Asia on the rise

Asia is definitely on the rise, with growing urbanisation, increased infrastructure spending and expanding industrialisation. **Mr Kenrick Law** of **Allianz SE Reinsurance Branch Asia Pacific** says (re)insurers need to work with local governments to cover more of these risks, supporting the sectors with their risk expertise.

In 2013, the total global economic losses from natural catastrophes and man-made disasters were around US$140 billion, according to Swiss Re *sigma* 1/2014.

The rise of urbanisation in Asia, the evolving risk landscape, plus unexpected disasters such as floods, typhoons obliterated areas that were previously not prone to such catastrophic events. This led key industry players to change their perception of the importance of better quality risk management, risk accumulation control and modelling as well as to improve claims handling expertise.

Growing urbanisation in Asia

By 2015, we can expect the number of megacities around the globe to increase to 37, up from 23 in 2011.

With the world's population expected to grow by about 1.4 billion to 5.0 billion between 2011 and 2013, more than 90% of the increase derives from emerging markets. Hence, it is not surprising that 6 out of 10 of the most populous cities in the world are located in Asia – Shanghai, Beijing, Guangzhou (China), Mumbai, Delhi (India), Lahore (Pakistan), Dhaka (Bangladesh).

In 2011, about 87% of people living in coastal megacities were exposed to at least one hazard. By 2025, it is predicted that more megacities will be located in coastal or seismic-prone regions with a high degree of exposure to multi-natural catastrophes, many in Asia.

On top of this, many of these megacities are also developed around industrial areas and highly prone to industrial disasters. The high density of business activity and population significantly increases the risk of human and economic loss from natural and industrial catastrophes.

Escalating infrastructure investment

With the development of urbanisation, infrastructure investment will continue to escalate as there is a need to house this growing urban population. It is estimated that $43 trillion will be invested in infrastructure between 2013 and 2030 (Swiss Re Sigma 05/2013).

Likewise, the demand for insurance coverage will increase as production facilities continue to mushroom. This progress brings significant business opportunities for the insurance sector especially during the construction phase and with recurrent premiums post construction.

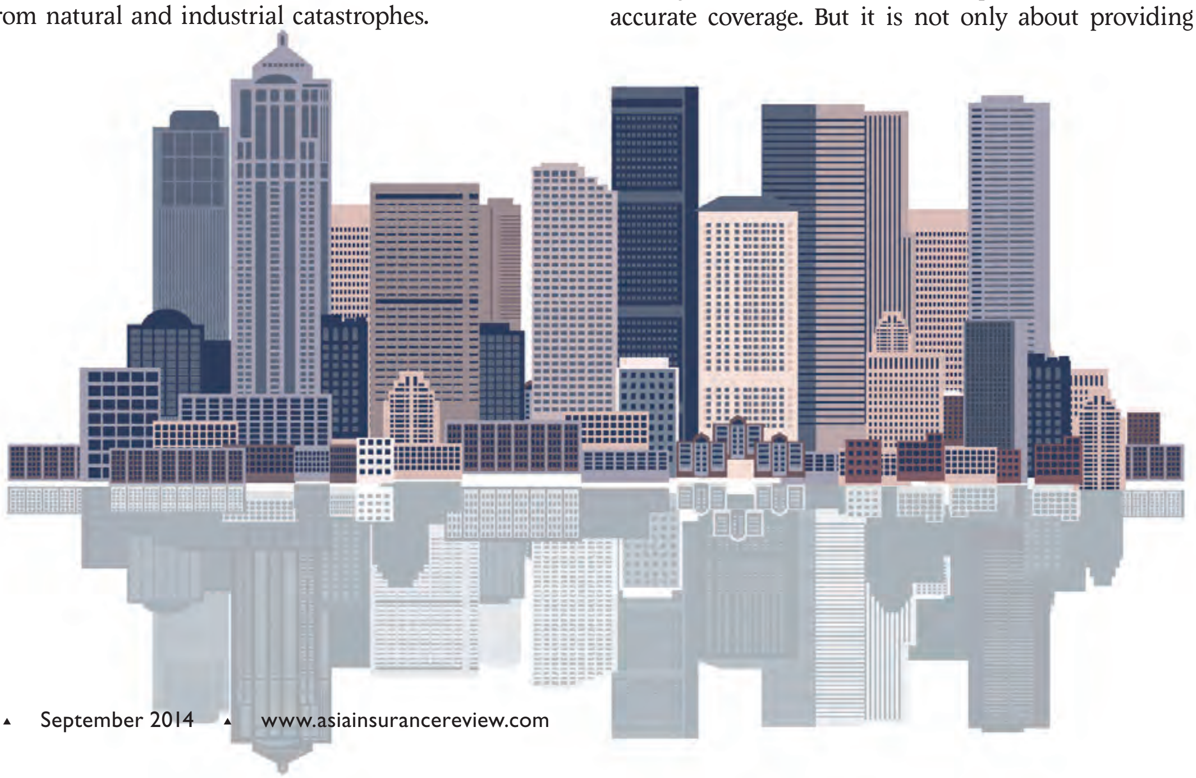
With every opportunity comes risk. The loss potential for the insurance industry is high in view of huge Nat CAT events; and reinsurance plays a critical role in managing such risks.

The recent earthquake in south-western Yunnan Province, China, is just a reminder that we are sitting on a "ring of fire", spreading from New Zealand over SE Asia to Japan and the west coast of the Americas. Both reinsurers and insurers need to collaborate to provide sufficient protection to these perils and customised as well as innovative solutions to meet these new challenges.

Evolving risk landscape

On top of the rapid rise of megacities and urbanisation, there is a need to ascertain how the risk landscape and exposures are changing. We need to better understand where the exposures lie, and how risks are interconnected.

It is important to acquire complete and accurate underwriting information to be able to provide customised and accurate coverage. But it is not only about providing the



proper coverage; there is a need to look at prevention and mitigation as well as raising client awareness of the risks. Common data standards would greatly benefit both insurance and reinsurance companies.

There is a high concentration of insured industrial risk in Asia. This has propelled both reinsurers and insurance players to realise the importance of developing comprehensive flood models and risk-adequate pricing for non-prone flood regions, as well as flood prone areas in Vietnam, southern Guangdong and the eastern coastal cities in China. The impact of the catastrophes has also forced insurance companies to be transparent and to disclose more details about their risk portfolio.

Business Interruption continues to be a challenge for the industry as it involves a certain degree of consideration on concurrent causes (both insured and uninsured causes). Allianz Re has been monitoring the effectiveness of simplifying the methods used to categorise the different causes and identifying and apportioning the Business Interruption claim accordingly.

Governments need to transfer more risks to (re) insurers

There is also a need to engage the local governments to transfer more risk to the insurance and reinsurance industry. Insurance is a means of pre-financing the financial impacts of Nat CAT events; however it is often the government which ends up as the financer.

It would be more efficient for financing to be supported by the insurance and reinsurance industry rather than the government. We will need to develop partnerships to make sure we can create sustainable disaster financing/ risk structures.

Additionally, we need to adapt the risk models developed in mature markets to the situation in Asia where economic development is concentrated in large cities which are increasingly vulnerable to catastrophic events.

Skyscrapers shifting east

Another significant risk being faced by insurance claims and risk consulting services is the increasingly complex high-rise building construction projects.

By 2020, the average height of the tallest 20 commercial buildings in the world is expected to be close to 600 meters. Alongside the continuous race for record heights, a strong geographical construction shift to the east is taking place. The vast majority of construction projects today are in China, South East Asia and the Middle East. China now boasts 30 of the tallest 100 buildings across 15 cities. Recently, China has announced initial plans for its own tallest building – the Phoenix Towers – in Wuhan.

The constructions of such ground-breaking projects bring uniquely challenging risks for (re)insurers and no two tall building projects are the same. Data availability and accuracy can also be an added challenge. Key risks include the impact of any seismic or natural catastrophic activity - especially flooding - during the construction stage, the threat of wind and fire, building material choice and managing as many as 10,000 workers and 100 subcontractors.

Due to the extraordinary size and value of such largest buildings, the insured value can easily exceed the $1 billion mark, insurance for the complete project is generally granted by a consortium of (re)insurers.

Appropriate insurance coverage is a key part of any holistic risk management strategy. As well as providing all risks building and construction protection, (re)insurers can provide ongoing consultative risk mitigation service, after construction coverage, protecting policyholders against physical structural damages arising from defects in design, materials or workmanship.

Potential growth in Asia

Despite fewer catastrophic occurrences since 2011, Australia, Japan and China are being branded as high prone catastrophic regions. It is interesting to note that Thailand, Indonesia and Philippines are now being regarded as catastrophic regions, after several flood losses in recent years.

On hindsight, "the total economic cost of disaster events in the region in 2013 is estimated to be about $62 billion. Insured losses were $6 billion. (Swiss Re Sigma 1/2014)". The gap between the total economic losses caused by natural disasters and the insured losses is substantial. There is a growing necessity to study and differentiate between economic losses and insured losses; and to search for ways to close this insurance gap.

Even with rapid economic growth in Asia, insurance awareness and penetration remained low. We will continue to see more and more new domestic and foreign insurance companies entering the markets in the region. This will definitely intensify competition, particularly in markets with a high concentration of insurers. In this regard, direct insurance companies will likely seek appropriate risk transfer and implement strategies to safeguard their capital. Whilst reinsurers will be compelled to seek higher premiums commensurate with their claims expertise and experience.

Asia will continue to grow and develop steadily as there are still lots of opportunities, especially offering niche services and products to penetrate under-insured markets. In this context, Allianz Re is well-positioned to offer comprehensive reinsurance services with the aim of making our partners stronger and more resilient to the challenges ahead. Our clients are looking for an excellent rating, the ability to offer high capacities and support across the ceded portfolio. We can bring all the know-how from various Allianz entities to the table, bundle products and grant our clients access to the combined expertise and knowledge from all across Allianz companies in order to strengthen the strategic business relationship.

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