Emerging Asia remains world's fastest growing non-life market

Emerging Asia continued to be the fastest growing non-life insurance market globally in 2012, with a strong premium increase of 13% (2011: 10%), supported by robust growth in key markets, says Swiss Re in its "*World Insurance in 2012*" *sigma* report.

The region, which refers to all countries/territories in Asia except Hong Kong, Japan, Singapore, South Korea and Taiwan, registered a non-life premium of US$139 billion for 2012 which is about 7% market share of the world's premium.

In the key market of China, premium growth improved to 14% in 2012 from 10% in 2011. However, due to weaker motor premiums from lower vehicle sales, this was still below the exceptional 20% plus annual growth it has enjoyed in recent years. Meanwhile, India which is another key market recorded premium growth of 10% as the rate hike in third-party liability segment boosted motor insurance premiums.

Other Southeast Asian markets also saw robust premiums growth, supported by sound economic performance and healthy infrastructure spending. The Thai insurance market has recovered from the 2011 floods. Premiums rose by 21%, driven by fire and motor lines, as increased risk awareness, coupled with price hikes, boosted sales. Indonesia also recorded double-digit premium growth in 2012, supported by an economy fuelled by domestic demand.

Asia: Risk diversification will not suffice in the long run


Mr Michel Dacorogna

Although insurers have come to deal with the disparity in expected loss and the high probability of it through risk diversification, that will not suffice in the long run, as insurers' peak risks keep growing and diversifying risks becomes more difficult, said Mr Michel Dacorogna, SCOR's Group Deputy Chief Risk Officer, at the Insurance Risk Research Conference 2013 held in Singapore recently.

Expected loss is a key component in computing premium, but insurers often overlook that this expected loss has a high probability of occurring and therefore forget to reserve for it, he said. "In addition, when considering catastrophic risk, the high probability could be way below or above the expected loss. So even with reserves, this expected loss loses its meaning," he added.

What insurers and reinsurers do is to cover these very extreme risks through diversification, but this is not going to suffice in the long run. The difficulty of diversifying risk will also become far greater, he noted.

If insurers start having big uncertainties, they will be penalised by investors, and the market will make them pay the price for being uncertain about their company results, he warned. "This in turn, will raise the cost of insurance. It is thus important to think about how to best manage this," he said.

Capital allocation should consider constraints

While capital allocation was noted as one risk measure that insurers can consider, Mr George Zanjani, Associate Professor, Risk Management and Insurance Department, Georgia State University said insurers need to be aware that this can and should be grounded in an economic context that comprises the objective of the firm as well as regulatory, accounting or ratings-based constraints. "We do not need to, nor should we rely on ad hoc risk measures – even axiomatic ones," he said.


Mr George Zanjani

He added that mathematicians should realise that risk measures are not a one-size-fits-all, and the reason for this is that they are not considering the economic context which he speaks of.

He also said that regulators and insurers should note that risk measures have to be designed appropriately, as choices made have a profound influence on how risk is priced.

Compromise between risk control and costs


Mr Greg Taylor

Noting that all risk controls come with costs, Mr Greg Taylor, Co-Founder, Taylor Fry Consulting Actuaries, Australia, said there needs to be a compromise between risk control and cost, whether medium, long-term or short-term. Reinsurance can be particularly valuable, he said, as it increases the likelihood that a company will survive, and in turn raises the value of its expected future profits.

Although there are costs to risk controls, with reinsurance, even when the costs are taken into account, there should be some positive effect on future outcomes, he noted. He also said that insurers should reduce their loss function by risk control, and if they are not implementing this, they should start doing so.

Hosted by the Insurance Risk and Finance Research Centre of the Nanyang Technological University, the conference drew over 130 delegates.