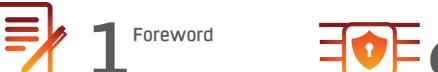




# THE OUTLOOK FOR INSURANCE AND REINSURANCE IN ASIA

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# **1** Foreword

Asia is made up of different nationalities, cultures and languages. It has different market dynamics and is often at different stages of development. But there are also some clear similarities. Understanding market trends and developments is of paramount importance for us and for our partners in Asia.

Market research is a key tool of Trust Re strategy. As such, we commissioned The Thriving Company to undertake a survey on our behalf to gain key insights into how insurers, brokers, regulators and reinsurers view the future of their markets in Asia. In total, 90 directors, executives, senior managers and other insurance professionals from 9 countries provided their input. Our thanks are due to all those who participated in the survey.

It is clear that the Asian market is not homogeneous. In particular, different rates of economic growth, levels of "insurance culture", insurance skills availability, regulatory approach and dynamics per line of business are just some of the factors that distinguish market conditions and blend to create the insurance outlook of the region. Our study reveals the specific characteristics of the various markets in the region, namely lines of business with high expected growth, the variations in profitability, expectations of the markets from the reinsurers etc.

At Trust Re, we are proud that our underwriters make frequent visits to engage with stakeholders and to better understand markets and customer needs, as well as participating in the likes of EAIC and SIRC conferences. With our regional centre in Kuala Lumpur (KL), we strive to further improve our services to our clients in ASEAN, Greater China region and Korea.

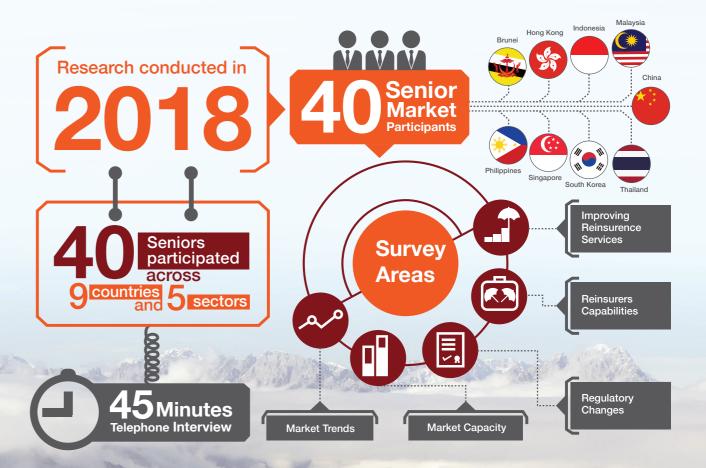
In early August 2018, we held a Power Generation Seminar focusing on Insurance and Technicality in Jakarta for our partners from Asia. We also conduct a knowledge-sharing seminar in KL on a regular basis for our clients.

In line with our vision to be the "Reinsurer of Choice", we focus on developing long-term partnerships based on trust and on delivering value. As part of Trust Re's commitment to the Asian market, we are delighted to share the findings of the survey with you. Lastly, we welcome your feedback. After all, the primary purpose of this exercise is knowledge sharing.

#### **Kevin Quek**

General Manager - Labuan Branch kquek@trustre.com





The focus of the Outlook for Insurance and Reinsurance in Asia 2018 study includes indepth interviews and inputs from 40 senior market participants, based in nine different countries

In total, 11 insurers (including one 'bank-insurer conglomerate), 27 brokers and 2 reinsurers participated. By job role, most of these were in senior, general management positions with many general managers/directors, senior vice presidents and heads of department. Some heads of reinsurance participated, and most contributors spanned a range of different classes, though there were a handful of specialist placement brokers and others who concentrated on specific risks.

# 3 Executive Summary

#### 1. Overall market outlook

Based on the insights gained from the interviews, the drivers for growth of insurance and reinsurance in Asia are stronger than the brakes on them. This is based on a variety of factors, including likely strong continued GDP growth in the region, relatively low insurance penetration, significant Chinese investment across the region, the continuing growth of the "middle class" and affluent population, and emerging risks, in particular Cyber.

#### 2. Major Challenges

Headwinds exist. Factors such as plentiful reinsurance capacity (in many classes), high price sensitivity, and the potential for some risks to be "commoditized" are all challenging in their own right. They also increase the likely rate of merger and acquisition activity in many locations, possibly leading to consolidation.

The impacts of "local penetration" regulation and the potentially significant influence of technology on market structure both could exacerbate these challenges.

#### 3. Emerging risks and available capacity

There is a clear expectation that Cyber risk will strongly develop as a class, though it may still take time given some of the constraints to growth (see later). Other classes such as terrorism, financial lines, product liability, health and agriculture all have "supporters" who believe that they hold opportunity. We have heard instances in each case of a lack of reinsurance capacity on the "right" terms, pricing and packaging, though again Cyber is the strongest example of this.

Overall, one of the strongest drivers of capacity need may be Chinese and other government infrastructure investment across the region.

Capacity is viewed as plentiful in "traditional" lines such as catastrophe or energy.

#### 4. The constraints on growth in emerging risks

These include a lack of technical knowledge but also difficulties in clearly communicating to cedants about the nature and exposure created by (for example) cyber risk. There also seem to be concerns about the clarity of terms and conditions and the genuine appetite of some reinsurers to provide cover.

This is bound up in a question about the role of a reinsurer. To simplify, is it purely to provide capacity, or to partner with others to develop and educate the market? New product development seems to be a struggle for many.

Some participants have suggested a more innovative approach is needed. To give a further example about Cyber, some view that creating and developing a "retail" cyber risk product, would help create much greater awareness and understanding amongst the corporate community as well.

#### 5. The potential impact of technology

This was perhaps the area with the broadest divergence of views. Some participants saw it as having very little impact on the markets and their role/operations in particular, seeing the "relationship" and personal interactions with their counterparts as far more important. These tended to be those dealing in complex, major risks. Conversely, others, including a variety of brokers in different markets, believed that technology could change the whole structure of the market.

Based on the interviews, our views are that:

- ePlatforms, telematics, data analysis and increased use in risk assessments are all very likely to develop and reinsurers need to respond
- there are unforeseen implications across issues not only of data quality but job roles and organisation structures
- it would be dangerous to assume that various statements that brokers and reinsurers need to ensure they can provide added-value, where technology can replace some aspects, are all entirely wrong
- therefore building capability in technology is important

#### 6. What is the role of a reinsurer?

'What is the optimal role of a reinsurer?' If a pure capacity provider is one extreme then other activities exist, including being a true partner in market and product development to insurers, or being a visible influencer of regulation.

#### 7. Regulation, local retention, and positioning in different geographies

Regulation is expected to promote consolidation. Additionally, many interviewees expected the continuance and even extension of 'local retention' policies.

While a simplification, local reinsurers have stronger more trusting relationships, international reinsurers have greater technical ability and can cover more complex risk.

#### 8. The one-stop shop and the ideal reinsurer

While operating as a one-stop shop reinsurer is useful and desirable, for many, the more important influences on where to place risk were specialist expertise, cost, capacity, claims paying ability and relationship in a broader sense than just range of risks covered. These were also prominent in the characteristics of an "ideal reinsurer" as well as some other aspects such as local knowledge and new product development capability.

#### 9. Different needs and market change

What seems clear from this report is that there are some issues – for example the impact of technology and the value of a one-stop stop – where views are very diverse.

Some of this may suggest a sector in flux and about to experience significant change that may surprise the more "traditional" thinkers. While it may not be sensible to base all planning and execution on this outcome, it is a (very) possible scenario.



#### Overall conclusions on market forces

The visual summarises those trends which have the most potential impact on market growth – either to accelerate or constrain it.

There are some challenging headwinds, and significant issues around market structure, role and profitability that insurers and reinsurers need to get to grips with, and determine strategies for dealing with. In particular these include the impacts of technology, local retention policies, and the need to determine a clear focus.

However, the forces suggesting market growth and development are stronger in Asia than the forces reducing profitability and growth, so markets in Asia should continue to be profitable sources of business.

#### Acceleration and constraints on growth

Acceleration	Co
GDP growth	Pri pri
Current low penetration levels	Lo
Low loss ratios	Lo
Chinese investment accross Asia	Po
Online distribution lowering sales cos	sts
Increasing (recognition of) online risk	S Co
Other government infrastructure investments	Coup
Regulatory requirements incl. IFRS 1	7
New product development	
Increased capital requirements in some countries	
Better reporting and analytics	

Constraints			
Price competition / continued price sensitivity			
Low equity return / excess capacity			
Local retention policies			
Possibility of increased self-reinsurance			
Consolidation			
Commodisation of some risks via technology			
Competitors entering regions / setting			

local offices

There were a number of other significant trends we heard about, summarised in this visual.

For example, the outcome of 'detarification' in the short term, in South Korea as one instance, appears to be to reduce premium levels by around 30% in some lines.

More generally, insurers appear to be faced with the choice of "lowballing" and competing mainly on price, or aiming to add product and cover extensions to maintain premium levels.

In some of the 'newer' risks, we heard that a lack of technical knowledge across insurers and potentially reinsurers, was a major constraint on growth.

#### Other trends...

Detarification

Increased M&A activity

Limited technical knowledge about new risks constrains growth

Difficulties in quantifying loss from new risks e.g. Cyber

Lloyds encouraging electronic placement

Insurer strategies - lowballing or product extensions?

Insurer pricing tools

Heterogenous views - a market in flux, about to change?

#### Specific observations and comments made by interviewees include

"In the short to medium term I am sure that we will enjoy very high growth in the China insurance market...we still see only 6% penetration of insurance in the market which is still very low. The growth of the economy together with the low market penetration means that in the short and medium term there is a lot of room for growth in insurance". (Broker, China)

"In the last 1-2 years cyber risk has been the key focus in the region. There is a shift from the old traditional profile of property, engineering towards technology and cyber risk, not just in oil and gas but other industries." (Broker, Singapore)

"Increased infrastructure developments by Chinese companies across the region as a whole...in places like Vietnam, Cambodia, that's going to increase. The Chinese are very resource hungry, they will build dams, hydropower plants, and that creates an insurance requirement. But that's all catered for in China" (Broker, Pan Asia)

"Slashing down 30%" of rates. It is very competitive, you can see that international companies will merge with local companies, to get more capacity to absorb the risks. Small companies like us, it is very difficult to sustain." (Insurer, Malaysia)

"Alternative risk transfer is very rare but will increase as a result of IFRS 17."" (Broker, South Korea)

"Bigger insurers will enjoy stable growth and good profit margins.... smaller operators face challenges when risk-based capital comes into place" (Broker, Hong Kong)

"Property (risk) will become increasingly commoditised, people will be trying to "churn it out" as quickly as possible. Digital technology will help." (Broker, Singapore)

> "The primary insurance companies are currently developing many new products ready for introduction into the market and carrying out further research for more in the future". (Insurer, China)

"There will be more capacity coming onto the market. Because of the lower returns available on capital markets... (I expect) people to shift from equity markets." (Broker, Singapore)

> "There are a lot of undercapitalised insurers, that's a big problem in many parts of Asia including the Philippines. The regulator wants to increase paid up capital requirements for insurers." (Broker, Pan-Asia)

# The impact of technology

There were very varied views on the impact of technology. This may be a symptom of a market of flux or one where the full extent of change is not quite clear.

Those closer to the "end-user" or insured tended to expect a more significant direct impact on their business. Conversely, those dealing with complex, very high value B2B risk had the opposite view.

Equally there were opposing views on the impact on reinsurers; some saw technology having very limited impact, while others felt that reinsurers (and in particular, brokers) who did not keep pace and deliver and demonstrate "added-value" would struggle to survive. We also heard the view that Asia as a whole has a "high appetite" for technology and so the impact, particularly driven from the consumer, could be very extensive. However, some interviewees saw the pace of change and adoption being different in different countries, either as a result of differing demand or levels of infrastructure or government or regulatory support.

Some of the commonly held views, as well as some of the more significant potential implications, are noted on the next pages. We have ordered these from "least disruptive" to "most disruptive".

One participant said: "A lot of companies will explore different ways of applying technology in the Insurance industry but I don't think anyone has got it right. There is no established model, no definitive success,"

Other sectors have seen technology produce an abrupt change, unforeseen by market participants, which impacted the very structure of the market. It would be very brave to assume that this is impossible in the insurance and reinsurance sectors.

#### View on the impact of technology

But some predict this as the outcome

Most people view current reality as somewhere here...

The following pages show a range of views on these issues – though this page contains the views of those who saw potentially fundamental change in the insurance and reinsurance sectors

#### Market structure change - brokers and reinsurers must change or die

"If brokers don't keep up, then eventually technology will take over insurance! If Insure Tech companies become more popular, with crowd funding...there could be a drive to mutual insurance for personal lines. Insurance brokers need to be at the early stages...to be first in terms of what they provide. We need to value-add in a way that technology can't." (Broker, Singapore)

"As an intermediary, we see some threat to us, because local insurers are developing their own systems and applications. It makes things easier to assess for the client. We have to prepare for that. How do we adapt to the chain?" (Broker, Malaysia)

"As a reinsurance broker, we have to be involved in the operations system. We see one or two reinsurers giving a technology platform to clients directly, for things like travel insurance. Reinsurers with a platform can easily generate business. Unless a broker adds value it will be left out. Reinsurers only providing capacity and nothing else will be left out." (Broker, Indonesia)

Other example comments given by participants across some key themes

#### Not much impact - "technology can't replace Face to Face" for complex B2B risks and reinsurance

- "Face-to-face interaction remains" critical, personality important...to meet the people, build relationships and understand the market. More frequent and immediate communication can be done using the new technology however face-to-face interaction and negotiation is still very necessary." (Broker, China)
- "The new technologies will have more impact on the B2C retail side, where direct customer interaction is much more important. There will be much less impact in the B2B arena where the technology will remain more conventional" (Insurer, Brunei)

#### Can help the growth of the insurance market

"Across the organisation we transact a lot of personal lines insurance and they are already investing heavily on developing digital platforms and applications that enable them to take advantage. New technologies will very much help in this B2C field where direct customer interaction across digital, mobile and on-line channels will increase". (Broker, China)

- "I rely a lot on face-to-face interaction and fully expect that the majority of the work will continue to be handled as it is now. Technology may make it a little easier but it won't fundamentally change matters for me" (Broker, China)
- "In terms of distribution, I do not see the broker's role being replaced by technology because many things are not standard." (Broker, Hong Kong)
- "Insure Tech may be more applicable to the more general, retail business...online motor and home...not so much large industrial complex risks which need to be broked on a face to face basis...." (Broker, Singapore)
- "There is only so much you can do with technology, it can make things seamless, help provide hassle-free admin, claims process. But when it comes to more complex risks, syndication, that needs further discussion. That's where brokers are preferred and add value. Online portals are more for volume risk." (Broker, Singapore)

Boosting efficiency, improving data

analytics and decision making,

reducing cost

China)

 "The Internet is very good for direct selling to customers. It is very easy and cheap to buy insurance and also helps provide more opportunities for new products, growth and expansion". (Insurer, China)

### Other improvements – in distribution, communication or security.

"Cloud, AI, Blockchain etc. will reshape
the insurance industry. Business
processes will be streamlined making
them much more efficient and shorter
whilst data and analytics will provide
faster and better insight". (Insurer,

Note this can also reduce costs and therefore also has an impact on people (see other theme in this section)

- "Technology is a main agenda item for the company in the coming years, it is a key part of the planned strategy and on the road map supporting company expansion. As a result I foresee greatly improved efficiency, particularly in the areas of servicing and client interaction" (Insurer, Brunei)
- "Insure tech is already a hot topic in the current market. More and more primary insurance providers are already starting to adopt AI technology and using new technology for claims and underwriting". (Insurer, China)
- "Currently insure tech is more focused on marketing and access to customers and controlling them. Going forward technology will impact the other business functions for example claims handling. On the motor lines side we see it more widely used now through integrated telematics technology that links physical events to claims and premiums etc. Insurance companies will automate more insurance functions and streamline the operation for example marketing, sales, claims, underwriting and loss adjustments." (Broker, China)
- A Singapore based broker also mentioned that drones are being used for loss assessment, and facial recognition technology is being used on assessment of chicken stocks

- "A lot more data analytics is definitely required (and to be) a lot more accessible to the client. An interface for the client to decide on the coverage, linked to their own risk profile." (Broker, Singapore)
- "There is a good deal of focus on big data analysis, it can reduce costs to provide a competitive product." (Broker, Singapore)
- "Traditionally distribution has been through agents, banks etc. where human interaction with the customer is the primary channel. There is now a move to a much more technologydriven interaction where there is potentially no human interface at all for example through the use of the Internet and mobile apps". (Broker, China)

#### InsurTech and regulator support

- "Insure Tech is very important. Particularly in Singapore, where it is being supported by MAS, and the financial supervision service." (Broker, Singapore)
- "(But) Insure Tech is really a subbranch of Fin-Tech, and that still has a very regulatory focus. " (Reinsurer, China)

### New risks, impacts on existing risks and the development of tools

More generally, the rise of autonomous vehicles outside of deployment of technology within the insurance sector was also seen as important

- "The motor side is the most obvious area of impact, in particular with regard to autonomous automobiles. As a consequence I expect to see a reduction in premium on the motor side as in the future there will be little incentive to buy motor damage cover so there will be a switch more to 3rd party liability cover. 85% will be motor – this clearly has a large influence on the portfolio not only in my company but other providers too". (Insurer, China)
- "A lot of companies are going into telematics for motor business, trying to introduce pay as you drive and pay based on how you drive. But it has not sold very well, there has not been a clear success as yet." (Insurer, Malaysia)

### Other implications and unforeseen consequences

 "Technology will impact in many ways e.g. communication capabilities. In (X) expertise exists internally but because of the size and structure of the organisation we can't always access it. Insurance companies need more technical support to keep up with the developing technologies" (Broker, China)

#### ePlatforms, procurement and choice

- "A computer focused procurement process, including this being driven by the broking team." (Broker, Singapore)
- "We are moving to e-platforms, electronic trading platforms. More use of electronic means to broke and to write business." (Broker, Singapore)

- "Government bodies have been focusing on personal information issues, consumer data, financial information... there are lots of transactions via the internet, banking, mobile things. There is a great deal of exposure to hacking, data breaches. The regulations they are changing...greater obligations on everyone dealing with personal information." (Broker, Singapore)
- "On the treaty side everything is actuarially rated. It is becoming more important now on the reinsurance side and on the nonlife side. But it means underwriters may not take a decision until an actuary has come up with the pricing...that can create delay." (Broker, Pan-Asia)
- "Reinsurance modelling will get more specific, detailed...more accurate figures...that's not necessarily good...as it won't reflect market conditions or sentiment. Technology is not omnipotent, you still need the human touch, judgement and communication." (Insurer, South Korea)
- "The real issue is around data quality and the data used in these new systems. Currently the data is not good enough to use. It needs lots of cleansing. We have already implemented some new systems ourselves and suffered lots of data issues. It isn't just about our core systems however, we also must worry about all of the peripheral systems and processes otherwise we won't be fast enough to compete effectively". (Insurer, Thailand)

 "One of our key clients has set up their own website...a platform for placement. Other reinsurers that want to participate must submit written lines via the platform, in the future they may just use the platform...there may be less reliance on brokers." (Broker, China)

#### Working with others

 "Mobile phone companies have a lot of data on many many customers. Insurance companies can try and interact with mobile phone companies and their use of technology - we need to combine our financial expertise with their client data expertise." (Insurer, Korea)

#### "Price wars"

 "For those investing in on-line apps, insure tech will be a gamechanger enabling a move away from the conventional client / agent engagement model to be more remote and automated. From an insurance perspective it will make the competition much more intense and may well lead to price wars". (Insurer, Brunei)

#### The impact on jobs, roles, skills requirements, and organisation structure

- "Automation will inevitably put a brake on hiring more and more staff and allow those that are there to be much more effective" (Insurer, China)
- "It will be important for us to keep up to pace with new technology trends as they develop and to make sure we have effective training to get the best out of it". (Broker, China)
- "Better engagement with technology across the company will be very important, will need to see a great increase in IT literacy across all employees". (Insurer, Brunei)
- "We are already seeing this working in some instances for example we are now seeing totally on-line personal lines insurance with no humans involved" (Broker, China)
- "I anticipate that in coming years the frequency of on-line usage will result in a reduction of the current number of branches alongside the development of alternative distribution channels". (Insurer, Brunei)

#### Need for investment and the impact on competitive advantage

- "A lot of people will pay online, people are selling products via their own website...looking at paying or renewing insurance via mobile apps. (We are) far behind that...you need to have a very good system and to be able to invest in that, to have a system able to do that. We are trying our best to compete, but we are about half-way." (Insurer, Malaysia)
- "Not just us but technology can make the market more efficient. We try to work with companies who have made those investments" (Reinsurer, China)
- "Technology is very important in our company as we undergoing a broad digital transformation program ourselves, although this requires a lot of investment and is very expensive". (Insurer, China)

# Emerging risks and capacity

Initially, participants were asked to identify any emerging risks they saw as particularly important.

#### Significance and emergence of risks

	• Cyber		<ul> <li>Construction</li> </ul>	
	Terrorism		• Power	
High	<ul> <li>Financial / Surety</li> </ul>	/ Credit		
	<ul> <li>Product Liability</li> </ul>			
<u></u>	<ul> <li>Health</li> </ul>			
owt	Agriculture			
р Б				
Expected growth				
EXP				
>				
Low				
	"Small Volume"	"Current Written Pr	remium"	"Large Volume"

In summary, the main ones we heard about are shown here. Those in more prominent text were mentioned more frequently, and growth expectations expressed more confidently, than others.

Cyber was expressed far more often than any other risk, though of the emerging risks, financial, health and product liability also received several mentions and appear worthy of attention.

Some of the comments made are shown on the next few pages.

Later in this section we review more the more specific views when participants were asked to evaluate the significance of various risks, as well as give their view on the current availability of capacity for that risk.



#### **Cyber**

Cyber risk has been talked about in the China market for over 2 years now but not many risks are yet being written. This is definitely a very hot topic however and in the future I expect to see it grow significantly" (Insurer, China)

"A lot of organisations (see) a lot of cyber breaches are happening all across the world...making enquiries to direct insurance, and reinsurers...it is also related to the regulatory environment. In Korea insurance is going to be obligatory for companies using internet lines" (Broker, Singapore)

"Cyber will become more important – people have been saying this for a while, but the larger scale attacks, scandals have become more prevalent. I think it will take at least 2-3 years before the uptake really starts to grow strongly." (Broker, Singapore)

"We have cyber analytical tools, we try to advise clients it is an underinsured risk, there are high profile companies being hacked, a loss of customer data. It is difficult to quantify loss as it impacts on a company's reputation. Property clients are talking about this." (Broker, Singapore)

#### **Terrorism**



"It is getting more important for construction projects, we are seeing more requests for cover...with political violence included." (Broker, Singapore)

"A lot of discussions about terrorism cover, as a way of growing premium. Many companies are looking at small sub-limits." (Insurer, Malaysia)

"Terror...recently the number of enquiries has been getting higher." (Broker, Malaysia)

#### **Financial Lines**

"Financial lines will continue to grow in Asia...D&O products will get cheaper and become more commoditised." (Broker, Singapore)

"There is a lot of focus on financial guarantees...insurers are working together with banks (but) most reinsurers don't like financial guarantee (risks) but they could develop something" (Broker, Indonesia)



## **%**

#### Health

"I am very optimistic for insurance demand as people are becoming increasingly concerned about their health". (Insurer, South Korea)

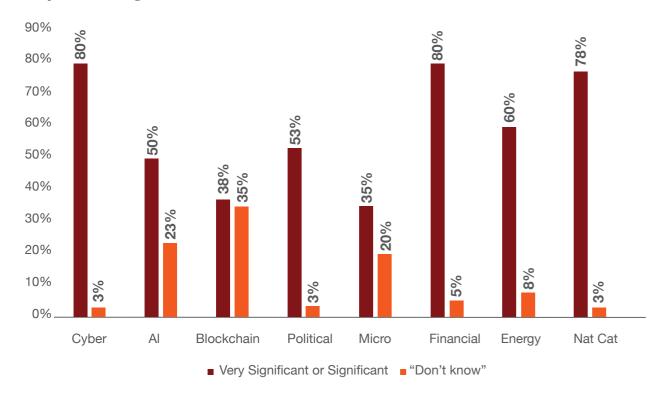
#### **Agriculture**

"There is a need for capacity and reinsurers are trying to set up technical teams, Thailand, Indonesia, they are setting up."(Broker, Singapore)

"Agriculture, provoked by the Government scheme." (Growth) "is difficult to say...it can be quite political and depends what happens politically, but in the short term no obstacles" (Broker, Singapore)



#### **Expected significance of risks...**



Participants were asked to rate the significance of risks in their country/main country of focus, over the next 3 years.

This was essentially based on their views about the size of demand or premium volume, and how it would evolve.

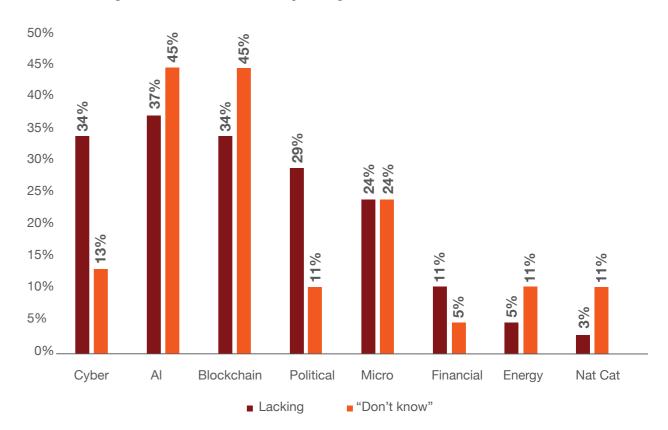
Cyber is very clearly the emerging risk in this category with the highest significance. Together with financial, energy and natural catastrophe risk, these form the category where a strong majority of participants saw them as significant.

Conversely, for AI, Block Chain and Micro-insurance, there were relatively high proportions who found it difficult to express a clear view or felt they did not know enough. There is an appreciation from a minority of participants that AI and Block Chain could give rise to insurable risks.

Conversely, for AI, Block Chain and Micro-insurance, there were relatively high proportions who found it difficult to express a clear view or felt they did not know enough. There is an appreciation from a minority of participants that AI and Block Chain could give rise to insurable risks.

However, more commonly, the "typical" market participant seems to be aware of these terms but without detailed knowledge of the detailed application of Block Chain and in particular, finds it hard to judge any risks associated with its adoption that may require insurance. The broader impact of technology is covered elsewhere in this report.

#### Availability of reinsurance capacity



Interviewees were asked about whether, in their view, the available reinsurance capacity was sufficient, close to sufficient, or (clearly) lacking for each risk.

There seem to be three categories. For financial, energy and catastrophe, for the most part while they are seen as significant, sufficient capacity is available. (There were some exceptions to this in the sub-categories of financial risk.)

In the category containing AI, Block Chain and possibly microinsurance, high proportions could not say but at the same time, at least 1 in 4 participants saw capacity as lacking. The root cause seemed more often to be a sense that the market for these risks was as yet undeveloped and more clarity needed to be provided. There was not a sense that either insureds or insurers were frustrated by their inability to secure (re)insurance. In other words, there was little sign of strong "unmet demand"

The picture is a little different for political and, in particular cyber risk.

Knowledge of the risks in principle is high. One in three see capacity as lacking for cyber. However this again is not a simple issue of "unmet insurance demand." While this does exist, the underlying issues appear to be about underwriting ability, technical knowledge, market development and limited clarity around terms and conditions and potential loss. These appear to be more significant constraints on the growth of this risk than simple "limited appetite to write business" or limited awareness of the risk.

### 7 Regulation and its impact

Participants were asked for their views about how regulation (and any changes in regulation) would impact the development of insurance or reinsurance in their location over the next 3 years.

In respect of regulation directly impacting insurance and reinsurance, there seemed to be two contradictory pressures:

- The belief (expressed about many geographies) that the longer term trend was liberalisation, as part of efforts to open and develop markets
- Meanwhile, in the shorter term, regulations to "protect" several local markets and reduce the amount of premium "leaving" borders were expected to be maintained and even strengthened.

#### **Ongoing impact of regulation**



Equally, there were differences of opinion about the same location. While one participant said: "There is an expectation that regulators will be more flexible...they want to attract more expertise and capital. There will be more flexibility to open offices in China." some had the opposite view.

The same was true of Singapore. Though one participant said "there needs to be incentives to maintain the sustainability of a regional hub here, you have to continue to attract foreign investment." others expected it to become more tightly controlled or for there to be little change.

What does this mean? In some cases, the views on direction are in the eye of the beholder and their view of the "strictness" of regulation may be based on their experiences in other locations.

But it may also suggest that the direction is unpredictable. We also heard views that there was intrinsic variability and unpredictability based on the political process and periods of office. New leaders have different ideas. And, according to a Hong-King based broker: "Regulators are struggling to keep up with the international environment. They are still struggling to develop a clear system."

Added to this is the perspective that "generally across Asia it's going to have a significant impact. Asia is the only fast growing economy...the more it develops, the more regulation

there will be in the financial sector as a whole." (Broker, Singapore).

The implication of this seems to be that the ability to be sufficiently flexible, and to allow the organisation to be "nimble" and respond quickly to changing regulation and prevailing winds may be another important area of competence in the future.

We also heard this from a Thailand based insurer.

"I believe that the increasing regulation is good for the market, it means working with the commission more often and more closely and will be good for growth and development. The regulator (OIC) understands the market, it sees developments across the world in the insurance industry through the GIA (General Insurance Association) and they work very closely together with the insurers to keep things current".

#### Overall, we believe that:

- Any increased focus on "local retention" may increase local capability and confidence over time, but in the interim the restriction of premium available to "non-local reinsurers and restrictions on the capability able to analyse and reinsure risk is detrimental to the functioning of the markets.
- 2. Capital strength requirements are likely to lead to an increased need to reinsure but this will accelerate M&A and consolidation. It may also increase the rate at which international entities may buy local reinsurers and establish a foothold.

Here are some of the key themes with comments made by market participants.

#### Local retention

- "I think we will probably see more protectionism in South East Asia generally. It's happened in Malaysia, Thailand and I expect it to happen in the Philippines. It's not necessarily a bad thing if local insurance companies and reinsurance companies become more capable of taking on the risk." (Broker, Pan Asia)
- "Overseas reinsurers are still quite keen to develop the China market. One concern (many have had) is about the ability to draw money from China to overseas. They should now be more comfortable over the long term." (Broker, China focus)

#### Capital requirements

- Risk based capital is one major development...more tightening of the regulation with regard to how companies manage their capital...you will see a round of M&A (amongst insurers) pretty soon."
- "Regulators are expected to implement Risk Based Capital in 2020 and IFRS 17 in 2021. These changes will create stable and sustainable insurers (and) generate greater public confidence on the capability and capacity of the insurers. Some players (may) end up exiting the market because of the high capital requirements that must be met. This in turn means that there will be a requirement for more insurance capacity" (Brunei)

#### **Compliance and Transparency**

- "For the products the emphasis will shift to protection and risk transfer...for reinsurers there will be more compliance needed around the risk transfer nature of insurance products. It will provide much needed support and control around continued product innovation" (Broker, China)
- "Reinsurers need to keep well informed of the local market and associated regulatory changes. Compliance is clearly vital and when any new policies come out it is important that the insurance companies adjust accordingly. The reinsurers should be helping insurers meet their compliance needs". (Insurer, China)

#### Liberalisation (also impact on price competition)

- "The market reference rate used to be really important. Now the FSS allows primary insurance companies to set their own rates based on their own pricing tools...approaches are more diverse, there is more price competition." (Insurer, South Korea)
- "But we are at the liberalisation stage, on one hand they want to ensure the end customer enjoys the benefits (of insurance) but they want insurance companies to follow the guidelines." (Insurer, Malaysia)

#### Bank and insurance regulation equivalent

- "Recently the Chinese Regulator merged banking and insurance and as a result many insurance companies will face the issue of stricter compliance requirements". (Chinese Insurer)
- "Many people think that the banks are more closely monitored than insurance companies.
   Most insurance companies have business connections with banks so you end up being regulated by two different bodies that do not have identical standards. As they are merging there is a move towards standardising on the more rigorous levels of bank regulation for example with stronger auditing / checking etc." (Insurer, China)

#### Complexities and tax requirements

- "Tax systems are becoming increasingly difficult to understand and navigate." (Broker, Singapore)
- "When the reinsurers want to assess the risk, they need to understand the requirements...some markets just refuse to provide some documents, e.g. the tax invoice. Some reinsurers just don't see the need to do this for compliance, they say 'we don't need to do this for Singapore.'" (Broker, Malaysia)

#### Promoting local market growth

- "An agriculture pool. (Chinese government support for it meant) deals being set up very quickly, very fast." (Broker, China)
- "I don't see it impacting on Singapore agriculture... (in other places like Thailand) "...it is normally supported by Government, they could make the scheme compulsory."

#### How should reinsurers respond?

Some overall ideas are summarised in the graphic below. There is a core question about whether the simple provision of reinsurance capacity is sufficient, or whether reinsurers need to have a broader role, supporting their customers businesses more holistically.

Perhaps not surprisingly, the issue of local retention and the right strategy to succeed in a region which has such a policy was a recurring theme.

One broker in Singapore felt "Those reinsurers who are just becoming capacity providers, without putting up infrastructure in the region, will be disadvantaged. Those with local footprints, and offices will have an advantage. Capacity providers will be left out, they need to come closer to the market, otherwise some will disappear."

"It's very difficult – they would have to register as a Labuan reinsurer, otherwise it is very difficult...and it is getting tougher." (Insurer, Malaysia)



As shown on the following page, there were other observations about how a reinsurer can add value and build relationships with cedants, brokers and indeed regulators. Some of this was about educating various market participants and giving them the benefit of experiences and insight from other regions.

"Know what has changed and what is going to change, speak and listen to the market and businesses, underwriters etc. Look for alerts. Visit the commissioners once a year, provide training etc. Worrying not so much about coverage but rather how to protect consumers. Looking at e-commerce insurance for example, the OIC set the standards so it is important to work very closely with them to learn" (Insurer, Thailand)

"Reinsurers do some business with primary insurers, mainly on a treaty basis. (But) we need closer relationships between the primary company and the insurance company, we need to align more and share more information." (Insurer, South Korea)

"Development of new products...and on ones that don't have such strict criteria on the retention of risk....there just isn't the level of local capacity needed" (Broker, Pan Asia)

"Reinsurers can talk about how this works in other countries, for example when they meet government at conferences." (Broker, Singapore)

"We need to develop more of a partnership approach such that the reinsurers get closer and really play the role they should be play not just transactional. They must know what the insurers really need". (Insurer, China)

"It is more about reinsurers taking a more proactive approach that will win them more business. Local players will choose business partners that give more support, the ones that follow their needs and understand their needs better will get more offers." (Broker, Hong Kong)

"They will need to develop a network and good relationships with the government, both here and in China." (Broker, Hong Kong)

"Where possible the reinsurers really need to understand and be closely involved in the cedant's business. This includes understanding the local market, product research and development, how they are marketing and selling the products and how they are promoting the products in the market". (Broker, China)

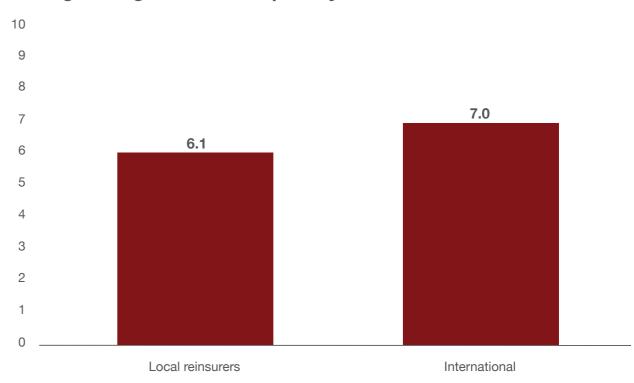
# 8 "Local" vs. "international" reinsurers

We asked participants, apart from other reinsurers, both how they would rate the current overall capability of two broad categories of reinsurer - being "local" and "international" to meet their needs. We also asked them why they gave the answers they did.

The overall scores seen suggest that neither broad category appears to perform outstandingly well currently. There appears to be significant room for improvement.

In short, international reinsurers appear to be a "mirror image" of local reinsurers, in that they demonstrate strengths that local reinsurers do not have – and also weaknesses where local reinsurers perform better. This is shown visually on the next page.

#### Average rating of "overall capability" /10



Notwithstanding attempts to retain reinsurance premium locally, capacity, knowledge and specialist ability mean that specialist risks cannot always be covered purely by local reinsurers.

There also appears to be a "sweet spot" where international reinsurers, albeit locally registered and with a perceived genuine local presence and commitment, provide the "best of both worlds".

#### Comparison of local vs. multinational reinsurers

### Local (indigenous) reinsurers

Better relationships
Supported by local regulation /
policies Aiming to build
scale and capability

### International reinsurers

Greater capacity
Greater technical knowledge,
Greater ability to cover
specialist risk More ability
to add value



### 9

### A reinsurer's capabilities and the "ideal" reinsurer

In this section we overview, firstly how participants prioritised six listed aspects of a reinsurer's performance, and then how they articulated the characteristics of an "ideal" reinsurer. The latter can help identify aspects which could differentiate a reinsurer from its peers.

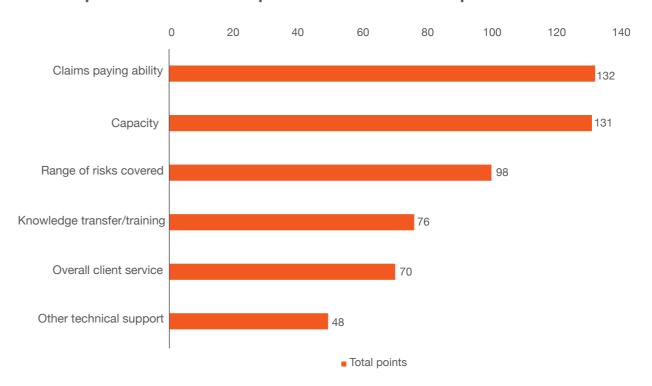
Participants were asked to rank six aspects of a reinsurer's performance from most important to least important. Each aspect was then allocated "points". If it was ranked as most important by an interviewee it was allocated five points, the one ranked sixth being allocated zero points. The graph on the left summarises the total points allocated to each aspect.

It is noticeable that capacity and claims paying ability are ranked higher than other factors. But capacity alone is often seen as a "given" rather than a differentiator of a reinsurers performance.

While not on the list of factors to rank, several interviewees flagged competitive price. Less frequently, an aspect such as speed of response, flexibility, coverage, or terms and conditions was mentioned.

The attributes that define an ideal reinsurer may be somewhat different...

#### Which aspects of a reinsurer's performance are most important?



#### Views on the ideal reinsurer

"The ideal reinsurer must be a close partner to the local insurers. They will operate from the beginning right across the entire product / business development lifecycle from contributing to market investigation and product development through to selling and quality monitoring. By doing this they would create a win-win situation. If they act simply as a capacity provider then that is not being an ideal reinsurer". (Broker, China)

"Assuming capacity is a given, if they have 100 million, 200 million...it is the ability to tap into the technical expertise, cross-industry and across products. (Identifying) key linkages across the product, via specialising in an industry...then providing first class technical support and client interface...specialised across targeted sectors." (Broker, Singapore)

"They must pay claims well. Provide what we need regarding technical support, knowledge transfer and training of our people. They must recognise that there are differences between cultures of different countries. They need to take the time to understand this and to get to know the products...willing to invest in developing a long-term relationship with the primary insurers... I don't like reinsurers that don't recognise that the relationship side is key". (Broker, China)

"It would have local representation, local people, here for the long term. That's what local cedants like. Also the basic stuff, solid financials, the ability to meet claims etc., that's what the local market requires." (Broker, Hong Kong)

"An ideal reinsurer is one that supports our business comprehensively covering all lines of our business. Reinsurers are always very selective in what they cover". (Insurer, China)

"They should have ample capacity and be able to deploy it from the ground up. To work across many risks, that would be pretty much ideal... No-one is doing that at the moment." (Broker, Singapore)

"I would expect reinsurers to pay claims quickly. With the larger reinsurers I would expect them to have a high rating and to offer technical training. They need a presence in the local market" (Insurer, Thailand)

"A presence in leading financial hubs. Underwriters sitting in Singapore, Hong Kong, London. They need to be familiar with local contacts and otherwise the underwriters may not understand the Singapore market. They would be able to underwrite all classes of risk, some can only underwrite some. They would have large capacity." (Broker, Singapore)

"The client service would be strong, there would be a local presence. A lot of communication with the client, they would be able to understand the client and able to support the client for all the risks...they could underwrite all the range of risks with capacity, and have expertise in all the risks." (Broker, Malaysia)

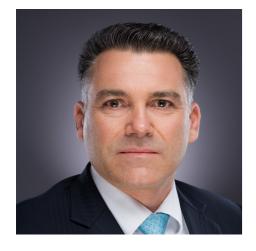
"Highly expert in what they are doing. Providing highly credible information and rates. To communicate well, for example on claims payment processes, to make them fast and simplified. Not to have questions purely for procedure, rather than when needed." (Broker, South Korea)

"Financial strength...and enough capacity to offer. Innovation in product design...this helps them respond to different, changing requirements. A regional outlook...some business can be written on a cross-border basis in ASEAN" (Broker, Pan-Asia)

"To be very understanding and to be very competitive. We deal with some reinsurers very closely...it is a close partnership, with commitment. Some of the international boys, they provide lots of capacity but they only want the big business. Personal relationship is important." (Broker, Malaysia)

# 10 Contact details

For any queries about this report, please feel free to contact:



For Market Survey Enquiries:

Constantinos Hadjigeorgiou Group Corporate Services Officer constantinos@trustre.com



For Asia Market information and offerings:

**Kevin Quek**General Manager - Labuan Branch kquek@trustre.com

