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Reinsurers eyeing rate rises in Asia after cat-struck 2018

A combination of heavy cat loss experience in Asia and poor underlying profitability looks likely to push reinsurance rates higher at 1 January and 1 April across much of the region.

Asian reinsurance markets at the turn of the year were relatively evenly balanced with relatively modest firming in some areas and signs of softness in certain markets, such as China.

But the balance of power between buyers and reinsurers looks set to move following a succession of major catastrophe and risk losses that have hit Asia since June.

However, with global reinsurance capital levels at an all-time high, and a past tendency for reinsurers to privilege growth over margin in Asia, it remains to be seen whether this early perspective on the renewal season withstands the passage of time.

Cat loss cluster

Asia has had a remarkable period for catastrophe losses, with Japan – the biggest mature market in the region – particularly severely impacted.

After losses from severe flooding in June and July that ran into the billions, Japan was struck by two serious typhoons in succession in September.

Typhoon Jebi, the first to hit, and the most severe, has surprised on the upside in terms of claims. After initial expectations of a low-single-digit billion insured loss, the most common loss figure alighted on by the market is $7bn, although isolated voices are suggesting it could move well beyond that.

Owing to the proliferation of aggregate reinsurance covers, a significant proportion of the loss will be ceded to reinsurers, with Swiss Re, in particular, very heavily exposed.

> "There is a sense that a significant portion of the Singapore reinsurance market will be in a loss position for the year"

Typhoon Trami, which hit three weeks later, has exacerbated the situation, impacting back-up underlying aggregate covers and taking reinsured losses from Japan comfortably into the billions.

Alongside the impact of Typhoon Mangkhut, the Kerala floods and the impact of risk claims including the Laos Dam loss, there is a sense that a meaningful portion of the Singapore reinsurance market will be in a loss position for the year.

The underlying profitability of the market is also a significant issue, with years of compound rate reductions that broadly came to an end this year taking their toll and a significant share of the total premium pot made up of low-margin proportional business.

For many years, the Asian reinsurance market had a softening dynamic not just due to excess global and regional capital, but because reinsurers were willing to take a differentiated view of their return hurdles.

The Asian book was not only business that global players could write with relatively little additional incremental capital, but business they were writing as a strategic bet on the region's growth potential.

However, there have been signs over the last two renewal periods of a loss of patience with this approach, with the continental reinsurers drawing back from large amounts of proportional business as they insist that Asian carriers begin to absorb more risk.

One underwriting source said: "This region is no longer seen as a diversifier for Western carriers, so you might see a reduction in participation from them next year."

Size of reaction

A range of market sources surveyed by this publication suggested a range of possible outcomes for rate changes at renewal, emphasising the lack of clarity at this stage, but most agreed that rates would overall be in positive territory.

With rates for Japanese wind business already at depressed levels, there is likely to be a significant response for wind-only occurrence layers and aggregate deals, and some uplift on all-peril layers.

It remains to be seen if this can be leveraged into rate rises on quake excess-of-loss and proportional deals given that rates

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Mind the gap

You, like me, are probably sick to the back teeth of reading about the insurance gap.

When calculating insurance spend in basis points of GDP, it's easy for your eyes to glaze over and to park this problem in the "too difficult to solve" box.

A recent report by Lloyd's and the Centre for Economics and Business Research on the subject warrants a more detailed look, however, as among its findings is the fact that Japan is now considered to be underinsured, compared with five years ago.

While Japan's insurance penetration rate between 2012 and 2017 has actually ticked up by 10 basis points to 2.3 percent, the country is now underinsured by $1.9bn, or 0.3 percent of gross domestic product (GDP), thanks to rising levels of forecast catastrophe risk.

This statistic is particularly stark given the level of natural disasters in Japan this year.

Typhoons Jebi look set to generate more than $10bn in insured losses, while floods in June and July were the deadliest to hit Japan since 1982, generating another $4bn in insured losses, according to AIR Worldwide.

And then there were the earthquakes – while the Hokkaido quake in September caused little insured damage, the Osaka quake on 18 June damaged hundreds of buildings and was reported to have caused $770mn in insured losses by September, according to the General Insurance Association of Japan.

As we know, when repair and rebuild costs aren't picked up by the (re)insurance markets, the burden falls on governments, private businesses and individuals.

You don't have to look back very far to see how painful this can be for the country's economy.

In 2016, total economic losses from the Kumamoto earthquake came to $22bn – but only $5bn of that was picked up by commercial insurers, with the rest taken by the government or uninsured.

> "Japan is now underinsured by $1.9bn, or 0.3 percent of gross domestic premium"

That's tough to stomach for a country that has consistently seen its GDP shrink for years.

Between 2012 and 2017, Japan's GDP has fallen from $6.2trn to $4.9trn. At $38,430 per capita last year, that still puts the company comfortably into the high income bracket, but marks a 20 percent decline.

The Lloyd's report has a more worrying global outlook however. As it noted, in 2012 when it first conducted the underinsurance study with CEBR, the world was in recovery from the financial crisis.

Since then, most economies are at least on the road to recovery. But anyone assuming this would translate to a significant narrowing of the insurance gap would be mistaken – the gap has shrunk by just $5bn globally.

That's at a time of rising frequency and severity in risk events. Last year was one of the costliest on record for natural disasters.

(Re)insurers can't solve the problem alone – policymakers have their part to play.

But it's imperative that carriers help governments to understand the impact of underinsurance, and work with them to develop useful products.

That might mean greater collaboration between carriers, more public-private initiatives, and an increase in adopting and underwriting emerging risks – all of which come with their own risks to companies' P&Ls.

But doing nothing isn't an option.

As Lloyd's concludes, underinsurance helps no-one and harms pretty much everyone.

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…Reinsurers eyeing rate rises in Asia after cat-struck 2018

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here have held up following sharp rises after the 2011 Tohoku quake.

The stance taken by Swiss Re – which absorbed $500mn of Jebi losses – and Munich Re will play a major part in determining the renewals dynamic given the strength of their positions in the market.

The pricing environment in the Chinese market, where buyers are incredibly cost-conscious, is another big uncertainty for the forthcoming Asian renewals.

The promise of growth has allowed Chinese cedants to drive a harder bargain than other cedants in the region and sources tend to be sceptical about the prospects for any price rises in the Middle Kingdom.

One of the material uncertainties around the way that the renewal season will play out is the impact of the burgeoning regional reinsurance market.

While global reinsurers, Bermudians and Lloyd's writers may be looking to trim books, there are a cohort of writers including Korean Re, GIC Re, China Re, Asia Capital Re and Peak Re that are focused on the region.

As such, there is a danger that a more disciplined approach from Western carriers will lead not to rate rises but to panel shifts in favour of the regional reinsurers.

Much will depend upon the willingness of price-sensitive cedants to move business that has been with reinsurers for many years to avoid rate rises.

Upward pressure

- Elevated Asian cat loss experience
- Little margin in many areas, loss-making in some
- Mentality shift underway with western reinsurers questioning top line focus
- Lloyd's risk appetite may reduce

Downward pressure

- Traditional capital at all-time highs
- Average to below average global cats
- Reloaded ILS markets supporting global cat market via retro
- Exposures rising in emerging territories

Criterion targets cyber and D&O for MGA launch

Newly launched Singapore MGA Criterion will focus on financial lines and cyber in its initial months in an attempt to tap into growing appetite for the coverage.

The business, which is backed by A- rated paper from Malaysian personal lines giant Etiqa, is already white labelling personal cyber cover through Etiqa's parent company, Malaysian bank Maybank.

And despite the hitherto slow take-up of cyber products in Asia, both former Munich Re Syndicate Singapore chief Jonathan Ranger and chief underwriter Shan Sagoo believe Singapore is on the cusp of a growing appetite for the insurance coverage.

"Cyber take-up has been relatively slow compared to the US or UK," admitted Sagoo in an interview with this publication.

"In the EU, the interest has been largely driven by GDPR and the onerous fines associated with it. In Asia, the regulatory environment is evolving.

"Here in Singapore, revisions to the Personal Data Protection Act (including the introduction of mandatory breach notification) are expected to be tabled in Parliament next year.

"This, along with the government's Smart Nation initiatives, and recent high-profile data breaches will serve to boost the profile of cyber insurance."

Criterion CEO Ranger added that, as Singapore was a low-crime area, there was a common belief that the government could handle cyber crime.

"The government here, to be fair, is ahead of the game and has set up the Cyber Security Agency of Singapore to keep the public and business informed of the hazards that exist online," he said.

"Its message is clear: the main responsibility for cyber security lies with the user. This is why personal cyber insurance is such a hot topic at the moment.

"As soon as you open your laptop you're international, social interaction, banking and shopping are all transacted online so the vast majority of people are exposed. Cyber criminals do not discriminate. It takes a while for people to buy in to the concept, but I firmly believe in the growing momentum of the product when people realise what's at risk."

Criterion becomes Singapore's second-ever MGA, following in the footsteps of Delta, which was set up by New Zealand carrier Delta Insurance in July 2017.

Originally conceived as a D&O and cyber specialist insurer, Ranger and his team pivoted to launch the venture as an MGA after being attracted to the increased flexibility that the platform offered.

"It's been a labour of love and we're tapping into the experience and expertise of our insurance personnel to build up a platform that'll be here for the ages," he said.

"Our decision to adopt the MGA model is predicated on the belief that we can offer a broad line of products to market segments less well served by the established insurance industry. Our competitive advantage lies in specialising within the products we offer and leveraging enhanced service standards and our underwriting and management experience.

"And, as an MGA, we're a fixed-cost player, meaning we're able to manage costs and make a margin on smaller sizes of business, which is a key premise for the whole MGA market."

MGAs are a relatively rare breed in Singapore due to the complications around setting up the ventures.

The structures are not currently regulated by the Monetary Authority of Singapore (MAS), but the MAS does regulate the third-party agreement between the paper providers and the MGA.

"Technically, it's easier to set up in Hong Kong, but the 'blue riband' in terms of insurance regulation and jurisprudence is Singapore and that remains our core focus in terms of where we want to be as a base," said Ranger.

"We see Criterion as setting a standard, being a model of how to create a successful independent MGA: strong financial backing combined with underwriting experience and respect for the regulatory and compliance environment.

"The modern MGA is a well-capitalised, professional concern which provides effective, cost-efficient and diligent outsourced underwriting capabilities. Criterion embodies all of these points."

Spaan exits AIG as search for regional chief continues

Rudi Spaan, head of country operations for greater China and Australasia and president and CEO of AIG Insurance Hong Kong, is leaving the firm, *The Insurance Insider* understands.

Spaan has worked at AIG since 1992 and has held his current role for the past four years. He has worked in the region since 1994, when he joined AIG Southeast Asia as a regional vice president for property underwriting in Southeast Asia and China.

According to his LinkedIn profile, Spaan is taking some time out to travel and enjoy a career break until mid-2019, but several sources have told this publication that he has left AIG and does not intend to return.

Several headhunting and underwriting sources in the region have confirmed that for almost a year, AIG has been seeking to recruit a high-level, pan-regional CEO to oversee the greater China, Taiwan, Hong Kong and Singapore offices, but thus far has been unable to find a suitable candidate.

The search is being driven by Chris Townsend, CEO for international general insurance, who joined the company in October 2017.

It had been widely rumoured that former Aspen Re CEO Thomas Lillelund had been lined up to take the role, but the executive ultimately rejoined AIG as CEO for AIG Europe in August this year.

Sources have told this publication that Spaan had been interested in running for the role, but *The Insurance Insider* understands his career break had been planned for some time and his departure and the vacancy for the pan-Asia Pacific role are not explicitly linked.

AIG declined to comment.

Townsend is believed to be close to appointing someone to the role.

A senior broking source added that those on the ground were in dire need of a leader, given that "strategy appears to change once a week" at AIG.

"One of the claims team told me that morale isn't exactly at its highest at the moment," the broker said, adding that many of AIG's staff are in need of clarity about where the company is going in the region.

Lloyd's restarts regional director search after delay

Lloyd's has reignited its search for a regional director to lead its planned One Asia unit after a series of senior management exits forced a delay in the recruitment.

The search for the regional director, understood to be led by executive search firm Positive Moves, has been ongoing for more than six months without success.

Positive Moves was working in tandem with Lloyd's chief commercial officer Vincent Vandendael to find an individual to lead its so-called One Asia strategy – an attempt to bring its Hong Kong, Greater China and Asia Pacific operations together, as first revealed by this publication in May.

However, Vandendael's impending move to Everest Insurance – along with Inga Beale's departure as CEO of Lloyd's – has effectively forced Lloyd's to delay the recruitment process.

With new CEO John Neal now in situ, the process is understood to have restarted, with an ambition to find someone by the end of this year.

However, sources have suggested that the process may not run as smoothly as Lloyd's may hope given the sheer scale of the job and a lack of clarity over how much autonomy the director will have from EC3.

"The biggest challenge is defining the role," said one senior underwriter.

"Do they want someone who can lead in the region, or do they want an envoy that acts on what London decides should be the strategy? Until they define that, they won't fill the role."

Executives used to running their own P&L were also unlikely to warm to a role at Lloyd's where they are "effectively corralling an industry and acting as a cheerleader, rather than running a balance sheet operation".

Another source suggested new CEO Neal was likely to focus his efforts on the US in his first few months in charge, meaning Asia concerns were likely to take a backseat.

"We hear he's far keener on expanding in the North American market and so the spotlight is likely to move away from Asia," said the source.

"People will sense that and it will put them off applying for the role."

Uncertainty around the wider Lloyd's future could also prevent outside candidates from applying, according to several underwriters.

Even if the role was clearly defined, finding a candidate to successfully lead such a diverse set of countries could prove a challenge too far.

Candidates with sufficient political influence in China, long-term relationships in Japan and a grasp of the differences between the facultative-focused Hong Kong market and the more treaty-focused Singapore are thin on the ground.

Of the existing Lloyd's leaders in the region, only Angela Kelly, Lloyd's Singapore's country manager, was thought to be a big enough name to be considered, according to those canvassed.

Song-lin Shen leads Greater China following Eric Gau's retirement, while Thomas Haddrill and Iain Ferguson lead Hong Kong and Japan, respectively, but all three were considered too junior for the regional director role by sources this magazine spoke to.

Lloyd's and Positive Moves declined to comment.

JBA-Aspen launch China flood model

Catastrophe modelling firm JBA has joined forces with Aspen Insurance to create what is believed to be the first fully probabilistic inland flood model for both typhoon and non-typhoon events in China.

Launched on 29 October, the Continental China Flood Model covers continental China, Hong Kong and Macau, but excludes the western-most regions of Qinghai, Tibet and Xinjiang Uyghur.

Historically, the low level of insurance penetration in China has limited insured losses from flood events. As an example, a 2016 Yangtze River flooding event is estimated to have generated $23bn of economic damage, but just $420mn of that was insured, equivalent to 1.8 percent.

However, the take-up of flood cover is increasingly providing an opportunity for global reinsurance markets. According to JBA, an estimated 1.15 percent of GDP was insured in China as of 2015, an increase of 37 percent from the 0.84 percent of GDP insured in 2009.

In addition, the non-life property insurance market in China is dominated by commercial and industrial lines of business, which are approximately three times bigger than residential lines.

One of the biggest challenges for assessing flood risk in China is exposure data resolution, according to JBA. Most reinsurers receive province-level aggregates, but Aspen and JBA's model disaggregates that data, providing a more appropriate view of flood risk.

"Within the model, coordinate-level industrial exposure is matched to industrial-specific polygons that capture the range of flood potential across an industrial site's footprint," said JBA.

"This is an important step as industrial sites can be very large and are often concentrated in low-lying regions, such as the Pearl River Delta, and are therefore heavily flood-exposed."

The model captures both river and flash flooding, with river flood, surface water flood and joint events that are combination of both included.

Events are modelled using a continuous rainfall simulation, capturing previous conditions where prolonged rainfall may cause the ground to become saturated. Seasonal changes in event type and severity are taken into account so that heavy accumulations from Mei-Yu rainfall over the course of the summer are captured.

Two major flooding events have hit the region this year: Typhoon Rumbia, which made landfall in Shanghai; and Typhoon Mangkhut, which struck, Hong Kong, Macau and mainland China.

Rumbia has been described as causing the most serious flooding in mainland China since 1974. Three dams upstream of the Mihe River were forced to release massive amounts of water downstream to prevent endangering the lives of millions of people living further downstream.

Mangkhut, meanwhile, brought strong winds and storm surge flooding to Guangdong province, Macau and Hong Kong.

The damage to infrastructure caused by Mangkhut is likely to be more significant than that caused by Hato a year earlier, with damage from fallen trees and broken windows approximately three times higher than Hato.

Economic losses from Typhoon Hato were estimated at around $2bn and insured losses were greater than $300mn.


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Typhoons to cause 1.4 Japan pricing inflection: Winkel

Industry-wide losses from Typhoon Jebi and other local catastrophes will have a significant impact on pricing at the 1 April Japanese renewals, according to Liberty Mutual Re president Dieter Winkel.

Winkel spoke to *The Insurance Insider* shortly after Swiss Re warned of $500mn of Jebi losses in the third quarter and estimated industry-wide Jebi damage at about $6bn.

"Jebi probably needs to go to more than $6bn," said Winkel. "There's a bit of time left until the 1.4 renewals but I would certainly expect there would be a correction in the Japanese market.

"It's not going to be a marginal adjustment."

He said Liberty Mutual Re was considering how to expand in Asia.

"We already write reinsurance in Asia but we need to take a view of where we can use our existing network because we don't have people on the ground," he said.

"It's a market that we can't ignore as it's a big market, but it's a difficult [one] to get into."

Agricultural risk in India is one focal point for the carrier.

Winkel said Liberty Mutual Re had also established a working group to develop its cyber offering.

The executive also downplayed the prospect of a unified pricing reaction in Europe in response to catastrophes in North America, Japan and elsewhere

The executive said the European pricing picture was more disparate, with deductibles varying from country to country and client to client.

He noted that the fact European windstorm losses typically accumulated only towards the end of the year also made the rate movement for 1 January hard to call.

"I don't think we live in a world where there will be a global [property catastrophe] price reaction in the overall market. Last year people were talking about huge rate increases worldwide; in Europe rates were up in the low single digits."

He was also sceptical about the likelihood of a surge in demand for aggregate cover after attritional losses eroded the earnings of European carriers including RSA and Lancashire, both of which have issued recent profit warnings.

"I am not so sure that people should readjust their buying philosophy because of a certain loss pattern in a given year."

In July, Liberty Specialty Markets rebranded its reinsurance division as Liberty Mutual Re.

Winkel said: "We used to market them separately.

"Syndicate underwriters in London, for example, were seen as Lloyd's underwriters, but we're aiming to demonstrate that we operate as a single reinsurer for the Liberty Group."

Lloyd's report highlights China's $76bn insurance gap

The gap between expected losses and insurance cover in China stood at $76.4bn for 2017, according to a Lloyd's study.

Research published by Lloyd's and the Centre of Economics and Business Research (CEBR) published last week showed that the gap – a key measure of underinsurance – was equivalent to 0.6 percent of GDP.

According to a prior iteration of the report, China recorded an insurance gap of $79.6bn, indicating only a modest improvement of $3.2bn between 2012 and 2017.

Meanwhile, World Bank data shows that, between 2012 and 2017, the country's GDP increased in size by nearly 45 percent, hitting $12.2trn in 2017.

China's economic boom is part of an astonishing growth trajectory that has seen the country's GDP jump from $1.2trn to $12.2trn between 2000 and 2017.

The report also showed that 98 percent of natural catastrophe losses in the country had been uncovered by insurance between 2004 and 2017, including a $125bn economic loss from the 2008 Sichuan earthquake.

Nevertheless, insurance penetration in the country has gradually increased as China's political elite moves to support policies and markets catering for the country's emerging middle class.

The global underinsurance report issued by Lloyd's also highlights a range of other countries across Asia where economic growth continues to outstrip insurance penetration.

India recorded an insurance gap of $27.0bn in 2017, according to the report, while Indonesia had a gap of $14.6bn for the year.

The countries have the second- and third-highest levels of absolute underinsurance but are respectively the seventh- and 17th-largest economies in the world, according to the International Monetary Fund.

"The combination of high GDP at risk and a newly emerging culture of insurance adoption means these countries rank highly in absolute losses.

"India suffers, as its neighbour Bangladesh does, from flooding and earthquakes in the north around the Himalayas, but with a far more developed economy, it has significantly more GDP potentially at risk in absolute terms," the report said.

The report from Lloyd's also highlighted European economies such as Italy, where a small proportion of the country's economic output is insured.

"The fact that only 12 percent of [recent earthquake] losses were insured highlights the underinsurance in southern Europe and represents an opportunity for the insurance industry in the region," the report said.

Commenting on the report, Lloyd's chairman Bruce Carnegie-Brown said: "The insurance sector wants to work with government to help people understand the insurance products that are available and to provide improved access to those products. Together we can help tackle the crippling underinsurance crisis and give people in the world's most exposed economies the security they so desperately need."

The report described four products it suggested could help reduce underinsurance.

Daniel Stander, global managing director at RMS, said: "The four products have been designed with this in mind.

"The objective is twofold: to reduce the initial costs of building resiliently and to finance the residual risk. In this way, the benefits of insurance can be enjoyed by those who need it most."

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Asian market prepares for rate increases

A run of significant cat losses in 2018 could lead to rate increases being demanded of some Asian cedants, according to sources.

This year has been eventful for typhoons, earthquakes and flooding, particularly in Japan but also in China and the Philippines, with losses expected to affect global reinsurers' third- and fourth-quarter profitability.

The largest insured losses this year have been in Japan, which has been struck by 10 typhoons this season as well as two moderate earthquakes and record flooding.

The floods in western Japan in late June and early July – the deadliest in the country since 1982 – are estimated to have caused up to $4bn in insured losses, according to AIR Worldwide.

The most significant event for Japanese insureds so far this year has been Typhoon Jebi, which struck on 4 September and has caused around $7bn in insured losses so far, according to market sources.

As *The Insurance Insider* reported in October, Jebi ate through the first layers of occurrence reinsurance covers and in some cases the second and third. As the sixth typhoon to hit the country in 2018, Jebi also wiped out many aggregate covers.

Typhoon Trami, which struck later on in September, is believed to have caused losses worth around 50-60 percent of those arising from Jebi, hitting the first layers of occurrence covers.

It is understood that some Japanese cedants purchased back-up aggregate covers after Jebi, but because these protections attached at fairly low limits and were bought as sub-layers with no maximum event caps, they could be triggered by a first event. Trami, therefore, left many of these "toasted", sources said.

Earthquakes also hit Japan this year. While the Hokkaido quake in September caused little insured damage, the Osaka quake on 18 June damaged hundreds of buildings and was reported to have caused $770mn in insured losses by September, according to the General Insurance Association of Japan.

China too has experienced significant loss events during this typhoon season. Typhoon Mangkhut hit mainland China, Hong Kong and Macau in September. Risk modelling firm AIR estimated insured losses from Mangkhut would come to between $1bn and $2bn. Both AIR and RMS estimated economic losses arising from the storm would at least equal the $6.8bn from 2017's Hato.

Biggest Japanese typhoons

Name	Date	Insured loss estimate
Jebi	Sep-18	$7bn
Mireille	Sep-91	$6bn
Songda	Aug-04	$4.7bn
Trami	Sep-18	$4bn
Bart	Sep-99	$3.5bn
Vicky and Waldo	Aug-98	$1.6bn
Tokage	Aug-04	$1.3bn
Chaba	Sep-04	$1.2bn
Shanshan	Sep-06	$1.2bn
Roke	Sep-11	$1.2bn
Saomi	Sep-06	$1.1bn
Hato	Aug-18	$1.1bn

Source: Munich Re, Swiss Re, *The Insurance Insider*

> "There are already clear signs that Asian losses have had a meaningful impact on reinsurers' profitability"

The insured loss estimate, however, did not include any losses in the Philippines. It also excluded losses from storm surge in Macau and mainland China, and auto and business interruption losses in mainland China, implying that the true figure will be greater.

The detail of individual reinsurers' losses arising from these storms has started to emerge. On a conference call in October, Sompo group chief information officer Masahiro Hamada said the company's Q3 losses from typhoons and the Osaka earthquake, after reinsurance recoveries, were around $338mn.

MS&AD said in its most recent quarterly results that it sustained $590mn in losses from the Japanese flooding in late June and early July, while for Tokio Marine, flood losses were $444mn, according to a statement it made in August.

There are already clear signs that Asian losses have had a meaningful impact on reinsurers' profitability.

Both Lancashire and RSA have issued profit warnings for Q3. UBS has warned that losses in Asia as well as US events such as hurricanes Michael and Florence could erode more than 50 percent of European reinsurers' fourth-quarter catastrophe budgets.

Sources said the run of storms would have an impact on reinsurers' behaviour at the key renewal in April next year. One source said margins in Japan were already "wafer thin" and that in recent years, markets underwriting Japanese risk had become "complacent" on pricing because the country had not been significantly affected by storms since 2004.

A source added that across the Asia Pacific region, 2018's nat cats would spur markets to look at whether they were adequately remunerated for the risk they carry.

In particular, sources said reinsurers would look to differentiate more strictly between cedants on pricing according to both actual loss experience and loss exposures.

Hannover Re, for instance, has already said publicly that it would seek more rate from Japanese cedants on aggregate covers as a result of this year's events.

Asian natural catastrophe events 2018

Events	Date	Region	Loss estimate
Tropical Storm Ewiniar	02-Jun	China	$573mn (economic)
Typhoon Prapiroon	28-Jun	Japan	$1.65bn (economic)
Tropical Storm Ampil	17-Jul	China	$175.2mn (economic)
Typhoon Jongdari	23-Jul	Japan	Up to $2bn (insured)
Tropical Storm Yagi	01-Aug	China	$55.5mn (economic)
Tropical Storm Bebinca	09-Aug	China/Vietnam	$265.4mn (economic)
Tropical Storm Leepi	10-Aug	Japan	Unknown
Tropical Storm Soulik	23-Aug	China	Up to $2bn (insured)
Typhoon Jebi	04-Sep	Japan	$7bn (insured)
Typhoon Mangkhut	14-Sep	China, Philippines, Taiwan, Hong Kong, Macau	Up to $2bn (insured)
Typhoon Trami	20-Sep	Japan	$3bn (insured)

Source: Industry estimates

Asian growth-first mentality could be coming to an end

Asia Capital Re CEO Bobby Heerasing talks to *The Insurance Insider* about the challenges of the Asia Pacific market and repositioning his own firm

Reinsurers in Asia are starting to call into question the model of sacrificing returns for growth – a paradigm that has been dominant in the region for 10-15 years – according to Asia Capital Re (ACR) CEO Bobby Heerasing.

With growth in developed markets like North America and Europe modest, global reinsurers have tended to take a differentiated approach towards growth markets like Asia, often perceiving them as strategically important and prioritising building up a market presence and franchise over securing margin.

They have also been willing to cross-subsidise underperformance using profits from their other portfolios.

In addition, the competitive landscape has been shaped by the presence of a cohort of regional players writing in their domestic markets – ACR amongst them.

Heerasing says the days of this paradigm may be drawing to their close.

"In the past you could talk about growth versus profitability. But capital providers are becoming less patient and less willing to accept that trade off – that they are building something for the future and that there is a certain amount of pain they will have to accept in the short term," he said.

Instead, Asian business is being judged in the way that a business portfolio would be judged elsewhere.

"People are really looking at the fundamentals of the exposures they are taking on," he argues.

Fit for purpose?

At a certain point, growth that does not hit return hurdles can no longer be justified, and boards are now asking difficult questions of management teams.

"[People ask] does the Asia Pacific strategy still hold true and is it fit for purpose? We are incurring significant expenses, we've built up great infrastructure, but we are just not seeing the return.

"So even the established reinsurers are really looking hard at their model, really looking hard at whether they can justify having these portfolios with lots of top line but little margin – so they can say, 'Yes, we have an Asian strategy'."

> "Does the Asia Pacific strategy still hold true and is it fit for purpose? We are incurring significant expenses, we've built up great infrastructure, but we are just not seeing the return"

Heerasing says the mentality shift partially reflects the changes the global reinsurance market has seen in recent years, with the advent of ILS money significantly reducing available margin from cat business in the US and Europe.

The executive says one of the issues has also been the form that the growth has taken.

There has been an expectation for years that with rapidly expanding exposures to both wind and earthquake risk, Chinese insurers would look to increase the amount of catastrophe excess-of-loss cover that they purchase.

This would give reinsurers access to higher-margin business and help to balance peak catastrophe exposures like Florida wind and California earthquake.

Heerasing says that to date this has not happened, with the multi-billion-dollar cat reinsurance programmes predicted for Chinese cedants not yet in place, and a similar phenomenon in the Indian market.

"There has been no correlation between rising aggregates and the PMLs [probable maximum losses] people are buying [reinsurance] to," he says.

As much as 65 percent of the Chinese market is still focused on motor business, which is ceded to reinsurers on a proportional basis at competitive rates.

Red ink

Alongside the shifting approach to growth, which he thinks is impacting the Asian reinsurance market quite broadly, Heerasing says there are signs of stress which should make it difficult for cedants to drive down pricing.

"What you see in the international markets and in Lloyd's in particular – Asia Pacific is certainly not immune from that," he points out.

"There are similar pressures on bottom line, similar pressure on expenses, similar pressures on relevance and distribution for all of the Asian carriers."

And those pressures have been exacerbated by a year that has swung from benign to active for claims.

There was very little in the way of major loss experience in the first six months of the year, but a succession of catastrophe and risk losses have hit the region since.

The biggest of those was Typhoon Jebi, which made landfall in Japan in early September as the equivalent of a Category 3 hurricane.

Early indications suggested a $2bn-$3bn loss, but the claims picture deteriorated rapidly and this publication reported earlier in the month that the market was now bracing itself for an insured loss of upwards of $7bn, with a significant proportion of the loss reinsured.

Typhoon Trami, which struck Japan in late September, could lead to a further $2bn-$4bn of losses, according to market sources. And mid-September's Typhoon Mangkhut could inflict another $1bn-$2bn of claims spread across the Philippines, Hong Kong, Macau and mainland China.

Alongside flooding in Japan in June and July, flooding in Kerala and a major risk loss relating to a dam in Laos, the events amount to an above-average loss year.

Heerasing says the losses will "put stress on portfolios where there was little margin in the first place".

"I imagine it will push quite a lot of people into red territory for the financial year," the executive continues.

Heerasing adds that the underlying state of the market and the losses point towards the potential for changing conditions.

"There is still capacity, but the capacity is becoming more discerning," he says. "We have seen that already in 2018 and we will see that correction even more in 2019."

He predicts some reinsurers will "rejig" their portfolios and scale back their risk appetite in certain areas. "I think it will be increasingly difficult to justify some of the commission ratios on some of the treaties where they have been consistently loss-making."

Rebalancing ACR

Heerasing joined ACR as deputy CEO and anointed successor to Hans-Peter Gerhardt in June 2017, before taking on the top job last autumn.

His prior experience includes appointments as chief underwriting officer for Catlin's Asia Pacific segment and head of Singapore at the global (re)insurer.

The executive has been tasked with stabilising ACR after its agreed sale to Chinese financial bidders Shenzhen Qianhai Financial Holdings and Shenzhen Investment Holdings was pulled amid regulatory delays.

> "We feel the need for ACR to be an Asian reinsurer at its core – but with a global portfolio of business"

In talking about ACR's strategy, Heerasing stresses that he wants to build on the firm's existing strengths, but points to two key initiatives.

The first is the addition of a book of international business to balance the existing Asian book. The second also turns on the idea of balance: namely, a change of portfolio mix in the direction of facultative and specialty lines.

Heerasing says that serving its existing client base is at the root of the strategy of building an international book of business.

Having a global capability will allow ACR to support Asian clients that are growing on a worldwide basis, he says.

"But it will also allow us to build up more resilience and diversification in our portfolio," he continues.

"We feel the need for ACR to be an Asian reinsurer at its core – but with a global portfolio of business."

A more balanced portfolio should improve the firm's return profile and capital efficiency over time, as it looks to gradually build a non-Asian premium base.

The firm has put no hard targets in place, but Heerasing says that he expects the new book of business to still be less than 20 percent of the overall book even after three years.

To achieve that, initially without overseas infrastructure, Heerasing acknowledges that the company will have to work hard.

"The onus is on us to get out there and build our brand and the client understanding of what we are," he says.

Heerasing stresses, though, that this will be a "slow and steady" build and again returns to the point that this initiative will put the business in a better position to reinsure Asian cedants.

"We are absolutely not going to forget our Asian roots – we absolutely are not going to leave our Asian customers and run off to Europe and North America.

"We will write it selectively via the global wholesale brokers, and we will continue to look after our Asian customers extremely well."

As well as the geographic mix of ACR's book, Heerasing wants to see the business mix change.

Currently ACR writes roughly 80 percent treaty lines and 20 percent in facultative lines. Heerasing wants to get the business to a 50:50 mix over the next few years.

To prepare the business for this business-mix shift, Heerasing has changed the structure. On the departure of group CUO Hans-Joachim Guenther at the end of his contract, the CEO appointed two CUOs.

XL Catlin alumnus Soeren Soltysiak has been named chief underwriting officer for treaty and Ronnie Tong – a managing director at Axa Singapore – is set to join as chief underwriting officer for facultative and specialty.

"We still see large parts of the facultative and specialty book where there is margin that would make sense to us," he says.

"We think you can write a successful facultative and specialty book cross-cycle if you can demonstrate a value proposition."

Given the state of rates in Asia Pacific, the key phrase here for now may be cross-cycle. But Heerasing has clearly set out the direction of travel for ACR and it is towards a more balanced business – both geographically and in terms of business mix.

Heerasing career highlights

2017 – present: ACR – first joined as deputy CEO, then became acting CEO; appointed CEO in October 2017

2015 – 2016: XL Catlin – last held role was regional underwriting and distribution director, Asia Pacific insurance

1999 – 2015: Catlin – last held roles were chief underwriting officer, Asia Pacific; and principal officer, Singapore

Lumen Re

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Singapore reinsurance underwriting margins recover in 2017

Reinsurance operations in Singapore improved in 2017, as the weighted average combined ratio strengthened by 9.4 percentage points to 87.7 percent, according to data from the Monetary Authority of Singapore (MAS).

Individual reinsurers' Singaporean platforms reported mixed results in 2017, however, with seven out of 26 firms posting an underwriting loss. This was a slight improvement from 2016, where 12 firms – nearly 50 percent – reported underwriting losses for operations in Singapore.

The spread between the market's best and worst performers with active operations in 2016 and 2017 improved by 40.5 percentage points, bringing the combined ratio gap between the top and the bottom down to 145.1 percentage points. Although this is still a high figure, it shows some improvement.

In terms of operating profits, 11 reinsurers out of 26 reported losses for Singapore business during the year compared to 10 for the previous year.

There were no new entrants to the reinsurance market in Singapore in 2017 according to data from the MAS. However, as of July 2018, Qatar Re has shuttered its business in The Lion City after facing a set of challenging circumstances.

Qatar Re only received its branch office licence from the MAS in October 2016. After a short-lived period of operating in Singapore, the company exited the Singapore market after its parent – Qatar Insurance Company – suffered a 60 percent decrease in net profits for 2017.

The series of catastrophes that the industry suffered during 2017 drove the reduction in net profits and the departure of Qatar Re from Singapore.

Qatar Re CEO Gunther Saake said in the company's latest annual report: "With the increased depth and global spread of our reinsurance portfolio, it is not surprising that Qatar Re – like many, if not all, of its peers – has been affected by the year's unprecedented string of disasters."

He added: "This has resulted in a bottom-line loss commensurate with the severity of the industry experience for 2017."

Qatar Re has also suffered from the diplomatic crisis in the Gulf after Saudi Arabia and its neighbours imposed a land, sea and air blockade on Qatar in June 2017.

Winners and losers

DaVinci Re fell to the bottom of the list as its combined ratio swelled to 199.7 percent for its operations in 2017. DaVinci Re, which is a RenaissanceRe vehicle, has experienced much combined ratio volatility over the years in Singapore as a catastrophe specialist.

In 2015, its combined ratio was 108.0 percent, which fell to 14.4 percent for 2016.

RenaissanceRe's Singapore arm was next in line as its combined ratio deteriorated

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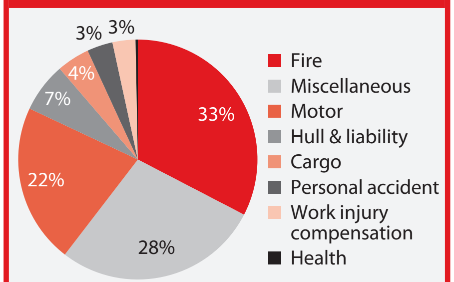
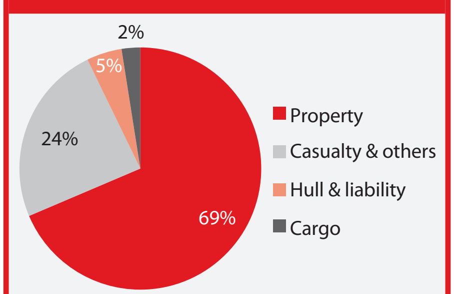
Reinsurance premiums of Singapore Insurance Funds



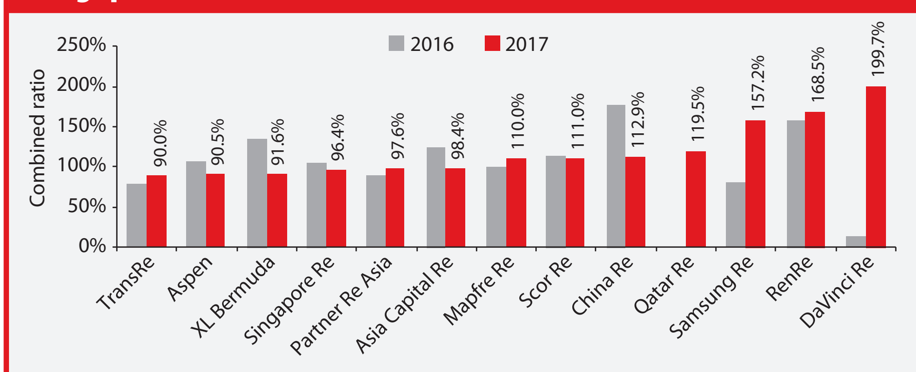
Source: Monetary Authority of Singapore, *The Insurance Insider*

Reinsurance premiums of Offshore Insurance Funds



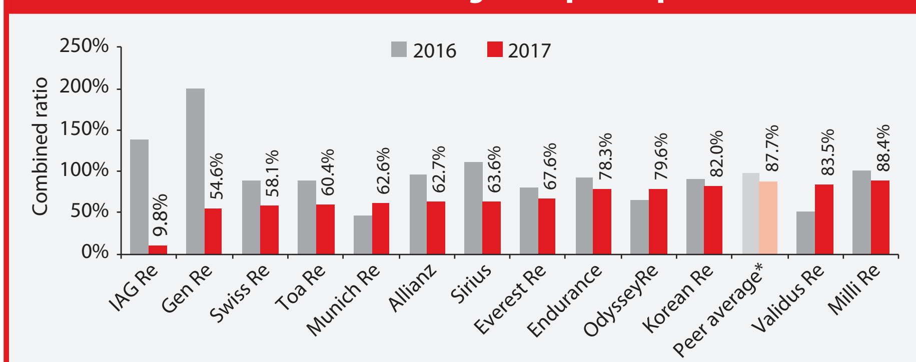
Source: Monetary Authority of Singapore, *The Insurance Insider*

Singaporean reinsurers' combined ratios



Source: Monetary Authority of Singapore, *The Insurance Insider*

Combined ratios down on average – top-half performers



*2017 weighted peer average excludes IAG Re. 2016 weighted average excludes Mapfre Re, China Re and Qatar Re
Source: Monetary Authority of Singapore, *The Insurance Insider*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by 11.2 percentage points to 168.5 percent in 2017. It has been among the worst performers for the fourth consecutive year.

The branch suffered even higher losses in 2017 as its loss ratio ballooned to 145.5 percent from 109.7 percent in 2016. DaVinci Re was the only other platform that had a higher loss ratio in 2017: 179.6 percent.

On the other side of the spectrum was IAG Re's Singapore branch as its combined ratio dropped from 139.1 percent in 2016 to just 9.8 percent in 2017. The branch's net claims incurred for 2017 was negative, suggesting a release of reserves during the year.

Next was General Re's Singapore platform, which in 2016 was the worst performer of the peer group with a 200.0 percent combined ratio.

General Re managed to improve its combined ratio by 145.5 percentage points to 54.6 percent. General Re also reported negative net loss figure for the year, indicating a release of reserves in 2017.

Asian reinsurers including Korean Re, ACR Re and China Re were in the middle-ranking performers of the group.

Top line

Year on year, reinsurers collectively reported a drop in the premiums written in Singapore. Total gross written premiums (GWP) fell by 6.2 percent to S$199.3mn (US$144.9mn) in 2017, according to MAS figures on the Singapore Insurance Funds.

Elsewhere, GWP from offshore insurance policies dropped by 7.7 percent to S$4.5bn.

Singapore Insurance Funds – or onshore policies – contain the funds established and maintained in respect of Singapore policies under the Insurance Act, while the Offshore Insurance Fund represents offshore policies, according to the MAS.

Looking at Singapore Insurance Funds, fire premiums were down by 13.9 percent year on year but still represented the largest source of GWP – taking a 65 percent share of all premiums in 2017.

Singapore Re was the largest contributor to onshore premiums as it wrote S$47.1mn in 2017, representing 23.6 percent of total premiums.

As for offshore premiums, Allianz generated the most GWP in 2017. Its Singapore branch wrote S$611.9mn in premiums during the year, representing 13.5 percent of total premiums.

Property insurance is the largest source of premiums for offshore policies, accounting for 69 percent of all offshore premiums.

However, GWP for this line of business has diminished by 15.2 percent year on year to S$3.1bn. Meanwhile, casualty business has increased by 19.2 percent from 2016 to 2017 to S$1.1bn.

Lloyd's Asia

Premiums returned to growth in 2017 for Lloyd's Asia, the Corporation's Singapore platform. After a 6.0 percent slump in GWP during 2016, Lloyd's Asia achieved a 6.6 percent growth in its top line to reach S$8542mn or $618.9mn.

Direct premiums for the Singapore platform grew by 3.6 percent to S$222.5mn during 2017 while reinsurance premiums grew by 7.7 percent to reach S$631.7. The majority of the growth in the reinsurance space came from offshore business, which represents 95.2 percent of all reinsurance premiums.

In underwriting performance, Lloyd's Asia's combined ratio worsened by 6.2 percentage points in 2017 to 90.1 percent.

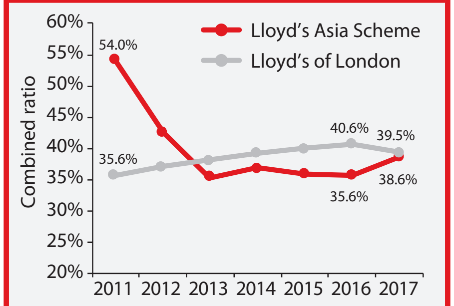
But this is the second year running that the Lloyd's Singaporean operation has outperformed its London result in terms of underwriting margins. Lloyd's of London reported a 114.0 percent combined ratio for 2017.

The London market has been tackling a growing expense ratio over the years and catastrophes in 2017 ran up big losses for the Corporation.

Lloyd's Asia expenses have also started to creep up after a couple of years of improvement. The 2017 expense ratio stood at 38.6 percent – 3.0 percentage points higher than in the previous year.

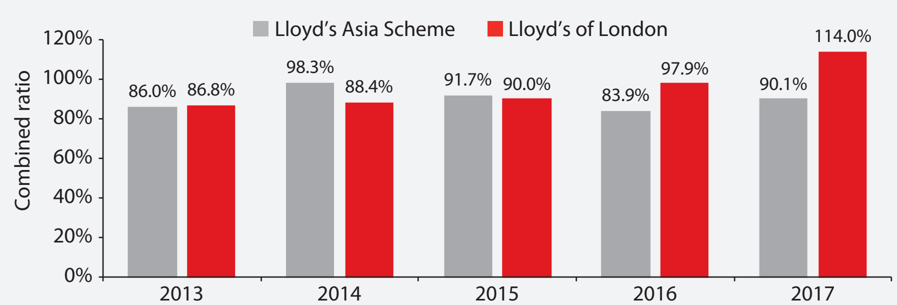
Losses also increased during the year as the Singapore branch of Lloyd's worsened its loss ratio from 48.2 percent in 2016 to 51.5 percent in 2017.

Lloyd's Asia: expense ratio



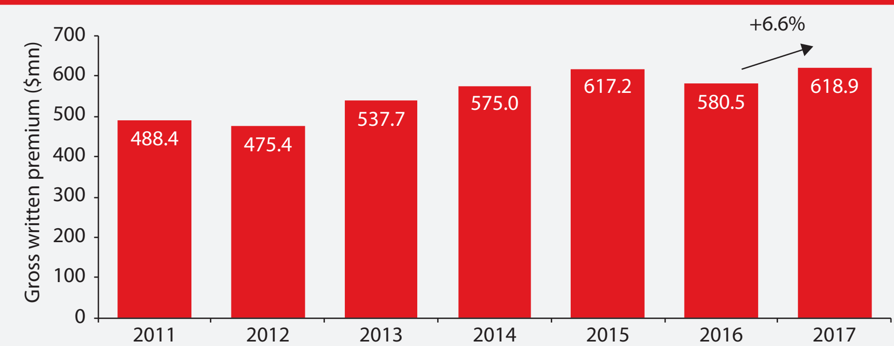
Source: Monetary Authority of Singapore, *The Insurance Insider*

Lloyd's Asia: combined ratios



Source: Monetary Authority of Singapore, *The Insurance Insider*

Lloyd's Asia: top line



Source: Monetary Authority of Singapore, *The Insurance Insider*

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Lands of opportunity

George Attard, Asia CEO of Aon's Reinsurance Solutions business, discusses how cedant appetite for reinsurance is likely to fare given the high number of catastrophe events in 2018

This year has seen a large number of natural catastrophes in the Asia Pacific region. How do you think these events will affect the upcoming 1 January and 1 April renewals?

The general sense is that insured losses from natural catastrophe events in 2018 are now around the long-term annual average, with many reinsurers reporting that cumulative losses for the first nine months of 2018 are broadly in line with year-to-date expectations. The general consensus after the H1 2018 results was that conditions would remain favourable for buyers, but as ever we need to differentiate clients based on their unique portfolio characteristics, data quality and loss history.

Our general commentary is that losses are in the early stages of development, each affected client's situation is unique and the renewal is still some time away.

The priority of those clients that have experienced material losses is to adjust losses and pay claims in a timely manner to support their affected clients and communities.

Reinsurers have an opportunity to strengthen their relationships and differentiate themselves with loss-affected clients by focusing on timely claims payment.

Are you expecting cedants' appetite for reinsurance programmes to change in any way after Jebi, Trami and other events?

Events typically result in increased awareness of data quality, catastrophe modelling and reinsurance as regulatory and rating agency capital, which can translate into further appetite for reinsurance depending on each client's unique situation.

In Asia, many of those companies demonstrating organic growth would benefit from buying more protection, but the decision will also depend on the general appetite for reinsurance given the direct market dynamics.

Where there is increased appetite, we have structured and implemented a range of solutions – frequency or severity protections, or a combination of both.

How has the cat modelling landscape changed in recent years?

We're taking a proactive approach to bridge that gap in the catastrophe modelling landscape and present our clients with an understanding around a broader range of perils and the impact they might have on their portfolios.

This may encompass a range of solutions from realistic disaster scenarios to fully probabilistic catastrophe models in order to assess the impact on their current portfolios, not just to help them understand the potential losses and reinsurance purchasing decisions, but also to support their pricing and underwriting.

An example of the changing nature of how our models are used is the Thai flood models. After the 2011 floods we were the first to release a model, and while it was utilised to determine protections from such an event, over time it has also helped cedants to manage aggregations and price and underwrite their underlying portfolios.

What do you see as the key opportunities in Asia Pacific at the moment?

According to our recent Insurance Risk Study, the top 10 P&C regions in Asia generated almost $300bn of gross written premium last year. And a number of these markets are demonstrating impressive, solid underlying growth including, China, India and Indonesia. The five-year annualised growth for these regions is well above 10 percent.

That, combined with low insurance penetration across the region, is attracting a lot of global capital into the market, as companies look to diversify their income and achieve growth.

There have also been changes in government policy across the region, which have led to more investment in infrastructure. This in turn is leading to opportunities in terms of project development, which creates opportunities for the industry to offer risk management and risk transfer initiatives.

Opportunities also exist in new product development and distribution (e.g. cyber, specialty casualty and health); reinsurance of agriculture and life portfolios; integrated treaty and fac solutions such as fac facilities; and efforts to close the protection gap through government pools, public-private partnerships and other risk financing mechanisms.

We have also observed a trend toward more digitalisation in the more mature developed markets, such as Singapore. Telematics is being increasingly used, along with partnerships with InsurTechs, as the traditional markets explore different ways of accessing relationships.

This is not limited to distribution – these firms are also looking across the value chain, through pricing and underwriting to claims management and enhancing the customer service experience, as well as the internal administrative processes. It's about driving efficiency and generating a better return on their distribution through leveraging InsurTech partnerships.

This has been supported from a regulatory perspective by the development of regulatory sandboxes in the region to allow further exploration of the impact of InsurTech.

How has the development of an Association of Southeast Asian Nations (Asean) network impacted on (re)insurance business?

The Asean Economic Community (AEC), established in 2015, intends to open up cross-border business including financial services. While many regional and global companies already operate across borders, we expect to see domestic players with an increased appetite for cross-border business through the AEC.

It creates a growth opportunity for those players, adding geographical diversification and allowing them to partner with other domestic carriers.

George Attard
CEO, Asia,
Aon's Reinsurance Solutions business

Industry has to solve data access dilemma

As the (re)insurance market gathers in Singapore, Paul Latarche, head of insurance at Moore Stephens and co-founder of Rulebook, argues it is time to tackle the issues around data delivery

The (re)insurance industry has invested – and continues to invest – significant amounts of capital into enhancing its ability to collect data.

The scope and scale of data warehouses continues to grow as ever more significant amounts of data can be mined and stored. But the fact is the industry needs to recognise the need for a greater ability to access both internal and external data swiftly and efficiently, and to deliver that data to the underwriter at the point of the underwriting decision.

One only need look at the way firms currently access data, faced with thousands of reports and documents. The information required is in there somewhere, but it takes time to find it and then to retrieve it in the necessary format.

When working through a risk proposal an underwriter will look to access the relevant data to answer some of the questions they have before deciding whether to accept the risk and at what price.

For instance, they may want to know the aged debt status of the broker, access the risk profile and history of the policyholder and look at their ability to pay.

But at present all this information is in different areas and may well be on different systems. We are using multiple systems to carry out a single task, and more importantly it is taking time to locate, access and retrieve that information.

The data quite simply needs to be delivered to the underwriter at the point of decision.

Far better is a system whereby when a key word is inputted the system retrieves the data it believes is pertinent to that section of the proposal. That could be data on the insurer's current relationship with the broker, or the wider dealings of the insurer with the client on the proposal form.

Indeed, underwriters should be able to access both internally held data and external information which will aid in that decision.

By that I mean internal data on the risk class, the specific risk itself, the client and the broker, but also external data on the company in question from respected sources, such as Dun & Bradstreet, which can provide a greater understanding of the client and the risk profile.

It is fundamentally all about delivering intelligent insight at the point of underwriting, and while the appeal of such a system is self-evident, as an industry we have not looked beyond the drive to collect data with little real innovation in terms of how we want to use it.

At present the industry will often reply in a complex underwriting form on which there are tens of questions to be answered. It often requires the broker to manually input the answers – meaning the potential for human error is always present.

We are now at a stage whereby the market for some risks, such as directors' and officers', can move to single question forms. The technology is there to enable the risk to be underwritten simply with the provision of a company number, which will allow the underwriter to access a wide range of external data and enable the underwriting decision to be taken.

It may well require a new approach to some risk, with a greater degree of commoditisation of products that will enable such systems to be utilised. The downside and move away from a more bespoke cover for such risks can be offset by the increased speed and efficiencies that can be delivered across the decision-making process.

What is clear is that the market must take a fresh look at how it treats its data and the systems employed to utilise it.

At Moore Stephens we have been working with our underwriting partners who access Rulebook to create a different approach which dynamically delivers the data described above at the point of decision. The aim of any business has to be to enhance their own and their client's experience and exceed expectations.

However, to do so we cannot simply stand still. Our clients are changing the way they do business and they expect that we will do the same. The industry has been faced with a constant need to innovate and provide new coverages and financial solutions against the background of an ever-changing risk landscape.

There has been a great emphasis on the benefits of big data and what it can deliver. However, it remains a question of delivery. As an industry we cannot afford to be spending time hunting for data which should and can be delivered as the underwriter requires as they work through the submission or proposal form. The huge levels of data which is stored internally and can be quickly accessed from a multitude of external sources can make a real difference.

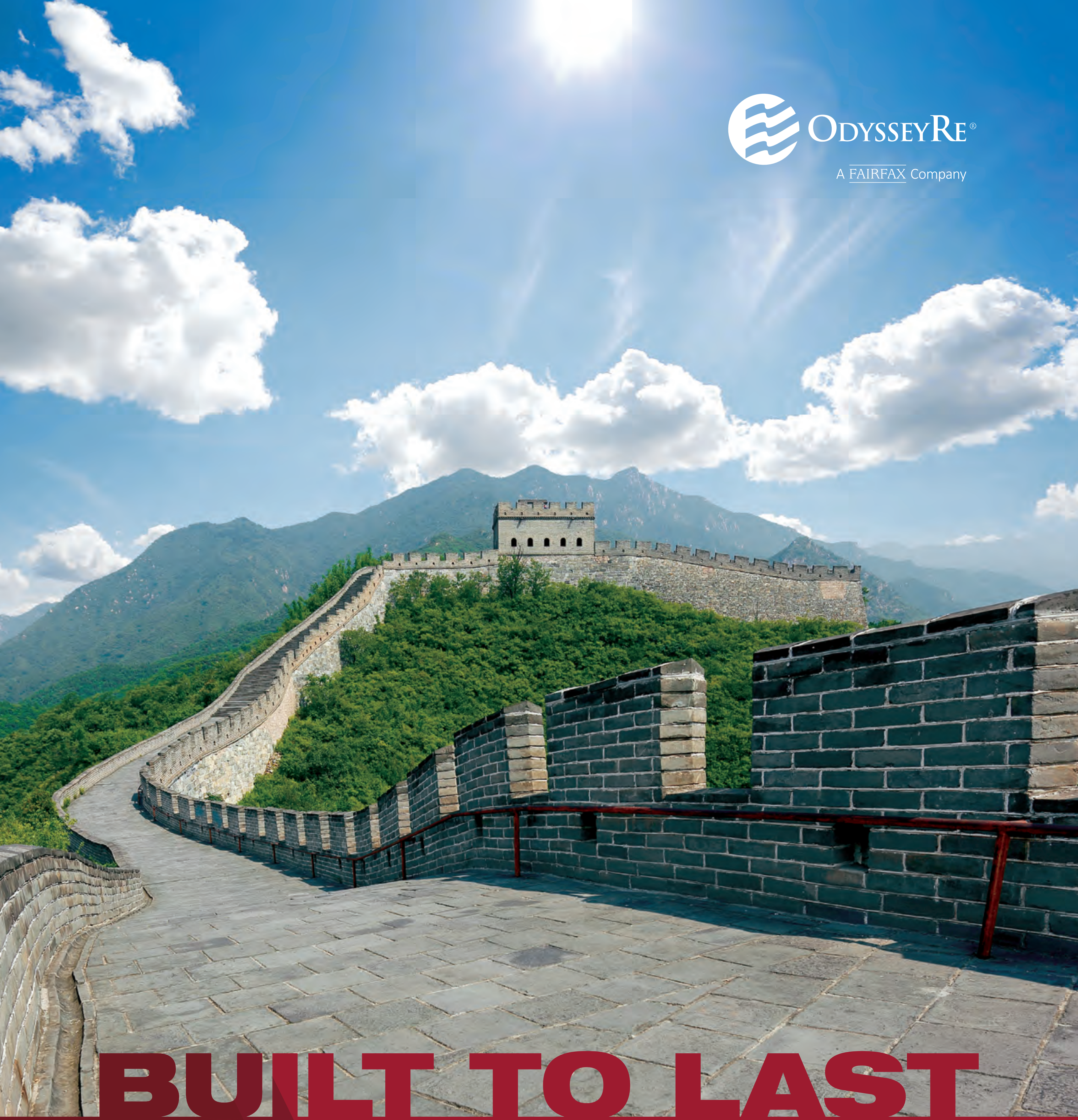
Only then can we truly deliver real insight.

Author bio

Paul Latarche is co-founder of Rulebook as well as partner and head of insurance at Moore Stephens LLP, the global accountancy firm based in London. Rulebook is the market-leading, multi-award-winning pricing, underwriting and distribution platform built for the insurance industry.

Since its beginning in 2012, he has been instrumental in its development and the platform is used by over 25 percent of the Lloyd's market.

Having been involved with insurance IT consultancy for almost 20 years, Paul has in-depth industry knowledge of working with management information, sales and marketing. Paul is responsible for business development and general consultancy across the firm's service lines both in the UK and internationally, and is also paramount in widening Moore Stephens' international alliances.



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Trust Re reassures stakeholders

In relation to the recent downgrade of Trust Re's financial strength rating by AM Best, the reinsurer would like to make the following statement:

"We remain confident in our commitment to meet our liabilities and to deliver reliable services with the same high standard to our respected clients and business partners"

Trust Re confirms its commitment to timely claims payment asserting that claims in excess of $300 million have been settled this year, of which over $130 million were in large claims. The company affirmed that it benefits from a strong and reliable retro programme with its internationally 'A' rated partners.

Moreover, Trust Re's operating performance remains sound. It also said that its premiums increased by more than 13% during H1 2018 compared to the prior year period. Its combined ratio for H1 2018 was 96.5% compared to 98.9% in 2017 (unaudited figures), consistent with its five years average performance combined ratio of 95.7%.

The company states that due to the review of a large number of transactions in the previously discussed transactional and financial auditing process, the completion of the external audit has significantly exceeded the originally estimated time. This has resulted in a further delay in releasing the audited financial statements for the year ended 31 December 2017.

In light of this delay, AM Best came to a decision to downgrade its Financial Strength Rating to B++ (Good) from A- (Excellent) with the Long-Term Issuer Credit Rating to "bbb+" from "a-". Both ratings remain under review with negative implications.

The rating agency's official release states: The ratings reflect Trust Re's balance sheet strength, which A.M. Best categorises as very strong, as well as its adequate operating performance, neutral business profile and marginal enterprise risk management (ERM)."

The release continued, "The rating downgrades reflect A.M. Best's revised assessment of Trust Re's ERM and governance frameworks following extended delays in the release of its audited financial statements for the year-ended 31 December 2017. The under review with negative implications status reflects uncertainty regarding the financial position of Trust Re in light of the delayed publication of the company's financial statements. The ratings are expected to remain under review pending publication of Trust Re's audited financial statements for year-end 2017 and A.M. Best's subsequent assessment of the rating fundamentals of Trust Re."

The company stressed that it continues to work with its stakeholders to address these matters and that it will announce any updates immediately, as the situation develops.

Relating to its historical performance which earned it the sound trusted reputation and solid level of confidence amongst its long list of loyal customers, Trust Re said: "In spite of the challenge which this downgrade will pose, with our strong, qualified team we continue to have confidence in the company's future, knowing that we had previously been able to achieve and maintain the A- rating while growing and diversifying our portfolio substantially. We thank all for the understanding and patience shown in such a challenging time, and continue to count on the support of our valued partners."

FOR FURTHER INFORMATION, CONTACT:

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ILS manager LGT targets Asian expansion

Pascal, you are one of the partners at LGT ILS. What is LGT ILS, and what is your role in the reinsurance market?

LGT ILS is one of the largest managers of insurance-linked investments and as such a significant provider of catastrophe risk capacity to primary insurance companies.

We manage the allocation to insurance-linked strategies on behalf of institutional investors, predominantly pension funds from around the world. The investors are looking to benefit from the uncorrelated returns provided by the asset class. Historically, we have had a strong client focus in Europe, but more recently, we expanded our business development efforts to Asia and now have investors in Japan, Korea and Singapore. We use the capital to provide reinsurance to insurance companies to help mitigate extreme catastrophe events.

Within our funds, we focus on the one area where additional capital is truly required, which is natural catastrophe perils in peak zones. As such, we are running considerable concentration risks in the US with hurricane and earthquake exposure, in Europe with windstorm and flood risks, and in Asia, again with typhoon and earthquake risks.

But how exactly are you able to transact reinsurance risk as an ILS manager?

While we represent a capital market investor, the LGT ILS team consists of experienced senior reinsurance underwriters and catastrophe risk modelling specialists. We have all spent many years in the traditional reinsurance world and speak the same language as our cedants, which include a great number of insurance and reinsurance companies around the world. So while we allow our cedants to directly tap into the capital market as a capacity provider, the processes and mechanics of dealing with ILS capacity are identical to traditional reinsurance placements.

Business with LGT ILS is transacted through a reinsurance entity in Bermuda by the name of Lumen Re, which has been running for many years now and serves to transact reinsurance contracts exclusively for the LGT ILS funds. Until 2017, Lumen Re was licensed as a so-called special purpose reinsurer and focused on transacting collateralised reinsurance. Now, the company features a healthy equity buffer and is licensed as a commercial reinsurance carrier. AM Best has assigned an A/Excellent rating to the carrier. Lumen Re transacts both rated and collateralised reinsurance.

Given the extremely strong capitalisation, our carrier provides our cedants with the highest possible security available in the industry. Lumen Re does not run any leverage or credit risk on the asset book – making it the perfect reinsurance carrier, and a very attractive counterparty for our cedant client base.

> “Asia, and particularly Japan, Australia and New Zealand, are adding an important element of diversification to our portfolios”

You mentioned your strong focus on peak zones such as the US and Japan – surely you and ultimately your investors must have faced losses from the 2017 cat events and most recently from the typhoons and hurricanes in 2018?

The 2017 cat events indeed had a negative impact on our portfolios as a number of our US-focused reinsurance transactions paid out, mainly because of hurricanes Harvey, Irma and Maria and the wildfires in California. In addition to that, the higher frequency of attritional losses from tornado and hail events in the US during the first half of the year contributed to the loss burden.

Yet, given that we write a globally diversified book, the losses were still very much in line with expectations considering the significant event activity. The overall impact to our funds from the 2017 events was therefore limited to single-digit drawdowns for our higher risk/return strategies, while our more conservative funds even generated a positive – albeit lower – income for the year.

The most recent 2018 events are still within our annual cat budget, and as such fully absorbed by our premium income, thus still generating a positive return for the year.

How did your investor clients react to such losses?

Our investors allocate only a small share of their portfolios to ILS (2-5 percent of their assets) in order to benefit from effects of diversification and low correlation of returns.

The 2017 cat activity and the corresponding impact to our funds were very much in line with our investors' expectations for such a series of events. We think it is very important to be transparent with investors. If anything, we received a series of inquiries from investors asking if they should increase their allocation, as such events may also generate opportunities.

Why should an Asian primary insurer trade with LGT ILS or Lumen Re, and what are your expectations for the Asian reinsurance market in general?

First and foremost, we are an ILS manager in the purest sense; we fundamentally believe that the core value proposition of ILS is the superior credit quality of the capacity and that it is a different, non-traditional source of capacity. Our capital is held in short-term government bonds, which serves to mitigate potential credit risk. That is very different to most traditional reinsurance carriers or even many other ILS markets.

Asia, and particularly Japan, Australia and New Zealand, are adding an important element of diversification to our portfolios. We have been supporting this market for many years now and have supported our cedants in loss-heavy years such as 2011 after the earthquake events in Japan and New Zealand.

In the meantime, we have increased our allocation to the region, and our aim is to be recognised as a long-term reinsurance partner in the region. Lastly, we believe that insurers should optimise and diversify their reinsurance panels by adding ILS capacity, which serves to manage and mitigate the potential credit risk significantly.

Pascal Koller
Partner / Portfolio manager,
LGT ILS Partners

THE INSURANCE Insider

EVENTS

London Market Conference

8 November 2018 | 08:15 – 15:30 (followed by networking drinks)

etc.venues, Liverpool Street, 155 Bishopsgate, London, EC2M 3YD

www.insiderlondonmarketconference.com

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08:15 – 16:45 (followed by networking drinks)

New York, USA

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March 2019
08:45 – 16:50 (followed by networking drinks)

New York, USA

#InsiderInsurTech

*Exact dates and location TBA

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SPEAKERS INCLUDE:

- Kathryn Gifford, Head of Claims, Chubb Global Markets
- Andrew Horton, CEO of Beazley and Chair of London Market Group
- Clare Lebecq, CEO, London Market Group
- Bronek Masojada, CEO of Hiscox and Chair of PPL Ltd.
- Trevor Maynard, Head of Innovation, Lloyd's
- Matthew Moore, President, Liberty Specialty Markets
- Julie Page, CEO, Aon UK Ltd.

Further speakers to be announced shortly

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