AN ANNUAL MARKET SURVEY

Asia Reinsurance Pulse

Published by

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About Singapore Reinsurers' Association

Established in 1979, the key objectives of the Singapore Reinsurers' Association (SRA) are:

- To represent members in matters affecting their business interests;
- To facilitate dialogue and encourage healthy market competition;
- To promote professional excellence through education and training;
- To foster strong social bonds within the industry and beyond.

The SRA is managed by an elected Executive Committee, which comprises senior reinsurance practitioners who dedicate their time on a strictly voluntary basis, supported by a full-time Executive Director and Secretariat team. To achieve its aims, four sub-committees – Accounts, Education, Social and Technical – are mobilised to organise a diverse range of activities for members, including educational talks, technical seminars, dialogue sessions, community service projects, social gatherings and golf events, as well as to study and formulate responses to regulatory and market developments.

As at 31 Oct 2015, the SRA has a total membership of 49, comprising 29 Ordinary, 18 Associate and 2 Honorary members. All major non-life reinsurance companies with a presence in Singapore as well as some other regional reinsurers are members of the SRA.

www.sg-reinsurers.org.sg

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Dr. Schanz, Alms & Company

Aligning Corporate Strategy and Communication

Asia Reinsurance Pulse
No. 1 / November 2015

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Foreword

We are pleased to present the first edition of 'Asia Reinsurance Pulse'. This new research report, intended to be published annually, offers an authoritative overview of the current state and future prospects of the US$53 billion non-life reinsurance markets in the Asia-Pacific (APAC) region. It paints a comprehensive and quantitative picture of market sentiment and will track this over time. The report also offers a summary of key regional (re)insurance market data and a synopsis of the most relevant trends shaping the region's reinsurance markets.

Through 'Asia Reinsurance Pulse', the Singapore Reinsurers' Association (SRA) demonstrates its commitment to improving the transparency of APAC reinsurance markets as well as to facilitating and encouraging an informed dialogue between market participants.

The survey is based on in-depth interviews with 48 senior executives of 41 regional and international reinsurance companies and intermediaries operating in the APAC region. We believe that the key methodological strengths of 'Asia Reinsurance Pulse' lie in its comprehensiveness, diversity and diligence. The face-to-face interview approach has enabled us to probe deeper to clarify responses from the participating executives. In addition, by including both global and regional players, leaders and followers as well as generalists and specialists, we have been able to collate a broad yet nuanced picture of the market place.

Dr. Schanz, Alms & Company AG, a Zurich-based advisory firm, specialising in global (re)insurance, has conducted the interviews and edited the final report. The company was appointed given its experience and insights in the region, its proven record of undertaking insurance market research on a global scale and, most importantly, its credible independence.

We would like to extend our deepest thanks to all SRA members and non-members who have supported this research project, which is designed to benefit the APAC reinsurance market as a whole.

We hope that you will enjoy the reading and benefit from the findings of our first 'Asia Reinsurance Pulse'.

Thomas Lillelund,
Chairman,
Singapore Reinsurers' Association (SRA)

Methodology

The findings of this report are based on 48 in-depth and structured telephone or face-to-face interviews with executives representing 41 regional and international reinsurance companies and intermediaries. Dr. Schanz, Alms & Company AG, a Zurich-based research, strategy and communications consultancy conducted the interviews from June to September 2015.

The companies that participated in the survey were:

ACR Capital Holdings, Singapore

Allianz Re, Singapore

Allied World Re, Singapore

Aon Benfield, Singapore

Arab Insurance Group, Singapore

Aspen Re, Singapore

Axis Speciality, Singapore

Berkshire Hathaway Re, Singapore

Canopius, Singapore

DaVinci Re / Renaissance Re, Singapore

Echo Re, Zurich

Endurance Speciality Holdings, Singapore

Everest Re, Singapore

Gen Re, Singapore

Gen Re, Sydney

Guy Carpenter, Singapore

Hannover Re, Hannover

Hannover Re, Kuala Lumpur

Hardy Underwriting Asia, Singapore

Helvetia Swiss Asia, Singapore

JLT Re, Singapore

Korean Re, Singapore

Lloyd's, Singapore

Malaysian Re, Kuala Lumpur

Milli Re, Singapore

Munich Re, Beijing

Munich Re, Singapore

Munich Re, Tokyo

National Reinsurance Corporation, Manila

PartnerRe, Singapore

PartnerRe, Zurich

Peak Re, Hong Kong

SCOR, Singapore

Sompo Japan Nipponkoa Re, Labuan

Swiss Re, Hong Kong

Taiping Re, Hong Kong

Thai Re, Bangkok

Tokio Marine Kiln, Singapore

Transatlantic Re, Singapore

Trust Re, Bahrain

UIB Asia, Singapore

Validus Re, Singapore

Vina Re, Hanoi

Willis Re, London

Willis Re, Singapore

XL Catlin Re, Singapore

XL Catlin Re, Zurich

Summary of key findings

1. Overall reinsurance business sentiment in Asia is moderately positive. Measured on a scale from -5 to +5 (very bearish to very bullish), sentiment stood at 1.3, down from 1.7 a year ago. For summer 2016, overall sentiment is not expected to change. The deterioration over the past 12 months primarily reflects the unabated pressure on already unsatisfactory rates, an increasing prevalence of barriers to cross-border trade in reinsurance and the darkening economic outlook for some of the region's mature and emerging economies.

2. Most interviewees mentioned the rise of protectionism in cross-border trade as the biggest single trend in APAC reinsurance markets. Such legal and regulatory provisions range from discriminatory capital charges for 'offshore' reinsurance transactions to outright domestic cession requirements. Whilst many executives understand the reasoning behind this implicit pressure to localise and 'onshore' reinsurance operations, they point to the capital inefficiencies and ultimately higher cost for local policyholders resulting from it.

3. An overwhelming majority (98%) of all respondents regard current reinsurance pricing levels, against the average of the past three years, as low (51%) or very low (47%). Two thirds of respondents expect a continuation of this downward trend, albeit at a decelerating pace. Given the absence of major insured natural catastrophe losses since 2011, actual ex-post profitability of reinsurance in Asia is rated better than ex-ante priced profitability. Many reinsurers still generate attractive profits. At the same time, they view the current mismatch between actual results and technical price adequacy, i.e. the reliance on a continued favourable catastrophe loss experience, as a major problem.

4. On average, capacity from non-Asian sources is estimated to account for 74% of the region's total. Carriers headquartered in the region contribute the remaining 26%. Over the next 12 months, the share of Asian capacity is expected to increase to 28%, driven by regulations that favour or require a higher involvement of local reinsurers as well as additional capacity from Chinese sources. The majority of interviewees expect a moderate increase in aggregate APAC reinsurance capacity over the next 12 months. Alternative capital, however, is not believed to make any direct impact beyond well-modelled Japanese catastrophe exposures. In general, it is important to note that in Asia's environment of rapid economic and direct insurance market growth, additional capacity is needed to meet additional demand, without necessarily translating into a more competitive market.

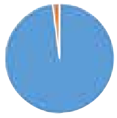
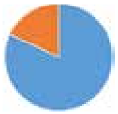
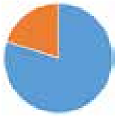
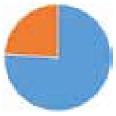
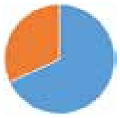
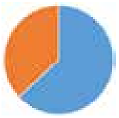
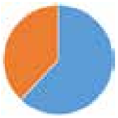
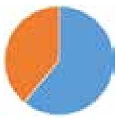
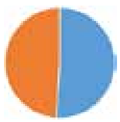
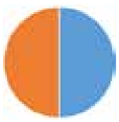
5. 61% of survey participants consider current reinsurance terms and conditions to be loose (52%) or very loose (9%), as compared to the average of the past three years. The same percentage of executives polled expect a further loosening of terms and conditions, among them many of those who believe that rates have already bottomed out. In general, event limits in property catastrophe business are expected to withstand any loosening pressure whereas other areas are likely to see new inclusions or fewer exclusions at no additional charge.

Key Pulse readings

The 'Pulse' measures current perceptions of the APAC reinsurance market, tracking them over time to monitor changes in attitudes.

Key readings at November 2015

(in % of respondents agreeing)

Low current reinsurance prices**	98%	
Reinsurance exposure to grow faster than GDP*	82%	
Reinsurance capacity to grow*	80%	
Low current reinsurance profitability**	76%	
Reinsurance prices to decrease*	68%	
Reinsurance profitability to decline*	63%	
Loose current reinsurance policy terms and conditions**	62%	
Reinsurance terms and conditions to loosen*	61%	
Reinsurance premiums to grow faster than GDP*	51%	
Stable retention levels*	50%	
Overall Asia reinsurance sentiment (scale from +5 to -5)	1.3	

*Over the next 12 months **Compared with 3 year average

Market overview

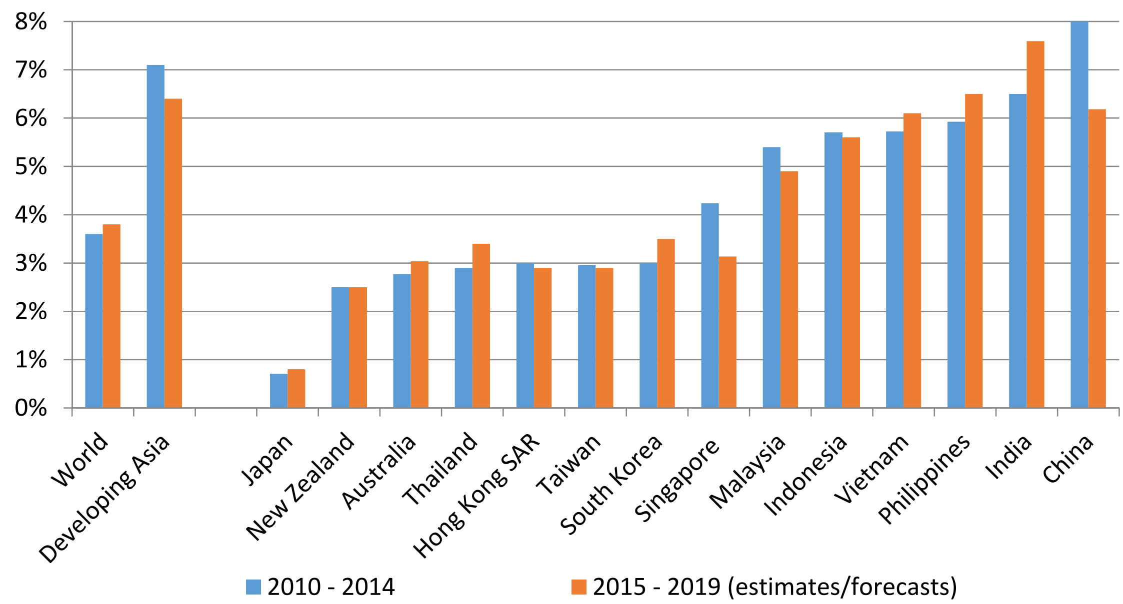
The world's leading growth region

The APAC (Asia-Pacific) region forms an important part of the global economy and remained the world's economic growth leader in 2014, although the pace of expansion decelerated slightly compared to 2013. APAC countries include both advanced economies like Australia, Hong Kong, Japan, New Zealand, Singapore, South Korea and Taiwan (characterised by high income per capita levels) and rapidly emerging markets such as China, India, Indonesia, Philippines and Vietnam (displaying high growth rates but significantly lower per capita income levels). The region's economic dynamics have also resulted in higher levels of interdependence among the countries in terms of trade in goods and services.

The 14 biggest insurance markets in Asia-Pacific (Australia, China, Hong Kong, India, Indonesia, Japan, Malaysia, Philippines, New Zealand, Singapore, South Korea, Taiwan, Thailand and Vietnam) have a population of about 3.5 billion, constituting nearly 50% of the world's total. In 2014, these countries generated a combined Gross Domestic Product (GDP) of close to US$23.3 trillion (at market exchange rates), representing about 30% of the global economy. China is by far the largest economy in the region with a GDP of US$10.4 trillion in 2014.

At a compound annual real growth rate of 7.1% per annum between 2010 and 2014, developing APAC economies (which exclude Australia, Hong Kong, New Zealand, Japan, Singapore, South Korea and Taiwan) grew nearly twice as fast as the global average (3.6%). China stands out with an average annual real growth rate of 8.1% (see chart 1).

Chart 1: Real GDP growth (2010 - 2019f, compound annual growth rates, in %)



Source: IMF, World Economic Outlook October 2015

Market overview (continued)

Favourable economic outlook, but some clouds on the horizon

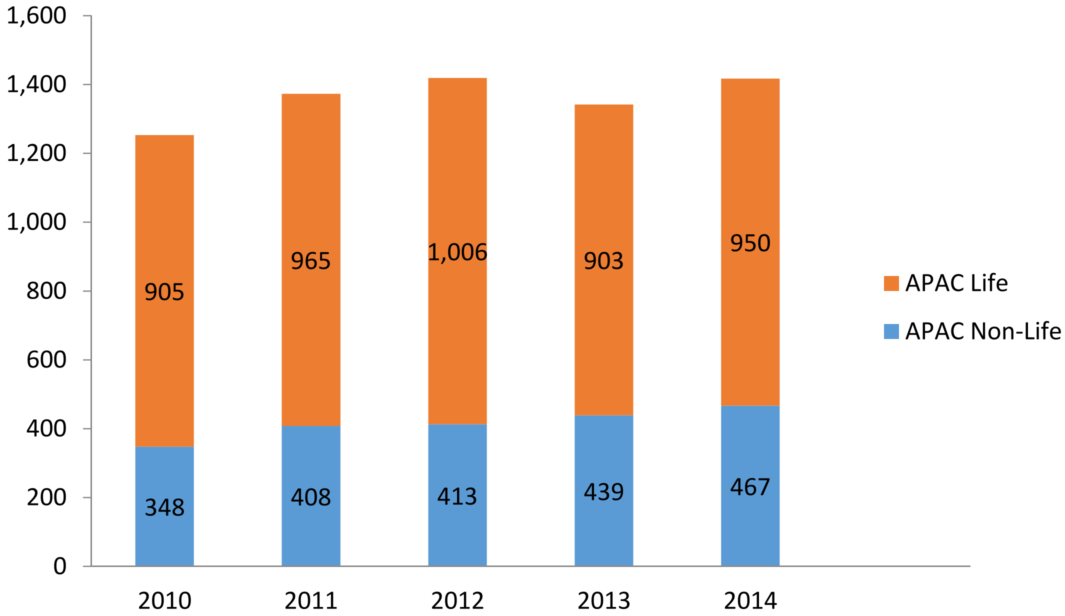
Over the mid-term, the region is projected to remain the global growth leader, driven by robust domestic demand which makes the region's economies less vulnerable to weakening exports and external economic shocks. Growth in Japan, the second largest economy in the region, is expected to accelerate again after a year of stagnation. The sharp fall in non-oil commodity prices will take its toll on economic growth in Australia and some other exporting countries in APAC. The short- and mid-term outlook for developing economies is mixed: for China, the IMF forecasts a 1.9 percentage point slowdown in annual real GDP growth for the years 2015 – 2019 as the country transitions from an investment and export-based economic model to a new and more sustainable consumption and services-driven paradigm. India is expected to replace China as the region's fastest growing economy. For India, the IMF projects a 1.1 percentage point increase in GDP growth over the same period of time, fuelled by policy reforms, lower oil prices and higher investments.

Market overview (continued)

Life business dominates Asia's insurance markets

Total insurance premium volume in 2014 amounted to US$1.42 trillion (Asia US$1.32 trillion; ANZ/Pacific US$0.1 trillion).

Chart 2: APAC insurance premiums by type
(2010 - 2014, life versus non-life, in US$ billion)



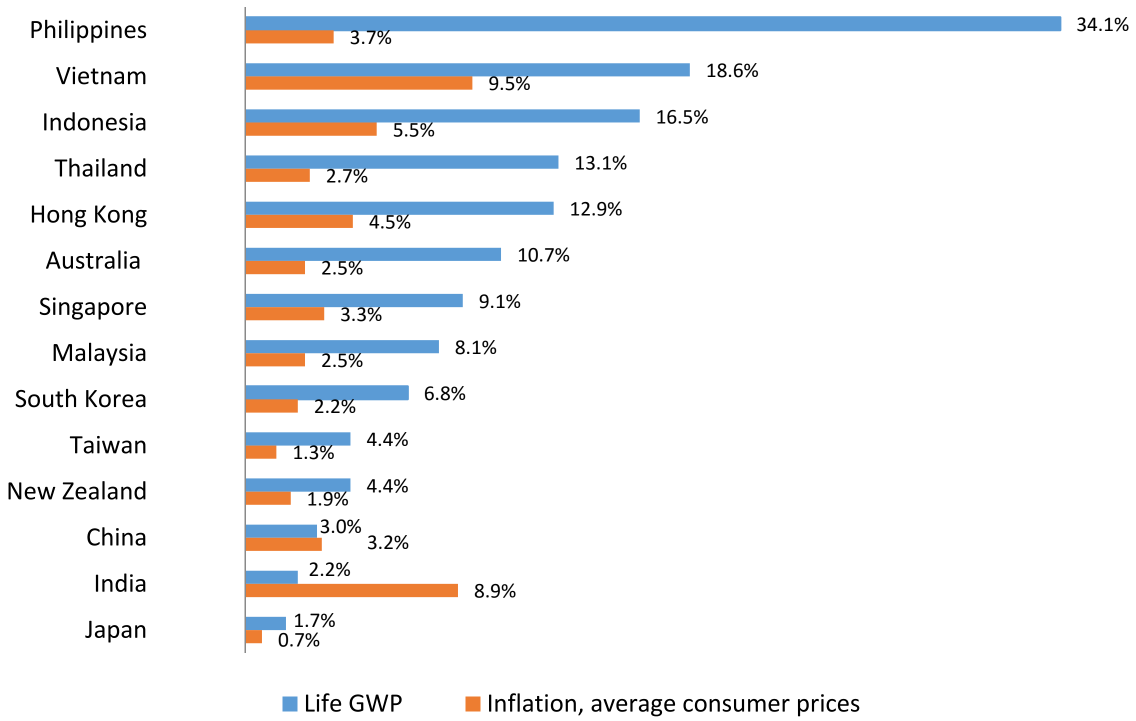
Source: Swiss Re, *sigma*

Life insurance premiums totalled US$950 billion in 2014, which is about twice the size of the APAC non-life insurance market. The top 5 life insurance markets of the region are Japan (US$372 billion), China (US$177 billion), South Korea (US$102 billion), Taiwan (US$79 billion) and Australia (US$56 billion), constituting 84% of the APAC life insurance market (see chart 2).

Market overview (continued)

In advanced Asia, life insurance premiums accounted for 8.1% of GDP, compared to just 2.7% for Asia's emerging markets and the global average of 3.4%. From 2010 – 2014, life insurance premium growth outpaced GDP growth in most APAC countries, except for China and India, which are the region's 2nd and 6th largest life insurance markets. In most Asian countries, inflation-adjusted life premium growth rates are significantly lower than nominal growth rates. In India and China, the real life premium growth rate from 2010 – 2014 was even negative (see chart 3). Regulatory restrictions in bancassurance and more attractive yields of other financial instruments have negatively affected life insurance growth in China. The slowdown in India was mainly attributable to a perceived unstable economic outlook which prompted a shift of savings into tangible assets at the expense of financial products, including life insurance.

Chart 3: Nominal local currency life insurance premium growth in % and average consumer price inflation (2010 - 2014, compound annual average growth rates)

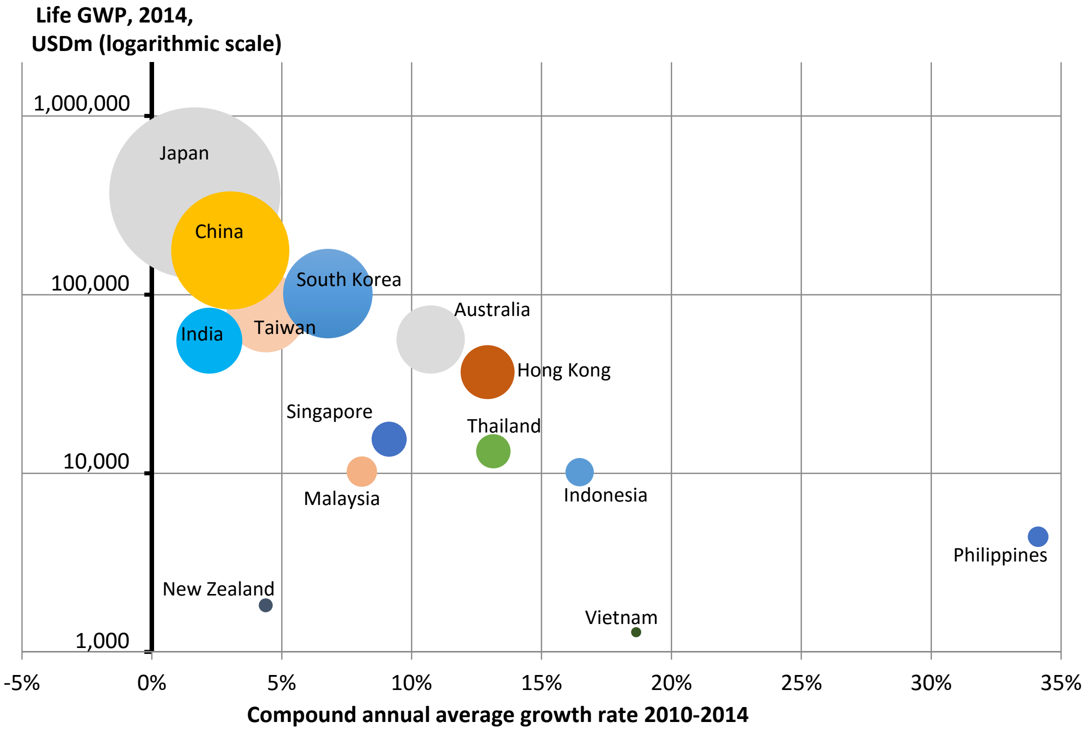


Source: Swiss Re, *sigma* (life premiums) and IMF, World Economic Outlook October 2015 (inflation)

Market overview (continued)

Chart 4 offers an overview of APAC life insurance markets' current size and recent growth performance.

Chart 4: Life nominal premium compound annual growth rates 2010-2014 and life market sizes 2014 (size of the bubble represents market size)

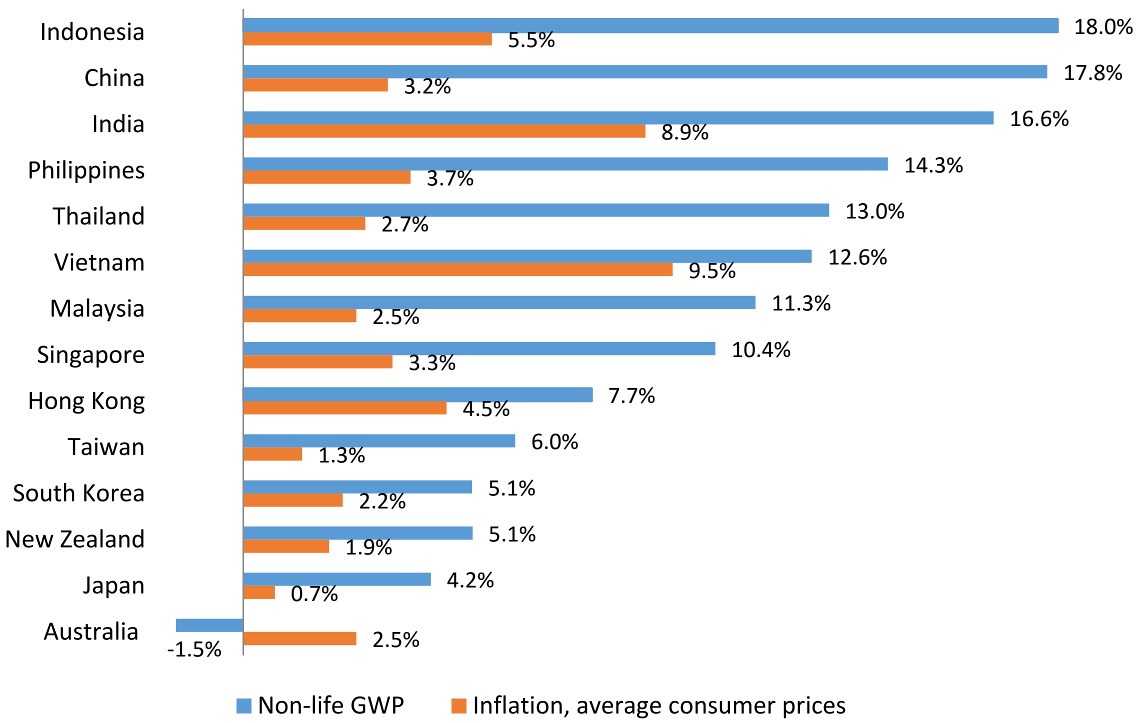


Source: Dr. Schanz, Alms & Company, based on Swiss Re data

Rising non-life insurance penetration across Asia

In 2014, non-life insurance premiums stood at US$467 billion (Asia US$425 billion; ANZ/Pacific US$42 billion), translating into non-life insurance penetration rates of 1.7% in Asia and 2.5% in ANZ/Pacific. The global average is 2.7%, which suggests a major catch-up potential in the Asian insurance markets. From 2010-2014, advanced Asian countries recorded an increase in non-life insurance penetration from 2.4% to 2.8%, while in emerging Asian markets, this figure increased from 1.1% to 1.3% over the same period. In other words, in most APAC countries, non-life insurance market growth outpaced GDP growth. As in life insurance, real (i.e. inflation-adjusted) non-life premium growth rates were much lower in most APAC countries, particularly so in Vietnam, India and Hong Kong (see chart 5).

Chart 5: Nominal local currency non-life premium growth and average consumer price inflation (2010 - 2014, compound annual growth rates)

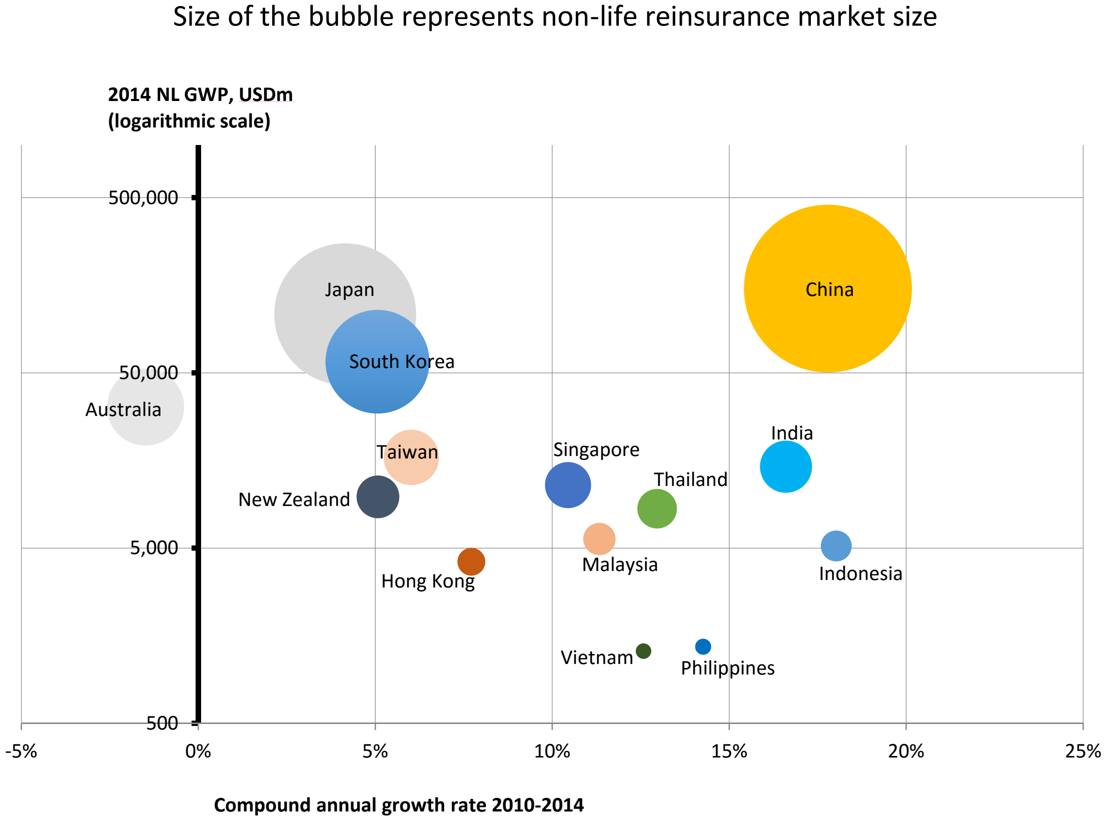


Source: Swiss Re, *sigma* (non-life premiums) and IMF, World Economic Outlook October 2015 (inflation)

Market overview (continued)

Chart 6 provides a summary view of APAC non-life insurance markets' current size and recent growth performance.

Chart 6: Non-life nominal premium compound annual growth rates 2010-2014 and non-life market sizes 2014

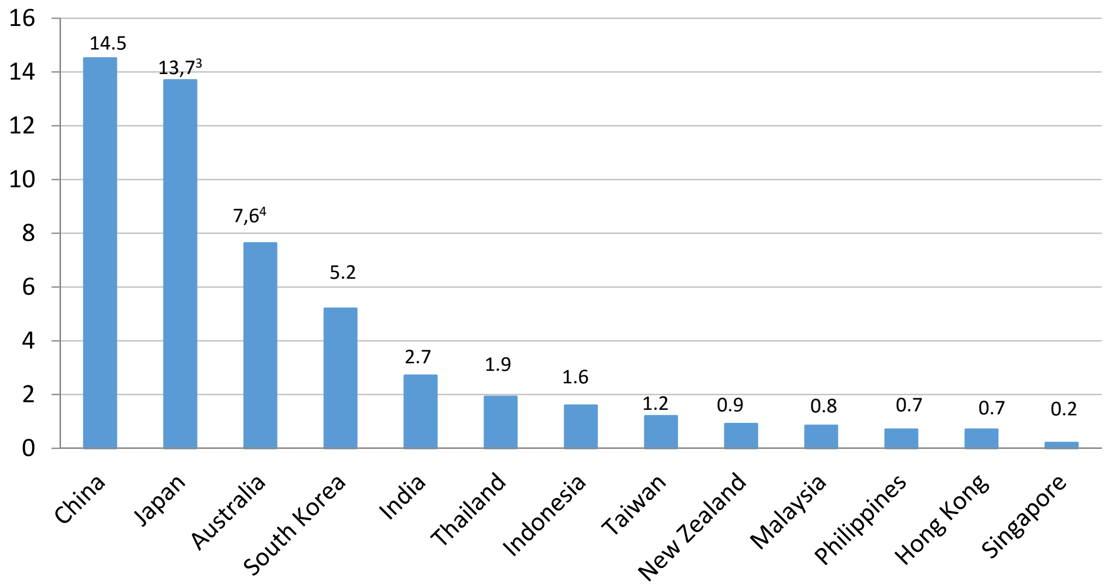


Source: Dr. Schanz, Alms & Company, based on Swiss Re data

Market overview (continued)

Global non-life reinsurance premiums in 2014 amounted to approximately US$190 billion, according to Swiss Re. Nearly 30% (US$53 billion) of global cessions are estimated to originate from the APAC region. China and Japan are by far the largest non-life reinsurance markets in the region, with estimated 2014 market sizes of US$14.5 billion and US$13.7 billion respectively (see chart 7).

Chart 7: Estimated non-life reinsurance market size of selected APAC markets 2013[1]/2014[2] (in US$ billion)



Sources: Regulatory authorities, Munich Re, industry research and own calculations

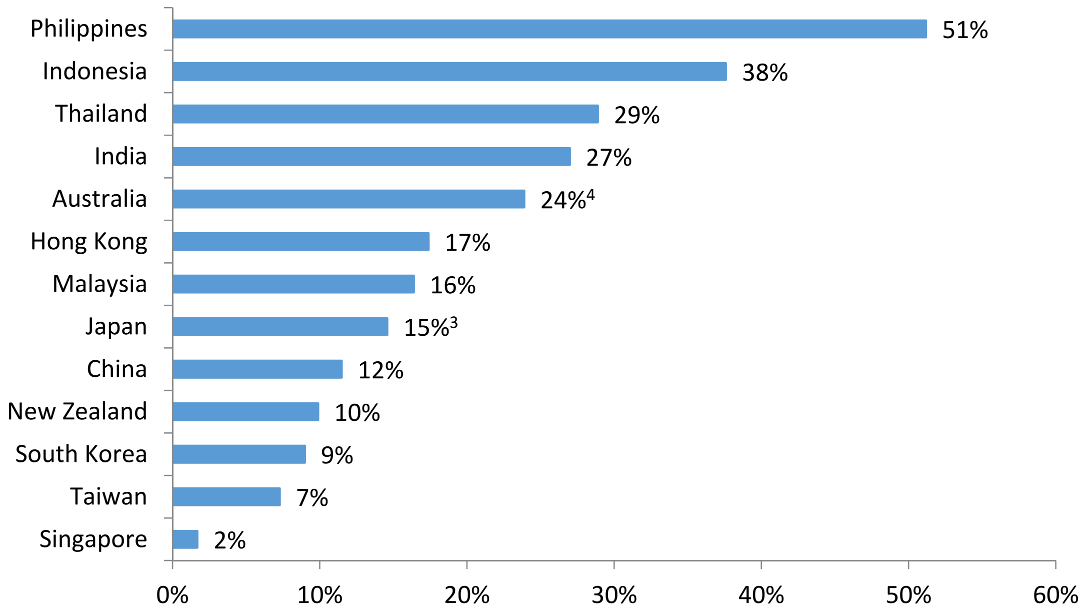
1. Hong Kong, Indonesia, Malaysia, New Zealand, Taiwan, Thailand
2. Australia, China, India, Japan, Philippines, Singapore, South Korea
3. Includes CALI (Compulsory Automobile Liability Insurance) and Residential Earthquake premium cessions: Government schemes not available to overseas reinsurers
4. Includes compulsory and intra-company cessions

Market overview (continued)

Above average cession rates favour reinsurance markets in APAC

In 2014, the average global non-life cession rate was an estimated 9%, based on US$2.05 trillion global non-life insurance premiums (source: Swiss Re) and US$190 billion global non-life reinsurance premiums. In APAC, the estimated average cession rate is 11%: non-life premiums amount to US$467 billion and cessions to approx. US$53 billion. In general, non-life cession rates in developing Asian insurance markets are significantly higher than in mature markets. At 51%, the Philippines displays the highest cession rate in the region, followed by Indonesia and Thailand. In general, markets with a relatively high natural catastrophe insurance coverage also record a higher volatility of gross non-life insurance results, which prompts insurance companies to buy more reinsurance in order to stabilise net results (see chart 8).

Chart 8: Non-life premiums ceded to reinsurers 2013[1]/2014[2] (% of total non-life premiums), selected APAC insurance markets



Sources: Regulatory authorities, Munich Re, industry research and own calculations

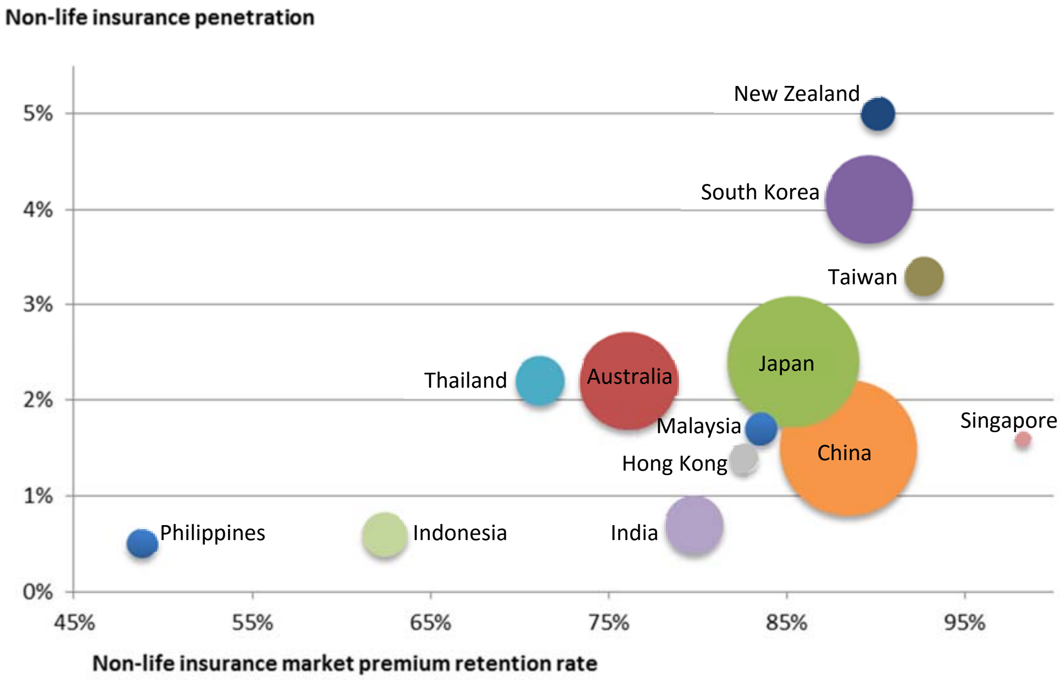
1. Hong Kong, Indonesia, Malaysia, New Zealand, Taiwan, Thailand
2. Australia, China, India, Japan, Philippines, Singapore, South Korea
3. Includes CALI (Compulsory Automobile Liability Insurance) and Residential Earthquake premium cessions: Government schemes not available to overseas reinsurers
4. Includes compulsory and intra-company cessions

Market overview (continued)

Chart 9 illustrates the positive correlation between an insurance market's maturity and sophistication, as measured by non-life insurance penetration, and its overall risk retention capability.

Chart 9: Non-life reinsurance market size (US$ billion), non-life insurance penetration (%) and non-life market premium retention ratios (%)

Size of the bubble represents non-life reinsurance market size



Source: Compiled by Dr. Schanz, Alms & Company

Survey results

1. The Overall Perspective: Strengths, weaknesses, opportunities and threats of APAC reinsurance markets

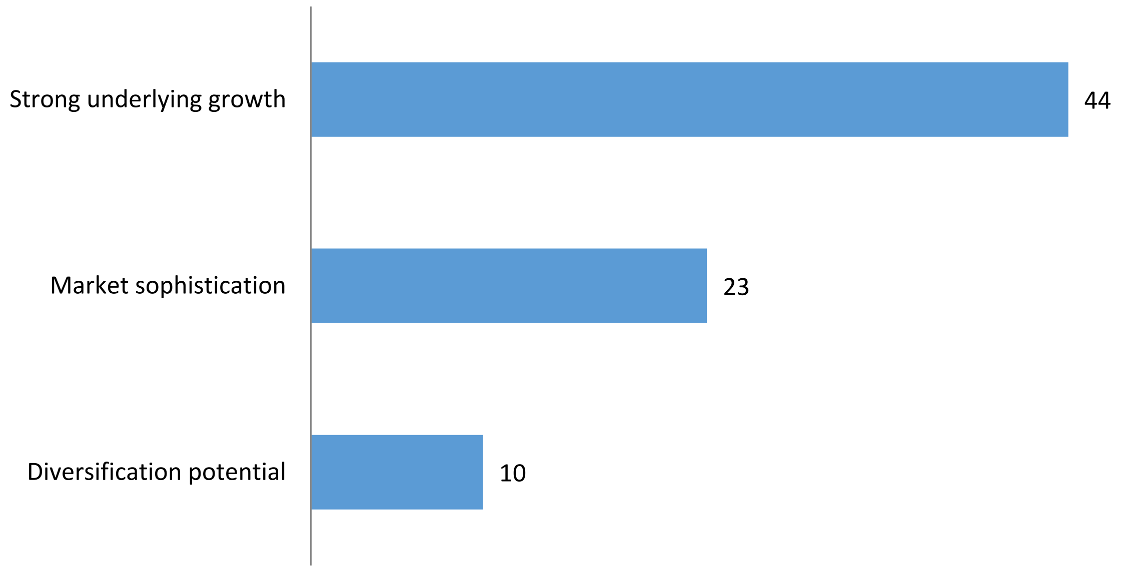
Underlying economic and insurance market growth considered key market strength

Executives polled consider the APAC region's robust economic and insurance market growth, which outperforms the global average, as the most relevant strength underpinning the reinsurance marketplace. Growth opportunities in China, the biggest single contributor to global economic growth since the financial crisis, were referred to most frequently. Interviewees also mentioned favourable demographics in South-east and South Asia as a driver of premium growth.

The markets' strongly improved sophistication ranks second, with survey participants pointing to the increasing availability of expertise and talent in the region, the local presence of almost all relevant global reinsurers and intermediaries as well as effective, risk-based solvency and supervisory regimes.

The region's inherent diversification potential is the third most frequently mentioned strength. The APAC region consists of a wide spectrum of heterogeneous markets, from frontier to mature environments, from largely catastrophe-free to highly catastrophe-prone areas (see chart 10).

Chart 10: Market strengths (number of mentions)



Survey results

"As a direct response to the regulatory changes taking place in China, we will further strengthen our local risk management function. Munich Re supports this process and has been actively involved. On the supply side, our reinsurance solutions offer a number of ways to support clients during such times of regulatory change, and we believe that most innovations will emerge as a result of cooperation between primary insurance and reinsurance."

Steven Chang
Chief Executive
Munich Re China

"As underwriters for the future we remain very positive about the prospects of the Asian reinsurance markets. Current challenges on the pricing and profitability front are more than offset by the region's strong economic and social fundamentals as well as promising trends in (re)insurance regulation and market sophistication."

Kamal Hussain Tabaja
Chief Operating Officer
Trust Re

"The increased sophistication of reinsurance buyers, demonstrated market resilience and prevailing underwriting discipline are all contributing factors to a continued strong interest in Asian reinsurance markets."

Richard Jones
Principal Officer
Guy Carpenter Singapore

"There are a few clouds on the region's reinsurance horizon: Protectionism is on the rise, higher net retentions eat into the available pie of reinsurance business and rates remain under pressure. Having said this, the market continues to be attractive, not only for existing players but also for local conglomerates who diversify into reinsurance by funding major new carriers".

Christian Ladoux
General Manager & Principal Officer, Singapore Branch
ARIG

Survey results (continued)

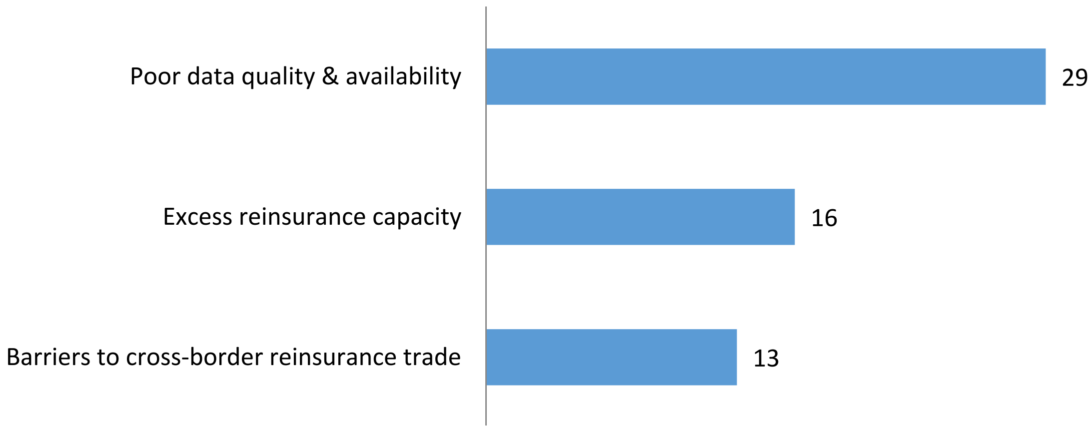
Data availability and quality viewed as the most relevant market weakness

The most relevant perceived weakness of the APAC reinsurance marketplace is a lack of available quality data. It is still comparatively difficult to assess exposures and model loss scenarios. This is a particular challenge for risk-adequate pricing in a dynamic market environment. On the other hand, some interviewees point out that these deficits have so far prevented alternative capital from making any noticeable inroads into APAC markets.

Excess capacity ranks second. This weakness is particularly pronounced in APAC, which attracts significant levels of 'refugee capital' as trading conditions in other parts of the world deteriorate even faster. The oversupply of reinsurance capacity results in fierce competition and marginal levels of priced profitability. In addition, it is perceived as slowing local cedants' adoption of a more strategic approach to buying reinsurance, based on Enterprise Risk Management and a focus on loss prevention.

Trailing very closely behind, the regulatory environment is considered the third most important market weakness identified by the executives polled. Their comments primarily relate to obstacles to cross-border trade in reinsurance such as minimum local cession requirements and discriminatory risk capital charges applied to reinsurers operating from abroad (see chart 11).

Chart 11: Market weaknesses (number of mentions)



Survey results (continued)

"In the APAC reinsurance markets, there is still a lack of technical specialisation and expertise. Too little is done to prevent losses whereas too much emphasis lies on cheap capacity. This state of affairs should and could be addressed as the interests of reinsurers, cedants and insureds are perfectly aligned when it comes to preventing losses."

Dr. Tom Ludescher
CEO
Helvetia Swiss Asia

"We expect that the relative importance of existing reinsurance hubs will most likely shrink in the future because of more nationalistic regulatory regimes in some Asian countries. In parallel, intermediaries and reinsurers will establish new offices and/or upgrade their existing operations in some of these countries."

Bengt Johnsen
Chief Executive Officer
UIB Singapore

"The increasing erection of barriers to keep more premium in the country might ultimately threaten the prosperity and stability of Asian economies. The atomisation of large risks and the protection against large or frequent potential natural catastrophes and the placement of these risks to international markets are fundamental principles of reinsurance and will ultimately prove the benefits of borderless reinsurance."

Dr. Peter Hugger
CEO
Echo Re

"The recent moves by Indonesia towards protectionism in cross-border reinsurance are a concern. The new restrictions fly in the face of global risk diversification and its proven merits in times of stress. These measures put at risk local insurers' ability to pay claims following a major natural catastrophe. The financial and social consequences for Indonesian households and firms could be severe."

KC Chew
CEO, Singapore Branch
Milli Re

Survey results (continued)

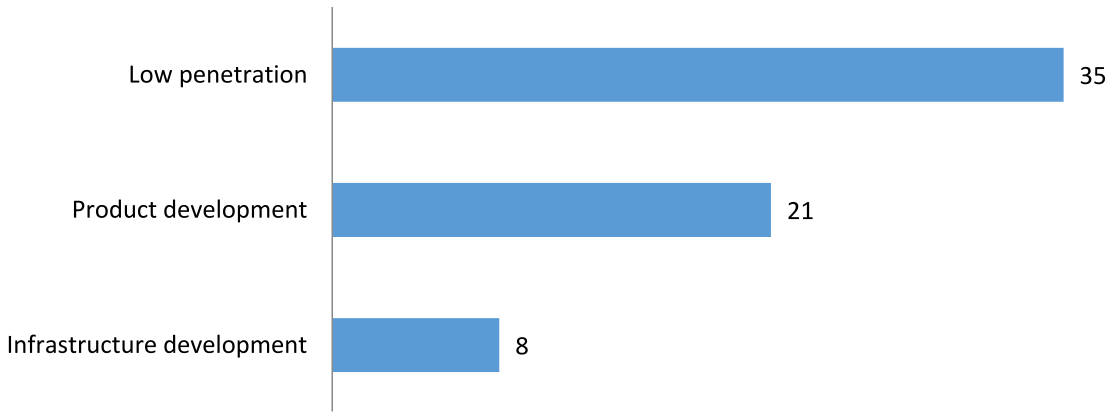
Low penetration as a key market opportunity

Most interviewees identify the low penetration of the region's emerging and developing insurance markets as the key opportunity. With total non-life premiums accounting for just 1.3% of GDP in Emerging Asia, the non-life insurance penetration in the region is less than half the global average. The protection gap is particularly pronounced in the area of natural disasters, with only a small fraction of economic losses insured.

The second most relevant opportunity is product development, for example in health insurance or specialty segments such as extended warranties. These areas are expected to grow rapidly as personal wealth increases and many regional economies' centre of gravity shifts from manufacturing towards services.

Infrastructure projects rank third among the most frequently mentioned opportunities. Interviewees point to the recently launched Asian Infrastructure Investment Bank, capitalised at around US$100 billion and the Chinese government's US$40 billion Silk Road Infrastructure Fund. Mega projects financed by these new institutions need to be covered against technology risks and the increasing severity and frequency of natural disasters (see chart 12).

Chart 12: Market opportunities (number of mentions)



Survey results (continued)

"The region's regulatory dynamics present major opportunities and challenges to reinsurers operating in Asia-Pacific. Players with a long-term commitment to the market should seek an early involvement through regular interaction with regulators, governments and lawmakers. Awareness and understanding of reinsurance and its particular role as a global diversification vehicle are still underdeveloped in many Asian countries."

Robert Wiest
Regional Head Strategy & Operations, Asia
Swiss Re

"The Japanese market offers interesting opportunities for long-term oriented and partnership-minded reinsurers. Japanese insurers face various challenges, from the introduction of new technologies such as telematics and alternative energies, to the internationalisation of the leading insurers. As reinsurance partners to our clients, Munich Re knows that flexibility is important – especially in the current changing environment – and we see the need to provide our clients with sustainable value propositions."

Christian Kraut
Representative Director
Munich Re Japan

"The rise of RBC throughout the region is a major opportunity for reinsurers. Whilst aggregate reinsurance demand may not increase, the composition of ceded portfolios is set to change. Cedants will be encouraged to adopt a more analytical and strategic approach to buying reinsurance and obtaining solvency relief; and reinsurers can address their clients' needs much more precisely and effectively."

Kenrick Law
Regional CEO,
Allianz Re Singapore

"We closely observe regulatory developments in Asia. On the one hand, we welcome the gradual removal of statutory tariffs for insurance policies in countries like Malaysia, as this will create new business opportunities. On the other hand, we are concerned about developments in other Asian countries restricting the placement of reinsurance business to international markets."

Bruce Ford
Senior Vice President, Head of Asia Pacific Treaty Reinsurance Division,
Allied World Re, Singapore

Survey results (continued)

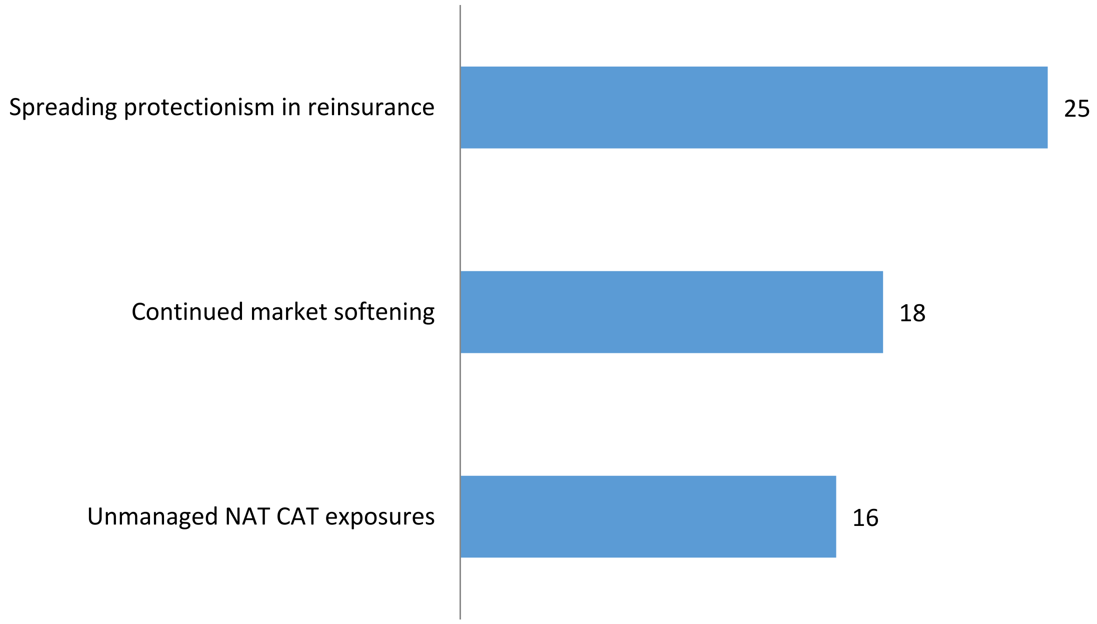
Protectionism as the most serious threat

The most frequently mentioned threat is the spread of protectionist tendencies in various shapes and forms. In countries such as China, Indonesia and South Korea, many reinsurers that operate cross-border expect additional barriers to trade going forward.

The continued erosion of rates ranks second. In some cases, prices have dropped to below burning cost and additional cover is given away free of charge. This development is feared to have the potential of jeopardising the market's long-term viability.

Unmanaged natural catastrophe exposure is the third most frequently mentioned threat, applying to both local cedants and entire (frontier) economies. For many catastrophe scenarios, the protection gap, i.e. uninsured losses as a share of total losses, remains in excess of 95% and even tends to widen as the dynamics of urbanisation and climate risk outpace the spread of insurance-based risk transfer solutions (see chart 13).

Chart 13: Market threats (number of mentions)



Survey results (continued)

"Localisation will be a major challenge for international reinsurers operating in Asia. To some extent, the need to enhance the presence on the ground is driven by protectionist moves, aimed at maximising the amount of business written by separately capitalised local reinsurance operations. At the same time, the growth of regional hubs (Singapore in particular) and the establishment of Free Trade Zones offer new opportunities for reinsurers considering a local presence."

Salvatore Orlando
Head of High Growth Markets
Partner Re

"The declining trend in reinsurance pricing continues to be a major concern. There are no signs of the severe mismatch between supply and demand disappearing. And unfortunately, many market participants prefer to maintain their market share rather than to engage in cycle management."

Linus Phoon
Chief Executive Officer
Canopius Asia

"In their own interest, reinsurers are to accept their share in progressing a sound advancement of the (re)insurance markets in APAC. A misguided focus on top line premium instead of underwriting profitability could have dire consequences for the sector as lesser investment returns are making such an approach increasingly vulnerable. Enormous opportunities as well as challenges hold true for our region in equal balance. Both entail the calling for greatest attention and professional know-how."

Marc Haushofer
CEO Asia Pacific
Validus Re

"Broadly speaking across Asia, there is an imbalance between supply of reinsurance capacity and its demand. In such a competitive yet evolving market, we observe the more successful insurers looking beyond merely a low price. They are also looking for insights into developing their underwriting and claims expertise, which in turn consolidates their long-term relationships with financially strong reinsurers."

Andrew Flitcroft
Managing Director & Treaty Regional Manager
Gen Re, Asia Pacific

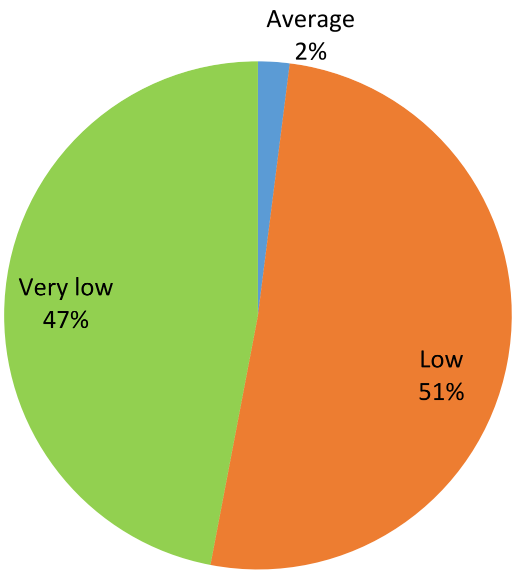
Survey results (continued)

2. General reinsurance market outlook

With one single exception, all executives polled are of the opinion that current average reinsurance prices are below the average of the past three years. 47% even consider rates having fallen significantly below the average. The market saw major price reductions in 2014 and 2015, following a relatively short-lived uptick in rates after a string of natural catastrophes in 2010 and 2011. Some respondents believe that average prices have fallen by at least 30% over the past three years, dropping to sub-technical levels.

Not all players are equally affected by the erosion of rates. Some of the larger reinsurers are able to carve out private mega deals, which are less susceptible to softening than open market business (see chart 14).

Chart 14: Current average reinsurance prices



Survey results (continued)

"We expect that APAC primary and reinsurance markets will increasingly diverge in terms of growth performance. On the direct side, strong fundamentals will continue to boost insurance penetration. On the reinsurance side, however, premium growth may fall short of GDP growth in light of continued pricing pressures and increasing retentions."

Thomas Lillelund
CEO
Aspen Re Singapore

"Many reinsurance markets in Asia are price-driven rather than value-driven. Regulatory developments in a couple of Asian countries have the potential to trigger a change as the demand for value-added services and more efficient products will increase."

Malcolm Steingold
Chief Executive Officer
Aon Benfield Asia Pacific

"In many markets, reinsurance is still viewed primarily as an expense, rather than an efficient instrument of capital management."

René Lamer
Chief Executive, Head of Asia Pacific Catastrophe Reinsurance
Endurance Specialty Holdings Singapore

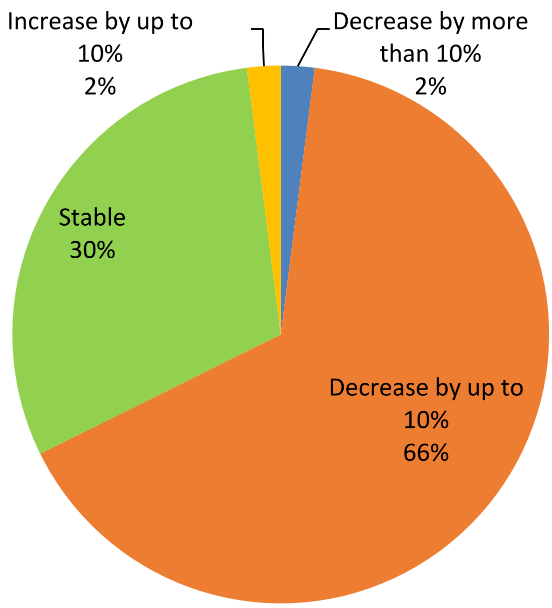
"The additional supply of reinsurance capital has created excess underwriting capacity in Asian reinsurance markets, leading to fierce price competition and declining reinsurance profitability."

J.S. (Jong Seon) Han
CEO Singapore
Korean Re

Survey results (continued)

About two thirds of respondents expect a continuation of the downward pricing trend, albeit at a decelerating pace. The Tianjin blast is not expected to have a noticeable impact on the wider APAC reinsurance market, in particular as excess capacity continues to grow. However, 30% believe that rates have bottomed out, amid growing evidence that some players have started to pull out of segments where prices have fallen to below the technical level. Some executives also expect M&A activity in the (global) reinsurance sector to support prices (see chart 15).

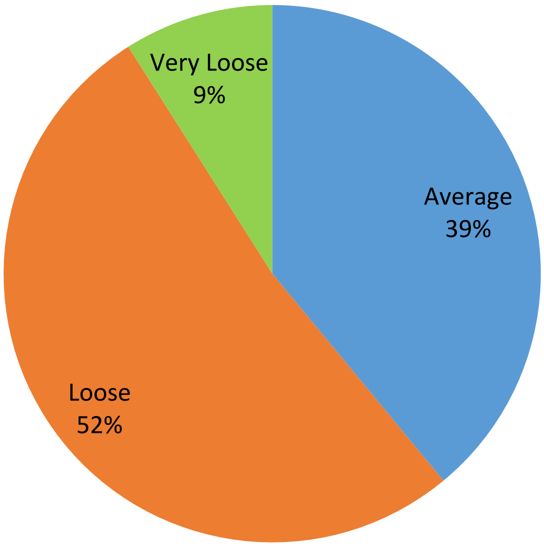
Chart 15: Outlook on reinsurance prices



Survey results (continued)

52% of survey participants consider current reinsurance terms and conditions to be loose, as compared with the average of the past three years. 39% of interviewees, however, do not see any deterioration. The strong focus on terms and conditions after the Thai floods in 2011 still partly reverberates. Some of those who see a trend towards broader terms of coverage point out that if price reductions cannot be achieved, cedants ask for looser conditions. Examples of areas affected include deductibles, reinstatements, and multi-year treaties. Notwithstanding this, a number of interviewees believe that, compared with other regions, the APAC market is primarily price-driven. Many cedants view contracts as a sign of continuity and do not insist on regular changes to wordings (see chart 16).

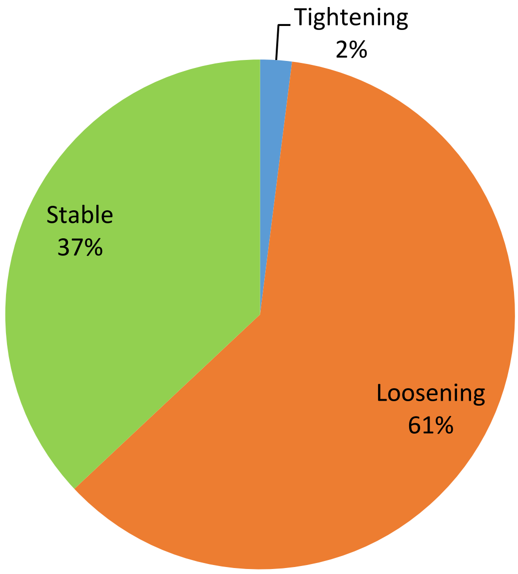
Chart 16: Current reinsurance terms and conditions



Survey results (continued)

Almost two thirds of executives polled expect a further loosening of terms and conditions, among them many of those who believe that rates have already bottomed out. In general, event limits in property catastrophe business are expected to withstand any loosening pressure whereas other areas are likely to see new inclusions or fewer exclusions at no additional charge. The Tianjin loss, however, could trigger a critical review of some wordings (see chart 17).

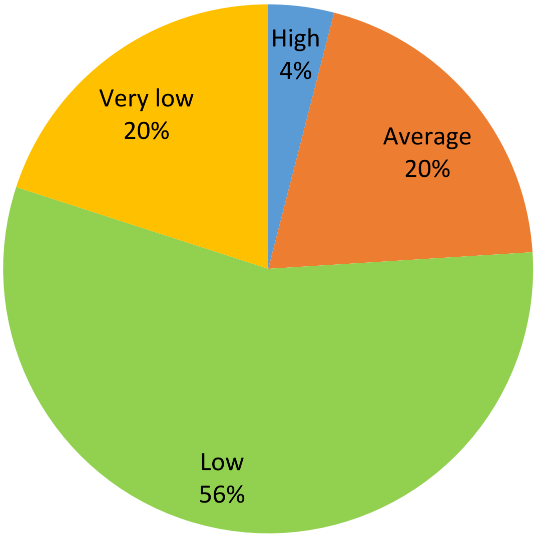
Chart 17: Outlook on reinsurance terms and conditions



Survey results (continued)

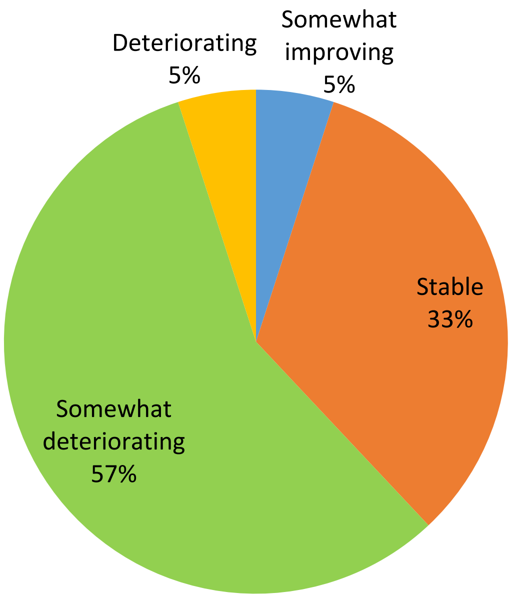
About three quarters of survey participants see that current levels of technical reinsurance profitability are low or very low, against the average of the past three years. Given the absence of major insured natural catastrophe losses after 2011, actual ex-post profitability is rated better than ex-ante priced profitability. Many reinsurers still generate attractive profits. The current mismatch between actual results and technical price adequacy, i.e. the reliance on continued favourable loss experience is viewed as a major problem by many market participants (see chart 18).

Chart 18: Current overall reinsurance profitability



The profitability outlook mirrors the respondents' rate expectations. In the absence of major catastrophe losses and changing interest rates, a majority of executives continues to expect a further slight erosion of profitability (see chart 19).

Chart 19: Outlook on reinsurance profitability

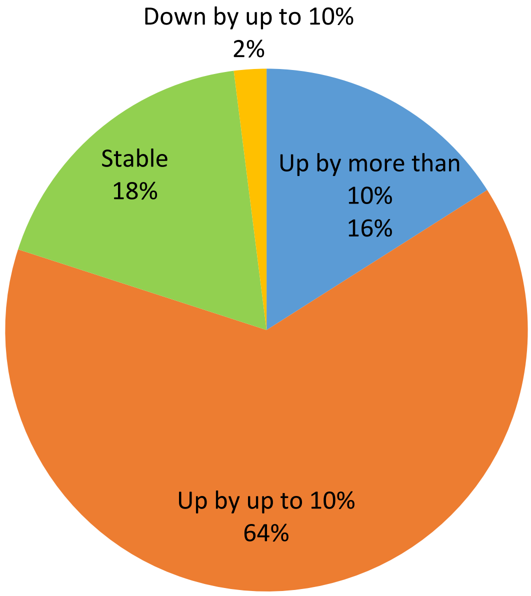


Survey results (continued)

The majority of interviewees expect a moderate increase in aggregate APAC reinsurance capacity over the next 12 months. Even though most major, non-Asian global reinsurers are already present in the region, they are expected to commit additional capacity. In addition, Chinese capacity will add to the overall increase as well-capitalised start-ups enter the scene. Alternative capital, however, is not believed to make any direct impact beyond well-modelled Japanese catastrophe exposures.

In general, it is important to note, that in Asia's environment of rapid economic and direct insurance market growth, additional capacity is needed to meet additional demand without necessarily translating into a more competitive market. A factor of uncertainty is M&A: if activity accelerates, overall capacity development may fall short of what would be needed to accommodate underlying growth (see chart 20).

Chart 20: Outlook on overall capacity development



"The lack of harmonised regulatory frameworks and capital models in Asia directly affects the profitability of (re)insurers. Greater regulatory harmonisation will lead to standardisation across practices, whilst also encourage innovation."

Shankar Garigiparthy
Regional Compliance Manager
Lloyd's of London (Asia) Pte Ltd

"In times of lower investment returns, fierce competition and declining underwriting profitability, reinsurers have to prove their value to clients and investors more than ever. For the development of new insurance business segments and further market penetration in Asia, it will be key to demonstrate a sustainable approach - with united strengths."

Thomas Kessler
Deputy CEO
Vina Re

"The growing trend towards restricting cross-border reinsurance in the region is not just a challenge for international carriers. It also may not be in the long-term interest of domestic insurance markets and governments' economic development agendas. Protection gaps in some of the countries are huge and even continue to widen. Global capacity and risk sharing will be instrumental in addressing this issue."

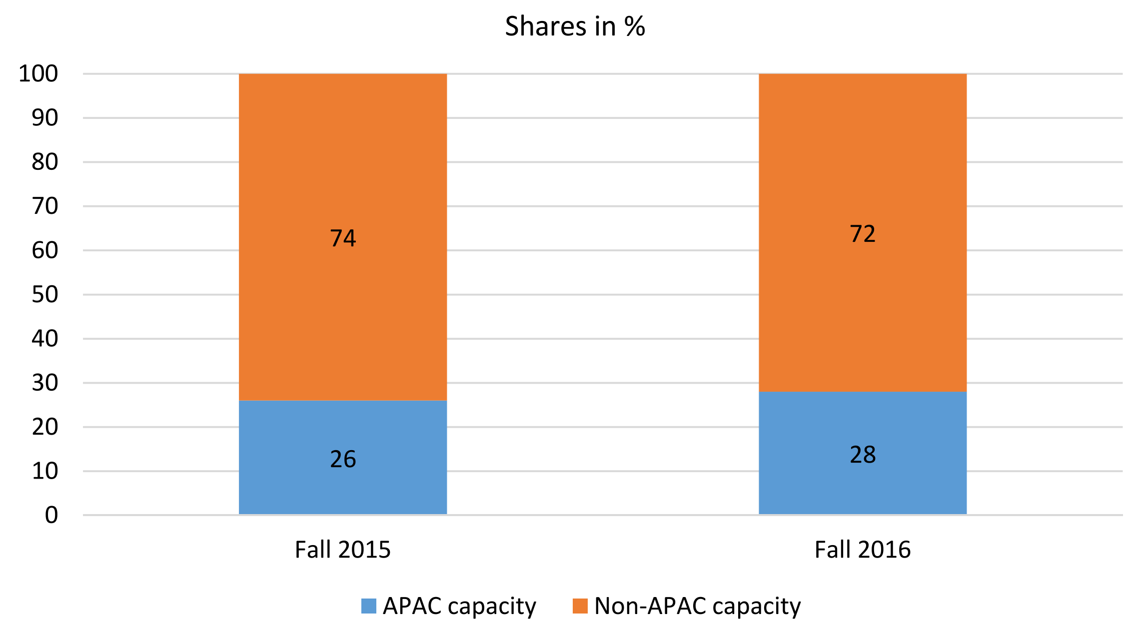
Peter Schmidt
Chief Executive
Asia Pacific, Latin America & Global Credit and Surety Reinsurance
XL Catlin

"Across the Asian markets that we operate in (ie outside Japan), I do not see any noticeable impact from alternative capital on Asia so far. The region's reinsurance dynamics continue to be driven by the promise of high growth rates in otherwise stagnant global markets. International capacity keeps pouring in. Strong capital formation at Asian carriers adds to the overall amount of available capacity."

Boon Chuan Tay
Underwriter Treaty Reinsurance
Tokio Marine Kiln Singapore

On average, capacity from non-Asian sources is estimated to account for 74% of the region's total. Carriers headquartered in the region contribute the remaining 26%. Over the next 12 months, the share of Asian capacity is expected to increase to 28%, driven by regulations that favour or require a higher involvement of local reinsurers as well as additional capacity from Chinese sources (see chart 21).

Chart 21: Current and future estimated split between APAC versus non-APAC capacity



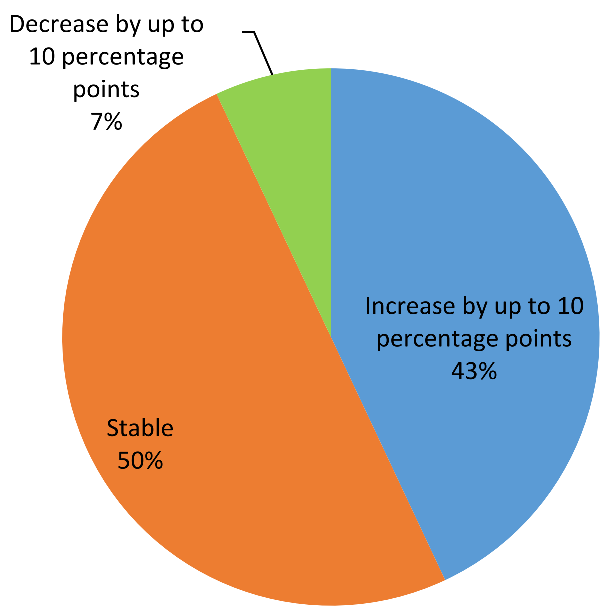
Survey results (continued)

50% of executives polled expect aggregate retention levels to remain stable over the next 12 months whereas 43% are convinced that cedants will retain more risk.

The sophistication of reinsurance buyers in APAC is on the rise, enabling a higher risk retention capacity. In addition, there is less scope for making money on the asset side of the balance sheet, which also encourages higher net retentions. Other reasons include the absence of major catastrophe losses over the past few years, regulatory developments such as C-ROSS, which incentivises a more focused and less volume-driven approach to reinsurance buying and a gradual shift towards non-proportional forms of coverage.

These factors are offset by very soft trading conditions, which prompt opportunistic buyers to take maximum advantage of reinsurance as an increasingly inexpensive form of capital (see chart 22).

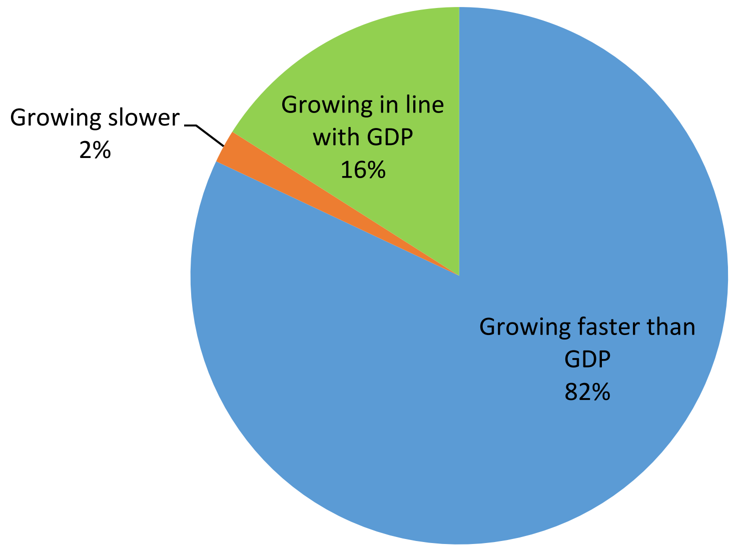
Chart 22: Outlook on retention levels



Survey results (continued)

The vast majority of interviewees believe that, over the next 12 months, reinsurance exposure in the APAC region will outgrow economic growth. They point to a continuing concentration of values and a rapid increase in liability exposure as a result of some countries' transformation into service economies. In addition, the unabated softening of rates, terms and conditions result in higher exposures for reinsurers, all other things being equal (see chart 23).

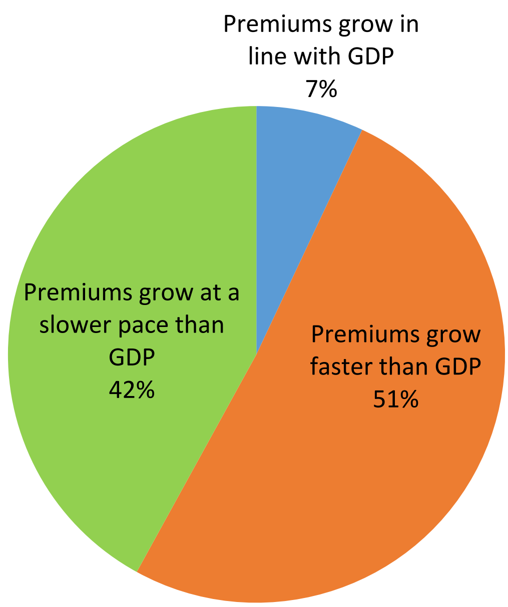
Chart 23: Outlook on reinsurance exposure growth



Survey results (continued)

The outlook is less clear-cut as far as expected reinsurance premium growth is concerned. As a result of massive excess capacity, APAC reinsurance markets are expected to experience further reinsurance premium reductions. In addition, rising retentions and the shift towards non-proportional reinsurance are weighing on the industry's growth prospects in the region. This is in contrast to primary insurance markets which basically all executives expect to continue outperforming the respective economies. As far as reinsurance is concerned, only 51% share this expectation (see chart 24).

Chart 24: Outlook on reinsurance premium growth



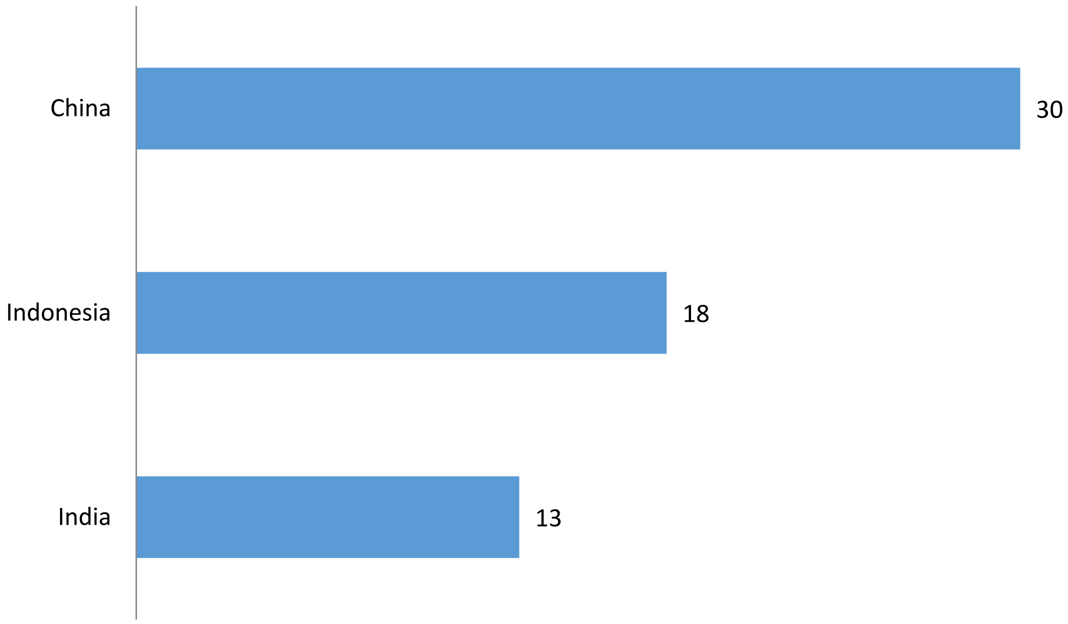
Survey results (continued)

3. Country-specific market outlook

By a significant margin, China is expected to be the fastest growing APAC reinsurance market, not only based on continued economic growth but also driven by the government's stated objective to boost the country's insurance penetration.

Indonesia and India rank second and third, buoyed by strong population growth and strengthening economic fundamentals (see chart 25).

Chart 25: The fastest-growing reinsurance markets (number of mentions)

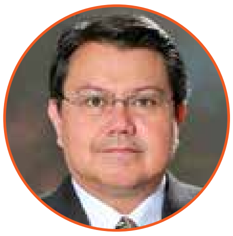


Survey results (continued)

"There is a role to play for small and predominantly domestic reinsurers, even in times of excessive and intense competition from global and regional reinsurers. By focusing on personal lines business, they can take advantage of their superior local knowledge and provide high-value services to their clients."

Oran Vongsuraphichet
President & CEO
Thai Re

"The transition to a risk-based approach to insurance regulation and supervision is the biggest single trend affecting our markets. As the national reinsurer, we respond to it by stepping up our advisory capabilities, e.g. in the area of catastrophe modelling. It is our primary objective to support local cedants in successfully managing this demanding transition."



Augusto Hidalgo
CEO
National Reinsurance Corporation, Philippines

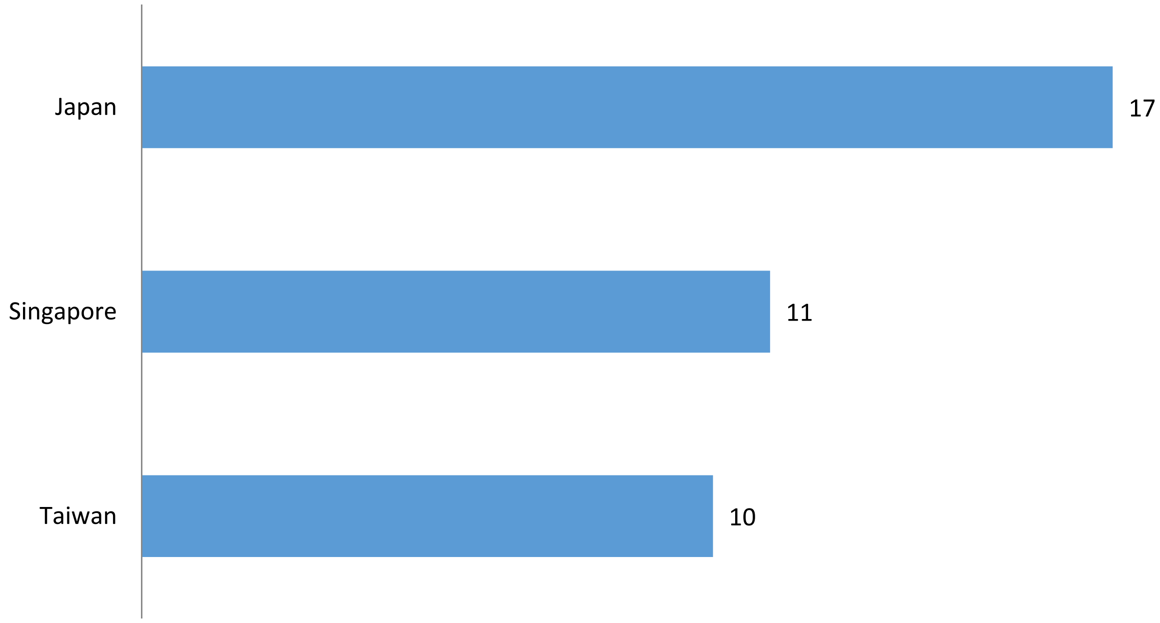
"The further strengthening of solvency regimes in a number of Asian countries is increasing the demand for locally available technical expertise and global experience. Asian markets will greatly benefit from these developments."

Maurice Williams
Managing Director, APMETA
Willis Re

Survey results (continued)

Japan, Singapore and Taiwan are expected to post the lowest rates of reinsurance premium growth over the next 12 months, reflecting the maturity of these economies and, in the case of Japan, a noticeable increase in retentions (see chart 26).

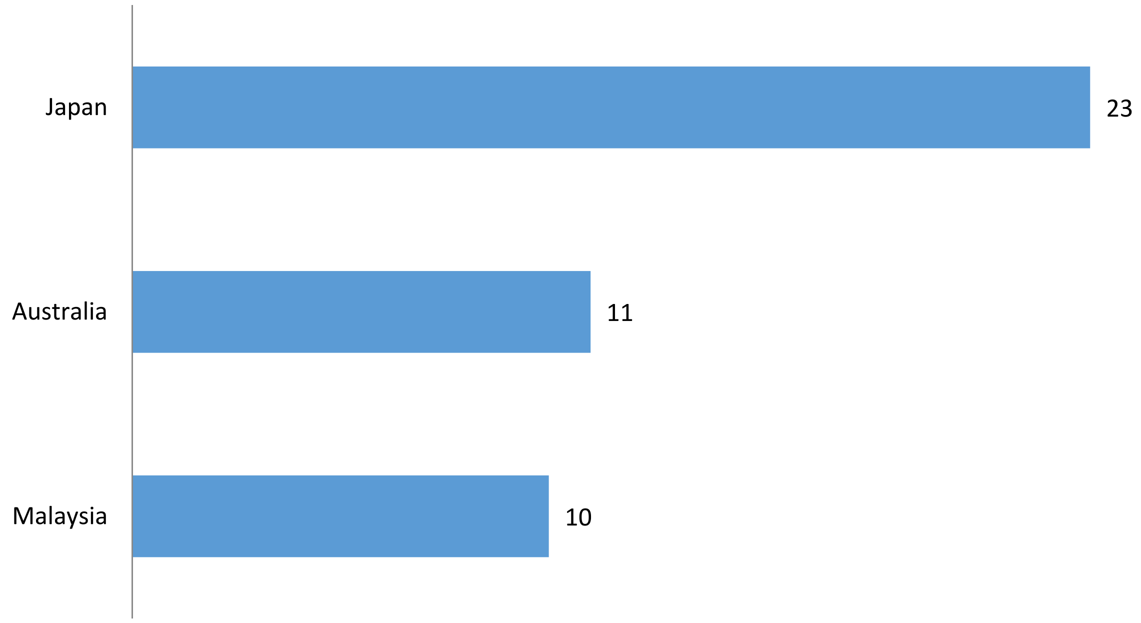
Chart 26: The slowest-growing reinsurance markets (number of mentions)



Survey results (continued)

Japan is widely considered the APAC region's most profitable reinsurance market, as cedants pay back losses from the last major catastrophe year 2011 and, in general, adopt a strategic rather than an opportunistic approach to reinsurance buying. The Australian market is also viewed as relatively profitable, not least because of cedants' insistence on very strong levels of financial security, which makes the competitive environment less fierce than elsewhere in the region. Further, Malaysia is mentioned among the three most profitable APAC reinsurance markets as tariffs have supported original and reinsurance profitability (see chart 27).

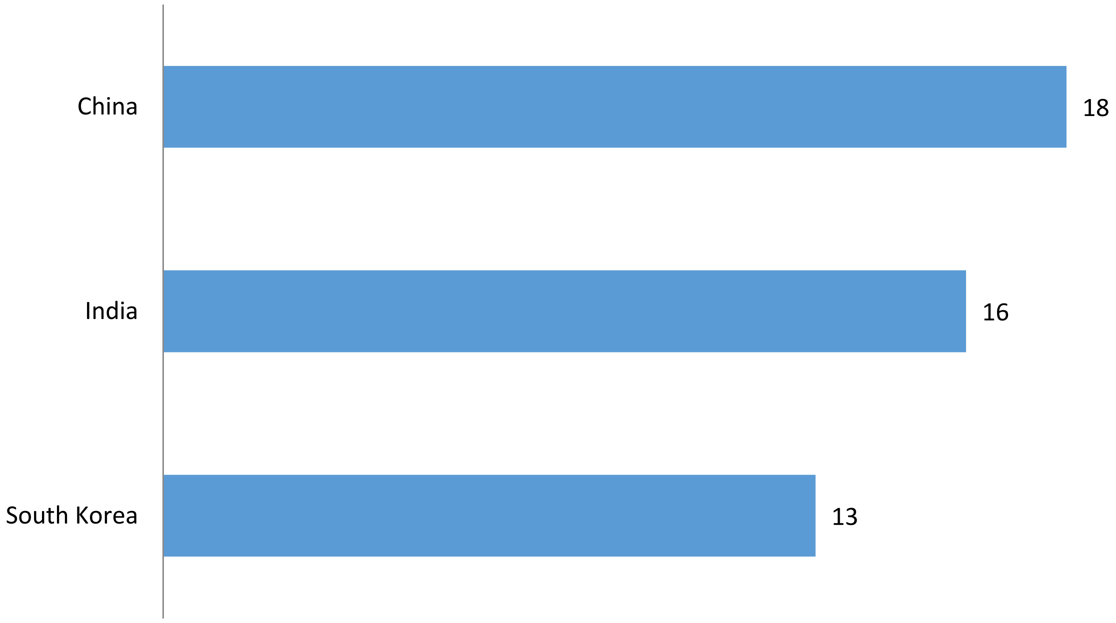
Chart 27: The most profitable reinsurance markets (number of mentions)



Survey results (continued)

China and India are considered the least profitable markets. Due to their strategic importance ('nobody can afford not to be there'), the trading environment is extremely competitive, exacerbated by cedants' price-driven approach to cessions. As far as India is concerned, institutional barriers and a highly fragmented broker landscape add to the cost of doing business and eat into margins. The South Korean reinsurance market's profitability is adversely affected by higher loss frequencies, which some interviewees attribute to weakening risk management standards. In addition, the market displays relatively low levels of retention (see chart 28).

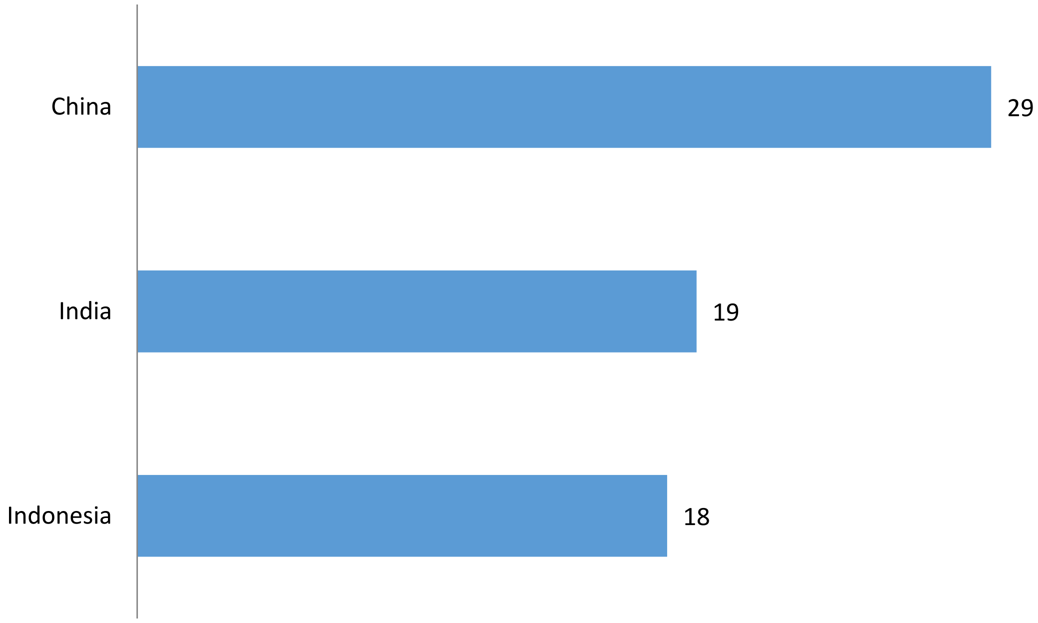
Chart 28: The least profitable reinsurance markets (number of mentions)



Survey results (continued)

China, India and Indonesia are not only today's fastest growing reinsurance markets, they are also expected to offer the biggest medium-term potential for additional cession growth, on the back of strong economic fundamentals, which more than offset challenging competitive and regulatory conditions (see chart 29).

Chart 29: The reinsurance markets with the highest growth potential (number of mentions)



"We hope that Asia will continue to be the world's engine of (re)insurance premium growth and are expecting a particularly high growth potential from India & China in the next 10 years. We believe that regional markets in Asia require tailor-made approaches and services, based on long-term commitment, adequate resources and the expertise of local teams."

Ben Ho
CEO
SCOR Asia Pacific

Survey results (continued)

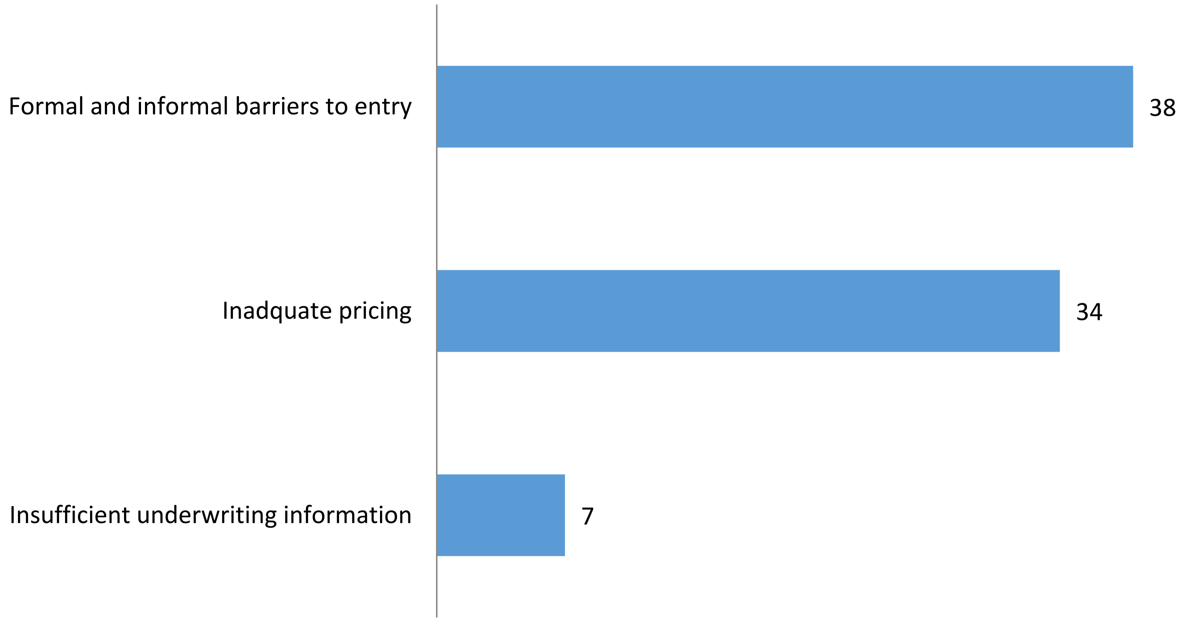
The top 3 markets in terms of current and future growth are also believed to be the most challenging jurisdictions for doing reinsurance business. As already mentioned, they are hotly contested. Significant competitive, institutional and regulatory barriers need to be overcome in order to succeed in the reinsurance markets of China, India and Indonesia. In addition, the reinsurance purchasing culture is dominated by price, with relatively little emphasis on protecting earnings and the balance sheet in a strategic and sustainable way (see chart 30).

Chart 30: The most challenging reinsurance markets (number of mentions)

Survey results (continued)

In terms of major market challenges, two topics clearly dominate: the growing prevalence of formal and informal barriers to market entry (and cross-border trade in particular) and the unabated erosion of rates, sometimes to levels below technical adequacy (see chart 31).

Chart 31: Major market challenges (number of mentions)



"Mounting cost pressures and the continuing compression of margins will lead both intermediaries and reinsurers to an even more disciplined and segmented product and service offering."

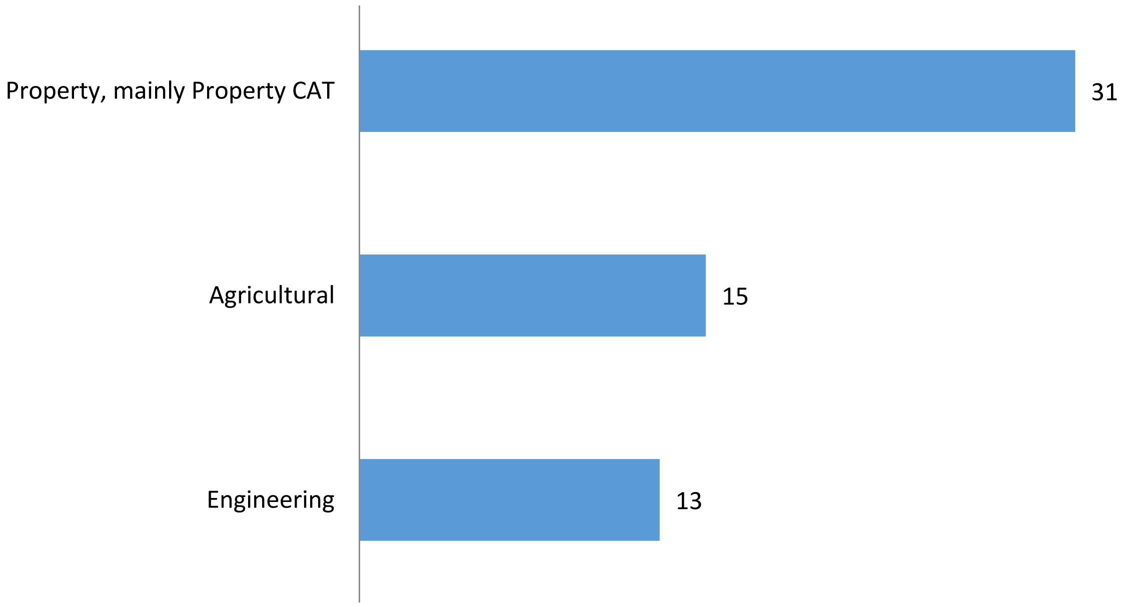
Mark Morley
Managing Director
Willis Re Singapore

Survey results (continued)

4. Lines of business-specific prospects

Property reinsurance is considered the fastest growing line of business in APAC, reflecting the region's rapid increase in asset values and their concentration as a result of industrialisation and urbanisation. Agricultural and engineering reinsurance rank second and third, respectively, also in light of many governments' commitment to promote food security and infrastructure (see chart 32).

Chart 32: The fastest-growing lines of business (number of mentions)



Survey results (continued)

"As the region's economies grow and create value, that wealth is exposed to natural and man-made catastrophes, which creates substantial new business opportunities for (re)insurers. One of the challenges our industry faces is to improve the accuracy of these estimated exposures, and we work continuously with our customers on data accuracy and data completeness. Together, we are working to raise awareness of the risks, and the resilience of our communities."

Robert Saville
SVP, Head of Underwriting
Transatlantic Re Singapore

"The rapidly growing middle-class in Asia and financially more affluent consumers create substantial business opportunities. Helping insurance companies to develop products responding to the needs of this group of better-informed and more demanding customers is one of our key value propositions."

Rohan Kananathan
General Manager
Hannover Re Malaysian Branch

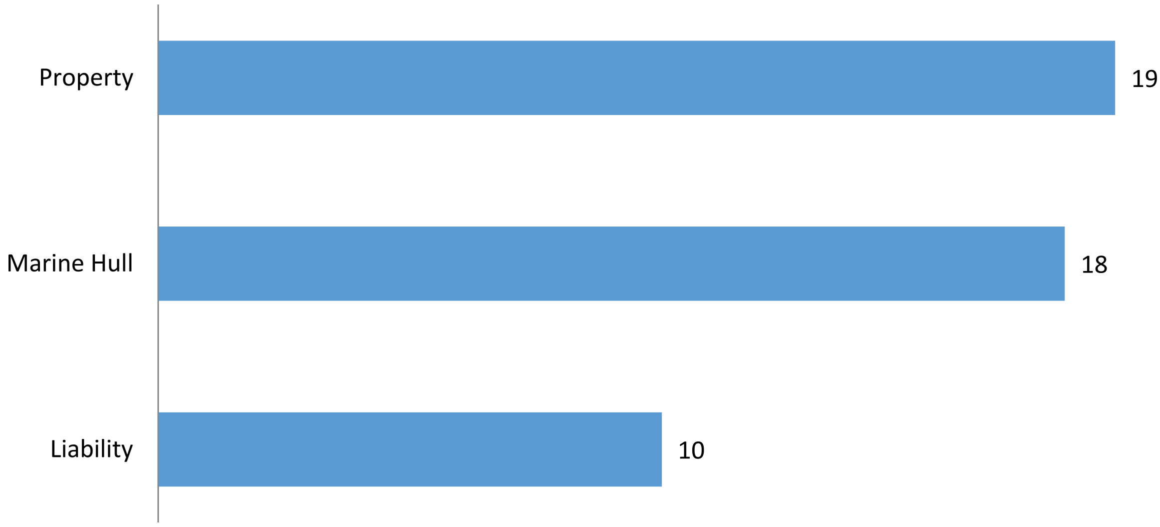
"By stengthening our local presence in Asia and enhancing our locally available expertise, we can better focus on our specific value proposition based on long-term relationships and the provison of high-quality services."

Philippe Domart
Chief Underwriting Officer
Partner Reinsurance Asia Pte Ltd.

Survey results (continued)

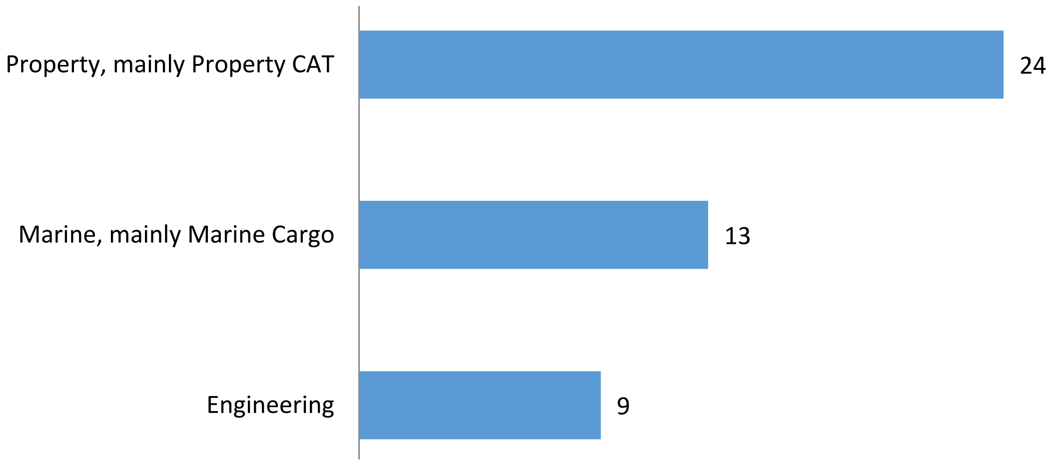
Interestingly, views on property business are mixed, with a significant number viewing it as the slowest growing market segment. These executives argue that the underlying growth dynamics are superseded by steadily softening rates. As far as the marine hull and liability lines of business are concerned, the current global shipping crisis, overcapacity and a still low degree of litigiousness are mentioned as specific reasons (see chart 33).

Chart 33: The slowest-growing lines of business (number of mentions)



Property catastrophe business is regarded as the most profitable segment of the APAC reinsurance market. However, this view reflects actual results and a relatively benign loss experience over the past few years – and not an ex-ante pricing view. Marine Cargo and Engineering are also considered attractive lines of business as profits are more resilient due to significant specialist underwriting knowledge requirements. These act as effective barriers to market entry (see chart 34).

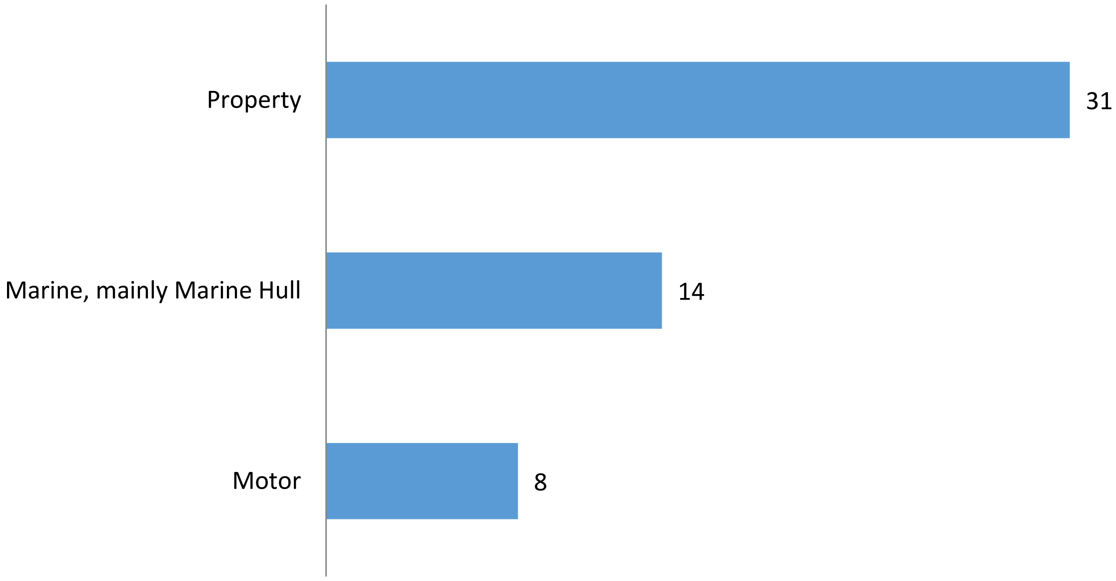
Chart 34: The most profitable lines of business (number of mentions)



Survey results (continued)

Property reinsurance, mainly proportional property per risk treaty business, ranks first among the least profitable lines. This segment is highly commoditised and easy to access for most sources of capacity. Marine hull business is also viewed rather unfavourably, mainly because of sluggish underlying growth. Motor is mentioned third most frequently as the most unprofitable area of business. In most markets, this volume-rich segment is highly contested and afflicted by adverse loss dynamics, e.g. claims inflation (see chart 35).

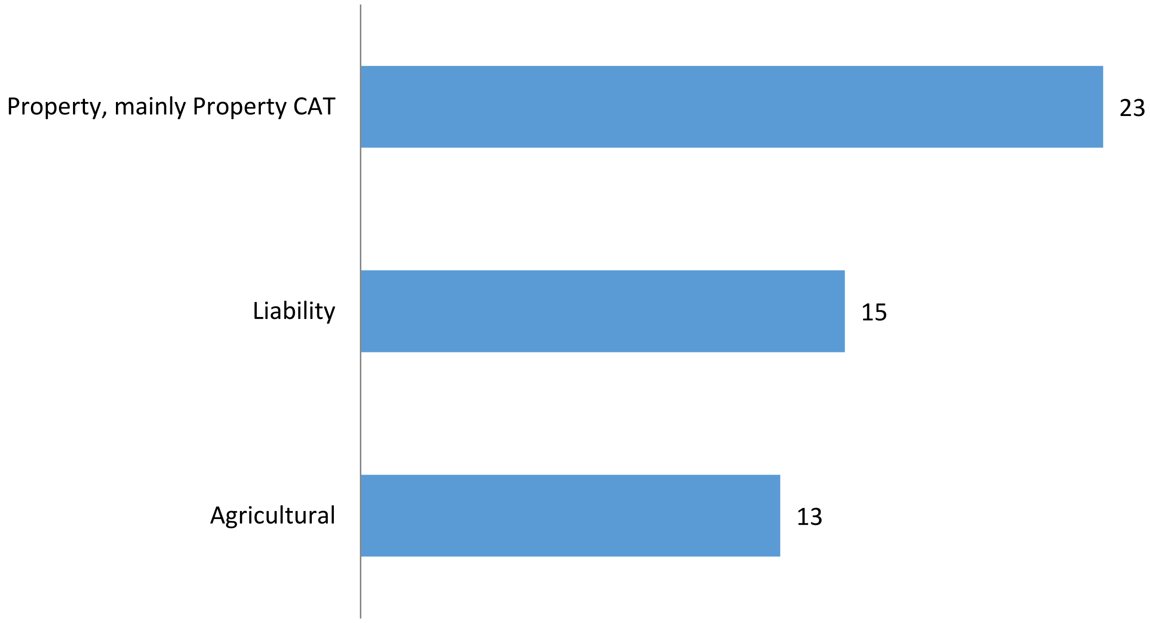
Chart 35: The least profitable lines of business (number of mentions)



Survey results (continued)

According to the executives polled, property reinsurance is not only the line with the highest current growth rate but also with the biggest near-term expansion potential, mainly in light of an enormous and still widening protection gap. In China, property catastrophe reinsurance is expected to receive a boost from C-ROSS, which adds to cedants' cost of capital in this particular area. Liability ranks second as tendencies towards more litigiousness are gathering steam in some countries, for instance in South Korea. The drivers are both domestic (e.g. environmental legislation) and international (e.g. product liability as an increasing number of Asian companies is expanding outside of the region). Last but not least, agricultural insurance is believed to offer attractive growth opportunities, as some governments are stepping up their efforts to develop the sector, emulating the successful example of China (see chart 36).

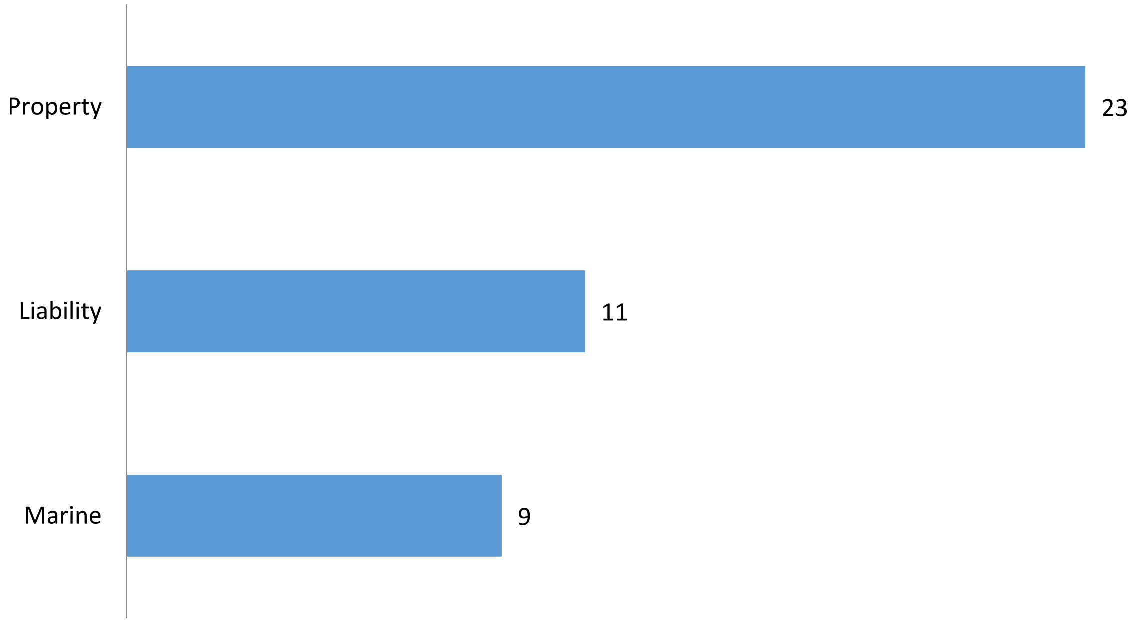
Chart 36: The reinsurance lines of business with the highest growth potential (number of mentions)



Survey results (continued)

Property, liability and marine are seen as the most challenging lines of business, as a result of fierce price competition, limited awareness and sluggish growth, respectively (see chart 37).

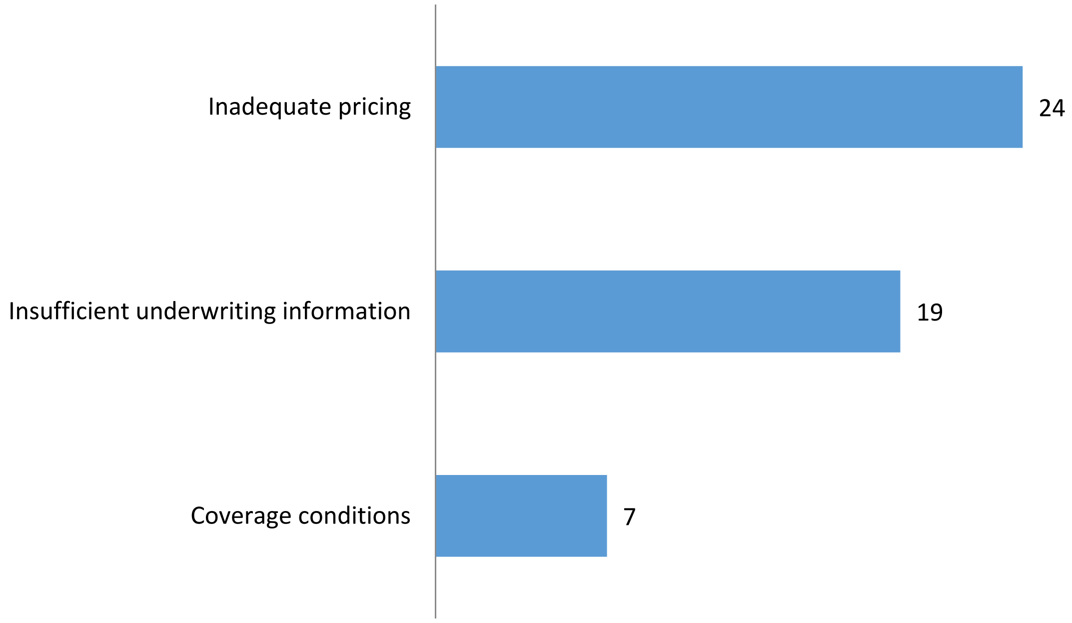
Chart 37: The most challenging reinsurance lines of business (number of mentions)



Survey results (continued)

Across the entire spectrum of lines of business, inadequate pricing tops the list of challenges, followed by a lack of quality data and broad or unspecific terms and conditions (see chart 38).

Chart 38: Major reinsurance lines of business challenges (number of mentions)



"The increased sophistication of Asian reinsurance buyers leads to a growing demand for value-added services and efficient capital management solutions. Munich Re is well prepared to serve divergent reinsurance buying motivations according to market development stages."

Dr. Till Böhmer
Chief Executive Officer
Munich Re Singapore

5. Client portfolio and outlook

68% of the interviewee companies' total gross reinsurance premium volume is generated with domestic insurance companies. The remainder is split between global and regional cedants. Over the next 12 months, the share of regional and global insurers is expected to increase by one percentage point each, at the expense of domestic cedants. This expectation reflects an accelerating regional integration of Asian insurance markets (the forthcoming ASEAN Economic Community is a case in point) (see charts 39 and 40).

Chart 39: Current average client portfolio composition (% of GWP)

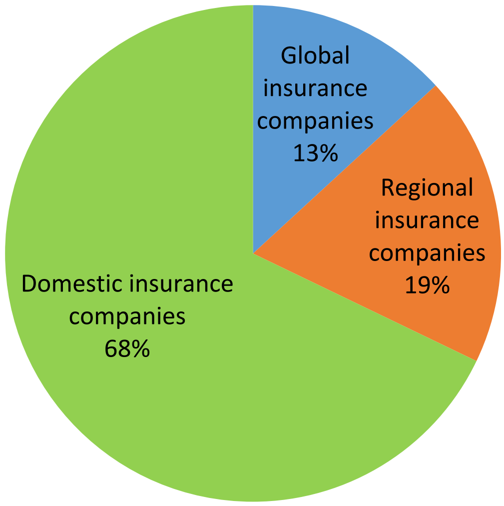
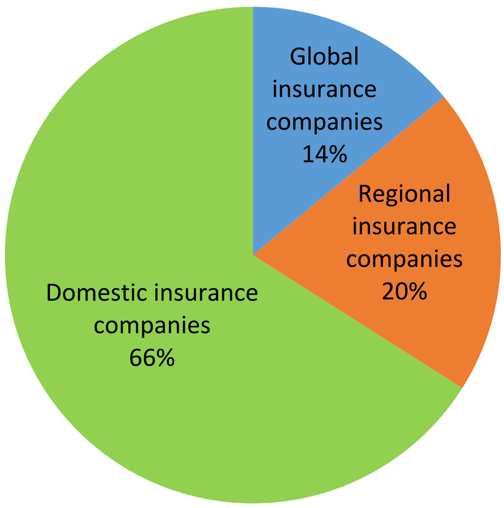


Chart 40: Expected future (next 12 months) average client portfolio composition (% of GWP)



Survey results (continued)

"Each reinsurer needs to have a strong focus on client services and relationship building. There are good reasons for clients to diversify their panel of reinsurers in an increasingly complex and demanding business environment."

Yoshinori Hashimura
Chief Executive Officer
Sompo Japan Nipponkoa Re, Labuan Branch

"Market and client segmentation are critical success factors in our business. Recognising different segments allows us to be more effective with our informed allocation of resources, better tiering service and product delivery for customers."

Chris Wright
Managing Director
Hardy Underwriting Asia

"The level of consumer and institutional education on the value proposition of insurance is still very low in many developing economies in Asia. The public and private sectors should join forces devising continuous and appropriate education campaigns on the benefits of insurance with the intention to raise the level of awareness of the industry among Asian consumers and businesses."

Victor Chan
Country Manager, S.E. Asia Markets
Gen Re

Survey results (continued)

The average number of cedants per interviewed company is 137. The top 5 clients account for 38% of their total APAC business, on average. 28% of the business is written directly and 72% through the broker channel. The executives polled do not expect any major changes to this picture over the next 12 months.

On average, the surveyed reinsurance executives consider 41% of their clients as opportunistic buyers. In some countries, reinsurance is bought for reasons of regulatory compliance only, with little to no consideration of benefits such as balance sheet protection and capital efficiency. Fueled by persistently soft trading conditions, the interviewees expect the share of opportunistic cedants to increase over the next 12 months. This trend will also be felt in markets such as Japan and Australia / New Zealand where buyers used to be driven by strategic motives.

92% of interviewees consider the quality and potential of the overall business relationship as important or very important when it comes to deciding on accepting or declining a specific piece of business. 73% of executives polled would not abandon business priced at below technical if the overall client relationship is positive or is considered strategically important (see charts 41 and 42).

Charts 41: Importance of the quality and potential of the overall business relationship for the underwriting decision in respect of an individual business acceptance / declinature

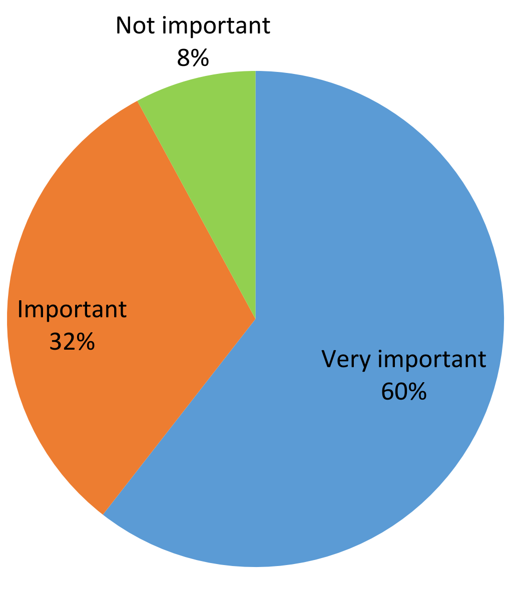
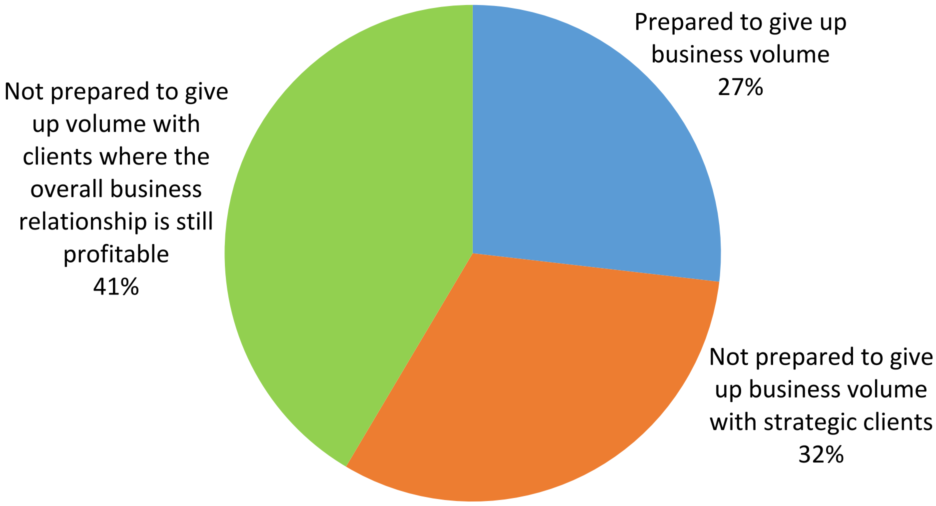


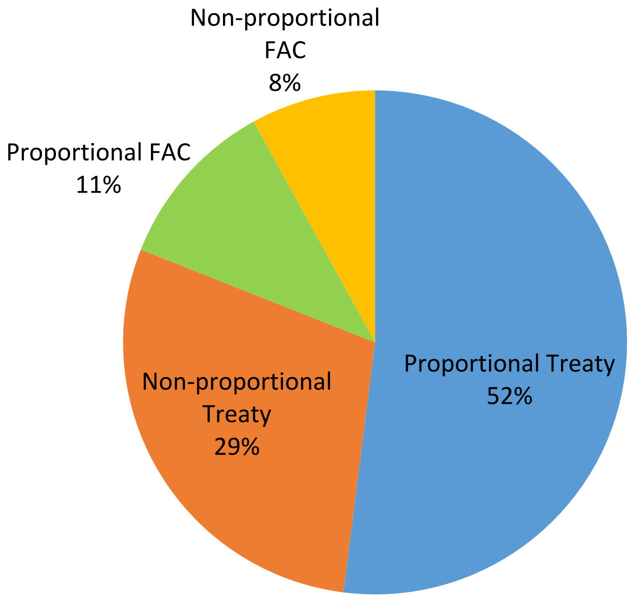
Chart 42: Willingness and preparedness to give up business volume if the technical price cannot be achieved



Survey results (continued)

Across the average of all survey participants, 81% of APAC reinsurance is treaty business, with proportional accounting for 52% and non-proportional making up 29%. The share of facultative business is 19% (see chart 43).

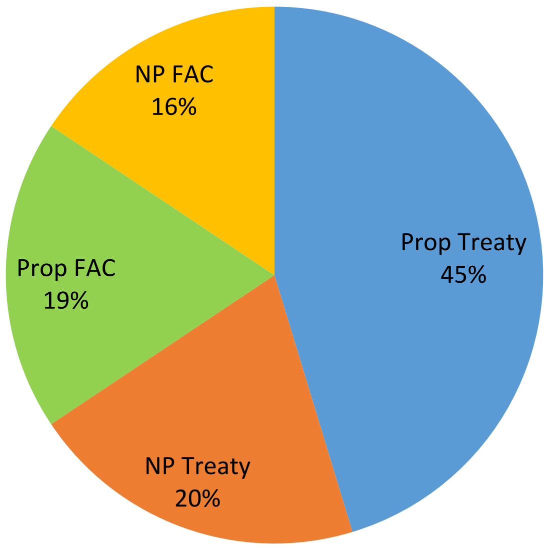
Chart 43: Product portfolio composition (% of GWP)



Survey results (continued)

In the portfolios of three quarters of executives polled (considering only those who are responsible for both treaty and facultative business), treaty reinsurance, proportional and non-proportional alike, has grown faster over the past three years than facultative reinsurance. The reliance on proportional treaty cessions continues to be a main characteristic of the APAC reinsurance market. In particular, in the more mature markets of the region, non-proportional treaty business growth outpaces any other product segment (see chart 44).

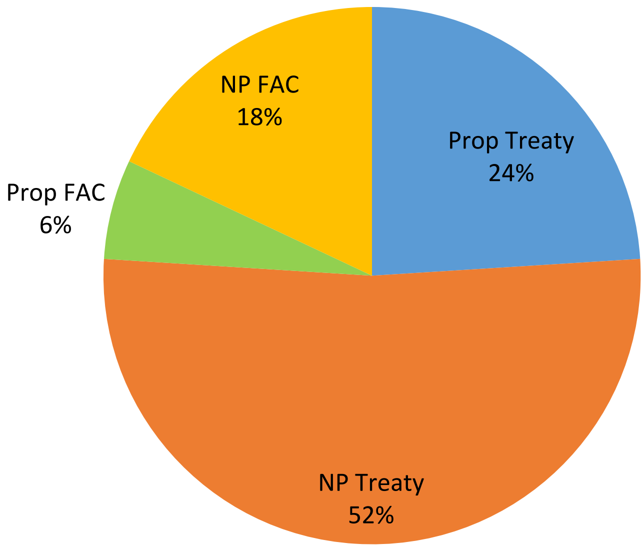
Chart 44: Fastest growing reinsurance product, past three years



Survey results (continued)

76% of interviewees report that treaty business is more profitable than facultative business, in particular when it comes in the form of non-proportional cover, which allows reinsurers to somewhat decouple themselves from original market conditions (see chart 45).

Chart 45: Most profitable reinsurance product, past three years



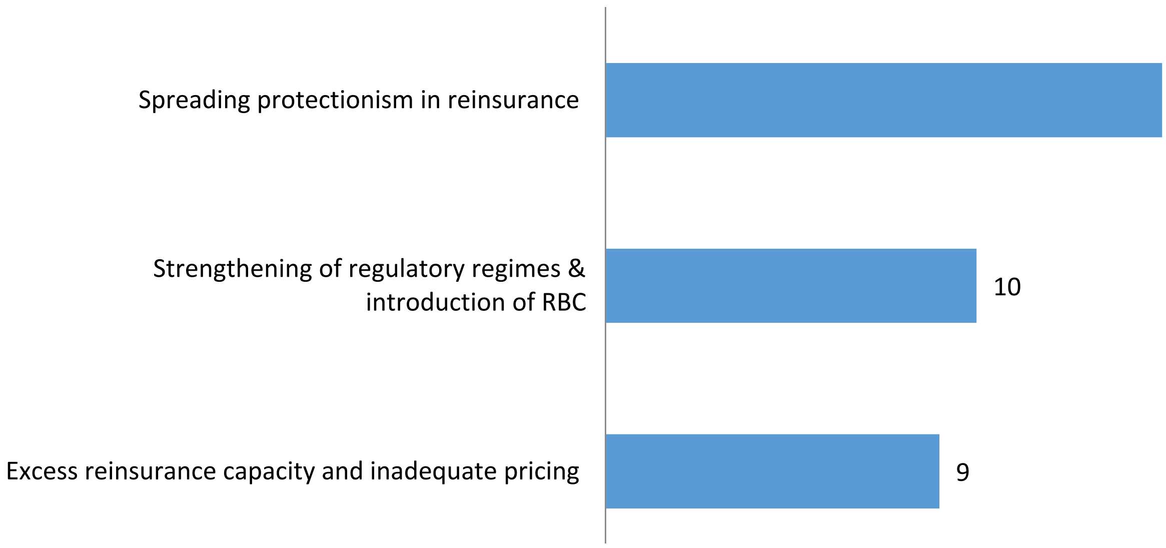
6. The region's most relevant reinsurance trends

When asked to name the biggest single trend in APAC reinsurance markets, most interviewees mentioned the rise of protectionism in cross-border trade (see Digression). Such measures may come in different guises, ranging from discriminatory capital charges for cedants to outright local cession requirements. Whilst many executives understand the reasoning behind this implicit pressure to localise and 'onshore' reinsurance operations, they point to the capital inefficiencies and ultimately higher cost for local policyholders resulting from it. Against this backdrop, a number of reinsurers intend to enhance their local advocacy and awareness-building activities. Smaller market participants consider engaging in partnerships with bigger carriers in order to maintain their access to less open markets.

The second most frequently mentioned trend is the strengthening of regulatory environments and the introduction of risk-based solvency regimes in particular. Against this backdrop, reinsurers will have to offer more tailor-made solvency relief and risk transfer solutions, catering to the specific risk profile of the cedant's book of business.

Excess capacity and, as a result, a continued softening of rates, terms and conditions rank third. Responses to this development include an even stronger emphasis on building relationships and a shift towards personal lines business, which requires more specific local knowledge and, therefore, is viewed as less competitive by some reinsurers (see chart 46).

Chart 46: Most relevant APAC reinsurance trends (number of mentions)



Digression: New regulatory rules of the game for cross-border reinsurance

India: Branches of foreign reinsurers need to retain at least 50% of business written in India
In a recently published report, the reinsurance committee of the Insurance Regulatory and Development Authority of India (IRDAI) said that branch offices of foreign reinsurers will be subject to the same regulations as Indian insurers and reinsurers. In the future, all companies will be assessed using a risk-based capital (RBC) framework, although the introduction of such a framework would take some time. Under the new regulations, branch offices of foreign reinsurers will need to have a minimum retention of 50% of business written in India, but will be allowed to repatriate surplus to their home country if the available solvency margin is above 175% of the mandatory requirement.

Indonesia: New regulations aim to increase domestic (re)insurance premium retention
In an attempt to improve the utilisation of domestic reinsurance capacity, Indonesia's Financial Services Authority (OJK) has recently proposed that Indonesian insurers either retain more or reinsure more business with domestic reinsurers. Under existing regulations, Indonesian insurers are required to cede 10% of their risk to Indonesian reinsurers. For the future, it is proposed that some classes of business (motor, health, credit, surety, life and marine cargo) have to be exclusively reinsured with Indonesian reinsurers, for other classes a minimum of 25% has to be placed domestically, with increases expected in the coming years. As of today, about 70% of Indonesian reinsurance premium is ceded to the international market. The main motivation for the proposed changes is to reduce and ultimately to eliminate the deficit in Indonesia's reinsurance-related balance of payments. It remains to be seen whether Indonesian insurers will be able to comply with the new directive as in the past, domestic reinsurance capacity as well as technical capabilities were limited and inadequate to meet all domestic reinsurance needs.

China: Onshore reinsurers to benefit from C-ROSS, motor premium cessions to decrease
The China Insurance Regulatory Commission (CIRC) has finalised the technical standards of the country's new risk-based solvency regime C-ROSS, which is expected to be fully implemented in 2016. Under C-ROSS, cession rates for motor business are expected to decrease significantly, as Chinese insurers will benefit from solvency relief for less volatile business under the new framework.

In addition, credit risk charges related to offshore reinsurance transactions are substantial for local cedants under C-ROSS and will make reinsurance transactions with onshore reinsurers financially more attractive. As a result, offshore reinsurance cessions are expected to decrease while onshore reinsurers will benefit from the new rules. As a consequence, more international reinsurers are expected to establish branch operations in China.

Survey results (continued)

"Regulators across the region are promoting onshore reinsurance through higher capital requirements for local branches of foreign reinsurers. Whilst this trend may reduce the capital efficiency of regional and global business models of reinsurance, it also helps to separate the wheat from the chaff, sieving out those players who are genuinely committed to serving the local market."

John Tan
Group Chief Executive
ACR Capital Holdings

"Urbanisation and asset concentration, as well as the high vulnerability to natural hazards all have a significant influence on the development of sustainable natural catastrophe (re)insurance in the region. However, this development is held back by the lack of data and all parties involved should remember that unmanaged natural catastrophe exposures have the potential to negatively affect economic development."

Richard Milner
President and Chief Underwriting Officer, Axis Re Asia Pacific
Axis Specialty Ltd (Singapore Branch)

"The biggest trend from our perspective is the increasing adoption of new technologies in terms of processes and distribution by Asian life insurers. Going forward, as reinsurers, we need to design and offer matching benefits and products along the entire value chain, from product development, underwriting to claims management."

Keng Hong Chan
Market Head Life Asia
Partner Reinsurance Asia Pte Ltd.

"We see an increased demand for advisory services related to the implications of regulatory changes for insurance and reinsurance companies in a number of Asian jurisdictions."

Stuart Beatty
Chief Executive Officer
JLT Re APAC

"The trend towards risk-based solvency regimes throughout the region will greatly enhance cedants' awareness of reinsurance as a bespoke risk and capital management tool. It will require new offerings from reinsurers and ultimately lead to a more resilient and sophisticated market place."

Sammy Lau
General Manager
Taiping Re

7. Overall APAC reinsurance business sentiment

APAC executives were asked to share their overall sentiment towards the region's reinsurance markets on a scale from '5' ('very bullish') to '-5' (very bearish).

Current sentiment came in at a moderately positive 1.3, down from 1.7 a year ago. For summer 2016, the overall sentiment is not expected to change. The deterioration over the past 12 months primarily reflects the darkening economic outlook for some of the region's mature and emerging economies, unabated pressure on already unsatisfactory rates and an increasing prevalence of barriers to cross-border trade in reinsurance (see chart 47).

Chart 47: Average past, current and expected future APAC reinsurance business sentiment

(5: very bullish, 0: neutral, -5: very bearish)

Survey results (continued)

"From a global perspective, intra-regional diversification opportunities make the Asia-Pacific region pretty unique. There are attractive mature, emerging and frontier markets. At the same time, demographic patterns range from rapidly ageing to young and growing. Diversification has gained in importance recently as some regional economies are experiencing a slowdown."

Robert Wiest
Regional Head Strategy & Operations, Asia
Swiss Re

"The current trend towards increasing direct and indirect barriers to cross-border reinsurance is certainly calling into question some of the proven benefits of global risk diversification. Having said this, one should not simply discard some of the motives behind it, for example, the generation of insurance funds for local investments and the promotion of corporate risk management. Also, nobody should be surprised that a country like China expects a higher level of (financial) commitment from foreign reinsurers keen on growing with the market."

Franz Hahn
Chief Executive Officer
Peak Reinsurance Company Limited

"Given the global reach of insurance and reinsurance business, greater harmonisation of insurance regulation and supervision in Asia to promote international best practices would help to strengthen and further advance the marketplace."

Michael Marx
Managing Director, Treaty Division Asia Pacific
Hannover Re

"My overall sentiment towards the APAC reinsurance markets is positive. We are seeing signs of discipline on acceptability of rates and terms and conditions as pricing levels have reached reinsurers' threshold. In addition, the region's long-term fundamentals such as strong economic growth, asset and wealth accumulation and infrastructure spending remain compelling."

Ann Chua
Head of Northern Asia, Operating Director Asia
XL Catlin, Reinsurance

Dr. Schanz, Alms & Company

Aligning Corporate Strategy and Communication

About **Dr. Schanz, Alms & Company**

Dr. Schanz, Alms & Company AG is a Zurich, Switzerland-based boutique advisory firm, focusing on the global (re)insurance industry.

Founded in 2007 by Kai-Uwe Schanz and Henner Alms, the Company supports its clients in holistically researching and analysing their business environment, developing and implementing a distinct strategic profile and effectively communicating with their key stakeholders.

The firm's current client base comprises listed and non-listed companies, government entities, industry associations and think tanks in Europe, the Middle East, Africa and Asia.

The Company's four partners and associate partners bring to the table a combined 90 years of professional experience, 40 years of which in executive, senior management and professional roles in global (re)insurance companies such as Swiss Re, Zurich Insurance Company, Bavarian Re, Converium, SCOR and Saudi Re. The partners' working experience includes multi-year stints in Hong Kong, Saudi Arabia, Singapore and South Korea.

Specific areas of expertise span published and proprietary economic and industry research, strategy development, corporate and marketing communications as well as investor relations.

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