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Asia's reinsurance markets have weathered the global economic turmoil and a greater share of premiums is set to stay in the region, says the CEO of Asia Capital Reinsurance Group.

Asia has displayed a remarkable resilience to the severe recession which haunted the US, the Euro zone and other mature economies. China, India and Indonesia were the only large economies in the world that escaped an economic contraction in 2009, posting inflation-adjusted GDP growth rates of more than 8%, 5% and 4%, respectively. Other economies such as Taiwan, South Korea and Singapore rebounded from the onslaught of the crisis surprisingly quickly. Against this backdrop, most pundits agree that the crisis which originated in the US will accelerate the widely anticipated shift in the global economic balance of power towards Asia. The fact that, in 2010, China will replace Japan as the world's second-largest economy and Germany as the world's largest exporter testifies to this shift.

Attractive reinsurance market fundamentals

These underlying dynamics in Asian economies will bolster the region's reinsurance markets. Excluding Japan, Australia and New Zealand, non-life reinsurance in Asia amounts to annual premiums of about $20bn, more than 10% of the world's total. These markets are highly attractive for a number of structural reasons. The footprint of most domestic insurers remains underdeveloped. Their endemic lack of diversification gives rise to a significant reliance on reinsurance. Further, demand for reinsurance is positively impacted by changes to solvency regulations that require insurers to hold more capital. Also, domestic insurers increasingly turn to their reinsurers to help them capture new market opportunities, for example through pricing and product development support. Last but not least, the long-predicted consolidation of the Asian insurance landscape has not materialized. On the contrary, markets such as China and India have become less concentrated as a result of liberalisation and de-monopolisation, offering new business opportunities for reinsurers.

Renewals reflect economic recovery

The January renewals involve approximately half of the region's treaty business (South Korea and India are important markets that renew later in the year). Contrary to general expectations, Asian reinsurance renewal rates did not soften but, on average, were more or less flat in the post-crisis environment. In the property line of business, pressure on rates because of the economic slowdown in the first half of 2009 was largely offset by natural catastrophe events such as the Padang earthquake in Indonesia, typhoon Morakot in Taiwan and a string of typhoons and floods in the Philippines.

In light of these disasters reinsurers have treaded more carefully than expected in the renewals. Marine business, however, was subject to a clear softening, reflecting a sharp drop in trade volumes and a subsequent decline in ship values, exposures and premiums. Casualty business, on the other hand, exhibited a trend of hardening, not least in light of increasing demand for directors' and officers' liability cover as a result of the financial crisis. In total, reinsurers' expected premium income for 2010 is believed to have grown at a single-digit rate, the main driver being customers' anticipation of a strong economic recovery and their desire to position themselves for the post-crisis underwriting environment. In addition, most recent regulatory changes such as the introduction of risk-based capital solvency requirements in Malaysia and a tightening of solvency standards in China have underpinned the overall growth in reinsurance volumes.

Gazing into the crystal ball

Goldman Sachs projects that by 2025, at a GDP of around $18trn, China's economy will be comparable to America's. India's GDP is expected to surpass Germany's. The emergence of middle classes with considerable spending power suggests that insurance and reinsurance demand will outpace overall GDP growth. Also, as markets mature and policyholder needs become more sophisticated, global mega-trends such as climate change and ageing will translate into specific business opportunities in Asian markets. Therefore, the influx of new players (for example, from Lloyd's or Bermuda) is set to continue, particularly as growth in the developed markets of Europe and North America is likely to remain subdued for the foreseeable future.

More specifically, we expect an increasing share of Asian reinsurance premiums to be retained within the region with international brokers capitalising on the fast growth of reinsurance hubs in various parts of Asia, such as Singapore, Hong Kong, Shanghai and Dubai. Also, if regional reinsurance players such as China Re, Korean Re, Toa Re and Asia Capital Re succeed in matching the financial strength and service capabilities of the main western competitors, the reinsurance landscape in Asia will look different.

Decoupling Asian reinsurance markets?

Given Asia's most recent macro-economic resilience, the decoupling hypothesis is back in vogue. In light of robust domestic demand, strengthening intra-regional trade and a significant leeway in fiscal and monetary policy, Asian economies are believed to be less impacted by business cycles in other parts of the world. Is a decoupling from the global underwriting cycle a realistic scenario for Asia's reinsurance markets, too? At this point in time, the answer is still no. Until now, the regional marketplace is shaped by the global reinsurance players and their capacity though the Asian market shows signs of change. Longer term, however, a decoupling might be conceivable. Real economies and financial markets which are less intertwined with Europe's and America's, coupled with the growing capacity of regional pools and the emergence of Asian players in the global top league could very well give birth to an Asian reinsurance marketplace with distinct characteristics. ●