Navigating Asia

While the Asian markets may offer tempting opportunities for foreign and local players, companies must ensure they are fully engaged with the region if they want to succeed in such a complex environment, says Tan Chong Liong

Some of the mature G7 economies are embroiled in what some observers believe could develop into one of the most serious sovereign debt crises in modern history. At the same time, the process of deleveraging corporate and household balance sheets is expected to be a drag on these countries' economic growth for the years to come. On top of these challenges, major secular trends such as global warming, aging and the ubiquity of the internet and its applications question traditional ways of looking at political, economic, social and technological risks. No doubt, the global risk landscape is in flux.

The pace of change is particularly pronounced in Asia, the region which displays the world's fastest dynamics in terms of economic growth and societal change. However, for an accurate understanding of evolving trends it is imperative to acknowledge that Asia is all but a homogenous entity. When looking at the continent, three distinct groups of markets should be distinguished: 'The Asia powerhouse' (China and India), 'Emerging Asia' (Indonesia, Malaysia, Philippines, Thailand and Vietnam) and 'Developed Asia' (Japan, Hong Kong, Singapore, South Korea and Taiwan). Between and even within these groups there are marked differences in terms of political system, societal structure, economic development, demography.

A MIDDLE CLASS EMERGES

One of the most conspicuous trends affecting Asia's risk landscape is urbanisation. With a population of 4.1bn, Asia is home to 60% of the world's total. The share of the urban population has increased from 26% in 1980 to 40% in 2005. It is projected to further rise to 55% by 2030.

The breathtaking growth of Asia's middle-income class is arguably the most dramatic and relevant trend reshaping the region's risk landscape. In 2009, with a middle class of about 500m people, Asia accounted for 28% of the world's total. By 2020, the Organization of Economic Cooperation and Development (OECD) expects this number and share to have risen to 1.7 bn and 54%, respectively.

Increasing levels of personal wealth go hand in hand with rapidly growing commercial mortgage markets. China's mortgage market already approaches a volume of US$500bn, half the size of Japan's.

The rapid growth of individual assets is matched by respective developments in the corporate sector. The 1650 listed Asian companies with assets exceeding $1bn boast a total volume of assets of about $37.5 trn, with the combined share of Japan, China and South Korea reaching 80%.

DEMAND DRIVERS

All these trends bode well for the medium to long-term prospects of Asia's insurance industry.

The demand for accident, health and pension products will be boosted by two powerful structural forces: Most Asian countries lack a meaningful social security system.

As a result, more often than not, Asian people have to pay for the respective expenses 'out of the pocket'. For example, in China, India, Indonesia and Vietnam, more than 50% of all medical expenses are funded that way. This offers huge opportunities for private insurers, particularly as many governments actively encourage an increased reliance on private-sector schemes.

MORE COMPETITION

However, a number of challenges loom large. As the risk landscape grows ever more complex, exposure levels are likely to grow faster than GDP. At the same time, competition among insurers is set to heat up as both domestic and foreign players are keen to tap into the market's vast potential. In such an environment, premium rates could drop to levels which are not commensurate with the underlying exposure, potentially threatening the financial viability of some insurers.

Also, as competition becomes fiercer and capital requirements increase (both because of regulatory pressure and exposure growth) pressure for consolidation among insurers is set to intensify. Companies need to decide whether to aim for scale in order to generate cost efficiencies or, alternatively, specialisation, serving a particular niche of the market.

THE BRIEF

- Players must acknowledge the geographical differences within the Asian market
- Huge opportunities but exposure levels may grow quicker than GDP
- Other challenges include increasing litigiousness

INCREASED LITIGIOUSNESS

Global players seek to capitalise on these trends and deploy more capacity to Asia, which will intensify competition and put pressure on market rates in a region that shows favourable loss ratios. Despite the capacity surge in the region, there are still sanguine expectations that the increased capacity will be absorbed by robust demand to cover escalating exposures, leading to a normalisation of rates over the mid-term. The growing complexity and sophistication of Asia's risk landscape is bound to change customer behaviour. For example, litigiousness is expected to become more prevalent as evidenced by an increasing number of Asian customers who try to bring their cases to US courts.

Asian insurers will face new opportunities and a more competitive environment. This is obviously also true for their reinsurers as traditional 'followers of fortune'. This value proposition includes financial strength and security, capital efficiency based on geographical and line of business diversification as well as sound research and advisory capabilities which help ceding companies navigate an increasingly complex risk landscape. ®

Tan Chong Liong, is deputy CEO of Asia Capital Reinsurance Group

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