

# RBC rules set to change reinsurance dynamics in Asia

**Allianz Re's** Regional CEO Asia-Pacific, **Mr Kenrick Law**, tells us that while the advent of risk-based solvency regimes in the region could lead to reduced demand for reinsurance by stronger capitalised insurers, opportunity still beckons as buyers move to the next of level of sophistication.

By **Ridwan Abbas**

Some cedants in Asia are reducing the size of their reinsurance panel preferring quality over quantity as insurers become more discerning in their reinsurance purchase, according to Mr Kenrick Law, Allianz Re's Regional CEO for Asia-Pacific.

At a time when reinsurers are facing strong headwinds from rising retention level and a capacity glut, the flight to quality ought to be seen as a positive for larger carriers who have the capability to offer greater technical support and financial security, said Allianz Re's Asia Head.

"We observe that in markets like Australia and Japan, insurers are consolidating their reinsurance panel. Instead of doing business with everyone, they choose those who can provide them the best overall support. Reinsurance buying has become more sophisticated and it's hardly about the cheapest capacity around," he said.

And Mr Law expects this level of sophistication to become more prevalent in other Asian markets as the transition to a risk-based capital (RBC) solvency regime will likely prompt market consolidation and lead to more strongly-capitalised companies in the respective markets.

"We will see more M&A activities in Asia and as the number of insurers reduces, they will also become stronger, hence their demand for reinsurance may also reduce. But on the positive side, they will become more sophisticated in their reinsurance needs and will seek partners with the right expertise.

"The overall reinsurance purchase requirement in Asia is set to evolve over time," said Mr Law.



Mr Kenrick Law

## Equipped for the job

Mr Law was officially appointed Regional CEO & Head of Client Management of Asia Pacific by Allianz Re in May this year, having moved from Asia Capital Re (ACR) where he was responsible for building up its Strategic Business Unit. Prior to that, he was with Swiss Re in various locations.

His varied experience from underwriting to client management and business development serves him well in being able to have a broad perspective of the region, Mr Law said.

"For instance when I go to China, clients appreciate when I tell them how other markets deal with particular issues. Bringing in the know-how from other markets to your clients is something that many Asian markets appreciate and need, markets here are growing very fast and they benefit from learning through the experience of others."

## Areas of opportunity

Asia will continue to grow and develop steadily with lots of opportunities, especially in niche services and products to penetrate under-insured markets. An area which Allianz Re has significant involvement and sees substantial further potential is Agriculture, where it has a broad range of skills and capabilities to support clients by developing insurance products and providing reinsurance protections, said Mr Law.

While Asian cities continue to change rapidly, there is still a massive gap between overall economic losses and those currently covered by insurance. This is especially acute for Asia and for floods in particular.

"Several reinsurers have been developing their own flood assessments and models in the past years, given the heightened state of caution regarding CAT exposures in Asia," he added.

Another area of opportunity is in structured reinsurance solutions. Insurers are now looking for alternative and innovative ways to access capital and reinsurance protection. As RBC demands start to take effect in various markets, insurers will consider reinsurance as a means to provide solvency relief. Hence, reinsurance is becoming an important capital management tool for insurers across Asia.

"Malaysia is a good example: the implementation of RBC led to higher demand for reinsurance in terms of providing solvency relief, and also releasing some of their portfolio to reduce capital requirements," Mr Law said.

Insurers are aligning themselves with partners able to meet their appetites with innovative and tailored solutions. In this regard, the ability to bundle products and solutions from across the Allianz group serves as a strategic advantage, he added. ■