## zon: Who pays for the clean-up?

**BP PURSUES COSTS CASE**
BP is set to escalate its legal action against Swiss drilling contractor Transocean, with a potential $700m lawsuit currently being prepared in the USA, reported ***The Insurance Insider***. The lawsuit would seek to recoup some of BP's clean-up costs relating to the Deepwater Horizon disaster, which the oil giant said had climbed to $2.65bn.

## Markets

**INSURANCE TOPS GDP**
Global insurance premiums contracted by 1.1% to $4.07 trillion in 2009, less than in 2008, when they shrank 3.6%, Swiss Re said. Life premiums fell 2% to $2.33 trillion in 2009, while non-life premiums remained flat at $1.74 trillion, reported ***Insurance Times***. In most countries (66%), insurance grew faster than GDP. *(tinyurl.com/IT-InsGDP)*

**CEIOPS OUTLINES RISKS**
Insurers' biggest risk is low or decreasing interest rates, as well as risks related to depressed equity markets and volatility of credit spreads on bond instruments, regulatory group Ceiops has said. A prolonged period of economic recession would be particularly challenging for underwriting performance, reported ***Insurance Times***. *(tinyurl.com/IT-Ceiops)*

**RATES FAIL TO RISE**
Reinsurance rates have continued to fall despite major losses from the Chile earthquake and storms in Australia in the first quarter of 2010, Willis Re said. Chilean-specific renewals grew 40%-70%, but they were the exception, reported ***Insurance Times***. *(tinyurl.com/IT-RatesFail)*

**COMMERCIAL RATES MAY RECOVER IN 2010**
Global commercial insurance rates may reverse their falling trend and rise this year if insured losses exceed $35bn, FM Global vice-chairman Ruud Bosman said this month, reported ***Advisen***.

'Deciding how much equity capital to return is a tricky proposition for reinsurers'

**Dominic Simpson**, Moody's

*>>> see News Agenda, page 12*

## View from the market: Asia

Most pundits agree that the global economic balance of power is shifting towards the East. This development has been further accelerated by the recent financial crisis and economic downturn, from which Asia has emerged resilient with its relatively faster recovery. Against this backdrop, an Asian reinsurance marketplace with distinct characteristics is likely to evolve, a prospect that warrants a closer inspection of the region-specific key success factors for market participants.

**Why Asian insurers buy reinsurance**
As in other parts of the world, optimisation of capital is the key motivation for Asian ceding companies to buy reinsurance. With capital becoming scarce and Asian regulators moving towards risk-based capital and solvency requirements, there is an increasing impetus for insurers to use reinsurance to enhance capital efficiency.

Reinsurance is also critically needed to help fund domestic insurers' rapid growth. According to Swiss Re's sigma research, over the past five years non-life insurance markets in China and India have grown at an inflation-adjusted average annual rate of 17% and 9%, respectively.

Another key reason for purchasing reinsurance is to smooth the volatility of underwriting results, particularly as many Asian countries are prone to severe natural disasters. There are, however, striking regional differences. The fragmented insurance markets of Southeast Asia are characterised by retention levels that, in Indonesia for example run as low as 47%. Most local players are small in size, and even the combined market share of the 10 largest firms is far from dominant. As a result, insurers lack meaningful diversification, making them highly reliant on reinsurance.

As local Asian insurers grow in size and sophistication, it is likely that they will enjoy more clout with their reinsurers. In addition, international brokers have built a significant presence in many Asian countries, and their role will continue to strengthen, based on the increasing value of their advisory services and the push for pricing competitiveness and capital efficiency.

Besides funding growth and mitigating volatility, there is a third motivation for buying reinsurance: gaining access to market and product expertise. Many local insurers rely on their reinsurers for product development advice, pricing support and claims management services.

**What Asian insurers expect from their preferred reinsurers**
Asian cedants will favour those reinsurers that are committed to the traditional paradigm of 'following the fortunes' and are willing to offer stable and sustainable capacity. Also, in view of rather thin capital bases, Asian insurers are particularly reliant on prompt claims payments. Furthermore, the ability and willingness to transfer knowledge and expertise are key differentiators for reinsurers operating in the Asian marketplace, even though their intellectual 'monopoly' is starting to erode as brokers and other service providers move up the value chain.

**What it takes to succeed as a reinsurer in Asia**
Culturally, let's not forget about the mantra of the 'Asian' way of doing business, which rests on the development of long-standing and stable business relationships. With that in mind, the most important key success factor for reinsurers in Asia is a long-term approach to developing committed and inclusive relationships with local ceding companies. Stability, sustainability and continuity represent a necessary condition for successfully conducting reinsurance business in Asia.

Other key success factors include the reinsurer's service culture, and the extent and quality of knowledge-sharing through which the reinsurer develops into a trusted adviser. This, however, is no one-way street. Reinsurers, especially foreign players, must be prepared to build a deep understanding of Asia's business and cultural dynamics. The establishment of this sort of concentrated intelligence requires a local presence and a strong business and regulatory network or, in other words, significant investments, patience and perseverance.

**AK Wong is deputy chief executive of ACR Capital Holdings**