippines and Thailand as well as Singapore, Hong Kong and South Korea. Altogether 40 interviews with executives were held with brokers, insurers and a few reinsurers too, covering general market trends and themes such as market trends, emerging risks, the impact of technology, the role of regulation, clients' expectations of their reinsurers and the relevance of reinsurers providing a one-stop shop value proposition to their cedants.

> "In this ever-changing market place, we are always compelled to innovate and improve our services to our clients. The market survey is pivotal to understanding our clients' current and the future needs. There is no one product that suits all markets in Asia as economies and societies are very diverse."
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> **Kevin Quek**
> General Manager Labuan Regional Centre

Final results are due later this summer but already now, first findings are available. The executives polled see the strengths and opportunities of the Asian insurance markets that they surveyed in the underlying economic growth and the low penetration, which still offers large potential for further market growth. More specifically, markets benefit from the demand for infrastructure investments, rising Chinese investments in neighbouring markets – obviously in conjunction with its One Belt One Road initiative – as well as rising online risks. As insurance markets become more robust, regulatory regimes evolve to strengthen policyholders' protection but also to improve reporting, risk management and analytics.

In terms of weaknesses, Asian insurance markets are not sheltered from global excess capacity and further competitors entering the market in search of top and bottom line growth. Asia is known as a price sensitive and competitive market place. The further commoditisation of some insurance lines, greatly facilitated by the advent of online technology and big data, poses a challenge as rates are bound to deteriorate. In addition, the reviewed markets in Asia are not void of protectionist tendencies as policymakers demand that business is retained in the market and reinsured domestically.

Cyber seen as the dominant emerging risk

In terms of emerging risks, the Asian insurance executives polled see the largest potential in cyber insurance, followed by terrorism cover, the need for financial protection, including credit and surety products. However, in particular with regard to cyber, but still to a lesser degree also among the other risks, results of the research showed three main causes which restrain growth: a general lack in expertise and experience in the market to understand and identify, properly manage and insure some risks – both with regard to the policyholders and the insurers as well. Secondly, policyholders are quite price sensitive and products are deemed too expensive to increase demand and thirdly, reinsurers' risk appetite to share the risk burden with cedants is regarded as often insufficient.

More generally, the Asian insurers interviewed predict that cyber, together with financial, energy and natural catastrophe risks are likely to be the most significant over the next three years with significance meaning the lines of business where participants foresaw most demand or premium volume increase. On the other hand, prospects for risks associated with the areas of artificial intelligence (AI), blockchain and micro-insurance are less clear (for a relatively high proportion of participants) as these areas are not yet well enough understood overall. Not surprisingly though, capacity for the more established risks is sufficiently available while for the emerging risks like cyber, AI, blockchain and also political risks, capacity is still scarce.

The interviewees held diverging views on the impact of technology on insurers'/reinsurers' operations and on the market. Some see it as having very little impact and personal relationships remaining key, whereas others expect a considerable change resulting from technology, profoundly affecting all aspects of an insurer's operation, enabling access to new client segments, but also requiring substantial investments to maintain competitiveness.

Different approaches to regulation across the Asian markets

In terms of regulation, the interviewees observed quite contradictory trends across Asia. On the one hand there are efforts to liberalise and deregulate markets by detarifying rates in certain lines. This might be understood as a sign that markets have matured and require less intervention. Similarly, regulators move towards more advanced types of regulation based on more sophisticated regulatory solvency regimes, requiring higher capital adequacy levels but also enhanced standards in reporting and compliance. On the other hand, some Asian markets, such as Indonesia pursue a more protectionist approach, enforcing the domestic retention of certain shares of cessions.

Reinsurers are seen to be able to play a mediating role. Due to their international experience they are in a position to educate the market, support cedants faced with tighter regulatory regimes with knowhow and expertise and discuss with regulators, how to best strengthen the market altogether.

The role of reinsurance

The interviewees were also asked about their expectations of their reinsurers. Obviously, a reinsurer's claims paying ability and its available capacity ranked first. However, these were considered as a "conditio sine qua non" to be eligible to join a panel. The ability to write all risks and to provide comprehensive solutions to cedants were of particular importance too. Clearly multi-national reinsurers are preferred for the larger capacity that they can provide per risk as well as their technical expertise and ability to write specialty risks, while the domestic players are acknowledged for their continuity in maintaining relationships and their proximity to clients. Similarly, it was considered important for international reinsurers to have a local presence and to understand the local market.

Reinsurers are seen to differ according to their positioning. While some take a more generic, price driven approach, others may provide comprehensive services, positioning themselves as a one-stop-shop. Cedants are not exclusive in their approach but prefer to retain a variety of different types of reinsurers on their panel. While the large and encompassing service-providers are preferred for the security of their capacity and the depth of their knowledge, just as decisive are the qualities generally associated with the domestic players such as the continuity in relationships, the willingness to jointly develop a line or product suite and their proximity to cedants.

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