



# Financial Crisis - Impact on African and Asian Insurers and 2010 Outlook

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## The Financial Crisis - a Snapshot

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- The financial crisis started as far back as 2007.
- The “Crisis” is the outcome of a combination of macroeconomic and microeconomic factors which culminated into “Greed” and “Fear”.
- Macroeconomic factors contributing to the crisis were excessive global liquidity and the global savings glut.
- Microeconomic factors contributing were the increasing securitization in the U.S. subprime mortgage market combined with:
  - Flaws in the models of rating agencies
  - Excessive leverage
  - Lack of transparency
  - Poor risk management
  - Unregulated off-balance sheet vehicles of investment banks

## Impact on the African Insurance Industry

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- Falling prices of oil, primary commodity and tighter global credit and investor's risk aversion resulted in:
  - Less favorable conditions for trade and finance
  - Lower direct investment and slower growth
- The African insurance industry feels the heat, even from a distance
- African markets to rely more on the reinsurance capacity available to them within the continent or from neighboring Asian markets (Munich Re Africa, Africa Re, Arig, GIC, etc..)

## Impact on the African Insurance Industry - Outlook for 2010

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- Africa continues to be an attraction to investors and the last resort for achieving growth in construction and trade business.
- Absence of major natural catastrophes leaves sound underwriting profit for insurers and reinsurers.
- Regulatory authorities putting more stringent requirement on insurance and reinsurance companies with regards to capital, solvency and governance.
- Capacity is still available to African insurers from international and regional reinsurers. However, more active role is expected from regional players.
- Takaful insurance, as an additional business opportunity, is gaining momentum in a number of African markets such as Nigeria, Tanzania, Kenya and Ghana

## Impact on the African Insurance Industry - Outlook for 2010

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- More mergers and acquisitions to achieve faster growth. This is in line with the plans of some countries to have fewer, but stronger, domestic insurers who can compete with the international players.
- The role of regional reinsurers is assuming greater prominence as they have proven resilient in the financial crisis and presented themselves as a source of dependable reinsurance capacity when global markets reduced their availability.

## Impact on the Asian Insurance Industry

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- For most insurers in the region, the financial impact, although serious, did not lead to insolvency or liquidation.
- Continued competition over premium within a shrinking market and a generally flat to marginal increase in premium income.
- The main casualty of the financial crisis in the Asian region is AIG with significant loss of business due to precipitated long-term outlook.
- International reinsurers implementing more conservative underwriting approach. This is partially offset by the regional reinsurers aggressively writing outside their domestic markets.
- Insurers becoming more selective with reinsurance and the adverse impact of the financial crisis on the balance sheet of their reinsurers. Quasi application of security ratings as industry standard by regulators, despite past high-profile defaults.
- Regulatory authorities tightening supervision of the insurers and reinsurers under their purview.

## Impact on the Asian Insurance Industry - Outlook for 2010

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- Insurers forced into underwriting profitability to compensate for the reduction in their investment returns.
- Tighter supervision of investment policies of insurers by their regulatory authorities.
- Ceilings imposed for maximum of investible assets that can be kept in equities.
- Competition expected to remain strong as most Asian insurance markets are not expected to grow substantially in 2010.
- Insurers forced to be more innovative in product development; pressure to leverage more on their marketing network, especially links to large conglomerates, financial institutions or state-owned enterprises.

## Impact on the Asian Insurance Industry - Outlook for 2010

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- Expect to see the evolution of a market place dominated by the large players with several niche players being relevant in their respective segments of the market.
- Insurers lacking financial power, backing of a large parent or established niches would gradually be forced to merge or be acquired.
- Mergers and acquisitions may increase as organic growth will be increasingly difficult to achieve in more developed markets.
- The role of regional reinsurers may grow as global players are looking for higher returns to service increasing capital needs (Solvency II), while not all Asian market may offer the desired profitability due to their emphasis on price competition.

## Industry Stability: Insurance versus Banking

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- Our regional insurance markets are operating normally.
- Basic role of insurance (risk transfer) continues un-interrupted.
- This implies insurers continue to:
  - Pay claims (whereas 80+ banks have ceased)
  - Renew existing policies (banks are reducing and eliminating lines of credit)
  - Write new policies (banks are turning away people who want or need to borrow)
  - Develop new products (banks are scaling back the products they offer)

## And Why?

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- Emphasis on underwriting
  - Matching of risk to price (via experience/models)
  - Limiting of potential loss exposure (per risk/event)
  - Some banks sought to maximize volume and fees and disregarded risk
- Strong relationship between underwriting and risk bearing
  - Insurers always maintain a stake in the business they underwrite
  - Banks and investment banks package up and securitize, severing the link between risk underwriting and risk bearing, with (predictably) disastrous consequences
- Low leverage
  - Insurers do not rely on borrowed money to underwrite insurance or pay claims
  - There is no credit or liquidity crisis in the insurance industry
- Conservative investment philosophy
  - High quality portfolio that is relatively less volatile and more liquid

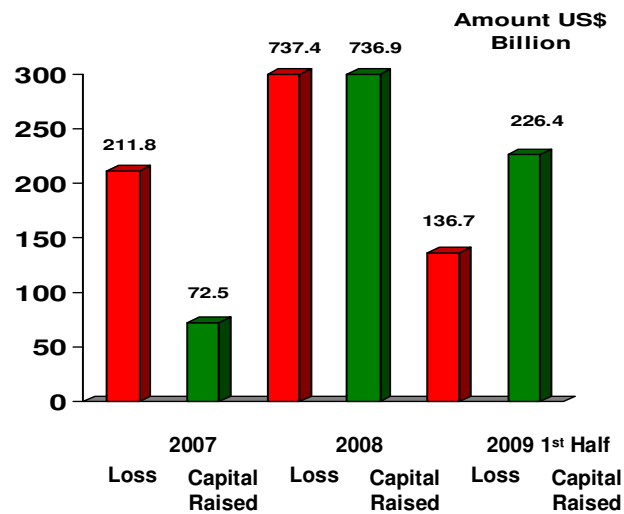
## And Why?

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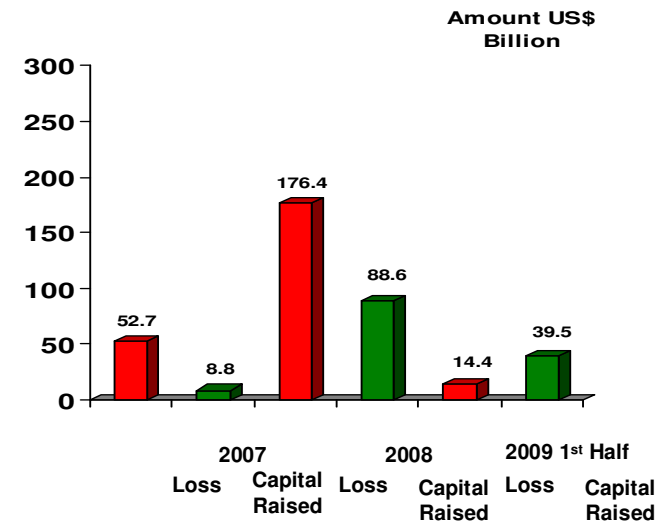
- Comprehensive regulation
  - The business of insurance remained comprehensively regulated whereas a separate banking system had evolved largely outside the auspices and understanding of regulators (hedge funds, private equity, credit derivatives, etc...)
- Greater transparency
  - Insurance companies are an open book to regulators and the public

# Losses versus Capital Raised

## Bankers/Brokers



## Insurers



- Capital raised is lower than losses on a cumulative basis, for both banks and insurers
- On an industry wide basis , insurance firms still need to raise capital relative to losses. This is probably most relevant for US companies.

## World Economic Outlook and Projections in terms of economic growth

In %

Country	Year Over Year			
	2007	2008	Projections	
			2009	2010
United States	2.0	1.1	-2.6	0.8
Euro area	2.7	0.8	-4.8	-0.3
Japan	2.3	-0.7	-6.0	1.7
United Kingdom	2.6	0.7	-4.2	0.2
Middle East	6.3	5.2	2.0	<b>3.7</b>
Newly Industrialized Asian Economies	5.7	1.5	-5.2	<b>1.4</b>
Emerging and Developing Economies	8.3	6.0	1.5	<b>4.7</b>
Africa	6.2	5.2	1.8	<b>4.1</b>

Source: IMF, World Economic Outlook, Update: July 2009

## Conclusions

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- Substantial losses to American and European banks and insurers. They still need to raise capital.
- Most Middle East, Asian and African insurers well insulated from global/credit crisis in 2009, though they are affected by the economic slowdown. No evidence of serious erosion of capital.
- Economic projections for 2010 (and possibly beyond) show that emerging markets especially Middle East, Asia and Africa will drive economic growth.
- Asian and African insurers well placed to grab market share from Western firms and to participate in growth of underlying economies.
- Long term reduction in investment earnings expected.
- Risk modeling capabilities and improved ERM practice.
- Improving accounting standards.
- Oversight on credit rating agencies.

## Lessons Learned

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- The global failure of identifying certain investment and financial market risk has proven, once again, that we should stick to do what we understand:

*We are trained insurance professionals, not fund managers.*

- Generating income from insurance liabilities should be our prime objective.
- Investments need to support our business and be conservative, not aggressive. We must not gamble away our shareholders money.