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FINANCIAL CENTRE
AUTHORITY

ASIA **REINSURANCE** BAROMETER

An Annual Market Survey

No. 1 / November 2013

ASIA REINSURANCE BAROMETER

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The Qatar Financial Centre (QFC) is a financial and business centre established by the Government of Qatar and located in Doha. It has been designed to attract international financial services, institutions and major multi-national corporations, in particular those operating in the reinsurance, captive insurance and asset management sectors and to encourage participation in the growing market for financial services in Qatar and elsewhere in the region. The QFC operates to international standards and provides a first-class legal and business infrastructure for those operating within the QFC. The QFC was created by Qatar Law No. (7) and has been open for business since 1 May 2005. The QFC Authority is the commercial, administrative and legislative body responsible for leading the expansion of Qatar's financial services sector, providing a uniquely sustainable platform for regional growth in reinsurance, captive insurance and asset management.

Qatar Financial Centre Authority (QFCA) Tower, West Bay, Doha, Qatar

FOREWORD

Shashank Srivastava
Chief Executive Officer and Board Member of the Qatar Financial Centre Authority (QFC Authority)

Asia is one of the fastest-growing reinsurance markets in the world and a strategic priority for any aspiring international reinsurer. The significant interest in the region's reinsurance markets reflects both long-term expansion plans and responses to short-term and topical challenges such as the stagnation of mature economies and the rise of alternative capital in global property catastrophe reinsurance.

Given the ever closer economic ties between Qatar and Asia, it was only natural for the QFC Authority to extend its proven Barometer survey approach to the Asian reinsurance marketplace. At the QFC Authority, we believe that over time the Barometer will help improve the market's transparency and provide participants with an additional benchmark for decision-making. The Barometer paints a comprehensive and quantitative picture of current market sentiment and will track this over time.

The survey is based on in-depth interviews with senior executives of 26 regional and international reinsurance companies and intermediaries operating in South, Southeast and Northeast Asia. It builds on the established methodology used for the GCC and MENA Insurance and Reinsurance Barometer surveys, which were first launched in 2011. The Barometer provides a unique overview of the current state and near-term prospects of the US$ 30 billion Asian non-life reinsurance market. It also offers a summary of key regional (re)insurance market data and an overview of regulatory regimes.

We hope that you will benefit from the findings of our first Asia Reinsurance Barometer.

METHODOLOGY

The findings of this report are based on in-depth and structured telephone or face-to-face interviews with executives representing 26 regional and international reinsurance companies and intermediaries. The interviews were conducted by Dr. Schanz, Alms & Company AG, a Zurich-based research, strategy and communications consultancy, in July, August and September 2013.

The companies taking part in the survey were:

- **ACR Capital Holdings, Singapore**
- **Aon Benfield Asia, Singapore**
- **Aspen Re, Singapore**
- **Canopius, Singapore**
- **Catlin Re, Singapore**
- **Echo Re, Zurich**
- **Endurance Speciality Holdings, Singapore**
- **Guy Carpenter, Singapore**
- **Haakon (Asia), Kuala Lumpur**
- **Hannover Re, Hannover**
- **JLT Re, Singapore**
- **Kiln, Singapore**
- **Malaysian Re, Kuala Lumpur**
- **Milli Re, Singapore**
- **Munich Re, Munich**
- **PartnerRe, Hong Kong**
- **Peak Re, Hong Kong**
- **QBE, London**
- **Samsung Fire & Marine, Seoul**
- **Sompo Japan Nipponkoa Re, Labuan**
- **Swiss Re, Hong Kong**
- **Taiping Re, Hong Kong**
- **Toa Re, Tokyo**
- **UIB Asia, Singapore**
- **Vina Re, Hanoi**
- **Willis Re, London**

SUMMARY OF KEY FINDINGS

1. Overall, reinsurance business sentiment in Asia is very strong, reflecting a relatively stable political environment, well-established regional reinsurance hubs and strong gross domestic product (GDP) and premium growth expectations. These are based on demographic factors, low average insurance penetration rates and product innovation, both in insurance and reinsurance. Measured on a scale from -5 to +5 (very bearish to very bullish), average sentiment stood at 1.9. However, the trend is negative: about 12 months ago, business confidence was stronger at 2.3. Over the next 12 months, average business sentiment is expected to deteriorate further, reaching a value of 1.7, mainly reflecting an economic slowdown, a negative outlook on reinsurance prices, increasing regulatory/compliance and personnel costs, and hence declining overall profitability.

2. An overwhelming majority (96%) of all respondents expect a further increase in reinsurance capacity over the next 12 months, as the region remains an attractive growth market. This trend is a concern for most reinsurers, as margins will come under additional pressure. However, some brokers welcome this development as it will broaden their choice of potential providers. The majority of respondents also believe that reinsurance exposure and premium growth will continue to outpace regional GDP growth, driven by a continued accumulation of insurable assets in catastrophe-exposed areas as well as low penetration rates.

3. Retention levels vary significantly across the region. Small and medium-sized insurers in less mature markets tend to have very low retention levels, whereas companies in markets like Japan, Singapore, Taiwan or Hong Kong typically retain much higher shares of premiums and exposures. Overall, 69% of polled executives expect retention levels to increase over the next 12 months. This expectation is driven by mounting pressure from shareholders and ratings agencies to retain a higher portion of profitable business.

4. 62% of survey participants expect reinsurance prices to decline over the next year. Many respondents said that the high catastrophe losses recorded in 2011 only had a very limited and short-lived impact on reinsurance prices, as traditional capacity was rapidly replenished and alternative capacity is beginning to emerge.

5. On the other hand, 54% of respondents expect stable terms and conditions, which are currently regarded by 50% as either 'tight' or 'very tight'. This assessment is a direct consequence of the 2011 catastrophe losses in Thailand and Japan which led to a thorough revision of many treaties' terms, conditions and clauses. The introduction of event limits under proportional treaties and a significantly enhanced exposure transparency were mentioned as the most relevant improvements.

6. Respondents estimate that, on average, Western firms provide about 75% of current Asian reinsurance capacity with Asian companies accounting for the remainder. 56% of interviewees believe that this split will remain relatively stable over the next 12 months, whereas 32% expect that Western capacity providers will be able to gain market share. The main reason for this is the maturity and increasing sophistication of the market, with increasing demand for complex solutions and services. In this respect, many interviewees believe that Asian reinsurers as of today are not as well positioned as their Western counterparts.

National Stadium, Beijing - China

KEY BAROMETER READINGS

The Barometer measures current perceptions of the Asian reinsurance market, tracking them over time to monitor changes in attitudes.

Key readings (in % of respondents agreeing)	November 2013
Reinsurance capacity to grow*	96
Reinsurance exposure to grow faster than GDP*	81
Retention levels to increase*	69
Reinsurance premiums to grow faster than GDP*	62
Reinsurance prices to decrease*	62
Stable split between 'Western' and 'Asian' capacity*	56
Reinsurance terms and conditions to remain stable*	54
Tight current reinsurance policy terms and conditions**	50
Reinsurance profitability to decline*	50
Current reinsurance profitability in line with 5 years average	46
Current reinsurance prices in line with 5 years average	35
Overall Asia reinsurance sentiment (scale from +5 to -5)	+1.9

**Over the next 12 months*
***Compared with 5 year average*

MARKET OVERVIEW

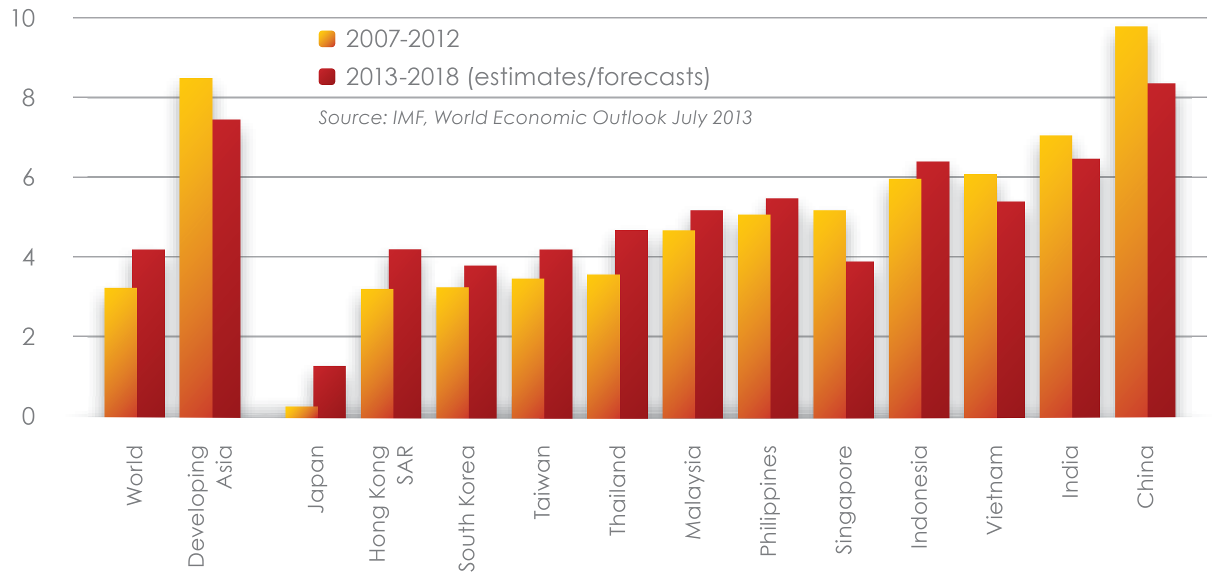
A diverse region with strong fundamentals and high growth momentum

Asia includes both advanced economies like Japan, Singapore, Hong Kong, South Korea and Taiwan (characterised by high income per capita levels) and rapidly emerging markets such as China, India, Indonesia and Vietnam (displaying high growth rates but significantly lower per capita income levels).

The 12 biggest insurance markets in Asia (China, Hong Kong, India, Indonesia, Japan, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam) have a total population of about 3.4 billion. In 2012, these countries generated a combined Gross Domestic Product (GDP) of close to US$ 19.8 trillion, or 28% of the world total.

At an inflation-adjusted average growth rate of 8.5% per annum between 2007 and 2012, developing Asian economies (which exclude Japan, Hong Kong, South Korea, Taiwan and Singapore) grew markedly faster than the global average (3.3%). China stands out with its 9.8% growth rate, driven by strong exports and robust domestic demand.

Chart 1: Real GDP growth (2007 - 2018f, annual averages, in %)



China's economic fortunes are a key regional growth driver

Slower growth in China, as experienced in 2013, is set to have a significant impact on other Asian economies. More than half of total Asian trade is intra-regional. As China has become the most important trading partner for most Asian countries, even small declines in China's GDP growth rate will have a disproportionately negative impact on the smaller Asian economies. The Asian Development Bank (ADB) recently cut its 2013 GDP growth forecast for China from 8.2% to 7.7%. The monetary value of this slowdown is approximately US$ 40 billion, which is equal to more than 10% of Thailand's GDP in 2012.

Penetration trends in Asia: a mixed bag

Total average insurance penetration (premiums as a share of GDP) in Asia stood at 5.7% in 2012, only slightly below the world average of 6.5%. Asia's average figure is heavily influenced by Japan which accounted for 48% of Asia's total insurance premiums with a domestic penetration rate of 11.5% (9.2% life business and 2.3% non-life business). In emerging Asia (excluding Japan, Hong Kong, Singapore, South Korea and Taiwan), the average insurance penetration rate came in at 3%, slightly above the global average for emerging markets (2.7%).

Contrary to economic expectations, penetration levels have not increased in all emerging Asian markets from 2007 to 2012: in Indonesia, for example, non-life insurance trailed behind economic growth whereas in India it matched GDP. In China, however, penetration levels continue to rise on the back of surging non-life premiums.

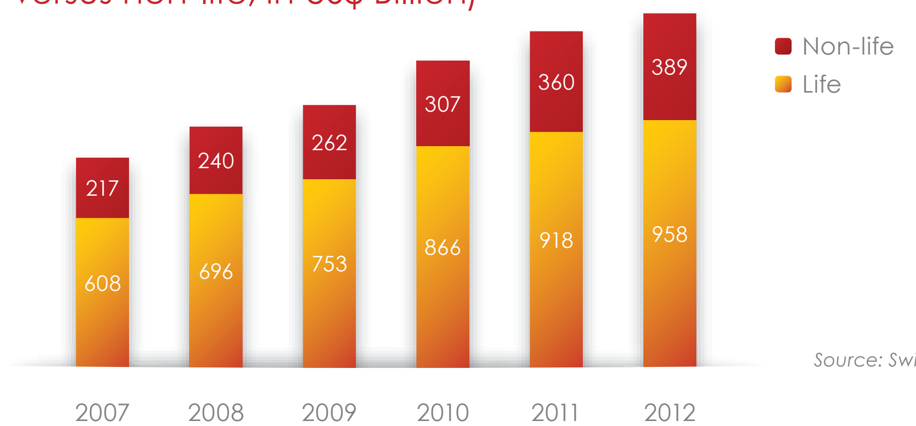
The pattern in life insurance is equally heterogeneous. In Indonesia, China, Thailand and the Philippines life premiums outgrew GDP. In contrast, the sector's growth fell short of GDP in India and Vietnam.

Overall, life insurance penetration in Asia is slightly higher than the global average (4.1% vs. 3.7%) reflecting a very high propensity to save, whereas non-life insurance penetration is significantly lower (1.6% vs. 2.8%).

Total life insurance premium volume in Asia in 2012 was US$ 958 billion, non-life premium volume accounted for US$ 389 billion. Since 2007, total premiums have expanded by more than 60%.

> **"In a marketplace where capacity is abundant, client segmentation becomes an imperative for reinsurers. Those who do it right will always find opportunity, even in difficult market conditions."**
>
> Philip Nye, Head of Hong Kong Office, PartnerRe.

Chart 2: Asia insurance premiums by type (2007 - 2012, life versus non-life, in US$ Billion)



Source: Swiss Re, sigma

Chart 3: Non-life real premium growth in % (2007 - 2012, annual averages)

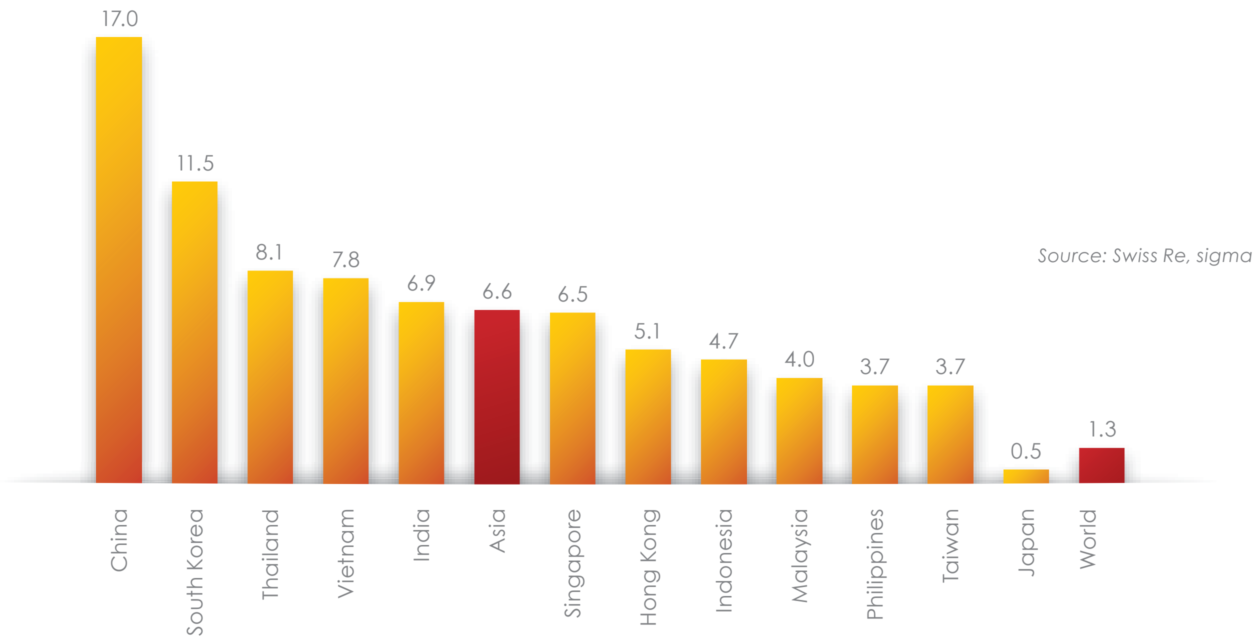
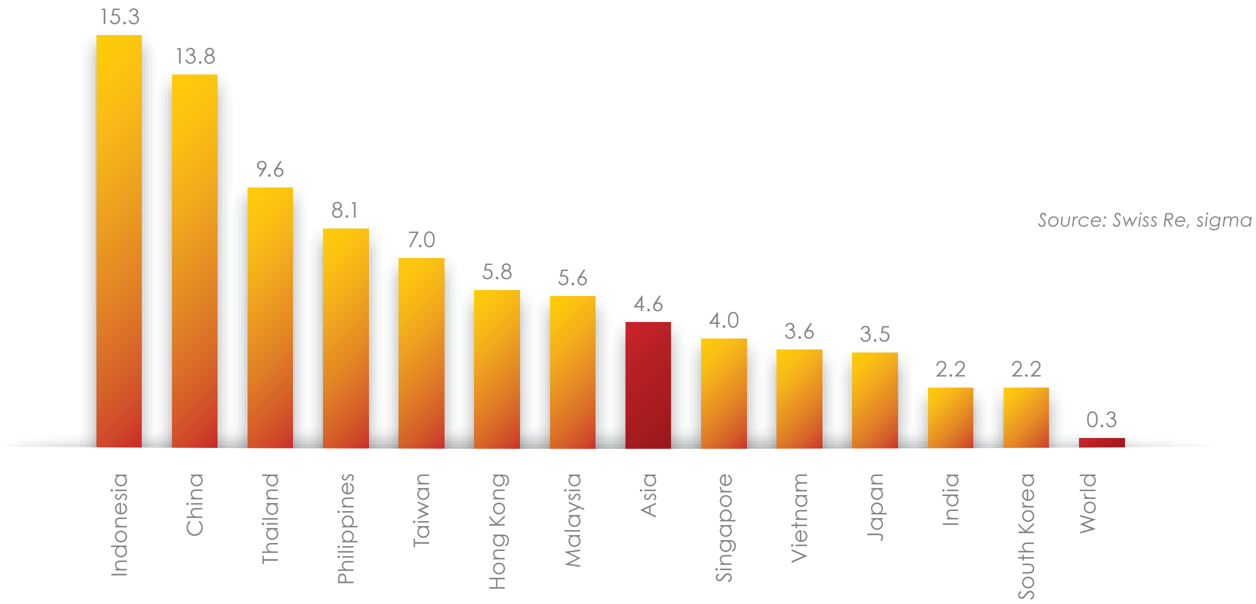


Chart 4: Life real premium growth in % (2007 - 2012, annual averages)



Extensive reinsurance growth potential in Asia

Increasing risk awareness coupled with low penetration rates, especially in non-life business, are expected to sustain growth in Asian (re)insurance markets. Severe economic losses in 2011 from major natural catastrophes in Japan and Thailand have raised awareness of the region's significant 'penetration gap' as well as its very low ratio of insured versus economic losses. Demand for insurance and reinsurance has increased in the wake of these extraordinary catastrophe losses.

"**A successful Asian strategy builds on a strong local commitment with focused investments and long-term stamina.**"

Thomas Kessler, Deputy CEO, Vina Re.

"**One of the key challenges in Asia and especially in China will be to support the rapid development of insurance markets with an adequate development of talent, technical expertise and a sustainable capital supply.**"

Dr. Peter F. Hugger, CEO, Echo Re.

The use of reinsurance varies to a large extent and it is dependent on the maturity of markets and individual companies. Cession rates in Japan are typically very low at less than 5%, whereas they can reach almost 40% in some developing markets such as Indonesia. Based on their size, capitalisation and portfolio diversification, many insurance companies in South Korea, Taiwan or China retain more than 90% of their premium income. Chart 5 shows the estimated size of selected Asian non-life reinsurance markets, based on information from regulatory authorities, insurance associations and other industry sources. Overall, non-life cessions in the region amount to roughly US$ 30 billion, or 17% of the world total.

"**Asia is comprised of very diverse (re)insurance markets. These create considerable opportunities for niche players as well as large global reinsurance companies.**"

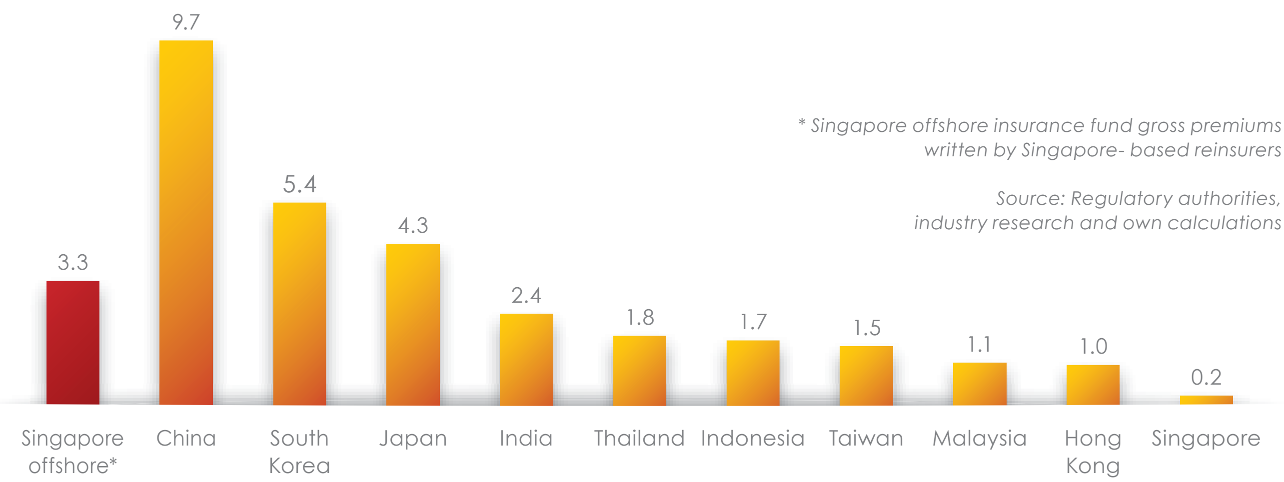
Richard H. Jones, Chief Executive Officer, Guy Carpenter Singapore.

Furthermore, cession volumes also depend on prevailing reinsurance structures. Many small and medium-sized players rely more on proportional cessions, whilst more mature and better-diversified insurers are more likely to use non-proportional structures, resulting in much lower overall cession volumes.

"**Asia has become an advanced reinsurance marketplace with ample opportunities not only for big capacity providers but also for specialised niche players.**"

Paul Oeschger, Chief Executive Officer, Haakon (Asia).

Chart 5: Estimated non-life reinsurance market size of selected Asian markets 2012 (US$ Billion)



** Singapore offshore insurance fund gross premiums written by Singapore- based reinsurers*

Source: Regulatory authorities, industry research and own calculations

SURVEY RESULTS

1. THE OVERALL PERSPECTIVE: STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS OF ASIAN REINSURANCE MARKETS

Impressive growth momentum and potential, but concerns about 'Black Swans' in natural catastrophe exposure

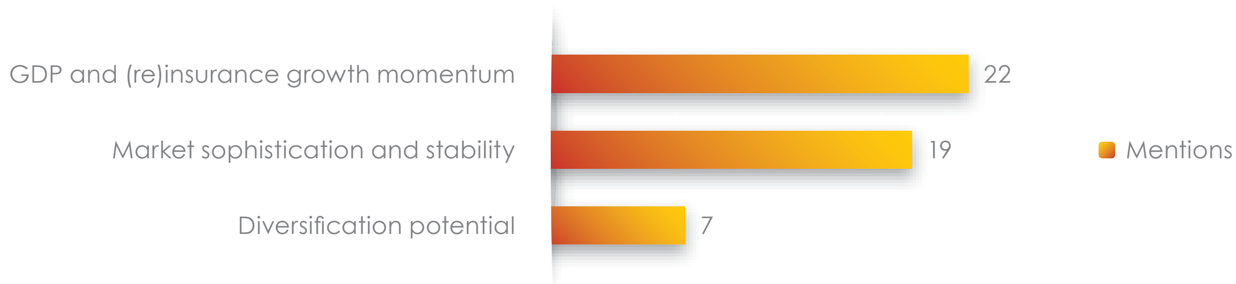
Growth dynamics considered key market strength

Despite some concerns about the short and mid-term regional economic outlook, respondents see the region's growth momentum as the most relevant strength of the Asian reinsurance marketplace. The sophistication, stability and attractiveness of the market are the second most frequently mentioned strengths. In this context, Asian reinsurers tend to have more positive views on talent availability and regulatory sophistication than their counterparts from Europe or the US.

> **"The improving quality of the regulatory environment is a major strength of the Asian reinsurance market place. Risk-based capital regimes in particular have contributed to the stability and resilience of the region's high-growth (re)insurance markets."**
>
> Hashim Harun, Chief Executive Officer, Malaysian Re.

The diversification potential ranks third, although mentioned by a much smaller number of respondents when compared to the top two strengths. Global reinsurers with typical peak exposures in the US, Europe and Japan see clear diversification benefits from writing Asian exposures.

Chart 6: Market strengths



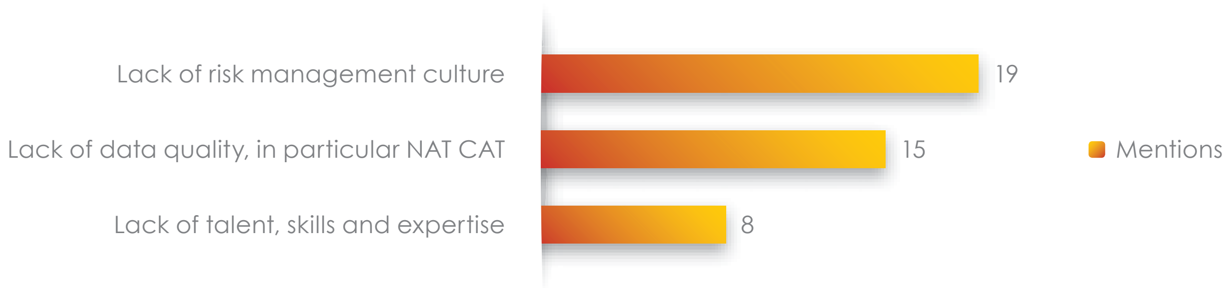
> **"Asian reinsurance hubs like Singapore and Hong Kong have seen very positive developments in the past. The strength of their regulatory regimes and the well-established marketplace attract a lot of international talent and additional capacity."**
>
> Bengt Johnsen, CEO, UIB Asia Reinsurance Brokers Pte Ltd.

Underdeveloped risk management culture viewed a key market weakness

Risk awareness is still in its infancy in most Asian countries. Accordingly, corporate risk management frameworks are relatively poorly developed. This confluence of factors is considered the most relevant weakness of the Asian reinsurance marketplace. This weakness is partially attributable to a high degree of market fragmentation, i.e. the presence of a large number of small insurance companies, in parts of Asia. The lack of data quality, in particular in respect of natural catastrophe exposures, ranks second. Many participants expressed a strong need for improvements to natural catastrophe models which could also help address the region's significant underinsurance in this area. The third ranking weakness is a lack of talent, skills and expertise, in particular in the eyes of global reinsurers operating in Asia.

> **"Recent catastrophe losses in Asia have once again highlighted the need to improve data quality and data management. These are areas where we work closely together with our clients to help them with the overall process and management of data output."**
>
> Richard H. Jones, Chief Executive Officer, Guy Carpenter Singapore.
>
> **"Many Asian insurance markets are characterised by a lack of data and transparency. For reinsurers, this is certainly a challenge but also a potential opportunity as it puts a premium on judgement and proximity to clients."**
>
> Linus Poon, Chief Executive Officer, Canopius Asia.

Chart 7: Market weaknesses



Badaling Great Wall, Beijing - China

New product development is the key opportunity

Almost all participants regard new (re)insurance product development as the key market opportunity in Asia. Most frequently, opportunities in life and agricultural business were mentioned, followed by covers for natural catastrophes and engineering exposures, where demand is fuelled by heavy spending on infrastructure projects in developing Asia. Some smaller players pursuing niche strategies also mentioned retakaful business and opportunities in the captive insurance segment.

Continued high growth ranks second, with most interviewees focusing on regional economic growth prospects and the current insurance penetration gap, especially in developing Asian economies. Further advances in market sophistication rank third. This development is partly driven by improved general risk awareness in the aftermath of the 2008 financial crisis and the devastating catastrophes of 2011. In respect of regulatory developments, many participants mentioned the potential for reinsurance resulting from a shift to risk-based solvency regimes. On the other hand, market participants are more and more concerned about increasing compliance costs; in particular as regulatory authorities have adopted a much stronger focus on enterprise risk management. In light of a prolonged environment of low interest rates and an expected softening of reinsurance markets, these additional costs are regarded as particularly painful.

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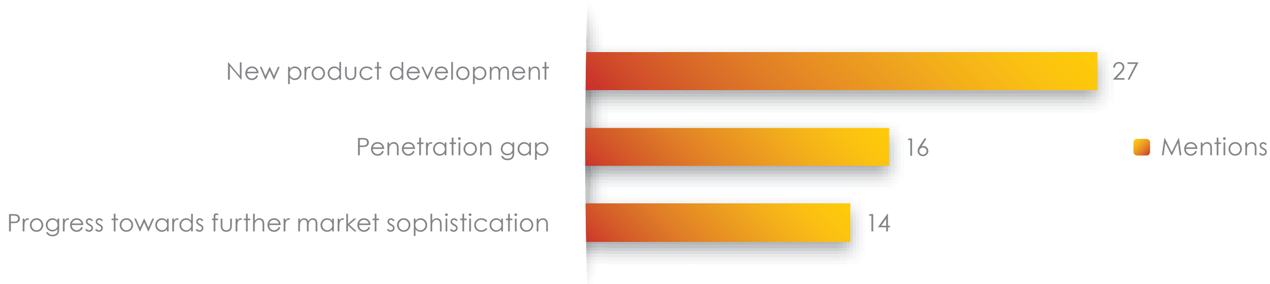
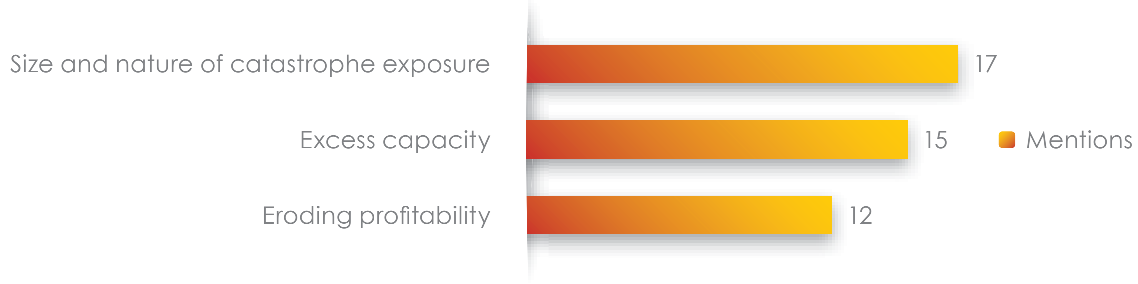
Chart 8: Market opportunities



Catastrophe exposure is the key market threat and challenge

The 2011 natural catastrophe losses in Japan and Thailand still have a significant impact on the survey participants' perception of threats and challenges. These losses have also exposed the growing economic interdependencies in Asia. The floods in Thailand caused substantial business interruption losses to Japanese companies and their (re)insurers. Similar losses in the future are possible as manufacturing activities are increasingly outsourced to countries with lower labour costs. Most of the countries that attracted large amounts of foreign direct investments (FDI) are heavily exposed to natural perils like flood, typhoons or earthquakes. This exposure is further aggravated by the rapidly increasing share of intra-regional trade within Asia.
An excess supply in reinsurance capacity, reflecting both additional Western capacity and the emergence of new Asian ventures, ranks second. Eroding profitability was identified as the third most relevant threat, as markets soften and personnel and regulatory costs keep rising.

Chart 9: Market threats and challenges



"The 2011 natural catastrophes in Asia served as a wake-up call for the insurance industry. Although many contractual improvements were implemented in the aftermath of these tragic events, there is still a long way to go in respect of data collection, exposure transparency and catastrophe model development."

Tetsuro Kanda, Managing Director, Toa Re.

"Whilst Asia's thriving economies and increasing insurance penetration present significant growth opportunities, the current oversupply of capacity and rising operational costs exert considerable pressure on sustainable profitability."

Soeren Soltysiak, Head of Treaty, Catlin Singapore.

Economic integration in Asia: Source of growing resilience and interdependencies

Robust domestic and intra-regional demand has helped to build resilience in many Asian countries against difficult global economic conditions and the corresponding impact on external demand.

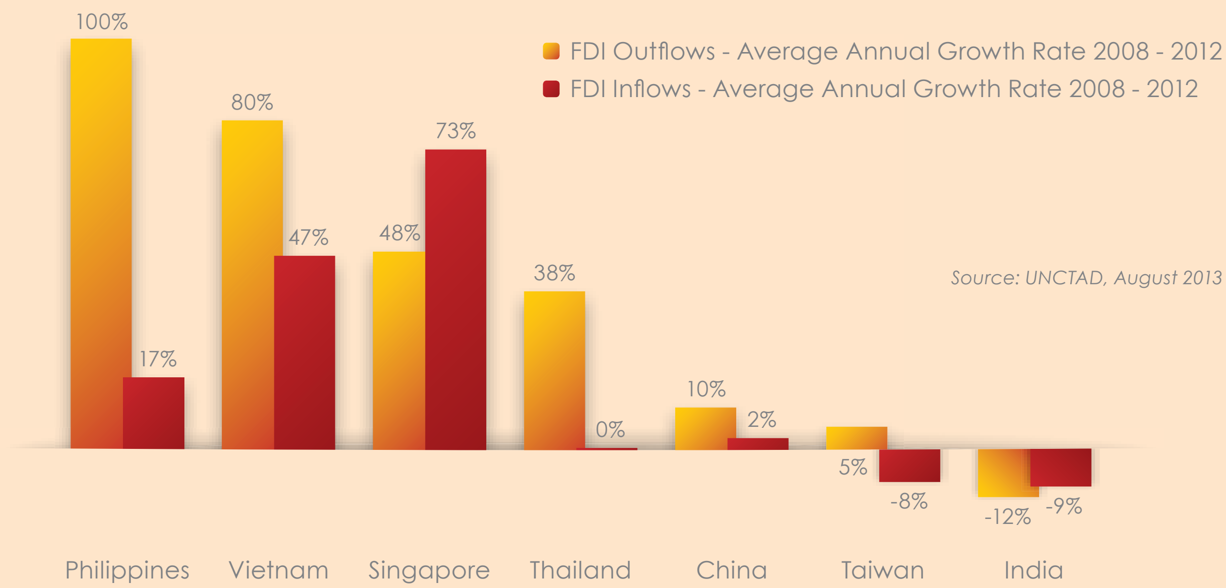
In 2011, world merchandise trade had a value of US$ 17.8 trillion, with an Asian share of 29% (US$ 5.1 trillion). 53% of Asian trade took place within the region. This compares with 71% for the European Union and 48% for the North American Free Trade Agreement (NAFTA) member countries. Whilst this data suggests that intra-regional trade is no more important in Asia than in other regions of the world, there are two distinct features that deserve special attention. Firstly, the relative importance of Asian exports for world trade is growing rapidly, so absolute trade figures for Asian countries are expected to increase dramatically within a short period of time. In 2005, Asia's share of world exports stood at 55%, increasing to 63% in 2010. Most of that increase is attributed to China, which increased its share of world exports from 18% to 28% over that period. Secondly, some parts of the rapid growth in intra-regional trade can be explained by the fragmentation of production processes within the region which lead to an increasing trade volume. Intra-regional dependencies received much international attention in the aftermath of the earthquake in Japan and the floods in Thailand in 2011. On the one hand, as Japanese companies had either moved production to Thailand or found alternative suppliers outside of Japan, this helped to mitigate the impact of losses from the March 2011 earthquake in Japan. On the other hand, when the Thai floods struck later in 2011, many Japanese companies were faced with additional losses from production facilities in Thailand. Insurers providing business interruption cover for Japanese manufacturers had to pay at times more than once under the same contract.

Overall, intra-regional trade in Asia has the potential to compensate for weaker markets in North America and Europe and to reduce the vulnerability to external shocks. Looking at the example of ASEAN member countries, the share of the US in its total trade volume has fallen from 20% in 2000 to 10% in 2011. At the same time, China's share increased from 26% to 37%.

Another indicator of a rapidly intensifying regional integration is the development of foreign direct investment (FDI) in Asia. In 2008, the seven countries shown in chart 10 attracted a total FDI volume of US$ 183 billion. This figure increased to US$ 218 billion in 2012, a growth of 19%. During the same period, the total outflow of FDI from these countries increased by 45%, from US$ 99 billion to US$ 144 billion. During the past five years, the FDI outflow grew stronger than the inflow in five out of these seven countries.

Petronas Twin Towers, Kuala Lumpur - Malaysia

Chart 10: FDI outflows and inflows
(2008 - 2012, average annual growth rates, selected Asian countries)



Source: UNCTAD, August 2013

China is a very good example to illustrate the growing importance of Asian countries as investors. Traditionally, China has always been a top destination for FDI, mainly from European and US companies in the past. Today, more and more Asian countries are investing in China. In 2012, companies from Hong Kong (US$ 71 billion), Japan (US$ 7 billion), Singapore (US$ 7 billion) and Taiwan (US$ 6 billion) topped the list of foreign investors in China. This compares with figures of just US$ 3 billion for the US or US$ 1.5 billion for Germany.

But in recent years China also became a major source of outwards FDI which increased from an average annual figure of about US$ 55 billion in 2008 to US$ 84 billion in 2012. This figure is expected to increase to more than US$ 1 trillion by the year 2020. Nearly 75% of China's outwards FDI are currently directed towards Asian countries with Hong Kong as the top destination. This picture looks very similar, although at a smaller scale, for some other Asian countries.

2. GENERAL REINSURANCE MARKET OUTLOOK

Risk-adjusted prices are adequate, but clouds gather on the horizon

Average reinsurance pricing levels

35% of participants regard current reinsurance prices in Asia as being below the longer-term (five year) average. The same percentage of survey respondents sees current prices at an average level. 31% believe that current prices are above the five-year average. Many participants highlighted improvements in terms and conditions following the 2011 catastrophe losses as positive determinants of current risk adjusted price adequacy, rather than lower commissions or higher premium rates.

Business from advanced markets such as Japan and non-proportional business in general is deemed to be better priced than proportional business and business from emerging markets. Some interviewees even revealed that their advanced market portfolios currently subsidise business from emerging markets in Asia.

> **"We will not contribute to a further erosion of reinsurance prices in Asia. We will rather focus on our specific value proposition based on capital strength, the provision of services and a long-term approach."**
>
> Michael Marx, Managing Director Treaty Division Asia Pacific, Hannover Re.

The pricing outlook for the next 12 months is rather negative. Only 38% of participants expect reinsurance prices to remain stable, whereas 62% anticipate a market softening, albeit moderately. Not a single respondent expects prices to increase over the next 12 months.

Those who expect rates to soften, point to the inflow of additional capacity from London, Bermuda and Asia. Alternative capacity from pension funds and other capital market players is not expected to play a major role any time soon. In any case, it will remain limited to mature markets with sound natural catastrophe model coverage.

Chart 11: Current average reinsurance prices

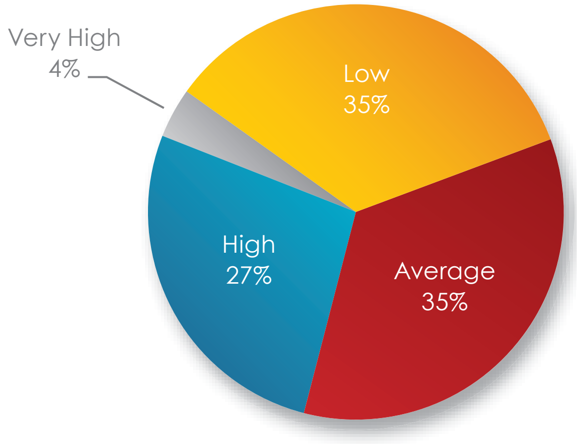
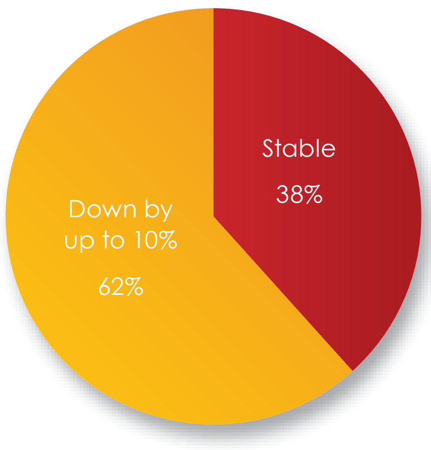


Chart 12: Outlook on reinsurance prices



Reinsurance terms and conditions

Compared to reinsurance pricing, the picture for reinsurance terms and conditions is more positive. Some 46% of interviewees consider reinsurance terms and conditions in Asia as tight, 4% as very tight and 38% as average when compared with other reinsurance markets. Only 12% of interviewees judge current terms and conditions as loose. Nearly all respondents saw the 2011 catastrophe losses in Asia as a watershed event leading to a thorough review of coverage conditions and a significantly enhanced transparency of exposures. Event limits under proportional treaties with natural catastrophe coverage and the introduction of sub-limits for business interruption coverage were mentioned as the most significant improvements.

Chart 13: Current reinsurance terms and conditions

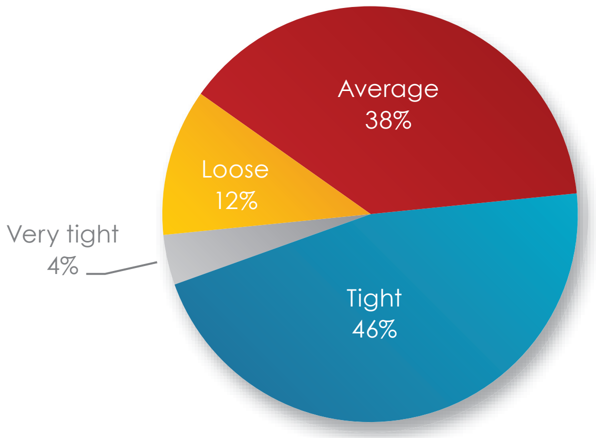
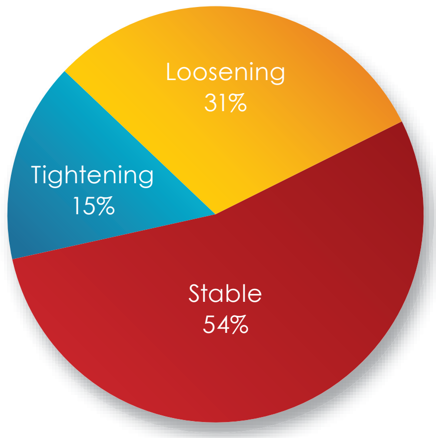


Chart 14: Outlook on reinsurance terms and conditions



Contrary to expectations on reinsurance prices, most survey participants (54%) expect reinsurance terms and conditions to remain as tight as they are today. 15% expect a further tightening and 31% a loosening. It seems that reinsurers are determined to defend the achievements of the 2012 and 2013 renewals. In addition, all market participants uniformly appreciate the improved exposure transparency, which also makes the placement process much smoother for cedents.

> **"The improved exposure transparency achieved in the aftermath of the 2011 natural disasters in Asia led to greater clarity and hence contributed to a more stable market. This is in the interest of all market participants."**
>
> Clarence Yeung, COO & CUO, ACR Capital Holdings.

Overall reinsurance profitability

Overall reinsurance profitability in Asia is considered as average by 46% of interviewees. 23% consider profitability as high when compared to the average of the past five years. Those seeing overall reinsurance profitability as low (31%) often refer to high regulatory and personnel costs.

> **"We are concerned about regulatory moves aimed at tightening local capitalisation requirements for reinsurers. Such increases in the cost of doing business could prompt some reinsurers to re-assess their local presence."**
>
> Robert Wiest, Head of Strategy & Operations Asia, Swiss Re.

Similar to expectations on reinsurance pricing, 50% of respondents expect a decline in overall reinsurance profitability over the next 12 months; only 4% expect an improvement with the remaining 46% projecting stable profits. Once more, the inflow of new capacity, on top of ample current levels of capacity, is the main reason for this rather negative outlook on profitability.

> **"Investment returns will remain low in the foreseeable future while regulatory and general administrative costs are generally on the rise. Combined with pressure on underwriting terms, the overall outlook for most reinsurers in Asia suggests caution."**
>
> Patrick Aeschbacher, Head of Reinsurance Asia Pacific & Principal Officer, Endurance.

Chart 15: Current overall reinsurance profitability

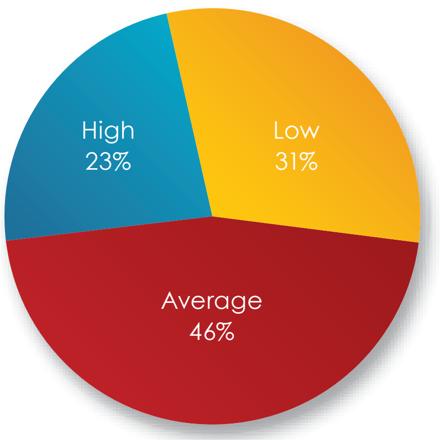
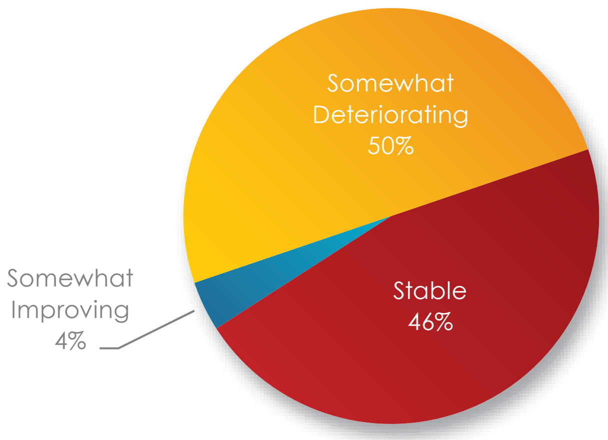


Chart 16: Outlook on reinsurance profitability



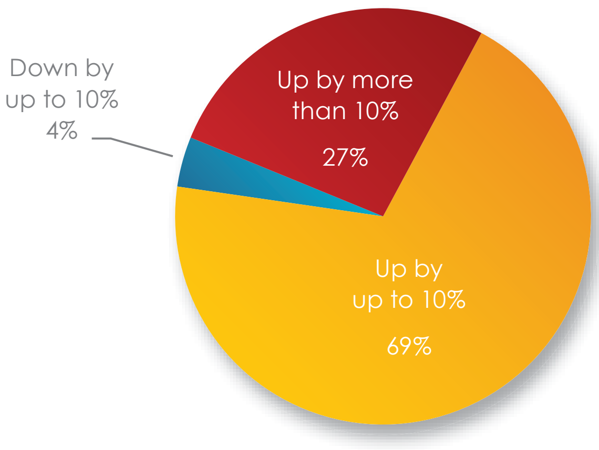
Overall reinsurance capacity growth

An overwhelming majority (96%) of survey participants expect that total reinsurance capacity deployed to Asia will continue to increase over the next 12 months, with more than a quarter of those forecasting an increase by more than 10%. This assessment reflects Asia's unabated attractiveness as a growing and increasingly mature and sophisticated place for reinsurance business. Singapore and Hong Kong are regarded as well-regulated and efficient reinsurance hubs. Many respondents also mentioned that the bulk of Asian business can meanwhile be placed in the region without the need to resort to markets in Europe or other parts of the world. Japan is a noticeable exception as huge exposures to natural perils still require global capacity.

> **"Asia's reinsurance markets remain highly competitive and many new players solely compete on price. This, together with the inflow of alternative capital, has the potential to destabilise the market."**
>
> Michael Marx, Managing Director Treaty Division Asia Pacific, Hannover Re.

Even though excess capacity is a global phenomenon not limited to Asia, the specific expectations of survey participants also reflect the 'penetration gap' in particular in natural catastrophe insurance, where insured losses typically still only cover a small share of overall economic losses, even in mature markets like Japan. The expected frequency of catastrophic events is high in most Asian countries. Therefore, substantial additional capacity will be needed in the mid-term to meet rising levels of exposure and demand.

Chart 17: Outlook on overall capacity development



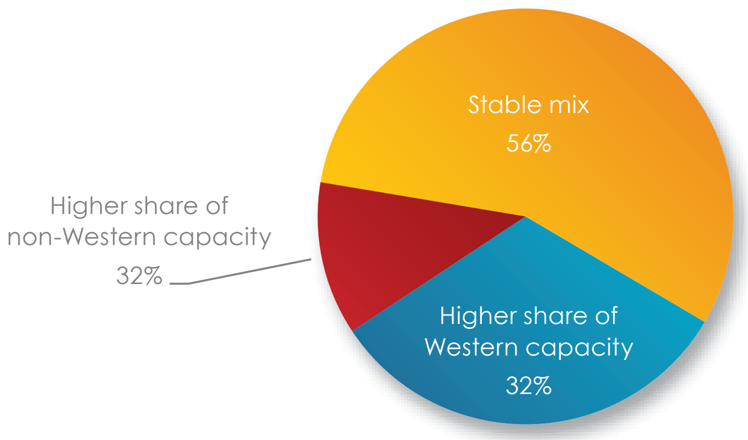
> **"Insurance penetration rates in Asia are materially lower than in Europe or the US and many Asian economies are, therefore, faced with dramatic underinsurance, especially in relation to their natural catastrophe exposures. The consequences of this underinsurance on both reinsurance program structures as well as the end consumer's wellbeing following a catastrophic loss can be significant."**
>
> Thomas Lillelund, Managing Director, Asia Pacific, Aspen Re.

Mix between Asian and Western capacity

On average, survey participants estimate that Western reinsurers supply about 75% of reinsurance capacity in Asia, with domestic carriers accounting for the remainder. Estimates vary from 60% - 90% for Western capacity and 10% - 40% for Asian capacity. Those who see a very high share (80% or more) of Western capacity often mention that many Asian reinsurers rely heavily on retrocession capacity, so that the ultimate suppliers of capacity are large global reinsurers or specialised niche players from Bermuda and London.

Most respondents (56%) believe that the current split between Western (non-Asian) and Asian capacity will remain stable. Despite the recent substantial inflow of new Asian capital into reinsurance, nearly one third of survey participants expect that Western capacity will grow faster than Asian capacity over the next 12 months. This projected development is driven by a growing complexity of products and additional pressure coming from ratings agencies and regulators. High quality service and advice are increasingly needed. In these areas, globally experienced Western players are deemed to command a competitive advantage over their Asian counterparts.

Chart 18: Outlook on split 'Western' versus 'Asian' capacity



“In the wake of the Thai floods in 2011, reinsurance buyers in Asia have adopted a more sophisticated approach to their buying decisions, placing more emphasis on the carriers’ financial security and long-term commitment to the region.”

Boon Chuan Tay, Head of Treaty Asia-Pacific, Kiln Singapore.

Average retention levels

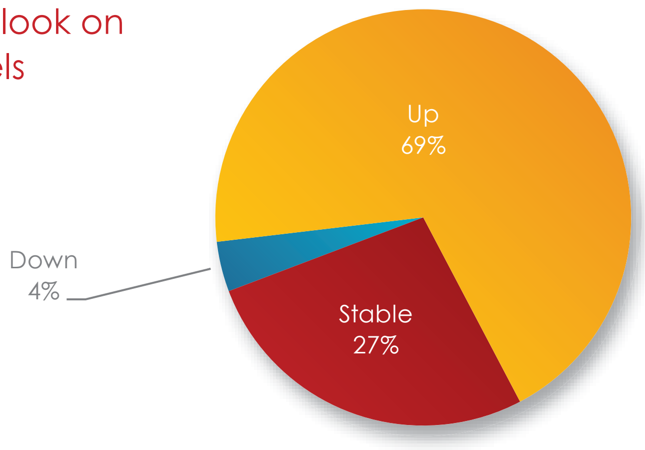
Current retention levels of Asian insurers vary widely across the region. In mature and concentrated markets like Japan, primary insurers typically retain more than 90% of their premiums, whereas companies in developing and fragmented Asian markets often cede 30% or more to their reinsurers. Companies in advanced markets with predominantly proportional reinsurance structures are somewhere in between, with average retention levels of 75% - 85%.

> **“Retention levels in the region have been increasing slowly but steadily. This is largely due to a changing regulatory landscape and an increasing share of excess of loss business. Nevertheless, the general retention level in the region is still low compared to other developed insurance markets.”**
>
> K. C. Chew, Chief Executive Officer, Milli Re Singapore Branch.

More than two thirds of respondents expect retention levels to increase over the next 12 months, pointing to mounting pressure from shareholders on management to make more money from risk retention in an environment of record low investment returns. Market consolidation will further contribute to the general trend of rising retentions.

> **“We see a trend towards rising average retention levels. As primary market growth slows there is less need for capital relief and cedents can afford to retain more risk. At the same time, the professionalism of local insurers improves and with it their ability to increase retentions.”**
>
> Robert Wiest, Head of Strategy & Operations Asia, Swiss Re.

Chart 19: Outlook on retention levels



Aerial view of Singapore, Republic of Singapore

Reinsurance exposure growth

81% of executives polled expect reinsurance exposure, or sums insured, to grow at a faster pace than the Asian countries' GDP over the next 12 months. Only 11% expect GDP to outpace exposure growth, and 8% expect both to move in tandem. This outlook is based on low insurance penetration rates and the growing wealth in most Asian countries. Steep growth is not only projected in non-life (re)insurance but also in life (re)insurance due to less comprehensive public social security systems in many Asian countries when compared to Europe or the US.

Reinsurance premium growth

Reinsurance premium growth compares less favorably with GDP than reinsurance exposure growth, with only 62% of the respondents believing that reinsurance premiums will grow at a faster rate than the Asian economies. 27% of participants even expect reinsurance premiums to fall short of GDP growth, pointing to overcapacity and the corresponding expected price erosion in combination with increased retentions, which will shrink the relative size of the reinsurance pie.

Chart 20: Outlook on reinsurance exposure growth

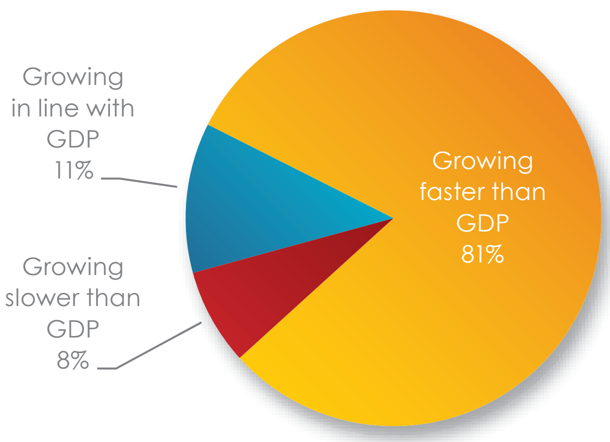
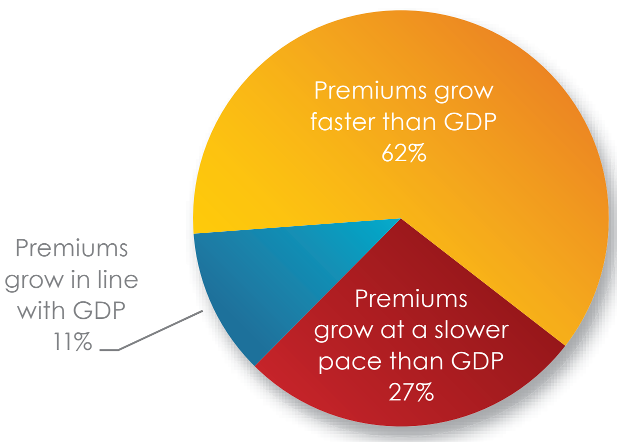


Chart 21: Outlook on reinsurance premium growth

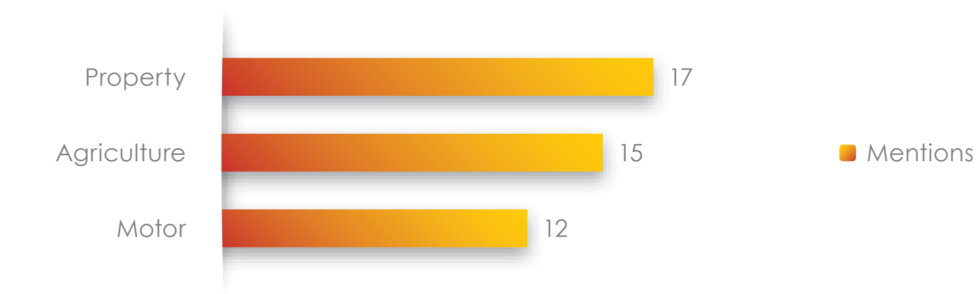


Shanghai Skyline, Shanghai - China

3. LINES OF BUSINESS-SPECIFIC PROSPECTS

Over the next 12 months, property - in particular property natural catastrophe business - is expected to be the fastest-growing line of reinsurance business. Agricultural business ranks second with many respondents pointing to significant growth opportunities in China. There is some doubt as to what extent these opportunities will be sustainable as governments still play a major role in this line of business. Many respondents are not sure whether agricultural business in its current format would make economic sense without government support. Motor was mentioned as the third fastest growing line, as insurers in many Asian countries increase cessions in order to meet solvency requirements.

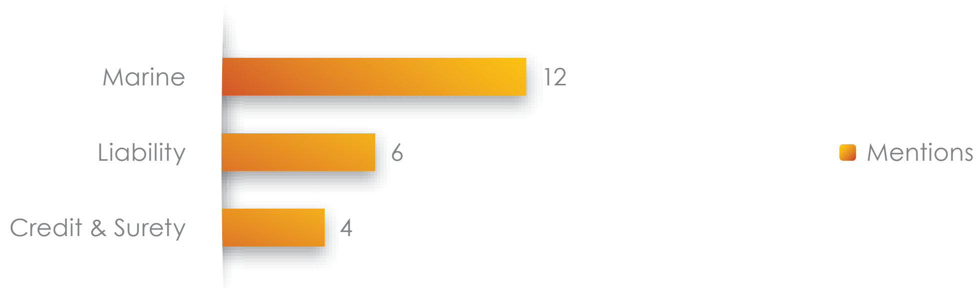
Chart 22: The fastest-growing lines of business



When asked about the slowest-growing lines, marine, liability and credit & surety business were mentioned most frequently. Anaemic or even recessionary economic conditions in the US and Europe led to significantly reduced imports from Asia until late 2012. Against this backdrop, growth from marine business in Asia was rather sluggish. This situation might change again as Asian exports to the US and Europe started to pick up again in 2013.

Notwithstanding the very low liability insurance penetration in most Asian countries, it seems that demand is not picking up despite intense product promotion efforts. Many experts attribute this development to the traditional values of Asian societies, including conflict resolution procedures. In general, the level of litigiousness is far lower than, for example, in the US or Australia. Credit & surety business was mentioned as the third slowest-growing line of business. Trade credit insurance in particular is heavily affected by overall global economic conditions that remain uninspiring.

Chart 23: The slowest-growing lines of business

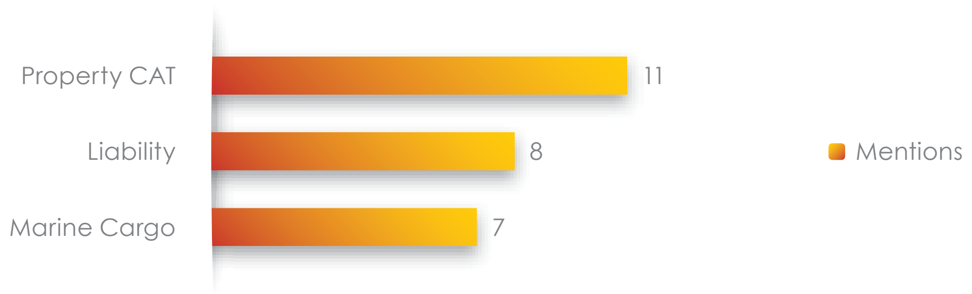


Property catastrophe, liability and marine cargo business were identified as the most profitable lines of business. In general, non-proportional property catastrophe business is considered more profitable than proportional catastrophe business. However, as a consequence of the revision of terms and conditions following the 2011 catastrophe losses, proportional catastrophe business is viewed more favourably again.

> **"Even though we witness a certain shift towards non-proportional reinsurance, demand for proportional cover is set to remain strong in light of local insurers' capital constraints and the general volatility of the economic environment."**
>
> Boon Chuan Tay, Head of Treaty Asia-Pacific, Kiln Singapore.

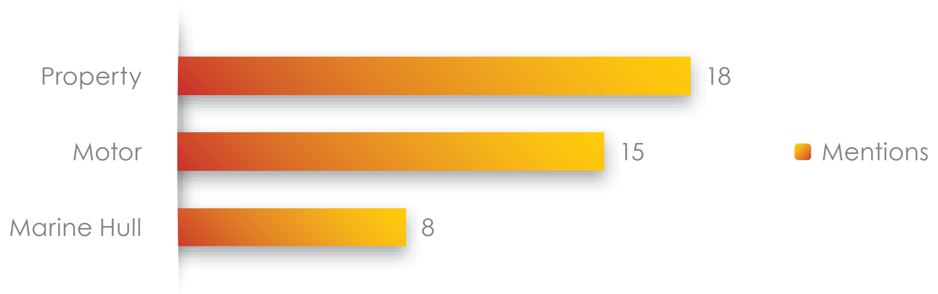
Liability business, albeit small, ranks as the second most profitable line, closely followed by marine cargo business. Again, most participants prefer to write these exposures on a non-proportional basis due to a higher expected price adequacy and a better alignment of interests with their cedents.

Chart 24: The most profitable lines of business



Property business (without natural catastrophe coverage) was mentioned by nearly two-thirds of all respondents as the least profitable line of business. Industrial and, in general, proportional property reinsurance is regarded as particularly unattractive. Motor, like in many other non-Asian countries, is seen as another problematic line of business from a profitability point of view. Most insurance companies buy motor reinsurance mainly for the purpose of solvency relief and on a proportional basis, where margins are considered very thin. By a wide margin, marine hull came in as the third least profitable line of business in Asia.

Chart 25: The least profitable lines of business



4. MOST RELEVANT TRENDS AND CORPORATE RESPONSES

Interviewees were asked to identify the single most relevant trend affecting the Asian reinsurance market place as well as to elaborate on how they are adapting or responding to it.

Chart 26: Most relevant Asian reinsurance trends

Most frequently, survey participants mentioned regulatory developments as the most relevant trend. The introduction of risk-based solvency regimes, such as Solvency II in Europe and its equivalent in some Asian countries, requires expert knowledge and international experience, covering insurance, market, credit and operational risks, i.e. both sides of the balance sheet. Large international brokers and reinsurers mainly focus on the business opportunities associated with these developments and have started to strengthen their respective teams in Asia. The objective is to enhance their service propositions to differentiate themselves from pure capacity providers. Many respondents welcome these developments, as reinsurance buying behaviour will become less influenced by price. Compared to the past, insurance companies are now expected to put more emphasis on balance sheet protection rather than the protection of earnings.

> **"Whilst there are evolving regulatory developments in various countries in Asia, insurers face significant challenges with respect to determining appropriate capital adequacy when considering capital protection in light of Risk Based Capital introduction / evolution. Addressing these issues quickly will be of crucial importance for the further development of the marketplace."**
>
> Stuart Beatty, Managing Director, JLT Re APAC.

Regulatory developments in Asia

Insurers will face significant challenges in the near and mid-term. The global economic outlook remains uncertain while consumer expectations are increasing. In response to many of these pressures and to country-specific issues, supervisors have recently focused on improving their respective regulatory frameworks. In October 2011, the International Association of Insurance Supervisors (IAIS) formally adopted new standards. This served as a catalyst for many supervisors to initiate reforms, especially in Asia. Here, prudential issues and changes to International Financial Reporting Standards (IFRS) continue to be the main areas of focus for most insurance and reinsurance companies. Although the pace of change differs across countries in the region, the key focus area for most Asian supervisors is the implementation of the IAIS Insurance Core Principles (ICPs). Another current regulatory focus in Asia is the introduction of risk-based capital (RBC) solvency regimes. Traditionally, Japan was at the forefront of these developments, having introduced its own standard in 1996. Taiwan, Singapore, the Philippines and Indonesia followed in or before 2006, but the outbreak of the financial crisis in 2008 seems to have delayed further developments until recently. Malaysia (2010), South Korea (2011) and Thailand (2011) have all implemented RBC solvency regimes only in the aftermath of the financial crisis. China has recently announced its intention to implement a new structure with RBC elements, consistent with international standards but adjusted to specific needs in China. The implementation of this new framework is expected to take place in 2016 or 2017.

Similar RBC-related discussions are currently taking place in Hong Kong and India. Vietnam has not yet officially announced any specific plans, but as the regulator recently became a member of the IAIS, future reforms can be expected. Typical key elements of most regulatory regime changes in Asia will be the introduction of Enterprise Risk Management (ERM) frameworks, the definition of minimum solvency capital requirements and economic, i.e. market-consistent valuation standards for assets and liabilities. With respect to ERM, although many insurers have the desire to develop and improve their own operational risk management standards for business purposes, many insurance regulators are also expected to place a specific risk capital charge on operational risk.

Table 1: Overview: Selected regulatory elements

Country	Minimum capital requirement insurance / reinsurance	Solvency approach	FDI restrictions
China	US$ 32mn / US$ 32mn	Premiums/claims formula	Yes
Hong Kong	US$ 1.3mn / US$ 2.6mn	Asset/liability ratio	No
India	US$ 17mn/US$ 34mn	Premiums/claims formula	Yes
Indonesia	US$ 7mn / US$ 15mn	RBC	Yes
Japan	US$ 10mn / US$ 10mn	RBC	No
Malaysia	US$ 31mn / US$31mn	RBC	Yes
Philippines	US$ 12mn / US$ 23mn	RBC	No
Singapore	US$ 8mn / US$ 20mn	RBC	No
South Korea	Solvency margin requirement	RBC	No
Taiwan	US$ 67mn / US$ 67mn	RBC	No
Thailand	US$ 10mn / US$ 10mn	RBC	Yes
Vietnam	US$ 28mn / US$ 52mn	Premiums/reserves formula	No

Source: Compiled by Dr. Schanz, Alms & Company

Another important trend is the concern about 'Black Swans' in natural catastrophe (re)insurance, i.e. 'unknown unknowns'. In particular the magnitude of losses from the 2011 floods in Thailand but also the losses associated with the tsunami following the severe Tohoku earthquake in Japan in the same year caught many market participants by surprise. Some companies even had to realise that they had not bought sufficient reinsurance or retrocession cover and, as a result, experienced financial difficulties. These concerns are further compounded by the increasing spread of reinsurance programs covering regional rather than single country exposures. Thorough accumulation control and a stronger focus on consequential losses become imperatives.

> **"The Asian insurance market is still in its infancy. The low penetration of P&C insurance has been sadly demonstrated by the low level of insured losses compared to high economic losses caused by natural catastrophes."**
>
> Franz Hahn, CEO, Peak Re.

Another challenge for catastrophe exposure accumulation control is the concentration of risks. Production facilities in Asia are often concentrated in so-called industrial parks. The concentration of values in relatively small areas is typically very high in these parks, which leads to enormous loss potentials given the high exposure to often multiple natural perils in most Asian countries.

A similar development is caused by a rapidly-changing population density caused by absolute growth in population and a trend towards urbanisation. Compared with other regions in the world, urbanisation levels in Asia are still relatively low, but the situation is changing rapidly.

Urbanisation and value concentration

Comparing Asia's current share of urban population with other parts of the world, urbanisation levels are still low by relative numbers. In 2010, only 43% of Asia's population lived in cities compared to a global average of 52%. But these levels are expected to change rapidly: By 2050, about 63% of all Asians are projected to live in urban areas. This effectively means that another one billion people will be added to its cities. Bangladesh, China, India, Indonesia and Pakistan are forecast to experience the steepest increases.

Urbanisation in Asia will not only happen at an unprecedented speed but display some unique characteristics: Firstly, many Asian cities already have a much higher population density than most cities in other parts of the world. While in Africa the average density is about 500 people per square kilometre, this figure is 720 for Asia. Furthermore, in 2010 Asia was already home to 12 out of the world's 23 megacities (cities with a population of more than 10 million people). This share is expected to increase further: By 2025 the UN predicts that there will be 37 megacities globally, of which 21 will be located in Asia.

This will also have massive implications for the (re)insurance industry, most notably in the areas of value concentration, catastrophe exposures and accumulation control. Most of the Asian megacities not only attract large numbers of people but are also major clusters of economic activity in their respective countries. Especially in Japan, but also in the Philippines, China, and India, national GDP is highly dependent on a few large metropolitan areas.

Table 2: Selected Asian Megacities: GDP at Purchasing Power Parities (PPP)

City	2012 est. GDP (PPP) US$ billion	Estimated share of country GDP
Osaka / Kobe	1.520	35%
Tokyo	655	15%
Shanghai	517	5%
Beijing	427	4%
Guangzhou	320	3%
Shenzhen	302	3%
Mumbai	227	5%
Delhi	211	5%
Manila	139	33%
Kolkata	46	1%

Source: Brookings Institution, own calculations

Many of the megacities in Asia shown in the above table are exposed to natural catastrophes, in particular earthquakes, tropical cyclones, inland and coastal flooding. Whilst the earthquake exposure in Japan is widely known and relatively well researched, the situation is very different for floods all over Asia. A study published in 2012 showed that in the year 2000, nearly 180 million people living in Asian cities were exposed to inland flooding which meant a share of about 15% of total urban population. In addition, another 230 million people faced a high risk of coastal flooding, a further 20% share of all people living in Asian cities. 20 of the 40 most vulnerable cities to coastal flooding in Asia are located in China.

The Thai Chamber of Commerce estimated that the country's GDP in 2011 was 1.3 to 1.5 percentage points lower because of the impact of the Thai floods in September / October that year. This clearly illustrates the devastating effects for the economy that large flood events can have. Thus, any major natural catastrophe affecting an Asian megacity will most likely not only cause great human tragedy but in addition lead to a very substantial slowdown of economic activity which will take years to recover from. In developing Asia this will take even longer, as insurance penetration in general is low and natural catastrophe exposures in particular are largely underinsured. Hence the private sector's contribution to recovery will only be small when compared with mature economies if insurance penetration rates remain as low as today.

> **"Those insurers who continue to drive towards a deeper understanding of their catastrophe exposures will emerge stronger when reinsurers become more selective."**
>
> Maurice J. Williams, Managing Director, Willis Re.

Gate Bridge, Tokyo - Japan

5. OVERALL ASIA REINSURANCE BUSINESS SENTIMENT

Interviewees were asked to describe their overall business sentiment on a scale ranging from 5 (very bullish) to -5 (very bearish), with 0 indicating a neutral attitude.

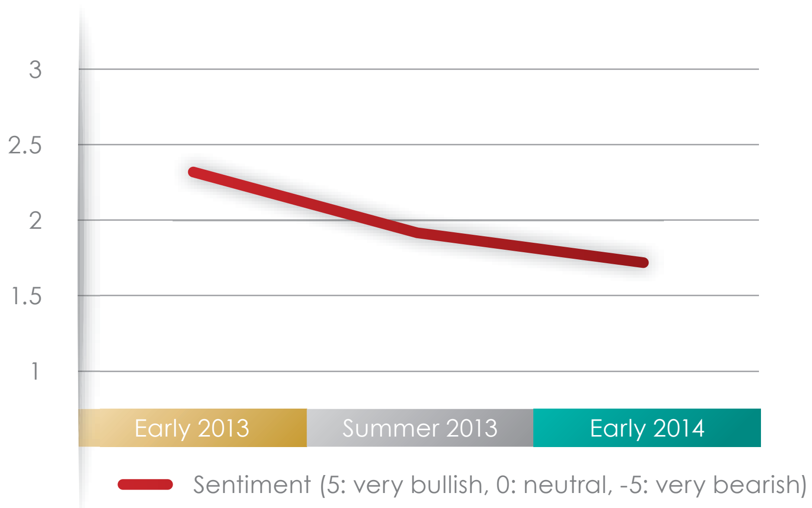
The average sentiment measure for autumn 2013 came in at 1.9. Whilst this assessment is still overall strongly positive, there are growing concerns about the future prospects of the market. Most respondents say that they were more positive about a year ago (average sentiment of 2.3), and that they expect further deterioration going forward (with an expected sentiment of 1.7 in a year from now). The main reasons for this negative trend are concerns about the inflow of new capacity and the expected softening of the market and resulting pressure on profitability. At the same time, reinsurers have to contend with increasing regulatory and personnel costs.

> **“Surplus global reinsurance capacity is increasingly deploying in growth regions like Asia and may temporarily alleviate pressure to achieve adequate original pricing on catastrophe exposures - unfortunately never a sustainable backdrop for reinsurers, and even less so for insurers.”**
>
> Maurice J. Williams, Managing Director, Willis Re.

Despite this trend it should be remembered that the current overall business sentiment is clearly positive, with no change to the negative in sight any time soon. Increasing market maturity and sophistication, a generally attractive business and living environment and continued strong growth prospects are the very solid foundations of this positive assessment.

> **“Reinsurance markets in Asia are very heterogeneous. This offers a great potential for diversification as well as the possibility to transfer experience and knowledge from mature markets like Japan to developing markets.”**
>
> Yoshinori Hashimura, CEO, Sompo Japan Nipponkoa Reinsurance Co. Ltd., Labuan Branch.

Chart 27: Average Asia reinsurance business sentiment



Japanese temple, Asakusa, Tokyo - Japan

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