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Supplement

SIRC

Singapore International Reinsurance Conference

ASIA INSURANCE REVIEW
DEDICATED TO ASIA'S INSURANCE INDUSTRY

Asia Insurance Review
SIRC Special Commemorative Issue • November 2018

REINSURANCE RELOADED

29 October - 1 November 2018

15th SINGAPORE INTERNATIONAL REINSURANCE CONFERENCE

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At Monte-Carlo, despite all the vagaries of the marketplace and the horrendous storms from Florence, Jebi and Mangkhut, there was a renewed sense of confidence in the reinsurance world. The M&A wave continues almost infectiously. The reinsurance world is awash with excess capital and the ILS play is in higher gear with capital market players not driven away by HIMs either.

There are severe pressures on the bottom line, competition is stiff and rates are down with little reprieve coming from investment returns. Yet there was a strong sense of self-confidence within the industry with the hope for growth and sustainability and striking more partnerships.

Some predict that cyber will be the next big thing for the reinsurance industry. Every action in this digital era comes with a cyber risk exposure and hence people, society and businesses need to be cyber resilient. So the Monte refrain goes.

In many ways, reinsurers help set the pace and direction for the future of insurance and are actively involved in the transformation of the insurance industry as they make the shift from risk carriers to service providers. Reinsurers and reinsurance brokers with their brigade of analysts, economists and techies do help set even policies.

Hence reinsurance going direct to the market or insurers buying up reinsurance all portend well for further integration of insurance into society.

Having served the industry these past 29 years, I salute the mettle of the reinsurers. I still await that one day to come when insurance will be bought, even eagerly, because individuals and companies understand the good that insurance can do. Till that fine day …

The stage is all set for the 15th Singapore International Reinsurance Conference. SIRC hits the annual trail with great support from the market even in the year of the East Asian Insurance Congress.

With the theme Reinsurance Reloaded, this SIRC will give a chance for Asia to make its mark on the global reinsurance scene. Asia's share of the world general insurance market is a solid 25% ($550bn), though much less than half that in reinsurance terms. Two of the top 10 global reinsurers which account for 70% ($184bn) of the reinsurance premium pie are from Asia: China Re and Korean Re are in 8th and 10th positions respectively with GIC Re at a very close 11th position and a premium pie of $6.5bn.

As chairman of the organising committee, I thank all the members of the committee of the 15th SIRC and pay a special tribute to our adviser Mr Marc Haushofer, chairman of SRA, who has gone the extra mile to ensure that we get the best of speakers at the event to make this a world-class sustainable event.

I take this opportunity to welcome all of you to SIRC and wish you the very best for the networking given the unique mix of delegates attending. But do make time to attend the sessions for it is only in the very new ideas that you embrace that your business can bloom.

Remember: The best is yet to come. Be a change leader.

Sivam Subramaniam
Editor-in-chief
Asia Insurance Review

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Mr Marc Haushofer
Chairman,
Singapore Reinsurers' Association

Reinsurance has largely been transacted in a similar fashion since its debut. This traditional channel has been challenged in recent years by a myriad of factors brought about by the digital age – the rapid pace of technological advancements, new risks and external disruptors presenting both opportunities and challenges. The true imperative in this 'digitalised' age is that businesses need to pursue innovation to thrive in the ever-changing business landscape. The need to reshape and rethink how our industry trades its business will be crucial for it to remain relevant in the years ahead. This ambition drove us to create the theme for this year's SIRC: Reinsurance Reloaded.

The SIRC serves as an excellent platform for the global reinsurance industry to exchange ideas and attain high-level thoughts from top-end leaders and experts. This distinguished event has consistently featured a stellar cast of speakers and this year is no exception. The ability to attract such high-calibre speakers has always been a hallmark of the conference. This year, we have the privilege of inviting the nation's minister of finance – Mr. Heng Swee Keat to address us as the official keynote speaker and guest of honour while AIG president and CEO and Insurance Hall of Fame laureate – Mr. Brian Duperreault will address us as the industry keynote speaker.

Singapore is indisputably the centre of innovation in Asia – the Global Innovation Index ranked the country fifth in the world, and once again the top in Asia. Singapore has also firmly established itself as the centre of reinsurance within the Asian region, with the SIRC being entrenched as the Asian Rendezvous. This annual reinsurance event is indispensable on the calendars of every reinsurer focused on the Asian market. The unique reputation of Singapore being both the innovation and reinsurance hub of the region makes it ideal for these subject matters to be discussed at the conference. Two exciting panel discussions are lined up – 'Reinsurance Reloaded – Industrial Revolution 4.0' on the second day and 'Reinsurance Reloaded – The Asian Reinsurer Response' on the last day. You will appreciate that much prominence is given to regional reinsurers.

Significant effort has gone behind the planning of the talks and panel discussions to ensure gratifying intellectual takeaways and the organising committee would be most grateful if the delegates could reward our efforts with their attendance.

Equal emphasis is placed on the importance of networking, a key instrument to stay on top of market developments and business opportunities. The SIRC, well-attended by an eclectic mix of delegates representing the industry as well as cross-industry organisations, forms an impeccable platform for delegates to discuss matters of interest and forge meaningful business relationships.

No doubt our industry has been presented with numerous challenges, but history has proven time and time again that the industry's resilience is absolutely commendable. Navigating the road ahead will be bumpy, but fruitful for those who persevere in the same spirit as our predecessors did. I believe this year's SIRC is well-poised once again to live up to its pre-eminent reputation of being a thought-provoking conference – a true vanguard in a class of its own. I wish you all the very best for a rewarding time at the 15th SIRC.

Mr Richard Austen
Chairman,
Reinsurance Brokers' Association (Singapore)

Welcome all to the 15th Singapore International Reinsurance Conference (SIRC).

Singapore, supported by its authorities and the Monetary Authority of Singapore, has established itself over several decades as the undisputed centre of reinsurance within the Asian region.

In recent years, despite the soft market conditions, the market has attracted talent from around the Asian region and the globe to support steady growth and stability and drive Singapore on to greater heights of regional excellence.

Membership of the Reinsurance Brokers' Association (Singapore) [RBAS] continues to expand and drive innovation. – with the cutting edge being technology to fuel this growth as well as education.

The RBAS members and their teams are responsible for most of our dynamic regional market distribution and are on hand to listen and assist you with any venture or enquiry that you may have.

Please enjoy the wonders of Singapore, the ease of transport, security, excellent global cuisine, extraordinary gardens, zoo, music events and much, much more.

Please contact any one of us on the organising committee or any member of RBAS for advice and allow us to assist you if there is any way that we can make your SIRC experience more fulfilling.

As a footnote, do not forget to register for the 16th SIRC in 2019 and accordingly to mark your diaries.

Monday, 29 October 2018

1.00 pm to 7.00 pm	**Registration** Venue: Side of Angsana ballroom, level 3
4.00 pm to 4.10 pm	*(Invited guests and delegates to be seated by 3.45 pm)* **Welcome address** Mr Sivam Subramaniam Chairman, 15th SIRC Organising Committee Venue: Heliconia main ballroom, level 3
4.10 pm to 4.30 pm	**Official keynote address by guest-of-honour** Mr Heng Swee Keat, minister for finance, Singapore Venue: Heliconia main ballroom, level 3
4.30 pm to 4.50 pm	**Industry keynote address** Mr Brian Duperreault, president and chief executive officer, AIG Venue: Heliconia main ballroom, level 3
4.50 pm to 5.15 pm	**Q&A Panel** **Moderator:** Mr Rico Hizon Venue: Heliconia main ballroom, level 3
5.15 pm to 7.30 pm	**Welcome cocktail reception** Venue: Bayview foyer, level 3
7.00 pm to 10.00 pm	**22nd Asia Insurance Industry Awards Gala Dinner** organised by Asia Insurance Review (by invitation only) Venue: Orchid main ballroom, level 4
7.30 pm onwards	Private cocktail receptions hosted by various companies (by invitation only)

Tuesday, 30 October 2018

7.30 am to 10.00 am	**Light breakfast** Venue: Bayview foyer, level 3
8.00 am to 5.00 pm	**Registration** Venue: Side of Angsana ballroom, level 3
10.00 am to 10.20 am	**Keynote address #1: "Digital Platforms, Ecosystems"** Mr Tom Van den Brulle, global head of innovation, Munich Re Venue: Heliconia main ballroom, level 3
10.20 am to 11.30 am	**Panel discussion #1: "Reinsurance Reloaded – Industrial Revolution 4.0"** **Moderator:** Mr Rico Hizon **Panellists:** Mr Steve Arora, CEO, AXIS Re Ms Victoria Carter, vice chairman, Global Strategic Advisory, Guy Carpenter & Co Mr Bidyut Dumra, head of innovation and ecosystems, DBS Bank Mr Dan Ryan, managing director and head of insurance risk research, Swiss Re Institute Mr Tom van den Brulle, global head of innovation, Munich Re Venue: Heliconia main ballroom, level 3
11.30 am to 2.00 pm	**Networking lunch** Venue: Bayview foyer, level 3
7.00 pm onwards	**Private cocktail receptions** **hosted by various companies (by invitation only)**

Wednesday, 31 October 2018

7.30 am to 10.00 am	**Light breakfast** Venue: Bayview foyer, level 3
8.00 am to 5.00 pm	**Registration** Venue: Side of Angsana ballroom, level 3
10.00 am to 10.20 am	**Keynote address #2: "Toward a regional approach for Sovereign Disaster Risk Finance in Asia"** Dr Olivier Mahul, global lead and programme manager for disaster risk financing and insurance programme, World Bank Venue: Heliconia main ballroom, level 3
10.20 am to 11.30 am	**Panel discussion #2: " Reinsurance Reloaded – Asian Reinsurer Response"** **Moderator:** Mr Roshan Perera, partner, Actuarial Consulting, NMG Consulting **Panellists:** Mr Bobby Heerasing, group chief executive, ACR Capital Holdings Ms Sachiko Hori, general manager, head of planning team and head of global PPP unit, reinsurance department, Mitsui Sumitomo Insurance Mr Zainudin Ishak, president and CEO, Malaysian Reinsurance Dr Olivier Mahul, global lead and programme manager for disaster risk financing and insurance programme, World Bank Dr Oran Vongsuraphichet, director and chief executive officer, Thai Reinsurance Venue: Heliconia main ballroom, level 3
11.30 am to 2.00 pm	**Networking lunch** Venue: Bayview foyer, level 3
7.00 pm onwards	**Private cocktail receptions** hosted by various companies (by invitation only)

Thursday, 01 November 2018

7.30 am to 10.00 am	**Light breakfast** Venue: Bayview foyer, level 3
8.00 am to 1.00 pm	**Registration** hosted by various companies (by invitation only)
11.30 am to 2.00 pm	**Networking lunch** Venue: Bayview foyer, level 3
5.00 pm	Conference ends

*Unless otherwise stated, all conference sessions will be held in the Heliconia main ballroom, level 3, Sands Expo and Convention Centre, Marina Bay Sands, Singapore.

CONTENTS

SPECIAL FEATURES


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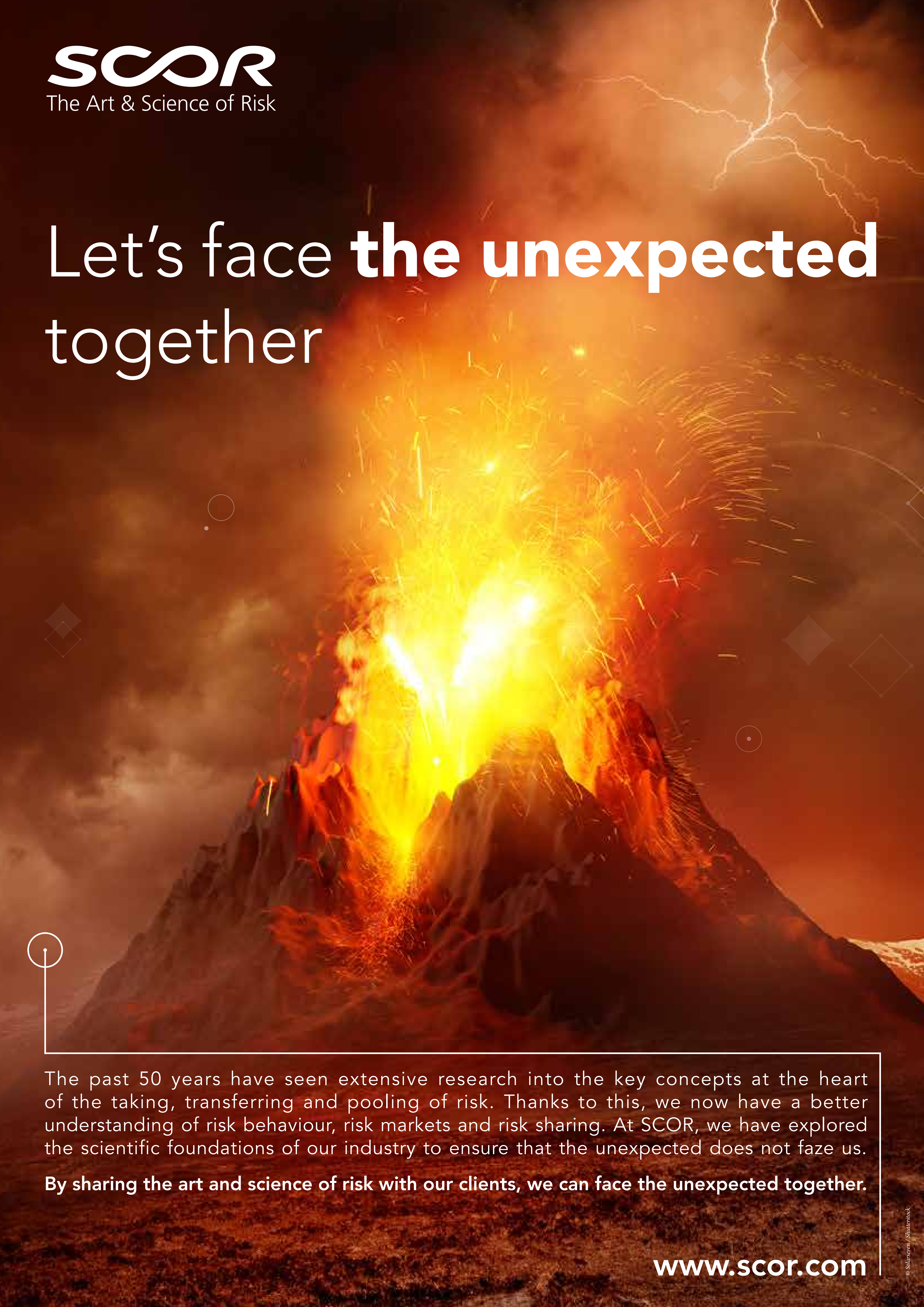
CONTENTS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A tale of two markets

Willis Re International chairman **James Vickers** says, "To borrow from Charles Dickens, for reinsurers it is the best of times, and the worst of times. To understand the dichotomy, we have to distinguish between the short-term and the long. The present and the immediate outlook may seem difficult, but the longer-term potential is heartening. Our sector has the opportunity significantly to improve its fortunes by expanding its role in the global economy; to usher in the best of times."

A sorry recent tale

The recent story of our global market is one of disappointments and multiple challenges. With some exceptions, reinsurers' 2017 results were poor. This was due to a number of factors, but catastrophe losses were the most prominent. The most expensive catastrophe year in history was, however, entirely predictable. The problem was – and is – that rating margins in non-catastrophe lines are now so thin that they have left little headroom to support profitability during big catastrophe years.

This was evident in the Willis Re Reinsurance Market Report year-end 2017, in which we analysed the underlying performance of a group of reinsurers that made sufficient disclosure in relation to catastrophe losses and prior year reserve releases. This analysis showed that when reserve releases and catastrophe losses are stripped out, the underlying combined ratio deteriorated to 94.6% in 2017 from 90.2% in 2011 and 89.2% in 2005, the two most recent severely catastrophe-affected years. Given the continual rate reductions in the past decade, it may be surprising that the underlying combined ratio in 2017 was only five percentage points higher than in 2005.

Indeed, the 2017 result would have been materially worse but for support from substantial reserve releases and significant realised investment gains. Given their concerns around the sustainability of this support, reinsurers are continuing to try to push pricing on under-performing lines.

Since then, at half year 2018, aggregate shareholders' equity for the index of reinsurers within our latest Reinsurance Market Report decreased to $364.9bn, 1.6% lower than at year-end 2017. As well as benefitting from lower natural catastrophe losses, the level of profitability reported at half year 2018 continued to rely on substantial reserve releases and significant realised investment gains.

Looking ahead, a reduction in the amount of reserve releases or realised investment gains would apply further downward pressure on reinsurers' net income. We also see little sign of a sustainable reduction in expense ratios appearing in reinsurers' results, although it may be too early to see the impact of some companies' recent significant actions in this area.

Meanwhile insurance-linked securities (ILS) investors' appetite for reinsurance and especially catastrophe risk is increasing. The price of CAT bonds issued after the 2017 hurricane losses was lower than before it. As the supply of conventional reinsurance capacity fell over the first half of 2018 – albeit marginally – the alternative reinsurance capital supply increased to $88bn, a rise of 17.3%. ILS and collateralised reinsurance is maintaining its relentless march to becoming a mainstream offering and this growth in capacity is adding to the current problem of reinsurance capital oversupply, which is having a dampening effect on prices.

Encouraging signs

However, there are signs of widespread, if limited, rating improvements being implemented to offset 2017's underwriting losses. Property catastrophe pricing, particularly in loss affected territories, increased in 2018, showing that reinsurers can still correct prices when necessary. Continuously improving analytics and data help make quicker rating adjustments possible and, with increased transparency, capital can flow faster to better-performing lines. All of this contributes to a 'new normal' of less-prominent market cycles. This fact has been evident in mini-cycles over the past decade or so, which have been muted at their peaks and troughs, and in the non-dramatic response to last year's record-breaking hurricane losses.

As we traverse this difficult market period - the worst of times - traditional risk carriers that emerge as successful will have reacted effectively to the 'new normal' by paring unnecessary costs and leveraging technology to review constantly the profitability of every line of business, refusing to assume marginal risks for the sake of diversification only. They will be ready to take on the new reinsurance environment of the future and enjoy the best of times ahead.

A new narrative

Those times will look different. Under the traditional model, reinsurance companies used their own capital to finance multiple risks sourced by insurance companies. Technology is already altering this historic model as advances in technology and digitisation drive increasing disruption. Reinsurers are increasingly sourcing risk through multiple and varied distribution channels, financed from a pool of risk capital funded by (re)insurers' own capital, but also by investors and other sources of alternative capital. Technology is not only helping reinsurers source risk in new ways, it is driving transparency in risk selection and pricing which, in turn, is helping to make insurance risk a more attractive investment for non-industry investors.

Meanwhile, the diverse values of reinsurance and reinsurers are increasingly widely recognised. They are now seen as vectors for capital efficiency, especially in a world where regulators are hyper-focused on capital adequacy and customer outcomes. Diversification by territory and class maximises this effect. The knowledge derived both from the historical data reinsurers hold and the large databases which exist outside the industry can be leveraged by reinsurers to benefit clients.

Reinsurers also possess the licences and administrative skills to manage and execute transactions efficiently, making them valuable execution platforms. They have efficient access to the most appropriate forms of capital, including traditional equity capital, alternative funding, debt, and others. All of this leaves reinsurers best-placed to transform risk into digestible packages for consumption by the capital markets.

The reinsurance market is ready for its next critical role. We can occupy a centre ground to help society meet and overcome the protection gap – the quantifiable difference between economic catastrophe losses of various types and the insurance that covers them. Donor organisations and governments are recognising the leverage they can gain by supporting reinsurance solutions. A very recent example of this realisation, from the other side of the world, is the payment, by the Caribbean Development Bank, of premiums due by Haiti to the Caribbean Catastrophe Risk Insurance Facility, which transfers much of the risk it assumes to the global reinsurance market.

Society faces ever-increasing risks, which bring the need to build greater resilience and protection for people, communities, businesses and public institutions vulnerable to disasters and their associated economic shocks. The challenge is plain: About 70% of economic losses from natural hazards remain uninsured. In middle- and low-income countries, the uninsured proportion of economic losses often exceeds 90% (although insurance penetration for California earthquake and US flood, for example, is not much higher).

How insurers can write their own better tale

Research indicates a 1% increase in insurance penetration can reduce the disaster recovery burden on taxpayers by 22%. That is a huge gain and shifts a massive potential burden from public treasuries world-wide, but efforts in this area have, until recently, been driven by only a limited number of public and private actors.

Most governments face growing fiscal pressures and are therefore no longer prepared or able to act as the insurers of last resort. They are looking for other solutions, and reinsurers are well placed to assist. Wider understanding and acceptance of the need for solutions is now growing. Organisations including the United Nations, World Bank, Asia Development Bank, G20 InsuResilience Partnership, and the Insurance Development Forum are actively seeking them.

The reinsurance industry must adapt to the new business paradigm enabled by technology, and cease hoping that the historic cyclical model will revive sufficiently to solve immediate financial performance pressures. The new normal of increasingly risk sensitive and mobile capital driving the fundamentals of our businesses will prevent that. Instead the sector must grasp new opportunities to assume a wider range societal risk. This will help to absorb the current capital oversupply and rebalance the supply/demand equilibrium.

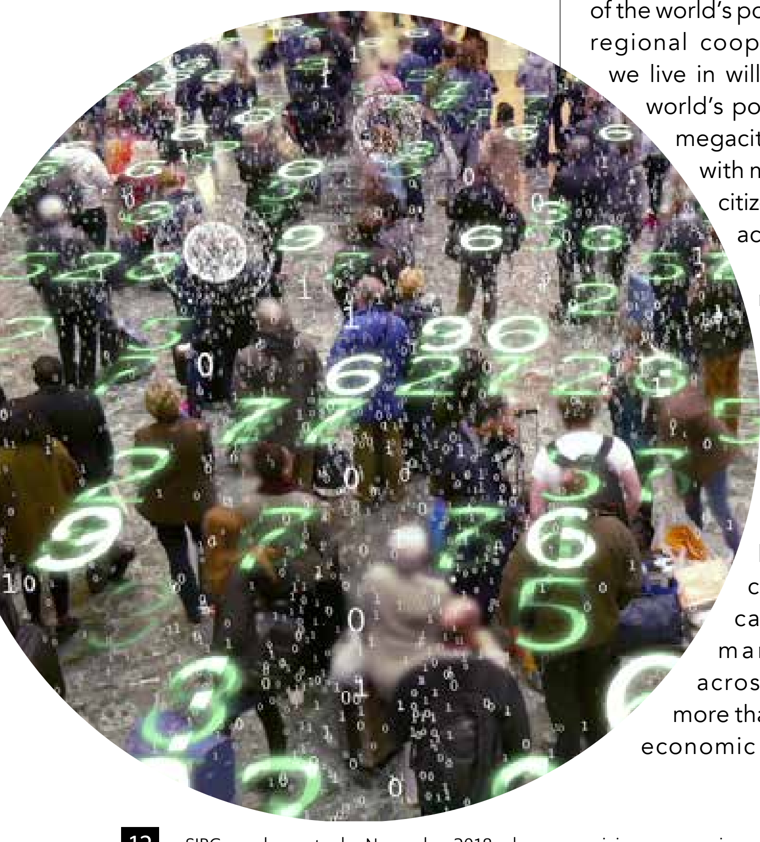
Rapid change is challenging for our conservative industry but change we must. We are currently presented with the greatest opportunity since the invention of reinsurance in the mid-19th century. Inevitably the current shape of the sector will change, painfully for some, but for those organisations that can maintain their traditional skills and knowledge whilst embracing new business models and approaches, the best of times lie ahead.

Insuring our changing world

The theme for the 15th Singapore International Reinsurance Conference, Reinsurance Reloaded, explores the possibilities of a new industry ecosystem amid a changing world. Swiss Re CEO of reinsurance, regional president for Asia and member of group executive committee Jayne Plunkett, shares her thoughts on staying relevant in landscape that is evolving far quicker than any other time in our history.

What does your tomorrow look like? How will the current industrial revolution alter aspects of your life? What impact will this have on industries we know and understand today?

For the first time in history, more of us live in cities than in the country. Although cities occupy only 3% of the earth's surface area, almost three-quarters of the world's resources are consumed within their boundaries. As our cities become denser, societies will become more vulnerable towards extreme weather events and the energy-water-food nexus.



The changing world

Mega cross-border initiatives, such as China's Belt and Road Initiative – impacting nearly 70 countries and 65% of the world's population – will deepen regional cooperation. The region we live in will be home to half the world's population by 2030 and megacities – defined as cities with more than 10m or more citizens – will be prominent across the Asian map.

To meet these needs, roads, bridges, ports and transportation nodes will be built. We all know our resources are finite, and our environment is already strained and hurting. In 2017, we counted 183 natural catastrophes and 118 man-made disasters across the globe. That's more than 300 in total. In Asia, economic losses for last year amounted to $31bn, of which 84% was uninsured. We believe forces of nature will continue to inflict devastation on our societies at a higher frequency and impact than any other time in our history.

Given all of this, what role should (re)insurers play? How do we translate our willingness to take risks and our role in protecting the assets of people, businesses and governments in this ever-changing environment? It starts with truly understanding the risks, how our traditional risk has changed over the years as well as new ones that are coming into play. And can we find new ways to insure those risks? Can we cover risks for longer or shorter periods of time and will our traditional coverage fit this moment-to-moment society? How can we best regulate these products to ensure consumer fit? These are the questions facing us as an industry, and I believe we can answer them.

A glimpse into 2030

Picture this: By 2030, there will be a surge of urban megacities built from architectural and engineering feats unthinkable even a few years ago. Infrastructure and transportation links will ideally be robust enough to support a concentration of over 10m people in one metropolis powered by

sustainable, renewable energy.

AI would have progressed and permeated all aspects of our lives, integrating systems such as security, ventilation, heating and air supply. Predictive analytics to forecast our future – including anticipation of natural disasters – makes it easier for us to customise products and services.

In a new era of openness, accessibility of data and information among regulators, government agencies and businesses infer new possibilities for accurate modelling of behaviours and pricing of risks associated with different lifestyles.

On our roads, autonomous electric vehicles will be everywhere. Because of them, the current model of motor insurance will be disrupted. Will liability fall on the company rather than the individual? Will insurers be looking at the quality of AI and its satellite systems?

Environmental changes could mean that food safety and food security take on entirely new narratives. Vertical farms that utilise space and energy more efficiently may soon replace traditional farms. Decentralised food production might also mean a reduction of our carbon footprint with food harvested and packed closer to where it is consumed.

These scenes are not hard to imagine and are all realistic hypotheses of what 2030 will bring. But what do all of these changes have in common? People.

The human factor

At the core of our business is people. We insure people and their actions. Technology remains our enabler, just like steel and factories were in the previous industrial revolution. The great thing about this ever-evolving landscape is that it can be highly personal, but it also has the ability to impact us at scale.

Natural language processing, facial and mood recognition technology have made machines more and more like us. It also equips us to provide the solutions better, not make the decisions on our behalf. We are committed to providing solutions from a combination of our human thought, empathy and judgment with a machine's ability to learn, process and prioritise. The right use of data – while guarding it closely – will change the game from what it is now.

The combination of humans and machines is a powerful equation for solving many of our insurance problems today.

Embracing the future

We have a dynamic new world in front of us. As an industry, we have a chance to insure more risks, to develop products which fit better to people's modern lives, and to protect assets all around the world to enable economies to bounce back in the time of loss. The price of being human comes at some risk, but the rewards are far, far greater. This is where insurance lets people, businesses and economies in Asia take risks in search of innovation and growth. More importantly we, as an industry and society, must work together collectively to bring these risks under our wings and allow innovation and growth to take flight. Resilience isn't a cost to society, but an investment in our future.

This is our time to be bolder and faster.

The price of being human comes at some risk, but the rewards are far, far greater.

Diversity matters for the industry

To provide solutions for the rapidly changing needs and demands of new insurance customers and reflect the society in which we function, it is imperative that the industry embraces diversity and inclusivity. Above all, it also makes perfect business sense. So says Lloyd's Singapore CEO Angela Kelly.

If it isn't evidently clear already, diversity matters.

Not just as a societal imperative or as a corporate buzzword, but also intuitively in a business performance sense. There has long been research suggesting a correlation between diversity and performance. Diverse and inclusive companies are more likely to have above average financial performance and, conversely, companies on the other end of the spectrum are statistically less likely to achieve this.

Diverse teams perform better

A McKinsey report in 2015 found that racially-diverse teams across the UK and the Americas were 35% more likely to have financial returns above their respective national industry medians, and 15% more so for gender-diverse teams . A similar study by the Credit Suisse Research Institute of global large-cap companies found that those with at least one woman on their board tend to outperform their more homogenously-male boardroom peers financially by 26%.

While correlation does not necessarily point to causation, diversity and inclusion should continue to be important topics in the business agenda and will continue to be a competitive differentiator for companies that invest time and effort in these areas. Inclusive hiring and promotion practices, which seek to minimise biases, mean that companies do not form and reinforce a perception of executives or workforce that are already similar to themselves in look and feel, skill and experience.

For companies, breaking away from traditional hiring comfort zones can yield great advantages. Diverse teams can draw on a broader range of insights, leading to innovative ideas and often an improved understanding of customers. These benefits flow through to employee engagement, with higher performing teams naturally having greater job satisfaction and being more attractive to top talent.

Room for improvement

In Singapore, there is certainly room for improvement if you look at the number of women in senior roles. According to a 2018 Human Capital Leadership Institute report, women occupy just slightly over 10% of directorship positions, despite making up nearly half of the labour force. By contrast, female director representation stands at 27.2% in Germany, 27% in the United Kingdom, 20% in the United States and 15% in Hong Kong.

Lloyd's achievements

There have been, nonetheless, great strides in empowering women, minorities and LGBT on this front. Lloyd's itself made history by announcing Ms Inga Beale as its global CEO back in 2014, making her its first female CEO in over 300 years.

Lloyd's has been proactive in maintaining a gender-balanced senior leadership team and is committed to reducing the gender pay gap within the corporation. Our latest annual report reveals below industry-average metrics for pay and bonuses and also lists the steps we are taking actively to reduce this pay gap.

Industry initiatives

Lloyd's was one of the first signatories of the UK-led Women in Finance Charter and in Asia, we have also been advocates for women in the insurance industry, through our support for Women in Reinsurance (WiRE) as well as the Female Insurance Group Asia (FIGA).

Perhaps most significantly, through our Inclusion@Lloyd's programme, Lloyd's was one of the pioneers of the Dive In Festival, an industry celebration for diversity and inclusion, spread across 26 countries globally. Since launching in 2015, we are encouraged by the strong support and uptake from many of our peers and syndicates in the market. I am pleased to share that the Dive In Festival this year reached more cities than ever, marking outstanding growth since its inception.

This year's festival marked the start of our new campaign, Awareness into Action. After a few years of raising awareness on the business case for diversity and inclusion, it is important that we now harness the momentum and energy of the festival to encourage action across the sector. This year's festival theme was #time4inclusion, a follow-on from last year where CEOs from across the industry shared that time is the biggest barrier to achieving inclusive cultures in their organisations.

Dive In took place in Singapore in September for the third year, sharing how we can promote diversity and act within ourselves and our organisations.

Inclusive workplaces draw talent and perform better

People are drawn to, and thrive in, inclusive workplaces. Inclusion creates better productivity and team performance, lays the groundwork for inspiring innovation, and reflects the values of our global customer base. Put simply, diverse and inclusive workplaces are becoming a business fundamental, not a discretionary addition.

According to the Singapore government's Diversity Action Committee (DAC), of the top 100 SGX-listed companies surveyed, women representation on their boards increased 20% from a year ago to hit 14.7% as at end June 2018, up from 12.2% in June 2017. While the increase is encouraging, this is well below DAC's target of 30% female representation in boardrooms.

A survey by Workday – a provider of enterprise cloud applications for finance and human resources – revealed that a mere 16% of companies have diversity and inclusion policies that covered people with disabilities, and only a third (35%) have policies that cover age discrimination.

This is ironic given that over 50% of respondents said increased diversity and inclusion enhanced employee morale (58%), and innovation and creativity (52%). When it comes to factors that work against establishing diversity and inclusion in the workplace, poor company culture (57%) and lack of flexible working conditions (53%) come up tops.

Stability in times of transition

It is a time of uncertainty for the insurance industry. The looming spectre of Brexit, ongoing political and economic turmoil globally, as well as last year's 'international year of disaster' have all weighed in heavily on our industry, which is going through a period of rapid change.

We should not treat diversity and inclusion as a side initiative to be deprioritised against other business objectives. We need to think of it as just something we do, a part of how we work and think as a business. It is complementary to, and it supports, everything else we do. Diversity matters because it is a business fundamental that supports creativity, innovation and an engaged workforce; factors which will help enhance our competitive advantage and positioning.

Inclusion creates better productivity and team performance, lays the groundwork for inspiring innovation, and reflects the values of our global customer base.

Cyber threats – the emerging risk of the century

As WannaCry and NotPetya ransomware attacks demonstrated, the economic cost from business interruption and loss of data have now reached an unprecedented scale. Munich Re Chief Executive Asia Pacific, Japan, Korea, India and South East Asia **Roland Eckl** says our lives have become intertwined with technology and digital channels. Cyber threats are fast emerging as the risk of the century.

It is no secret that digitalisation offers society and businesses significant opportunities to enhance productivity, efficiency and quality levels. The interconnectivity of our digital world is only going to increase – in every area of our lives. In 2018, the number of Internet of Things-connected devices stands at just over 23bn globally and is expected to double by 2023.

While a facilitator for innovation and growth, this greater connectivity also increases the potential attack surface of cyber criminals, which gives rise to very complex and severe risks such as data theft, disruptions in the interaction between networked machines, and even the failure of entire production lines and supply chains.

Nearly all companies in the last two years have experienced malware attacks, and almost two-thirds have been victims of a web-based cyber attack.

These kinds of attacks can threaten the very existence of any enterprise, particularly small and medium sized companies, which tend to suffer more from cyber attacks than larger corporations due to limited resources and capacity. Smaller organisations also experience a higher proportion of cyber crime costs related to malware, phishing and other web-based attacks and, in most cases, take longer to recover.

How can companies protect themselves?

Companies need to ensure that they are utilising security tools and software which are continuously updated by developers and are sufficiently agile to keep up with the pace of these threats as a first line of defence.

Unfortunately, experience shows that even with the most advanced tools, security breaches are inevitable. In fact, the NotPetya malware caused severe global impacts to some of the largest global organisations simply by disguising itself as a software update, which would ordinarily be perceived as a security enhancement.

Business continuity planning and incident response table top exercises are some of the most effective ways in which a company can prepare itself in anticipation of a cyber incident.

Given how quickly malware can traverse through a network, time is of the essence in the event of an incident. This is where cyber insurance comes into play, with additional post-incident response services being offered on a 24/7 basis, to ensure that customers know who to contact and what to do in the event of an incident.

Insurers and brokers can help companies to understand how they can optimally protect themselves against cyber risks, by increasing awareness of the different risks covered by different policy designs. In simple terms, the covers can be summarised as follows:

- Ransom payments are insurable as far as is legally permissible. Costs for external consultants can also be covered.
- Business interruption loss as a result of a cyber-attack can be covered, without prior property damage.

- The protection against loss of data and data corruption includes costs required to determine the cause and effect of a cyber-attack. The costs for recovering data and removing the malware can also be covered.
- Cyber insurance can also cover the loss of personal data or liability claims from third parties.

Solutions that go beyond payment for losses

Indemnification with respect to financial loss is only one component of the downside of a cyber-attack for a small to medium enterprise (SME). What an SME may find more crippling is the subsequent costs involved in identifying the root cause through IT forensics, as well as potential regulatory fines and penalties and legal and public relations advice, to ensure continued compliance and reputation management after the incident.

As a reinsurer, Munich Re is responding by offering its clients solutions that go beyond pure economic risk transfer. This includes post-incident services tailored to each client's portfolio and location. This is designed to offer a comprehensive solution for their customers, whose priority in the event of a cyber incident would be to resume operations as soon as possible and minimise negative impact on their balance sheet and market reputation.

To deliver this comprehensive solution, we partner with global IT service providers to deliver rapid response and action to our clients. We also connect them to our Munich Re claims experts and global network of experts, such as IT forensics, law firms and public relations specialists.

Cyber insurance in the Asia-Pacific

While cyber insurance penetration is only at 5% globally, its penetration in Asia Pacific is relatively lower. In the past, the region has seen limited enforcement of privacy or cyber related regulations. Recent incidents that have affected countries in the region have garnered the attention of regulators who have actively taken steps to put in place more stringent regulations to improve cyber security.

For example, Singapore recently introduced the Cybersecurity Act, which established a legal framework for cyber security in the city-state, particularly for those deemed to be a part of Singapore's Critical Information Infrastructure, including industries such as energy, banking and finance, healthcare, transport etc.

We expect to see an increase in enforcement of regulations across Asia Pacific over the coming years, leading to increasing cost pressures for companies both in terms in potential penalties, investigations and the ongoing mitigation of risk. Many countries are introducing notification requirements in the event of a data breach. Additionally, enforcement of regulations outside of Asia Pacific, such as the European General Data Protection Regulation, also have a significant impact on Asian-headquartered companies dealing with European customers or having operations in Europe.

As companies recognise their exposure and seek protection against the financial consequences of cyber risks, the demand for insurance is growing. In 2017, the size of the market for cyber insurance globally stood at \$3.5bn to \$4bn, and this is expected to grow to \$8bn to \$9bn by 2020.

Reinsurers have an important role to play in the dynamic cyber insurance ecosystem.

Navigating a challenging risk landscape

Undoubtedly, the accumulation risk is the most significant challenge when underwriting cyber, with everything being connected in one way or another, and increased dependencies on large, more established software companies or cloud service providers. In addition, there is undiscovered cyber exposure to contend with, which may turn up in policies from all lines of business.

The existence of 'silent' cyber risks in traditional property, marine and casualty covers poses significant challenges, either because the exposure has not yet been identified or adequately assessed. While some policies do define cyber risks, they are not always clearly worded. It is important for both insurers, as well as reinsurers, to identify these ambiguities and to analyse and quantify them so as to avoid gaps in coverage and financial loss.

Munich Re's aim is to work with our clients jointly to implement a sustainable underwriting process that provides transparency and eliminates ambiguity for all parties, through both comprehensive and explicit covers. This includes thorough risk assessment, a sophisticated pricing approach and the consideration of accumulation aspects based on our global and local expertise.

Understanding and acknowledging the dynamic nature of the risk is critical in ensuring that the insurance industry is equally agile in providing comprehensive solutions beyond financial indemnity, in the face of these global cyber threats. The biggest challenge with cyber risk however, is the threat of 'unknown unknowns', which requires a constant state of surveillance across the insurance market.

It is therefore incumbent for the (re)insurance market to act as a true business enabler and co-create risk management solutions with clients in light of the threat landscape and regulatory requirements within the respective territories.

Curbing non-communicable disease epidemics in Asia

SCOR Global Life, critical illness R&D centre epidemiologist **Gao Xiao** and head of regional partnerships **Bryce Shepherd** explain the rise of non-communicable diseases in Asia and suggest the way forward for (re)insurers to tackle these major health problems in Asia.

With strong economic growth driving better healthcare and higher living standards, Asian countries are experiencing reduced mortality and increased life expectancy. Improvements in hygiene and sanitation have led to a major shift of the disease burden from infectious diseases to non-communicable diseases (NCDs).

NCDs have become the number one cause of death globally. In Asia, the top four NCDs are cardiovascular diseases, cancer, type 2 diabetes mellitus and chronic respiratory diseases.

The trend of NCDs in Asia has been continuously deteriorating in the past decade. With 60% of the world's population in Asia, the impact is material, severely affecting population health, draining government healthcare budgets and placing the insurance industry at ever-increasing risk. Tackling the issue of NCDs has become a top public health challenge in Asia.

Preventative measures offer a very real and significant opportunity to control NCDs. The World Health Organization estimates that about 75% of heart disease, stroke and type 2 diabetes, and 40% of cancer, would be prevented if the major risk factors were eliminated. Targeting behavioural risk factors such as unhealthy diet, physical inactivity, tobacco and alcohol consumption can effectively curb the trend of NCDs in Asia. We look at three specific NCDs case studies.

Cardiovascular diseases in China

Despite medical advances, incidence and mortality rate of cardiovascular diseases in China has been continuously increasing during the past decade. Researchers from Columbia University projected over 50% increase in CVD events from 2010 to 2030 due to population aging and growth, and an additional 23% increase due to the deteriorating trend of CVD risk factors.

In China, about 70% of CVD events are attributable to five major risk factors: High body mass index (BMI), smoking, hypertension, diabetes and dyslipidaemia. Prevalence of overweight people (BMI>25) surged from 8.5% in 1991 to 28.3% in 2011. The rate is still low compared with western countries, but the increasing trend is strong and steady.

Smoking prevalence decreased slightly from 1991 to 2004 and remained stable around 26% until 2011. China consumes 40% of the world's cigarettes. Seventy per cent of non-smoking adults are exposed to second-hand smoking. The prevalence of hypertension and diabetes has been increasing as well: Hypertension from 14.5% in 1991 to 21.4% in 2011, diabetes from 2.5% in 1994 to 11.6% in 2010. Dyslipidaemia is highly prevalent among adults.

Recent advancements in technology, especially the popularity of fitness trackers and apps, offer tremendous opportunities to connect with consumers and promote healthy living. Instead of passively bearing the increasing risk of CVDs, insurance companies should actively collaborate with public sectors and technology companies to promote healthy lifestyle to consumers, thus lower the risk of CVDs within their portfolio.

Female-specific cancers in Japan

Japan has the highest incidence rate of female-specific cancers (breast, cervical, uterine and ovarian) in Asia and the trend has been increasing since the 1980s.

For breast, uterine and ovarian cancers, the main risk factor is the total exposure to female hormone oestrogen during a woman's whole life-time. Westernisation of diet, delayed pregnancy and reduced breast-feeding in women is driving up oestrogen exposure. Unlike CVDs, lifestyle changes have less impact on cancer trends.

Instead, screening programmes can identify pre-cancer and early-stage cancer and prevent them from developing into severe cancer. In Japan, screening rate for female-specific cancers is less than 30%, which is very low compared with over 70% in the US and UK.

As for cervical cancer, the most important causal agent is human papillomavirus (HPV). In Japan, cervical cancer incidence surged in young women since mid-1990 but decreased among older women.

Effective screening programmes coupled with HPV vaccination have reversed the trend of female-specific cancers in many developed countries like USA, UK and Korea. Achieving high screening rate and HPV vaccine take-up rate is possible in Japan and we have to act now to prevent women from getting cancers.

Insurance companies can work closely with healthcare providers and government agencies to advise consumers on regular screening and collaborate with doctors and researchers to change the public perception of HPV vaccine and suggest the government to revoke the suspension.

Thyroid cancer in Korea

Between 1999 and 2009, thyroid cancer incidence in Korea increased sevenfold, reaching 47.5 per 100,000 population. The previously negligible cancer became the most commonly diagnosed cancer in Korea within 10 years. It imposed a heavy financial burden on the healthcare system and the insurance industry.

Radiation is the only known risk factor for thyroid cancer, but the change in radiation level is insufficient to cause the high trend. Researchers discovered that the surge of thyroid cancer coincided with the commencement of a national screening programme in 1999, although it did not cover thyroid cancer.

Further investigation found that healthcare providers routinely offered ultrasonography screening for thyroid cancer as an add-on to the national screening programme for $30 to $50. This procedure is cheap, non-invasive and takes only a few minutes to complete. What's more, it does not require any prior preparation or cause any discomfort to the patient.

Meanwhile, (re)insurance companies convinced the regulators to change early-stage thyroid cancer from a major condition to a minor condition, which pays 10% of sum insured in critical illness insurance. With the collaborative effort of the healthcare sector, insurance industry and government, thyroid cancer incidence in Korea started to decrease since 2013. The success story of reversing thyroid cancer trend in Korea is an excellent example of how insurance industry can work together with the government to curb the NCDs epidemic in Asia.

(Re)insurance engagement

The traditional insurance value chain is evolving into an ecosystem for the benefit of customers, distributors and third-party providers, creating a crucial new environment which brings the best technology, medical advancements and solutions to customers.

For example, SCOR Global Life has partnered with Vivametrica to produce a new risk assessment and customer engagement tool called biological age model (BAM). Based on the customer's physical activity markers, captured via wearables or mobile devices, the model calculates a personalised 'biological age', as an indicator of the customer's health. BAM engages consumers dynamically over the lifetime of the policy to motivate healthier living.

Another area delivering benefit is through making healthcare more affordable. Nowadays many mobile apps can provide medical advice over facetime or chat. They link those in need with a local service at affordable prices. This new technology can be a game changer in curbing NCDs epidemic in Asia by improving access and affordability of healthcare, especially in the developing countries.

Despite the epidemic nature of NCDs in Asia, insurance industry can play an incredibly important role in partnering with governments and third parties to empower healthier living and improve accessibility and affordability of healthcare.

Asia 2030: Balancing optimism with realism

Asia holds ample opportunities that point towards a bright future. However, as DBS Group research chief economist Taimur Baig says, "Asian nations also face some common stumbling blocks that can derail the journey ahead. These countries, therefore, will need to judiciouslywork around the economic, social, geopolitical and climatic challenges to maintain its credible track record."

We believe in Asia's bright future because of its large population, high savings, world dominating manufacturing base, and impressive track record of development in recent decades.

Asia has been the best performing region in the world over the past several decades. And there is a good outlook for many aspects of economic and social performance. Looking forward, the official forecasts – from the International Monetary Fund (IMF), Asian Development Bank (ADB) and others – suggest healthy rates of economic growth. The IMF forecast GDP growth rates for much of Asia through to 2023 that remain well above the world average. In 2023, the IMF projects 5.5% GDP growth for China as well as the ASEAN-5 and 6.2% for emerging and developing Asia; above the forecast 3.7% world GDP growth rate.

But there are several structural challenges and opportunities that are likely to emerge through the period until 2030, and that will greatly impact the outlook for Asian economies. Several dynamics that have supported the economic development of Asian economies in recent decades are weakening, and there are many changes in the international environment.

Demographics

Much is made of Asia's evolving ageing dynamic. China is expected to face Japan-like headwinds as it enters a rapid aging phase, whereas India and Indonesia are seen to have a major demographic dividend in the pipeline as the number of people between the age of 15 and 64 will remain large as a share of dependents (defined at below 15 and above 64).

Around the world there is a strong relationship between aging populations (reducing workforces) and investment in technology. For example, in Japan, South Korea, China, and Singapore, there is a pronounced shift towards more capital-intensive modes of production. This is less the case in countries where there is a greater supply of (low cost) labour, as the economics make less sense.

This means that the demographic dividend that many Asian countries benefited from in the past may not be as valuable to countries that currently have relatively strong demographics. A young population creates a challenge in terms of generating labour demand – otherwise there will be high levels of unemployment, creating both an economic and social/political challenge. Countries like India and the Philippines will need to work hard to create employment for its young population; while aging countries like Singapore, Japan and China may be able to offset the demographic drag through the active use of new technology.

Weakening of the 'Flying Geese' model

Successive waves of Asian economies have developed using similar economic models. This model was based on export-oriented industrial activity, with rapid and large-scale movements of labour into manufacturing allowing these countries to capture significant economic value from the demographic dividend. There was also movement over time into increasingly sophisticated manufacturing activity, shifting from textiles into electronics and pharmaceuticals. This allowed for rapid convergence of the participating countries towards the global income frontier.

This was seen in the Asian tiger economies, such as Singapore, Hong Kong, Taiwan and South Korea. Several ASEAN economies have begun to move in this direction as well, such as Malaysia and Thailand. It became known as the 'flying geese' model. However, this model is coming under increasing pressure.

The later developing countries have quite a different trajectory in terms of employment and GDP shares of manufacturing than the Asian tigers and some of the early developing ASEAN economies. The Asian countries that were first to industrialise had manufacturing shares of GDP of 25-30% on average. These shares peaked in the 1980s and

1990s, before beginning to decline. In contrast, countries like India and some of the later developing ASEAN countries such as the Philippines have not exceeded 20% of GDP – and seem unlikely to do so.

Globalisation and regional integration

Many Asian economies have benefited substantially from an open, rules-based international economic and political system over the past few decades. This has been a major reason for their economic success over the past several decades but aspects of it are now coming under pressure.

Over the past decade, the consistent increase in the export/GDP ratios in many Asian countries has flattened after a sustained period of increase. Although there are some exceptions, such as in Vietnam, there appear to be emerging limits on export growth. Part of this is due to the subdued global demand in the post-crisis environment. However, this is more than a cyclical phenomenon. There are some structural drivers at work also.

Extreme weather, natural disasters, climate change

Asia is one of the most exposed regions in the world to extreme weather events, natural disasters, and climate change. There are several reasons for this: An acute exposure of Asia to natural events such as flooding, a high incidence of severe storms, earthquakes; a substantial economic impact of these events; for example, because of urbanisation in coastal cities, as well as because of high levels of agriculture in several Asian countries; and the lack of financial and other resources to develop resilience in some Asian countries to mitigate these exposures (eg, by hardening infrastructure). Data from Munich Re show that Asia accounts for a disproportionate share of natural disaster events globally, as well as the economic and human costs of these events.

Looking forward, over the period to 2030, Asia is expected to be impacted by both more of these events as well as ongoing structural changes – such as sea level rises, greater extreme heat events, more storms, glacial retreats, floods – due to global climate change. Climate change is a multi-decade event, but there is already evidence of an increase in the frequency of climate-related events in Asia (eg, extreme weather events).

The resilience of countries to aspects of climate change is also a function of the level of economic development. Singapore, for example, because it is rich (and relatively small physically) is able to build infrastructure to protect against rising sea levels (such as higher seawalls around the coast) and more extreme weather events (flood-proofing key infrastructure, desalination plants to protect against periods of drought). These options are less available to larger and less developed countries.

Geopolitics

The economic development of Asia over the past several decades has occurred in a relatively settled, rules-based geopolitical environment – globally, as well as within the Asian region. This geopolitical environment has also supported the rules-based international economic system that has been central to globalisation.

But this is weakening for various reasons. Indeed, one of the reasons is the stresses and complexities caused by the emergence of China (and Asia more broadly): multipolar systems are more challenging to run. The return of Asia will necessarily require changes in the nature of the system developed by the Western powers over the past decades; even though this has been strongly supportive of economic development by Asian countries.

History also suggests that there is a potential for military conflict during periods of great power transitions. If this were to happen, it would be come at a major economic and financial cost for Asia. But big power conflict seems relatively unlikely over the forecast period to 2030. However, ongoing strategic tensions – such as those in the South China Sea – seem likely to continue.

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Why reinsurers are very active in the InsurTech world

InsurTech Israel CEO **Kobi Bendelak** outlines an interesting hypothesis about the relationship between InsurTechs and reinsurers. Reinsurers have the wherewithal to provide insurance directly to the end customer and the technology of the InsurTechs will enable them to achieve this. Many markets have been turned upside down and insurance may not be an exception.

Reinsurers across the world are very active in the InsurTech world. Their activity in this innovative component of the insurance industry is quite prominent in the following areas.

- Interest in technologies
- Opening accelerators for entrepreneurs
- Installing technologies
- Investment in innovative technological projects

The activity is relatively significant, and the reinsurance companies are much more active than traditional insurance companies in this sphere.

Reinsurers are actively involved with InsurTechs

In recent years I have seen a great deal of activity by reinsurance companies in InsurTechs in Israel. Three of the five largest global reinsurance companies have an active representation in Israel, whose sole role is scouting for new and emerging InsurTech technologies.

Moreover, reinsurance companies are not satisfied only with technologies that improve the insurance processes directly. They also seek and invest in innovative technologies that are in the second or third stage in the insurance context, such as technologies that prevent damage or improve processes.

I have often wondered why the world's largest reinsurers are so active in the InsurTech arena. Reinsurers are the biggest beneficiaries of the current situation and any change may cause them financial damage.

It is very evident that reinsurers understand the insurance industry is changing very rapidly. Why should they invest so much time and resources to promote the change that could cause them losses?

Invest not only in core areas but in associated areas too

One major aspect is that if underwriting results are positive, it will lead to greater profits for reinsurers. Reinsurers invest not only in the core area of underwriting but also in the associated areas of service, quality of insurance coverage, contact with customers and much more.

Prelude to reach out to the end customer directly at a future date

I have a hypothesis that reinsurers might seek to reach to the end customer directly through the new technologies in future.

At present the reinsurers' customers

are not the insured but the insurance companies. The reinsurer must pay the insurance company a high commission, as well as paying the brokers. The InsurTech, in turn, enables them to get to know the end customers (the policyholders) better - and later on, will allow them be in direct contact with the policyholders, reducing their expenses, improving their underwriting and realising profits.

It has happened in other industries too

The same is true for the travel and media worlds. If in the past, in order to purchase advertisements, advertisers were required to work with an advertising agency. Today, one can purchase advertising space directly from radio stations and newspapers or online.

A similar phenomenon occurs today in many countries around the world. Insurance companies seek to sell directly to the policyholders and skip many products from brokers, thereby achieving the same goal that reinsurers want to achieve in the future.

Another interesting angle regards start-ups to the reinsurance companies and the benefit that reinsurance companies could derive from the nature of their activity. If one looks at investment data in the field of insurance, one can identify the low level of investments from the traditional insurance companies in InsurTech start-ups.

Insurance companies are poor investors in InsurTechs

Logically, insurance companies are expected to be much more involved in investing in start-ups because they have a lot of capital to invest and more and more insurance companies need new and interesting technologies that will improve and grow better companies for the future. However, the small number of start-ups in which insurance companies invest requires some explanation.

Reinsurers are the biggest beneficiaries of the current situation and any change may cause them financial damage.

The reason for this is that the start-ups do not want insurance companies as shareholders in their business because this will cause them to be associated and identified with the same insurer, which will impair their ability to work with other insurance companies and severely limit the type of investors in future rounds. Therefore, the entrepreneurs do not usually allow insurance companies to be shareholders in their companies.

Reinsurers offer InsurTechs a symbiotic advantage

Here reinsurance companies are better placed and have a built-in advantage for start-ups. On the one hand, they have the entire world of insurance in which they underwrite insurance products claims, and on the other hand, the reinsurance companies are not identified with any single insurance company, and therefore entrepreneurs have no restriction on the activities of the start-up and the identity of the shareholders.

Moreover, the reinsurance company is also an excellent distribution channel for the technology of the same start-up so that the introduction of a reinsurer as a shareholder is a very big advantage, and the reinsurers benefit from it.

Kobi Bendelak is the CEO of InsurTech Israel, which has invested in four InsurTech startups .
Kobi has 22 years of experience in insurance.

Will the next crisis be the same as the last?

Specialist adviser on risk management Dr Dennis Bessant says adherence to globally accepted stress tested codes and standards is critical to reduce the cycle of catastrophe impact, recognising most national standards in Asia are the prescriptive 'minimum'. Investing more upfront is the primary way to ensure communities become safe and resilient from the vagaries of climate change.

Our re(insurance) industry is healthy and constantly lives in hope despite the constant barrage of catastrophes. Expressions of surprise assuage shareholders if it's another year of disappointing results due to active devastating catastrophes; and 'pats on the back' all round for a profitable, astute underwriting job if it's a benign catastrophe year. So good if life was so simple. The scapegoat of unexpected climate change can be used these days to defend poor results - before we had invented this term, it was poor underwriting, aggregate management, inadequate pricing or excessive per risk limits.

Foreseeable and unforeseeable

As we know, Einstein apparently said, "Doing the same thing over and over again and expecting different results is a sign of insanity." Or to put it more politically correctly, 'It's foolish to repeat ineffective actions.' Yet our industry consistently repeats the cycle in the mistaken belief that the provision of the capital buffer and financial engineering remains adequate to combat these dramatic, foreseeable exposures.

Protection gap is a myth

Then there is the protection gap myth. If only insurance penetration was deeper, asset owners more astute and governments more prepared. All these factors help raise the bottom curve of insured losses higher through more purchase of insurance. So far so good. But the reality is coverage for catastrophe is outrageously expensive, with low capacity limits due to industry concern about aggregation and risk adversity driven by capital adequacy models.

Take earthquake-prone California. Insurance protection is, in most cases, unaffordable, used as leverage for other business or limited in capacity and is nowhere near market needs. So what hope is there for Asia Pacific which is prone to a multiplicity of catastrophe events?

So do we need to just 'Reload Reinsurance', which is the theme for SIRC 2018, or do we need to raise our sights even higher to 'Reinvent, redefine and strive for the proverbial paradigm shift'? The fact is that there is another way to secure long-term stability, reduce total cost of risk for all stakeholders and reduce the protection gap. But this time it's by lowering the extent of economic loss, the top curve. Not by selling more re(insurance).

The starting point is the premise that the majority of catastrophe loss is foreseeable. Its impact can be designed out, reduced or mitigated by reducing the shock to infrastructure and asset owners' operations rather than accepting the inevitable, leaving exposed government, taxpayers and asset owners to pick up the pieces.

Risk reduction is inexpensive initially

NGOs and the UN are now proclaiming the need to do more. The reality is that risk reduction is inexpensive at the construction stage and costly to retrofit, but it can be done. But it needs awareness, focus, stringent supervision and most importantly, finance or capital.

Our industry is well capitalised in the round globally. So rather than starting to drive from the back seat by withdrawing coverage for coal fired power plants as some firms are doing (what next? tobacco, diesel cars, big pharma?), they should divert surplus capital. Lead from the front by example rather than succumbing to political influence.

So, heartening to see a world-renowned Chinese insurer seeking to build a completely new smart city, not just technology but resilient infrastructure, laid out carefully with world-class construction standards. This is a paradigm shift. There is hope for existing assets too. Damage from catastrophe can never be eradicated but severely limited by simple additional technical things, where engineering meets underwriting.

Simple measures can prevent major losses

Additional nails to secure roofs, linings to impact-proof glass in high-rises, excess flow valves on flammable liquid piping, avoiding high-value equipment in basements; the list is endless and deserves a separate commentary. But what happens in reality? The latest example being the use of weakened quench tank (QT) rebar used as reinforcement in concrete construction of high-rise buildings rather than the stronger/more flexible micro-alloyed (MA) rebar and, most importantly, tolerant to cyclical movements from earthquakes.

To the uninformed, rebar is rebar is rebar, but QT rebar easily fails and comes at a lower cost to contractors, but asset owners continue to pay the same price as the MA rebar thereby the cost difference accrues only to the contractor and or manufacturer. People's eyes glaze over when technicalities like this emerge but essentially this widely spread practice means buildings in earthquake-prone areas will readily collapse.

It's easy to pick on thin pricing as a rationale for inadequate combined ratios and profitability shortfalls due to catastrophe. In fact, if we look under the bonnet of most commoditised insurance business models, we will find little room or income to manoeuvre for conventional perils and expenses after CAT coverage is accounted for. Why?

Buyers are often unaware of the actual or true cost of risk transfer or the final income (the insurance risk transfer price) actually received by the markets in return for the assumption of risk. Why?

It's easy to pick on thin pricing as a rationale for inadequate combined ratios and profitability shortfalls due to catastrophe.

Intermediaries' commissions inflate risk insurance pricing

Commissions paid to intermediaries are often not transparent and with such friction costs on a percentage basis as much as 15% to 30% deducted, no wonder insurance buyers can be unaware of the true cost of their risk transfer and the markets feeling short changed. Use of flat fees and greater transparency in emerging markets would allow buyers to understand how much income is left after friction costs to cover the risk transfer and pay claims. More transparency would improve results all round and, ultimately, improve affordability and increased penetration. Transparency will create the opportunity to incentivise and release additional capital for risk reduction upfront.

'Minimum' should no longer be accepted

What does all this mean? Construction, machinery and equipment and buildings and the like need to be designed and built to globally accepted codes which have been tried and stress tested to a first-class standard. No longer should it be acceptable to do the 'minimum' to hide behind the local or national standard. Often such standards in Asia are prescriptive, untested and developed around the table for industry stakeholder convenience. Codes need to be pragmatically tested to failure. Underwriting and engineering practices need to converge and be more aligned. A long-term sustainable future where the impact of catastrophe is marginalised does not have to remain a dream. The paradigm shift is attainable and the next crisis can be different with minimal impact if our industry looks beyond the next cycle and strives to fight the forces of nature with real life solutions structurally embedded in our strategies.

It only takes one small step … to begin the change.

Dr Dennis Bessant is specialist adviser to corporate and executive business leaders in Asia. Following a 40-year career with global commercial and industrial property insurer FM Global, he has been CEO for Asia Risk Tech and more recently specialist adviser to Megrow in Singapore.

How to scale digital distribution in a customer-centric platform world

Entsia International CEO Asia and EMEA **Dr Tom Ludescher** says digital distribution is a great opportunity for insurers that manage to adapt quickly – and a large threat for the ones who don't. Accenture estimates that insurers may lose as much as 40% of their risk-protection revenues from this shift. It is important for insurers to understand and adapt to this new world in order to stay relevant.

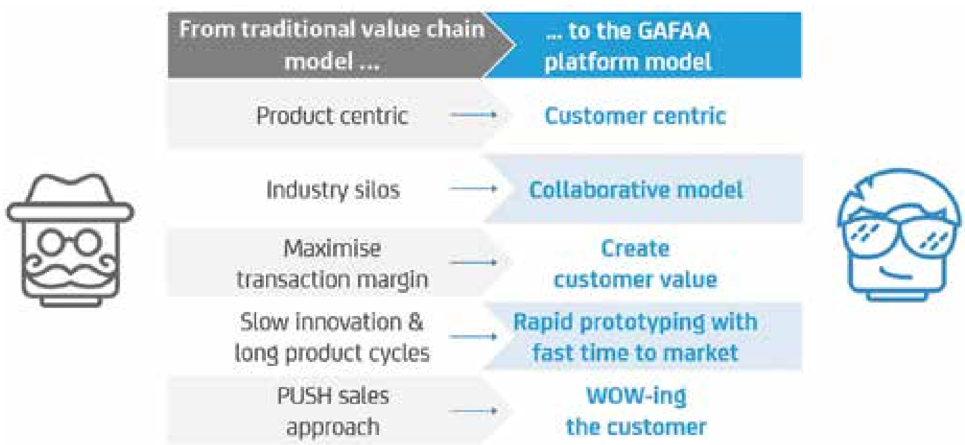
Let's have a look at the world around us. Digital is everywhere, from ecommerce savvy retail customers to the highly digitalised corporates driving the industry 4.0. In this new digital world, ecosystems are on the rise and platforms are fast becoming the predominant distribution model for goods and services. According to McKinsey, ecosystems will account for 30% of global revenue by 2025. Already today, seven out of the world's top 10 companies by market capitalization are platforms. The Gafaa (Google, Apple, Facebook, Amazon, Alibaba) are at the forefront of a paradigm shift from product-centric to customer-centric distribution models.

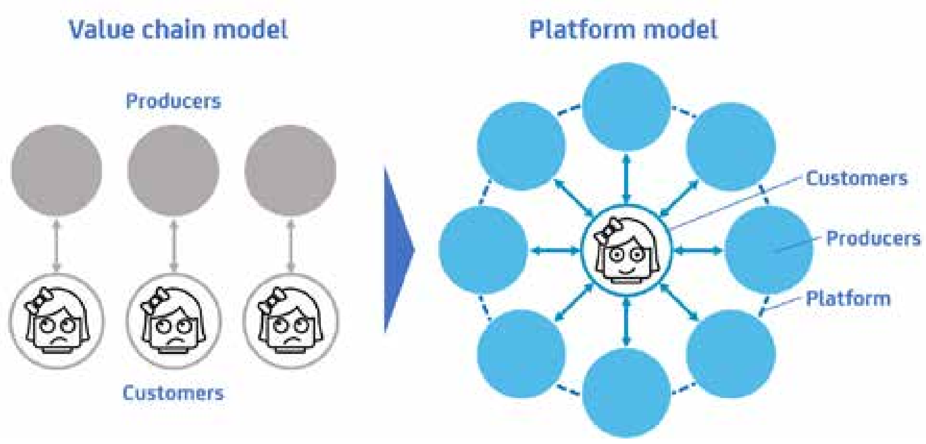
But what are platforms all about?

First and foremost, a platform is a technology-enabled business model that creates value by facilitating client interactions based on sharing data. A platform brings together people, processes, policies and technology in multi-stakeholder interactions to enable customer value creation throughout an ecosystem. Interoperable infrastructure allows stakeholders to collaborate and transact on a global scale in real-time. The customer, once at the end of the distribution chain, is now at the centre of a network of interconnected stakeholders, all aligned to create customer value. Platforms orchestrate different services around customers' preferences and behaviours. The user experience is tailored to each customer.

All industries, including retail, trade, finance, health, housing, mobility, education, travel, hospitality and entertainment are affected by the rise of platforms. To remain relevant companies must move beyond their traditional silos and transform their business models from organisation-centric to ecosystem-centric, away from traditional value chains to customer value-adding platform thinking.

This is particularly relevant for insurance, which serves all industries by offering risk protection and mitigation





services. Insurance, therefore, can – and must – be embedded in the emerging ecosystems and platforms. Some forward-looking insurers have even started to build their own ecosystems, allowing them to become ecosystem orchestrators - the roll the GAFAAs have taken in their respective ecosystems. However, the new normal for insurers is likely to be taking the role of a producer distributing to many ecosystems, serving the customers on the respective platforms with tailored risk-protection solutions and risk-mitigating advice.

How can insurers succeed in the world of ecosystems and platform distribution?

Growing and succeeding in this new world requires two particular skills from an insurer: The capability to distribute complex products in a simple way; and the agility to integrate into and orchestrate a large number of distribution platforms.

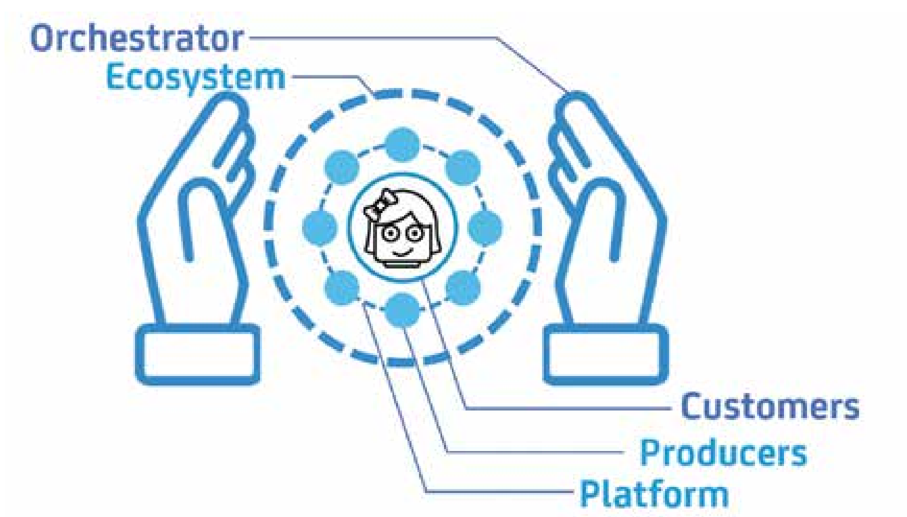
How can complex products be distributed simply?

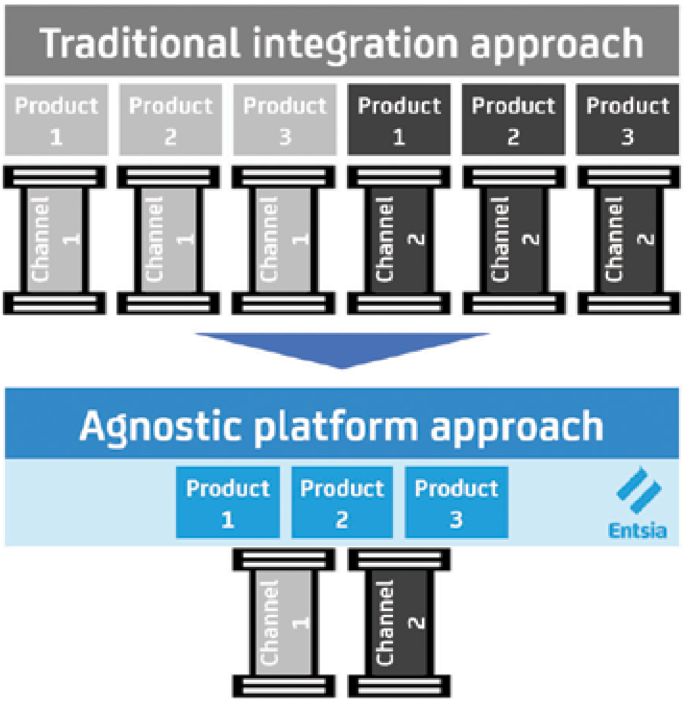
Let us first talk about simplifying the distribution of complex products. Traditionally, insurers create off-the-shelf products and then try to find customers willing to buy them. Specific customer needs are not taken into account, resulting in a weak value proposition and a generic user experience.

To improve customer centricity, insurers must change from the current push-sales approach towards listening to the customer first. The customer experience is improved by simplifying the underwriting process by making use of the variety of data available from the platform as well as from alternative sources. Any double entry of data and unnecessary questions must be strictly avoided as these will increase drop-out rates. The wealth of relevant data provided by platforms allows fully integrated insurers to tailor policies to a customer's specific needs better than ever before.

The instant availability of tailored services and products gives platforms a strong competitive advantage over traditional means of distribution. If insurers want to take part, they must ensure a seamless customer experience by fully embedding their underwriting in a platform's main sales and services process. Insurers must make full use of the customer insights gained from analysing the available data and offer the customer a risk solution tailored to its specific needs. From simple travel insurance cover to highly complex lifestyle products in retail, multi-risk business packages in SME or entire programme covers in a large corporate or captive setup, an insurer's underwriting and distribution engine must be able to cover this all, in real-time and at low costs. To achieve this, a system must be highly modular, configurable and automated.

These technological capabilities empower distribution and allow the creation of insurance solutions to move as close to the customer as possible. Giving distributors the right set of tools underlines the value that intermediaries can offer their clients. They can differentiate themselves not only by giving the best advice, but by also delivering the best risk solutions. With the right





combination of professional advice and complex risk solutions, which can be customised on the spot and simply distributed, insurers can differentiate their offering and stay relevant in a world still driven by excess capacity and standardised products.

How can a multi-platform distribution model be effectively orchestrated?

Secondly, we need to talk about the need for agile orchestration and integration in a platform economy. According to a recent study of the World Economic Forum, platforms that offer the ability to engage with different financial institutions from a single channel will become the dominant model for the delivery of financial services, which includes insurance. This means that insurers must get ready to participate as producers in a broad range of different platforms. An open API structure and the capability quickly and cost efficiently to integrate these platforms is crucial for insurers to succeed with scaling their multi-platform distribution.

The network effect at play in platforms makes scalability even more crucial than in traditional insurance distribution channels. Today's product-focused distribution systems often require a non-scalable one integration per product per channel. Dealing with the complexity of omni-channel distribution is becoming one of the main challenges for insurers. To prevent the duplication of processes, an insurer's distribution infrastructure must ideally be shared across all channels. An agile and lean distribution model can be achieved with channel and product agnostic architecture of systems and processes. This offers the benefit of requiring only one integration per channel, irrespectively of the number of products deployed.

Combined with a fully modular and model-driven approach to insurance products, a channel and product agnostic architecture allows a substantial reduction in the time to market for new products. Products can be designed and tested iteratively, allowing their designers to respond quickly to feedback from distributors and customers. This is not wishful thinking. It can be achieved with proven, low-risk and easy to scale technology available today.

So what is next?

Multi-platform distribution models will become the new normal for insurers. If insurers want to become as customer centric, cost efficient and agile as a platform, they better become a platform. Insurers - take action.

'The technological capabilities empower distribution and allow the creation of insurance solutions to move as close to the customer as possible.'

(Re)insurance market: Full of growth potential

China's (re)insurance market is very dynamic and is growing rapidly. A. M. Best head of analytics, north east Asia **Christie Lee** says that while primary insurers are revising their strategies to remain relevant, the reinsurers are also exploring additional opportunities in the Belt and Road Initiative. The overall growth potential of the Chinese (re)insurance market is quite promising.

China's dynamic insurance market has been growing rapidly year on year in terms of insurance premiums. From C-ROSS implementation, changing reinsurance demand, to motor de-tariffication eroding non-life primary insurers' profitability, primary insurers are responding to the competitive environment and actively revising their strategies to remain relevant. Similarly, reinsurers that respond effectively to changes in the business and regulatory environments will have a higher chance of succeeding in this challenging market.

The theme of A. M. Best's recent Asia Pacific reinsurance report was 'Changes in the business environment for reinsurers in Asia are coming from multiple directions, testing reinsurers' ability to adapt effectively.'

Negative market outlook to Chinese non-life market

This year, A.M. Best assigned a negative market outlook to China's non-life market owing primarily to the motor de-tariffication, which is challenging the bottom lines of many small- to medium-sized primary insurance companies. Given that the non-life industry portfolio is heavily skewed toward the motor line of business (over 70% in terms of gross premium written), primary insurers are actively rebalancing their portfolios to grow their non-motor lines, capture business opportunities from government support and market demand and diversify to a more balanced book.

Fast-growing lines of business include agriculture, liabilities, accident and health and credit and surety. The development of the commercial lines required reinsurers' support, while personal lines (such as personal guarantee, accident and health) with relatively low limits have a much lower level of reinsurance dependence. Although there are pricing risks and related reserving risks associated with the fast-growing lines, they certainly present opportunities for the reinsurers.

Second phase of C-ROSS could be a game changer

C-ROSS phase 2 is expected to be another game changer. The first phase's friendly motor premium risk charge has changed reinsurance purchasing behaviour to rely less on whole account proportional treaty as tool for capital relief, but higher risk charges on other lines increase the reinsurance dependence on more complex lines, such as property, with higher volatility. Given the formation of a new regulator as a result of the merging of the banking and insurance regulators, regulation tightening is the obvious trend, and the chance of further relaxing the solvency calculation in C-ROSS phase 2 is highly unlikely.

Regulator to focus on calibration of risk charges

The China Banking & Insurance Regulatory Commission (CBIRC) is reviewing the non-life minimum required capital calculation, and one focus is to calibrate the risk charges for the motor, agriculture, credit, and surety lines of business. This may drive new reinsurance purchasing behaviour upon formal implementation. However, given the targeted regulation update of 2018 year-end, the calibration is not expected to have a material impact on upcoming 1 January renewals. The impact may be seen in 2020 renewals - possibly in mid-2019, for those primary companies needing capital relief. The regulator is also developing a new set of requirements for onshore reinsurers, to be completed by June 2019. The market is closely monitoring these developments and the potential impact on capital requirements, and how they will affect the cost of capital, which could have a positive influence on current soft market conditions.

Belt and Road Initiative another opportunity for reinsurers

Another opportunity that reinsurers are eyeing is the long-discussed industry boost expected from the Belt and Road

Initiative (BRI), spanning more than 60 countries, which account for over 30% of global GDP. McKinsey predicted that the initiative would attract $3.3tn every year until 2030. Swiss Re predicted projects would contribute $51bn in insurance premiums during the period. BRI has completed five years, however, the speed of taking it from vision to action has been slower than expected, owing to a variety of challenges the state-owned enterprises are facing from going overseas.

Chinese enterprises unfamiliar with the economic, political, commercial and legal environments overseas, coupled with cultural issues and community relations, are delaying the project's implementation and the expected positive impact on the insurance market. The large Chinese state-owned insurance companies are benefiting the most from the initial phase of the initiative. They have stable long-term business relationships with Chinese state-owned enterprises, who are leading the large-scale BRI infrastructure projects.

Initial problems galore

The overseas projects are much more complicated than local projects, as the sum insured is high and the projection duration is long. Given their strong risk-management capabilities and global resource support ability, those large China state-owned insurance companies are not just traditional insurance product and capacity providers - by providing customised insurance solutions, they are also working as the large state-owned enterprises' risk consultants. At the early stage, the lines of business benefiting the most from BRI are engineering, cargo, political risk, and personal accident (which covers overseas workers' safety).

Reinsurers can still participate, given that, depending on local regulatory requirements, the insurance premium generated from BRI projects would very likely be fronted back to these Chinese primary insurers, and little would be retained in the BRI countries. For smaller scale projects, inward premium would be retained in the book and covered by treaty as 'Chinese interest abroad' risks, but often are subject to a lower treaty capacity or other tighter terms and conditions as risk management measures. For larger projects, the risks would be facultative to international reinsurers.

Reinsurers would need to add value to traditional reinsurance capacity

In view of project delays and other complications in cultural and community relations issues, the BRI-related premiums have not been realised as early as expected. However, if the issue is just a delay rather than a significant overall decline in investment, insurers and reinsurers will still benefit in the future. At a minimum, reinsurers must be able to provide traditional reinsurance capacity to participate in the game.

Those who can provide further advisory services to overcome barriers in these unfamiliar jurisdictions are more likely to be chosen as long-term reinsurance business partners, as we expect that facultative opportunities in China will increase significantly.

From a risk management perspective, reinsurers also need to be aware of the treaty risk profile change. In regard to China interest abroad, these questions include the additional risks the treaty covers, especially in the underwriter's unfamiliar jurisdictions; the level of data transparency; and whether tighter terms and conditions applied to the unfamiliar risks. It is all about balancing risk and return while capturing what seem to be golden growth opportunities.

Go global, grow local

Growing exposure to climate change-induced catastrophic losses notwithstanding, Hong Kong's (re)insurance market has several opportunities to optimise its role in the region. Taiping Reinsurance general manager Polly Ho calls for a joint effort on the part of both government and industry, to ensure that Hong Kong remains at the forefront in (re) insurance in Asia.

According to the 2017 provisional statistics for general business published by Hong Kong Insurance Authority, gross premiums of the Hong Kong market increased by 5.5% to HKD48.1bn.

There are 18 professional reinsurance companies authorised in Hong Kong including seven comprehensive reinsurers, ten P&C reinsurers and one life reinsurer. The total premiums of general business written by professional reinsurance companies in 2017 amounted to around HKD2.8bn, which is equivalent to about 5.8% of the total market premium.

Slowdown in direct market growth

In the past few years, general insurance only recorded low single digit growth every year and the growth is mainly driven by accident and health business (comprising medical insurance business). While for other lines of direct business, the premium basically remained stable.

Accident and health are the growth engines for the direct market. However, its underwriting margin reduced in recent years with combined ratio at 98%. Exploring market growth opportunity poses a major challenge to market players.

Underwriting performance under pressure

The 2017 overall market combined ratio for general business was 102.4% with underwriting loss of HKD792m. It meant the underwriting result turned red after 15 consecutive profitable years as the last time that the Hong Kong market showed an underwriting loss was in 2001. The underwriting loss in 2017 was due to a combination of deficit reported under motor vehicle and general liability (including employees' compensation) businesses as well as typhoon Hato-related losses reported under property damage business.

The underwriting loss of motor vehicle business and general liability business (including employees' compensation) in the direct market in 2017 deteriorated from HKD262m (2016) to HKD395m and from HKD126m (2016) to HKD 297m respectively.

Moreover, typhoon Hato, one of the strongest typhoons on record that hit Hong Kong, Macau and neighbouring areas in August 2017, caused insured losses of over $500m. At present, only some insurance companies in Hong Kong take out catastrophe excess of loss reinsurance cover. With global climate change and its resultant impact, how to manage natural catastrophes becomes another challenge for the Hong Kong market players.

Facing higher regulatory standards

The Insurance Authority (IA) took over the regulatory functions of the Office of the Commissioner of Insurance from 26 June 2017. According to IA timetable, a risk-based capital regime will be implemented gradually from 2021-22 onwards. In this connection, the industry is required to fulfil more stringent standards in capital requirement and ERM. To get ready for the various regulatory changes in the offing is also one of the major challenges faced by the industry.

Potential for additional reinsurance demand

Under prevailing market conditions, effective capital utilisation and sound risk-management practices could put an insurer in an advantageous position. Suitable reinsurance arrangements would also be helpful. It is expected that reinsurance demand would increase under various covers and aspects, such as, Cat XOL cover, capital relief transaction and risk management solutions.

Driving force for market growth

In recent years, Asia has become the growth driver of the global insurance markets. According to a recent study by Allianz Research, Asia ex-Japan's premium volume grew by 10.2% in 2017, accounting for 76% of the increase in global insurance business last year. It is forecasted that the region

could achieve a growth rate of almost 11% per annum over the next decade. By 2030, it is expected that around 40% of global premium income would be written in the region.

Unique position of Hong Kong

Hong Kong enjoys a unique position that enables the insurance and reinsurance industry to capture the potential. The following opportunities support the growth of Hong Kong market.

C-ROSS equivalency

In May 2017, relevant framework agreement has been signed by the Office of the Commissioner of Insurance and the China Insurance Regulatory Commission to conduct equivalence assessment on the insurance solvency regulatory regimes of the mainland and Hong Kong.

Based on this framework agreement, the China Banking and Insurance Regulatory Commission (CBIRC) released the mechanism in July 2018. Under the China Risk Oriented Solvency System (C-ROSS), when a mainland insurer cedes business to a qualified Hong Kong professional reinsurer, the mainland insurer would be subjected to a lower reinsurance credit risk charge (0.087) than those that work with reinsurers based in other offshore markets (0.588).

Requirements for qualified professional reinsurer:

- Professional reinsurer authorised by HK Insurance Authority (IA)
- With 'A-' or higher credit ratings
- Quarterly IA solvency filings
- Minimum solvency ratio: 200% for P&C; 150% for life

Such equivalence treatment will benefit the development of both mainland and Hong Kong markets. Ceding companies in mainland China would find it more effective to place reinsurance cover with professional reinsurers in Hong Kong. It would also encourage international reinsurers to set up operations in Hong Kong so as to tap the mainland China market.

Belt and Road Initiative

The Belt and Road Initiative (BRI) brings a positive impact to the development of the Hong Kong insurance industry.

BRI will open up major business opportunities. It is expected that by the year 2030, it will bring about $34bn of commercial insurance premium. Such a meaningful size of portfolio would bring about new reinsurance demand. Hong Kong's reinsurance industry could make use of its global vision, risk management capability and capital strength to develop offshore reinsurance business in Hong Kong.

The risks associated with BRI initiative are usually complex and comprehensive. To provide customised (re)insurance solutions for customers, sound risk management skills, technical know-how and knowledge of overseas markets are required. At present, the participation of developed countries, such as Europe and America, in the BRI sector is relatively low. Hong Kong's reinsurance industry can be a connector so as to embrace overseas partners' involvements in those BRI insurance projects. Such cooperation will also improve the technical strength and capability of the local reinsurance industry.

To assist Hong Kong's role, the IA is planning to establish a platform to facilitate mainland enterprises to make insurance and reinsurance placements for their investments along the BRI.

Greater Bay Area

The Greater Bay Area (GBA) refers to the Chinese government's scheme to develop a city cluster that link the cities of Hong Kong, Macau and Guangdong greater bay area into an integrated economic and business hub. GBA covers 11 cities, including Hong Kong and Macau.

GBA is characterised by high potential and rapid development. The area, as a whole, generates a GDP of $1.34tn with total population of about 67m. With the linkage in the greater bay area, the development of Hong Kong will no longer be confined to its own 1,100 square kilometres, and the population of 67m people in the greater bay area will become one market. The scale and multiplier effect of the intrinsic cohesiveness of the 'bay area economy' will make the greater bay area an important engine for economic growth. In this connection, it is expected that the reinsurance demand would also boost.

Sustainable and inclusive growth

A huge uptake in agriculture insurance, the launch of a large health insurance scheme and listing of insurance companies on the bourses, adoption of digitalisation on a large scale and much more has happened in India's insurance landscape in last year. GIC Re CMD **Alice Vaidyan** shares her views on this evolving and improving Indian insurance scenario.

The Indian insurance industry is entering a new phase of evolution after almost two decades of opening up of the sector for the private participants. With governmental initiatives aimed at deepening penetration, the sector is on the threshold of leapfrogging in insurance penetration.

However, the path leading to a sustainable growth is beset with challenges in the short term, yet the future looks optimistic.

Impressive growth

The Indian insurance market comprises of 24 life insurance companies and 31 general insurance companies. Gross direct premiums for the non-life insurance industry increased by 17.5% y-o-y in 2017-18 to INR1.5tn as compared to INR1.28tn in 2016-17. With non-life penetration still under 1%, the growth potential is vast.

The Indian life insurance industry achieved 10.8% growth for new business premiums.

Over the last three years ending with the financial year 2017-18, the compounded annual growth rate of the industry has been 40.15%. The non-life insurance premium has grown on the back of government supported agriculture insurance and national health insurance scheme.

Moving towards universal health assurance

Increasingly, nations are being judged on the quality of health security of their citizens. One of the major policy initiatives of the Indian government has been the announcement of the Ayushman Bharat – National Health Protection Mission (AB-NHPM) for vulnerable sections of the Indian society.

It will help the nation move closer to the sustainable development goal of 'universal health coverage'. It aims at providing health insurance coverage to 500m people. It is expected that the scheme will have a far-reaching impact on the entire Indian healthcare and insurance landscape.

It will help the nation move closer to the sustainable development goal of 'universal health coverage'.

The scheme envisages the adoption of standard treatment guidelines and defined package rates for surgical procedures and extensive use of IT and data analytics to monitor scheme implementation and manage fraudulent claims.

All these measures taken together will help in regulating the hitherto unregulated healthcare sector and in making health insurance sector sustainable.

In the long run, AB-NHPM should strengthen primary care with the inclusion of outpatient treatment, development of a public healthcare delivery system and expanding the scope of coverage to the entire population to make the government's transition from provider to payer a successful one and achieve universal health coverage in the true sense.

IPOs begin a new chapter

The Indian insurance industry also witnessed listing of five insurance companies apart from the listing of GIC Re during 2017-18. More players are expected to approach the capital market soon.

The listing signals that the market is ready to move towards consolidation, profitability and price adequacy. With the potential merger of public sector non-life insurers, the market is further poised for stable and consistent growth with focus on the bottom-line.

Technology to narrow the protection gap

The huge insurance protection gap is one of the most pressing issues facing our industry. It leads to lack of societal resilience. India is one of the most affected countries with respect to natural catastrophes. Most of our economic losses remain uninsured. As a result of poor insurance penetration, insurance hardly has a role to play in mitigating the impact of natural disasters.

The potential of digital technology via rapid advances in connectivity, mobility, cloud computing, big data analytics and social networking to narrow insurance protection gap is huge. It also reflects long-standing shortcomings of traditional business models and inherent inefficiencies of the insurance market which digitisation can mitigate to a large extent.

This potential is most pronounced in personal lines such as motor, health and home insurance. It remains to be seen how far technology is able to change the dynamics of push-based insurance sales to pull-based sales.

The low penetration of insurance in the domestic market, expansion of insurance in the rural economy via agriculture insurance, governmental initiative in the health insurance sector would provide continued growth opportunity for the sector.

Outlook is bright

Economic convergence, the process whereby emerging economies reduce the gap with developed economies in terms of per capita income, standard of living and prosperity explains the emerging economies being growth drivers.

As India progresses further along the path from lower-middle income to upper-middle income country status, there is growing prosperity and possibility of eradication of poverty which was difficult to envision a couple of decades back.

The robust growth in the economic sphere should result in a higher standard of living, greater disposable incomes and the pursuit of security, stability, assurance and sustainability. This would all give a boost to the insurance industry too.

A test of grit

Low insurance penetration, talent crunch and the propensity for natural catastrophes present daunting challenges for the Indonesian non-life insurance market. Aon Benfield Indonesia president director (reinsurance solutions) **Musa Adlan**, however, exudes confidence that the long-term opportunities in the large young population, growing affluence and focus on digitalisation will eventually help the industry steer through tumultuous times.

Touted as 'Asia's next big opportunity' by Boston Consulting Group and currently ranked as the 42nd largest non-life insurance market in the world, Indonesia has attracted much new attention from potential investors.

Indonesia's low insurance penetration of 2.6% and its large, increasingly affluent, young population are favourable conditions for foreign capital keen to find fresh, greener pastures.

With great opportunities come great challenges. Indonesia's general insurance market is highly competitive and tightly regulated. Turning opportunities into sustainable profits, while also navigating a labyrinth of regulations and managing rising cost, becomes a test of grit for general insurers operating in Indonesia.

Expect pain ahead

Similar to most Asian markets, property and motor insurance make up the majority of Indonesia's overall insurance business at 31% and 29% respectively. But Indonesia's geography also poses inherent risks, specifically exposure to natural catastrophic risk.

Located within the Pacific Ring of Fire, Indonesia faces continual risk of volcanic eruptions, earthquakes, tsunamis and floods. This market is shared between 76 insurers (three state-owned, 57 private, 16 joint venture) supported by six local reinsurers (including Maipark), all competing for a slice of the general insurance premium amounting to almost $4.7bn in 2017 alone.

The figure appears impressive but 2017 was still a challenging year for the non-life insurance market. The market's y-o-y growth rate of 2.3% missed expectations, but gross claim market ratio remained stable, hovering at around 50%.

Market optimism and profits peaked in 2014 owing to implemented property and motor tariffs that grew gross premiums by 20% and operating profits by 23%. But this upbeat momentum from better days in 2014 did not last till 2017.

Operating expense, chiefly inflated by higher acquisition, spiralled and profits shrunk. Overall profit in 2017 has halved since pre-tariff days in 2013.

The regulator (OJK) has also steadily applied a heavier hand in the insurance market with frequent on- and off-site audits to ensure compliance. Among the regulator's many requirements, the market's compliance with retention limits and priority cessions to domestic reinsurers are targeted to help Indonesia retain greater volume of gross premium income within the local market.

Non-life insurance's underwhelming growth is likely to be further squeezed by the widespread currency selloff in emerging markets. Indonesia is already experiencing significant ramifications.

As a counter to the rupiah's slump, the government plans to delay $25bn worth of infrastructure projects to reduce imports. Import curbs on selected consumer goods have also been implemented to ease pressure on the current account deficit. These measures do not bode well for the non-life insurance market, where overall growth from 2018 to 2019 is expected to remain flat.

Fresh exuberance from reinsurance

In 2014, almost half of reinsurance premiums were paid to offshore reinsurers. Domestic cession regulations were implemented in 2015 to increase domestic retention. Overall non-life gross reinsurance premiums to Indonesia's reinsurers have since grown significantly to $820m in 2017.

Never before have reinsurance and retrocession programmes been so vibrant in Indonesia.

At present, five local reinsurers provide sizeable treaty and facultative capacities to the Indonesian reinsurance market. Diversity encourages specialty. An example is Maipark, a natural catastrophe pool that specialises in reinsuring earthquake risks.

Local reinsurers have sufficient capacity to write 100% of the proportional or excess of loss treaties for small and medium insurers. That said, not all insurers rely on their local reinsurers, owing to reasons such as existing arrangements with incumbents, familiarity with technical and product development support and established internal risk management practices.

However, Indonesia displays teamwork at its finest whenever facultative capacity is insufficient. Insurers turn to their co-insurance tradition, where as many as 15 peers can work together, to raise the required capacity for certain risks.

As local reinsurers write more contracts, their catastrophe exposure also increases. Based on modelling results, they have to purchase more retrocession protection in the interest of adequacy. Several reinsurers' required retrocession protection has even grown to more than twice their previous cover.

Swiss Re, Munich Re, Hannover Re, reinsurance markets in Malaysia and Singapore, including Lloyd's syndicates, continue to play an active role in providing retrocession capacity to Indonesia.

Several of these markets can participate only in retrocession programmes. With local reinsurers taking on a bigger and more active role in reinsurance placement, foreign reinsurers now have to wrestle for an overall smaller slice to find their place.

Compared to non-life insurance, regulatory intervention seems to have paid off for local reinsurers. The Indonesian reinsurance market has been profitable with no large event losses since the 1998 riots and 2009 Padang earthquake. The recent Lombok earthquake is expected not to have a significant impact because of low insurance penetration and low insurance exposure in that region.

An industry survey by PWC in 2016 found that achieving growth was the top priority among Indonesian insurers. But growth does not always equate to profitability.

Market data from 2017 suggests the industry ought to strive for, at minimum, profit levels achieved during pre-tariff days. Unless the authorities are able to rein in the 'engineering fee', the high acquisition cost would simply make business unsustainable in an increasingly crowded insurance market.

Grooming talent, embracing disruption

Grooming new talent and managing talent remain critical to every insurance company's growth strategy. While the PWC 2016 survey revealed that most companies assumed their resources to be adequate, one-third felt retaining talent was among the top risk they faced in achieving growth targets.

Many insurance companies are still struggling to develop a clear business strategy for a new digital economy. With neither a clear goal nor prescient vision in sight yet, justifying an investment in IT infrastructure might not be the most urgent item on any shareholder's 'to do' list.

Survive now, thrive later

No one knows how the escalating US-China trade war will affect Indonesia. Things might change in 2019 after the presidential election. Meanwhile, short-term capital outflows and project delays continue to take a toll on Indonesia's economy.

In spite of uncertainty, we remain confident in Indonesia's long-term opportunities that will eventually help us steer through the current tumultuous times. Curtailing the high acquisition cost and consolidation in the non-life insurance market are certainly welcome too.

A big push has been made to raise industry awareness. Imagine the domestic economic output that could be derived from the next generation of insurance talent meeting the needs of ready and eager insurance buyers

To minimise purchase barriers, products have already been specially customised to unlock new potential demand from millions of Indonesians who currently have little or no insurance coverage at all.

Many insurance companies have also developed scaled-down products for individuals and small enterprises.

We may not be able to control the market, but we can control how we react to the market. So long as we stay nimble in the market and sensitive to our clients' needs, both insurers and reinsurers, local or global, can develop innovative protection solutions to thrive in Indonesia.

Growing, albeit gradually

Toa Reinsurance Company president and chief executive **Tomoatsu Noguchi** says Japanese non-life insurance market, with many positive trends, can look forward to an optimistic rate of growth.

The operating environment of the non-life insurance industry

The gross domestic product (GDP) of Japan ranks third in the world. Its economy has continued to grow, though moderately in recent years. In its economic outlook, the government of Japan estimates that the real GDP growth rate in financial year 2017 was 1.9%, the growth rate in financial year 2018 will be around 1.8% and the economy will grow gradually in the short term.

Japan is faced with a declining birth-rate and aging society in the medium term. The median estimate of the National Institute of Population and Social Security Research of Japan suggests the population will drop by about 30% from its current level to 88m in 2065, which would inhibit economic growth over the medium and long term.

Non-life insurance market

Looking at the Japanese non-life insurance market, automobile insurance currently accounts for about half of net premium income. Its market share is expected to decrease gradually because of an increase in the number of vehicles equipped with safety support functions and the spread of automated driving.

On the other hand, corporations must deal with more diverse and complex risks, creating a growing need for new types of insurance including cyber and directors' and officers' liability insurance.

While the market is mature, non-life insurers in Japan are creating new markets by identifying the latest customer needs and providing new products and services to meet those needs. Furthermore, the top three insurance groups are expanding overseas business to achieve sustainable growth.

Trends in business results of non-life insurance companies for financial year 2017

The results for the financial year 2017 for Japan's non-life insurance companies were solid. An overview of the results of the 26 non-life insurers that are members of the General Insurance Association of Japan (GIAJ) present a very satisfactory picture.

Net premium income in all lines of business increased by JPY71.9bn ($638m) from the previous financial year to JPY8.380tn, primarily driven by fire and automobile insurance.

Underwriting profit (earned/incurred basis) decreased by JPY60.3bn to JPY279.8bn due to the impact of typhoons and other natural disasters in Japan. Ordinary profits, calculated as the sum of underwriting profit and investment profit, decreased JPY31.2bn to JPY812.2bn. After deducting tax expense, net income increased JPY63.9bn to JPY678.3bn because of adjustment of the corporate tax and other factors.

The net premium income of the top three non-life insurance groups, including domestic life and non-life insurance subsidiaries and overseas subsidiaries, increased overall due largely to core domestic companies. On the other hand, ordinary profits were largely impacted by massive natural disasters including hurricane Harvey, Irma and Maria in the US from August to September 2017.

Regulatory trends

The Financial Services Agency (FSA) took a major initiative that involves examining economic value-based evaluation and supervision methods. FSA has been preparing for the introduction of an economic value-based solvency regime. The third field test was conducted during financial year 2016 and its results were announced in March 2017.

The FSA said that introducing the economic solvency ratio into the regulatory regime may bring unexpected consequences, such as excessively risk-averse behaviour among insurance companies. Therefore, it is preparing for the introduction of the economic solvency ratio by considering unintended consequences and international trends, and by continuing its examination with emphasis on dialogue with relevant parties.

At present, the FSA has broadened its view of financial administration from the form to the substance, from the past to the future, and from element by element analysis to holistic analysis.

The FSA is considering a major review and improvement of its stance with the objective of implementing new inspection and supervision that further contribute to achieving the ultimate goals of financial administration. Items for review and improvement cover a wide range of regulations, such as governance of the FSA, quality control, inspection manuals, as well as organisation, human resources and information infrastructure. The FSA is proceeding methodically and systematically to enable specific improvements that are mutual and consistent.

New product development

In recent years, initiatives to make vehicles with automated driving technology a reality have become more energetic. To respond to this change in the automobile insurance market, non-life insurance companies are preparing products to insure the risks associated with automated driving technology up to driver intervention at level three autonomy (conditionally automated driving). They are providing insurance for automated driving technology verification and endorsements for accident victims of automated driving in cases where the driver responsibility of the automated vehicle cannot be verified immediately.

The objective of non-life insurance companies is to make sure that society is secure and safe through initiatives such as developing products that support the advance and popularisation of automated driving technology. Initiatives include participating in automated driving technology verification tests at level four autonomy (highly automated driving) and above to enhance the development of optimal automated driving insurance products for this level of technology.

In addition, non-life insurance companies are enhancing coverage to cope with cyber risks that are becoming increasingly sophisticated and complex. They are also developing and marketing insurance for the sharing economy, which is expected to expand in Japan.

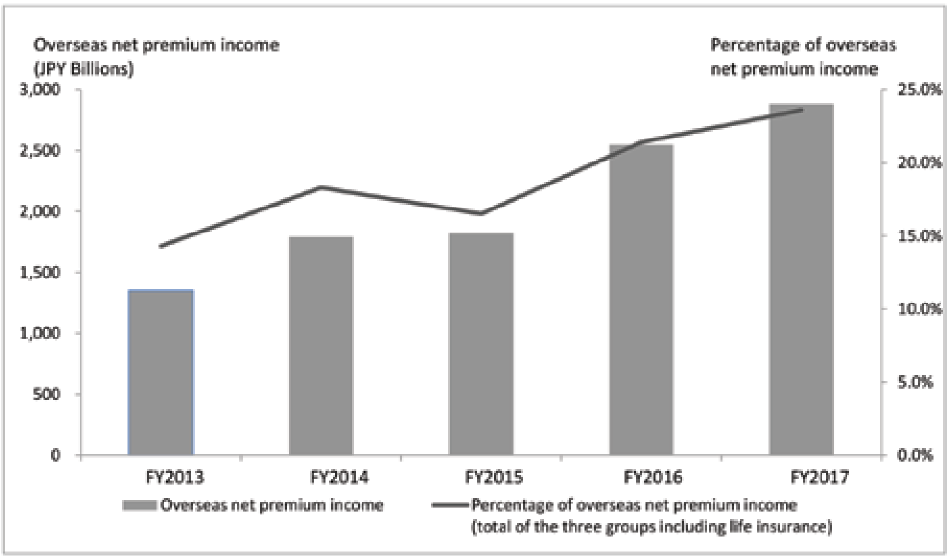
New technologies will continue to identify new risks and give rise to new insurance products while supporting loss prevention. While the extent of future reinsurance needs is of course unclear in the present, Toa Re is also conducting surveys and research to enable swift and flexible underwriting with new products aligned with contemporary trends. We need to deepen our understanding of risk by recognising innovation as a business opportunity while communicating closely with our customers and responding to reinsurance needs.

Expansion overseas

The top three non-life insurance groups have all positioned overseas business as a growth driver and have aggressively implemented initiatives such as forming business alliances with local insurance companies and engaging in mergers and acquisitions.

Figure 1 shows overseas net premium income for the top three non-life insurance groups. Over the past several years, overseas net premium income for these insurance groups has been trending upward, and in financial year 2017 was about two times that of financial year 2013. As a result, overseas net premium income accounted for approximately 25% of net premium income for the top three non-life insurance groups.

Japan's major insurance groups are aggressively expanding overseas, and Toa Re will support them to the best of its abilities with reinsurance. However, underwriting overseas risk requires more sophisticated underwriting expertise and risk management technique than in domestic business. We need to clearly quantify risk using ERM as the basis for rigorous, comprehensive risk management with emphasis on accumulation.



Source: Calculated by Toa Re using data compiled from the financial results of each of the three groups

Economic cooperation between south and north to emerge as the new growth catalyst

Korean Re CEO **Won Jong-Gyu** says the Korean insurance market is contracting despite its high penetration. However, economic cooperation between south and north Koreas can emerge as a catalyst to reverse this trend and accelerate growth.

Overview of Korean insurance market

Premium income trends (Unit: $bn)

	2016		2017		2018(F)	
	Premium income	Growth rate (%)	Premium income	Growth rate (%)	Premium income	Growth rate (%)
Life	108.9	2.2	103.6	-4.9	97.7	-5.7
Non-life	76.8	5.3	80.3	4.5	82.7	3.0
Total	185.7	3.5	183.9	-1.0	180.5	-1.9

*Growth rates are based on figures in original currency (KRW).
(Source: Korea Insurance Research Institute)

Premium income

The Korean insurance market has continued to slow down. In 2017, premium income declined by 1% y-o-y, following 3.5% growth in 2016. A further slowdown is expected with premium income projected to fall by 1.9% in 2018, as the growth in the non-life insurance market is decelerating, and the contraction of the life insurance sector is accelerating.

The nation's mature life insurance market is particularly weighing on overall premium growth. Life insurance premium income decreased by 4.9% in 2017 compared with a 2.2% growth in 2016. The contraction of the life insurance market is expected to deepen, with premium income forecast to shrink by 5.7% in 2018, due to weakening sales of both protection and savings policies.

The non-life insurance market is also losing its growth momentum, albeit at a relatively moderate pace in comparison with the life insurance sector. The growth of non-life insurance is expected to slow to a pace of 3% in 2018 amid a slowdown in motor insurance and a continued decline in long-term savings insurance.

One of the major reasons for the downtrend is diminishing sales of savings insurance, caused by a combination of factors such as low interest rates, the scheduled adoption of new accounting standards and solvency regime (K-ICS), a change in sales commission structure and reduced tax benefits for savings insurance products. To make matters worse, sales of protection policies are also slackening due to increasing maturity of the market, resulting in a further contraction in life premium income in 2018.

Net income

Despite the sluggish top-line growth, insurers in Korea saw their bottom-line improve significantly in 2017. The insurance industry reported a net income of over $7.12bn in 2017, up 33% from a year earlier. Net income of life insurers surged by 63.4% to $3.59bn on the back of strong investment gains and reduced underwriting losses. Meanwhile, non-life insurers recorded an 11.8% jump in net income for the year, which amounted to $3.53bn, as improving loss ratios of motor insurance business contributed to reducing underwriting losses. A solid growth in investment gains driven by rising interest rates also helped boost the bottom line of insurers.

Net income trends (Unit: $bn)

	2016		2017	
	Net income	Growth rate (%)	Net income	Growth rate (%)
Life	2.20	-31.5	3.59	63.4
Non-life	3.15	28.7	3.53	11.8
Total	5.35	-5.7	7.12	33.0

*Growth rates are based on figures in original currency (KRW).
(Source: Financial Supervisory Service of Korea)

Growth trends by line of business

By line of business, general property and casualty (P&C) insurance outperformed the overall non-life insurance market, with premiums growing by 4.8% to $8.6bn. Casualty lines of business including liability and group accident lines led the way in the growth of the general P&C insurance market. Long-term non-life insurance, which accounted for 56.5% of the entire non-life market, posted only a limited growth of 1.9% due to sluggish savings insurance sales. Motor insurance premiums increased by 2.8%, backed by rises in car registrations and high-valued vehicles. Premium rate reduction by large insurers prevented the motor insurance segment from growing any faster.

A breakdown of life insurance premium income shows a marked slowdown in the growth of protection-type policies from 7.1% in 2016 to 3.1% in 2017. This stemmed from slackening demand for whole life insurance and a base effect from the previous year's sales growth in the run-up to a fall in expected interest rates. Diminished tax benefits for savings insurance discouraged the sales of both general and variable savings products. As a result, savings insurance premiums declined by 12.3%. The retirement annuity sector also reported a 4.5% drop in premium income.

Insurance penetration

Korea has the world's fifth highest insurance penetration rate at 12.1%. The rate has remained stable at around 12% since 2014, but it is expected to fall slightly in the coming years as the slowing economy will likely hamper premium growth.

Insurance penetration trend (Unit: %)

	2014	2015	2016	2017
Life	7.4	7.5	7.6	7.0
Non-life	5.2	5.1	5.1	5.0
Total	12.6	12.7	12.8	12.1

(Source: Korea Insurance Research Institute)

Changes in insurance business environment

The Korean insurance industry is confronted with persistently low growth. Rising interest rates are pressuring insurers' solvency and increasing the burden of household debt.

Insurers are also forced to expand their capital as they are bracing themselves for tightening solvency regulations with the implementation of IFRS 17 and K-ICS scheduled for 2021.

InsurTechs are significant disruptors

The rise of InsurTech is another source of significant disruption to the business of insurance. InsurTechs are reshaping the insurance industry, affecting every aspect of the insurance value chain including distribution channels, underwriting and claims management. As part of strategy to push up sales, some insurers are already seeking to take advantage of InsurTech characterised by technologies like big data, blockchain and AI.

Challenges ahead and business strategy

Insurers in Korea need to remain agile against a rapidly evolving business environment at home and abroad while strengthening risk management in response to regulatory changes. They should also stay focused on enhancing their business profitability. In this respect, many insurers are increasing their holdings of foreign investments in a bid to improve their investment returns. It is thus increasingly important for them to make sure their investment risks are managed effectively with regard to their exposures to interest rate and foreign exchange risks. In addition, insurers are required to strengthen their capabilities to deal with emerging risks such as cyber risk, which may arise out of the fourth industrial revolution.

Despite the challenges of tighter regulations and disruption from the fourth industrial revolution, the Korean insurance industry is poised to embrace new growth opportunities. One of them arises from economic cooperation between South Korea and North Korea. Recently, a series of inter-Korean summits have been held successfully, raising hopes for peaceful relations between the two Koreas. This new development compels South Korean insurers to analyse potential impacts of inter-Korean economic engagement on the insurance industry and related business opportunities.

Inter-Korean cooperation can be a business booster

There is a good reason to believe that North Korea is a kind of blue ocean for the South Korean insurance industry, which has been struggling with a lack of growth momentum. The expansion of economic cooperation between the south and the north will spur an increase in infrastructure construction in the north, boosting the growth of the general property and casualty insurance sector and creating new business opportunities for reinsurers.

Challenges exist but growth is exhilarating

National Reinsurance Corporation of the Philippines president and CEO **Allan Santos** says challenges do exist but with government's massive infrastructure programme and household consumer spending poised to grow further, the sentiment in the Philippines insurance industry remains buoyant.

The year 2017 was a remarkable one for the Philippine insurance industry. Total assets, liabilities, net worth, paid-up capital, investments and premiums for life, non-life insurance companies, and mutual benefit associations all set record highs and double-digit growth rates. Insurers have been profitable as well with the net incomes of life and non-life firms growing by around 56% and 6% respectively.

Insurance penetration, which is premium over gross domestic product, has likewise improved, inching up to 1.64% at the end of 2017 from 1.61% at the end of 2016. Life insurance coverage has finally breached 50% of the Philippine population or 54m Filipinos, an improvement from less than one-fifth of the population in 2010.

All round record growth

This industry-wide record growth from the previous year has spilled over to the first half of 2018. The industry's premium income grew 24.3% y-o-y, once again outpacing the 9.6% nominal expansion of the Philippine national economy. Variable life products and motor car insurance products continued to drive expansion of life and non-life sectors, respectively. Microinsurance has also demonstrated stellar performance with premium contributions increasing by 23.4% and total number of lives covered by microinsurance products growing to one-third of the Philippine population.

This thriving insurance industry is underpinned by the sustained expansion of the Philippine national economy in the second quarter of 2018. Its quick-paced 6% growth - among the highest in Southeast Asia - is fuelled, in part, by the boom in construction, particularly the implementation of the national government's PHP8-9tn ($164bn-$180bn) infrastructure programme. This 'build build build' initiative, which bodes well for the non-life insurance sector, is underway with majority of the 75 big-ticket projects in the construction or pre-construction stage.

Tax cuts will also spur insurance sector growth

As at the end of 2017, insurance density, or premiums over the total population, had grown by almost 10% to PHP2,477 per person. This figure could rise even further with Filipinos now having heftier disposable incomes. The outlook on this robust household consumer spending remains bright with the Philippine department of finance citing that 90% of individual taxpayers will enjoy the benefits of the newly-implemented income tax cuts.

Mobile phone applications to sell insurance begins

An alternative channel for selling insurance products could have the potential to widen the reach of insurance products to markets still unserved by insurance agency or bancassurance channels. In 2018, the Insurance Commission issued a circular that enhances the framework for insurers to use mobile 'phone applications to sell their products. This regulation will also allow insureds to pay their premiums through 'phone credits, a big convenience for clients covered by microinsurance or other simpler insurance products with small premiums. This could be an emerging opportunity particularly in the Philippine market where more than half of its population access the internet through a mobile device.

Data privacy act implemented

Lastly, the full implementation of the rules and regulations of the Philippine data privacy act, effective March 2018,

emphasised the government's push for financial institutions, business process outsourcing agencies, and other entities to take more aggressive measures to protect their clients' confidential personal information. This new regulation could spur greater demand for cyber insurance policies and encourage local insurers to innovate and develop more of these products.

Aside from these growth drivers, Philippine insurers are also faced with two major regulatory developments. These could prove to be a boon or a bust for the firms depending on how swiftly and effectively they cope with these new regulations.

All (re)insurers are expected to comply with the Insurance Commission's more stringent reserving standards and phased increases in risk-based and minimum capitalisation requirements. In particular, the minimum net worth of insurance companies will increase from PHP550m ($11m) in 2016 to PHP900m ($18m) in 2019 and ultimately to PHP1.3bn ($26m) in 2022.

IFRS to be introduced soon

There is also the forthcoming introduction of the new global insurance accounting standard, IFRS17, effective in 2021. While these new regulations could strengthen the solvency of insurance companies and promote a regionally-competitive Philippine insurance industry operating at global best practices, these developments do not come without potential challenges to the firms.

New reserving standards

First, the new reserving standards and the progressive increases in risk-based and minimum capitalisation requirements could be difficult for some insurance companies to comply with. Since the implementation of the new regulation, 11 local insurance companies have either been shut down by the regulator or have voluntarily surrendered their licenses due to their inability to meet the capital requirements. If more firms are not adequately prepared for higher minimum requirements in the coming years, we run the risk of losing more of our local firms and leaving mostly multinationals in the Philippine market.

Secondly, adopting IFRS17 entails implementing new systems and processes and changing the way data is collected, analysed, and processed, which requires a workforce that is properly trained for these new systems and processes. Again, insurers that have not sufficiently prepared for this may end up not complying with the new regulation or, worse, falling behind their competitors.

High taxes and prolonged soft markets are a serious challenge

Another challenge that the industry continues to face is the stiff taxes on our non-life insurance products which are still among the highest in the region. These make it difficult for insurers to compete with other financial institutions like banks with their more affordable products which, in turn, serves as another obstacle to raising the country's low insurance penetration rate. The prolonged soft market and the thin pricing margins in the property insurance market also endanger the health and viability of this sector.

The Philippines' newly implemented law for tax reform for acceleration and inclusion (TRAIN) has become a double-edged sword for the industry. While it helped increase disposable incomes by lowering individual income tax rates, it imposed higher excise taxes on gasoline and on new automobiles. As a result, motor vehicles sales fell sharply in the first half of 2018, a reversal of the case last year where the Philippine motor industry was the second fastest growing market in Southeast Asia.

Tax laws to be simplified further

The Insurance Commissioner also cites the simplified computation of tax on estates under the TRAIN law could affect the life insurance business. Historically, people would purchase life insurance to use the proceeds to pay off stiff estate taxes. However, with the new scheme the taxes on estates will be lower, which means the need to resort to this practice is reduced.

Despite these challenges, I remain cautiously optimistic about the sustained growth of the Philippine (re)insurance industry as growth of the insurance industry in emerging markets continues to outpace that of the developed markets. According to Swiss Re's sigma report, non-life premiums in emerging markets in 2017 rose by 6.1%, far better than the 1.9% growth in emerging markets. Life premiums in emerging markets grew at double digits while life premiums in developed economies actually shrank.

Growth prospects for our local (re)insurance industry in particular remain bright on the back of the continued rise of the Philippine economy. With the government's massive infrastructure programme rolled out and with household consumer spending poised to grow further, demand for both Non-Life and Life insurance products is expected to remain buoyant.

P&C market: Innovating through a challenging phase

Munich Re CEO South East Asia **Dr Till Böhmer** says Singapore's mature and highly-competitive domestic property and casualty market is passing through a challenging phase. However, it is responding to the challenges with a range of innovative and customised solutions for clients that are shaping the future of the industry.

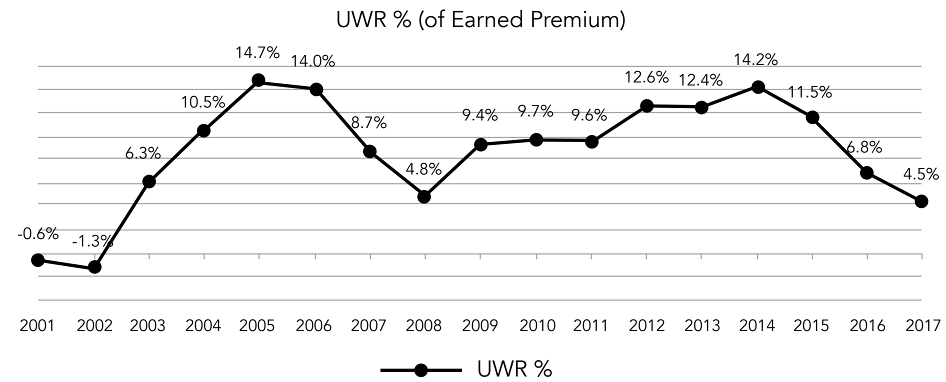
As a leading international financial hub, Singapore is fast gaining a foothold as one of the region's top centres for innovation. Set against the rapidly transforming Asian risk landscape, the city-state provides an ideal environment for insurers, reinsurers and brokers to grow their business regionally and invest in innovation and talent development.

A dynamic, mature market

Taking a retrospective look at the underwriting result of the last two decades, it is clear that the Singapore property and casualty (P&C) insurance market has experienced significant cyclical movements: Underwriting results hit a low in 2001 and 2002, only to recover in 2005 reaching a record high, before declining again during the global financial crisis in 2008. Recovery post that remained slow until 2013-2014.

Today, like most markets in the world, the Singapore P&C market is facing some challenges. Last year, the underwriting result (as a percentage of earned premium) of the Singapore Insurance Fund (SIF) reached its lowest point in the last 15 years, and so far this year, we have not seen much reason for optimism. Investment results have fared better in the current benign financial market environment, but as history can attest, this is something that can change suddenly.

Looking at the reinsurance market, which was severely hit in 2017 by hurricanes in the North Atlantic, no material hardening has been witnessed in 2018. With a global backdrop of low interest rates and vast available capital coupled with a significant growth appetite in Asia, it is therefore not unthinkable that we will see a further continuation of the current soft insurance market in Singapore.



[Source: Based on data from Insurance Statistics 2017, MAS website]

Observations

What is driving this declining underwriting performance? The market is experiencing three apparent and significant trends:

Negligible to moderate growth in insured risks: With its very advanced economy, the Singapore insurance market is rather stable. This can be seen in its insurance penetration level, which has not changed over the last four years and, as a result, means there has been limited growth in insured risk.

Decreasing premium per risk: Overall insurance premiums have been coming down slightly since 2015, primarily driven by motor business, due to heavy competition.

Escalating management expenses: Management expenses have been rising dramatically from SGD638m (or 23.5% of earned premium) in 2014 to SGD782m (or 33.5% of earned premium) in 2017, outpacing premium growth. (Source: General Insurance Data, Insurance Statistics 2017, MAS website).

The consequence is that the underwriting performance has deteriorated on average. This is playing out across the industry in different ways. On one hand, we may see more consolidation and restructuring; on the other, more strategically invested companies are likely to focus on profitable lines of business, new products and distribution approaches, as well

Further observations can be seen across the major lines of business:

Property	Motor	Workers compensation	Public liability
• One of the few lines of business that is still growing	• Reduction of average premium per vehicle which is not driven by less risk and exposure, since the number of motor vehicles has been relatively stable for the past three years (~1% growth)	• Premiums went slightly down from 2016 to 2017	• Relatively small line of business, but growing against the overall trend
• Portfolio split in 2017 roughly 83% fire and 17% engineering	• Increase in loss ratio due to a reduction in premiums and higher accident ratio among private-hire cars	• Loss ratio overall stable	• Loss ratio increased from 2016 to 2017, but still a highly profitable line of business
• Loss ratios for fire segment have been consistently low	• Some players offer still very low rates to achieve scale, while others are pushing up rates	• Increased demand for reinsurance cover as cession rates increase	• Singapore is not considered a highly litigious country but an increase in liability claims being awarded can be witnessed
• Overall, property segment still one of the more profitable lines of business		• 2018 started with clearly higher loss ratio, but it remains to be seen how the whole year will develop	

as increasing efficiency through automation.

Scale obviously makes a difference. It's no wonder that the 10 smallest companies today already have an average combined ratio of ~110%, whereas the 10 biggest companies have an average combined ratio of ~90%. The gap might further widen. Since the majority of the P&C companies are owned by multinationals, the different strategies and approaches above will no doubt keep insurers' head offices busy.

While a sudden improvement in the industry performance is not to be expected, insurers will need to make up their minds on how they want to go through this challenging market phase. Without clear differentiation, it will come down to scale as a prerequisite for a bright mid-term future.

Beyond scale, success for the industry will depend on winning in key areas: Disciplined cost management (especially through automation), achieving operational excellence, and investing to innovate (in products, distribution and customer engagement).

The advantage of innovation

Among challenges, opportunities abound. Since 2016, various initiatives supported by the Monetary Authority of Singapore such as the launch of the FinTech Regulatory Sandbox and Finance-As-A-Service API Playbook have been an impetus for the exponential growth of the local InsurTech scene, resulting in the emergence of numerous early stage examples that have the potential to alter the insurance value chain by providing technologies that optimise both an insurer's back-office operations and customer-centric insurance solutions.

InsurTechs are expected to develop new technologies that will improve or replace certain parts of the traditional insurance value chain. For example, automated underwriting and claims management processes are beginning to be utilised in facilitating a seamless customer experience. This presents
an exciting opportunity to enhance customer experience and at the same time, change the way a close collaboration between start-ups and established insurers.

For reinsurers, InsurTech offers broader access to wholesale distribution channels, while new technologies enable a greater capture of data, which will give a greater ability to aggregate many data sources and experience with new ways of underwriting and assessing claims.

Cyber risk, and consequently cyber insurance, is becoming an increasingly crucial topic, and also a potential growth driver for insurance. While still nascent in the region in terms of business size, reinsurers have an important role to play in this new landscape in terms of providing greater capacity and sharing knowledge and expertise from other markets.

Data analytics will also be an increasingly valued tool providing insurers and reinsurers with analytic insights that help them to deepen client relationships and provide more customised solutions.

Against this evolving and vibrant backdrop, reinsurance is increasingly seen as a tool that goes beyond providing just capacity alone - reinsurers are responding with tailor-made solutions that meet the rising demand for capital optimisation and cash flow management.

At Munich Re, we are committed to supporting our clients in this dynamic market as they navigate the changing world of risk and the challenges and opportunities ahead - particularly when it comes to innovating with new product development, data analytics and consulting services.

Current priority challenges

Fubon Insurance executive vice president (sales and marketing) **Jason Lo** describes Taiwan's general insurance market as having arrived at a saturation point. However, concentrating on catastrophic and emerging risks like cyber, development of simple products and adoption of technology can throw up many growth opportunities.

With 18 domestic and foreign insurers in Taiwan's general insurance market, the competition is fierce, and some of the lines of business have already reached saturation point. If we do not develop new business, the growth of these insurance companies might very well be limited or subdued. Although there are still many areas to be explored jointly by the government together with the industry, due to the current regulatory framework and natural catastrophe risks, the general insurance industry still needs to actively break through the bottleneck in order to pursue growth.

Non-life will have to innovate and adapt to evolve

The biggest difference between general insurance and life insurance is that general insurance is a very region-specific industry. Product development and business strategies must be tailored to local conditions. In addition to developing new types of insurance policies according to the characteristics of the industry and changes in life style, insurers must also assist the customer in responding to the emerging risks to carry out the comprehensive risk transfer solution. Insurance should act as a tool to solve liability disputes and use specialised technology to reduce the frequency at which accidents occur and thus prevent losses.

Geographical location increases vulnerability

In light of the unique geographical location and environment of Taiwan, natural catastrophes have a great impact. Taipei has been ranked as the fourth highest at risk in Lloyd's 2018 City Risk Index, with tropical storms and earthquakes being the top two risks. In addition to research and development of products related to catastrophes, general insurers have also begun to engage with the local community and general public to raise awareness about loss prevention. For customers with higher risks, insurers also help to improve their environment and make them much more insurable.

By using commercial insurance to transfer the high-risk losses brought by the natural catastrophes, insurance companies can also achieve the purpose of social stability in environmental, social and governance and enhance the added value of the brand.

Focus on evolving risks like cyber

Fubon develops new types of products which cater to the natural catastrophe perils including solution packages that use Richter scale, temperature and production volume as trigger. Since it is a market precedent, we rely on cooperation with foreign reinsurers to establish a risk forecasting model, and to draw on their experience in underwriting, quoting, risk management, claims settlement or legal advice, technology transfer and training of personnel.

Switching gears, cyber risk is also on top of the list of emerging challenges for the industry. WannaCry malware attacked government agencies and enterprises on a large-scale last year, raising the awareness of information security on a global basis. This year, Taiwan passed the law on the management of information and communications security, incorporating public service department, state-run enterprises and key infrastructure facilities into the information and communications security policy, in order to ensure national security and maintain the public interest of the society.

Compared with the comprehensive offer and protection of cyber risk insurance policies internationally, Taiwan still needs to refer to other countries' precedents and reinsurance experiences to carry out precise planning and put in more efforts to raise our domestic enterprises' awareness on cyber risks relentlessly.

Simple products can help in increasing insurance coverage

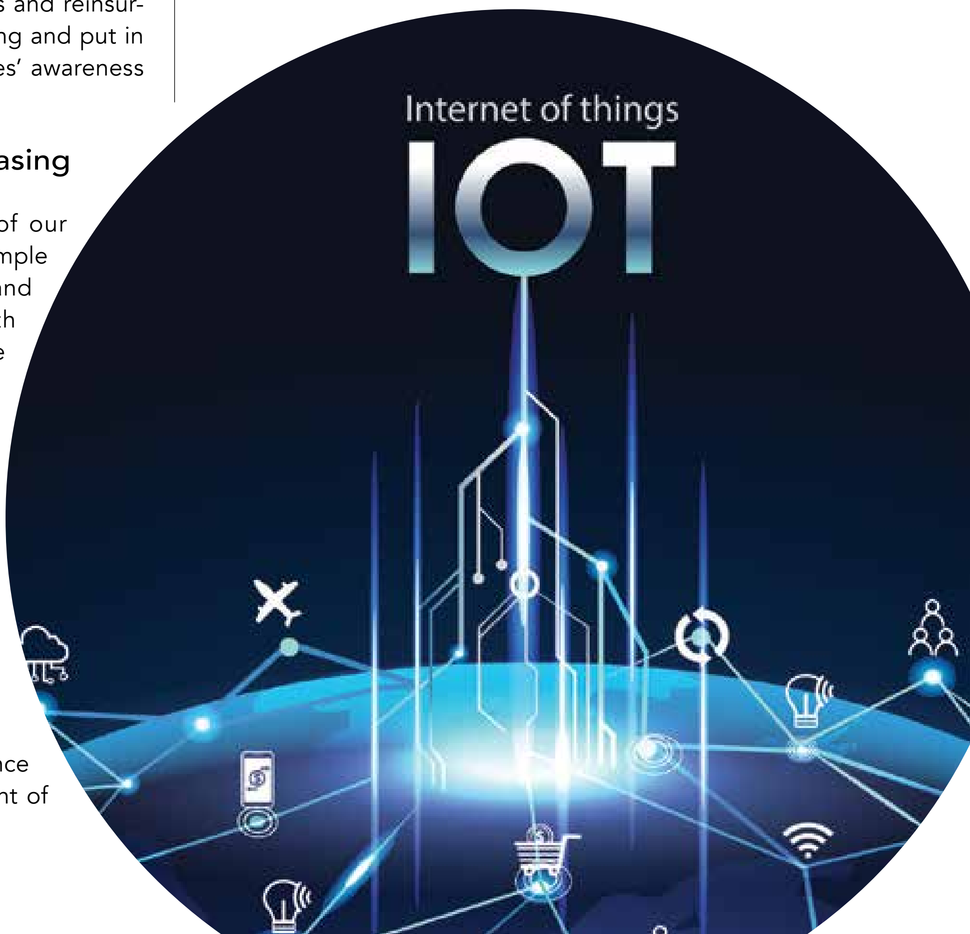
Considering the different size and scale of our commercial customers, Fubon launched a simple cyber risk management product for small and medium enterprises and collaborates with external cyber risk consultants to provide large clients with information and security advisory services in addition to conventional insurance coverage. According to the different needs of customers, we can build risk identification, analysis and evaluation services, provide a complete insurance mechanism, helping enterprise customers to fortify their security defence line and give full play to the maximum cost effectiveness of risk management.

Investment in technology and data analytics

With the rise of InsurTech, the general insurance industry has also invested in the development of motor IoT insurance. For customers, the insurance premium can be reduced according to the individual driving behaviour. For insurance companies, in addition to increasing customer engagement, we can also collect a large amount of driving behaviour data to serve as a database for the development of new business.

In 2017, Fubon Insurance successfully developed UBI motor insurance, which is priced by the mileage of insured vehicles, and has also established a driving behaviour scoring model in cooperation with the Industrial Technology Research Institute. In addition to covering the three common risk factors of driving: rapid acceleration, sharp braking, and sharp turning, environmental indexes such as the risk period and risk area of driving in Taiwan, as well as the travel time index of driving in Taiwan, are specifically included. This initiative also provided fleet customers with fleet damage prevention services to assist managers in fleet management, effectively reduce the frequency of bad driving behaviour, and thereby enhancing the overall motorway safety.

Looking ahead, natural catastrophic risks and cyber risks are likely to be the two biggest challenges the industry will face. Collaboration with international reinsurers to identify and mitigate the ever-changing faces of these two risks better would be crucial for the sustainability of the insurance market in Taiwan.



Digital era has arrived

Thai Reinsurance CEO **Oran Vongsuraphichet** is confident about the resilience and will of the Thai insurance industry to overcome initial hiccoughs and emerge as the insurance technology centre of the region. The insurance industry is also hopeful that the government's 'Thailand 4.0 policy' will catalyse this process

With a population of over 67m and a nominal GDP of $455bn in 2017, according to the IMF, Thailand was the eighth largest economy in Asia and fourth largest in Southeast Asia. Even though the country has done a remarkable job of transforming its economy from a low-income country to an upper-middle income nation in a short period of time measured by the standard of economic development, its recent economic progress has been disappointing compared to its past stellar performance. Since 1996, its growth rate has been below 8%. To some, seeing Thailand move further up the prosperity ladder toward become a high-income economy won't be happening soon.

'Thailand 4.0 policy' to balance the country's economy

The arrival of digital disruption or disruptive technology is seen as a new driver of competitive edge and economic prosperity across the globe. Starting at the macroeconomic level, the Thai government, which is in strong favour of digital economy, has successfully promoted an economic model commonly known as the Thailand 4.0 policy. The policy aims to extricate Thailand's economy from 'a middle-income trap', 'an inequality trap', or 'an imbalanced trap' utilising innovation, technology and creativity.

The new economic development model is set to turn Thailand's existing economic structure from q production-based nation to a service-based economy. In order to achieve this goal, the government plans to upgrade its infrastructure, including railway, airport, high-speed rail, roadways, and the Eastern Economic Corridor.

Moreover, more emphasis is being placed on both existing five S-Curve industries (such as next-generation automotive, smart electronics, high-income and medical tourism, efficient agriculture and biotechnology, food innovation) as well as new five S-Curve industries (such as automation and robotics, aerospace, bioenergy and biochemicals, digital, and medical and healthcare) in hope of becoming new growth engines for Thailand's future development.

The Thai parliament has also strongly endorsed this new economic development scheme by approving the law for trade and investment in the Eastern Economic Corridor since February 1, 2018. All of these measures are intended to make Thailand one of the best investment targets in Asia.

Digital innovation is the new watchword

Digital disruption is also expanding to the sector level. Nowadays digital has become a buzzword mentioned almost in any businesses in Thailand including insurance business. Making use of digital innovations to address the issues of efficiency in insurance business or InsurTech is set to gather serious momentum in Thailand. Every market participants in insurance business including the regulator, (re)insurers, middlemen, and consumers actively participates in this game.

Early this year, the regulatory authority or the Office of Insurance Commission publicly announced its plan to set up the InsurTech Centre of Thailand (ICT), which aims to promote and nurture the development of insurance technology in Thailand. The centre is expected to play its part sometime late this year.

The Thai General Insurance Association which represents all insurers in the market also strongly supports the digital transformation of insurance companies. They help promote knowledge-sharing events and facilitate firm innovation capabilities in various forms. InsurTech is taking a strong hold in almost every major nonlife product lines.

A good example is the motor insurance business where technology innovations are employed to simplify the insurance acquisition process, to develop new products based on innovative and creative platforms, and to reduce inefficiency and at the same time improve customer satisfaction dealing with the motor claim process. Digitalisation is also changing the health insurance landscape in Thailand. A rise of HealthTech and the popularity of wearable devices are opening up new possibilities for both health insurance providers and consumers.

Challenges aplenty

Despite so many forward-looking and exciting promises in the market, the technological transformation of the nonlife insurance sector of Thailand faces various challenges posed by complex and interconnected elements. Thailand is currently undergoing significant changes, with the emergence of a continuously growing number of elderly in its population due to low fertility rates and long-life expectancy.

This demographic transition puts a huge pressure on the workforce and even more on skilled manpower supply, which is considered to be the most important production factors of the insurance business anywhere in the world including Thailand. Without sufficient numbers of skilled workers in the company, technological adoption are taking a long and winding path.

Another challenge to the digital transformation of the nonlife insurance business of Thailand is the differences between generations. Thailand is vastly different from the country it was a few decades ago. Millennials or Generation Y are becoming more predominant and catching up quickly with Generation X in terms of numbers. At present, Generation Y makes up more than 30% of the Thai population. Given their exposure to various technologies at an early stage, Millennials are very tech-savvy compared to the generation that came before them. In addition, Thai Generation Y prefer to consume information based on community opinions, opt for convenience and speed, and spend big money using mobile technologies. These characteristics can be viewed as opportunities as well as threats at the same time for nonlife insurers depending on their digital readiness.

Technological readiness is not up to the mark

Transforming an analogue economy into a digital society needs a strong supporting infrastructure that goes beyond mobile and e-commerce adoption. According to the Technological Readiness Ranking for 2018-22 surveyed by the Economist Intelligence Unit (EIU), Thailand is doing a mediocre job in many areas such as mobile 'phone subscriptions, scope of e-government, and the quality of e-commerce business environment. Thailand is the 49th most technological readiness country in the world out of 82 countries based on the EIU. To climb up the ranking hierarchy, the country requires a solid and serious boost in R&D investment in order to take full advantage of being a digital economy. Such a 'thin' technological readiness of the country pose as a tough challenge to all sectors including the nonlife insurance business, which occupied by companies with different sizes and development levels.

Non-life industry is 'crowded'

The Thai nonlife insurance industry is crowded. There are up to 60 insurers (55 nonlife insurers, 4 health insurers, and 1 reinsurer) actively offering nonlife insurance policies in the market. In terms of market concentration, the top four nonlife insurers make up almost 38% of the total nonlife market share. This evidence suggests that the Thai nonlife market is populated with small- to medium-sized firms offering slightly differentiated products/services and commonly competing on product quality, marketing and especially on price.

Numerous local firms are struggling to develop efficient operations strategy and form cost-saving optimisation. As a result, inserting technological innovation as an additional variable into the competition equations is less likely to be a viable option for several insurers and for some is a mission impossible.

Optimism for the future

Despite these challenging circumstances and limitations, Thailand looks forward to becoming the InsurTech centre of the region. At the industry level, being vigorously and continuously challenged by a rapid change in business, regulatory, and technological environment, Thai insurers are resilient and ready to play their part in supporting a country's economic development.

The next Asian tiger

The Vietnamese insurance industry, catalysed by several positives in the country's economy in general, has been on a steady growth path in double-digits for the last few years. Insurance Association of Vietnam deputy secretary general **Ngô Trung Dũng** gives a brief overview of the country's insurance sector.

Vietnam, a steadily growing economy with stable political environment, is the next potential tiger economy of Asia. It embarked on the path of liberalisation in the early '90s, a little later compared to its other ASEAN counterparts, yet the growth and development of Vietnamese economy is focused.

The World Bank has forecast Vietnam to grow at 6.8% in 2018. The Vietnamese government has fixed a target of per capita GDP at $3,750 to be achieved by 2020. Vietnam plans to have 1m enterprises operating by 2020.

Double-digit growth rate for insurance

The non-life insurance industry of Vietnam, which consists of 29 non-life insurers and two reinsurers, has been on a steady growth path and has attracted sizable foreign investment.

Insurance penetration in Vietnam at 2% is, however, quite low, very similar to other emerging economies of the region. The insurance industry sees this as an opportunity to expand its footprint and during the last decade the market has developed well and registered double-digit growth. The Vietnamese insurance market grew by 21.2% in 2017.

The market sees high demand for retail personal lines, especially health, motor, property and professional liability. Various social lines like agriculture, public sector infrastructure and natural catastrophe insurance have also improved substantially.

Life insurance – investment, endowment and term

Investment insurance, endowment insurance and term life insurance contribute about 90% of total premiums collected by the Vietnamese life insurance industry and constitute almost 98% of all life insurance policies sold in Vietnam.

The trend is likely to continue in the years ahead as endowment insurance and investment insurance fulfil the demand of Vietnamese customers both for protection and saving benefits in a life insurance product. Term life insurance is a simple product which is easy to understand and hence popular with low- and medium-income customers.

Vietnamese life insurance sector comprises one domestic life insurance company competing with 17 foreign owned companies.

Growing middle class

Vietnam has a growing middle class with high aspirations. With rising disposable incomes and improving lifestyles of the middle-class population, the concept of general insurance is also gaining popularity.

Professional indemnity insurance for medical professionals, brokers, architects and consulting engineers is growing at a satisfactory pace as there is a law that mandates that these professional practitioners buy professional indemnity insurance. Liability insurance uptake is also picking up.

Demand for better medical and healthcare services

Health insurance is predicted to grow substantially following the demand for better medical and healthcare services, especially from those in the higher echelons of society.

Also, with the improving standards of life, life-style ailments are also becoming more prevalent. This necessitates the need for health insurance.

Challenges ahead

Vietnamese insurance market still lacks a knowledge and talent pool, especially for the emerging and unknown risks.

The current risk scenario is also undergoing rapid change as technology evolves and new concepts arise.

The industry players are yet to adopt pricing and underwriting tools and catastrophe models which leads to poor underwriting results very often.

Vietnamese insurance regulatory system

The Vietnamese insurance industry is regulated by the Law on Insurance Business which was promulgated in 2000.This was subsequently amended in 2010. The Law on Insurance Business provides the legal framework for the insurance business in Vietnam.

The insurance regulatory framework in Vietnam has improved a lot during the last few years but it needs to keep pace with the rapid growth of the emerging market.

Reinsurers and expectations

The Vietnamese insurance industry is supported by two joint sector reinsurance companies. The market looks forward to the reinsurers for better risk control and risk management practices.

As the demand for newer and sophisticated and personalised products is growing, the market needs both capacity and expertise. This can come only from reinsurers.

We expect the reinsurers to have long term commitment with local insurers and to be consistent, instead of participating when the market gives good results and withdrawing when the market has bad results.

Apart from the transfer of knowhow, information about the new trends of international markets and sufficient market capacity, the Vietnamese insurance industry also expects training relating to new products like cyber liability, terrorism and kidnap and ransom.

By and large, international reinsurers have understood the difficulties of Vietnamese insurers and at a certain level, have adjusted to the realities of this growing market.

International reinsurers have understood the difficulties of Vietnamese insurers and at a certain level, have adjusted to the realities of this growing market.

Technology as an enabler

Technology and digitalisation will play an important role in the development of Vietnamese insurance industry as InsurTechs evolve. The Vietnamese are generally digitally savvy and the know-how to develop digital solutions for some insurance bottlenecks exist or can be developed locally.

The infrastructure for digital readiness in the Vietnamese society exists which makes things that much easier for the insurance industry to piggy-back on that for its own development.

What's in the crystal ball?

We expect the market to grow at the existing pace and maintain double-digit growth rates. Retail lines like motor and health will continue to be the market drivers. The regulatory framework will also grow and initiate new regulations for an orderly and systematic development of the market.

There is an exciting future ahead for the Vietnamese insurance industry.

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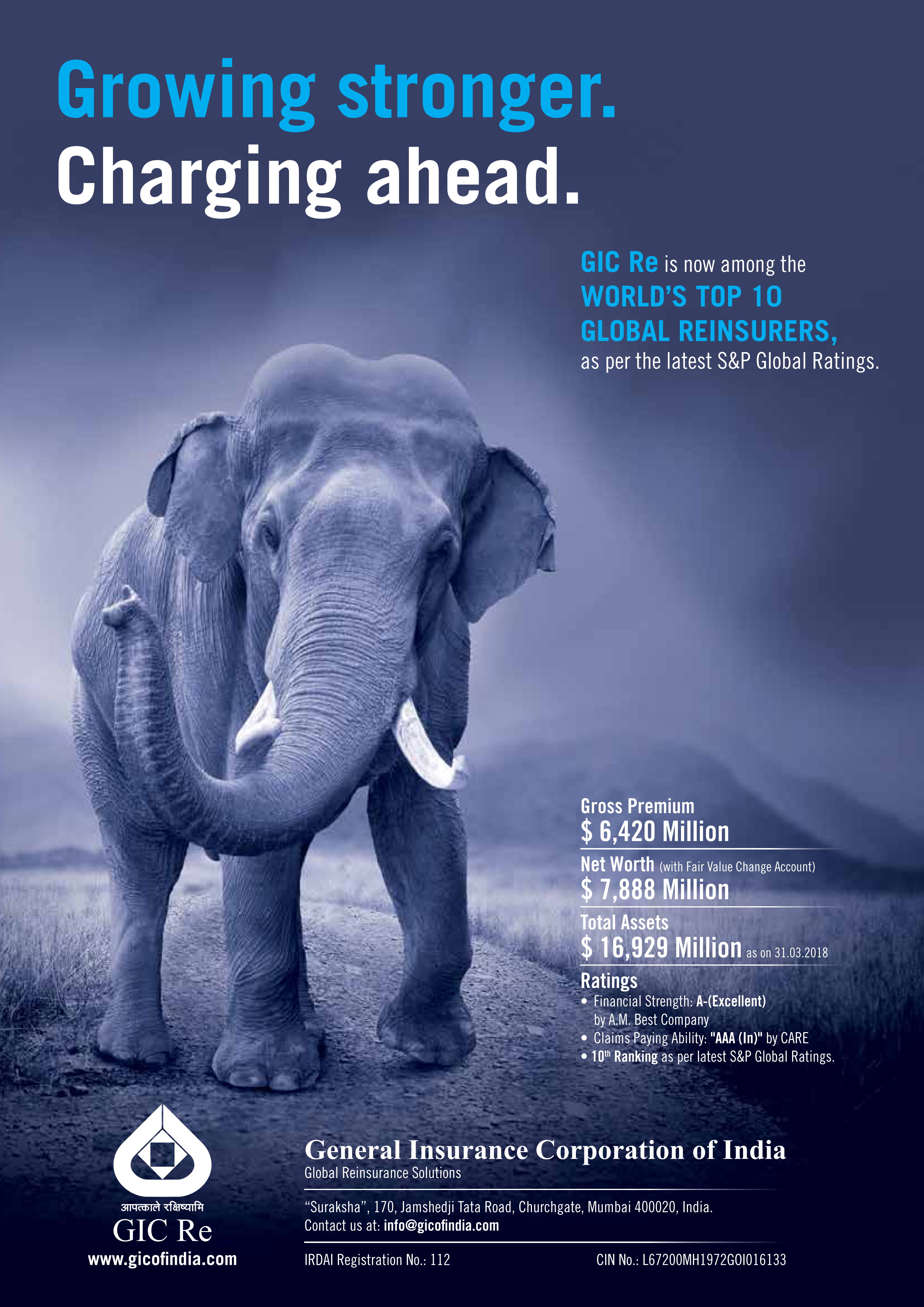
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