

Biennial Convention 2007

Adventures in Risk

23-26 September 2007 • Christchurch, New Zealand



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INSURANCE IN ASIA

Angus Milgate

Aon Re Asia Pte Ltd

Singapore



CONTENT

- Issues and trends for doing business in Asia
- Premium Income vs Profit
- Adapting to different business practices
- Who will the winners be ?

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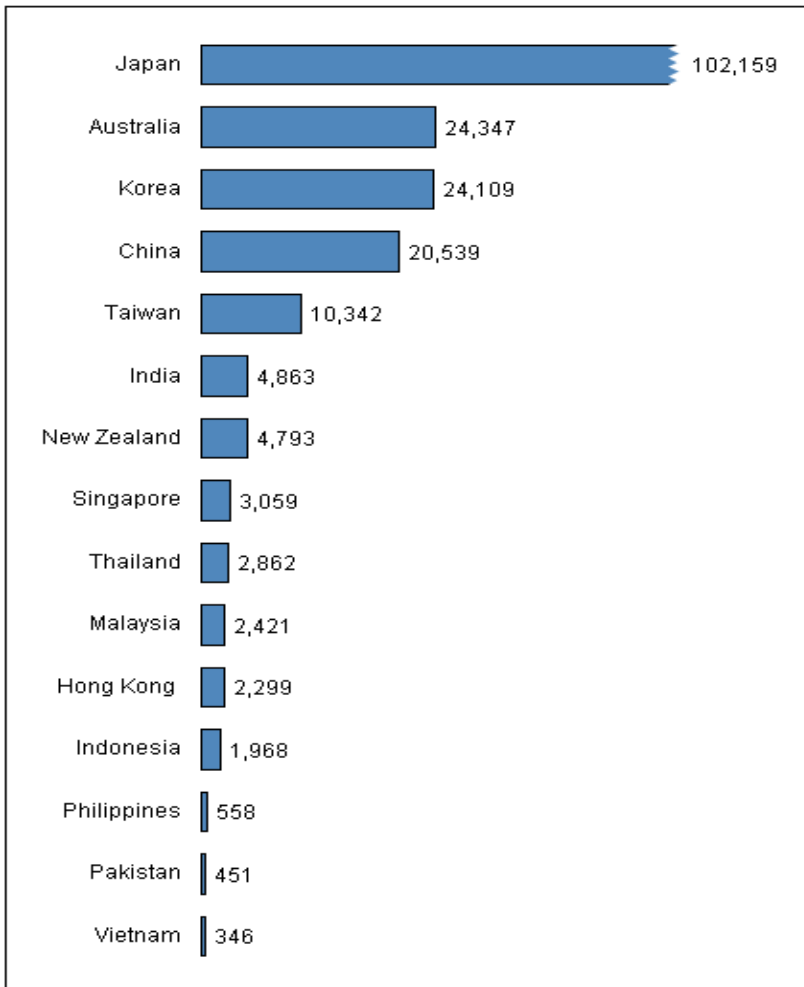
Issues and Trends for Doing Business in Asia

The Insurance Market

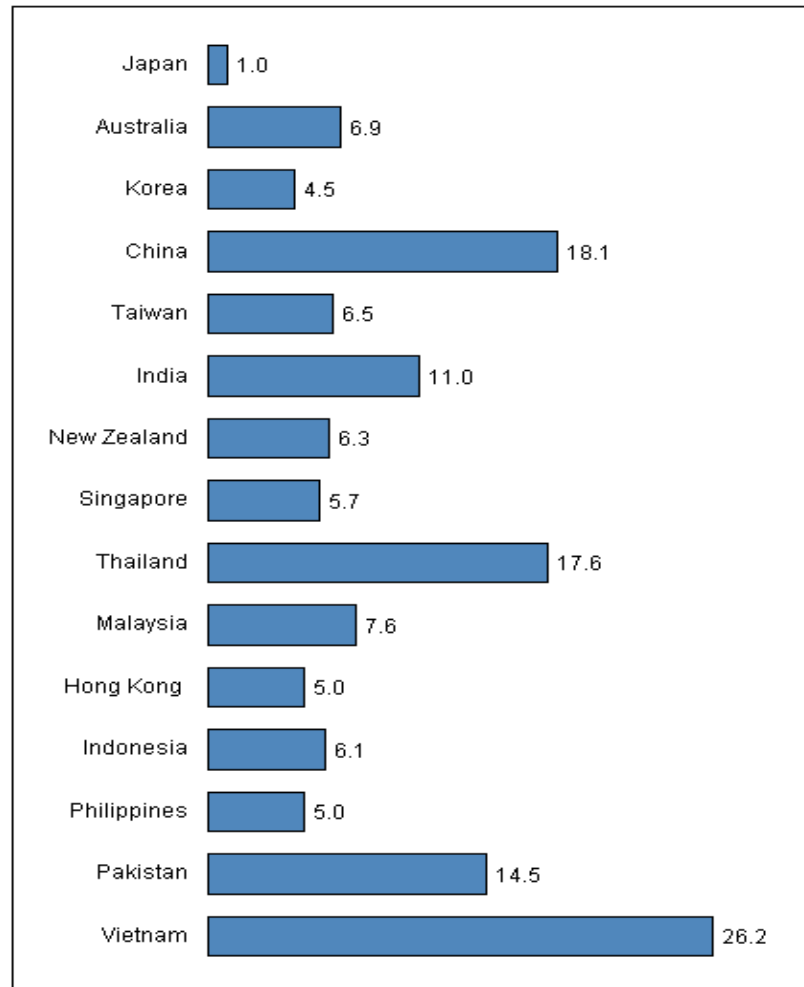


Insurance in 2005 - Non life premium

USD Non-life Premium (millions)



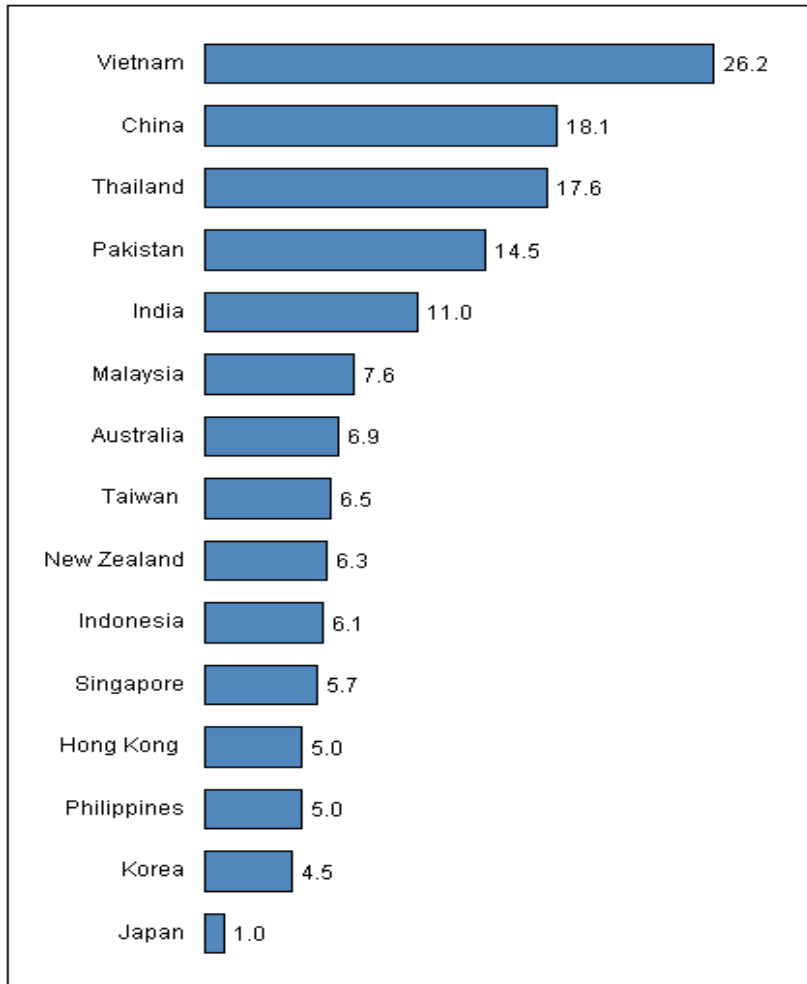
5 year compound growth (% constant prices)



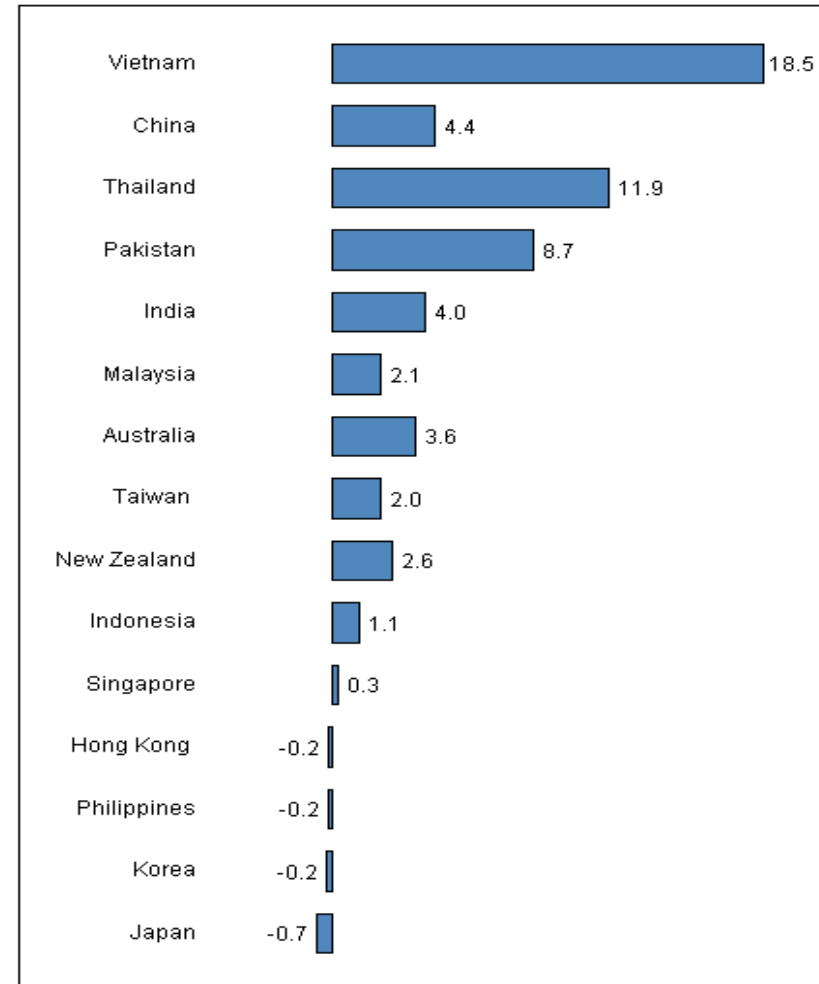


Insurance in 2005 - Non life premium

Non-life premium 5 year compound growth
(%, constant growth)



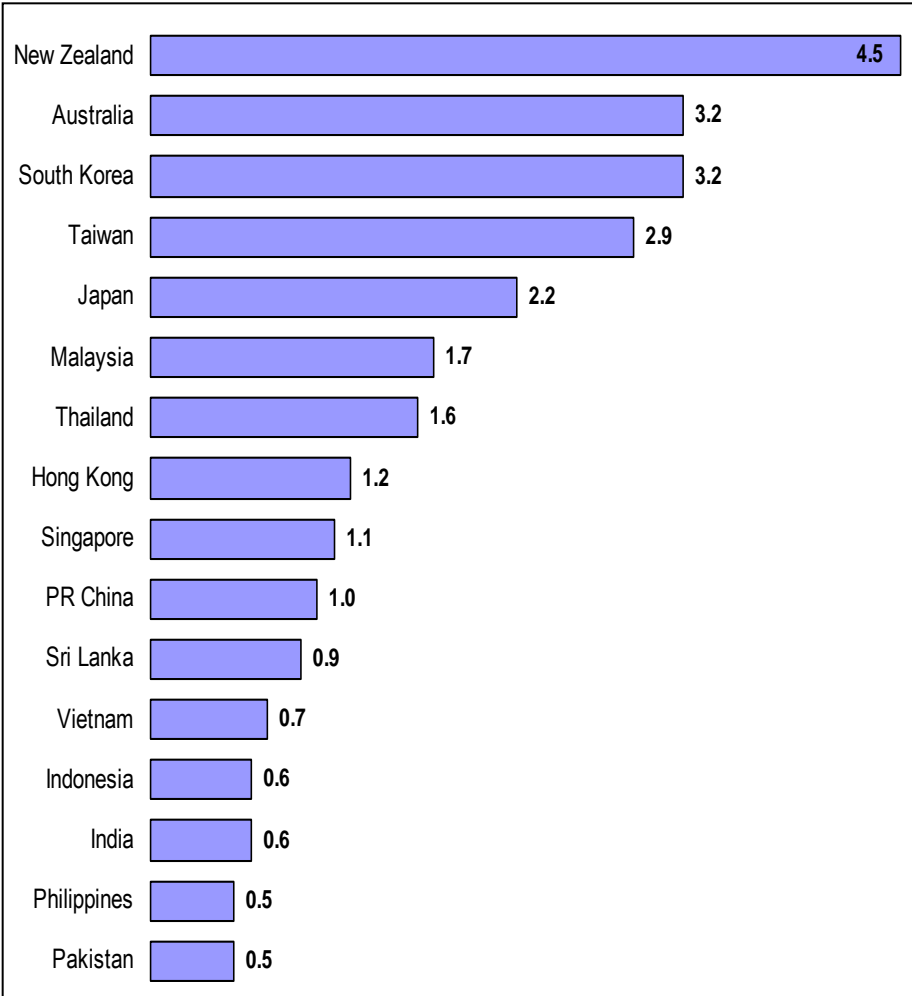
Non-life premium growth vs GDP growth
(% based on 5 year compound growth)



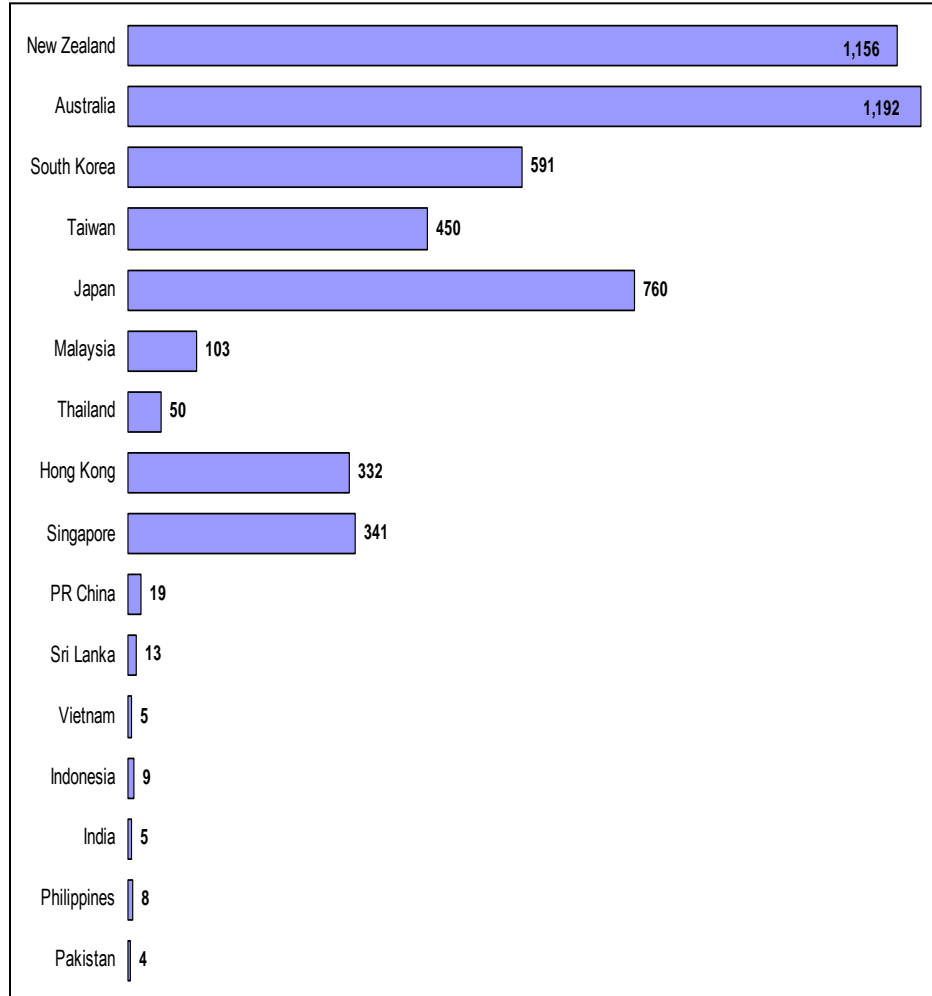


Insurance in 2006 - Non life premium

Penetration (Premiums as % of GDP)

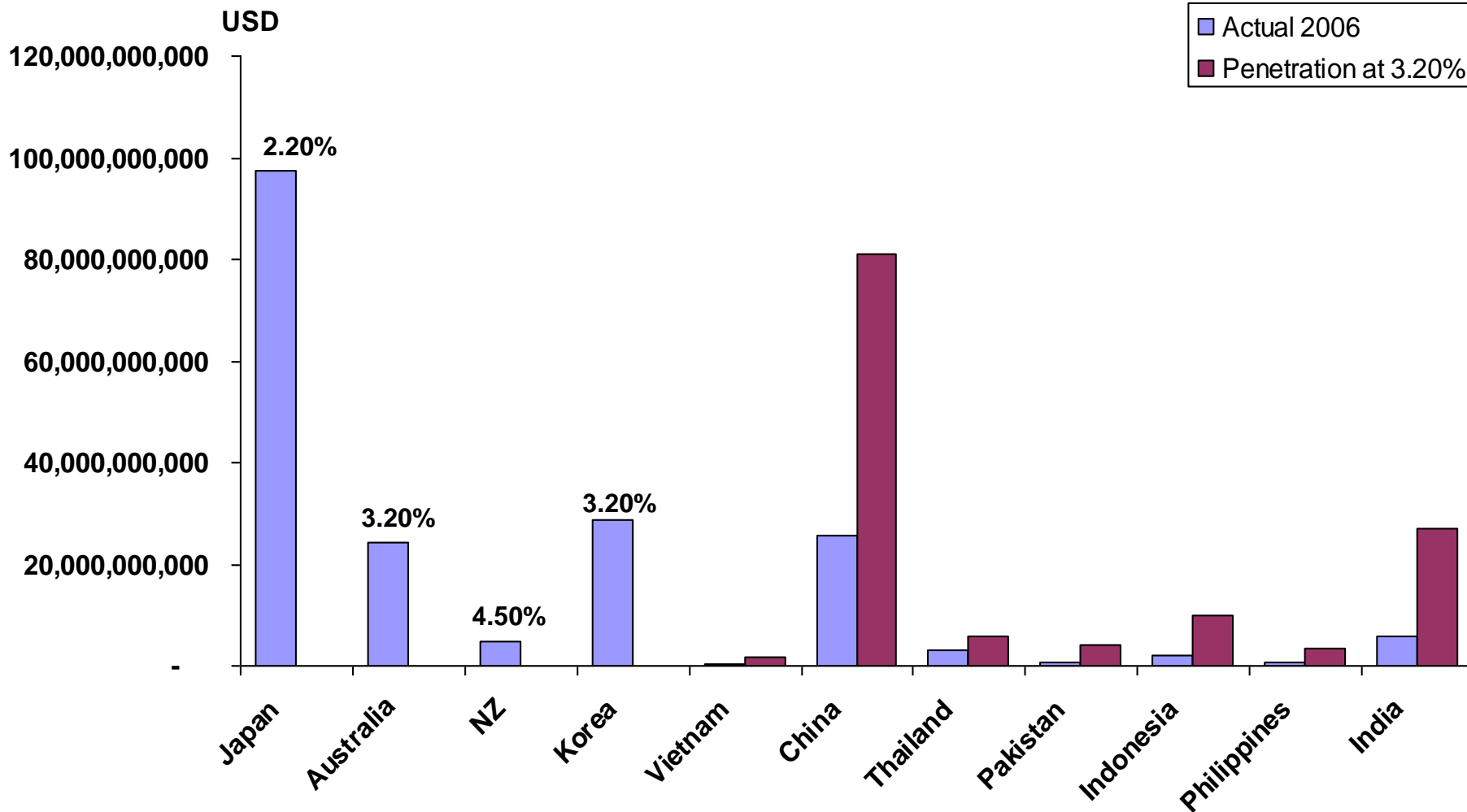


Density (USD Premiums per capita)



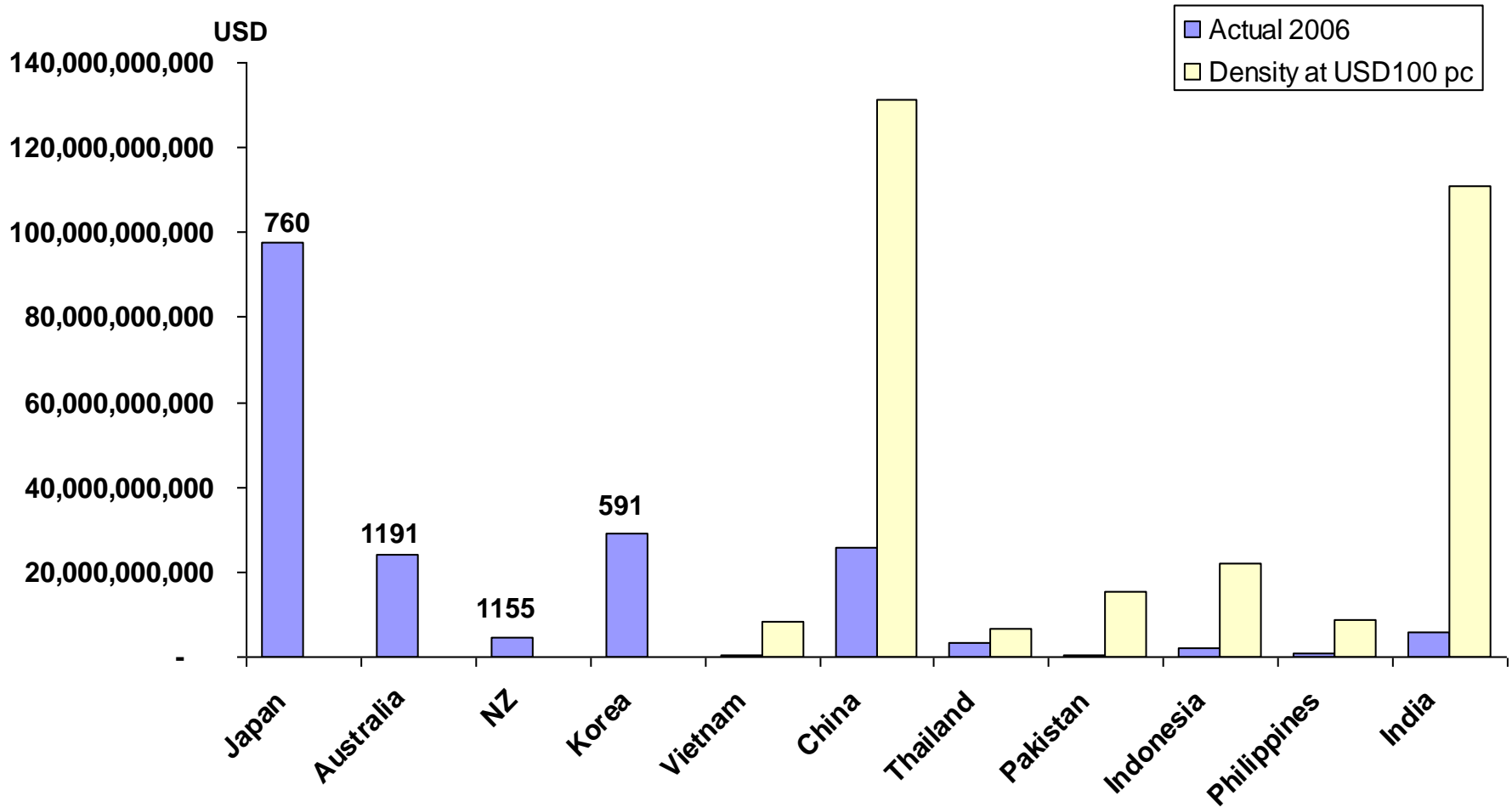


As If Forecast Increased Penetration / Density



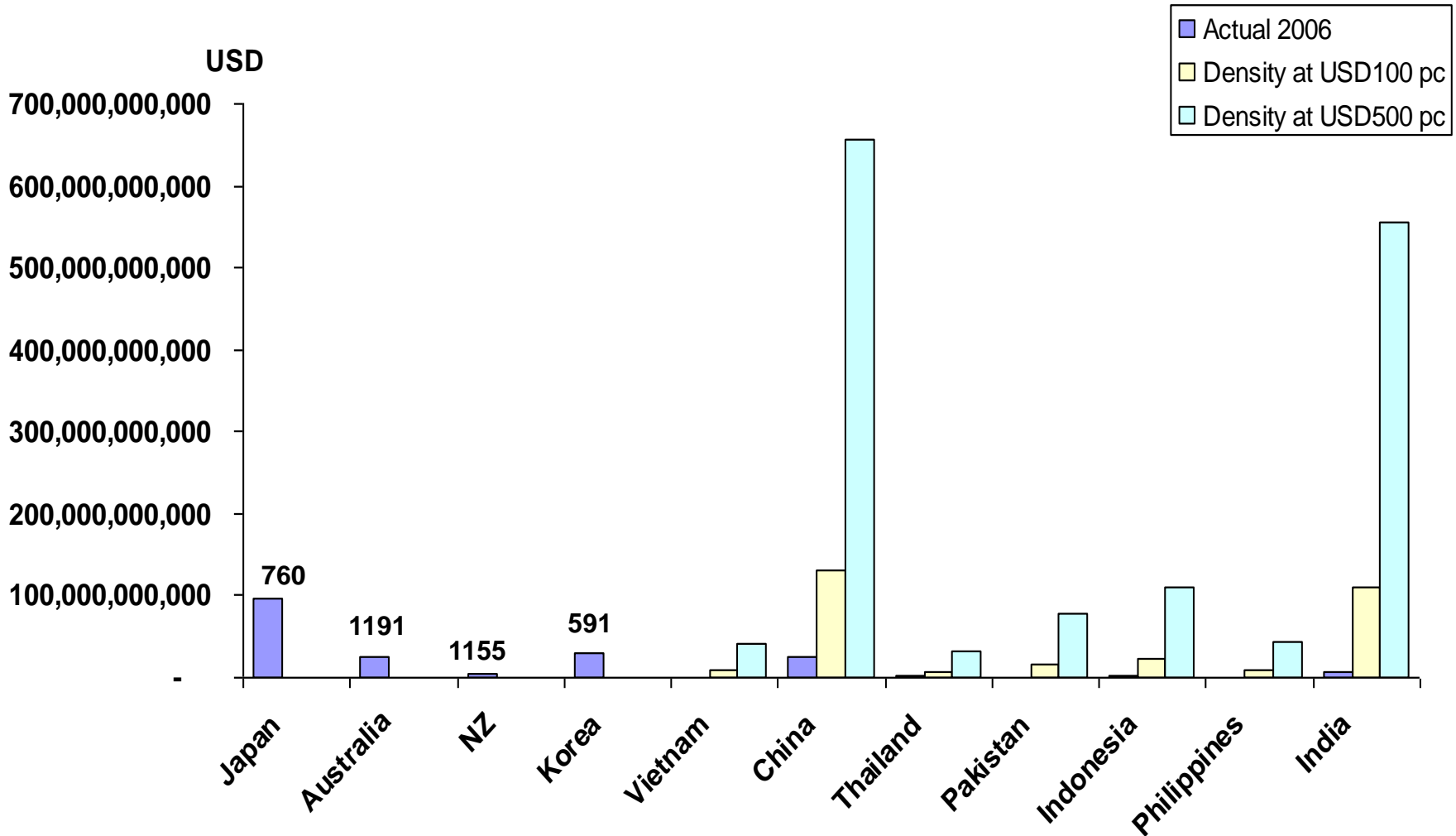


As If Forecast Increased Penetration / Density



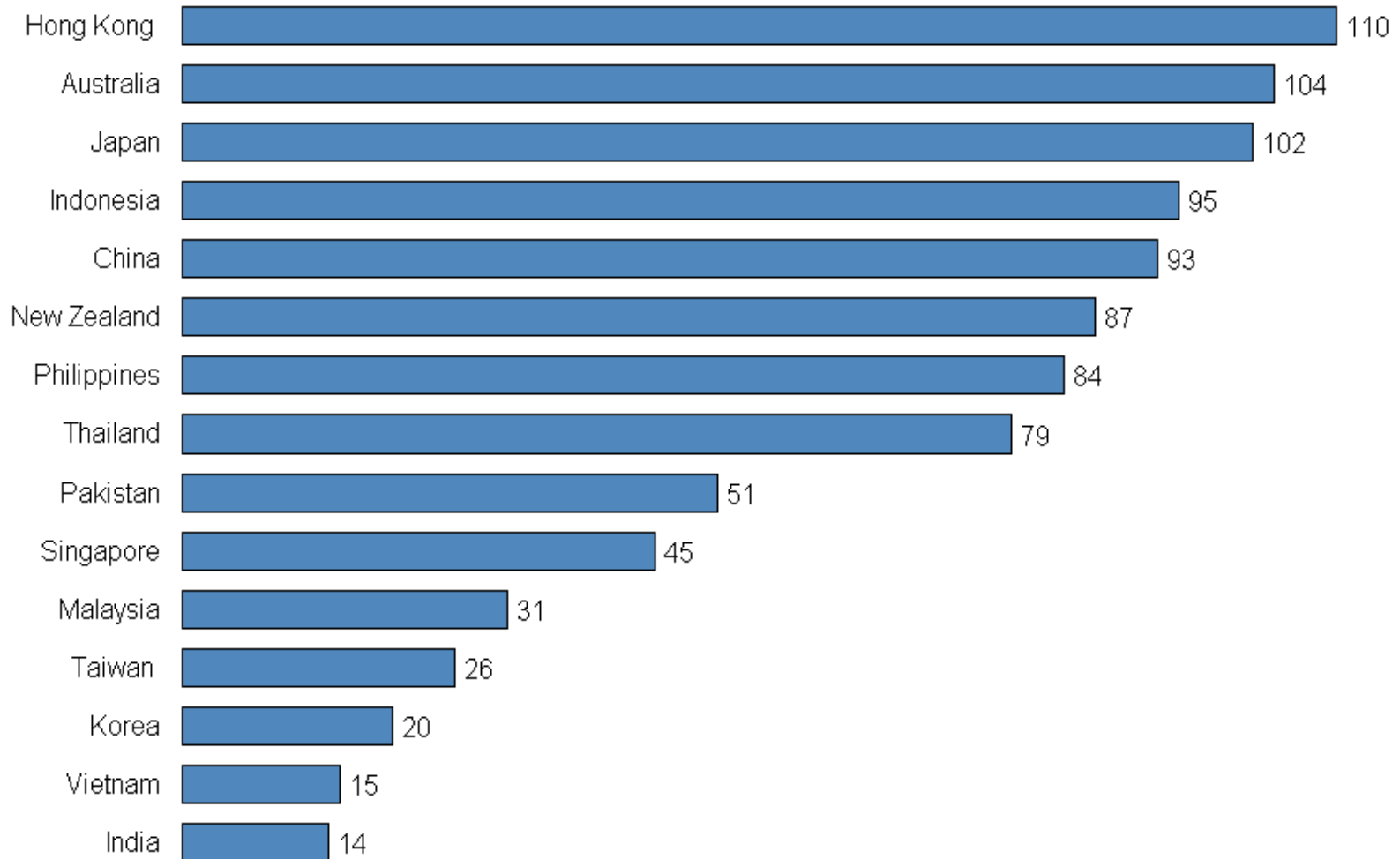


As If Forecast Increased Penetration / Density





Number of Non-life insurers - 2005





Insurance – Market concentration

High	
Country	Trend
Australia	↗
Japan	→
Korea	→
New Zealand	↗
Vietnam	↘
Pakistan	↘
China	↘
India	↘

Medium	
Country	Trend
Singapore	→
Taiwan	↗
Indonesia	↗
Malaysia	↗
Thailand	↗

Low	
Country	Trend
Hong Kong	→
Philippines	↗



Insurance – Foreign access

High	
Country	Trend
New Zealand	→
Singapore	→
Hong Kong	→
Malaysia	↗

Medium	
Country	Trend
Taiwan	→
Australia	→
Thailand	→

Low	
Country	Trend
China	↗
India	→
Indonesia	→
Pakistan	↗
Philippines	→
Korea	→
Vietnam	↗
Japan	→



Insurance – Market regulation

High		
Country	Trend	RBC
China	↘	
Australia	↗	✓
New Zealand	↗	
Vietnam	→	
Malaysia	↘	2009

Medium		
Country	Trend	RBC
Thailand	↗	?
Korea	→	✓
Taiwan	↘	
Philippines	↘	✓
India	↘	
Indonesia		
Singapore	→	✓
Japan	↘	

Low		
Country	Trend	RBC
Pakistan	→	
Hong Kong	→	

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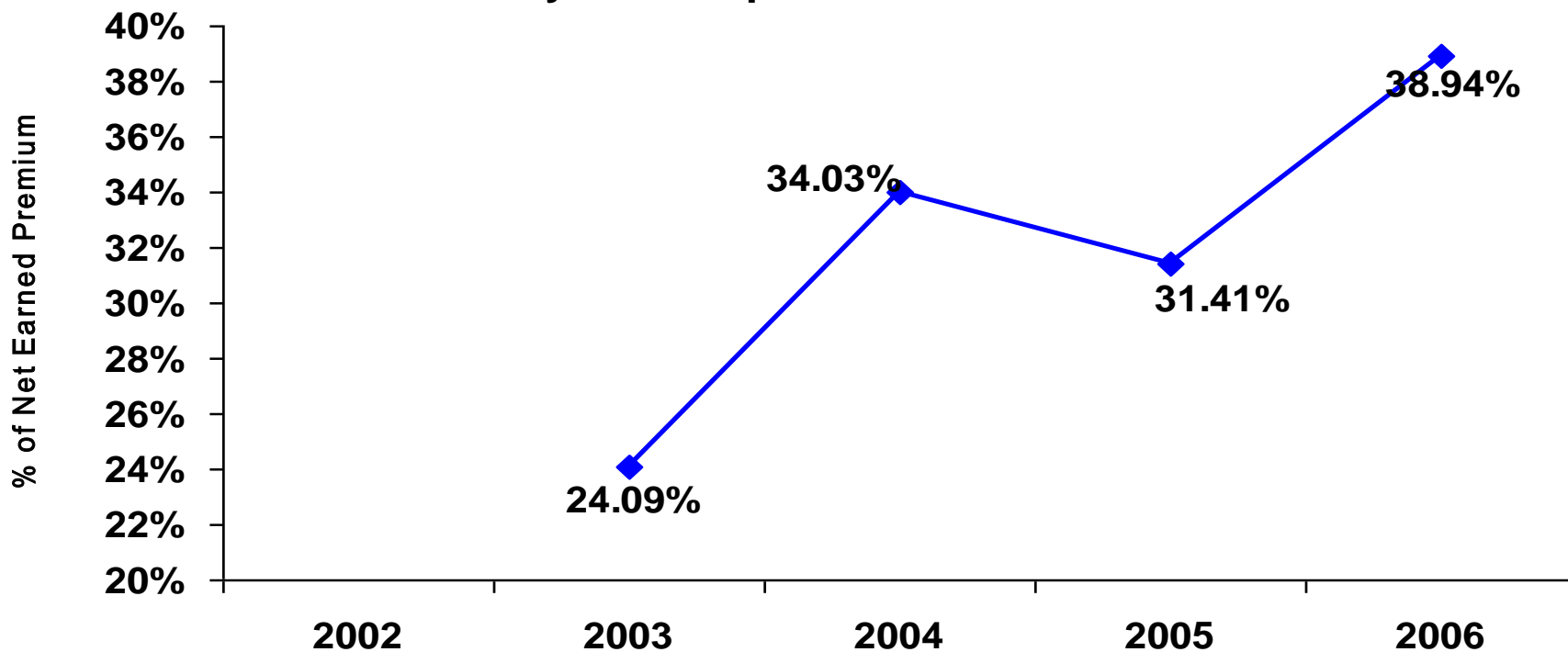


Premium Income vs Profit



Vietnam Non Life Year 2002 - 2006

5 year Compound Growth: 26.20%

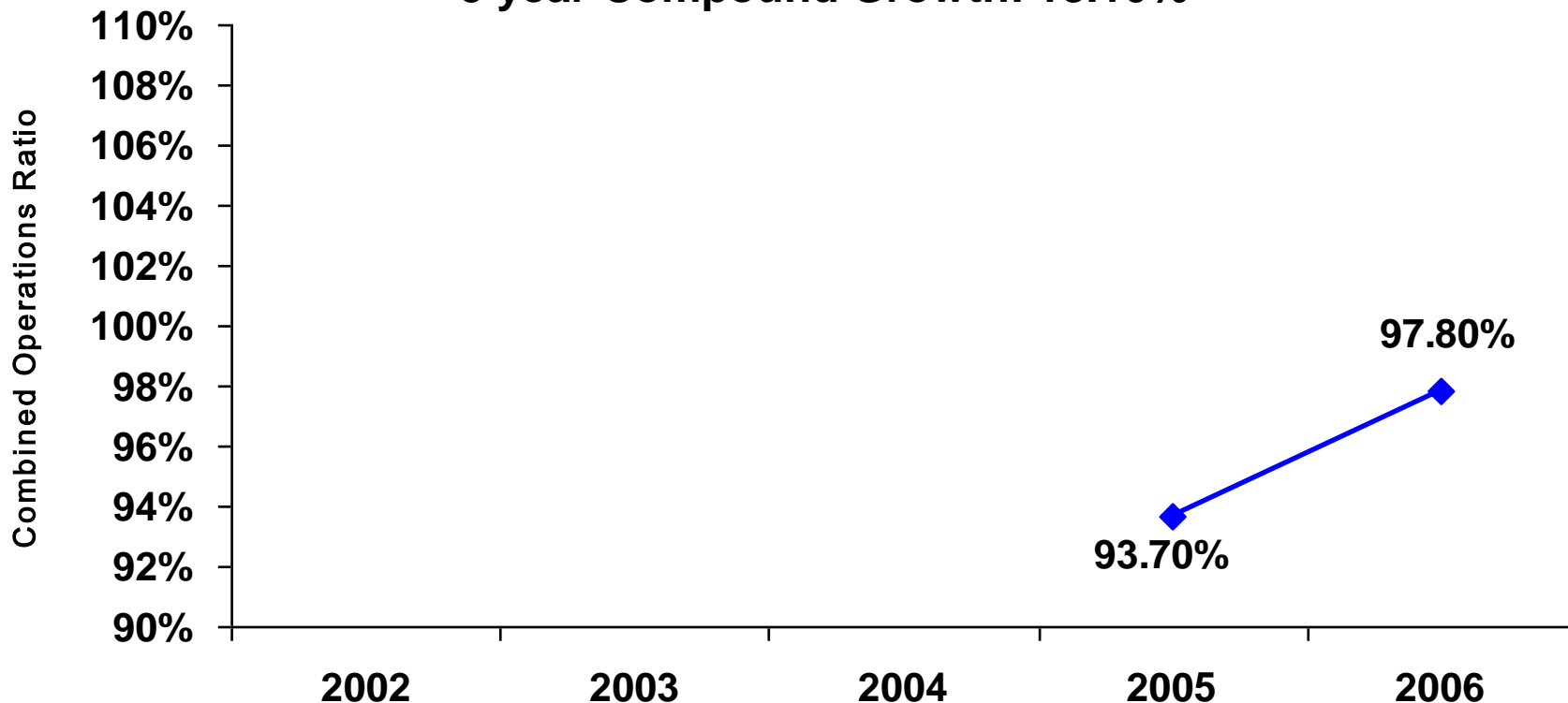


Tariff Rates for Fire and Motor



China Non Life Combined Operating Ratio 1st half 2005 – 1st half 2006

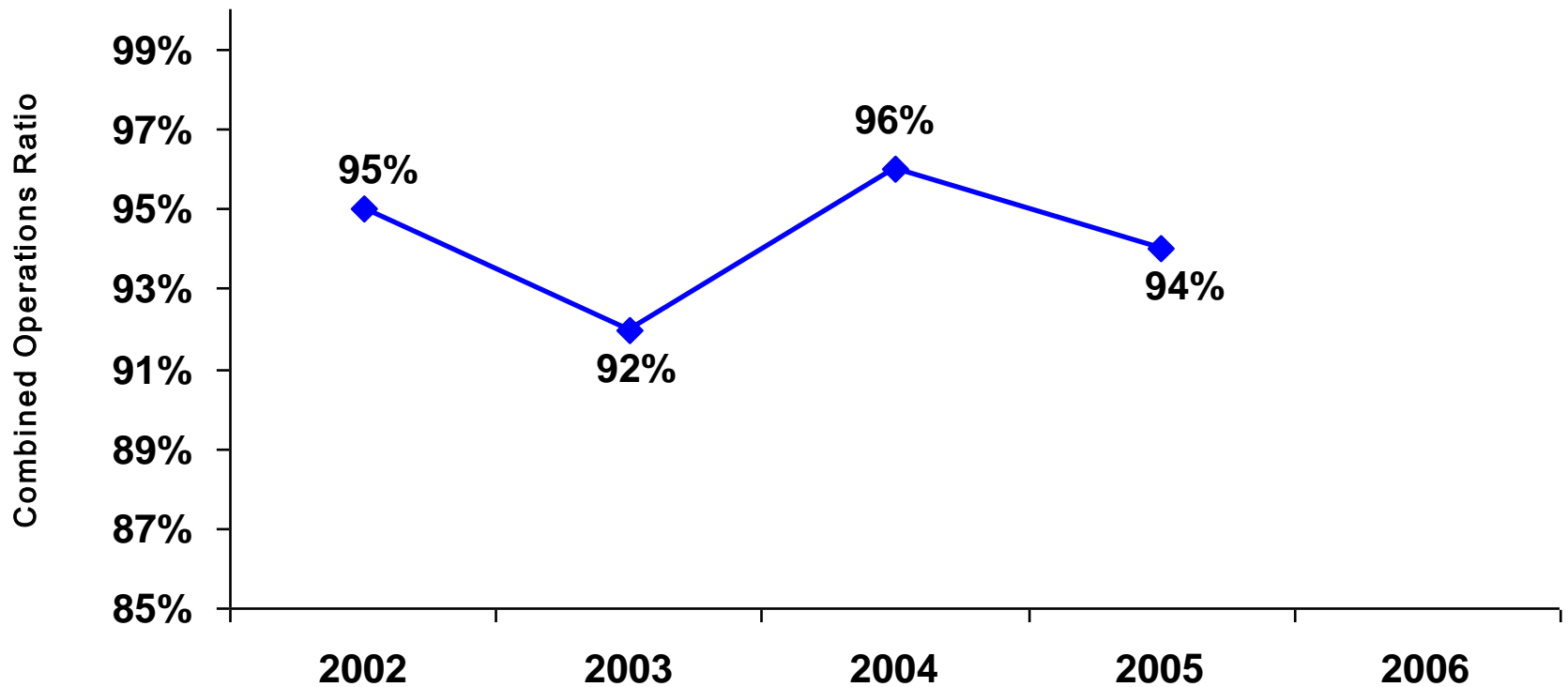
5 year Compound Growth: 18.10%





Thailand Non Life Year 2002 – 2006

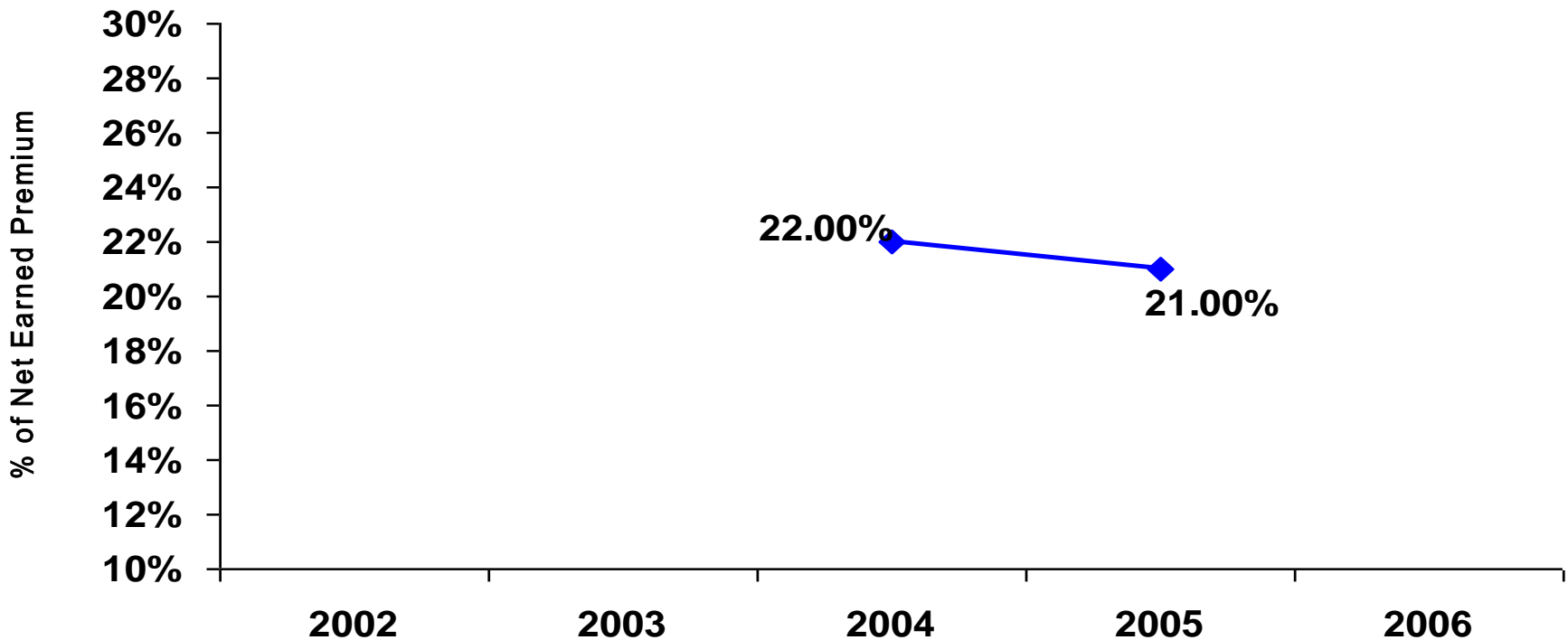
5 year Compound Growth : 17.60%





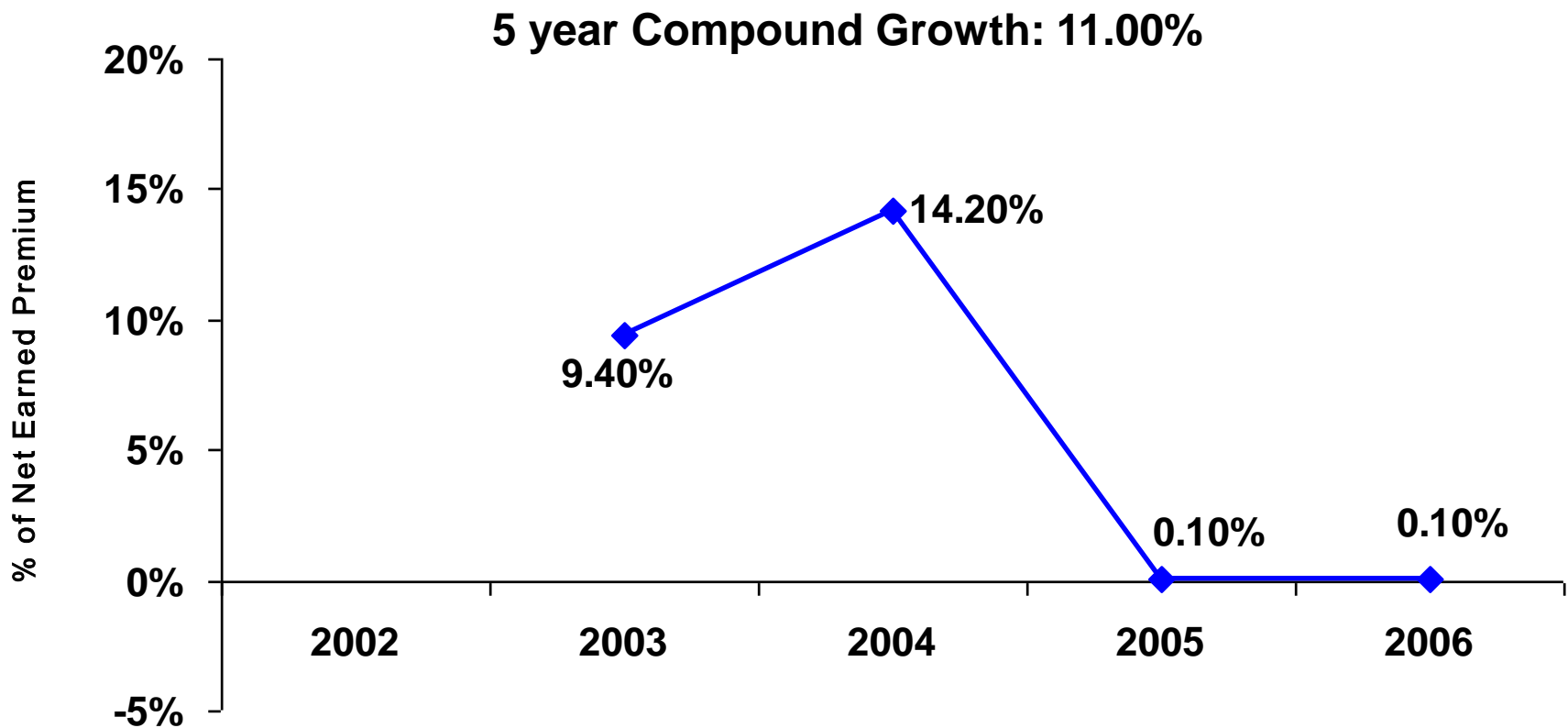
Pakistan Non Life Pretax Results Year 2004 - 2005

5 year Compound Growth: 14.50%





India Non Life Pretax Results Year 2003 - 2006

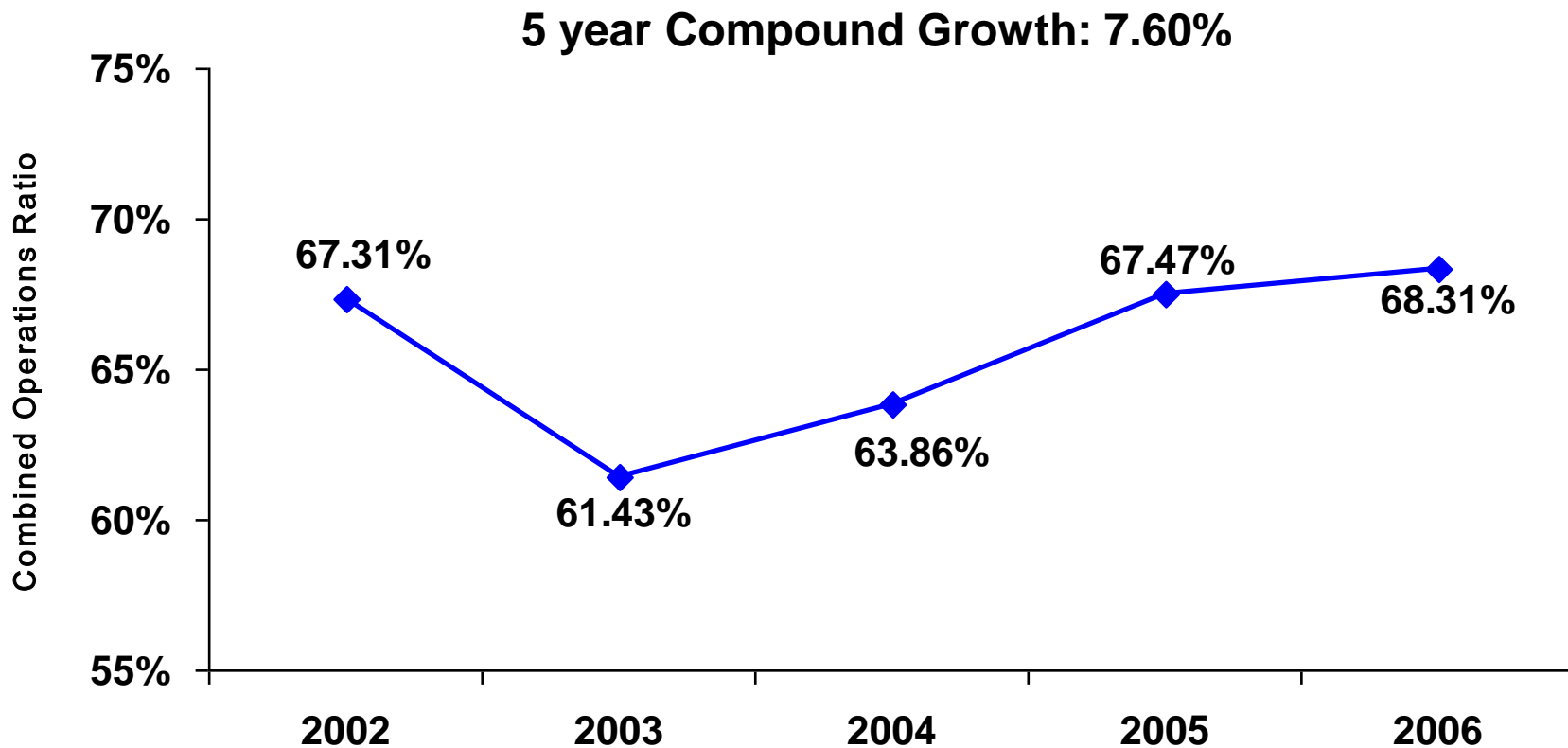


NB: Underwriting losses were sustained on all years. Investment Income on large historical reserves returned Pretax Profits.

: Market De-Tariffed 1st January 2007



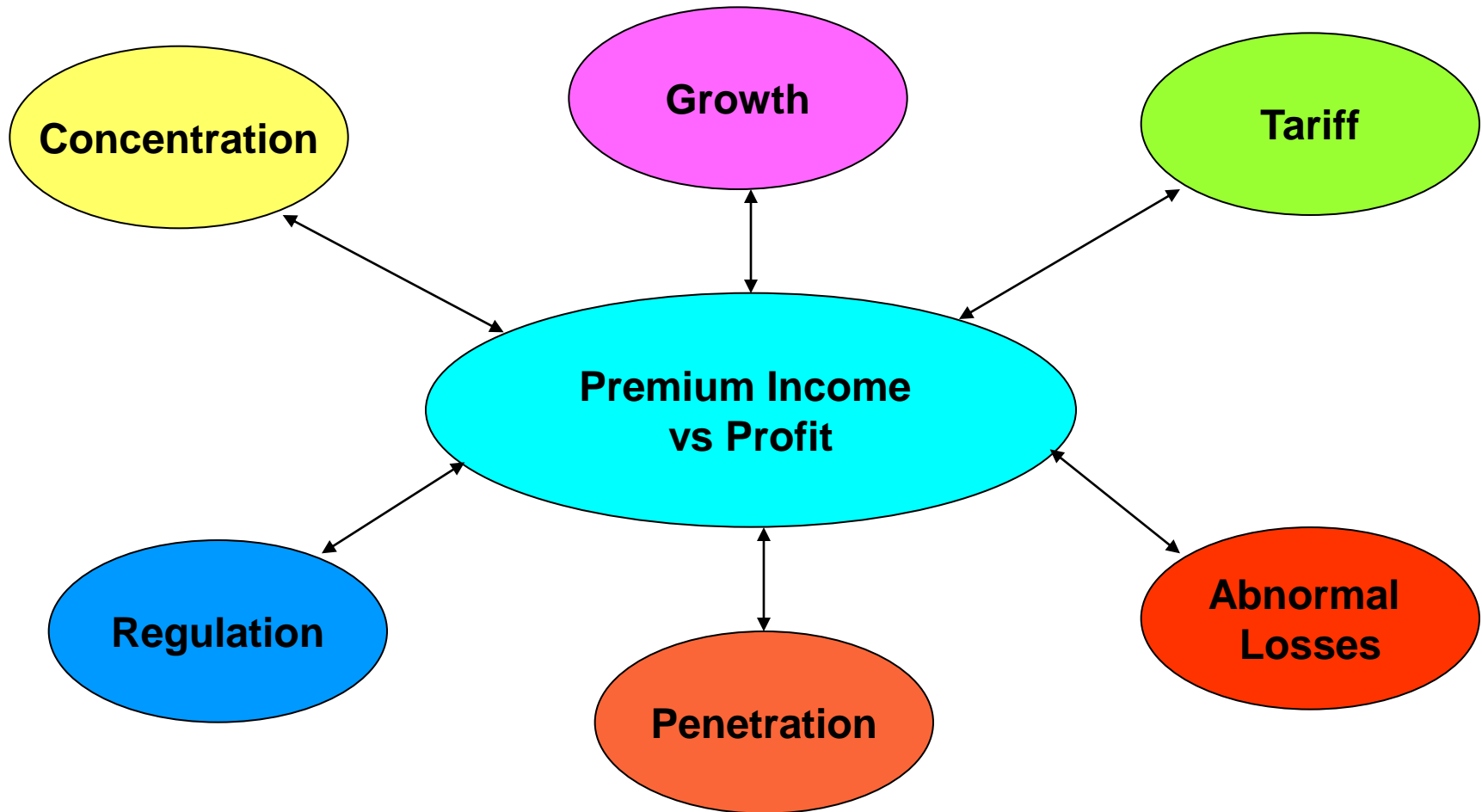
Malaysia Non Life Insurance Companies Combined Ratio: Year 2002-2006



NB: Tariff Market



Premium Income vs Profit



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Adapting to different business practices

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Adapting to different business practices :

Australia

Very competitive market based upon technical underwriting.
Transparency in results, corporate goals and governance.
Equity investors informed and market liquid

Malaysia

Increasing competition but based on historical loss ratios.
Risk Comprehension low
Extremely illiquid equity market. Family / “Group” run Insurance companies

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Adapting to different business practices :

Korea

Very competitive, very concentrated,

Sophisticated companies with strict hierarchy.

“Group” owned Insurance companies

Relationship and history are significant drivers in decision making

Strong National Identity for companies

Thailand

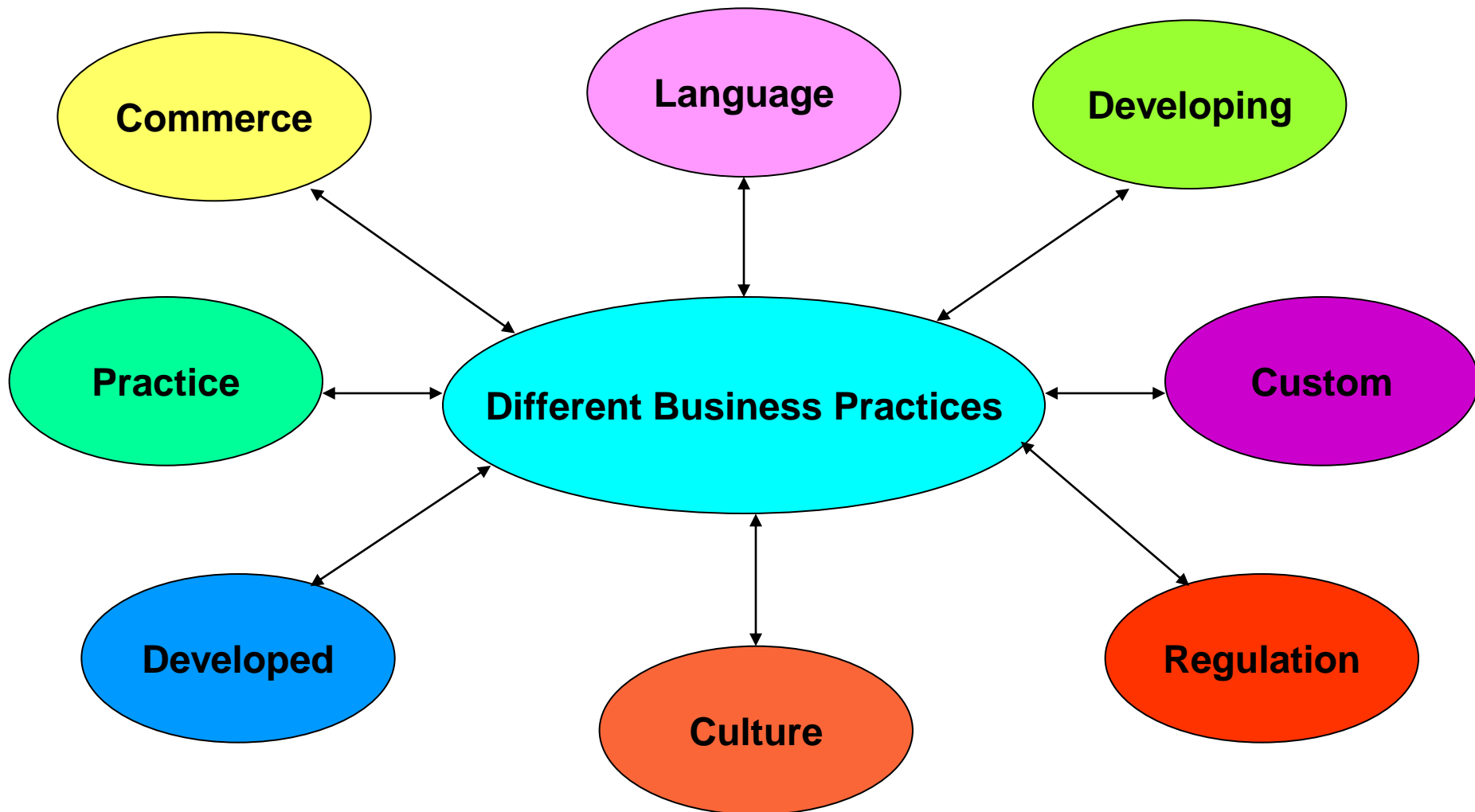
Large number of privately owned companies.

Relationship and history are significant drivers in decision making

Willingness to listen and learn



Adapting to different business practices



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Who will the winners be ?

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**“Prediction is very difficult,
especially the future”**

Neils Bohr

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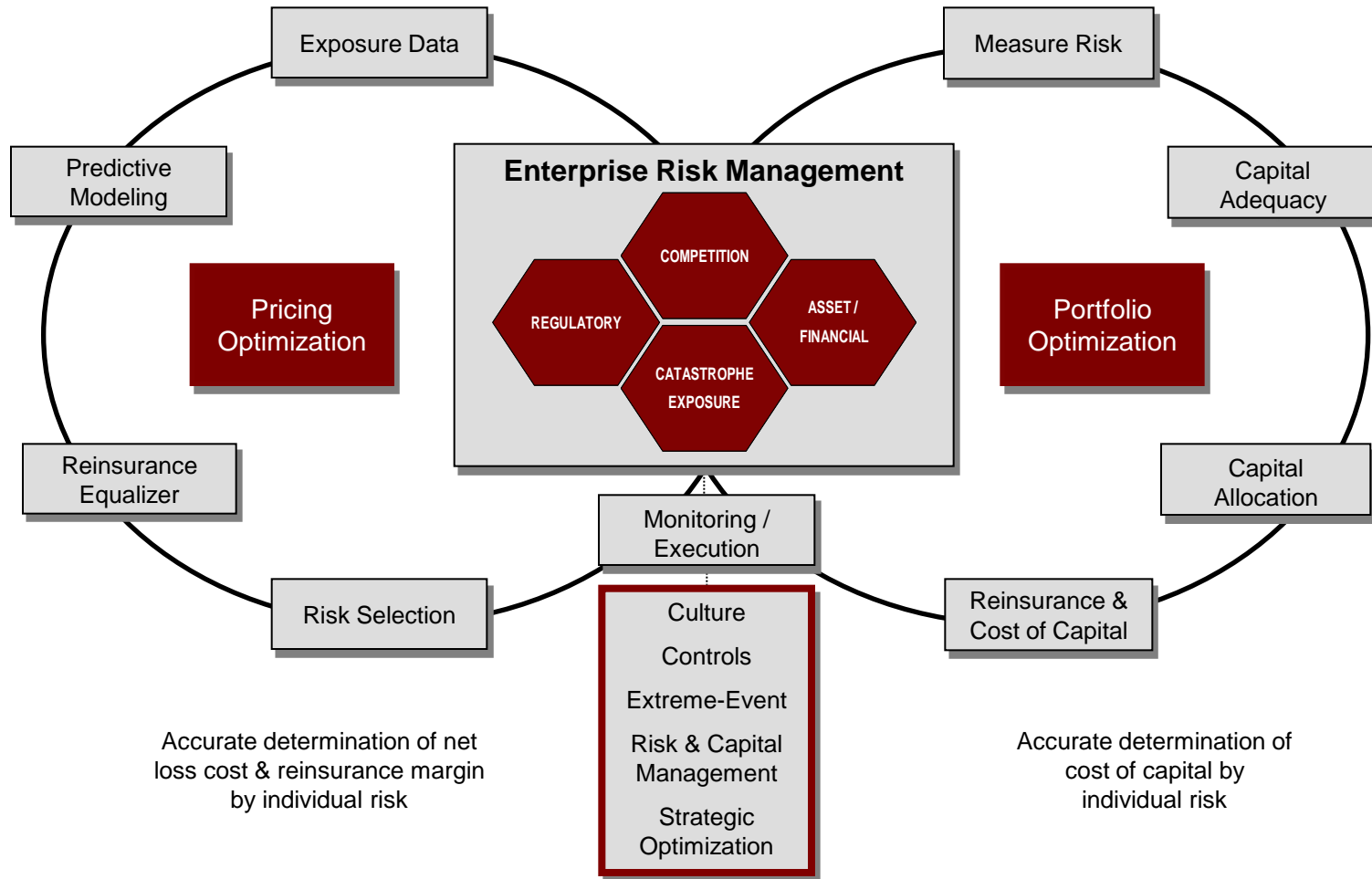
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Who will the winning Companies be ?



ERM Framework



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Existing examples

AIG

Samsung

ICICI Lombard

Marriage between

Global Best Practice and Local Custom and Distribution

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Who will the winning talent be ?

**Mandarin / Cantonese speakers
with an Insurance / Reinsurance Degree**

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Winning “Talent”

Qualified Actuaries!

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The End

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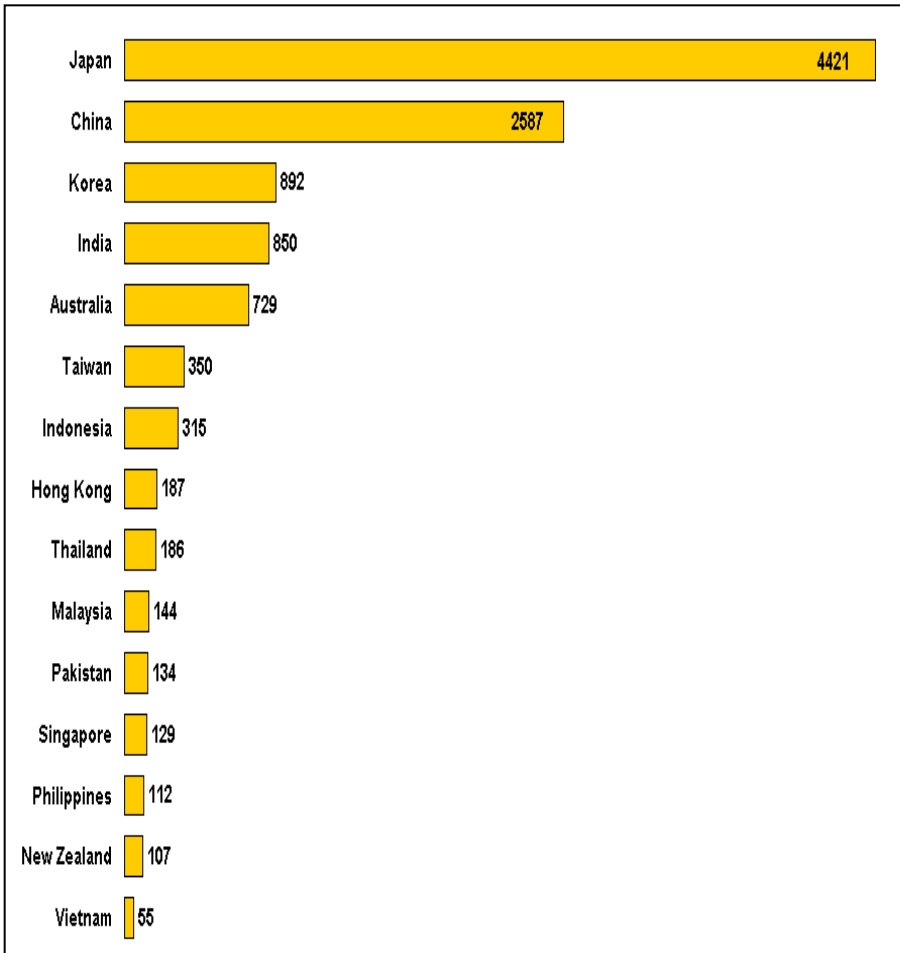
APPENDIX 1

The Economy

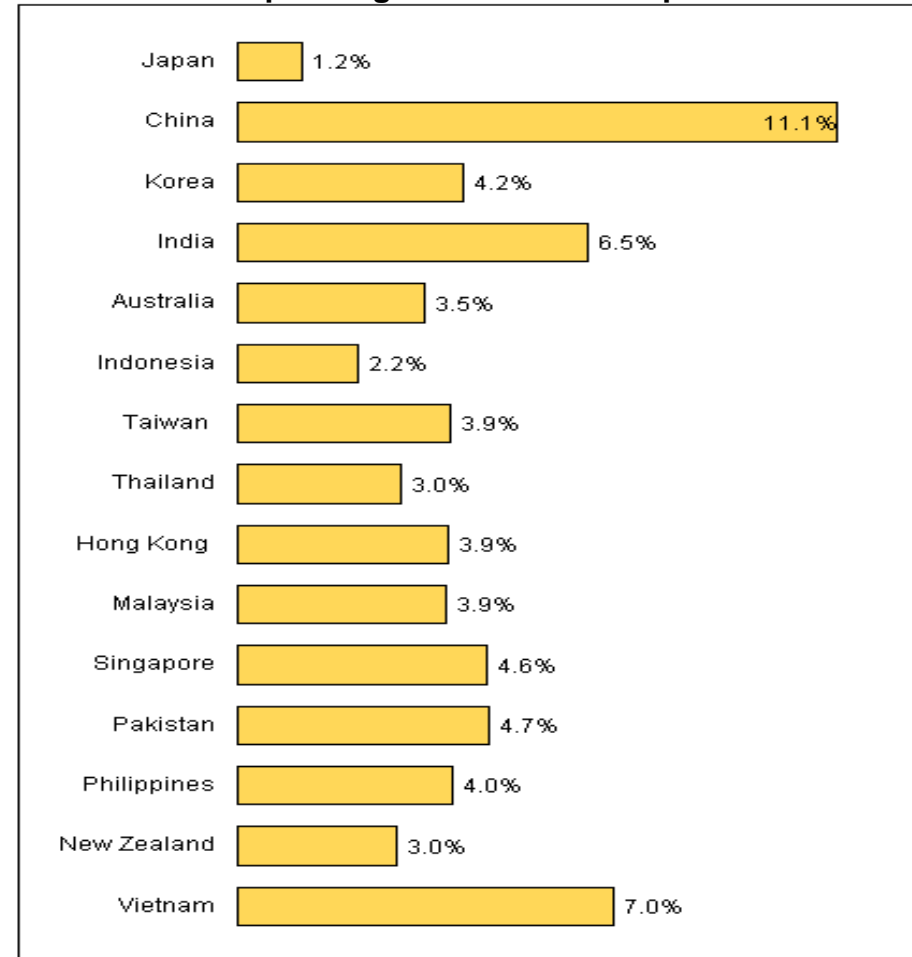


Economics in 2006 - GDP

GDP 2006 current prices (billions)

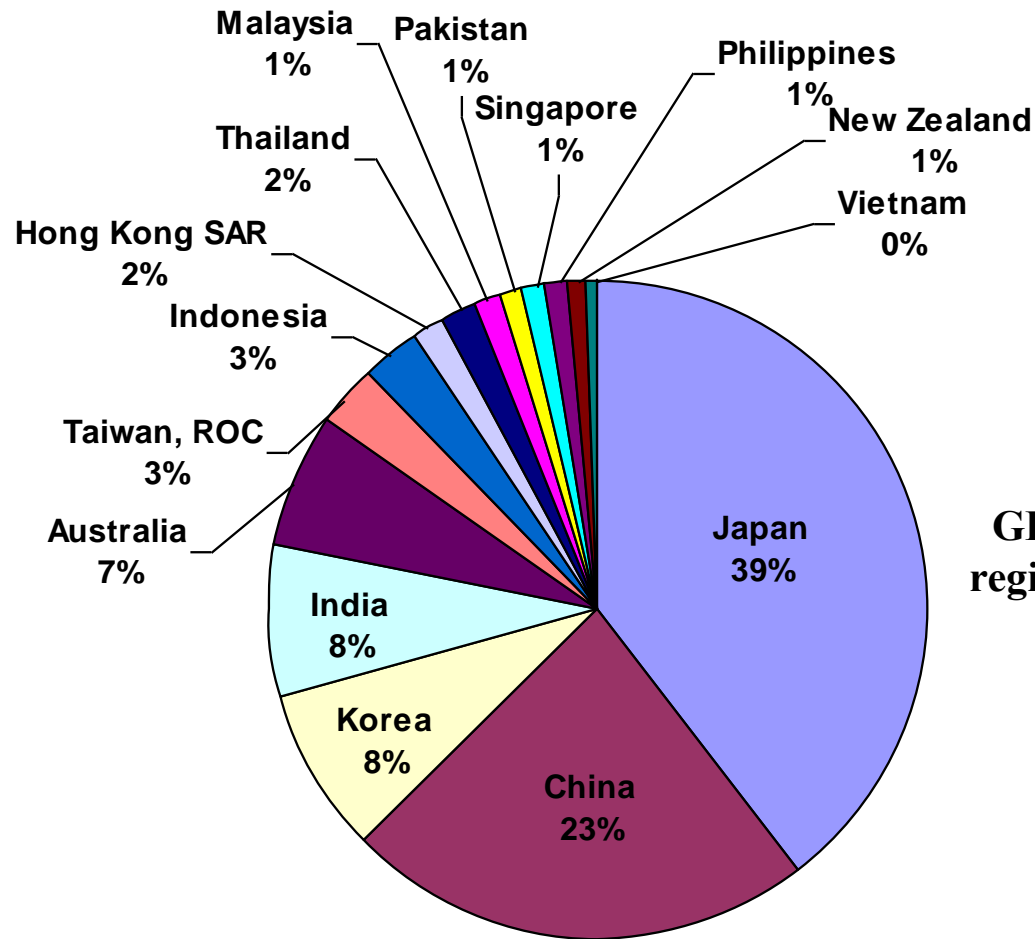


10 Year compound growth – Constant prices





2006 GDP

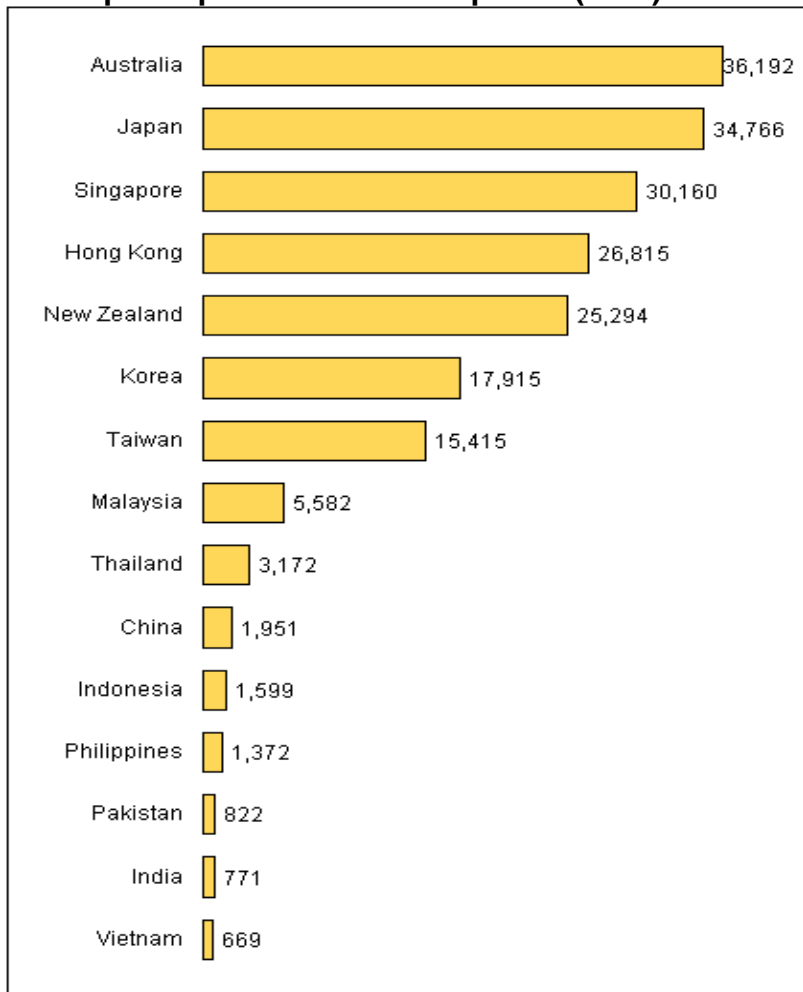


GDP 2006 for the region USD13,146tr

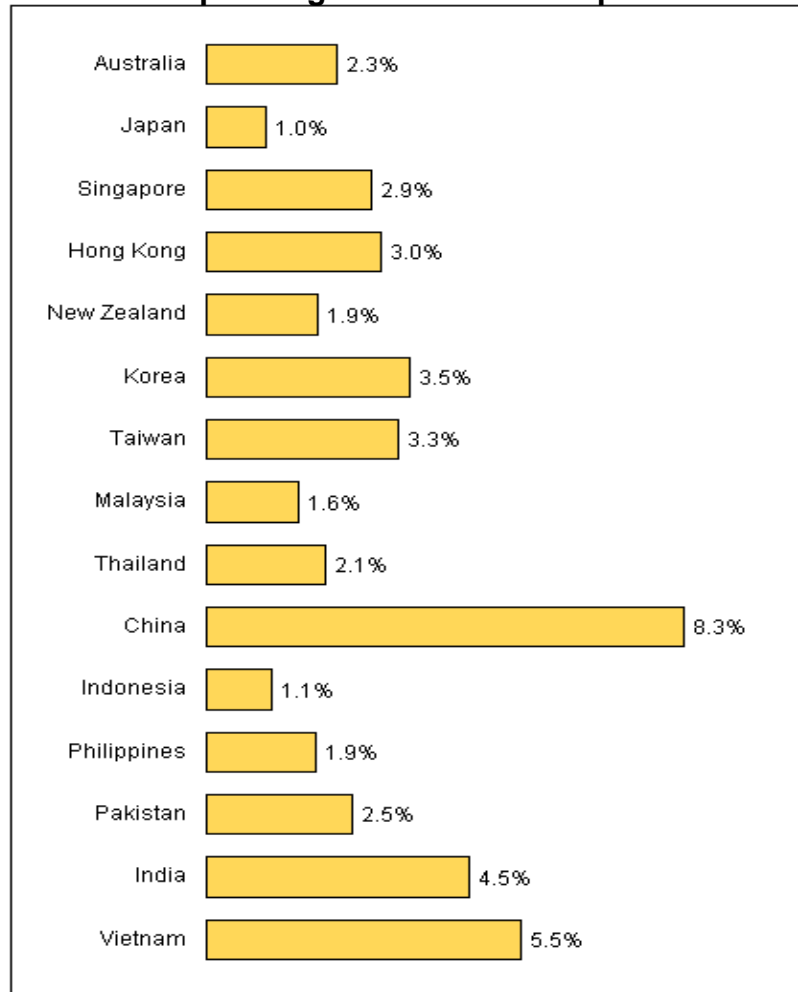


Economics in 2006 – GDP per capita

GDP per capita 2006 current prices (USD)



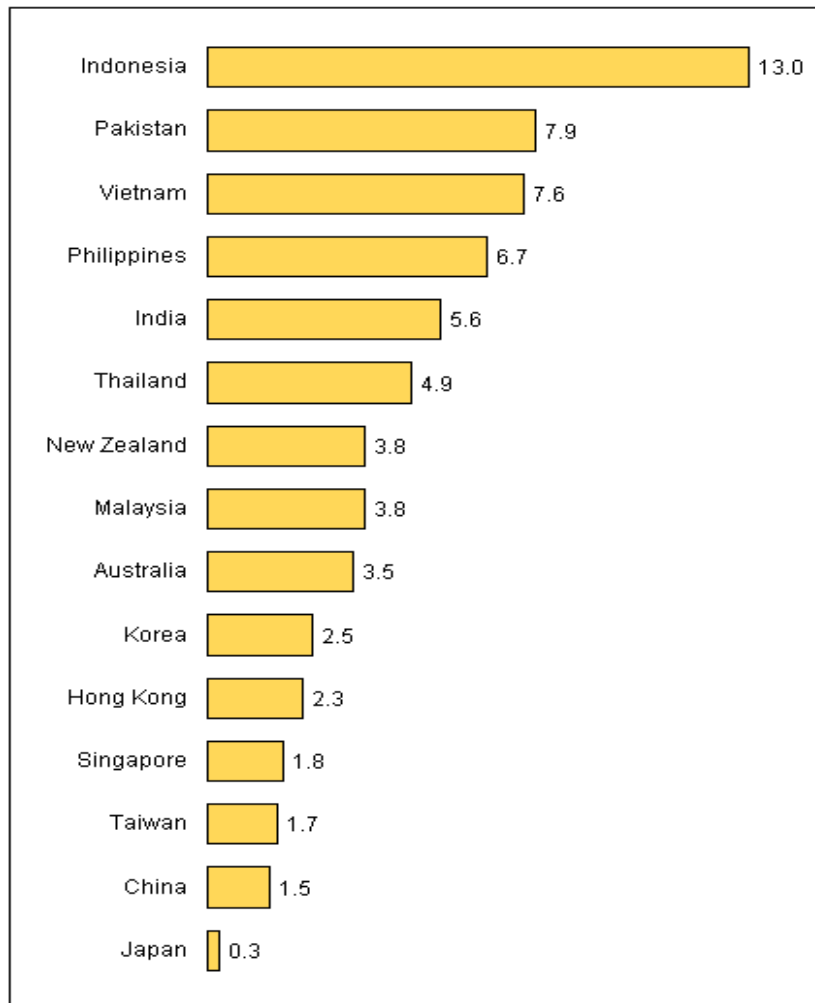
10 Year compound growth – Constant prices



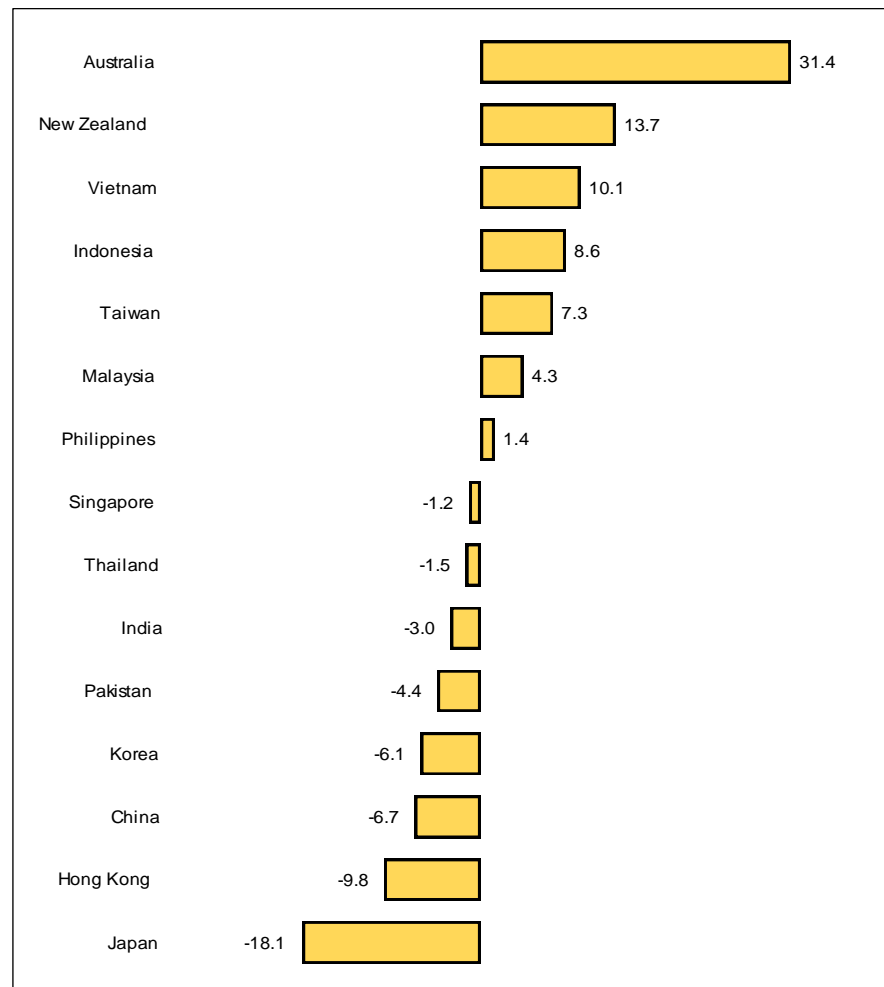


Economics in 2006 – Inflation

Inflation



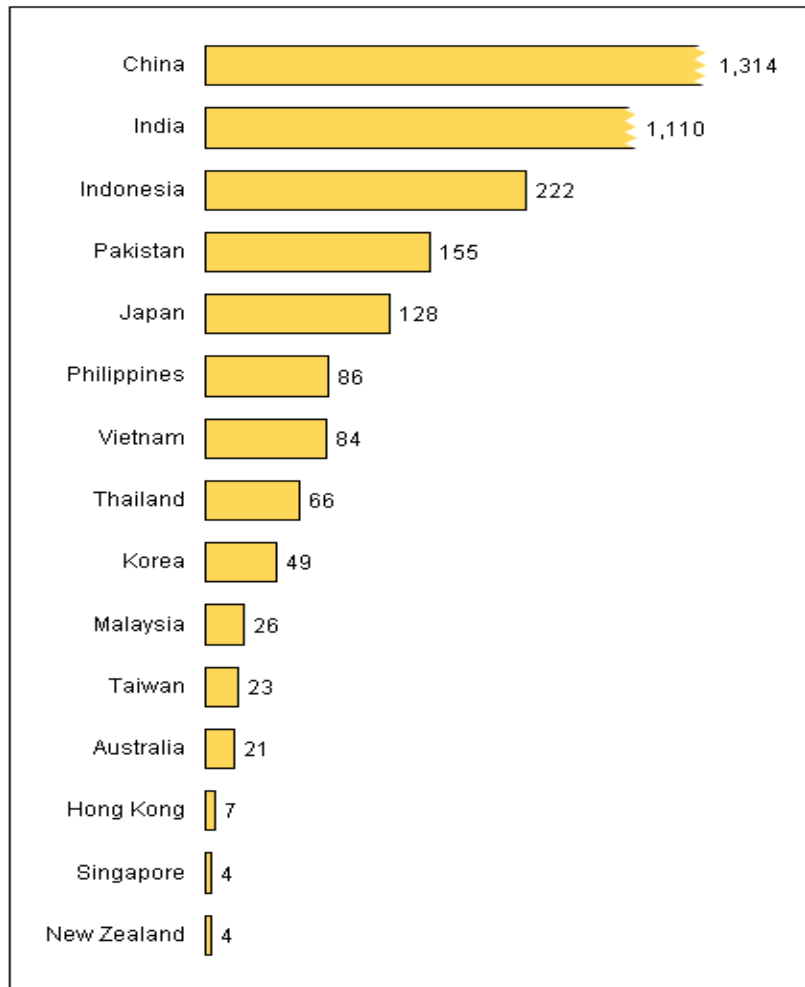
10 Year compound growth %



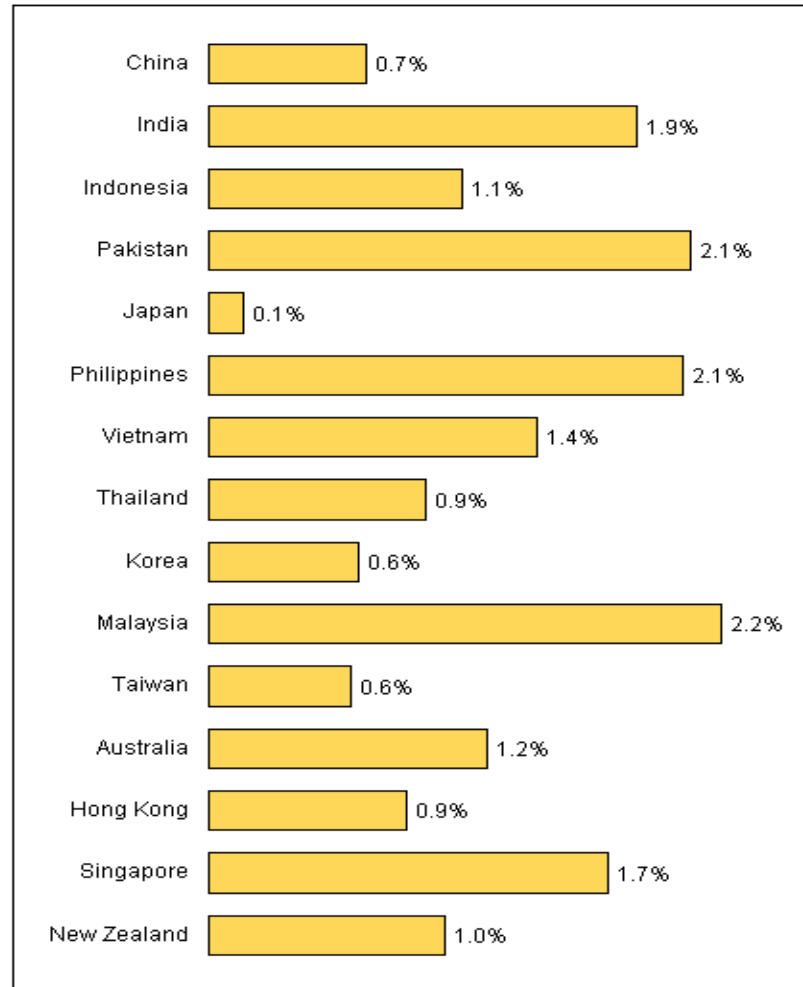


Economics in 2006 – Demographics

Population (millions)



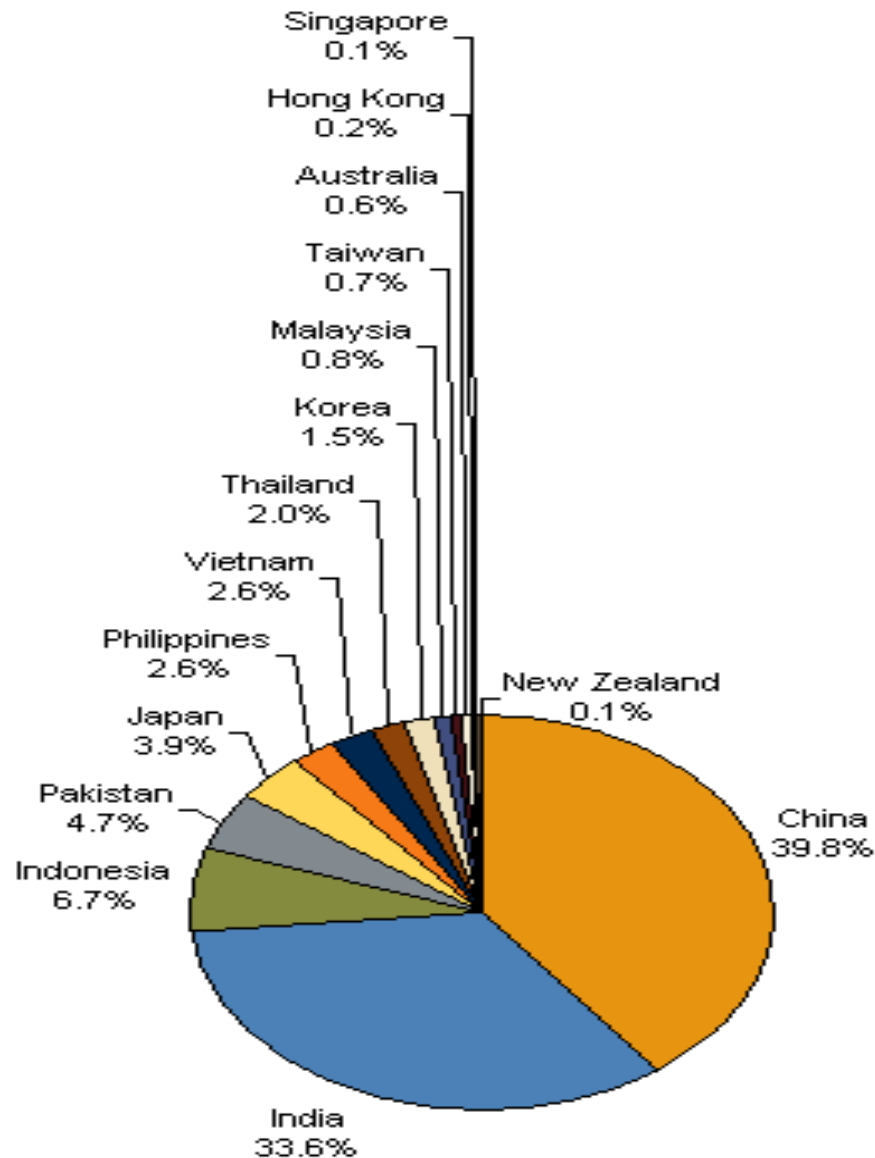
10 Year compound growth





Economics in 2006 – Demographics

Total population
for the region:
3.3bn





Economics - Outlook

Country	Average growth rate 07-11	Trend
Vietnam	7.7	Up
China	7.2	Down
Philippines	6.5	Up
India	6.5	Down
Indonesia	5.4	Down
Singapore	5.4	Up and Down
Malaysia	4.7	Down
Thailand	4.6	Up and Down
Korea	4.5	Down
Hong Kong	4.5	Down
Australia	3.7	Stable
Taiwan	3.2	Down
New Zealand	2.8	Stable
Japan	1.5	Down



Economics - Outlook

Short term outlook

- Similar growth in 2007/8 as in 2006/7 and growth forecasts remain positive
- Export growth for the region to slow a little in line with the slowing growth in industrial countries
- Interest rates probably peaking
- Stronger domestic demand
- China's dominance will continue to grow.
- Stronger growth in Japan and India
- Reduction in barriers between markets
 - Vietnam FTA 2007
 - China Asean FTA 2010

Risks

- US slowdown
- Oil prices
- Market volatility
- Sustainability and reliance on China growth
- Organisational Structure of Asia/Pacific Operations
- Talent shortage
- Costs rising faster than revenue

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APPENDIX 2

COUNTRY COMMENTARY



Country Commentary

Country	Negatives	Positives
Australia	Financial results at the top, will probably be turning soon. Rates being driven down by competition.	Recently very successful time, Net Loss Ratios under 60%, ROE over 20%, only one recent catastrophe, good practices
China	Virulent competition, poor public recognition, don't want to pay for risk, control increasing, lack of talent	Size of the potential opportunity, Govt support, insurance consciousness increasing, financial clarity improving
Hong Kong	Over-supply, soft market, strong rise of salaries -> increase costs, competition from Singapore, poor public recognition, lack of talent	Natural base for Asia-Pacific underwriting operations
India	Poor agents' professional skills. Important catastrophe risk. Intense competition following dertariff, lack of talent.	Size of the potential opportunity
Indonesia	Over-capacity, under-capitalisation and irrational competition	Size of the potetial opportunity



Country Commentary

Country	Negatives	Positives
Japan	Declining non-life premium income, introduction of new types of competitors.	Second largest market in the world
Korea	Nearly 50% of premium income is made up of long-term business. Falling premium in short-term sector	Potential growth
Malaysia	Continued softening of rates in many lines, lack of talent to deal with RBC	Good motor insurance sector growth, as well as marine, aviation and transit sectors. Takaful insurance double digit growth, RBC regime 2009
New Zealand	Economy slowing, rating decline through strong competition, property damage claims costs rising at faster rate than premium income, regulatory changes	Historical good performance, Combined ratio around 90%, all major lines profitable except household buildings
Pakistan	Political instability risk	Booming economy, strong foreign investment, privatisation



Country Commentary

Country	Negatives	Positives
Philippines	Non-life market saturated with too many undercapitalised companies chasing too little business, competition drives prices down.	Low insurance penetration = size of potential opportunity
Singapore	Small mature market, overcapacity, strong competition.	Motor market improvement, Strong industry association to promote insurance, Singapore wants to be seen as the main insurance centre in Asia
Taiwan	Closed insurance market, overcapacity, intense competition, little new business in the market	Reinsurers have taken steps to impose restrictions, growing professionalism
Thailand	Saturated market, too many small companies, lack of talent to deal with RBC	Authorities trying to increase regulation around solvency and capital requirement
Vietnam	Insurance market remains small, undeveloped and heavily reliant on reinsurance support. Very strong competition pushing down rates.	Some changes taking place, government push to develop the market and continue the policy of opening up to foreign investment. Strong growth in last 5 years



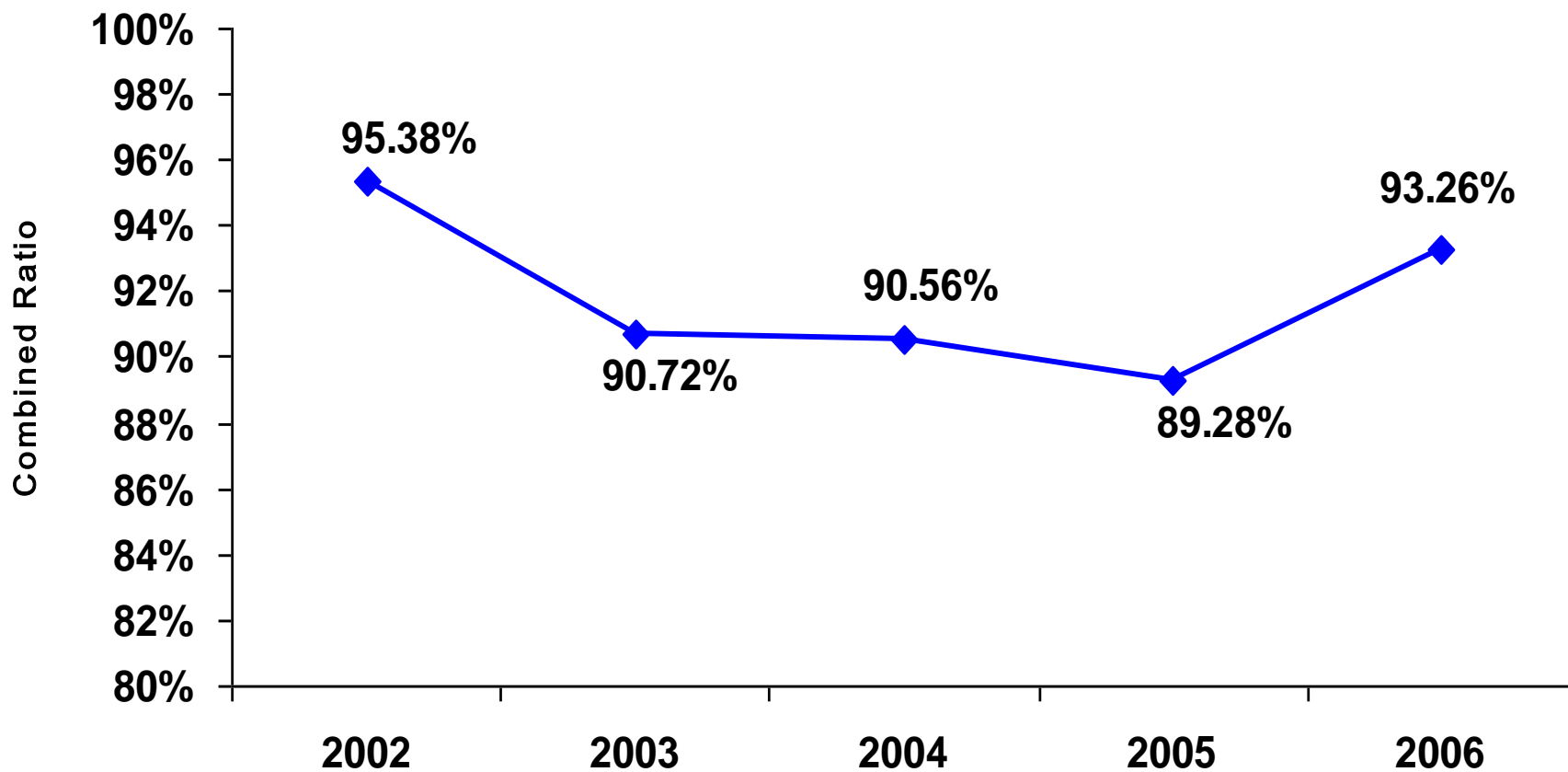
APPENDIX 3

“some more”

Premium Income vs Profit

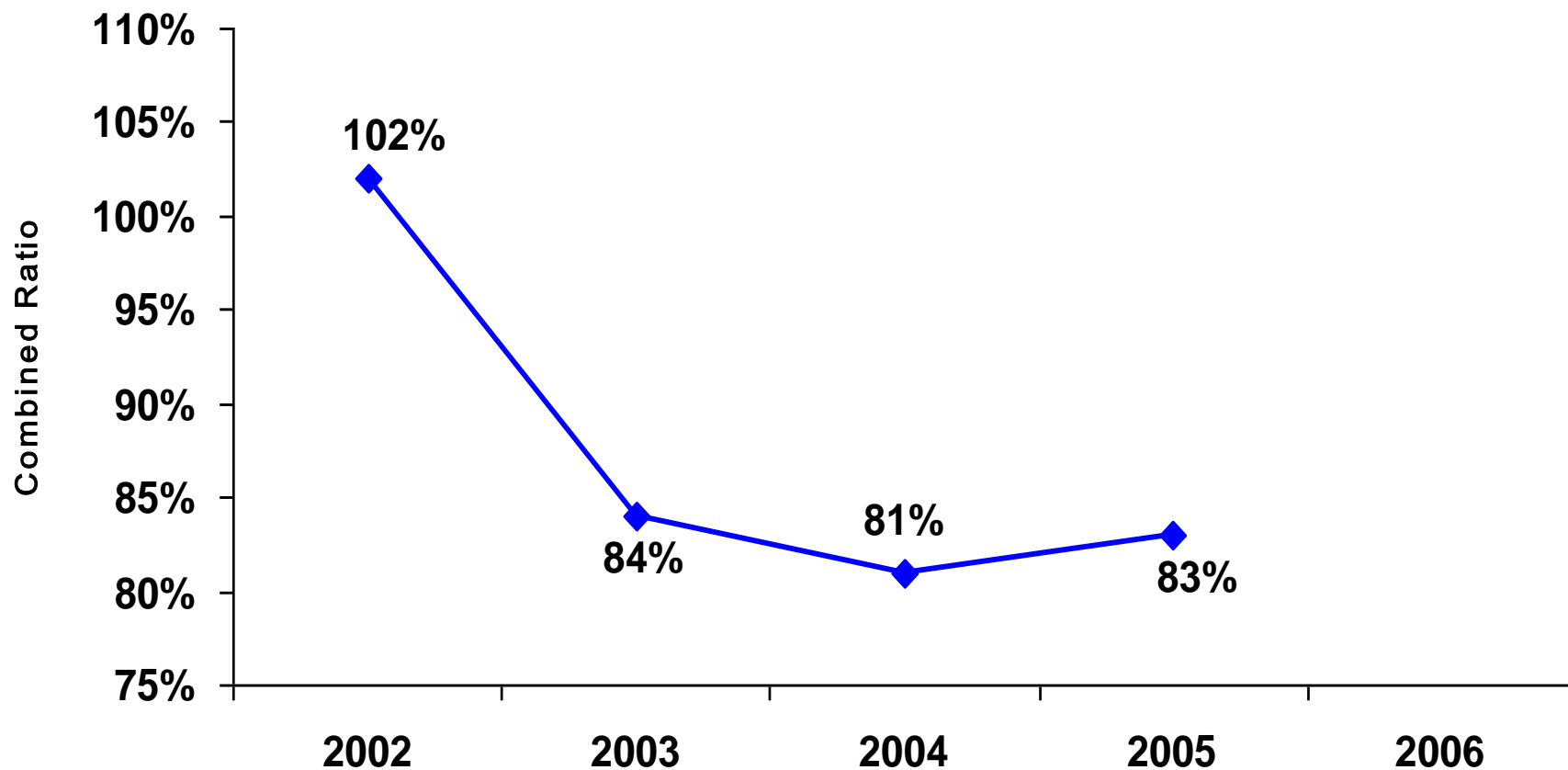


New Zealand Non Life Companies – Combined Ratio Year 2002 – 2006



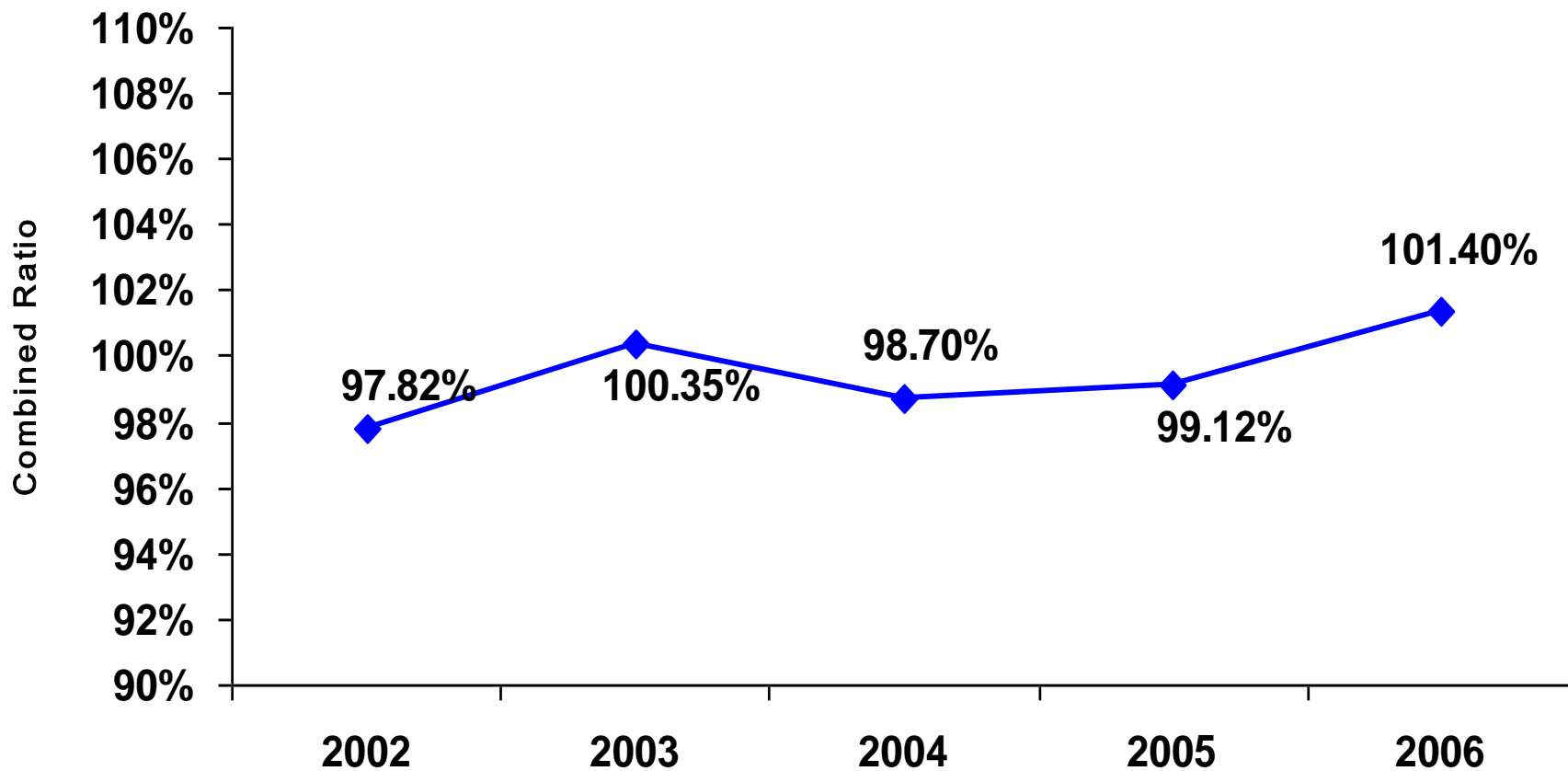


Australia Non Life Companies – Combined Ratio Year 2002 – 2006





Korea Non Life Companies – Combined Ratio Year 2002 – 2006





Philippines

Year	Pre Tax Profit (USD)	% of Net Earned Premium
2004	69,490,000	21.72%
2003	46,250,000	15.71%
2002	50,020,000	19.14%

Source: Axco



China

Year	Underwriting Profit
2005	164,750,000
2004	41,200,000

Year	COR
1 st half of 2006	97.80%
1 st half of 2005	93.70%

Source: Axco