EMERGING RISKS ARE JUST AS IMPORTANT AS EMERGING MARKETS

Asia Capital Re CEO John Tan says the reinsurer remains on track for growth but says it is still young so is set to stick with what it knows best.

The month ahead will see Asia Capital Re open a new office in Dubai that will add to its several bases across Asia.

For group CEO John Tan the move does not signal a move into new regions, indeed he says the company takes a historical view of the globe.

"We are an Asian reinsurer and for us Asia starts at Turkey. We use the old maps," he adds with a smile.

Mr Tan believes that for a reinsurer in Asia there needs to be a physical presence throughout, with ACR having offices in Singapore, Hong Kong, Taiwan, Japan, South Korea, Vietnam, India and Bahrain.

"I think it is natural especially for us as a reinsurer in Asia. It is expected that we should have offices on the ground," explains Mr Tan. "We don't pretend to do business on a global basis, just in the areas where we are focused, and as such we can do more if we are on the ground."

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"The first thing you have to consider is that our business is all about trust and we are in the security business. If you are not on the ground you may not have the right level of information and therefore you will not have the understanding. It helps to build trust because you are also delivering greater transparency.

"We can also understand the client's expectations and we are in a long term business, so to have a local office is part and parcel of that long term relationship."

Looking at the Middle East Mr Tan says that reinsurers who are looking to target the major risks and the treaty programmes there is still a case where visiting five or six times a year will enable you to participate in their programmes, but being on the ground creates the opportunity for underwriters to accumulate data and build the systems which allow them to analyse and accurately rate the risks they are being asked to assume.

"You get to know the people you are dealing with, the culture of their business and in many ways you become part of the local community."

In terms of Asia the region remains diverse and dynamic.

"In a nutshell, Asia is still developing, although some markets are moving faster such as China, Indonesia and India there is still a lot of room for knowledge development on the perils we face."

HIS FOCUS FOR THE FUTURE IS NOT ON GEOGRAPHIC MARKETS RATHER THE EMERGING RISKS THE MARKET IS SET TO FACE.

However Mr Tan said his focus for the future is not on geographic markets rather the emerging risks the market is set to face.

"We need to consider the issues the industry will face over time," he explains. "Whether that is environmental risk such as pollution or sufficient and security of food and water or whether it is around sustainable pensions and healthcare.

"I think there are a lot of issues where the market has not done a lot and are basically still scratching the surface. It is where I see a lot of development rather than the commoditised business which remains part and parcel of what you do.

"You have to be on the ground to build the resources and prepare for the bigger things we will face in the future."

Mr Tan agrees with those that say the challenge for the re/insurance industry has been and remains the ability to identify the risks of the future and develop the products that effectively meet the needs of the clients.

He adds that if you look at some of the events we have seen in the past two or three years particularly in China, the economic loss had dwarfed the insured totals.

"In the long term this is now what we as a market would like to see, we need to find a way to educate the public and raise the awareness, and at the same time find a solution which we can sustainably provide that will benefit society as a whole.

Mr Tan adds that if you look at the Japanese earthquake and Tsunami the insured loss was around 15% of the country's total premium income, a level Mr Tan says is sustainable.

"Compare that with the losses in Thailand and New Zealand it will take many years, if ever, for the losses to be recouped via the country's premiums."

Therefore different countries will require different support and as such in countries where there is a small population or low penetration, the personal lines premiums will not be able to support the potential exposures posed by the major commercial and industrial risks.

It is for that reason underwriters need to diversify both regionally and globally.

"Depending on the extreme event you maybe exposed to you may well need a global diversification strategy," he adds.

However while China Re had moved into Lloyd's and other regional players are looking to other areas of the globe for ACR Mr Tan says the time is not yet right to look beyond the broader Asian markets.

"I suppose diversification depends on the type of peril and the scale of the book" says Mr Tan. "You have choices, you can take a small amount of the risk which you feel you are comfortable to carry and if the price is right I keep it. Otherwise you can buy retrocession which is another way to diversify my risk. You can either take risk from around the globe to diversify your book or you can diversify via the back door via the retrocessional market."

In terms of ACR Mr Tan says at present there is not a real need for the firm to look to assume global risk in at this stage.

"We are still at a very young age," he explains. "Until we are firmly on the ground and maybe have 20 years of experience know the region so well and built our reserves to the point where we can slowly move out. At the end of the day it is almost inevitable but it is a question of time. It is time and it is the approach you want to take."

"If I want to I can diversify into the retrocessional market if I think the price is right, but if I believe I have the strength on my balance sheet I can look at take on risks. I think the decision to diversify or not depends on your own capability and the strength of your own book."

I THINK EVERY COMPANY NEEDS TO BUILD A MORE ROBUST BUSINESS MODEL. IT IS NOT SIMPLY A CASE TO TAKING BUSINESS BECAUSE IT IS THERE TO BE HAD, YOU HAVE TO UNDERSTAND IT

Mr Tan says he is a great believe in the ethos you stick to what you know. "You cannot really afford to make major mistakes when you are young," he adds.

While ACR has offices in the major markets Mr Tan says there are still places that it can grow into across the region and there is work to do on the delivery of perils mapping and analytics which are now viewed as simply part of the service demanded of the reinsurers and their clients.

"There are still a lot of things that we can contribute over time," he adds. "It is not about simply taking, we want to be on the ground in the region so we can also give back to the clients."

On pricing Mr Tan says the key to pricing is knowing your risks and if you know the risk you can deliver a price which meets the expectations of the client.

"If you have a very good ERM process you will quickly realise where you critical points are and therefore it is not simply about how the markets behave but you also know your thresholds. I think every company needs to build a more robust business model. It is not simply a case to taking business because it is there to be had, you have to understand it. At the end of the day both sides, the buyer and the seller, must win.

"For both to win you have to agree a price which is right for both and is also sustainable over time. If the market is developed the pricing will level off and the cycles will become smaller, if we see deviations of a few percent one way or another you know the market is developed. It also shows how good your data and analysis is."

Mr Tan adds: "I think re/insurance is all about managing risks for people and volatility is creating risks for people so it needs to be managed."

John Tan