SIRC SUPPLEMENT

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ASIA INSURANCE REVIEW
DEDICATED TO ASIA'S INSURANCE INDUSTRY
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WINDS OF CHANGE

29 OCTOBER – 1 NOVEMBER 2019

16TH SINGAPORE INTERNATIONAL REINSURANCE CONFERENCE

Performance Powered by Teamwork

आपत्काले रक्षिष्यामि
GIC Re

Gross Premium
$ 6,394 Million

Net Worth (with Fair Value Change Account)
$ 7,627 Million

Total Assets
$ 17,184 Million

1US$ = ₹69.18 as on 31.03.2019

Ratings

- Financial Strength: **A-(Excellent)** by A.M. Best Company
- Claims Paying Ability: **"AAA (In)"** by CARE
- **10th Ranking** as per S&P Global ratings 2018.

General Insurance Corporation of India

Global Reinsurance Solutions

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EDITOR'S MESSAGE

"Change is coming whether you like it or not." Famous words made powerful as they come from the mouths of babes upset with the elders who have stolen their glorious future through mistreatment of the earth.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.

These were the famous words of 16 year-old Swedish Greta Thunberg, who took the boat to cross the ocean to get to New York for the UN Youth Climate Summit in New York, to make an angry clarion call for action to the world and every citizen of the globe to act immediately and decisively against global warming and climate change. Doubting Thomas and the ignoramus aside, the fear is that the UN will just engage in platitudes and act on the minimum common consensus that the body can achieve. There is now genuine movement and even fear that Ms Thunberg might create mass hysteria for action on the climate.

The 16th SIRC with the theme of 'Winds of Change' will get straight to the point to look at sustainability of the environment and also the reinsurance business model. These are exciting, though scary, times. Even in Asia, the impact of climate change is hitting home hard with an increasing number of natural disasters - quakes, typhoons and floods and greater severity of damages. Some say the time is past the tipping point - but most say there is still hope if we act now.

Whatever the results may be, we have to act NOW to arrest the tide of global warming. It cannot be same old same old.

Interestingly, only at Les Rendez-Vous de Septembre in Monte Carlo, the largest reinsurance gathering of the world, was there active talk of upgrading floods from a secondary to a mainstream risk. So at least there will be more active inputs coming forth from the insurance and reinsurance sector to get the public and business to change their habits of a lifetime to contribute to tackling global warming.

The 16th SIRC, with its spread of thought leaders as speakers and panellists, will have the opportunity to set the tone for a more informed reinsurance response in this area. Hence everyone attending the SIRC has the unique responsibility to rise to the occasion so that we can send a note to the children of the world that we as an industry are taking this matter most seriously - to let children have the joy to stay in schools and work for a promising future ahead in a brave new healthier environment.

The 16th SIRC also presents a great opportunity to Asia, now accounting for more than a third of global GDP and 54% of people on earth, to fly high in this Asian century. Premium-wise sigma figures show Asia accounting for only 25% of the global non-life and 39% of the life pies. By most estimates, Asia still only accounts for much less than 20% of global reinsurance, though three Asian reinsurers are in the top 11 reinsurers of the world spots. In terms of penetration, Asia has three of the top five - Taiwan in pole position followed by Hong Kong and Korea as fifth. In per capita spend, Asia has three of the top 10 positions - Hong Kong, Taiwan and Singapore in second place with $8,863, $5,161 and $4,958 spend respectively in 2018 according to sigma.

Asia is growing and brimming with potential despite the various challenges ahead. This supplement showcases the various major markets in Asia as seen from the major players within those markets themselves. And with a specific non-life focus, China is now the largest with some $261.5bn, followed by Japan $106bn, Korea $81bn, India $26.1bn and Taiwan $19.8bn in top five spots. With the Asean Economic Community in sight, the Southeast Asian markets are also pulling their weight.

Following up on Ms Thunberg's inspiring activism, critics notwithstanding, I can only wish you all a great SIRC with the prayer that:

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

Sivam Subramaniam
Editor-in-chief
Asia Insurance Review
Chairman
SIRC organising committee

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The reinsurance industry continues to face an incessant wave of challenges – increasing frequency of extreme weather events caused by climate change; industry disruption and digital transformation manifested by the many InsurTech initiatives; and the sustainability of the insurance/reinsurance business model as operating margins narrow.

When describing the weather patterns today, the adjective 'extreme' is hardly an appropriate description given that 'extreme' weather seems to be the new norm. Climate change is exacerbating catastrophes and complicating the calibration of models to reflect this increasing risk accurately. This is the fourth year in a row that we have had a Category 5 hurricane – hurricane Dorian, packing some of the strongest wind speeds ever recorded. Typhoon Jebi also delivered surprises on many fronts, from its escalation as a single-digit billion industry event to a near $15bn industry loss, and the fact that almost the entire industry did not foresee the loss creep coming.

Typhoon Hagibis represents the latest test in the CAT space, only weeks after Faxai. As the worst storm hitting Japan in more than six decades, it is just another 'extreme' experience.

On the digital front, new technologies and digital innovations are evolving rapidly, disrupting the insurance/reinsurance value chain. These transformations led by InsurTech are concentrating their innovation efforts in the areas of emerging risks, new approaches to underwriting and new value propositions to keep businesses fit in the years ahead. A prominent role InsurTech will play in the future business landscape is to reduce operating costs, imperative to ensure that the trading of our products remains viable. These challenges provided the backdrop, which led the organising committee to create the theme for this year's SIRC – 'Winds of Change'.

One of this year's highlights is a deep dialogue involving Dominic Christian – global chairman, reinsurance solutions, Aon and Tobias Poensgen – CEO, Momentum Capital, an experienced investor in the space of InsurTech. You will appreciate that high-level insights from both angles – within and outside the industry – will generate absorbing debate and stimulate an insightful and unbridled exchange on the industry's sustainability amidst these challenges.

In keeping with this year's theme, we have two dedicated panels: A distinguished executive discussion on 'Winds of Change – Climate Change and Sustainability' and an executive panel on 'Reshuffling the Industry – How Insurers, Brokers and Reinsurers see each other's Future Roles'. Mr Herbert Fromme, an insurance correspondent and expert, will be moderating the second panel discussion and is sure to enthral the audience with thought-provoking discussions. The stellar cast of speakers also include industry luminaries such as Lloyd's of London CEO John Neal, Allianz RE CEO Amer Ahmed, Willis Towers Watson CEO, capital, science and policy practice, Mr Rowan Douglas; Guy Carpenter CEO, International James Nash, Trust Re Group CEO Talal Al Zain, Allianz CEO, property and casualty Asia Pacific Claudia Salem and Swiss Re Group chief economist Jerome Jean Haegeli.

As always, a hallmark of SIRC has been the networking of global and regional industry practitioners and specialists and I am confident the event will once again provide an excellent platform for us to learn, speak and share our experiences.

The success of this year's conference can only be attributed to the loyal support of numerous people, many of whom have been devoted to this cause since its inception and there is no doubt this steadfast support will continue in the years ahead. I believe the SIRC has cemented its place as the 'must-attend' reinsurance rendezvous for Asia and will continue to augment its stature and reputation as a major international reinsurance event. I wish you all a fruitful and enjoyable time here at the 16th SIRC.

Mr Marc Haushofer
Chairman,
Singapore Reinsurers' Association

Welcome to all delegates to the dynamic SIRC from the membership of the Reinsurance Brokers Association of Singapore (RBAS).

Singapore is happily strongly supported by the Monetary Authority of Singapore, which has established itself as our guiding light over the past several decades and Singapore as the undisputed centre of reinsurance in the Asian region.

Today this has never been more true as the market broadens and specialises itself, providing a multitude of related quality services and capabilities to the region.

Importantly, in recent years the market has attracted talent from around the Asian region and the globe to support its steady growth and stability. It drives itself on to greater heights of excellence and an integral understanding of our ever-changing risks, risk management, claims and capacity.

Our RBAS membership benefits from the drive and innovation of the region around us which fuels our growth.

Singapore, as a nation, is extremely proud to host the SIRC.

As a guest in Singapore, enjoy the delights including our ease of transport, accessibility, security, excellent global cuisine, smiling faces and much more. It is truly a 'best of class' global and garden city.

Please do not hesitate to contact any member of RBAS and allow us to assist you if there is any way that we can make your experience in Singapore more fulfilling.

Wishing you lasting good memories of the SIRC.

Richard Austen
Chairman of the Reinsurance Brokers' Association (Singapore)

Chairman

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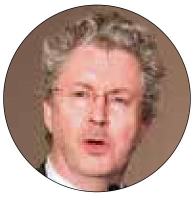

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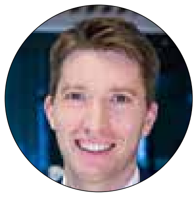

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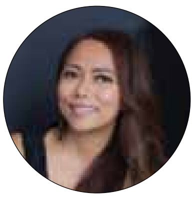

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Executive director
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As technology spurs innovations in the (re)insurance industry, the industry needs to take care to remain within existing laws and regulations. Changes in laws and regulations can't match the pace of technology induced changes in the industry," says **McCarthy Denning head of insurance and reinsurance and partner Clive O'Connell.**

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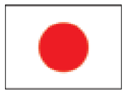
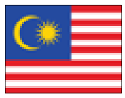
Normally, an industry graduates from simple to complex processes, procedures and products. The Indian insurance industry, however, missed this basic principle and instead adopted the policy of complex and one-size-fits-all products for the Indian insurance customer, says GIC Re general manager **Devesh Srivastava**.

Japan: Technology helps improve and innovate
The year 2018 saw several natural disasters hit Japan. However, the country's non-life insurance industry dealt with them credibly. **Toa Reinsurance Company president and chief executive Tomoatsu Noguchi** says the industry improved its claims handling systems and introduced rapid response initiatives.



Korea: A breakthrough is required for the stagnant market
The Korean insurance market has remained stagnant over the last three years. **Korean Re CEO Won Jong Gyu** says the struggle is against increasing market saturation and slowing growth under an unprecedented harsh business environment which is compounded by low growth, low interest rates and low birth rates.

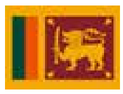
Malaysia: Opportunities and challenges
Malaysian Re CEO Zainudin Ishak says Malaysian general insurance market is brimming with opportunities and challenges as it aligns with the best global industry benchmarks.



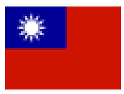
Philippines: Industry and government collaboration key to insurance industry development
National Reinsurance Corporation of the Philippines president and CEO Allan Santos says sustainability of the Philippine insurance industry should be attainable with the initiatives taken by the industry and the regulator. Things are moving on the right path despite several challenges.

Singapore: Building a world-class insurance hub
Monetary Authority of Singapore executive director, insurance department Daniel Wang discusses the effect of technology on the insurance workforce, climate change risk and the regulator's vision for Singapore as an ILS market in the future.

Sri Lanka: Insurance industry upbeat despite economic downturn
Ceylinco General Insurance director (technical) and chief technical officer Dr Jagath Alwis says the Sri Lankan insurance industry continues its growth trajectory despite the country's economy going through a difficult phase.



Taiwan: Growth is slow, but steady
The Taiwanese insurance market has maintained a slow but steady growth over the last couple of years, aided by several factors, both, global and domestic, says **Central Reinsurance Corporation vice president and appointed actuary Lyndon Lin.**



Thailand: A confident and resilient market
Asian Re CEO Anil Sant says Thailand is a market with lots of potential and is set to take on the challenges in the areas of innovation, regulation, digitalisation and impact of climate change. It is subject to intense competition but highly resilient and provides good opportunities and space to grow.

Vietnam: Thriving but challenges aplenty
The booming economy, economically prospering middle class, technologically savvy population, improving lifestyles are all creating a demand for insurance in Vietnam. Natural catastrophe too catalyse the uptake of protection cover. **Insurance Association of Vietnam deputy secretary general Ngô Trung Dũng** gives a brief overview of the country's insurance sector.

成数再保险

Insurance can help turn the tide on climate change

"As the world's specialist insurance market, Lloyd's is well attuned to the impact of climate change and other global trends which are redefining the risk landscape. The insurance sector's role in managing complex and long-term risks brought about as a result of climate change and other mega trends is increasing in importance," says Lloyd's Singapore country manager **Angela Kelly**.

In 2018, Lloyd's collaborated with the University of Cambridge to publish the second iteration of the Lloyd's City Risk Index, a global ground-breaking study that measures the impact of various man-made and natural threats for 279 cities worldwide. The findings in the City Risk Index revealed that climate change continues to be a major risk driver, accounting for some $123bn of economic output at risk every year.

Despite the economic growth; insurance gap doesn't seem to be closing

Lloyd's also examined levels of underinsurance throughout the world. Our report on the global insurance gap released last year, 'A world at risk', highlights that despite general global economic growth in recent years, the insurance gap is hardly closing. According to the report the global underinsurance gap is now $162.5bn, a reduction of just over 3% over a period of six years.

Developing nations in Asia have the lowest insurance penetration and the highest gap. Countries such as Bangladesh, India, Vietnam, the Philippines and Indonesia each have an insurance penetration rate of less than 1% and are among the countries most exposed to climate change, being the least able to fund recovery efforts.

Asia Pacific is the most impacted area by climate change

Asia Pacific is the region that is most critically affected by climate-related weather events, with just over half of its exposure coming from natural catastrophes. Climate-related threats are magnified in Asia Pacific and many parts of the region are unnecessarily overexposed to them. The region is particularly susceptible to extreme weather events owing to a variety of factors such as increasing urbanisation combined with low infrastructure resilience and low insurance up-take.

Our analysis of 92 cities in Asia Pacific revealed that there is considerably more to do in building resilience. Only 19 cities were assessed to have the highest resilience rating of Very Strong and there are total potential savings of $34bn in economic output per year if all Asia Pacific cities assessed were to achieve the highest resilience rating possible.

Four main strategies to improve resilience

The Lloyd's City Risk Index report identified four main strategies; cities could deploy to improve resilience. Infrastructure investment to minimise losses from tropical windstorm, construct flood defences to help cities adapt to sea level rises, improve water management to reduce episodes of drought and invest in new technologies to better manage resources in mega cities.

Reinvesting economic growth to reduce wealth inequality and increase in insurance penetration to ensure city GDPs can recover more quickly from sudden shocks. With more than half of the world's future urban spaces yet to be built there is an opportunity to build new cities which are highly resilient to both the pressures of urbanisation and a changing climate.

Flooding has now become the most common type of natural disaster. There is an increased risk of flooding in many parts of the world, especially in coastal cities and wetlands, and much of this can be attributed to rising sea levels, variations to rainfall patterns and the loss of coastline. According to the United Nations Office for Disaster Risk Reduction, flooding has accounted for nearly half of all weather-related disasters worldwide between 1995 -2015.

Climate change continues to be a major risk driver, accounting for some $123bn of economic output at risk every year.

Asia suffers most floods

Asia suffers more floods than any other continent, with more than 600 floods since 2008 and four of the top 10 most damaging floods since 2008 occurring in China. The most damaging in terms of economic losses were the 2010 floods, caused by heavy monsoon rain in China's eastern and southern provinces. In just 48 hours, the rainfall in some areas measured more than 400mm. The floods lasted 20 days and affected 28 areas. Despite the extent of the damage, only 1.5% of the losses were insured.

Today, China remains one of the most underinsured countries in Asia Pacific, with the largest share of uninsured losses. Around 98% of losses resulting from natural catastrophes are not covered by any type of insurance. Thailand is another country that is also highly exposed to natural disasters and has low insurance penetration. In 2011, a heavy monsoon season caused widespread flood damage, with 5.5% of the country's total landmass affected. The floods affected 66 of the country's 77 provinces with more than one million houses destroyed or damaged, resulting in total insured losses of $16bn compared to uninsured losses of $34bn, the largest in the country's history.

Climate change also exacerbates droughts and heatwaves

At the same time climate change is also contributing to disasters of the drier variety, with droughts, heatwaves and wildfires wreaking havoc in both developing and developed economies in the world. Many parts of Asia Pacific can be particularly hot and dry. Australia is experiencing some of the hottest and driest climatic conditions in recent history leading to destructive and deadly bushfires in many parts of the country.

In addition, many countries across Asia regularly experience extended periods of severe heat and water shortages, creating damaging economic impacts and political tension among countries sharing precious water resources.

Countries should draw up contingency plans

The increased frequency and severity of weather-related events threatening business and communities makes it more essential than ever that businesses and governments prepare for disaster.

Measures include developing contingency plans, building greater resilience and ensuring that there is adequate post-disaster recovery. Insurance plays a critical role in helping individuals, businesses and communities recover from disasters and stimulates economic output post disaster. The insurance sector also has a role to play in creating opportunities for the proceeds of insurance policies to be used to build more resilient infrastructure post disaster.

There is a social and economic imperative for governments, insurers, communities and other stakeholders to collaborate in building programmes that encourage effective cross boarder access to expertise and capacity so that barriers to insurance take up are removed and ensure economies are adequately protected.

Will technology cause insurance brokers to disappear?

Willis Re InsurTech global head **Andrew Johnston** says, "The insurance broker's role is unlikely to diminish. Instead, technology offers them the opportunity to concentrate their time on the higher-value components of their offering and to focus even more intently on the value they bring to clients."

For some time now, industry practitioners have speculated that InsurTech would cause business models to evolve, from integrated insurers to distribution and product experts; from balance sheet businesses to capital-light structures, supported by third-party investors and capital markets. While much of this speculation has focused on the impact on businesses within national insurance markets, technology has the potential to alter the global balance of power between insurance companies operating in developed markets and those in emerging economies.

Ensure better customer experience

Less hindered by legacy systems, and often driven by the desire to create a better customer experience, companies in emerging markets can potentially create new, innovative solutions faster. Innovation often tackles areas that drive cost and detract from the customer experience in established markets, with key areas of focus being claims management, data analytics, business process, product development and distribution.

Investment patterns reveal the maturation process. InsurTech investments were down about a fifth (21%) by individual transaction number in the second quarter of 2019, but the deals that did materialise were larger on average and skewed towards later-stage investments. Risk carriers are playing less in the venture capital stages of the InsurTech life cycle, preferring to put their cash behind companies that have at least begun to walk, and preferably to feed themselves.

The model for success

The volume of InsurTech activity and hype has acted as a defibrillator on the heart of the insurance industry. The much-vaunted InsurTech 'revolution' has driven people across the sector to talk more positively around the application of technology, with some seeing it as the potential saviour of a broken system. This positive impact, spurred by outsiders, is now arising organically from the inside, because the industry knows its own challenges better than anyone else. InsurTech has forced insurance technology issues to the fore and companies are acting.

Success rarely has a smooth upward trajectory, and that will be the case here as well. Technology will remain fundamental (the very first commercially used IBM mainframe was deployed by an insurer) to our sector in the medium term, if not revolutionary. However, as so often happens in the technology investment sphere, seemingly impossible gains and outcomes turn out to be just that.

Just a few years ago major industry players were throwing all but the kitchen sink at the promise of a fundamental shift in paradigm but there are increasing signs of InsurTech fatigue after spending millions and gaining no first-mover advantage.

In contrast, other companies avoided this pitfall by adopting (by design or otherwise) a slow and steady approach, reaping the benefits, via buying-in proven insurance technology as a strategic vertical investment.

Embrace once proven

Technology has become infinitely replicable. Price-sensitive personal lines consumers may be here today, attracted to a flash technology, but are just as likely to be gone tomorrow. That makes early-stage InsurTech investment a real risk. Launching something that doesn't work is a costly error. Opportunities abound to partner with, buy, adopt, or embrace one or more of the thousands of InsurTechs after they have been proven.

It turns out that disruption is easier to articulate than to implement. Partnerships have become the model for success. InsurTechs must create solutions to problems that insurance and reinsurance companies face today. The business proposition must come first and must comprise a clearly defined business technology that supports an existing process.

InsurTechs real disruption has been

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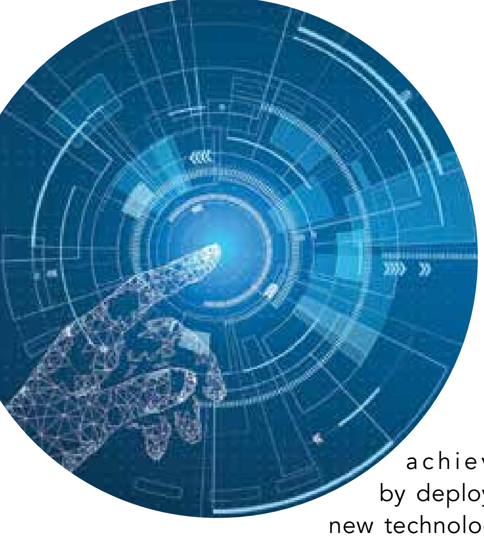

achieved by deploying new technologies in ways that are more effective than their competitors' efforts, thereby altering the sector's dynamics in the way Direct Line did in the UK. Success begins with the same ingredients, and ultimately delivers a similar end product, but adopts a different, much more efficient sales and distribution methodology to create competitive advantage.

The value chain

Any technology which compresses the insurance value chain, allowing more direct access to capital for the consumer and creating high capacity for disintermediation, does of course have the potential to be disruptive to brokers, insurers and reinsurers alike. Doing nothing or the bare minimum seems an increasingly blinkered choice. Just as the Luddites failed in the 19th century to reverse the impact of technology by attacking weaving machines, so too will those who hope that technology will pass by the insurance industry and move into some other less threatening biosphere.

Today's insurance business model is rooted in the industrial age notion that the key participant is the capital provider and, by extension, the risk taker. The hypothesis is that the risk taker is entitled to the majority of the reward, based on a time when capital was scarce. However, along has come technology – permeating the sector and tipping the balance of power between the providers of capital and the authors of ideas dramatically in favour of the entrepreneurs.

This is consistent with the post-industrial age which has fundamentally reordered the hierarchy of priorities; lowering the importance of (now plentiful) physical capital and raising the prominence of human capital – brainpower is not capital intensive.

In the insurance world, where technology has the potential to eliminate barriers to entry, weaponise data and create new forms of information from which to more precisely gauge risk, thereby lubricating the appetite of alternative capital, who, frankly, can afford not to engage in the brave new world? As such, could we be looking at a new insurance company structure of the future?

The broker of the future

What about the impact on brokers? There has been plenty of discussion around the threat InsurTech presents to brokers' business models. However, technology is already playing a significant role in brokers' service offering, and that role is only increasing.

The broker business model is all about relationships, market knowledge and understanding of the products and services one is selling, and to whom. If the brokers want to enhance their business models, they need to start seeing technology as an opportunity rather than a threat.

Technology has the power to complement, enable and support many of the core processes that underpin the broker business model. This will help brokers to free up more time which can be spent on creating new and exciting opportunities for their clients.

Technology can help improve not replace

Technology can also help to improve the efficiency of placement. It will not replace relationships in a market where its ultimate product – capital solutions – is far from commoditised. Placement efficiency is a critical but subordinate component of reinsurance brokers' offering. Analysis, structuring, and other consulting functions are at its core. These are the differentiating service elements valued both by risk carriers and clients, and cannot easily be replaced by technology-driven disruptors.

We are already seeing technology being used to streamline the quoting process, bind multiple policies together and generally improve the client experience. Despite this, there is still a real fear among brokers that their role within the insurance value chain will be taken over by technology.

Brokers need to understand that many of these technologies still need a guiding hand and that technology will enhance their position within the insurance value chain, not diminish it. If managed properly, technologies that improve efficiency and outcomes can be game changers.

Activities such as data analysis are massively enabled when effective technology is in place. Understanding an insurance company's capital and volatility management goals in the context of its overall business plan and vision is not a job that can be performed by an algorithm, but technology can play a sizeable role in how to achieve those goals.

The broker's role is therefore unlikely to diminish. Instead, technology offers brokers the opportunity to concentrate their time on the higher-value components of their offering and to focus even more intently on the value they bring to clients.

Technology has become infinitely replicable and disruption is easier to articulate than to implement.

Cyber risks – the stakes are high for reinsurers

Peter Hacker, cyber security expert and public speaker and **Hans-Joachim Guenther**, reinsurance and risk expert, share their thoughts on cyber risks and develop a framework for the global impact on the reinsurance Industry.

From boring bog-standard peril to a virulent challenge

Cyber risk has a history. It started in the '70s as electronic data processing insurance covering losses following computer breakdown and costs related to data recovery. Cyber risk appeared for the first time in the late '90s when the industry became aware of system glitches in software that could not handle the year number 2000.

Around 2003 we had the first named perils based on standalone privacy breach or network security failure endorsements and, soon after, cyber policies emerged primarily meeting US data directives demands.

In 2007-2008 the global financial crisis drew attention to other areas of the insurance industry. Nevertheless, development of standalone cyber products accelerated from 2009 onward – with the main focus still on the US - while the rise of technology errors and omissions (E&O) policies started in the London market.

Moreover, accelerating coverage demands in CTM business led the way to the first wrongful act based 'all risk' technology E&O policy. This arrangement extended into first- and third-party cyber perils. Consequently, the cyber market reacted by broadening existing first- and third-party cover again which resulted in exponential premium growth and profitability in the USA.

In mid-2017, we got the first wake-up call after significant cyber-attacks (WannaCry and NotPetya). These started a renaissance that recognised cyber risk as a more relevant, if not systemic, industry challenge. Moreover, a new phrase 'silent cyber risk' appeared and got boards', regulators', rating agencies' and courts' attention.

Technological (r)evolution and its bearing

Real-time connectivity is becoming increasingly important. Perfect examples are just-in-time supply, order anticipation, stock optimisation, predictive maintenance and incident/accident forecasting. This list is growing day-by-day and myriad applications will be developed ultimately to push existing and new business models forward but at unparalleled competitive margins.

Initially, connectivity will be a competitive edge but quickly become core to survival. One of the magic phrases is the internet of things (IoT). Take our personal lives. Just a few years ago we used the internet only from fixed devices but very soon 90% of our internet traffic will be from mobile devices. In a few years, a real big 'thing on the internet' will be cars and autonomous driving opening a new dimension of cyber exposure. In the next few years billions of IoT devices will be used in businesses globally.

Company values are less and less dependent on tangible assets and more dependent on intangible assets such as IP, reputation, brand, knowledge and customer data. Some call this (r)evolution disruption, but it is ultimately (r)evolution driven by the latest technology. And it does not just serve pure business reasoning, but helps ethical, environmental or resource-saving ambitions that are of

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the utmost importance in our densely-populated world.

Cyber risk nature

Looking at this picture explains why we became vulnerable to cyber incidents affecting our lifestyle and business connectivity, based on malicious acts (crime) or non-malicious acts (E&O). It does not take much to see that increasing connectivity and increasing value of intangible breeds a new class of crime: Cyber.

Cyber attacks are unique in two ways: They are global and so writing a global portfolio of cyber risks isn't diversified like Nat CAT; and they are manmade. They are driven by criminal minds, stealing knowledge, IP and money or destroying and disrupting lives.

State-sponsored attacks are worse as they seek to infiltrate or damage entire economies. State-sponsored attacks focus on materially important companies, critical infrastructure including healthcare and utilities, provoking contagious effects creating a chain reaction through a large number of damaged entities intended to destabilise a nation.

Cyber risk is highly contagious. Contagion is not new to our industry but there are major differences with cyber. It's the way this exposure spills into (re)insurance. The relatively young practice of affirmative cyber covers almost serves like a primary layer next to existing policies which could respond to cyber losses on a non-affirmative ('silent') basis.

Policy wordings, and in particular property, engineering, marine, cargo and all risk wordings, have been widened to include miscellaneous additional losses as a result of price competition. Wordings softened and tend no longer to distinguish between data that is regarded as a tangible or intangible asset or whether business interruption (BI) or contingent BI losses require physical damage to assets or just disruption of any asset in the value chain.

As a result, many wordings eventually assume losses from cyber attacks even though the contractual parties may never have intended those loss scenarios to be part of the insurance coverage. (Re)insurance never considered the premiums that should be charged for these silent cyber exposures. The ambiguity of wordings has already led to court cases with insureds seeking court orders to be reimbursed under property policies.

There have been always situations when new risks were recognised as uninsurable e.g., BI, contingent BI or environmental impairment covers. However entrepreneurial vision, careful risk management and multidisciplinary knowledge pooling allowed for those boundaries of insurability to be moved.
Progress often came along with some painful lesson before the product became sustainable, e.g., D&O. All insurance innovation has a link in common: It is driven by demand for coverage. Cyber insurance follows this pattern.

Cyber risk management

Demand is growing and insurance is responding. This situation is much like running before you can walk properly. Irrespective of type – state-sponsored or criminal – cyber exposure will be challenging when it comes to insurance modelling. Nat CAT are based on acts of God with manageable trend risk during contractual annual (re) insurance terms and allow for decent proxy from experience. Cyber exposure will require more complex methodologies and cannot be built on experience because of its man-made criminal dynamic.

The current dualism between affirmative and silent covers aggravates the challenge. It is like an iceberg. The visible part (affirmative) is already dangerous but the invisible part (silent) underneath the surface could be disastrous.

So far cyber risk model vendors target predominantly direct insurance based on a single risks (insured) assessment. Therefore, their models are barely fit for purpose for aggregate portfolio assessments like reinsurance. Cyber exposures and the relevance of contract wording language requires the development of bespoke modelling approaches which combine qualitative with quantitative aspects.

Nat CAT models were improved over decades to their current levels of accuracy. Today, cyber risk models lag 20 years behind Nat CAT assessment models. Generally accepted data standards in Nat CAT like CRESTA zones or long-standing experience of how incidents transform into damages are missing in cyber.

Positive momentum derives from growing awareness and more detailed scrutiny of accuracy and bandwidth of offered threat intelligence data as well as modelling approaches. Boards are beginning to acknowledge that the virulent nature of this exposure requires top management attention and will be a D&O case should they suffer from a material loss following an unmanaged stress scenario.

Regulators, policy makers, governments and ratings agencies are also shifting their attention to the virulent nature of cyber exposures, proper risk management and, most importantly, to the downstream effects on the reinsurance industry.

Cyber risk is sizeable

According to various sources, the affirmative cyber insurance market globally is expected to hit the $14bn mark by 2022 from less than $7bn today. The reasons for the rapid premium growth include: (1) an exponentially increasing number of cyber attacks; (2) a rapidly growing number of IoT devices and related vulnerabilities; (3) global enhancement of regulations or directives on personally identifiable information loss (like GDPR, CCPA, etc.); (4) increasing awareness of cyber thefts among small- and medium-sized enterprises providing digital services; (5) a growing number of companies viewing cyber security insurance as a risk-mitigation strategy.

As result of our own and proprietary cyber risk scenario analytics, global economic losses will range between $121bn and 234bn and insurance losses between $27bn and $40bn. These scenarios include a massive power outage or a major cloud operation and domain name server failure resulting from a coordinated global cyber attack, using the combination of a high volume and intensity-driven distributed denial-of-service attack with between two and four attacking vectors, one of them a major ransomware backing a wiper.

The worst scenario is built upon a combination of both. The insurance claims would split into 16%-20% for 'silent' components (property damage, business interruption, marine and liability) and approximately 80%-84% for affirmative coverage elements (privacy liability, network security liability, network or security failure, cyber extortion, data asset protection cost, contingent BI liabilities and incident response cost).

This spread assumes that state-sponsored attacks fall within the hostile act exclusion, data would not represent physical asset and D&O claims remain minor. The outcome of pending court cases might therefore well influence the silent cyber losses and our model in future.

Cyber risk can wipe out major portion of global reinsurance excess capital

Many specialists are concerned about cyber pricing. But missing risk accumulation would be immediately fatal and the proper concern – at this stage - must focus on silent cyber throughout the value chain, from risk via insurance to reinsurance.

Let's play around with a few numbers for illustrative purposes. Global non-life insurance premium accounts for $2.4tn. About 17% or $400bn are property premium. If we assume a worst-case, silent cyber loss could stack up to 5% loss ratio on property premium, this translates into a $20bn silent cyber loss.

Given existing property risk reinsurance structures it is reasonable to assume that 90% of this loss ($18bn) will run down into reinsurance. Be reminded of the Thailand floods and how a large event made its way through uncapped risk covers into reinsurance. An $18bn reinsurance loss translates into 3.5% to 4.5% of global reinsurance capitalisation, which is estimated at $400bn-$500bn.

A loss of $18bn may look small compared to reinsurance capital resources, but is significant because it is outside yet managed loss scenarios and therefore runs against the reinsurance industry's excess capital.

In its latest reinsurance highlight 2019, S&P estimates an excess capital of about $20bn for the leading top 20 reinsurers. The conclusion is: Silent cyber has the power to wipe out a substantial amount of the global reinsurance excess capitalisation which is the foundation of the loss-resilience profile of this industry. No doubt cyber exposure needs to become a top priority for boards and top management.

We decided to make these client initiatives our focus and developed a proprietary toolbox. We are already successfully engaged in projects with (re)insurers and our support ranges from education, tailored scenarios, wording analytics to potential loss quantification.

Summary

At this moment cyber is the most underestimated risk of our industry. And it's no longer a black swan because too much is already known.

Cyber risks have an unparalleled and unique risk nature and challenges. The stakes are certainly high for both the reinsurance and direct insurance industry. Without a managed risk approach to cyber exposures, reinsurers and insurers are severely exposed and could suffer from outlier losses, eventually causing reputational harm and unforeseen financial losses.

Cyber is different from any other current insurable peril. Cyber is a truly global exposure, fully manmade and driven by criminal energy. Due to its nature, diversification is much less achievable than in other lines of business. These ingredients carry huge potential for large aggregate losses as a single event might trigger many independent policies.

Cyber exposures will most certainly grow due to the increasing vulnerability of our social and economic life. The driver behind this trend is the massive growth in number of interconnected devices which are all capable of being compromised.

Many existing policies in property and other lines of business do not exclude cyber properly and therefore cover may be triggered for a cyber event irrespective of whether such coverage was intended, or any premium was charged (silent exposure).

This leads to increasing attention at board, regulatory, rating and policymaker level. All these stakeholders have in common a material demand for transparency in respect of size of potential losses.

Cyber models will be bespoke and based on qualitative and quantitative assessments fully to reflect the individual contract wording(s) situation.

Over the next few years the gap between economic losses and insured cyber losses will shrink rapidly and cyber will represent a loss exposure which is on a par with the worst Nat CAT losses but with a potential return period that is much shorter than in Nat CAT scenarios. Companies that recognise and address such developments early will thrive in this new age of intangible risk. Others may well falter.

The InsurTech revolution

Digitalisation is changing the way insurers operate and interact with customers worldwide. It is also mixing up the market, with new digital players entering the scene. The potential of InsurTechs is especially pronounced across the Asia Pacific region – so says Munich Re chief executive, Asia Pacific, Greater China, Australia, and New Zealand **Tobias Farny**.

The scenario is all too familiar: Agile disrupters offer a new customer experience, grab market share and ultimately drive out incumbents. Think of the impact of online retail on bricks-and-mortar shops, iTunes on music CD sales or more broadly, the digital landscape in Asia – with super apps like WeChat changing how we interact with the world around us; with financial services being no exception to disruption.

InsurTech is more than hype: It is hitting the insurance industry hard and fast, changing the way we and – most importantly – our customers think about insurance. Does it mean traditional insurance is headed for extinction? The answer is an emphatic no. What is does mean is that we need to adapt – fast.

Making business more efficient

InsurTech solutions typically aim to optimise business processes in terms of on-boarding new customers, underwriting efficiency or fostering ongoing customer engagement, for instance, by offering personalised insurance options. But beyond the improved customer experience, these solutions also open new opportunities to provide services that are relevant and customised to the customer's needs. But despite the high level of activity in the InsurTech space, implementation remains limited. In most cases, the focus is on improving existing processes or offering alternative solutions to insureds.

At Munich Re, we are convinced that it is only a matter of time before large-scale integration of new technologies in the non-life sector takes place. And we are committed to supporting and actively shaping the process in the Asia-Pacific region – a market with huge potential. Munich Re expects it to be the fastest-growing market for insurance worldwide, with non-life seeing a compound annual growth rate (CAGR) exceeding 9% between 2016 and 2025. And Asia Pacific insurance markets, characterised by tech-savvy rising middle classes accustomed to mobile-first digital customer experiences, are predestined to welcome InsurTech products.

In China, Munich Re opened its first innovation lab in Beijing in 2015, and in 2018, launched its dedicated insurance innovation unit Si Tao to work with Plug and Play – a global start-up accelerator, and established an insurance innovation market leading position. In addition, we maintain Munich Re Digital Partners, a global venture with a strong presence in South and Southeast Asia aimed at partnering with (digital) disruptors.

We believe the impact of InsurTechs will revolutionise our industry, but we are equally convinced that the future of insurance will be built on cooperation and partnerships between experienced companies and digital newcomers. To illustrate why Munich Re takes this view on digital disruption, let's look at the strengths and weaknesses of the different business models as well as the tasks ahead.

Barriers to be overcome

To embrace the paradigm shift fully and fulfil the expectations of digital natives, insurers need to overcome challenges in three main areas. Established insurers and InsurTechs alike must first realistically assess digital business cases. This means taking a good look at the strengths and weaknesses of traditional and disruptive business models. For example, consider that most well-established insurers have built up significant blocks of in-force, long-term business. Even if conservative valuation bases (relative to best-estimate claims costs) are used to project future revenue streams, as these in-force books mature, ongoing profitability is almost guaranteed. In contrast, InsurTechs are generally untested. Estimating their future profitability is extremely difficult.

The future of insurance will be built on cooperation and partnerships between experienced companies and digital newcomers.

The second task is critically to evaluate the available data and how a given insurer utilises them. Here, the insurance industry can learn from data-driven digital enterprises. Traditionally, insurers have used their data primarily to ensure compliance with risk management guidelines in underwriting and determine whether to offer an insured standard or substandard rates.

Yet even old-school, paper-based application forms and underwriting exams capture at least 150 data fields. With the help of predictive analytics experts and technologies, these could be a source of very rich data and deep insights into customer behaviours, needs and wishes.

In other words, by systematically treating data as an asset and using all means at our disposal to leverage it, we can offer an enhanced customer experience, develop individually customised products and attract new business. Migrating legacy data into digital databases may be costly, but the investment is well worthwhile.

Aggregating data

The task does not end with a given insurer's own data. To gain a holistic view of customers, we can and must also draw on third-party data platforms. Only then will we be in a position to fully understand the risk to be covered and design appealing processes to engage the (potential) policyholder.

The third point is that the insurance industry needs to look at distribution channels. Some insurers may be offering online sales, yet most still rely on the same face-to-face approach that has been employed for decades. That method means new products have to appeal to the sales force, be easy to explain and contain as little potential for customisation as possible. This leaves little room for individually customised, customer insights-driven solutions – especially solutions that attract the fast-growing, digitally literate, mobile-first consumer base that characterises the Asia-Pacific region.

To sum up, delivering future-proof insurance products and customer experiences demands a complete rethinking of product development and sales practices. The more the insurance industry can do to encourage activities in the InsurTech space and partner with digital players, the better. Ultimately, the transformation will be at least as much about mindset as about technology.

Training tomorrow's leaders for an evolving insurance industry

Allianz Asia Pacific regional CEO property and casualty **Claudia Salem** says, "The insurance industry is evolving at an incredibly fast pace due to a combination of technology and data-driven decision making, emerging risk management solutions, and changing customer needs and expectations. How we think about tomorrow's leaders and train them to succeed is shaped by those same trends and their impact on the future of the industry.

An evolving industry

Insurance companies are increasingly digitalising the insurance value chain and building platforms that enable omni-channel and seamless customer interactions. Artificial intelligence and underlying machine learning is driving further automation of decision making. Advanced data analytics are supporting dynamic pricing algorithms and 'segment of one' capabilities.

This digital ecosystem extends to existing and new distribution partners. Platform economies and adjacent technologies such as Internet of Things and telematics are changing consumer awareness of their protection needs and enabling better risk management. This creates a shift from insurance products to insurance solutions and services largely customised to customer needs.

Our customers want to be able to fulfil their protection needs and access insurance products in a matter of minutes, rather than days. They expect transactions and interactions to be quick, easy, and convenient. Furthermore, customers expect personalised experiences, where insurance can be purchased alongside adjacent services.

Tomorrow's leaders

The new normal for the insurance industry is a state of constant disruption with new players introducing product and service innovations and platform industries changing distribution experiences. In that context, future leaders must develop the ability to lead their organisations through continuous cycles of change. To accomplish that, they will need to lead with purpose, up-skill and re-tool their teams regularly, and create a sustainable success culture.

Leading with purpose means having a vision that inspires colleagues to take ownership of the collective strategy and to take pride in seeing it through. This requires leaders to win the hearts and minds around the why, what, and how of the organisation. The nature of our industry is all about securing people's future and is organically an enabler for higher purpose.

Most people, including millennials, want to work for an organisation that has clear purpose and looks to make a positive impact on society as one of its key drivers. This is best captured in environment, social and governance (ESG) considerations, which have real impact on the world around us, and touch the insurance industry in risk selection, operational practices, and broader community impact.

Up-skilling and re-tooling employees for future success has already started through the redefinition of jobs in the industry. Future roles will involve combinations and permutations of existing roles and skills. For example, today's underwriters and claims adjudicators will have to add data analytics and technology to their repertoire to effectively do their jobs.

The Institute of Banking and Finance in Singapore has done extensive work at defining future skills, supported by new role definitions and a holistic online training programme. This is a great place to start the journey for all insurance companies and their

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employees.

Creating a sustainable culture for ongoing improvement and innovation will be anchored in new ways of thinking and new ways of working. This transformation starts with enabling organisational learning through the adoption of design thinking, agile methodologies, and flexible work arrangements. However, activating change is a joint responsibility for leaders and employees. Effective business leaders must therefore create an environment of encouragement to address their teams' needs and future-proof their jobs.

One example that illustrates the points above is from August this year at the Business Roundtable – a group of chief executive officers from 200 major US organisations – who offered a new definition of the purpose of a corporation. They summarised how businesses must prioritise investment in employees, delivering value to customers, and dealing ethically with suppliers and supporting outside communities as a measure of future success. Simply maximising profits and delivering value to shareholders is not enough anymore - a doctrine which held firm and drove boardrooms for decades. Now, more and more people not only want corporations to have a social conscience but expect it.

Our efforts at Allianz

According to the recent Allianz Global Insurance Report 2019, Asia will deliver increasingly high output over the next decade and contribute 60% of global premium growth. The rapid development of digital platforms will allow insurers more opportunities to reach a wider customer base, particularly in this region where insurance penetration is low. As a company and as an industry we must remain conscious of the important role that we will play in peoples' lives as awareness increases.

Allianz supports leadership development in a number of ways, including online resources, formal leadership training and coaching, and on-the-job experience-based learning.

For instance, our Work Well initiatives, of which I am a strong advocate, cultivate the wellbeing of our employees. These programmes encourage employees to live and work healthily and reduce work-related stress - with the global business goal of having satisfied and motivated employees as key stakeholders.

As part of this initiative, we implemented a set of minimum standards to help managers and employees reduce stress at work across four key areas: corporate culture, work relationships, work organisation, and private factors. We have also put in place flexible working arrangements which allow employees the opportunity to work more frequently outside the office. Incremental improvements such as these are positive ways to improve the workplace and our relationship with it, and we are pleased that our employees are responding positively.

On the learning front, Allianz has a goal to support all employees with a digital learning platform to build skills, capabilities and foster employability in an era of constant change in the industry. With this in mind, our LinkedIn Learning programme allows employees the opportunity to upskill on the move, broaden their knowledge, and grow their insight – a win-win for the individual and the company. It's one of the new digital learning platforms offered by our learning portal AllianzU, which includes more than 10,000 up-to-date courses across topics such as digital basics, agile methodologies, big data and analytics, design thinking, collaboration and co-creation, and creativity and entrepreneurship. LinkedIn Learning constitutes a further step on the way to achieving the AllianzU mission of 'Learning for All' and our commitment to lifelong learning. Already we are seeing uptake, with more than 40,000 employees in 2018 watching almost two million videos on the platform.

We are taking further action at Allianz to improve efficiency and team work across our operations. By adopting Agile methodologies, we are working to ensure value is optimised throughout the development process, supporting the delivery of products which reflect the desired needs of a client.

An agile way of working assists teams from start to finish, creates autonomy and homes in on rapid delivery. With short term targets and collaboration encouraged, the progress of each project has continuous visibility and less time is lost to unnecessary process. The benefits are far reaching, and include employee job satisfaction, improved efficiency and collaboration across teams, and speed of delivery into the market.

The future

As an organisation, we are asking ourselves how to prepare our leaders and employees to meet these future challenges. More than coming up with the answer itself, we should aim to build a resilient organisation that can quickly adapt and adjust to the changing landscape.

As an industry, we have to continue working to understand the use-cases in this modern era of connectivity better. We can then assess infrastructure readiness and regulatory support required in the new environment.

As a community, we must step out of our daily routine to consider broader topics impacting our society and economy. Examples include topics such as a widening protection gap, the green economy and climate change, the technological revolution and globalisation that works for all.

I view these themes as opportunities for economic, social and personal development for the leaders of tomorrow.

Building resilience against climate change

Swiss Re CEO reinsurance Asia, **Russell Higginbotham** says, "Global (re)insurance assets today amount to around $30tn and investing even a small portion of this to infrastructure projects could help stave off the catastrophic effects of future natural disasters. This would, however, require cooperation between the insurance industry and public sector to make the world a more resilient place to live, grow and thrive."

Nearly every third day somewhere in Asia, someone will lose a loved one, see their most prized and personal possessions being swept away or reduced to rubble, or will witness their livelihoods disappear due to a typhoon, 'quake or flood. One in three natural disasters in the world takes place in Asia, and they bring societies to their knees and can bring trade to a halt that has a far-reaching effect on global commerce.

Last year, typhoon Mangkhut cut a path through the Philippines, Hong Kong, Macau and the Chinese province of Guangdong. It made landfall in the Philippines as a super-typhoon, caused hundreds of deaths and left the country's agricultural belt in tatters. In Guangdong, nearly 2.5m people were evacuated and businesses in the capital city were shuttered from the biggest storm in over four decades.

Secondary perils can have more impact and are becoming more common

While the big-ticket storms and 'quakes keep grabbing the headlines, 'secondary' perils can have more of an impact and it is becoming more commonplace. What are these so-called 'secondary' perils? They are natural occurrences that are 'moderately' severe and occur fairly frequently, and could include heatwaves, landslides, torrential rainfall or localised flooding. Secondary perils are getting more attention as they are no longer as scarce as we once thought and their impact can be severe.

That's in part at least as a result of climate change. The increased frequency and severity of warm and dry conditions has led to a greater incidence of wildfires and drought, the Swiss Re Institute said. The 2019 edition of the Global Risk Report by World Economic Forum lists extreme weather events and failure of climate-change mitigation among the coming decade's biggest threats.

There are other reasons too. Economic development, urbanisation and a move to more coastal locations all add to a more, pardon the pun, perfect storm for 'secondary' perils. These expose citizens and property to more frequent extreme weather events. Research by Swiss Re Institute shows that secondary perils caused over 60% of all insured natural disaster losses in 2018. What does this mean for Asia?

Asia is less resilient to natural catastrophes

Simply put, we're more exposed and in many places, we lack the capacity or the resources to deal with events that occur. A recent report by the Swiss Re Institute estimates that the global natural catastrophe Insurance Resilience Index has only improved marginally over the past few decades.

There isn't enough insurance cover to deal with natural catastrophes that impact us. Of course, it's not just about insurance cover; we also need to work on more resilient societies, where better planning and building standards help to mitigate risk as much as possible, and where strong and planned disaster recovery systems are in place to reduce losses and to get people's lives and businesses back to normal as soon as possible.

As emerging economies grow, private insurance purchases don't often follow, resulting in a decline in resilience. The largest protection gap today pertains to earthquakes ($135bn), followed by floods ($50bn) and storms ($37bn) according to a study by Swiss Re Institute.

The report also highlights that developed Asia is the only region worldwide where the natural catastrophe protection gap is the largest among the three core risk areas examined (natural catastrophes, mortality, and healthcare). This is due to the frequency of earthquakes and resulting secondary perils in the area.

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Urbanising but under-protected

Every year, more and more people are living in urbanised Asia and this trend is set to continue. According to a United Nations study, over half of the region's 4.5bn population will live in cities by 2026 and Asia will be home to 60% of the world's megacities. Today, over 800m Chinese call cities home, up from 200m in 1980. In Southeast Asia urban migration to cities along coastlines – many of which sit on the Pacific 'Ring of Fire' – make them more vulnerable. Haphazard urban planning, poor sanitation, improper waste disposal and a higher concentration of people and buildings present a far greater risk than ever before.

Despite their high likelihood, CAT remain underinsured

Global economic losses from natural catastrophes and man-made disasters amounted to $165bn in 2018. Insurance only covered $85bn – or just over half – of that. This means the rest have to be covered out-of-pocket by governments and citizens themselves. In Asia, that figure is less than half – only $20bn (or 36%) of $55bn in losses were insured.

What we do know is that there is more than enough capacity in the insurance market to absorb this risk. So, what do we need to do, because at the moment, we are failing to get our message across and show the value of insurance?

Firstly, it's time to end the perception that these events are rare. In the same vein, people also believe they are more likely to strike the lottery than receive a cancer diagnosis, even though the odds of getting cancer are far higher. Flexible options that protect against more immediately-conceivable risks pegged to extreme weather triggers could help customers realise the value of insurance. Swiss Re and China's Groupama AVIC helped insure China's Mao County with a parametric solution resulting in pay-outs upon satisfying pre-agreed conditions, should they be hit by floods, landslides or even heavy rainfall.

Secondly, relying on historical loss experience may have sufficed in the past, but this is no longer the case. We need to develop more effective modelling tools that capture climate patterns and environmental shifts as they occur in real-time rather than in hindsight. Technology now helps us with regionalised models that help to assess risk precisely and in real time.

Satellite imagery and cutting-edge algorithms make flood modelling a precise science. With this approach, we are able to help local insurers offer flood-insurance protection to people who had never previously been covered. Likewise, we work with governments and city planners to make sure everyone has adequate levels of flood insurance and that flood defences are cost-effective and sustainable.

Finally, (re)insurers can play an integral part in increasing socio-economic resilience through their investment activities. The Swiss Re Institute estimates that global (re)insurance assets amount to around $30tn and investing even a small portion of this to infrastructure projects could help stave off the catastrophic effects of future natural disasters.

We also need to work on more resilient societies, where better planning and building standards help to mitigate risk as much as possible, and where strong and planned disaster recovery systems are in place.

Collaboration to build resilience

Of course, we can't do this alone, no matter how much capacity we have. It takes cooperation between insurers, their (re)insurance partners, and the public sector to make our world a more resilient place to live, grow, and thrive. There is a real opportunity here to nurture accessible and dependable insurance through cooperation and partnerships, in a time when natural disasters are increasingly impinging upon our present and future.

Climate change is an inherently complex risk for governments and society to deal with, as the argument for bold, urgent action against this threat often comes up against the fact that its impact may not be felt for years, or even decades. However, the potentially devastating effects of a natural weather event should loom large in rational calculations and present a strong case for greater insurance protection.

Insurance laws, regulations and innovations

"As technology spurs innovations in the (re)insurance industry, the industry needs to take care to remain in the ambits of existing laws and regulations. Changes in laws and regulations can't match the pace of technology induced changes in the industry," says McCarthy Denning head of insurance and reinsurance and partner. **Clive O'Connell**.

It is sometimes difficult to comprehend that it is just about 25 years since Windows 95 opened up the internet and just over a decade since smart 'phones were introduced. The change and the speed of change that has taken place over this time period has been amazing. Almost every aspect of our lives has been altered and insurance has not been immune from such changes.

We are, however, just at the start of digital transformation. For all the changes that have occurred, greater changes are to come and the time scale of those changes will be even shorter.

Companies across the world are investing in technology to increase efficiency and to gain competitive advantage over their rivals. In insurance, considerable money is being spent on solutions that will streamline distribution, pricing, underwriting, accounting, claims and compliance.

Data is growing exponentially but not everything is structured

The amount of data available for the pricing and underwriting process is growing exponentially and the tools required to analyse are acquiring ever greater accuracy and efficiency. Against this backdrop, the world of risk has developed significantly in the past 25 years.

After hurricane Andrew in 1992, a capacity crisis forced insurers to look to the capital markets for protection and, shortly afterwards, low insurance prices led to capital market risk being underwritten in the insurance markets. Alternative risk transfer (ART) and insurance-linked securities (ILS) were developed and, after hurricane Katrina in 2005, they became commonplace.

The development of new risk concepts and technology have not occurred in isolation and increasingly technology is looking to alternative structures to provide better and swifter solutions to those seeking risk protection.

Parametric risk transfer can be useful for microinsurance

Concepts such as parametric risk are useful for large-scale catastrophe bonds but may also have a place in microinsurance where the cost of adjustment of a loss may often be greater than the claim payment. Rather than sending adjusters to examine every policyholders property, why not pay simply and immediately when an event occurs?

A solution that works well for microinsurance also has attractions in more general insurance. The idea of an immediate payment following an event is an obvious selling point for both individual policyholders and for businesses.

For individuals, a form of cover that pays without the need for a claim payment; where money is paid directly to an account even if the policyholder is unaware of the event, displaces many of the complaints that are regularly aired about insurance. For businesses, a payment the day after an event, without the need for lengthy adjustment and calculation of business interruption, has clear advantages.

Such concepts of automatic payment fit well into the developing technology of blockchain and also allow the use of big data in pricing of certain risks without the need to drill down to individual information.

Solutions defined by the needs and expectations of customers

Technology is creating a completely new way of looking at risk transfer and providing solutions to customers that are defined by their needs and expectations. The developments to date have been exciting and transformational; the developments to come will be more so.

We cannot, however, examine the

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future without being mindful of the past and the present. The exciting new products that are being created, as they have ever been, promise to pay in the future; they are actually contracts. As contracts they are governed by law. They are also contracts made within a heavily regulated environment.

The laws relating to insurance have considerable history. English law has, to a large extent, led the way and cases involving the transportation of goods around the world on Victoria sailing ships, have determined much of the process of buying and selling insurance.

The regulations under which insurers operate were made more recently but many of these were framed following scandals of the sixties, seventies and eighties and even recent regimes such as Europe's Solvency II were developed before InsurTechs became mainstream.

Changes in law and regulations unable to keep pace with technological changes

The consequence of this is that those developing technological solutions to risk transfer issues are seeking to place twenty first century products in boxes designed in the nineteenth and twentieth centuries and this is where the problem lies. Law and regulation have not kept pace and the speed of change of law and regulation cannot possibly match the rate of change being unleashed by technology.

While we wait for law and regulation to catch up, the solutions created by technology will have to be adapted to fit within the existing legal and regulatory frameworks. Alternatively, businesses will look to utilise regulatory and legal differences when determining from where to conduct their business in order to gain competitive advantage.

> **While we wait for law and regulation to catch up, the solutions created by technology will have to be adapted to fit within the existing legal and regulatory frameworks.**

Question of insurable interest

One area that stands out is the requirement under English law (and the law of those legal systems that have developed from it) for insurable interest and proof of loss. It is essential for an insured under an insurance policy or, indeed, a reinsured under a reinsurance contract, to have an interest in the subject matter insured and it is also essential that insured should be able to prove that not only has an event occurred but that it has lost as a result of the event.

If there is no insurable interest, there is no insurance policy. It is at worst an unenforceable gambling agreement or at best a derivative. Derivatives are regulated separately from insurance and gambling, where permitted in law, regulated separately still. Most regulatory regimes will not allow insurers to run bookmaking divisions nor departments that sell derivatives.

The attraction of parametric products and the ability to both sell them simply and pay claims immediately, creates the possibility that no insurable interest will exist or, even if it does, proof of loss will not be possible. While some parametric products are insurance policies and fulfil the requirements, it is easy to see that some will not. In such cases, it may be that the products that are being sold would be better and more legitimately sold through a capital markets institution or by bookmakers.

Laws and regulations constrain insurance market

The issue that faces many of the brightest minds developing new technology for the insurance market is that the market is constrained by law and by regulation. The best solutions for customers may be outside the scope of what an insurer is allowed to do until such time as law and regulation catch up with technology. Until then, considerable care must be taken and dark suited lawyers versed in ancient cases may need to sit alongside the developers of algorithms dressed in hoodies.

Credit and surety trends in Asia

PartnerRe's head of financial risks (Asia Pacific) Richard Chu and senior underwriter financial risks (Asia Pacific) Serena Ng size-up the underlying demand drivers of credit insurance and surety bonds in Asia. They reveal how demand for non-trade and structured trade credit insurance has increased in recent years and how the surety bond market, in particular for 'Chinese interest abroad' construction surety bonds, holds substantial growth potential.

In the last decade, the credit insurance market in Asia has evolved and grown, especially in Singapore where we have observed an increase in the demand for non-trade, single-buyer policies covering credit facilities, such as revolving credit facilities, working capital loans and project finance. The same trend has recently been observed in China, India and Japan. So what's behind this positive trend?

Asia's credit insurance market

Going back to 2013, the Monetary Authority of Singapore (MAS) announced its vision for Singapore to grow into a global insurance marketplace by 2020. Singapore then saw rapid expansion of a number of insurance players as they actively grew their businesses across the Asia Pacific region, increasing the available capacity for credit and financing products. Singapore, now the third largest financial hub in the world, has strong trade financing and investment activities.

The global banking system entered the Global Financial Crisis in 2008 with an insufficient level of high-quality capital. Banks were forced to rebuild their common equity capital bases. One of the ways to address capital adequacy issues was to obtain a Basel III (now Basel IV) compliant credit insurance policy. This, coupled with Singapore's position as the largest commodities trading hub in Asia, spurred on the growth of trade finance activities in the country, promoting credit insurance demand in Singapore and throughout the Asia-Pacific region.

Demand for credit insurance also derives from the need to credit enhance the quality of securities, making them more attractive to investors. Banks also use credit insurance to manage their obligor exposures.

Credit insurance is not just a risk mitigation tool, it's now also a financing tool. It enables businesses to gain access to bank lending and optimise their working capital needs. Commodity traders and corporates use credit insurance to mitigate non-payment risk and as collateral to be provided to banks in exchange for financing.

Asia's surety bond market

Construction surety bonds

In terms of market size, China remains the nation with the largest growth potential for surety bonds in Asia. PartnerRe estimates the current size of the Chinese domestic construction surety bond market to be CNY400m ($57m).

In spite of the demand potential for 'Chinese interest abroad' construction surety bonds, the market premium for these bonds has yet to realise its full potential as the market is still relatively new, and as these bonds are complex to set up and require fronting arrangements in overseas markets.

According to the South China Morning Post, for the period December 2018 to January 2019, The National Development and Reform Commission in China approved 16 projects amounting to $163.2bn in an effort to stave off economic slowdown and the effects of trade wars. Hence, despite an infrastructure spending downturn reported in August 2019, the market potential for construction surety bonds remains sizeable.

Estimates for China's Belt and Road Initiative (BRI) vary widely, but conservative estimates for the next decade stand at $1tn. According to Engineering News-Record's 2019 Top 250 Global Contractors ranking, Chinese contractors hold the top five positions. One example of BRI-led construction surety bond demand was for a contract of $1.5bn awarded by The Government of Panama in December 2018 to the consortium established by China Communications Construction Company and China Harbour Engineering Company for the design and construction of a fourth bridge over the Panama Canal. Such contracts give rise to vast opportunities for large Chinese construction companies with strong

overseas experience and generate insurance coverage for 'Chinese interest abroad' risks.

Large-scale construction activities in other parts of Asia

Indonesia recently announced a plan to move its capital city to East Kalimantan. According to President Widodo, this will cost around IDR466tn ($32.79bn).

In February 2019, The Philippine Congress approved and ratified the nation's PHP3.757 ($72.15bn) budget for 2019, allowing the government to spend on infrastructure projects to boost the economy. Projects include expansion of roads, bridges, railways and airports.

In Japan, Osaka won the rights to host the 2025 World Expo; construction costs have been estimated at JPY125bn ($1.1bn), as reported in The Japan Times.

In 2018, Singapore witnessed a collective sales fever in the residential market. This generated significant construction activities in the country's residential sector. On the infrastructure front, according to Global Data, if all of the infrastructure projects currently in the pipeline in Singapore were to proceed as planned, spending could reach $9.8bn in 2020 and $10.7bn in 2021, with spending on railway projects accounting for 45% of the total.

Together, projects such as these stand to generate enormous demand for construction surety bonds.

Customs surety bonds

In China, on September 1, 2018, customs surety bonds were introduced to replace cash deposit and/or bank guarantees. The pilot project started with three participating insurance companies; this has since increased to eight. The bonds help to reduce costs (bank fees are generally higher) and cash flow pressures on importers. The simple process of acquiring customs surety bonds also improves clearance efficiency.

According to data released by the General Administration of Customs of The People's Republic of China, the total value of imported goods to China in 2018 was CNY14.09tn ($2tn), with a year-on-year increase of 12.9%, implying a substantial and increasing demand for customs surety bonds.

Role of reinsurance – realising the potential

New credit insurance and surety bond products come with new and/or untested risks and varying demand for reinsurance. Surety bonds, for example, present challenges relating to unfamiliar legal frameworks, bond wordings, regulation and market-specific products; it's always a steep learning curve. Reinsurers like PartnerRe can help insurers to develop new credit insurance and surety bond products and to fully leverage growth potential. Given a strong partnership and involvement from the start in the underwriting process, the reinsurer can help not just with capacity, but also in an advisory and enabling role.

A reinsurance partner should be more than just a capacity provider with strong security, they should also be experts in the underlying risk and risk drivers related to these products. Through constant risk monitoring, for example, PartnerRe advises insurers of potential new threats and shares technical expertise, best practices, market knowledge and lessons learnt from past losses. With a full underwriting team based in Singapore and backed by worldwide capability in Europe and North America, we are well placed to assist our clients to succeed in this growth area.

The volume of business that the insurance market is seeing in trade credit, political risks and surety has grown in tandem with increasing spending on infrastructure projects and growth coming from mainstream trade and commodity finance.

Will climate change impact reinsurance rates?

Marcum LLP advisory services director **Key Coleman** says, "While the reinsurance market has the potential to serve as a bellwether for climate change, the fact that it is simply flush with capacity, the shock and awe effect that only the reinsurance market can deliver will have to wait."

In 2018, natural catastrophes wreaked havoc around the world. Windstorms caused massive losses in the United States, Japan and the Philippines. Droughts hit the United States and Europe, and unusually large wildfires caused devastation in California. Experts have suggested that at least a portion of the world's global catastrophes in 2018 can be attributed to climate change. Yet, while they could have raised rates after absorbing such large insured losses, reinsurers of property catastrophe exposures left their prices largely unchanged when it came time for renewal in January 2019.

Reinsurance helps make economically-informed decisions

Historically, the reinsurance market has been an efficient purveyor of pricing information to the direct insurance market. They, in turn, pass this information to insureds (often after regulatory approval), who are then able to make economically-informed decisions. From asbestos to toxic torts, the reinsurance market has effectively acted as the 'canary in the coal mine' by placing a price on insuring 'bad acts'.

The reinsurance market is uniquely poised to address the economic 'externality' known as climate change. But when reinsurers fail to send their customary message that "we are not doing this anymore—at least not at this price" by passing on the cost of climate change to the insureds with the greatest exposure, it begs the question: Is the pricing mechanism broken or is there a backstory that we are missing?

> **...the shock and awe effect that only the reinsurance market can deliver will have to wait for another year.**

Connecting catastrophes and climate change

According to Munich Re, Japan suffered seven typhoons, flooding and two earthquakes in 2018, while the Philippines suffered a 'super' typhoon and Indonesia endured a deadly tsunami. The United States saw $160bn in catastrophe losses, which is higher than the 30-year average of $140bn but lower than 2017's $350bn in losses. Approximately $80bn of US catastrophe losses in 2018 were insured. Hurricane Michael, which hit Florida's coast in October, accounted for $16bn in losses, approximately $10bn of which were insured. But the most extraordinary US catastrophe losses in 2018 came from wildfire: California suffered its worst wildfire season in history, with extensive loss of life and monetary losses of $24bn ($18bn of which were insured).

While experts cannot tell us which disasters are attributable entirely to climate change, they have gone on record saying that the increasing frequency and severity of catastrophes like those experienced in 2018 can, in fact, be linked to climate change. "Losses from wildfires in California have risen dramatically in recent years," said Munich Re head of climate and geosciences Ernst Rauch.

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He said, "Many scientists see a link between these developments and advancing climate change."

In addition, the National Oceanic and Atmospheric Administration said, "It is likely that greenhouse warming will cause hurricanes in the coming century to be more intense globally and have higher rainfall rates than present-day hurricanes."

Reinsurers' exposure has increased but rates have not

Yet, while exposure for the reinsurers who cover these catastrophes has increased over the last five years due to climate change, their rates have not. According to JLT Re, property catastrophe reinsurance rates actually softened again at the January 2019 renewal date. In fact, on a risk-adjusted basis globally, the pricing levels are currently 30% below 2013 levels.

Reinsurance broker Guy Carpenter observed that some rates increased on loss-impacted business. Guy Carpenter vice chairman David Priebe said, "The industry is dealing with questions of pricing adequacy and where and to what degree adjustments might be needed."

Reinsurance market forces

The phenomenon of reinsurance rates stagnating following a high catastrophe year is not new to the industry. The reinsurance industry starts each year with a certain amount of capacity that enables it to cover a certain amount of risk. When catastrophes occur, reinsurance capital is diminished, but can be replaced by underwriting profits on other lines of business, investment profits or the inflow of new capital. If the capital is fully replaced, there will be competition to deploy capital in the following year, leading to only modest or potentially no rate increases, in spite of a recent catastrophe.

Insurance-linked securities also make rate increases difficult

In addition to reinsurance capital, there is also competing capital from the securities markets. Insurance-linked securities (ILS) are a popular way to invest in the reinsurance market because the securities have little or no systemic (i.e., stock market) risk. To the extent the ILS market remains robust and reinsurance capital is flat or increasing, rate increases will be more difficult to implement.

This is exactly what happened as of the January 2019 renewals. In spite of catastrophe losses, capacity remains plentiful, even though the future effects of climate change may not be reflected in pricing.

Guy Carpenter has said that there are certain initiatives under way that would actually increase capital in the marketplace, presumably through additional ILS offerings. With these initiatives in the works, it is less likely that we will see higher property catastrophe reinsurance rates in the near term. Or, stated differently, if there is a discernible property catastrophe rate increase required due to expected losses attributable to climate change, it may not be implemented in the near future due to market conditions.

Reinsurance can serve as a bellwether for climate change

In view of the economic focus alone, the reinsurance market has the potential to serve as a bellwether for climate change. In prior years, for example, reinsurance pricing has sounded off to expose certain mass torts that were being continuously perpetrated, until the cost of doing 'business as usual' became prohibitive.

The free-market fluctuation of reinsurance prices is so unencumbered that it can serve as a driving force when it delivers the full cost of an exposure directly to an insured's doorstep. In the last 40 to 50 years, due in large part to the price and availability of reinsurance, direct insurers encouraged manufacturers to find alternatives to asbestos and find new ways to limit environmental pollution because they found it economically expedient to do so.

The process of economic decision-making actually benefits from this rapid, unfettered feedback. The decision to invest in a coastal resort, for example, comes with an immediate insurance penalty that reflects the expected losses and, ostensibly, includes the expected increase in frequency and severity due to climate change.

Capacity proliferation mars the shock and awe effect of reinsurance markets

However, the proliferation of capacity has seemingly muddled the industry response to 2018 catastrophes. Without implementing significant rate increases, the reinsurance market is unable to provide its usual unabashed message to the direct insurance market that typically results in a more efficient allocation of capital and ultimately modifies economic behaviour.

The mechanism is not broken, it is simply flush with capacity. Unfortunately, for those interested in disseminating the allocable costs of climate change, the shock and awe effect that only the reinsurance market can deliver will have to wait for another year.

Leveraging technology to enhance customer experience

"Insurers will need to master the art of technology to reach the ultimate goal of customer delight. A positive experience with an insurer is happily shared by customers with others, thereby contributing towards building the reputation of the company and the industry that cares for its customers and understands their worries," says Bajaj Allianz General Insurance president and head (operations and customer service) **K V Dipu**.

Customer experience plays an important role for insurers as it has the power to make or break a deal considering growing competition and volatility in the economy. With very little awareness about insurance, it has become critical for insurers to provide seamless experience across all fronts, from policy purchase to settling a claim. This experience determines whether the customer will stay with a given insurer or switch to some other company.

Customers' expectations are changing

With technologies becoming mature with each passing day, it is no longer enough for insurance companies to focus on hard selling their products and introducing attractive policies. Customers today expect simple and real-time customer-centric offerings that suits their modern, connected world. Additionally, customers are becoming more digitally savvy and selective.

Customers research the products available in the market, compare and buy one that suits their needs. This 'well informed' environment leads to increased expectations of customer service. Something that was thought of as customer delight is expected as the norm today. However, it's up to the progressive insurers who can capitalize on this shift in behaviour to their advantage.

Most of the customers don't buy a product but buy a company's reputation. The challenge for insurers is to meet this expectation by building the reputation which is crucial for customers to make their purchasing decisions. Insurers need to be consistent, relevant, prompt and at the same time offer simple insurance solutions to their customers. Customer service is all about moments, and these moments happen at different times during a customer's interaction with the brand.

Distribution is most important

Accessibility of the right insurance product on the right platform plays an important role in reaching out to the customers. While many do approach the traditional channels like banks or agents to buy insurance policies there are customers who want products and services instantly, with just a click of a button on their cell phones. To cater to this need and the shift in the behaviour, insurers today are working towards offering their services 'on the go'. They are not only collaborating with InsurTech start-ups but are also partnering with e-commerce websites to combine and utilize the synergies achieved for enhancing customer experience.

Distribution is a lot about reach, and this means facilitating technology to on-field sales and distribution as well for empowering them to source and convert business at the actual point of pitching. This also enables instant delivery of policy and the insurance experience, which makes the "phygital" experience effective.

At Bajaj Allianz General Insurance, our innovative distribution initiative - Virtual Sales Offices (VSOs) helps reach out to customers in remotest corners of the country and brings an entire office to an application. This application enables our employee/agent to issue policy with a click of a button and settle claim instantly, thus enhancing customer experience. It is important to adopt an omni-channel approach wherein insurers need to be available across all platforms, especially in India where direct digital sales of insurance is still in a nascent stage.

Transforming and simplifying processes

Insurers today are realizing that just providing a mobile application to address customer queries is not enough, they need to transform the entire backend process to provide on the spot solution. In fact, we at Bajaj Allianz General Insurance are leveraging technologies like AI and machine learning in our chatbots and IoT to offer geo-fencing and exploring more such use cases of these technologies across the entire value chain to enhance the customer experience.

Right from quote to underwriting to issuance, we are working on automating the processes end to end, which has helped in improving customer experience by bringing in much more efficiency. Identifying the right technology and accordingly enabling appropriate use and to simplify processes is one of the

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major challenges insurers face today. Insurers are combating this challenge by reinventing themselves and scaling up the existing initiatives.

Shift from traditional to modern

While sectors like retail and banking have been leveraging technology to enhance customer experience since quite some time, insurers are gradually exploring the digital world to make a difference in customer experience.

Companies today are moving beyond the traditional approach of interacting with customers only during policy purchase or at the time of claim, to maintaining interaction throughout the policy period by using technology, thereby contributing towards enhancing the customer experience. Traditional channels are being tweaked by providing intermediaries with greater access to digital technology and services.

Chatbots are being used to reduce the response time and address customer queries 24/7 like our AI driven chatbot 'BOING', which offers 24/7 customer assistance and instantly responds to customer queries. We further took this bot to Amazon Alexa & Google Assistant, giving it a 360° dimension on the voice front. In an attempt to provide convenience to our internal customers i.e. our employees, we have an HR assistant chatbot 'Buddy' that helps in resolving their HR related queries.

Lodging a claim is an important 'moment of truth' for any insurance company, which is an ultimate test for them and makes a big difference in customer experience. At Bajaj Allianz General Insurance, we have leveraged technology to simplify filing claims and also given an option to our policyholders (motor insurance) to self-inspect their claims through 'Motor On The Spot' feature on company's self-service mobile application which uses data analytics to settle claim within minutes. Doing so, has resulted in faster claim resolution and happier customers.

Insurers are also introducing mobile applications for customers which provides policy related information, track claim status, and information related network hospitals/garages to simplify processes for customers. It is quite easy to envisage technology will enable insurers to have predictive models in place to warn customers well in advance about claims.

Customised solutions

Insurers are investing resources to adopt direct-to consumer model. With huge data bank collated over the years and super abundance of data across social media, computers, smart phones and other digital devices, insurers are rethinking their approach in terms of utilising this information to offer appropriate insurance solutions to customers.

Telematics and other advanced analytical techniques can be further used to monitor customer behaviour and set premiums as per customer profiles. At Bajaj Allianz General Insurance, we have adopted telematics in our DriveSmart offering that gives our customers real-time feedback on their driving behaviour and ensures their safety and security by giving timely alerts. This can also be used to propose the best fit product to a customer and the next best fit product as well, further enhancing value to both the customer and the insurer.

Feedback is important

After all the innovation and transformation, it is important to include a factor of feedback mechanism in whatever we do. Insights from customers dictate the roadmap for the products or services that can be introduced and also how the existing ones can be improved upon.

To understand the customers better, we have initiated a customer lab to conduct web conference as well as real-time sessions with our customers, on what they have to say about our products and services. It also helps them feel special to know that their opinions matter. We have also deployed speech analytics technology at our call centres to help us enhance customer experience. All this has improved our customer satisfaction level, which is quite evident from our NPS, which is the best in class.

I feel, it's only when you can put customers at the centre of all initiatives, that you can deliver enhanced value to your customers. Although insurers today are investing heavily in 'customer experience' initiatives, it is still a work in progress.

Belt and Road countries and insurance-linked securities

Phoenix CRetro Reinsurance Company chief executive **Kirill Savrassov** says as huge investments are being poured into the Belt and Road Initiative across Asia and Europe, the introduction of catastrophe bonds can take the risk off government balance sheets and reinforce macro-economic stability while providing access to rapid recovery funding.

The day I was writing this article, an earthquake measuring 5.8 magnitude shook Istanbul, causing panic amongst residents, evacuation of schools and public offices. It also led to the collapse of the minaret of a mosque in Turkey's most populous city.

The Turkish 'quake happened during the same week in which another 5.8 magnitude 'quake event in north-eastern Pakistan killed 38 people and injured more than 700. It also caused extensive damage to infrastructure and roads in that region of Pakistan.

In 1999 an earthquake of 7.4 magnitude in the western part of Turkey killed more than 17,000 people. Besides threatening Istanbul itself, the latest tremble acts a strong reminder that Turkey, as part of Eurasia, always had a threat of various natural disasters and earthquakes.

Almaty (1911), Ashgabat (1948), Tashkent (1966), Spitak (1988), quakes almost totally ruined the respective cities and the 2014-2016 Balkans floods which caused tremendous damage to the economies of the affected countries are some of the major disasters that have ravaged the region in the past.

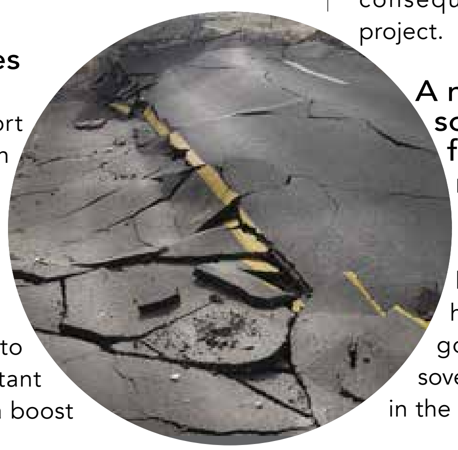
Europe and Commonwealth of Independent States (ECIS) are a highly prone region to a wide range of natural disasters.

Turkey was always positioned as the bridge between Europe and Asia and now, with the new Silk Road project, this title covers the entire region between mainland China and the European Union.

Natural disasters, especially earthquakes can upset the BRI

With the Belt and Road Initiative (BRI) and transport corridors passing through countries of CIS and western Balkans the threat of devastating natural disasters and earthquakes in particular take on new dimensions. Especially if the corridors and new infrastructure creation pass through the most earthquake-exposed territories of Eurasia if not the world.

With investments of billions of dollars going into critical infrastructure, the BRI is seen as an important opportunity to expand international trade and give a boost to regional economies.



The issue of protection in case of large disaster, however, remains open and burdened by some regional specifics. With an underdeveloped insurance market where penetration is less then 2% and state ownership (and hence responsibility) of critical infrastructure is the norm, insurance does not play any meaningful role in case of a really devastating event. The post-disaster finance arrangements can raise a big question mark in such cases.

This also relates to the potential of contingent business interruption losses whereby an earthquake in say Kazakhstan or Uzbekistan may stop the whole corridor to operate for significant amount of time with consequences for the whole BRI project.

A niche risk-transfer solution is required for the Eurasian BRI nations

If there is to be a solution that benefits everyone, it is likely that the solution will have to be organised by the governments, whether on a sovereign or sub-sovereign levels in the form of disaster risk transfer

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and ideally combine all the best practices having developed over time in other parts of the world.

Over the last two decades, financial markets, governments, and the development community have introduced important innovations in disaster-risk finance, giving rise to a collection of funding sources after disasters strike. These include national regional pooling schemes, contingent credit lines, parametric disaster-risk insurance, catastrophe bonds and other insurance-linked securities.

Transfer of peak risks to capital markets would be the most viable option

With geo-strategical fragmentation, however, creation of a regional scheme like CCRIF or ARC becomes difficult. Also, low sovereign credit ratings make it difficult to increase the burden onto the budget in case of credit arrangements. Hence, the transfer of peak risks to capital markets in the form of parametric sovereign catastrophe bonds seems to be the most viable option in this particular region.

Successful examples of Latin America, Caribbean states and Africa where such bonds have probably proved the concept, having received investors' appreciation for simple, transparent and well-defined trigger mechanism and even several pay-outs over the years.

A government of the ECIS region's country considering such type of disaster-risk transfer will ensure certainty around budgetary planning, fast capital deployment after the event if triggered by pre-defined parameters, no obligation to repay such funds as traditional disaster relief, reduction of contingent liabilities with protection of sovereign rating and currency and obviously less need to move capital from other projects to disaster relief and rehabilitation exercise.

Also with the involvement of China as investors, in such bonds, they will obtain a stable protection of invested money, organised by transit countries avoiding the need of complicated and not always available insurance solutions.

One important aspect is that issuance of sovereign CAT bonds is not rocket science. If a country has ever considered or issued Eurobonds, it is all set and ready to do the same in case of catastrophe bonds in terms of legal readiness.

Singapore's foray into ILS sphere can be a booster

Two other important factors in favour of potential ECIS sovereign CAT bonds are intra-class diversification and Singapore's recent endeavours in the ILS the sphere thus boost the concept for Asia.

The stable appetite for ILS an uncorrelated asset class that institutional investors experience is presently concentrated on North American exposures. There is, therefore, a potential for intra-class diversification and any new territory, especially the one yet to be explored, shall attract big interest.

These would obviously be subject to transparent and compliant structuring, which ECIS countries can now enjoy based on the lessons learned in other parts of the world over the last decade. Singapore's success in becoming an ILS centre in Asia has been proved by the issuances of IAG, Security First and Safepoint's bonds this year and it clearly shows both availability and interest for diversification in terms of ILS centres.

Some of these bonds cover perils outside Asia and are combined with a unique and one of its kind grants scheme from the Singapore government.

ILS can also improve disaster resilience in the region

Investments into ECIS regional CAT bonds can also become a good instrument for the development banks in their desire to support the developing nations and improve disaster resilience in the region.

In addition, use of such a form of disaster risk transfer as catastrophe bonds solves a fundamental problem of addressing the 'protection gap'.

It is for this reason that international development partners like United Nations Development Programme and Asia Development Bank are working with the countries of the region and introducing various post-disaster risk finance options including ILS solutions.

Promoting the financial resilience of households in emerging Asia

Peak Re CEO **Franz Josef Hahn** gives us his thoughts on some 'quick wins' for the industry.

We recently released the fourth edition of our research series 'Peak Insights', with a particular focus on one of the world's most exciting and important socio-demographic trends: The rapid rise of emerging Asia's middle class. The publication analyses the financial aspirations of this group of more than 1.4bn people – as well as the many vulnerabilities that could thwart those families' plans.

Our study suggests a few 'quick-win' types of insurance and risk-management responses and provides more general food for thought about new products and solutions. In order to make the report more inclusive, we also explore the needs of those who have not yet fully made the transition to the middle class but aspire and have the potential to do so.

Reducing poverty and increasing economic growth seen as priorities of Asian households

Based on surveys conducted by the World Bank Group, the most frequently mentioned priorities of Asian households relate to reducing poverty and increasing economic growth. Other priorities pertain to a better living environment, which includes improving infrastructure for transportation, health and sanitation, as well as environmental solutions, energy and natural resources management.

Other studies show that as households move to a higher income class, they tend to allocate more budget to education and health. These findings matter greatly to insurers and offer hints as to where to invest and allocate capital.

Insurance of low importance to Asian consumers

For Asian consumers, insurance is still of low importance in funding for long-term care, retirement or protecting assets against disaster. The following chart shows how households plan to recover from calamity caused by natural catastrophes. Interestingly, the expected reliance on insurance exceeds the amount of natural catastrophe losses currently insured in the three markets surveyed.

This may point to a greater willingness to buy insurance compared to the actual level of protection afforded by insurers, who may be able to close this apparent gap through improved services and products.

Savings and borrowings are main sources to finance sudden need for cash

Without adequate financial protection, households rely on government support and most importantly on their own families' and friends' savings and borrowings to finance any sudden need for cash – potentially nullifying their past efforts to accumulate wealth. The ability to save clearly determines the speed of wealth accumulation which, in turn, is a function of their financial resilience.

Being underprepared for sudden large expenses or retirement makes households financially vulnerable and exposes them to the risk of falling back into poverty. While public schemes play a substantial role in protecting the lowest-income households, the emerging middle class seems to be left behind, with some households no longer eligible to benefit from free public schemes.

More needs to be done by insurers with government and intermediaries

Therefore, the private sector can and must cater to the growing and more complex protection needs of the emerging middle class. To attract more households to purchase insurance, governments, intermediaries and risk carriers need to promote risk prevention and mitigation tools, facilitate access to financial protection and boost these households' trust in financial services and insurance in particular.

For example, insurers could tie up with intermediaries that have built specific product distribution and risk prevention advisory capabilities.

According to the Access to Insurance Initiative A2ii, over the last decade, community-based organisations have

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established a strong foothold in the communities they serve. They also play a role in financial protection.

Improving professionalism may help

In fact, at least in emerging Asia, they act as important intermediaries for licensed insurers. In Asia, 70% of life and property policies issued to low-income households are from licensed insurers. Out of 507 products in the market, licensed insurers actually underwrite 304 of them.

However, not all community-based organisations in emerging Asia have the necessary tools, such as the ability to explain insurance products and manage claims, to serve the communities well when it comes to insurance. For example, according to the International Cooperative and Mutual Insurance Federation and the Insurance Institute of India, the first threat to growth in India is the lack of knowledge about insurance and agents' conduct in selling a risk product.

Therefore, insurers and intermediaries should consider improving the professionalism of their representatives to enhance customers' experience and trust.

Understanding household habits in technology

Another opportunity is the advent of technology. Due to the differences in habits of mobile phone users, insurers' digital strategies necessarily differ across emerging Asia.

In countries where subscribers tend to use their mobile phone to search for information rather than for paying bills, an informative platform about risk prevention and a reporting platform for claims would make more sense than a payment platform.

Also, in countries where account ownership at a financial institution or with a mobile-money-service provider is not common, cash becomes the preferred option of payment for premiums or for receiving claims. For this to be feasible, there must be at least one physical agency close to the community served.

Importance of good claims management

A third lever to pull is claims management. Speed of claims payment, transparency of processes and ability to check the claims status are highly valued by all income classes in evaluating satisfaction with the overall claims experience. This is even more true for lower and lower-middle income households, which are more likely to be exposed to liquidity and cash-flow risks in comparison to higher-middle- and high-income households. Shortening the claims settlement period means shortening the time for households to report claims, for risk carriers to manage claims, and for intermediaries to transfer the payment to claimants.

While claims reporting and processing can be improved, the ability of a risk carrier to settle claims is subject to their cash-flow management. Risk carriers without accurate reinsurance protection and proper selection of reinsurers can encounter cash-flow issues, for example, in a situation where a large cash out is needed to pay claims to victims following a significant natural disaster.

Reinsurance can provide greater capacity for business growth and can facilitate cash-flow management for risk carriers, thereby accelerating claims settlement. This is assuming reinsurers process claims in a short period of time, allowing the risk carriers to indemnify the claimants quickly.

The insurance protection gap in emerging Asia partially reflects a lack of understanding of households' priorities, saving methods and ability to save. Without adequate protection, a sudden need for cash to pay medical fees or to rebuild a property would rely on households' access to emergency funds. These emergency funds include their own savings and income, borrowings and sales of assets.

Insurance companies may want to rethink their approach to emerging middle-class households. Improper sales and advisory practices, as well as slow claims settlements, erode the image of and trust in insurance, creating unwillingness to purchase financial products even if the households can afford to do so. Since households may not have an account for conducting financial transactions, cash is the only transaction method.

Assisting families in cementing their emergence from poverty is not only a major commercial opportunity for the insurance industry but also a powerful lever for positioning it as a 'force for good' which makes Asia's emerging economies more resilient.

Creating a new age of insurance

Normally, an industry graduates from simple to complex processes, procedures and products. This helps develop the market and also nurtures the required consumer base. The Indian insurance industry, however, missed this basic principle. It instead adopted the policy of complex and one-size-fits-all products for the Indian insurance customer. GIC Re general manager **Devesh Srivastava** provides further insights.

The Indian market has come a long way since and we have today a plethora of products that are geared to meeting the requirements of the consumer. The regulator has also come up with a regulatory sandbox to promote innovation and insurance amongst the public.

Reforms initiated in 2000

With liberalisation ushered in 2001, private players came on the scene and the spirit of competition was kindled. The new-kids-on-the-block started competing for both the top line and the bottom line. However, still the customers were scarce. Insurance penetration, after a brief spurt, was stagnating and again settled down to the earlier low levels.

The focus of the industry was more on corporate business that was to some extent mandatory and also on the motor portfolio, which again had a compulsory clause attached with it.

The desired results, however, did not materialise

Things were not taking the route that industry leaders had envisaged. The insurance industry was no doubt growing in double digits on a year-on-year basis. The spark did exist, however, the flame was still missing.

The insurance industry was confounded on how to bring the customers to the insurers. With liberalisation, foreign direct investment was permitted and beginning at 26% in 2001 it reached 49% in 2018 but not with much success.

The moot point was to create a buzz around 'insurance', to convert the Indian insurance industry from an enigma to a transparent and simple process to procure a protection cover for the Indian assets. Thanks to some of the stalwarts of the industry, the focus shifted to developing insurance products that would appeal to the Indian masses.

Government-sponsored schemes set the ball rolling

Much of the credit is also shared with the Government of India which initiated an insurance 'revolution' in the country, by introducing insurance covers for those at the bottom of the pyramid. Pradhan Mantri Fasal Beema Yojana (a government-sponsored crop insurance scheme) and Pradhan Mantri Jan Aarogya Yojana, are two government-sponsored insurance schemes which changed the perspective of insurance in the country.

Not to be left behind, insurance companies, too, initiated work on simple, transparent and easy-to-comprehend and procure insurance products. From INR100bn ($1.4bn) gross premium income in 2001-02 to a gross premium income of INR1.7tn in 2018-19, the industry has made tremendous progress.

Performance in 2018-19

General insurance companies reported gross direct premium collection of $24.50bn in the financial year 2018-19, an increase of 13% year-on-year. This growth was largely due to a surge in health insurance and crop insurance, according to industry observers.

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General insurance companies reported gross direct premium collection of $24.50bn in the financial year 2018-19, an increase of 13% year-on-year.

In the financial year 2017-18, the non-life insurance industry had grown by over 17%, a level it could not maintain in 2018-19 and the growth fell to 13% as some lines of business, fire, engineering and even motor insurance saw low growth due to overall subdued domestic economic environment. Health insurance, however, maintained its rate of growth in 2018-19.

The health insurance sector saw gross premiums underwritten at INR30,916 crore as compared to INR26,266 crore in previous financial year a growth of 17.7%.

Hope for the future with a supportive regulator

As the industry steps into 2020, things are looking up. Our insurance industry has been fortunate enough to have had a progressive regulator. The reforms initiated by the regulator should bring in quite substantive changes in the industry.

The industry has now moved on from a one-size-fits-all products to different types of products to cater to the different needs of our people. Some companies are even working on offering customised insurance covers.

Several initiatives taken up by the regulator during the year should bring positive results as the industry moves forward.

Insurance on pilot mode

The Insurance Regulatory and Development Authority (IRDAI) will allow companies to test products in a particular geography, or among a set of policyholders before they are made available in the market. Using a regulatory sandbox approach where products can be tested before being launched across the country. If these are successful, such products can be filed for approval. Some insurers have filed applications to test launch their pilot products within a close group of customers to get their views and to ascertain the commercial viability of the product.

Use of wearables in insurance

Insurance companies may soon require you to buy a fitness tracker to capture your health status in an accurate manner. An IRDAI committee has recommended that insurance companies make use of activity data monitored by fitness trackers in pricing their products.

Health insurance exclusions trimmed

IRDAI initiated standardisation of exclusions in the health insurance space to improve transparency in the sector. This would prove a consumer-friendly step. While the Mental Healthcare Act was passed and offering insurance for mental ailments was made mandatory by law. However, due to a lack of clarity on the product structure, insurers stayed away from offering these products. Insurers are likely to offer such health insurance products with a series of inclusions and exclusions with respect to mental health.

Life insurance plans to see makeover

IRDAI has initiated plans to introduce flexible policy tenures for certain products. The insurers can now design term, credit life and microinsurance products that have a range of policy tenures to choose from. However, these regulations would mean that insurers will have to withdraw existing products and re-launch new ones with appropriate features.

Digitisation of insurance products

Very soon it may be mandatory for insurance companies to offer insurance policies only in a digital format. This will be done through the use of insurance repositories where each policyholder will have an electronic insurance account with a unique identity number. Currently, the number of digital insurance policies is very low as it is optional for a wide category of products. However, InsurTech is now playing a more and more important role and will be integral to the digitalisation of the Indian insurance sector.

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Technology helps improve and innovate

Toa Reinsurance Company president and chief executive **Tomoatsu Noguchi** says the year 2018 saw several natural disasters hit Japan, however, the country's non-life insurance industry dealt with them credibly by improving its claims handling systems and introducing rapid response initiatives including the use of smartphones, tablets, drones and robotic process automation.

The GDP of Japan ranks third in the world and its economy has continued to grow moderately in recent years. According to the Japanese government's economic outlook announced by the cabinet office, the real GDP growth rate in fiscal 2018 was 0.9% despite the impact of a series of natural disasters during the 2018 summer, and the rate in fiscal 2019 is forecast to be around 1.3%.

Status of non-life insurance companies

Japan's non-life insurance industry comprises 27 Japanese non-life insurance companies that are members of the General Insurance Association of Japan (GIAJ) and 19 companies that are members of the Foreign Non-Life Insurance Association of Japan. (FNLIA).

According to an analysis of the financial statements of member companies, our non-life insurance market is an oligopoly in which the three largest non-life insurance groups (MS&AD Insurance Group Holdings, Inc., Sompo Holdings, Inc. and Tokio Marine Holdings, Inc.) account for 87% of net premium income written by the 27 GIAJ members as a whole.

Operating efficiency is improving

Japan's non-life insurance companies have increased their operating efficiency since liberalisation in 1996 and numerous mergers and business integrations have taken place in the industry since 2000. This has resulted in a healthy underwriting expense ratio (other than commission and brokerage) of 15% in 2018 for the non-life insurance companies.

Prior to liberalisation, in the financial year 1995 the underwriting expense ratio (other than commission and brokerage) was 21%, for all non-life companies in the industry.

Cooperative market also has substantial presence

The cooperative market in Japan has a presence that is second only to the non-life insurance market in terms of premium volume. Even if we look only at the main cooperatives that make up the Japan Cooperative Insurance Association Incorporated, they alone had premium income of JPY2,894bn ($26.07bn) in fiscal 2017 (excluding life cooperatives and pension cooperatives).

A small-amount and short-term insurance business was introduced in Japan following amendment to the Insurance Business Act in April 2006. As the name implies, this business is limited mainly to selling insurance in small amounts with limited terms.

The current regulations now make it possible for companies that are not insurance companies to enter this small amount short term business, much more easily than to establish an insurance company. These companies only need to register and do not require a license to operate. The minimum capital required is JPY10m compared to JPY1bn for a full-fledged insurance company, and participants may sell both life and non-life insurance.

The number of member companies of The Small Amount & Short-Term Insurance Association of Japan continues to grow and the scale of the market continues to expand. Non-life insurance products sold in this market are mainly household insurance, including fire insurance for home contents and renters' liability insurance sold through the real estate agent channel, pet insurance, as well as products to cover other types of expenses.

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	Heavy Rain in Western Japan (Typhoon No.7)	Typhoon No.21 (Jebi)	Typhoon No.24 (Trami)	(Reference)*** 1991 Typhoon No.19 (Mireille)
Date of loss*	July 2018	September 4, 2018	September 30, 2018	September 25~28, 1991
Central pressure at landfall*		950hpa	960hpa	940hpa
Numbers of insured automobiles and policies**	Motor 25,110 Fire 24,146 Misc. 6,064 Total 55,320	Motor 113,915 Fire 718,862 Misc. 20,811 Marine 3,696 Total 857,284	Motor 29,322 Fire 370,968 Misc. 12,417 Total 412,707	Motor 108,802 Fire 484,695 Misc. 12,568 Marine 1,259 Total 607,324
Total amount of claims paid (Million yen)**	Motor 28,307 Fire 151,991 Misc. 15,297 Total 195,595	Motor 77,981 Fire 920,227 Misc. 16,069 Marine 53,528 Total 1,067,806	Motor 11,459 Fire 285,595 Misc. 9,037 Total 306,091	Motor 26,938 Fire 497,486 Misc. 25,053 Marine 18,483 Total 567,960

* Source: FDMA (Fire and Disaster Management Agency)
** Source: GIAJ (The General Insurance Association of Japan) as at the end of March, 2019
*** The typhoon resulting in the largest amount of claims paid until fiscal 2017

Natural disasters in fiscal 2018

Japan suffered many natural disasters in 2018. In particular, wind and flood disasters caused extensive damage, with wind and flood claims paid projected to total the largest single-year loss ever. Details of the major wind and flood disasters in Japan in financial year are as above.

Typhoon Jebi claims are the highest till date

Claims paid due to Typhoon Jebi were particularly large, and to date are the largest ever in Japan, exceeding the JPY568bn paid in claims due to Typhoon Mireille in 1991, formerly the largest. Claims paid due to Typhoon Mireille are estimated at about JPY1tn when adjusted to the current amount of fire insurance.

The large increase in claims paid for Typhoon Jebi is due to the fact that the amount paid per claim is higher than in the past. Based on an estimate using data from GIAJ, the amount paid per claim for Typhoon Jebi was approximately JPY1.3m, significantly higher than the average of JPY0.7m to JPY0.8m for past typhoons. Another reason is that about half the claims paid for Typhoon Jebi were in urban areas of Osaka prefecture.

Japan's non-life insurance companies have dealt with this series of natural disasters by improving their system for claims handling and introducing new rapid response initiatives including the use of smartphones and tablets for remote assessment of claims and the use of drones for survey of damages. Japan has also initiated the use of robotic process automation for these purposes.

Trends in non-life insurance business in financial year 2018

Japan's non-life insurance companies utilised reinsurance coverage and reversed catastrophe loss reserves to generate stable earnings and to cover the impact of natural disasters in the country during the financial year 2018 despite the many natural disasters.

Ordinary profits, calculated as the sum of underwriting profit and investment profit, therefore increased compared to the previous year which had the significant impact from hurricanes.

The net premium income of GIAJ members in financial year 2018 increased by JPY12bn (in all lines of business). The net premium income in the financial year 2017 was JPY8,393bn.

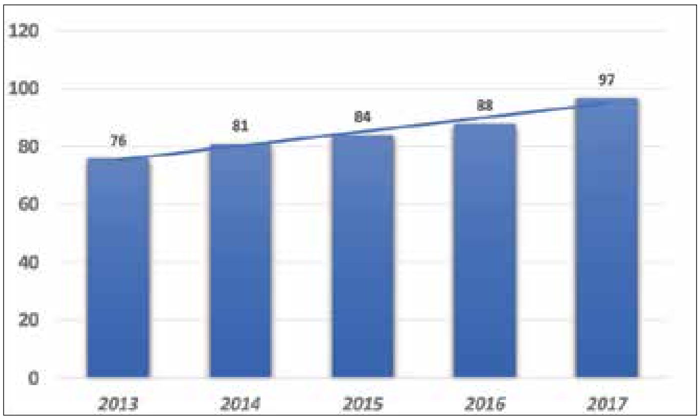

Chart I: Members of the Small Amount & Short-Term Insurance Association of Japan

(Unit: JPY bn)

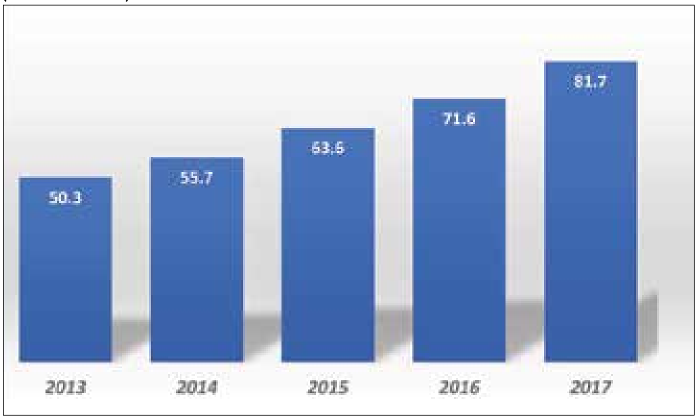

Chart II: Premium income of Small amount and Short term insurance companies (excluding life and health insurance)

Net claims paid (paid basis) however, increased by JPY622bn to JPY5,324bn during 2018 due to the impact of typhoons and other natural disasters in the country. As a result, the loss ratio for fiscal 2018 increased by 7.6% points to 69.1% as compared to the financial year 2017.

Expenses during 2018 decreased by JPY10bn to JPY2,725bn. The net expense ratio also came down by 0.1% points to 32.5%.

Underwriting profit (earned/incurred basis) decreased by JPY87bn to JPY193bn during financial year 2018. Ordinary profits, however, increased by JPY52bn to JPY864bn. After deducting tax expense, net income decreased by JPY2bn to JPY676bn during financial year 2018.

Advances in driving technology can impact non-life insurance

Advances in automated driving technology are projected to lead to a reduction in automobile insurance sales volume. This assumes great importance in a market environment in which automobile insurance currently accounts for about half of net premium income of direct non-life insurance companies. This is just one of the several challenges likely to impact the market growth of Japanese non-life insurance companies.

Under these circumstances, the non-life insurance companies are developing markets by providing new products and services aligned with changing customer needs and implementing initiatives to increase operating efficiency to achieve sustainable growth.

Conclusion

Last year's series of natural disasters in Japan adversely affected the reinsurance market. However, we believe that Toa Re fulfilled its stated mission of 'Providing Peace of Mind' as a reinsurance company by ensuring strict underwriting and exposure management practices.

We are committed to continue our efforts toward achieving the corporate vision of becoming a "reinsurance group that keeps being selected by clients across the world and that is developing together with them by providing optimal solutions."

A breakthrough is required for the stagnant market

Korean Re CEO **Won Jong Gyu** says the Korean insurance market has remained stagnant over the last three years. The struggle is against increasing market saturation and slowing growth under an unprecedented harsh business environment which is compounded by low growth, low interest rates and low birth rates.

The Korean insurance market has remained consistently stagnant, with premium income shrinking by 0.3% in 2018. The life insurance market suffered a decline of 2.8%. The non-life market managed to grow by 3.1%, but the pace of growth slowed down.

A further slowdown is expected in 2019 as the growth momentum of the insurance industry is weakening amid preparation for upcoming changes in accounting standards, decreasing sales of savings insurance and a rise in protection policy surrender. Premium income is projected to fall by 0.8% in 2019 and it will be the third year in a row that the market has contracted.

Life insurance growth turns negative as non-life also slows down

The nation's mature life insurance market is particularly weighing on overall premium growth. Life insurance market growth turned negative in 2017 and showed a contraction of 4.9% followed by minus 2.8% in 2018. This contraction is expected to deepen, with premium income forecast to shrink by 3.8% in 2019, due to weakening sales of savings policies and increasing surrenders of protection policies amid economic downturn.

The non-life insurance market is also slowing down, albeit at a relatively moderate pace in comparison with the life market. The general property and casualty (P&C) sector will continue to grow at a robust pace, but the overall growth of non-life insurance is expected to slow to a pace of 2.7% in 2019 as the annuity and long-term savings insurance sectors remain sluggish.

Several factors have spurred the slowdown

The slowdown in the growth of the Korean insurance industry seems inevitable considering changes in the demographic structure, such as an ageing population and a decrease in economically active population and a changing business environment driven by low growth and low interest rates. Other factors that come into play are the scheduled adoption of new accounting standards and solvency regime of Korean Insurance Capital Standard, a change in sales commission structure and reduced tax benefits for savings insurance products.

Profitability (net income) is impacted

Insurers in Korea collectively reported $6.5bn in net income for 2018, down 7.4% from a year earlier. Non-life insurers saw their net income plunge by 17.8% to $2.9bn as increasing loss ratios of motor insurance and medical expense insurance aggravated underwriting losses.

Life insurers, on the other hand, recorded a 3.1% growth in net income to over $3.6bn despite weaker underwriting results as their investment gains improved.

The profitability of the insurance industry has come under pressure from slimmer margins, as has been the case with other financial industries. The return on equity dropped to 6.6% in 2018, which represents a sharp decline from 12.5% in 2010.

Growth trends by line of business

By line of business, general property and casualty (P&C) insurance performed relatively well, with premiums growing by 6.8% to $8.5bn. Casualty lines of business including

Premium income trends

($ billion, %)

	2017		2018		2019(F)	
	Premium income	Growth rate	Premium income	Growth rate	Premium income	Growth rate
Life	102.9	-4.9	98.3	-2.8	94.6	-3.8
Non-Life	79.7	4.5	82.2	3.1	84.4	2.7
Total	182.7	-1.0	180.5	-0.3	179.1	-0.8

*Growth rates are based on figures in original currency (KRW).
(Sources: Korea Life Insurance Association, General Insurance Association of Korea)

Net Income Trends

(Units: $ billion, %)

	2017		2018	
	Premium income	Growth rate	Premium income	Growth rate
Life	3.50	63.4	3.61	3.1
Non-Life	3.52	11.8	2.89	-17.8
Total	7.02	33.0	6.50	-7.4

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

guarantee, 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 55.5% of the entire non-life market, grew by 3% amid falling sales of savings insurance. Motor insurance premiums declined by 0.8% due to premium rate reduction by large insurers and growing popularity of policies with price discounts for low-mileage drivers.

Life insurers continued to experience a slowdown in the growth of protection-type policies from 3.1% in 2017 to 2.1% in 2018. This was mostly because of slackening demand for whole life insurance and growing market saturation. Meanwhile, the decline of the savings insurance market accelerated, with premium income falling by 13.5% due to low sales of general savings policies and increased financial market volatility.

Insurance penetration

Korea has the world's 5th highest insurance penetration rate at 11.6% in 2018. The rate has remained stable at around 12% since 2014, but it is expected to fall slightly in the coming years as premium growth is likely to remain under pressure due to the slowing economy.

Insurance Penetration Trend (Unit: %)

	2014	2015	2016	2017	2018
Total	12.6	12.7	12.8	12.1	11.6
- Non-Life	5.2	5.1	5.1	5.0	5.0
- Life	7.4	7.5	7.6	7.0	6.6

*Growth rates are based on figures in original currency (KRW).
(Sources: Korea Life Insurance Association, General Insurance Association of Korea)

Changes in insurance business environment

The Korean insurance industry is struggling against increasing market saturation and slowing growth under an unprecedentedly harsh business environment. This challenging situation has been compounded by changes in economic landscape driven by low growth, low interest rates and low birth rates.

On the regulatory front, insurers are 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 2022.

The rise of InsurTech is another source of significant disruption to the business of insurance. InsurTech is 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, many insurers are already adopting InsurTech such as big data, blockchain and artificial intelligence.

Meanwhile, there are some demographic factors that boost insurance demand, such as a sharp rise in single-person households and increasing prevalence rates of dementia. In step with these changes, demand for annuities and health insurance is set to grow going forward.

Future challenges and business strategy

Given that the life insurance market has posted minus growth rates for three years in a row, it is imperative for life insurers to find some breakthrough to deal with the stagnant market. At a time when Korea is becoming a super-aged society, longevity risks may present a threat to the insurance industry, but new growth opportunities may arise.

Developing new markets and instruments for longevity risk transfer can be one way to boost its growth momentum.

A major challenge that lies ahead of non-life insurers is how to keep in check rising loss ratios of long-term medical expense insurance and motor insurance, which take up a large part of their business portfolios. It is increasingly urgent for them to come up with measures to stabilize soaring loss ratios as soon as possible.

Boosting investment yield is another important challenge in the current environment of persistently low interest rates amid global economic slowdown. Other imminent challenges include a task to improve capital adequacy in preparation for the introduction of IFRS 17 and K-ICS in 2022.

Greater role in risk management as adoption of new technologies rises

With the 4th industrial revolution underway, the insurance industry is expected to play a greater role in protecting society against the risks arising from the adoption of new technologies including block chain, the Internet of Things and driverless vehicles.

In step with technology-driven changes, insurers are encouraged to develop new insurance products such as coverage related to the sharing economy while working with the government to deal with regulatory hurdles that may stand in the way of technology applications.

Opportunities and challenges

Malaysian Re CEO **Zainudin Ishak** says Malaysia's general insurance market is brimming with opportunities and challenges as it aligns with the best global industry benchmarks.

Since 2010, Malaysia's economic growth has been broadly in line with the average of the five ASEAN countries, which is quite an achievement for the most advanced ASEAN-5 economy.

The picture, however, looks different for the growth of general insurance premium. In terms of business expansion, Malaysia's insurance sector has consistently fallen short of the regional average, especially from 2015 onwards. As a result, general insurance penetration (premiums as a share of GDP) has eroded in the country, whereas for the ASEAN countries as a whole, general insurance penetration has remained virtually unchanged.

Malaysia's general insurance market, however, still boasts a penetration rate that exceeds the regional average by about 50%. More recently, based on Malaysia's general insurance premium growth in 2018, the declining trend over the past decade has been reversed, buoyed by robust demand in the motor and fire lines of insurance.

De-tariffication to benefit consumers, insurers and, ultimately, society at large

Today's dominant market challenge for Malaysian general insurance industry is de-tariffication. One of the main policy objectives behind de-tariffication was the desire to align Malaysia's regulatory regime with those of the most advanced economies in the world. Another goal was to introduce more equity to insurance pricing, rewarding those who behave risk-consciously and incentivise less risky behaviours – with huge potential benefits for society at large.

From the very beginning, Bank Negara Malaysia (BNM) was committed to preventing de-tariffication leading to unsustainable pricing, bearing in mind lessons learned from other countries which had implemented de-tariffication. Therefore, the regulator opted for a phased approach to liberalisation.

Premium discounts to low-risk customers are believed to outweigh premium increases for high-risk customers. This assessment, however, is subject to significant uncertainty over BNM's future pace of liberalisation even though the industry expects the regulator's phased and managed approach to continue even beyond summer 2020 when the next phase of liberalisation is likely to be launched.

Insurers do not consider themselves strong enough to offset the underlying claims climbing up by rate increases. Rising costs for labour and spare parts, in combination with surging bodily injury awards are fuelling claims inflation.

New products such as telematics-based motor insurance remain scarce and subject to regulatory approval. In addition, they are met with subdued interest or even reluctance from customers.

More significant rate reductions in fire insurance

The medium-term pricing outlook for the fire line of business is gloomier than for the motor class. 'Good' fire risks, especially in the small and medium enterprises segment, have enjoyed significant premium reductions, fully exhausting the leeway offered by the 30% band.

Also, as liberalisation progresses to the next stage, the band for reductions is believed to expand beyond the current 30% threshold.

Many add-ons (including risk-engineering services and terrorism cover) that have been introduced in the market are viewed as counter measures partially to offset the adverse top line effect from rate reductions.

Market will benefit by improved risk segmentation and risk-based pricing

In the medium-term, following the completion of liberalisation, insurers are expected to benefit from improved risk segmentation and risk-based pricing. Some players might drop out of the market in view of major investment and adjustment needs. Those who survive, however, are bound to enjoy a more professional and sophisticated operating environment. In the long term, society at large is expected to benefit as risk-based pricing will incentivise less risky behaviours in both the retail and commercial space.

Over the past few decades, Malaysia's general insurance sector has gone through a phase of marked consolidation. Narrowly trailing Singapore, Malaysia boasts the highest

average premium per general insurer in the region.

In most developing and emerging markets, providing the lower-income segments of the population with insurance protection poses significant political and commercial challenges. Uninsured households are highly vulnerable to financial shocks such as the premature death or critical illness of the family breadwinner which can lead to households quickly descending into poverty.

Keeping in view this major problem, BNM launched Perlindungan Tenang, in November 2017, which is expected to expand the insurance and takaful penetration among the B40 (bottom 40% of household income group). A recent example is Skim Perlindungan Nasional B40 (mySalam), a government fund which provides health insurance coverage to the B40 for 36 critical illnesses.

Insurers encourage the government to broaden its current approach

The majority of the industry players are, however, skeptical as to whether the B40 programme will make a real difference in terms of boosting insurance penetration in Malaysia. Most believe that despite the various government measures taken, the B40 insurance will continue to lack a compelling commercial proposition and at best be viewed as corporate social responsibility.

The government should consider measures such as capital relief for those insurers that engage in B40 insurance, ideally as part of a comprehensive B40 insurance strategy that goes beyond healthcare.

When asked about potential alternatives to the current B40 programme, suggestions such as subsidised compulsory insurance schemes, technology-enabled solutions, capital relief and tax incentives for those insurers that are actively serving the B40, public-private partnerships between insurers and government agencies, dedicated public-private awareness programmes that improve leverage of existing available products and innovative ways of premium payments, e.g. in instalments have emerged.

Potential for takaful not yet exploited completely

Over the last few years, general takaful has outperformed overall market growth and now accounts for 13.7% of overall gross direct premiums and contributions, up from 12.9% in 2017. Malaysia's general takaful penetration (about 14% of the total general insurance market) compares favourably with Indonesia's 5%, for example, despite the latter's much higher Muslim population share.

This position is largely due to a robust regulatory framework, with the country being the first market in the world to implement a risk-based capital (RBC) framework for takaful. There is also a requirement for companies to disclose their wakalah (agency) fees in its sales documents.

The potential for takaful in Malaysia is ample and far from exhausted, not least because of the government's intent to encourage the provision of affordable insurance. Some of the most frequently mentioned recommendations as to what it would take to capture the full promise of takaful include the following.

Awareness building and more effective branding ranks first. Technology is the second most frequently mentioned lever to pull as takaful operators rely much less on agents than their conventional counterparts. Product differentiation features third. Many takaful solutions simply cannibalise conventional business without offering a genuinely new proposition and merely following the conventional sector.

Long-term effects of digitisation to reshape Malaysia's insurance industry slowly

As technology transforms insurance and impacts virtually all elements of the value chain, there has been much debate among industry practitioners about how business models may evolve, for example from payer only to a more integrated and comprehensive partner model which draws on platform-based ecosystems. In addition, the long-term potential of digital distribution and aggregator technology are considered extensively.

Most industry players and experts agree that such ecosystems 'will rise, but slowly'. Consumers are, however, not seen as being ready yet for such digital solutions. In addition, even the long-term potential of digital insurance ecosystems is expected to be limited to the lower end and easily affordable premiums segment, which can be viewed as a positive aspect from the perspective of financial inclusion.

By 2022, will digitalisation reshape the present business models in Malaysia's general insurance industry? Most believe that claims will remain at the core of the insurance value proposition. In addition, the dominance of agency distribution makes insurers wary of channel conflicts and inclined to play it safe by maintaining, or at most, digitising the status quo.

InsurTechs can increase industry's access

The industry looks at InsurTechs through the lens of operating expenses. Capturing cost synergies and efficiencies is seen as the 'lowest hanging' fruit of InsurTech by many. Distribution benefits in terms of increased effectiveness and efficiency of existing and new channels are the second most frequently mentioned benefit. New business generation, primarily on the back of improved access to existing and prospective customers ranks third. Product innovation, based on personalised added-value services, comes in fourth.

Industry and government collaboration key to the Philippine insurance industry's development

National Reinsurance Corporation of the Philippines (Nat Re) president and CEO **Allan Santos** says sustainability of the Philippine insurance industry should be attainable with the initiatives taken by the industry and the regulator. Private (re) insurers are deploying their fresh capital and leveraging their capacity. The regulator is working to implement solutions through legislation. Things are moving on the right path despite challenges.

The Philippine insurance industry once again reached new peaks in 2018. Premium income from non-life and life reached PHP290.2bn ($5.50bn), up by 11.7% year-on-year, while total assets reached PHP1.58tn ($29.9bn), net worth hit PHP337.4bn ($5.39bn), and net income was at PHP37.4bn($709m).

The microinsurance sector likewise continued to expand. Its total premium production hit PHP8.14bn ($159m), increasing by 14.5% from a year ago. Six million more Filipinos are now covered by some form of microinsurance, which brings total coverage as at the end of 2018 to roughly 39m individuals.

Despite another productive year for insurers, however, growth was muted with assets, net worth, and net income inching up by only 0.9%, 5.3%, and 2.9%, respectively. Investments, in fact, contracted by 0.15%. The expansion in 2018 was nowhere near the double-digit growth of total assets, net worth, paid-up capital, investments and premiums in 2017.

Consolidation phase continues

The industry has seen continued market consolidation due to increased capital requirements. Over a period of five years, a total of 15 direct insurers have shut down, leaving only 85 insurers in the market at the end of 2018. By the end of this year, the minimum net worth requirement for insurance companies will increase from PHP550m to PHP900m ($17.1m).

With insurance companies finding ways to make effective use of their increased capital, competition, especially in non-life, has grown stiffer despite fewer players in the market. The average profit margin of non-life direct insurers has been slowly decreasing annually since 2015, dipping to 6.9% in 2018. While this is a vast improvement from the 3.2% average in 2013, it is just half of the life profit margin of 12.6%.

Taxes on non-life insurance products are among the highest in ASEAN, which also contribute to insurers' lower profit margins. Such high taxes make non-life insurance products less affordable. Coupled with low awareness and cultural attitudes towards insurance, this makes increasing insurance penetration more challenging.

Catastrophe market premium rates are impacting profitability of the local industry

The current level of catastrophe market premium rates negatively impacts the profitability of the local industry and the expansion of catastrophe insurance. While the current CAT tariff is at 0.15%, CAT premium rates which we find in the market today are below 0.1%. This means that companies are probably paying their reinsurers more for their CAT protection than what they are charging their clients.

The local industry is vulnerable not only to thinning pricing margins and a prolonged soft market but also to natural disasters of mounting intensity and frequency. Their economic impact on both (re)insurers and Filipino communities is not to be underestimated—every year, 0.34% is expected to be shaved off the national GDP because of such calamities.

Without a more proactive game plan to counter these challenges, (re)insurers could be missing a crucial window of opportunity for sustained fast-paced growth. Non-life and life real premium growth rates in the Philippines have been among the highest in the ASEAN region in 2012-2017 while the outlook on the national economy and households' disposable incomes remains upbeat. With insurance penetration in the Philippines standing at just 1.76%, there is indeed massive potential for expansion in the industry.

To seize these clear opportunities and address these

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multifaceted challenges, there is a need for more collaboration and meaningful partnerships between the industry, the government and international development agencies to kick start initiatives for promoting growth and financial inclusion as well as boosting the country's disaster resiliency.

Regulatory and taxation reforms are work in progress

In the area of regulation and taxation, the Insurance Commission and the industry formed a task force to study and identify amendments to the Insurance Code such as changing the minimum net worth requirements that are hard coded in the law. Changes to the non-life insurance tax rates are also to be included in the proposed Package 4 of the Tax Reform for Acceleration and Inclusion (TRAIN) Act.

The Philippine national government has developed a disaster risk financing and insurance (DRFI) strategy to "maintain sound fiscal health… (and) develop sustainable financing mechanisms" on the country's sovereign, local government, and household levels. The private insurance sector is expected to participate in executing the household-level strategy through a proposed property catastrophe risk insurance pool for households and owners of small- and medium-sized enterprises. The World Bank will provide technical assistance in the development of this pool.

The Philippine Insurers and Reinsurers Association (PIRA), the country's non-life trade association, is very supportive of this DRFI strategy. However, it is well aware of the challenges in implementing a property insurance program that is compulsory and which may entail a tedious process of passing new legislation. In this regard, PIRA has proposed an interim approach premised on the need to restore sustainability of catastrophe covers.

A larger role for the national reinsurer envisaged

The proposal is for direct insurers to cede their natural catastrophe risks, up to a certain sum insured, to the national reinsurer, Nat Re, at technically sufficient rates for the particular zone. Nat Re in turn would share the pooled risks to participating local insurers based on their respective risk appetites and financial strength. This initiative is expected to improve tariff compliance, diversify catastrophe risks, optimise local capacity, and increase the viability and sustainability of catastrophe insurance. These outcomes will encourage the private sector to promote catastrophe insurance products and ultimately benefit the nation with greater disaster resiliency.

Reach of agriculture insurance to be expanded

The industry has also garnered substantial support from legislators, particularly for agriculture insurance. Just this year, a senate bill which establishes the regulatory framework and a programme for free weather index-based crop insurance was re-filed. The author of the bill, one of the industry's staunchest supporters in senate, emphasised the need to actively engage the private sector and to adopt a more relevant strategy in order to strengthen the resilience of small farmers against extreme weather risks.

Under the same rationale and with technical assistance coming from the Asian Development Bank, PIRA and Nat Re have proposed a public-private partnership with the Philippine Crop Insurance Corporation (PCIC), the implementing agency of the government's agricultural insurance program. The partnership aims to maximise utilisation of the PCIC's funds budgeted for agriculture insurance subsidies. Through this initiative, direct insurers can mobilise their distribution networks and collaborate with other commercial entities to more effectively promote product awareness and increase the availability of agriculture insurance products among the target beneficiaries. This will allow the PCIC to reach more of the country's 6m small-hold farmers.

The German development agency GIZ is also one of the industry's partners in building capacity to develop climate risk insurance products. Under their Regulatory Framework Promotion of Pro-poor Insurance Markets in Asia (RFPI III Asia) Project, GIZ will train and enable private insurers on product development, distribution, and digitally enabled payment platforms. This is in line with the project's overall approach of helping governments develop concepts for climate risk insurance products and integrate such products into a comprehensive disaster risk management approach.

As the country's national reinsurer, Nat Re also pursues initiatives aimed at pooling risks and redistributing them among local insurers, thereby optimising local capacity, increasing national retention, and providing direct insurance companies with avenues for deploying their increased capital. Nat Re has already launched the Philippines' first reinsurance facilities for sabotage and terrorism insurance and for financial lines. These are mechanisms where a larger proportion of Nat Re's facultative acceptances, in the exercise of its 10% compulsory cession, will be distributed back to participating insurers.

Building a world-class insurance hub

Monetary Authority of Singapore executive director, insurance department **Daniel Wang** discusses the effect of technology on the insurance workforce, climate change risk and the regulator's vision for Singapore as an ILS market in the future.

Q: What regulatory developments have impacted the insurance sector in the past 12 months?

Monetary Authority of Singapore (MAS) has, in the past 12 months, updated its regulations and guidelines to safeguard policyholder and consumer interest better. Three changes are noteworthy. First, MAS introduced two new point-of-sale disclosure documents, that life insurers are required to prepare, to facilitate more informed decision making by consumers when purchasing life insurance.

Second, the Policy Owners' Protection Scheme (PPF Scheme) was amended in April 2019. One enhancement was the clarification that motor and property insurance policies bought by an individual will be covered under the PPF Scheme, even if the car or property is sometimes used for commercial purposes.

Third, and in response to the large-scale movement of financial advisers across firms, MAS implemented industry guidelines to promote responsible recruitment. The new guidelines include pegging sign-on incentives to the persistency of policies serviced by migrated representatives at their previous firm, and enhanced sales monitoring.

Another significant regulatory change has been initiated to strengthen financial institutions' overall cyber resilience. In view of financial institutions' increasing adoption of technology that has matured only in recent years, MAS partnered the industry to propose updates to the MAS Technology Risk Management Guidelines.

Last but not least, MAS has also strengthened its supervisory emphasis on the culture and conduct of our financial institutions. MAS adopts a three-pronged approach, where we work closely with industry players to promote and cultivate a culture of trust and ethical behaviour; monitor and assess the industry's culture and conduct practices as part of our supervisory procedures; and where necessary, take supervisory or enforcement actions against financial institutions and individuals when lapses in risk management, misconduct, regulatory breaches or offences occur.

Q: What developments or initiatives are you expecting in the next 12 months that will impact the insurance sector?

Three developments and initiatives come to mind.

First, enhancements to the current risk-based capital (RBC) framework for insurers, also known as RBC 2, will take effect from 1 January 2020. RBC 2 is a more comprehensive and risk-sensitive capital standard, when compared with the current requirements. For example, it covers more risks like insurance catastrophe and operational risks, and also has more granular risk differentiation in some risk modules (e.g. credit spread risk depends on credit rating and tenor of bond).

Second, managing environmental and climate change risks. Urgent action is needed today to combat climate change and its associated impact. As a (re)insurance hub, the players in Singapore are also exposed to the significant climate change risks prevalent in this region. According to the United Nations,

Nat CAT events in the Asia-Pacific have increased from an annual average of 44 disasters in the 1970s to 126 by the early part of this decade.

MAS is committed to ensuring that its financial sector, including insurers and reinsurers, manages these risks well, and does its part to facilitate a smooth transition into a sustainable economy. We recognise that climate change modelling remains an emerging area and can benefit from further research. Appropriate risk management and assessment tools, including on scenario analysis and stress testing of climate risks, will need to be continually refined and enhanced.

Third, looking out over a longer three- to five-year horizon, insurers will do well to pay close attention to the effects of technology on their workforce. Technology is transforming the entire insurance value chain, impacting how insurance services and products are produced, distributed, and consumed. This means that job roles would be transformed.

A recent EY study commissioned by the Institute of Banking and Finance and MAS, titled 'The Impact of Wider

Integration of Data Analytics and Automation on Manpower in the Singapore Financial Services Sector', examined the impact of data analytics and automation on 121 job roles across the financial industry. Of the 17 insurance sector job roles examined, five job roles have been identified as being highly impacted, with the potential for convergence or displacement. These roles, which carry out a range of tasks that are prone to automation, include underwriter (retail), claims examiner and policy servicing officer.

Q: What are your thoughts on the development of the InsurTech sector in Singapore, and the rate of technology adoption in the insurance industry?

Significant strides have been made in establishing Singapore as a smart financial centre. Today, more than 500 FinTech start-ups and over 30 innovation labs are calling Singapore home. According to Fintechnews Singapore, Singapore is also an InsurTech hub which hosts the highest number of InsurTech companies operating in the Asia region. MAS will continue to support growth in this area. Initiatives such as the introduction of the Sandbox Express will continue to encourage enterprising firms to experiment with and bring innovative financial services or products to the market for testing. We hope to continue to position Singapore as a go-to R&D hub where ideas are developed and tested, and exported out to the region and beyond.

On digital and technology adoption, insurers here are making sizeable investments to improve multiple segments of their value chain, and where necessary, are partnering and collaborating with InsurTechs to do so. For instance, customer-insurer interactions are increasingly being facilitated through mobile apps that allow everything from remote accident reporting to the delivery of preventive healthcare programmes.

Q: Any thoughts on how IFRS 17 will fit in with the current regulatory regime in Singapore?

Insurers in Singapore are required to prepare financial statements in accordance with Singapore Financial Reporting Standards, which have adopted IFRS17. Based on our engagement with the industry, preparations for IFRS17 – performing gap analysis, assessment of impact to business strategies and key operations, determination of new system needs – are underway, and many insurers are confident of completing the implementation by the effective date of IFRS17.

MAS regularly reviews the financial statements of insurers. Together with the RBC reports, these documents aid us in our supervisory assessments of insurers' financial health. This will not change with IFRS17 as the new standard improves financial reporting by providing information about the effects of insurance contracts on insurers' financial performance, and the nature and extent of risks that they are exposed to.

Q: Do you have any plans to strengthen Singapore's position as a leading reinsurance centre?

Today, Singapore is well-recognised as the leading reinsurance and specialty insurance centre in this region. We continue to deepen underwriting and research capabilities in large and complex risks, and aim to become a global capital for Asian risk transfer by 2025, offering a wide spectrum of risk financing solutions that goes beyond traditional insurance and reinsurance. The year 2018 marked a significant milestone with the first catastrophe bond being issued in Singapore, which has since attracted a strong pipeline of catastrophe bond issuances.

We are also focused on facilitating the establishment of sovereign risk pools, such as the Southeast Asia Disaster Risk Insurance Facility (SEADRIF). With disaster risk resilience being a priority for ASEAN governments, SEADRIF, which is domiciled in Singapore, will act as an ex-ante disaster risk financing platform providing immediate financing in the aftermath of a natural disaster. Work is underway to launch a regional catastrophe risk pool for Lao DPR, Myanmar and potentially Cambodia.

Q: Are there any plans to facilitate Singapore becoming the leading centre for insurance-linked securities in the region?

We aim to strengthen Singapore's proposition as an insurance-linked securities (ILS) hub in Asia by adopting a three-pronged approach.

First, we seek to improve data availability and standardisation. Asia faces a data paucity challenge which makes it difficult for ILS to be structured, modelled and securitised. To address this issue, we implemented the Natural Catastrophe Data Analytics Exchange (Nat Cat DAX) in 2016. Nat Cat DAX is envisaged to be the leading natural catastrophe data facility in the region, which fuses top-down economic and exposure data obtained through satellite imagery and remote sensing technologies, and bottom-up industry loss data.

Second, we want to create the necessary business infrastructure conducive for issuing ILS in Singapore, including regulatory, tax and corporate frameworks. Currently, catastrophe bonds can already be issued and regulated in Singapore via the special purpose reinsurance vehicle framework.

Third, we want to develop a vibrant ILS ecosystem here. To promote strong ILS deal flow and to encourage issuers to consider Singapore as an ILS domicile, we launched an ILS grant scheme in 2018 that funds 100% of upfront costs associated with issuing an ILS bond here.

No ILS ecosystem will be complete without stakeholders such as modellers and capital market advisory teams, and with the strong deal flow coming on stream, MAS would welcome these stakeholders to set up operations in Singapore.

The full transcript of this interview can be found online at www.asiainsurancereview.com

Insurance industry upbeat despite economic downturn

Ceylinco General Insurance director (technical) and chief technical officer Dr **Jagath Alwis** says the Sri Lankan insurance industry continues its growth trajectory despite the country's economy going through a difficult phase.

The Sri Lankan economy recorded its lowest GDP growth of 3.2% at the end of 2018 which is the slowest rate of growth in the last 17 years. The country's GDP was LKR 14,450bn ($80bn) in 2018. According to the Central Bank's Annual Report 2018, a sharp depreciation of the Sri Lankan rupee against major currencies and the upward revision of prices of domestic petroleum products were among the reasons for the slowdown of the economic activities in the country.

Recently, however, Sri Lanka was elevated to an upper middle-income country category with a per capita income of $4,102 (2018) which is the highest in the subcontinent. Also, during the first quarter of 2019 the GDP growth has increased marginally to 3.7% from 3.2% in 2018. The government is confident of achieving over 3.2% growth by the end of 2019.

Insurance industry growth continues

In this backdrop, the Sri Lankan insurance industry has recorded a growth of 10.03% in 2018 against 15.3% in 2017. The life insurance industry has grown 12.2% and non-life insurance industry 8.3%. The total market size at the end of 2018 was LKR181,506m, which is little more than $1bn. The non-life insurance industry has contributed LKR 100,230m towards the total market figure.

The Easter Sunday brutal bombing at three Churches and three five-star hotels in Sri Lanka had a significant impact on the economy of the country. The demand for insurance covers against terrorism has gone up after these bombings. The industry is confident of maintaining the double-digit growth at the end of the current financial year.

The Sri Lankan market currently consists of 25 insurance companies, 11 of them are non-life insurers, 12 are life insurers and two are composite insurance companies, even though the prevailing laws of the country do not permit composite insurance companies. However, state owned Sri Lanka Insurance Corporation is exempted by the law and operates as a composite company.

National Insurance Trust Fund (NITF) which accepts strike, riots & civil commotion and terrorism risks through the local non-life insurance companies, also accepts 30% compulsory reinsurance cession from the market and is now permitted to operate as a direct non-life insurer too. Market players though are not too happy about it.

The average net combined ratio for non-life insurance was 105.49% for 2018 which has gradually increased from 102.67% in 2014. The average investment yield was above 10% in 2018 which is likely to come down during the current year and this may affect the profitability of the Industry unless the expenses and claim ratios are managed properly.

Low insurance penetration

Insurance penetration in Sri Lanka is still very low with 0.56% in the life insurance sector and 0.7% in non-life sector. The insurance density in 2018 was $46.5. It is worth noting that the crop insurance premium underwritten by the Agriculture and Agrarian Insurance Board (AIB) and insurance products offered by various Government Institutions which are not under the preview of the Insurance Regulatory Commission of Sri Lanka (IRCSL) were not considered when compiling the above figures. As at the end of 2018 only 3.2m Life insurance

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policies were in force, for a total population of 21m.

Long term sustainability

For the long-term sustainability of the industry, all other insurance providers including AIB, Export Credit Insurance Corporation etc., should be brought under the supervision of the regulator IRCSL. Also, the various insurance schemes that are offered by entities under different ministries should be brought under NITF which can handle such schemes under the principles of insurance. Presently NITF is handling the health insurance scheme for government employees effectively under "Agrahara" insurance scheme.

RBC and minimum capital requirement

Risk Based Capital was introduced in 2016 and presently except for two non-life companies all others are maintaining capital adequacy ratio (CAR) above the required level of 120% with an average CAR recorded at 171% as at 31 December 2018.

All life insurance companies have satisfied the minimum required CAR of 120%. However, three Companies have not complied with the minimum requirement of LKR 500m as at 31December 2018.

When compared with the Asian region probably Sri Lanka has the lowest minimum capital requirement of LKR 500m which is around $2.8m. As a result, it is difficult for some companies to absorb major shocks during a NAT Cat event and nation-wide epidemics, to their net accounts. Such companies operate with very small retentions and are highly dependent on reinsurers. During last couple of years the market was exposed to floods during both monsoons every year. The regulator should seriously consider increasing the minimum capital requirement which may sometimes lead to further mergers and acquisitions which will bring about a healthy change for the industry in the long run.

In fact, certain non-life insurers have proposed that the IASL initiate a Nat Cat Pool or alternatively a scheme under which Nat cat risks will also be ceded to NITF. This proposal was rejected by the majority members of the IASL. This year renewals could be an acid test for many companies as the market is expected to be hard for companies making continuous losses due to Nat Cat events and particularly for companies whose proportional treaties are highly unbalanced. The rates are coming down to very uneconomical levels due to severe competition and at the same time the costs of the claims are on the rise.

Despite several adverse factors, the industry is confident of maintaining the double-digit growth at the end of the current financial year.

Only one company in the market has worked on flood modelling and the other insurers are also likely to follow the same, which is a good sign. Since NITF is accepting 30% compulsory cessions of all treaties from the non-life companies, for the benefit of the industry they could initiate a nationwide Nat Cat modelling exercise.

Microinsurance

Market players are offering products for micro sector and are in the process of developing new channels through micro credit agencies, fertiliser suppliers and various NGOs active in this sector. A few non-life companies are offering crop insurance schemes backed by major international reinsurers. However, involvement of life insurance companies in the microinsurance sector is not significant.

Certain non-life companies have introduced mobile insurance and are offering products such as personal accident and hospital cash policies through mobile platforms. This sector is growing much faster than expected and industry experts are predicting more such products will be on offer in the near future.

Bancassurance

Bancassurance is another area which the country's insurers are keen to develop. However, it is at a very premature level of development compared to the west due to various regulatory barriers imposed on banks. Banks are merely working as institutional agents and not as proper partners of bancassurance products.

Even though the total insurance market size of Sri Lanka is around $1bn, it is a very vibrant and innovative market, with

Growth is slow, but steady

Taiwanese insurance market has maintained a slow but steady growth over the last couple of years, aided by several factors, both, global and domestic, says Central Reinsurance Corporation vice president and appointed actuary Lyndon Lin.

In the past five years, Taiwanese insurance industry has shown growth in gross premiums written. The total gross premium has reached a record high of NT$3.68tn ($117.86bn) for 2018, an increase of 2.8% over 2017. In which, the non-life and life insurance sectors reported premium incomes of NT$0.17tn ($5.31bn) and NT$3.51tn ($112.55bn), up by 5.68% and 2.67%, respectively.

The increase of premium written in the non-life insurance sector mainly came from the growth in new car sales leading to the growth in auto insurance. In the meantime, government-sponsored investment in public construction, the installation of offshore wind power, and the raising of liability insurance awareness and amount insured also contributed to the growth of premium written in 2018. Continuing with the recent growth trend, non-life insurance premium has grown by 6.7% as of June 2019.

The premium written in the life insurance sector grew by 2.67% in 2018, mainly driven by the thrust in global capital market, the appreciation of US dollar, and the increased sales in investment-linked products. Due to the growth in traditional insurance products, total premium written has grown by 0.5% as of June 2019, compared to the same period last year.

Non-Life Insurance

In the course of rate deregulation, the Taiwanese non-life insurance sector has experienced fierce price competition. In recent years, after regulator adopted a much stricter framework, premiums adequacy in the sector has gradually improved. Regulator required that premium rates from fire and automobile insurance must not deviate from the reasonable range; in addition, insurance companies should follow self-regulation guide while strengthening supervision measures. Therefore, even though the non-life insurance sector is still competitive in pricing, the market has retained certain level of discipline and order.

With the fostering FinTech development in recent years, non-life insurers have progressively applied the technology to product development, marketing and claims handling in order to enhance customers' satisfaction in insurance services. Some of the applications include usage-based insurance (UBI) for automobiles, blockchain on automated claim service, unmanned aerial vehicle (UAV) on disaster monitor and assessment and online marketing. With the regulations on digital insurance slightly relaxed, the total premium income on non-life and life sectors has reached NT$2.31bn ($73.82m) as of June 2019, nearly doubled compared to same period last year.

Demand for cyber insurance is growing

With the implementation of Personal Information Protection Act and Cyber Security Management Act in Taiwan, the issue of cyber security has become highly discussed. Recently in Taiwan, there have been a few cyber security incidents, such as cyber-attacks on financial institutions and semiconductor/high-tech companies. The serious effect afterwards has brought corporations' attention, thereby increasing the demand for cyber insurance.

Financial Supervisory Commission (FSC) urged the development of cyber insurance from insurance companies while demanding listed companies to disclose information on the purchase of cyber insurance. There will be a potential growth in cyber insurance; however, insurance companies may have to overcome challenges from underwriting and risk management. As the only domestic reinsurance company in Taiwan, Central Reinsurance Corporation (Central Re) has been making contribution on the development of cyber insurance by closely collaborating with insurance companies on designing cyber insurance products.

Focus on agriculture insurance in wake of climate change

High frequency of natural disasters in Taiwan often leads to serious agricultural loss. In order to reduce the impact of natural disasters on farmers' income, the government has encouraged insurance companies to undertake agricultural insurance in recent years. By now, insurance industry has designed 20 agricultural insurance products, which covers

15 agricultural commodities such as pears, mangoes, custard apples, rice, aquaculture products, etc.

As of June 2019, the total number of agricultural insurance has reached 29,000 policies, resulting a total insured amount of NT$6bn ($191m); meanwhile, these policies have covered 47,000 hectares of farm land and 2.39m of poultry. On July 18th, Council of Agriculture passed the draft act of "Agricultural Insurance Law". The bill plans to subsidize farmers' insurance premiums up to 50%, and the insured incidents are not limited to natural disasters and include plant diseases, pests, etc. After the enactment of legislation, the agricultural insurance mechanism can be strengthened to further protect farmers' income.

Development of green and renewable energy sources

In response to global climate change, recently, the government has been actively promoting green energy. The government has set up special budget to construct the infrastructure needed for green energy development, which will drive the growth of premium income in non-life sector. In the first half of the year, benefitting from the installation of offshore wind farms, engineering insurance has grown by 35.66% over same period last year.

In addition, the industry has also contributed considerable efforts in developing solar panel related insurance. However, because Taiwan is geographically located in a position where typhoons occur frequently, insurance companies may face challenges while undertaking offshore wind power related and solar panel related insurances.

Life Insurance

IFRS 17 is expected to take effect in Taiwan in 2025, which can be a big challenge for the life insurance sector. In order to ensure the smoothness of the implementation, regulator has introduced a series of measures to prepare insurance companies for meeting IFRS 17 compliance. As to the product side, savings-type insurance plans and investment-linked products are currently the mainstream products in the market. In the future, regulatory policies will lean toward promoting protection type and ageing related products, which are expected to have potential growth.

As Taiwan entered ageing society in 2018, the demand for senior insurance has been rising. Products, like long-term care (LTC), LTC-like, disability annuity and critical illness annuity, can have potential growth. Meanwhile, the advancement of FinTech has shown prominent impacts on the ecosystem of non-life and life insurance markets.

Insurance companies are able to select premium customers by analysing data sent back from wearing devices, which are provided for spill over insurance. Furthermore, many insurance companies have been using predictive models and AI to strengthen underwriting process and prevent claims fraud.

Taiwan: Overall Market

NT$ millions

Gross Premiums Written over the Past Five Years						
Year	Insurance Industry		Non-Life Insurance		Life Insurance	
	Amount	Growth Rate (%)	Amount	Growth Rate (%)	Amount	Growth Rate (%)
2014	2,903,350	7.20	132,220	5.86	2,771,130	7.26
2015	3,062,796	5.49	136,119	2.95	2,926,677	5.61
2016	3,279,319	7.07	145,962	7.23	3,133,357	7.06
2017	3,576,945	9.08	156,712	7.36	3,420,233	9.16
2018	3,677,170	2.80	165,611	5.68	3,511,559	2.67

A confident and resilient market

Asian Re CEO **Anil Sant** says, "Thailand is a market with lots of potential and is set to take on the challenges in the areas of innovation, regulation, digitalisation and impact of climate change. It is a crowded market and subject to intense competition but highly resilient. Thai insurers find good opportunities and space to grow."

With a population of 67m, Thailand's non-life premium income in 2018 was THB232bn ($7.17bn). Thailand's non-life insurance market is ranked 33rd in the world in terms of non-life premium volume in 2018. The GDP growth for 2018 was 4.1% and for 2019 is expected to be between 2.7-3.2%. Inflation was at 1.1%.

The gross premium income of Thai non-life market is dominated by six players who control around 47% of the market. Viriyah Insurance which is ranked number one has a 16.3% market share. Non-life growth in 2018 was 5.6% vs 3.7% in 2017. Insurance penetration in Thailand is estimated to be 5.27% out of which non-life is 1.42% and this indicates scope for further growth.

The Thai economic scene

The Thai economy has traditionally been based on agricultural exports but it is now transforming into one of the most diverse economy in Southeast Asia and the economic drivers are the industrial and services sectors with tourism dominating the services sector.

With the economic shift from an agriculture-base to an industrial and service-based economy, the Thai government is recognising the necessity to amend rules and regulations for the financial sector also in order to enhance competitiveness, improve efficiency and fairness in service provision for consumers and private sector.

Financial technology utilisation, the development of financial tools for funding mega-project investments, as well as expansion of accessibility of financial services at reasonable cost are also emphasised in order to facilitate the business sector's access to financial services.

Challenges for the insurance industry

Intense competition characterises the Thai insurance market which has 57 players. The market has been soft in the recent past and affords low margins.

Reinsurance capacity which waned after the devastating floods of 2011, has once again returned to Thailand. Most of the reinsurance restrictions on reinsurance capacity have either been relaxed or are being relaxed. The rates for most classes have reduced steadily in recent years impacting profitability of the industry.

Main growth areas for non-life insurance industry in Thailand include crop insurance, especially rice. Thai government approved rice insurance scheme for 2019 season aiming to cover 4.8m hectares of farmland. This will provide a cover from floods, drought, storms, cold, hail and fires. Infrastructure development and tourism are the two other areas that are in focus.

Thailand will become an aged society by the end of 2021. This will have significant implications for savings, investment, and public finances. Insurance industry also will have a significant role to play in the health insurance of the aging population.

Developing a health insurance system for foreign workers and tourists to provide more quality coverage of healthcare services with adequate regulations is an area under discussion. Plans are also afoot to integrate all data and information from the different health insurance systems into one database.

Technology is the buzzword for insurance industry too

The government has also approved economic development plans for the Eastern Economic Development Corridor (EEC) and these are expected to bring more opportunities to insurers.

Making use of digital innovations to address the issues of efficiency in insurance business is gathering serious momentum in Thailand. Every market participant in insurance business including the regulator, (re)insurers, middlemen, and consumers actively participate in this important activity.

The OIC in 2018 announced the setting up of the InsurTech Centre of Thailand, which aims to promote and nurture the development of insurance technology in Thailand. The centre is expected to play its part in leading disruption in the insurance industry.

Thailand with its increasing online transaction volumes is a huge e-commerce market and is expected to be the second largest by 2020. It has plans to increase its capability in high technology, focusing on five fields: (1)

food, agriculture and biotechnology industries (2) health and medical industries (3) smart devices, robotics and electro-mechanical industries (4) digital and internet of things, artificial intelligence and embedded systems industries and (5) creative, cultural, and high-value-added industries.

Regulatory regime

The OIC is committed to promote free competition despite the market being highly protected and regulated.

One of the objectives of the Insurance Development Plan for 2016 to 2020, published by the OIC, is for tariffs to be relaxed gradually. With effect from 1 October 2017, the OIC and the Thai General Insurance Association agreed to implement certain changes in the fire tariff which had been applied since 1997.

Companies are free to arrange reinsurance from the domestic market or from overseas, provided approval of their reinsurance programme is obtained from OIC. Under the RBC rules, higher reinsurance credit risk charges apply for lower rated reinsurers.

The Thai insurance industry is required to comply with IFRS17 by 2022 as stipulated by the regulatory guidelines.

Foreign companies may participate in the market through locally incorporated companies and branches. The current statutory limit for foreign ownership is 25%, although OIC may approve shareholdings up to 49%, with higher levels possible subject to further government approval, and foreign investors are being encouraged to enter the market.

Thailand Government's twelfth national economic and social development plan focuses on incorporating creativity and innovation to generate a new value-added economy, including manufacturing processes and forms, new products and services, technology changes, and business patterns.

The next five years are expected to focus on knowledge-based development which results from the use of new skills, science and technology, research and development, and innovation in all aspects of development.

The economic model known as Thailand 4.0 intends the development to be environment friendly, comply with sustainable development goals, create and expand new and more inclusive income bases.

Mergers and acquisitions

The Thai insurance industry now appreciates the need for industry consolidation as there are perhaps twice as many companies as the market can support, particularly after the implementation of the RBC regime. The market saw three mergers and acquisitions during the past year and one licence was revoked.

Climate change and insurance

Thailand has little exposure to natural perils other than flood, which occur frequently. In 2011 the country suffered its largest ever flood losses. Extensive inundation of industrial estates caused huge insurance claims and severe disruption to international supply chains, with total global insurance losses estimated at $12bn.

Climate change and natural disasters are becoming more frequent and extreme, affecting agriculture, food production as well as water security. Climate change has led to water shortage, floods and other catastrophic events. For Thailand, climate change has a direct effect on the export of food and agricultural products, which are one of the main revenue sources for the Thai economy.

A major challenge is from rising sea levels. Bangkok, which is known as the 'Venice of the East' for its extensive network of canals, is facing an increasing risk of land subsidence.

Action to arrest land subsidence has to be an immediate priority. A World Bank survey predicted that 40% of Bangkok may be submerged as early as 2030. Population displacement, loss of arable land for agriculture and a migration crisis are some of the issues that Thailand can expect to be faced and contend with.

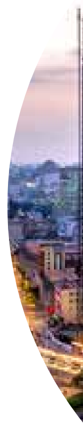
There will be inevitable economic costs arising from these natural catastrophic events. Governments will have to bear a high degree of cost and take initiatives including new building codes to withstand flooding and flood zoning to anticipate future flooding.

Rise in frequency and severity of natural disasters effectively increases the need to have insurance and reinsurance in place to minimise economic losses and make the country's economy more resilient.

Future of the market

Despite the challenges faced by the market, Thailand remains a growing market with opportunities and is developing regulatory and technological sophistication and will be found attractive by serious local and international players.

Imminent introduction of RBC2 and IFRS17 regulations should move the market towards better underwriting discipline. Coupled with growing GDP and government economic plans, Thai insurance market offers good prospects for all the players.



Thriving but challenges aplenty

The booming economy, economically prospering middle class, technologically savvy population and improving standards of living are all creating demand for insurance in Vietnam. Natural catastrophes, too, catalyse the uptake of protection cover. Insurance Association of Vietnam deputy secretary general Ngô Trung Dũng gives a brief overview of the country's insurance sector.

Vietnam has overtaken 17 countries, including Belgium and Switzerland, in a ranking of economies in purchasing power parity since 2000. The young country has emerged as one of the fastest-growing economies of Asia. According to Bloomberg, economists have upgraded their growth projections for Vietnam after data at the end of September 2019 showed that the economy surged more than 7% in the third quarter of the current financial year.

Maybank researchers as quoted by Bloomberg have said that, "Rising foreign direct investment and buoyant domestic demand, as suggested by the recent robust retail sales growth will keep the momentum going through year-end and in early 2020 as well."

General economic growth also provides a boost to the insurance industry

It is the same momentum that is seen in the insurance industry of the next potential tiger economy of Asia. The stable growth of the national economy, the rise of a financially strong middle-class population, increase in income levels and growing demand for health and property protection are catalysing the growth of the Vietnamese insurance industry.

Vietnam's insurance industry recorded VND133.65tn ($5.76bn) in premium revenue in 2018, a growth of 24% from 2017. General insurance companies contributed VND45.7tn ($1.96bn), while life insurers brought in VND87.96tn ($3.78bn).

The insurance industry also contributed VND319tn to the country's economy, almost 30% higher than in 2017.

Low penetration but competition in the industry is hotting up

Vietnam, despite excellent economic and insurance industry growth with positive indicators, in terms of insurance penetration, is still one of the most poorly penetrated nations. Insurance penetration in 2018 was 2.4% of which 1.56% came from the life insurance industry and general insurance contributed 0.84%.

Poor distribution and mis-selling are two major bottlenecks

A major challenge that the insurance industry in Vietnam faces is insurance distribution and mis-selling. Most insurers in the Vietnamese market still use the traditional distribution channels. The acquisition costs are still very high and the productivity of agents is very low. Mis-selling of insurance products is also rampant.

Regulatory system needs to stabilise

The insurance regulatory system in Vietnam is yet to stabilise. The current insurance law (promulgated in 2000 and amended in 2010) has some shortcomings and needs to be adjusted to meet new plan to bring in a new insurance law to replace the current Insurance law.

The drafting work of the new law is currently in progress. The new law is likely to be submitted to National Assembly for its approval in late 2020 and likely to come into effect in 2021.

There is also an acute paucity of appropriate talent and know-how in the Vietnamese insurance market, especially for the still developing risks like cyber and liability. We also lack expertise and underwriting specialists for these new risks.

Rapid adoption of technology and AI

Adoption of technological innovations by the insurance industry has been easy as the Vietnamese population is generally digitally savvy and the know-how to develop digital solutions for some insurance bottlenecks are being developed locally.

The Vietnamese society has ready digital infrastructure, which makes things that much easier for the insurance industry to piggyback on for its own development.

Several insurers have already joined the AI and IT

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bandwagon. The industry has been quick in adopting new technologies to enhance the quality of their customer service. Using AI based chat bots, smartphone-based apps and online digital channels, the insurers are promoting the interaction with their customers which translates into better customer satisfaction and hence promotes customer retention and reduces acquisition cost for the insurers.

As risks get increasingly complicated, understanding them to underwrite these risks acquires significant importance. Technology is soon expected to be the part of the daily underwriting activities.

AI and technology would also soon be used for product design, cover pricing and marketing and distribution by going digital. AI technology would also make an entry in risk assessment and claims processing.

The rise of InsurTechs has also facilitated several innovations in the market. These have helped in reducing the claims settlement time.

Another major challenge is to ensure the sanctity and security of customer data. While the double-digit growth of country's insurance industry generates ample data, the industry is still unable to ensure the sanctity and authenticity of the data. There is a common life insurance agents' database but a common clients database for the whole market is yet to take shape.

Climate change and growing natural catastrophes

Natural disasters are a major concern for (re)insurers in Vietnam. We suffer major losses due to typhoons and floods. Fortunately, in the whole of 2018 and in the first 8 months of 2019, insurers did not suffer any big loss due to natural disasters and they have been able to put up a good underwriting performance.

Climate change, however, can create negative impact on the performance of (re)insurers. As the damage from natural catastrophes (usually floods and typhoons in Vietnam) increases, the bottom line of the industry players gets worse, and in such situations the most common solution for the (re) insurers would be to adjust the risk price accordingly. In the long run it could create a problem of affordability (when clients, at a certain income, are not able to afford insurance anymore).

Health insurance is also growing rapidly

Vietnamese population has been giving increasing attention to healthcare insurance. The growth rate of health insurance has been 40% or even more on a year-on-year basis in recent times. The insurers have introduced a wide range of healthcare insurance products, from traditional healthcare to specific critical illnesses insurances and insurance for cancer.

Better medical and healthcare services are being sought, especially by those in the higher echelons of society. Also, with the improving standards of life, lifestyle ailments and non-communicable diseases are becoming more prevalent. This necessitates the need for health insurance.

Vietnam is still a young society and greying of the population is not a big issue currently, however by around 2040 things will start getting different as the young workforce shrinks and the population starts growing older.

The pension insurance has also developed very fast recently (although voluntary pension insurance still takes a very modest share in total life insurance premium (only 1%).

Expectations from reinsurers

The Vietnamese insurers expect the reinsurers, especially the overseas reinsurers, who are operating in our market to provide ample capacity not only for the current traditional lines of business but also for the emerging risks like cyber, liability and critical illnesses.

The new capacity will help the industry to expand its business and create market competitive positions, especially for the new lines of business.

The insurance industry in Vietnam also needs more support from the reinsurers to understand the emerging risks. With the rapidly evolving insurance market, Vietnam is facing more complex and even unknown risks, like social unrest, environment liability, cyber risks and growing natural catastrophes. Reinsurers' expertise and technical knowhow in these areas are in great need.

What lies in the future

The future of the Vietnamese insurance market will depend on several factors. We are a more than 93m population with low insurance penetration but rapidly growing demand for insurance as the society progresses economically and acquires insurable assets.

The market is expected to grow around 18%- 20% annually in next three years. Life insurance sector is projected to grow at 23%-25% and non-life sector between 10% to 15%.

Retail lines like motor and health will continue to spur this healthy growth of the market. The regulatory framework will also 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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