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Global Risk Manager

MULTINATIONAL & SPECIALTY **INSURANCE** PERSPECTIVES

REGIONAL REPORT
Captive potential growing in Asia-Pacific

CYBER RESILIENCE
Governments strengthening cyber defences

PARAMETRIC COVERS
Potential but plenty of work still to do

GROWING NAT CAT RISK
Nat cats are on the increase in Asia-Pacific

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The last issue of *GRM Journal* highlighted the bifurcated market, with loss-affected renewals being treated very differently to those less affected. And we noted that despite talk of moderating rates and improvements, the hard market was still in place, and issues such as the war in Ukraine and inflation are likely to keep it that way.

Now, there is an additional pressure. Reinsurers are starting to make very loud noises about pressure on rates and tough reinsurance renewals ahead, which does not bode well for primary renewals.

The reinsurance market has long been the driver in the industry. Conditions in the reinsurance market often filter down into the primary sector. Of course, this is not true in all lines and risks, and the influence may have reduced in recent years.

What is surprising about the current hard market is that the reinsurance market has, as one reinsurance broker puts it, "defied the historical rulebook". Reinsurance pricing has lagged behind the primary commercial market in several classes of business. Even in a class like property-catastrophe business, the reinsurance sector's increases have been way behind property insurers' increases, despite increasing hurricanes, cyclones and secondary events.

But this may be all about to end. The reinsurance market has been remarkably resilient in the last few years, helped by alternative capital, and looking to grow market share, but observers note that a tipping point has been reached.

The warning signs have been there for a while – a surge in retrocession market pricing, climate change creating a 'new normal' for nat cats, Covid-19, and now Ukraine and inflation. The expectation in the reinsurance market would appear to be that 2023 renewals are going to be extremely tough and pricing is under enormous pressure.

There will inevitably be an impact from this on the primary market. It may not be as dramatic as it has been in the past but it will certainly push up prices in certain sectors, not least nat cat-affected property. And it will almost certainly mean that there is very little prospect of any sort of softening market in the near future.

In this issue of *GRM Journal*, the regional focus is Asia, and we examine the increasing issue of nat cats in the region and how businesses can mitigate the effect of extreme weather in Asia. We also look at how captives are growing in importance in the region as the hard market continues to bite. And we look at two major Asian markets: India and China.

The *Journal* also examines cyber risk, and also the growing role of parametric covers.

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GLOBAL RISK MANAGER SUPPORTS

Parametric potential but work still to do

Growing natural catastrophe risks have seen the (re)insurance market harden for such threats and this has led to increased interest in parametric insurance. But while the parametric potential is clear, risk managers will need convincing of the 'new' concept, says *Adrian Ladbury*

Increasingly extreme weather events such as October's hurricane Ian are driving interest in parametric insurance

As risk and insurance managers around the world struggle to find adequate insurance capacity at acceptable prices in key lines such as cyber, D&O and nat cat risks, the global reinsurance sector sent a stark warning about future capacity trends in nat cat during the recent Monte Carlo Rendez-Vous.

In the face of rising nat cat losses and against the backdrop of financial market turbulence caused by Russia's war in Ukraine, reinsurers are playing it safe and pulling back further from this critical line.

The leading insurers will have to follow suit, so risk and insurance managers will find securing adequate nat cat cover even more difficult over time.

The core problem for risk and insurance managers is that traditional techniques to cope with a hard market do not work so well with catastrophic risks.

Captives are enjoying a boom at the moment as risk and insurance managers seek to protect themselves from the rising prices and restricted open-market coverage trends.

There is positive talk among insurance supervisors and even governments (notably in France) about making it easier for corporates to use captives to help build a more resilient economy in the face of rising systemic risks.

But captives are really designed for frequency losses such as fleet motor, not catastrophic losses of the sort brought by increasingly extreme weather events. The level of capital required to cover such events in any meaningful way would be prohibitive.

Increased interest

For these reasons, there has been increased interest shown in parametric insurance of late, not least by leading carriers such as AXA, AGCS and Swiss Re, and specialty MGAs such as Paris-based Descartes Underwriting, insurtechs such as Skyline Partners in London and, of course, the brokers.

On paper, parametric insurance provides the answer to the capacity crunch in the nat cat market.

It brings alternative fresh capacity to bear in a relatively simple manner that theoretically avoids those time-consuming, expensive and embarrassing legal conflicts that tend to come with traditional insurance policies in complex areas.

Marco Adamo, senior structurer of IRS in the EMEA region for Swiss Re Corporate Solutions, recently told *Global Risk Manager*'s sister title *Commercial Risk Europe* why parametric makes sense currently.

"Parametric insurance is an innovative and efficient way to respond to ever-changing customer needs. With their breadth of cover, they are a very powerful tool to fill the gaps in traditional insurance and tackle the challenges that the current environment is imposing on corporations," he said.

"Because they [parametric solutions] are independent from the underlying type of risk, they offer the possibility to tackle those risks that are difficult to insure and indeed fill the gap that traditional insurance is leaving behind," he added.

Grant Maxwell, global head of alternative risk transfer at Allianz Global Corporate & Specialty (AGCS), is also optimistic about the potential for parametric solutions.

"We can expect this segment to steadily grow, in particular in peak risk areas such as cyber risk or natural catastrophes and weather risks, and where risk is ceded to the capital markets," he said.

"This type of insurance is ideal for companies with diverse risk portfolios and multinational exposures – especially in the energy market but in other industries, too. For example, almost every industry – construction, energy, agriculture, aviation, retail, mining – has weather exposures," Maxwell continued.

" With their breadth of cover, parametrics are a very powerful tool to fill the gaps in traditional insurance and tackle the challenges that the current environment is imposing on corporations"

Marco Adamo, Swiss Re Corporate Solutions

Big potential

Mario Tucholke, boss of the recently launched DACH regional arm of Paris-based parametric-focused MGA Descartes, also sees big potential, even in the conservative German market.

"With continued market hardening in recent years, pressure has been mounting on nat cat deductibles and availability of competitively priced capacity, all while corporates are urged to contain their premium spend. Risk managers, more than ever, have to challenge the balance between cost efficiency and building up individual risk covers for their dedicated perils of tomorrow," he said.

"This context, and the reality of climate change, calls for a revolutionary approach to insurance cover. Descartes' new generation of corporate cover meets the demand where the traditional market has fallen short – offering access to fresh capacity and leveraging new

technologies to better assess, model and detect evolving exposures in near real time," continued Tucholke.

"As a result, our covers are more transparent, more efficient, simpler and quicker to pay than corporate covers. We exist so that businesses and society can have trust in their coverage and continuity, despite the next disaster," he added.

Firm figures about the current scale and potential of this market are hard to find, but, clearly it is big and growing.

Skyline Partners, a private equity-funded UK insurtech company focused on parametric insurance, stated recently that the market makes up about 15% of issued catastrophe bonds in a $100bn market.

Research firm Allied Market Research claimed in a report published earlier this year that the global parametric insurance market is expected to reach $21.4bn by 2028, rising at a market growth of 9.6% CAGR during the forecast period.

Impressive numbers, but it is not clear where they come from. Wishful thinking from those who have invested in this market in recent times, perhaps?

Downsides

Despite these figures, anecdotal evidence suggests that the potential for this market remains undecided.

Maxwell at AGCS conceded that there is a problem with frequency, and thus, price.

"When considering parametric solutions however, one must consider that loss expectation drives premium. Experience has shown that often people seek to cover events, on a parametric basis, that give a total loss fairly frequently, say every five years. Unfortunately, they are shocked when the premium comes back at greater than 20% rate on line. One should always take the time to consider how frequent the events are before asking for a quote. The more common and frequent an event is, the more expensive parametric solutions are," he said.

Also, during several recent interviews carried out for *Commercial Risk*'s annual *Risk Frontiers* survey leading European risk managers were asked whether they see parametric insurance as a viable alternative in the current tough market.

The responses were not that positive. There appears to be a definite level of uncertainty about how applicable this alternative 'line of business' will be for the majority of corporations.

During a recent presentation on the potential offered by the parametric market during the GVNW German risk and insurance management association's annual symposium, there was clearly some confusion among risk managers and brokers about how the coverage and claims payments in particular actually work.

"One should always take the time to consider how frequent the events are before asking for a quote. The more common and frequent an event is, the more expensive parametric solutions are"

Grant Maxwell, Allianz Global Corporate & Specialty

The idea that the coverage is neatly simple because the claim is based on an independently verified trigger (level of rainfall, strength of wind, sustained temperature levels) became muddied as the question of indemnity and proof of loss was raised.

The bottom line seems that the customer cannot recover a higher figure than the loss suffered because that would effectively make it a derivative rather than an insurance policy, with regulatory and fiscal implications.

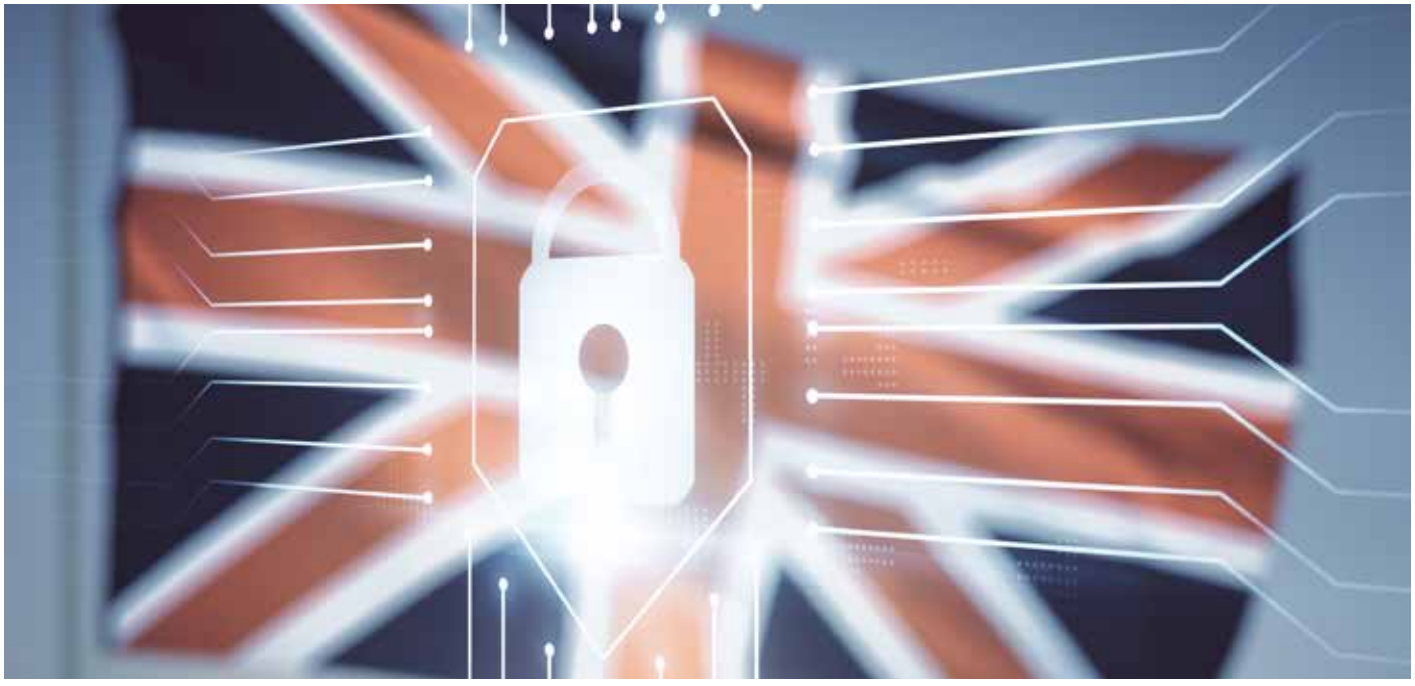
This means that the loss needs to be proven and verified, potentially taking away one of the core values of the product – simplicity, speed of payment and avoidance of legal dispute.

Whether this is really such a problem or not is currently not really that relevant.

Based on this discussion and recent interviews with sophisticated and experienced risk and insurance managers working for major European corporations, it is clear that the parametric insurance market has some marketing and education to carry out to convince customers that it is worth a try, despite the evaporating capacity.

Governments strengthening cyber defences

The UK and French governments, and the EU, are ramping up their efforts to upgrade cyber resilience within businesses, not least in the increasingly vulnerable area of supply chain. *Adrian Ladbury* reports on the fast-evolving cybersecurity landscape



The UK's National Cyber Security Centre (NCSC), part of GCHQ, the UK's central intelligence and security organisation, has issued new cybersecurity guidance in response to a growing trend in supply chain attacks.

The latest guidance issued by NCSC advises organisations to work with suppliers to identify weaknesses and boost resilience.

This forms part of a wider £2.6bn National Cyber Strategy project led by the Department for Digital, Media, Culture & Sport to ramp up the UK's cyber resilience effort, including new legislation planned by the end of November.

The UK's effort on cyber comes as the French government considers a new cyber bill that, among other measures, is proposing that ransomware payments will be insurable.

And late last month, the European Commission (EC) introduced its proposal for a new Cyber Resilience Act to protect consumers and businesses from products with inadequate security features.

Cybercriminals will not be quaking in their boots but it's good to see concrete steps being taken at national and pan-European level.

The UK NCSC's latest guidance comes as it reported that based on its research, just over one in ten firms currently review the risks posed by immediate suppliers.

It said that cybersecurity experts have issued a fresh warning about the threat of supply chain attacks following a rise in the number of incidents, and the NCSC is urging UK firms to step up their efforts in this increasingly critical area.

The NCSC said the new guidance is designed to help medium-sized and larger organisations effectively assess the cyber risks of working with

The UK is ramping up its cyber resilience effort

suppliers and gain assurance that mitigations are in place.

Supply chain

Supply chain attacks can cause far-reaching and costly disruptions, yet the latest government data shows just over one in ten businesses (13%) review the risks posed by their immediate suppliers, while the proportion for the wider supply chain is just 7%.

Ian McCormack, NCSC deputy director for government cyber resilience, said: "Supply chain attacks are a major cyber threat facing organisations, and incidents can have a profound, long-lasting impact on businesses and customers.

"With incidents on the rise, it is vital organisations work with their suppliers to identify supply chain risks and ensure appropriate security measures are in place.

"Our new guidance will help organisations put this into practice so they can assess their supply chain's security and gain confidence that they are working with suppliers securely."

Minister of state for media, data and digital infrastructure, Julia Lopez, said: "UK organisations of all sizes are increasingly reliant on a range of IT services to run their business, so it's vital these technologies are secure.

"I urge businesses to follow this expert guidance from our world-leading National Cyber Security Centre. It will help firms protect themselves and their customers from damaging cyberattacks by strengthening cybersecurity right across their supply chains."

The guidance has been published in conjunction with the Cross Market Operational Resilience Group, which supports the improvement of the operational resilience of the financial sector, though the advice is for organisations in any sector.

It aims to help cybersecurity professionals, risk managers and procurement specialists put into practice the NCSC's 12 supply chain security principles, and follows the government's response to a call for views carried out last year, which highlighted the need for further advice.

The NCSC guidance describes typical supplier relationships and potential weaknesses that might expose their supply chain to attacks, defines the expected outcomes and sets out key steps that can help organisations assess their supply chain's security.

Cybersecurity

In addition to guidance focused on improving supply chain cyber resilience, the NCSC has published a range of advice to help organisations improve their own cybersecurity.

"UK organisations of all sizes are increasingly reliant on a range of IT services to run their business, so it's vital these technologies are secure."

Julia Lopez, UK minister of state for media, data and digital infrastructure

This includes the *Ten Steps to Cyber Security* guidance, aimed at larger organisations, and the *Small Business Guide* for smaller organisations.

The NCSC and the Information Commissioner's Office (ICO) – the independent authority created to uphold information rights in the public interest – also recently launched a new campaign advising companies not to give in to ransomware requests.

The NCSC said that, as of 2021, the average cost of a cyber incident to organisations in the UK was highest in the energy sector, with a median cost of $35,439 per cyber event (Source: Statista).

Other business sectors where the impact cost of a data breach are high include financial services, retail and wholesale, pharma and healthcare, transport and distribution. The costs were lowest in the travel and leisure industry.

In September, Lindy Cameron, NCSC chief executive officer, said there had been a recent rise in payments to "ransomware criminals", adding: "Ransomware remains the biggest online threat to the UK and we do not encourage or condone paying ransom demands to criminal organisations."

John Edwards, UK information commissioner, added: "Engaging with cybercriminals and paying ransoms only incentivises other criminals and will not guarantee that compromised files are released. It certainly does not reduce the scale or type of enforcement action from the ICO or the risk to individuals affected by an attack.

"We've seen cybercrime costing UK firms billions over the last five years. The response to that must be vigilance, good cyber hygiene, including keeping appropriate backup files, and proper staff training to identify and stop attacks. Organisations will get more credit from those arrangements than by paying off the criminals."

The rise in ransomware attacks is one of the main reasons for the £2.6bn National Cyber Strategy, explained the NCSC. Part of the strategy was the creation of the National Cyber Crime Unit within the National Crime Agency, to bring together law enforcement experts into a single "elite" unit. There is also an established network of regional cybercrime units to provide access to specialist capabilities across the country.

French approach

The UK approach to ransomware interestingly contrasts with that recently taken by the French government.

In early September, French insurers were given the go-ahead by the Ministry of Economy to cover the ransoms paid by companies that fall victim to cyberattacks.

The ransom payments can, however, only be covered if the victim entity files a complaint. This decision was to be proposed in a new bill to be discussed in parliament in October.

French risk management association Amrae welcomed the forthcoming bill as the move looks set to make it more difficult for insurers in France to justify refusing to pay ransoms after some, including the biggest French insurer AXA, ruled out payments on grounds that they fuel criminal activity, as argued by the UK's NCSC.

The French government said the goal is to boost transparency and better understand cyber risks, so that the insurance market can work on modelling and take steps to boost risk prevention among clients.

Another proposal in the report is broader exchange of information between the public and private sector about cyber losses.

EC approach

Also in September, the EC presented its proposal for a new Cyber Resilience Act to protect consumers and businesses from products with inadequate security features.

> **"When it comes to cybersecurity, Europe is only as strong as its weakest link – be it a vulnerable member state, or an unsafe product along the supply chain"**
>
> ***Thierry Breton, EU commissioner for the internal market***

A first ever EU-wide legislation of its kind, it would introduce mandatory cybersecurity requirements for products with digital elements, throughout their whole lifecycle.

The Act was originally announced by EC president Ursula von der Leyen in September 2021. She said that building on the 2020 EU Cybersecurity Strategy and the 2020 EU Security Union Strategy will ensure that digital products, such as wireless and wired products and software, are more secure for consumers across the EU. The Act will also increase the responsibility of manufacturers by obliging them to provide security support and software updates to address identified vulnerabilities. This will enable consumers to have sufficient information about the cybersecurity of the products they buy and use, said the EC.

Thierry Breton, commissioner for the internal market, said: "When it comes to cybersecurity, Europe is only as strong as its weakest link – be it a vulnerable member state, or an unsafe product along the supply chain. Computers, phones, household appliances, virtual assistance devices, cars, toys... each and every one of these hundreds of millions of connected products is a potential entry point for a cyberattack. And yet, today most of the hardware and software products are not subject to any cybersecurity obligations. By introducing cybersecurity by design, the Cyber Resilience Act will help protect Europe's economy and our collective security."

The EC's impact assessment carried out as part of the process to introduce the Act estimated that the annual cost of data breaches is at least €10bn, while the annual cost of malicious attempts to disrupt traffic on the internet is estimated to be at least €65bn.

The European Parliament and Council will now examine the draft Cyber Resilience Act. Once adopted, economic operators and member states will have two years to adapt to the new requirements. An exception to this rule is the reporting obligation on manufacturers for "actively exploited vulnerabilities and incidents", which would apply one year from the date of entry into force, since it requires fewer organisational adjustments than the other new obligations, said the EC.

Captive potential growing in Asia-Pacific

Captive enquiries are increasing in Asia-Pacific, and existing captives are broadening the range of covers they provide. The main domiciles, Singapore and Labuan, are growing, but much-touted Hong Kong is still to take off as a captive centre. *Tony Dowding* reports

Hong Kong has been much touted as a captive centre but is yet to fully take off

The captive sector globally has seen a surge of interest as the hard market has taken hold. But the captive concept has been a slow burner in Asia compared to Europe and the US. Nevertheless, it would seem Asia-Pacific has seen a recent increase in captive enquiries, according to captive managers.

Stuart Herbert, captive solutions leader, Marsh Asia and Pacific, says: "The level of enquiries we have received in the last year or so has eclipsed those of prior years, and these are much more focused on pressing needs due to the difficult market conditions many are facing. Within the last two years, our Asia-based domiciles have seen significant increases in the numbers of captives being formed, increase in the use of existing captives and additional use of cells within protected cell captives (PCC)."

The reasons are not difficult to find, as Michael Dunckley, director, analytics, AM Best, explains: "High and largely still rising rates for commercial risks are driving corporate risk managers to think harder about how to create cost savings. New captive formations are being driven by an alignment of factors: hardening commercial (re) insurance market, increasing sophistication of risk management at sponsor companies, continued attractive captive domicile jurisdictions, and the assistance of third-party professional captive managers."

Captive potential realised?

But is the current increase in captive enquiries in the region seeing the captive solution properly taking off in the region or is there still a certain reluctance from corporates in Asia-Pacific. Is it

still about potential rather than it being realised currently?

Paul Wöhrmann, head of captive services EMEA, APAC and Latam at Zurich Insurance Group, says: "We believe that while market participants in Asia have a good knowledge of the potential uses of captives and PCC solutions, there is less practical application experience than compared to Europe. Therefore, we try to introduce interested Asian customers to European captive owners and risk managers, who are anchored in the same industry, to exchange experiences. As we maintain an ongoing dialogue with our captive customers, we have already been able to set up several meetings with companies in Asia that are interested in a captive solution."

Marsh's Herbert says they are having much more focused and specific conversations, which are leading to additional captive or cells being formed. "As with many markets that are seeing difficult conditions for buyers, the level of interest is increasing as are the discussions and initial explorations. What is gratifying is that these conversations are leading to more actual studies and formations at perhaps a higher rate than in the past. This is due in part to the premiums now costing significantly more than the past and thus the financial benefits of assuming additional risks, along with the ability to manage the changes in coverage terms, are much more tangible to these customers."

Another captive manager, Alastair Nicoll, regional director, captive management, Asia-Pacific, Aon, notes that Asia-Pacific is relatively immature as a captive market from a global perspective, with several large Asian countries such as India, Indonesia and China having very few captive owners.

"For those corporations that do not own a captive, more of them are considering owning one, as can be seen from the increasing enquiries. However, the preparation time for a new captive is longer in Asia due to additional scrutiny, the internal decision-making processes, the hierarchy structure in family groups and the government ownership that is often involved. Therefore, 2022 may not see many new captive owners," he says.

Captive usage

Clearly, captive growth and usage is not just about enquiries and new captives. Growth is also being seen in the region in terms of greater use of existing captives, both writing more premium and moving into new lines.

"Over the last 20 years, we have seen European captive customers consistently increase their captive risk participation, and I could see a similar development for Asian companies," says Wöhrmann. "Strategically, Asian companies will look at captive and PCC projects using similar criteria like the companies in Europe, namely: optimisation of the insurance structure and managing the insurance cycle, access to the reinsurance market and alternative markets, strengthening of the core businesses, managing emerging risks (such as cyber), and an opportunity to manage a holistic view (life and non-life)."

"While market participants in Asia have a good knowledge of the potential uses of captives and PCC solutions, there is less practical application experience than compared to Europe"

Paul Wöhrmann, Zurich Insurance Group

Herbert points to premium increases and lines per captive seeing growth during the last couple of years: "Even within lines, such as liability, we have captives operating at different roles – often it is an 'increased deductible' management tool, whereas in the last few years they have also been assisting in completing layers, limiting difficult conditions within specific reinsurers or controlling the overall pricing on a layer."

Growth in the premiums in the aggregate southeast Asia captive market is being driven by a combination of new captive formation, rate increases and new lines of business being

brought into the ambit of existing captives, says AM Best's Dunckley.

"Some captives do not cover the entire insurance purchase of their sponsors. Pushed by higher international commercial rates, we see captives looking to write risks that might previously have been placed in parallel to the captive. As a result, we see some captives writing new lines of business, which can include liability lines such as D&O, PI and environmental risks," he says.

He adds: "Many corporates are looking to initiate or increase cyber cover at the same time as we are seeing a higher rate environment for this line of business. As with existing risk portfolios, captives are being used to aggregate, manage and transfer this risk at a whole-enterprise level."

New risks for captives

Captives in Asia have traditionally focused on property or general liability risks, together with workers compensation and motor, say captive managers, but in recent times, cyber, errors and omissions, professional indemnity and D&O are increasingly featuring in captive feasibility assessments, or being written in captives.

Aon's Nicoll says an increasing number of captives are writing cyber risks: "With cyber and ransomware attacks increasing, insurers are still in recovery mode and as such, organisations are leveraging captives for short-term relief from increasing cyber insurance price levels."

Wöhrmann says that currently, captive owners in Asia-Pacific are exploring and underwriting new risks in their captives, such as cyber, supply chain business interruption, catastrophe parametrics and certain financial line extensions. He says that for many companies starting a captive or PCC project, the first objective is to optimise local retentions in the countries where they operate through a reinsurance solution. And he adds that Zurich is also seeing a continuing interest in including employee benefit insurance in captive reinsurance for diversification reasons.

Jason Shum, associate director, analytics at AM Best, says the business written by a captive largely depends on the captive parents' business activities and business plans, which may vary from one conglomerate to another. But in general, he says captives in Asia have the following considerations:

- Expand coverage in areas which they know well;
- Seek to write and/or retain more profitable risks in their existing portfolios;
- Write more profitable third-party business (such as business partners or employees of the captive parents);
- Support the captive parents' ESG initiatives (if applicable).

Asia-Pacific domiciles

Asia benefits from two attractive key captive domiciles, Singapore and Labuan, which offer attractive tax environments, and specific solvency treatment for captives, according to AM Best's Shum, and he sees continued growth in captive establishment in both of these key domiciles, with Labuan in particular seeing a rise in PCCs.

His colleague Dunckley points out that Singapore has extended the period for the scheme under which captives pay a concessionary 10% tax rate until 2025. Additionally, he says, Singapore provides certain grants to captives, which they can use to upgrade their data management capability. He believes this is a signal from Singapore that it is keen to maintain an attractive environment for captives to operate.

As for Labuan, it currently has a formula-based solvency regime, which allows for significantly lower minimum solvency for a captive (MYR0.3m) compared to MYR7.5m for a general insurer. Dunckley explains that the Labuan FSA is moving to a risk-based solvency regime, with guidelines recently announced which indicate that captive insurers will be excluded from the new requirements. This is an indicator that Labuan does not want to add regulatory burdens to captive insurers, says Dunckley.

Hong Kong

Hong Kong has long been touted as a captive domiciles but there has been little recent activity. Over the medium to long term, Best expects the Chinese government's direction of supporting

An increasing number of captives are writing cyber risks

Labuan in particular is seeing a rise in PCCs

state-owned companies to set up captives as a risk management vehicle will boost the number of captives in Hong Kong. However, Shum says over the short to medium term, the strict border restrictions between Hong Kong and mainland China due to Covid-19 have hindered the captive establishment in Hong Kong in the last two years.

Hong Kong recently moved into the insurance-linked securities (ILS) space and has attracted markets to base their vehicles in the region, and has introduced a grant scheme to attract ILS capital to Hong Kong. Aon's Nicoll says this has been effective based on their results but there has not seen a corresponding increase in enquiries from corporations about Hong Kong as a captive domicile.

Marsh's Herbert adds: "There has not been significant growth in captive numbers at this stage, both from the standpoint of a Chinese sponsorship nor international ownership. This is likely an impact of geopolitical tensions around the world as well as ongoing transformation of Chinese insurance industry, and it will take some time to develop the market further."

He goes on: "In regards to specific Chinese market focus and use of captives, we saw more organisations starting conversations about this concept internally and externally, especially when their international operation felt the pressure from the hard market or they have difficulty finding sufficient capacity for liability coverage within the Chinese market."

India

Elsewhere in Asia, there has been some talk of Gujarat International Finance Tec-City (GIFT) in India seeing the development of a captive sector in India.

However, Herbert says that at the moment, there is no change to the published rules of the GIFT that provides any specific framework for captives and it remains focused on insurance and reinsurance of 'general' insurers, with restrictions on types of coverage for Indian-'owned' insurers.

But he notes: "There has been some activity on the captive front with India-based companies, although at this stage it continues to be very limited. There is considerable built-up interest to utilise these types of vehicles and so, where onshore or offshore, should rules alter to allow the establishment and operational efficiency of captives, then there will be significant growth developed."

Parametric solutions

Given the nat cat exposures in the region, and the increasing interest in parametric insurance, there has been the suggestion that captives could perhaps be an appropriate vehicle for such covers. However, Herbert says that within the Asia-Pacific region, while Marsh is seeing development of the ILS market, this is being undertaken using special purpose vehicles as opposed to captives, given the desired structure of these deals.

"Whilst demand for parametric insurance is growing, there is limited activity in utilising captives for this. However, like most insurance, in cases where the risk is better understood or markets are unable to provide levels of coverage required, captives are or can be a useful tool in helping manage the cost of risk and risk volatility that organisations are willing to undertake," he says.

Dunckley says that given the range and severity of weather and earthquake risks in Asia-Pacific, many captives need to secure effective

There may be opportunities to use captives for ESG initiatives

reinsurance to protect against peak losses. "In addition to traditional reinsurance, captives can access parametric reinsurance through the reinsurance market. For some reinsurance purchasers, these solutions have the advantage of being cost-effective, straightforward and providing quick claims settlement."

But he goes on: "However, we do not see this being widely used amongst captives due to basis risk between the loss pattern of the captive and the claim received from the parametric product in the case of a natural catastrophe event. Captives vary widely in the nature of risks covered. Taking the example of the captive of a multinational company with large physical assets spread worldwide over several cat zones – it might be difficult to find a parametric cover where the claim payment would be close to the insured losses incurred by that organisation. Where this coverage gap exists, the captive may be failing to provide effective risk management to its sponsor corporation."

ESG role for captives

Another area that is increasingly being discussed in relation to captives is environmental, social and governance (ESG). Many are asking whether there are opportunities for captives to play a role in ESG.

Herbert believes there are: "By their very nature, captives often support the 'governance' aspect in that it is a formal, regulated vehicle that has its own governance, solvency and oversight. Being established to protect the organisation against risks, captives will offer the parent organisation a structured way to make informed risk decisions and enhance the implementation of ESG programmes."

He adds: "Where the market, due to its own restrictions, is unable to provide coverage, captives can step in to provide some degree of support for their parent organisation in assisting to manage these changes, allowing some organisations to manage transition between business models in a controlled manner and affording time to accumulate funds to continue operations."

Aon's Nicoll agrees: "With increasing focus on ESG issues, there is a growing need for environmental risk to align with the ESG aspirations of multinational parent companies. Faced with increased pressure from investors, governments, regulators and consumers, organisations must assess their ESG profile and define their ESG strategy, and captives can play a key role here. For example, they can support microinsurance in developing countries as a CSR initiative, while investing captive assets in accredited ESG fund instruments."

AM Best's Shum believes there may be opportunities to use captives for ESG initiatives, such as applying alternative strategies to mitigate climate risk (to support eco-friendly projects) and/or to cover some uninsured risks (in which such protection gap might lead to social problems).

"Nonetheless, it ultimately comes down to value, and whether there are appropriate situations for captives to demonstrate their value over traditional insurance," he says. "Thus, opportunities for captives to play a role in ESG may be subject to whether they can demonstrate significant edge over traditional insurance in covering the parents' ESG initiatives, or provide protection for activities that might be difficult to insure, or insufficiently covered traditionally."

Growing nat cat risk in Asia

Natural catastrophes are on the increase around the world and the Asia-Pacific region is no exception in facing increased climate risk. Capacity for nat cat exposures is constrained globally but insurers believe that despite the increase in nat cats, weather-related risks remain insurable in Asia-Pacific. *Tony Dowding* reports

Four of the five largest earthquakes globally occurred off the coasts of Sumatra and Japan in the last 20 years

The Asia-Pacific region has seen higher natural peril losses than the long-term average in recent years, as with much of the rest of the world. In particular, losses have been driven by secondary perils such as hail, flood, storm and bushfire.

There were 64 large natural catastrophe events in 2021 in the Asia-Pacific region, where insured losses were more than $10bn and secondary perils, including the secondary effects of primary perils, accounted for 59% of the insured losses, according to Andre Martin, head of innovative risk solutions Asia-Pacific, Swiss Re Corporate Solutions.

He says the Asia-Pacific region is exposed to almost every natural peril, pointing out that many countries in Asia-Pacific sit on the 'Pacific Ring of Fire' and therefore experience some of the world's most extreme earthquakes and volcanic activity. According to the United States Geological Survey, four of the five largest earthquakes globally occurred off the coasts of Sumatra and Japan in the last 20 years.

Martin explains that nearly one third of the world's total tropical cyclone activity happens in Asia-Pacific and the west pacific is also known for producing some of the most intense cyclones worldwide. In many parts of the Asia-Pacific region, secondary perils, which include hail, flood, storm and bushfire, are the risks of highest concern and occur most frequently, causing severe damage and loss of life, he says.

Paul Hough, technical director – Asia, McLarens, says incidences of natural catastrophe have been increasing within Asia-Pacific both in terms of numbers and incidence. "In the past year we have seen significant flooding events in Malaysia and more recently in Korea, Pakistan and other territories. Traditional flood protection

measures have not been able to cope, resulting in a significant increase in both insured and uninsured losses," he says.

Andy White, chief underwriting officer, QBE Asia, points out that Australia has long been known as "the land of droughts and flooding rains" but has seen unusually frequent and severe floods and bushfires during the last five years. Earlier in 2022, floods caused losses of more than A$5bn across southeast Queensland and parts of northern New South Wales, making it the costliest flood event in the country's history.

Indeed, Martin says that generally speaking in Asia, due to the presence of heavily urbanised areas around large river systems and the significant influence from monsoon season, flood represents the costliest natural hazard, both for insured and economic losses.

Protection gap in Asia-Pacific

Martin explains that Asia-Pacific is especially exposed to climate risk and has a much lower insurance penetration than Europe or North America. In 2021, only 16% of all economic losses in Asia were insured, resulting in a $51bn protection gap.

"In particular for floods, there seems to be a large protection gap globally – and this is also reflected in Asia. In 2021, flood-related insured losses in Asia were $3bn, or 11% of economic losses. In Europe and North America, the shares of economic losses covered by insurance were 32% and 36%, respectively," he says.

McLarens' Hough says the protection gap "is, in the main, because of economic circumstances and the penetration of insurance within these typical markets", adding: "In many areas, commercial businesses that have loans will be required by their lenders to have insurance. However, where lenders are not involved there is less appetite for insurance in developing nations."

Martin notes that ongoing natural catastrophe loss activity in recent years and the hard market cycle in general have put some constraints on available nat cat capacity globally. "We also have seen an adjustment in nat cat pricing to ensure that insurers and reinsurers are able to continue to offer insurance products on a sustainable basis," he says.

He adds: "While we see a trend of increasing frequency and severity of weather events, in particular of secondary peril events like flood, the full extent of the impact of climate change is complex. Overall, we believe weather-related risks remain insurable, but the time to act is now."

QBE's White says a number of reinsurers, globally and locally, have recently noted a reduction in their ability and willingness to insure property against natural catastrophes, or have significantly increased the cost of doing so.

"There are some markets that are seeing a contraction of available reinsurance capacity, requiring insurance companies to retain more risk themselves and increasing the cost of this coverage"

Andy White, QBE Asia

"These pressures do vary around the world and some markets are experiencing these pressures more than others. Closer to home, there are some markets that are seeing a contraction of available reinsurance capacity, requiring insurance companies to retain more risk themselves and increasing the cost of this coverage," he says.

But White adds that there are a number of things customers can do to maximise the chances of capacity being available, including collating complete and robust information on their assets, ensuring strong risk management practices and a long-term relationship with their insurer.

Managing the nat cat risk

Indeed, there is much that risk and insurance managers and their companies can do to reduce the impact of nat cats. Swiss Re Corporate Solutions' Martin says continued investments in mitigation, proper planning and resilience measures are key, although he acknowledges

Jakarta will cease to be Indonesia's capital city in August 2024, in part due to its high risk of flooding and earthquakes

that while there has been good progress, risk mitigation measures have ultimately not kept pace with the rise in value accumulation (human and physical capital).

He says the first step is to quantify the exposure – and not only the potential impact from a company's physical assets but also potential pure financial impacts caused by nat cat events, such as supply chain disruptions from a key supplier or loss of attraction of a tourist destination.

"The extent and severity of the Covid-19 pandemic have certainly made corporate risk managers become more risk alert. Many companies have been taken by surprise and are now going through their risk registers to see if there are no other exposures that they might have missed or underestimated," says Martin.

McLarens' Hough says: "We have seen over the years that countries have taken time to increase protections from natural catastrophes by using better and more advanced building codes to prevent losses from earthquake, tsunami and typhoon. Similarly, there have been sea and river defences built to guard against flood/water effects, including improving drainage systems to reduce the effects of flooding."

He adds: "In the more extreme cases we have seen governments taking drastic measures, such as the Indonesian government moving the capital city, which in part is driven by the land sinking in Jakarta, thereby increasing the risk of flooding. This measure will also move the capital to an area less susceptible to earthquakes. The challenge is whether these measures are keeping up with the increased intensity of nat cats across the region. The 'one in a 100 years'-type of event is occurring more regularly and the insurance community will need to consider whether more effective loss prevention measures can be developed."

QBE's White points to a number of steps that businesses can take to mitigate the impact of nat cat events. For example, when deciding where to locate a business, the level of natural catastrophe risk should be a consideration – locating a business on the banks of a river may expose it to flood risk, for example.

With the risk of wildfire, combustible material should be kept away from the property, including clearing gutters of dried leaves. And to reduce the loss of contents if a flood event occurs, key equipment should be elevated and kept out of basements. "Historically, a lot of damage has been caused to electronic equipment that was kept in basements and then inundated when a flood occurs," says White.

Other considerations highlighted by White include having clear, robust and tested disaster recovery procedures with, if possible, processes

spread across multiple locations so that if one location is unavailable, the others can take over and business can keep running. Also, supply chain continuity is another key consideration, he says, pointing to the aftermath of the Thailand floods of 2011. "It's important as far as possible to avoid any critical single-point dependencies on individual suppliers or suppliers from one geographic location," he says.

Catastrophe modelling has improved considerably over the years, but there are still some issues, especially in relation to flood risk. A recent Swiss Re sigma report, *Natural catastrophes in 2021: the floodgates are open*, states: "The insurance industry continues to approach flood risk stemming from tropical cyclones as an optional consideration in modelling. Exposure data often exclude flood-specific information, and tropical cyclone models often do not account for the inland flooding resulting from a storm's heavy rainfall. On this basis, we estimate industry models may understate the full loss impact of cyclone risk in Asia-Pacific, for instance, by 20%–25%. This is an understatement that can and should be rectified."

"In the past year we have seen significant flooding events in Malaysia and more recently in Korea, Pakistan and other territories"

Paul Hough, McLarens

Alternative solutions: parametric covers

Martin says Swiss Re Corporate Solutions is seeing an increasing number of risk managers turning to the alternative risk transfer markets to find solutions to fill the gaps of their current insurance programmes. "Parametric or index-based solutions have become increasingly popular and have proven to be quite powerful instruments for both governments and corporations across industries, to fill gaps in traditional insurance programmes and transfer some of the climate-related exposures not covered by conventional insurance," he says.

He explains that these parametric solutions can provide cover for traditionally uninsurable perils or asset classes, like too many rainy days delaying a construction project, with the formulaic loss payout allowing for a very transparent, quick and hassle-free claims settlement.

The most popular applications for parametric insurance are currently still for nat cat perils such as earthquake, typhoon and flood/drought, although Martin says they are also seeing an increasing interest in requests for protection against adverse or inclement weather like too many hot days or excessive rainfall.

Martin notes that recent advances in data analytics and reporting have allowed the insurance sector to come up with new indices and better structures that allow a closer match of the payout with the actual economic impact in case an event occurs, thereby reducing the basis risk.

Some of these have been enabled by strong partnerships, he says. "In Japan for example, we have partnered with a leading seismograph manufacturer to provide parametric earthquake insurance using site-specific data from compact seismographs, providing corporates with faster and more accurate seismic intensity data, which will result in a quicker claims payout," he says.

QBE's White says parametric covers have some advantages, including potentially quicker payment of claims as validation of loss is simplified, and can also therefore be a valuable tool for policies with low values and premiums such as the microinsurance products offered to clients with low incomes in several parts of the world.

But he says a key disadvantage is that they may not match the actual cost of damage caused by a natural catastrophe, so may be insufficient to reinstate a home or business. He adds that there are also some regulatory and tax challenges with their operation as an alternative to (re)insurance, which differ by country.

Hard market in India but liberalisation continues

The Indian insurance market is facing similar issues to other global insurance markets, with rates still hardening and terms and conditions in some lines, notably liability, tightening. The market is seeing some consolidation but also a gradual opening up to foreign insurers. *Tony Dowding* reports

Historically, the Indian insurance market has seen a fair amount of consolidation

According to the Insurance Regulatory and Development Authority of India (IRDAI), the general insurance industry underwrote total direct premium of INR1.99 lakh crore in India for the year 2020-2021, as against INR1.89 lakh crore in 2019-2020, registering a growth rate of 5.19% as against 11.49% growth rate recorded in the previous year.

Property and liability

"For large companies, the Indian insurance market is competitive in terms of pricing for all lines of business except property," says Sanjay Kedia, country head and CEO, Marsh India. "Even the property insurance market in India was highly competitive till 2019. In 2019, the national reinsurer prescribed a minimum mandatory reinsurance price for the insurers to cede their risk in the treaty, which brought the fixed pricing regime back and made the Indian market behave like a tariff market. Consequently, the Indian insurance market has no price competition in the fire and engineering insurance line of business."

In India, very large companies with a huge property exposure at a single location with a sum insured of more than $350m are allowed to buy reinsurance-driven policies, which are often more competitive, Kedia explains. But for the vast majority of corporates, whose sum insured is lower than $350m at a single place, since 2019

there is no price competition and no freedom with regard to policy terms and deductibles.

As for liability insurance, the Indian market provides access to global policy terms and products, and pricing in liability insurance remains very competitive, given the Indian market traditionally is less litigious, says Kedia, and the overall claims ratio, compared to other mature markets, remains on the lower side.

He explains that IT, ITES companies and financial services companies have started buying cyber insurance policies, with each year seeing higher demand and increased limits for such policies in India.

He also points out that India is a large service industry hub and most global services companies have set up back offices and knowledge-centre operations in India. These companies employ a large workforce and hence have a huge outlay on employee health and benefits-related areas. He says group medical plans are widely prevalent among all employers and are highly price competitive, offering a lot of choice depending on the needs of the insured.

Market hardening

Property lines have witnessed a hardening of rates during the last three years, says Kedia, but they have currently stabilised. However, there is still significant hardening of rates in liability lines, especially cyber.

"We are witnessing some tightening in underwriting in liability insurance. For instance, insurers have started to restrict total exposed limits and ransomware-related coverages for cyber policies. The higher loss ratios have led to stricter measures such as restricting capacity and coverage. A few insurers are sub-limiting cyber claims to a maximum of $5m with a 50% co-insurance clause," he says.

He adds: "Insurers have revamped their underwriting guidelines to focus on better risk selection. They now require additional ransomware questionnaires and responses, which dictate the pricing, coverage and capacity on offer. The uptick in ransomware losses has also led some insurers to run outside vulnerability monitoring, using third-party vendors, for common vulnerabilities and exposures."

India is facing a capacity crunch in liability lines, especially cyber. Kedia says clients are demanding higher capacity although the market has limited capacity, especially since the reduction of capacity by leading reinsurers this year. "Critical vulnerabilities and volatile market conditions are creating major cyber capacity issues in the market. Demand for cyber insurance is currently growing more steadily than the capacity on offer. In particular, the loss-exposed sectors require proper risk coverage: healthcare, services, retail, the manufacturing sector, government institutions including the education sector, as well as financial services providers," says Kedia.

He adds: "Other than that, we continue to see limited capacity in the market on some niche areas like stock throughput policies, clinical trials, and kidnap and ransom."

Consolidation

Historically, the Indian insurance market has seen a fair amount of consolidation activity and this has become more relevant in the last few years, according to Annie Arya, senior associate, Khaitan Legal Associates. "Top players in the market control a majority of the industry and this would continue as they expand their exposure to include smaller players with niche capabilities or novel business propositions," she says.

She notes that in India, large insurance companies are operated through joint venture partnerships between global insurers and large Indian corporate houses. The Indian market began to liberalise for foreign players in the 2000s. With the Insurance Act being amended in 2015, the limit for foreign direct investment (FDI) was increased to 49% without government approval. In 2021, the central government raised such foreign limits to 74%. The increase of foreign investment limits also relaxed the existing 'Indian owned and controlled' requirements for insurers.

On the reinsurance side, India has just one domestic reinsurer – GIC Re. Branches of foreign reinsurers were permitted to set up in 2016 and India saw the entry of global players such as AXA France Vie, Swiss Re, Munich Re, XL Catlin, Hannover, RGA and Allianz into the Indian reinsurance market through their domestic branches, says Arya.

She adds that for insurance intermediaries such as insurance brokers, agents etc, an amendment to insurance laws and the FDI policy brought about a relaxation in foreign investment limits and FDI was permitted to 100%, and there are several insurance intermediaries now that have foreign parties as majority shareholders.

Marsh's Kedia says that with India being an underpenetrated market, there is huge potential to grow. According to various market estimates, the Indian general insurance market is expected to grow by 15%-17% during the next three to five years, he says, and many new insurers are entering the Indian market.

Non-admitted insurance

India does not allow non-admitted insurance and Kedia explains that global insurers can participate

Mumbai, India: as an underpenetrated market, the country has huge potential to grow

in India as a direct insurer or reinsurer giving capacity on treaty insurance and risk-based facultative insurance.

A few selected lines like marine cargo insurance, marine liability, and protection and indemnity insurance can be bought from an insurer not registered in India on a non-admitted basis, following a declinature process. If at least two government and private insurance companies registered in India decline in writing, then the client can approach the government for permission to buy such insurance on a non-admitted basis from an insurance company not registered in India, explains Kedia.

Khaitan Legal's Arya says overseas non-admitted insurers are not permitted to undertake direct business in India, and any exemptions to this could be provided under specific or general permission of the exchange control regulator – the Reserve Bank of India or in specific circumstances from the IRDAI.

She says that while Indian regulators have largely shifted their focus to ease of doing business, adopting solutions to industry concerns, liberalising policy etc, greater importance is being given to compliance. Enforcement mechanisms have been strengthened through tightening of regulations, while penalties, among other consequences, are being levied for non-compliance.

Positive steps

Arya notes a significant development with the establishment of the International Financial Services Centre in India – GIFT City. A separate unified regulator has been set up to specifically regulate GIFT City, and several regulatory and taxation benefits are being provided to financial services (including insurance) being set up in GIFT City, she says.

Marsh's Kedia notes that the focus of the new IRDAI chairman has been to increase insurance penetration in the country and make simple and affordable insurance products available to individuals and corporates.

"The recent measures of the regulator to allow insurers to launch health and most of the general insurance products without prior approval under the 'use and file' guidelines is a step in the right direction. These measures will allow freedom for insurers to sell customised products, while giving policyholders more options will greatly benefit customers, as competition on product features will bring innovation. We are hopeful that these steps will bring actual change in the Indian insurance market, which will greatly benefit policyholders," he says.

China: Competitive market opening up

The Chinese P&C market is highly competitive and pricing remains flat in most lines, apart from the inevitable cyber and D&O. The insurance market has posted an overall underwriting loss in the last few years, and premium income has stalled since the Covid-19 pandemic took hold, but observers believe the market will rebound this year. *Tony Dowding* reports

The Asia and China story is still largely valid in the 2020s

China is the second-largest insurance market in the world, with more than $0.7trn in premium in 2021, accounting for 10.1% of the total global insurance volume, according to Swiss Re. Non-life premium volumes contracted by 0.7% as the de-tariffication of motor insurance sparked fierce competition and rate reductions. Motor premiums contracted by 6.6% due to de-tariffication, and this was partly offset by a 10.6% in medical insurance premiums in China.

However, Swiss Re says it expects a strong rebound in China, with non-life premiums up an estimated 3.7% this year and by 4.7% in 2023, although this is still well below pre-pandemic double-digit growth rates. Indeed, the strong growth rates seen in China before the pandemic have slowed, As Allianz states in its *Global Insurance Report 2022*: "The Asia and China story is still largely valid in the 2020s. Anyone looking for growth will have to turn to Asia. But there can be no more talk of 'China hype'. As recently as 2019, before the Covid-19 crisis, many observers (including us) had assumed that China would replace the US as the world's largest insurance market by premium income around 2030. A few crises later, this seems all but impossible."

It adds: "Current projections suggest that China will probably have to be patient until about 2050. Several factors contribute to this. First, is the slowdown in China itself. Second is the strengthening of the US, which looks set to emerge stronger from the recent crises."

Competition

Haoming Zhou, country manager for China, insurance, AXA XL, says: "Like in the past,

competition is stiff in the Chinese commercial insurance market, and it impacts premium level. More and more insurers are looking to diversify their book to non-motor because the motor tariff reform may impact their business in motor insurance."

Peggy Ding, placement leader, Marsh China, notes that in 2021, 87 P&C insurance companies in China generated total premium of RMB1,367.6bn, with a premium growth rate of 0.7%. The market saw an overall underwriting loss of RMB13.8bn in 2021, with a further loss of RMB2.9bn compared with 2020. The underwriting profit margin was -1%, resulting in an overall combined ratio of more than 100%.

She says non-auto insurance business achieved a premium income of RMB590.3bn, a growth rate of 10.6%, the same as that in 2020, and a market share of 43.2%, 3.9% up year on year. Looking at 2022 so far, Ding says that in the first half of 2022, China's P&C insurance companies achieved a total of RMB803.4bn in original insurance premium, an increase of 9.4% year on year, of which non-auto insurance business accounted for RMB405.8bn in premium income.

Zhou says that market hardening is only in selective areas of commercial lines, for example where the treaties of domestic insurers are not able to fully absorb the risks, such as mega total sum insured risks (large infrastructure, electronic production plants, or energy facilities).

In this instance, he says, terms and conditions have remained unchanged. Also market hardening can be seen in products such as offshore winds, D&O for US listed companies, or commercial general liability for certain products, with moderations in these 'distressed classes', he says.

Inflation is a major concern globally for the insurance sector, but Fitch Ratings said recently that inflation currently remains relatively benign in China and the country has yet to tighten monetary policy. However, it added: "Our economic scenario assumes that non-life insurers and reinsurers will only be able to pass on 80% of claims inflation to their clients during 2022-2024. As a result, underwriting margins will deteriorate by approximately 2pp-3pp on average in China."

Classes and capacity

On property insurance, Aon's *Global Market Insights Report Q2 2022* states: "Appetite and competition have been strong for well-performing, larger, lighter-hazard risks, while risks needing international capacity have experienced more moderate market conditions. Insurers are keenly focused on profitable growth. Pricing remained flat as local insurers competed for well-performing risks."

"For both China-produced global programmes and overseas-produced global programmes, inclusion of China risks is only a problem when the pricing levels are inadequate"

Haoming Zhou, AXA XL

For liability, the report notes: "Market conditions remained stable, with flat pricing, flexible underwriting and sufficient capacity. Local insurers focused on developing product liability portfolios...International insurers were cautious in their underwriting, especially for overseas risks, while local insurers were more flexible and accommodating, especially for low-medium risks and higher risks with low policy limits."

However, for cyber, Aon says market conditions remained challenging as insurer appetite and capacity further contracted and price adjustments have continued to be imposed, with underwriting described as "stringent and rigorous". It is a similar story for D&O, with market conditions remaining challenging, especially for companies listed overseas and notably for US-listed risks.

As for capacity, Ding says China has sufficient underwriting capacity in general. "However, we have seen a lack of underwriting capacity in property insurance projects that involve high insured value and advanced technology, and for projects requiring delay-in-startup insurance. Zhou agrees that generally, the market capacity is adequate except for the "distressed classes", adding that insurers have limited appetite and capacity for some niche products as such professional indemnity and cyber.

Zhou points out that with the introduction of a 'weather-related index' product in China, large corporates can now supplement their insurance of traditional property and liability risks with index insurance to insure against the risks that were not easily covered in the past.

Market players

The top three P&C insurance companies in China are People's Insurance Company of China, China Pacific Insurance Company and Ping An, with a combined premium income market share of 63.78%.

"The market is increasingly open for foreign insurance companies," says Ding. "On 19 March 2021, the China Banking and Insurance Regulatory Commission (CBIRC) issued an update on 'Regulations for the Administration of Foreign-funded Insurance Companies in the People's Republic of China', and lifted the restrictions on foreign shareholding ratios. Foreign insurance companies can now hold 100% of shares in their operation in China."

The role of foreign insurers in China is growing all the time. The president of the Insurance Association of China recently said foreign insurers' market share in the Chinese market has more than doubled during the past decade, as the country has been stepping up the opening-up commitments in the industry, according to a report in the *China Daily*. Foreign insurers' market share has increased from 3.5% in 2012 to 7.8% in 2021, and their market share in key cities such as Beijing and Shanghai has exceeded 20%.

Regulation and opening up

According to a recent report by the Canadian Casualty Actuarial Society, with the Society of Actuaries and Canadian Institute of Actuaries, nearly 50 foreign insurers have entered the Chinese market since the 1990s.

The report, *China: An Era of Insurance Innovation*, says that in the past two years, the CBIRC has loosened many restrictions, allowing foreign insurers to compete in the market. In 2019, AXA acquired the remaining 50% stake in AXA-Tianping Property & Casualty, while new applications were approved for Allianz and ACE to operate insurance in China in 2020.

In a recent regulatory move, China's regulator revised the quantitative and qualitative requirements under the China Risk-Oriented Solvency System Phase II and, according to AM Best, these recent changes to China's solvency regime are expected to have a significant impact on the various insurance market segments and should allow for greater transparency in risks and capital quality.

Competition is stiff in the Chinese commercial insurance market

Best said the move was credit-positive for the country's insurance industry. It said capital recognition has been tightened under the updated solvency regime and the industry is expected to see a drop in admitted capital in solvency calculations.

Global programmes

For global insurance programmes, AXA XL's Haoming Zhou says: "For both China-produced global programmes and overseas-produced global programmes, inclusion of China risks is only a problem when the pricing levels are inadequate. There are more inclusions of liability risks into global programmes compared to all other lines of business such as property. Overall, it is not getting easier to place any global programmes as the capability of global network management is usually limited to the global insurers. The global programme capability is greatly required in the Chinese market and is a key."

Marsh's Ding adds: "China's stable market landscape coupled with keen domestic competition have resulted in low premium, sufficient underwriting capacity and moderated rate increase in recent years. Meanwhile, the global insurance market has been hardening, therefore it is increasingly challenging to incorporate Chinese risks into global insurance programmes as the market situation of China is very different compared with rest of the world."

Parima Conference returns as in-person event in Singapore

The Pan-Asia Risk and Insurance Management Association (Parima) is holding its annual conference in-person in Singapore on 7-10 November, after a two-year absence because of the pandemic. The theme of the conference is 'collective resilience'.

The conference will be a hybrid event, with the in-person conference in Singapore complimented with digital platforms hosted by Parima, starting with a series of sessions focusing on risk and insurance issues in China, India, Japan, Malaysia, Philippines and Thailand.

"Parima Resilience Week 2022 Duo Edition will feature a return to our physical conference in Singapore and virtual sessions catering to the needs of risk managers by region as we #GoLocal2022," said the association.

The Parima Conference – Resilience Week 2022 will look specifically at how corporations, societies and governments need to work together to boost resilience against key risks. "This year's theme is 'collective resilience', with the intent to promote mutual exchange of knowledge and collaborative action in the risk community as we continue to adapt to this ever-changing environment," Parima said.

It added: "The pandemic, its domino effect on digitalisation, the increasing intensity and frequency of natural disasters attributed to climate change, and their impacts on businesses globally, have put a spotlight on how interrelated risks are."

The conference will feature keynote sessions on climate change, geopolitics, the state of the insurance market, parametric insurance, cyber risks, mental wellness, employee benefits financing, captive insurance and megatrends.

The conference also hosts a c-suite panel discussion with Anne Corona, chief executive officer, Asia-Pacific, Aon; Mark Louie Gomez, vice-president – risk and organisational performance management, Aboitiz Power; and Franck Baron, chairman, Parima.

Keynote speakers at the event will include Tulsi Naidu, chief executive officer, Asia-Pacific, Zurich Insurance Group; Reginald Peacock, chief executive officer, Singapore branches and head of commercial insurance Asia, Zurich Insurance Company; and Steve Tunstall, general secretary, Parima.

Tulsi Naidu, chief executive officer, Asia-Pacific, Zurich Insurance Group, will be one of several high-profile speakers at the conference

Breakout sessions at the conference include:

- From egg to onion: food-based similes for the explanation of resilience
- Keeping supply chains anchored amid geopolitical uncertainty
- Building workplace and mental resilience
- Weathering the storm with parametric solutions
- Employee benefits financing
- Captive-ating Asia: onwards and upwards.

The conference also examines 'Inflation risk: imperatives for businesses in Asia', and hosts a risk manager panel discussion with Suchitra Narayanan, senior vice-president, risk management, Lazada Group, and Kelvin Wu, head of insurance, Weybourne Holdings.

The virtual conference involves country focus sessions on Japan, India, Thailand and Philippines on day one (7 November); and China and Malaysia on day two (8 November).

The Parima Conference will be held at Suntec City Convention Center on 10 November and will be complemented by six country-focus virtual sessions on 7-8 November.

Visit www.parima.org/resilience-week-2022 to keep updated on the agenda and register for the event.

Let us all work together in solidarity to achieve #CollectiveResilience.

Join us in **Singapore** on **10 November** for a comeback of our **in-person Conference** and a series of **Country Focus Virtual Sessions** addressing the needs of risk managers in six local markets on **7-8 November.**

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