Ladies and Gentlemen, Good afternoon everyone

I'd like to thank the Insurance Institute of London for inviting me to speak today and I'd like to thank all of you for taking the time out of your schedules to attend. I hope that you find what I am going to say of interest, and that it is of some practical value.

Just by way of introduction and background, my name is Chris Kershaw and I started my career as a reinsurance broker here in London in 1983. I am the beneficiary of a graduate training scheme that was run by my then employer, and I would just like to encourage all employers who are able to support education and the employment of young talent within our industry to continue doing so.

Having spent almost 30 years as a reinsurance broker, six and half years ago I left broking to join a reinsurer start up in Hong Kong, having originally relocated to Asia in 1995. As I go through my comments today, I hope it will become clear why we felt there was room for a new reinsurer in Asia, and that you will gain some insights that have been behind some of the success that we have had.

I will speak about what has changed in Asia over the last 25 years, some of which is what prompted the formation of Peak Re, which is fundamentally Asia's growth story. It was really that growth story which took me there 25 years ago. It was exciting then, and it's still exciting now.

Let me explain why I think that.

Back in the late 80s and in the early 90s – yes, last century – people referred to the Asian Tigers – South Korea, Taiwan, Singapore and Hong Kong, and they also referred to the Asian Tiger Cubs – Indonesia, Malaysia, Philippines and Vietnam. Bear in mind it wasn't until 2001 that Jim O'Neill coined the term BRIC – so we were somewhat ahead of the curve. It was this pace of growth among the Asian tigers, and the Asian Tiger Cubs that took me to Asia – growth rates were high, and it was assumed that growth in insurance and reinsurance would logically follow. It did – until 1998 and the Asian Financial crisis. Followed by a fairly global bursting of bubbles in 2000 as the dotcom bubble burst – then 9/11 in 2001.

Note that at this point there was little focus on what are now two of the dominant insurance markets in Asia – China and India.

In 1995 there were only 4 insurers in India, all state owned, and six in China, two of which were the first foreign branches – opened in 1992 for AIG and Tokyo Marine.

Sorry – let me just explain why I have gone back as far as 1995. When I was given this topic of an Asian Market Update, any update needs a start point. Given that Asia is rather too big to comprehensively update in 30 minutes, I have taken my own starting point of living there as a base line and I hope that by looking at developments within this 25 year window it will give you

some idea of how much things have changed, and from there we can only speculate on how much things will change in the next 25 years. I don't plan to bombard you with statistics, but there will be a few largely to illustrate my thoughts, and to posit that it's still an area deserving attention.

By the way, there are now 58 insurance companies in India and 158 in China both life and non-life! The respective market sizes are now $22bn for insurance and $10 bn for reinsurance in India and $156bn and $15bn in China for P&C business. In the case of India, these numbers do include agriculture, which since the government introduced the new private sector supported scheme for years ago, has grown to an estimated $4.5bn.

The Asian Tigers didn't stop growing either – yes the Asian Financial Crisis brought disruption to the pace of growth but it has resumed and the growth trajectory of all those economies didn't flatten – they continued to grow to the point that South Korea and Singapore are now recognized as developed nations by the OECD, Hong Kong continues to grow since 1997 and Taiwan also.

However, today I am going to focus on emerging Asia, which means when I will not be looking at Japan, South Korea, Taiwan or Singapore.

In 1995 emerging Asia accounted for 15.7% of global GDP – by 2017 that figure had grown to 34.1%. This figure is almost 5 times the GDP of developed Asia, just by way of a comparison.

Population continues to grow and by 2018 had reached 3.9bn, compared with 3.0bn in 1995. If we look at 2018, 88% of the population were under the age of 60 – by 2030 that is projected to be still over 83% under the age of 60.

The insurance landscape has changed……

In insurance terms, if we look at China and India, what we have seen is a transition from markets dominated by government owned insurers in 1995 to markets that are certainly open to, if not yet dominated entirely by, local private capital. And I think one of the key features here is that its local capital that is largely backing these companies. The two models of China and India are different, in that China has tended not to follow exclusively the joint venture route, whereas India has paired local capital with foreign expertise in joint venture structures, four of these having been brought to the Indian stock market last year. 3 Life insurers, 1 non-life company and in addition two state owned companies were part privatized by the Indian Government.

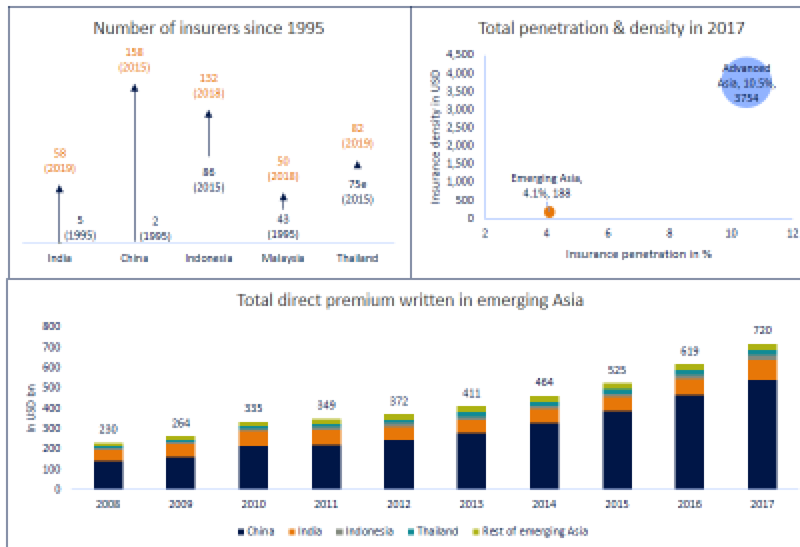
In August 2018 : Star Health Insurance was acquired in a deal estimated at around US$ 1 billion.by a consortium of WestBridge Capital including Indian billionaire investor Mr Rakesh Jhunjunwala - The Insurance sector companies in India raised around Rs 434.3 billion (US$ 6.7 billion) through public issues in 2017.

Even though the Indian companies are joint ventures, they are not run by foreign technocrats, but by local technocrats. Same in China, and I would also say across the region.

Multinational companies are present in emerging Asia, but I would certainly not say that they dominate – they may provide leadership in more technical lines such as energy, but the personal lines market such that it exists is now very much the preserve of local companies. India is one of the most successful markets in the world in terms of bancassurance.

The point here is that there is an expanding ecosystem in emerging Asia which is now substantial and self-sufficient for the majority of its business. It is not the case that the markets are dominated by foreign branches of multinational companies, and bear in mind that often the more significant multinationals that are active, are from developed Asia – most notably in Thailand, Malaysia and the Philippines for instance.

Insurance in emerging Asia – an update

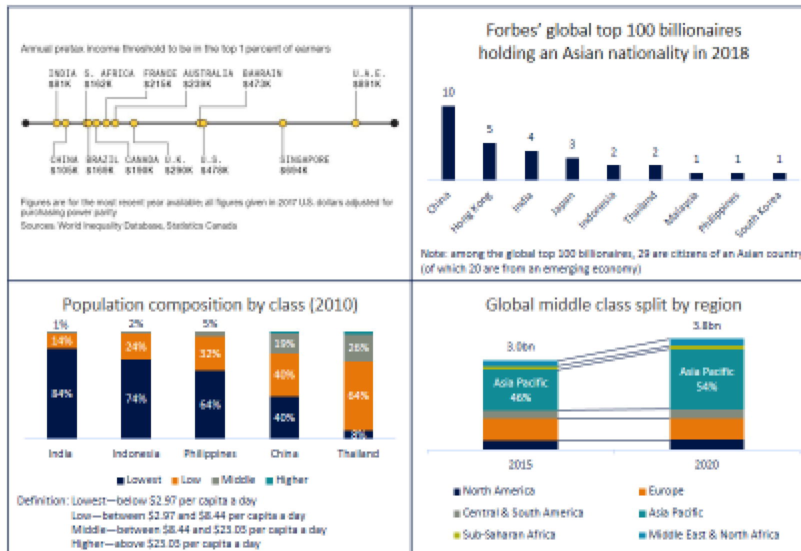


How the landscape has developed since 2008 – the GFC

These figures are life and non-life and you can see that between 2008 and 2017 premiums grew from 230bn US in 2008 to 720bn in 2017 – and penetration rates are incredibly low still. There is a whole other discussion about why this might be, but you can see the strong growth here. And that growth is not predicted to slow – it's expected to continue.

If you look at this next slide, you can see just why.

Insurance growth potential in emerging Asia

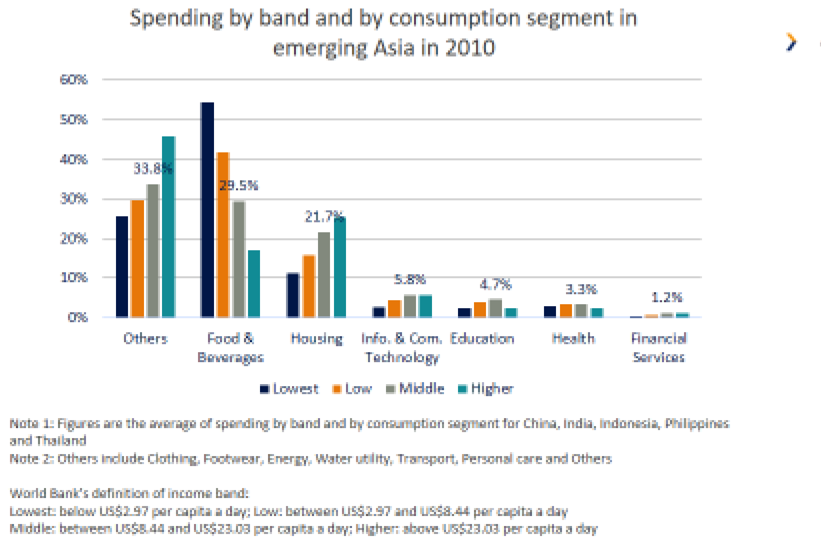


If you start by looking at the image in the bottom right you can see that by 2020 54% of people worldwide classified as middle class will be living in Asia Pacific – income thresholds vary across the world as to what the entry point is in a particular country, but our view is that it is middle class society that drives growth, and as growth comes, the assets of a household increase – on an aggregate level- the assets of an economy. In order to mitigate the possibility of a family being knocked back by a couple of generations if these assets are destroyed – for instance in a natural disaster – or if the family income provider can no longer provide – the assets can be and are protected by insurance. Not necessarily big numbers - until you start to get to an aggregate level.

If you switch to the top right – just for a bit of fun – you can see that 29 of the world's 100 richest billionaires are citizens of an Asian nation – 20 of them from a nation in emerging Asia. I don't think they buy much insurance – maybe at a corporate level – but I am sure they are investors in the insurance sector.

If you look at the top left – you can see the annual income you need to make it into the top 1% of earners across a selection of nations….going back to the point about middle class society in emerging Asia, you can see that an annual income of 81K gets you into the top 1% in India and 105k is what it takes in China. The top 1% represents a market of roughly 27m people in those two countries….The point is that emerging middle class, the band immediately below the top 1%, spend a higher proportion of their income on an annual basis than the high net worth and the very high net worth – it's this group of people that drives development.

Spending by income band in emerging Asia in 2010



2010 was the most recent data we could find data for. I believe it still holds directionally.

I mentioned earlier the expanding ecosystem of emerging Asia, and I would stress that it doesn't exist in a regulatory vacuum. Just as emerging Asia has grown over the last decade, so has both the extent of regulation and the enforcement – only a good thing. CBIRC, the China Banking and Insurance Regulatory Commission introduced their own risk based solvency regime from 2016 – known as C ROSS standing for China Risk Oriented Solvency System which reallocated capital requirements against particular lines of business, and which introduced capital charges to address the perceived credit risk of offshore reinsurers. In reality, this made little difference to where Chinese cedants placed the majority of their business.

India will introduce its own modernized solvency regime in the coming years, and in Hong Kong we are going through this process at the moment as the HK Independent Insurance Authority

formulates and introduces its own solvency regime. Other nations such as Malaysia, Indonesia and Thailand have had RBC regimes for some years – solvency regimes which have protected consumers and caused insurers to strengthen their capital base.

I'd like to stay on this theme of regulation just to talk briefly about a couple of recent developments in China – looking at regulation as an enabler for business and not as an inhibitor - namely the equivalence that was granted between China and certain Hong Kong reinsurers last year, which offers the removal of any capital loads for a Chinese Insurer who chooses to place reinsurance business with a registered Hong Kong Reinsurer, and the more recent announcement of plans to open or move towards a single market within the so called Greater Bay Area.

The Equivalence granted to HK reinsurers by CBIRC shows that the co-operation between the regulator in China and the Independent Insurance Authority is strong, and is attempting to be business friendly. It shows an openness which builds upon the ability of HK based reinsurers to trade with China in RMB – Chinese currency. This is symbolic of a further opening of the market in a measured and controlled fashion, but I think it's very clear that this is an opportunity that should be supported by those in a position to do so.

I am not sure how familiar the audience is with the Greater Bay Area, but it looks like this.
You will all have heard of the new bridge which has been opened between HK and Macau and Zhuhai – the longest in the world – this is very much a symbol of the greater bay area.

Greater Bay Area (GBA)

- Connects HK with 11 surrounding cities in southern China including Shenzhen, Guangzhou and Macau.
- Total population approx 68m.
- Projected GDP to rise from USD1.5 trillion in 2017 to USD4.6 trillion in 2030,
- Similar GDP size to top 3 Bay Area's average (San Francisco, New York, Tokyo), with GDP/capita at 28% of global top 3.

Sorry you can't see much of the Bay but I hope you get the idea.

This initiative brings together the major cities of Guangdong Province, Hong Kong and Macau in an area of economic co-operation to mirror the largest so called Bay Areas in the world - San Francisco, Tokyo and New York. You can see the figures on the slide – GDP for the area is expected to grow to 4.56 trillion USD by 2030. A current population of just under 70 million.

And what does this mean for insurance?

Greater Bay Area - Major Opportunities

- Reinsurance Business: Hong Kong reinsurers have benefited from preferential regulatory capital charge applied to Mainland cedants reinsuring with them since 2018.

In addition to these, there is already a strong co-operation taking place with some of the Universities in developing Fintech, Insurtech, and the application of machine learning and AI. You can see from this that the intention is to support business – and it's not altruistic! Bear in mind that Guangdong province is the largest single province contributing to China's GDP, and the cities of Shenzhen and Guangzhou are the largest contributor cities to China's tax revenue.

Co-operation and innovation are the themes here and I think that is quite powerful.

One of the other aspects that I'd like to mention, which I see as a barometer of change is emerging Asia's ability to develop products and processes which are tailored to their own markets. Let me give you an example.

We tend to have a focus on property and assets as being a driver of growth of insurance, but from 2008 to 2017 liability insurance has grown in China at an annual rate of around 20%, and it's expected to outgrow most other risks in the non-life sector. In China, Liability insurance still only accounts for about 0.05% of GDP.

In 2009 the legal concept of Tort was recognized in Chinese Law for the first time – and it brought with it increased consumer protection, greater emphasis on product safety and environmental protection. It's also spawned some innovative liability insurance products, such as Litigation Property Preservation Liability Insurance. Obviously China is not a common law jurisdiction, and this product is tailored to meet the requirements of China's Civil Procedure Law. The insurance policy is essentially a proxy for a surety, acting like a litigation bond, protecting an insured party against liability arising out of a wrongful act causing a financial loss to a property which is the subject of an injunction brought by a plaintiff.

For instance, a plaintiff sues a defendant for damages - and to claim and be adequately compensated the plaintiff may seek an injunction over the defendant's assets such that the defendant may not conceal, transfer or sell his interest in the property until the case has been settled. However, such an injunction in itself might cause actual loss to the defendant's property, which in turn would need to be compensated should the plaintiff be found to have committed wrongful acts in bringing the injunction. The Civil Procedure Law stipulates that the plaintiff must provide some form of guarantee or deposit to the court before they can bring the suit.

This form of insurance has become the preferred form of meeting this requirement in China for both parties, and since its introduction in 2013 and following a Supreme Court decision upholding its validity in 2016, has grown to an annual premium level in 2017 of RMB 1 billion, or roughly USD 150m. The majority of domestic insurers in China now offer this product – a unique solution to a local need. And its still growing.

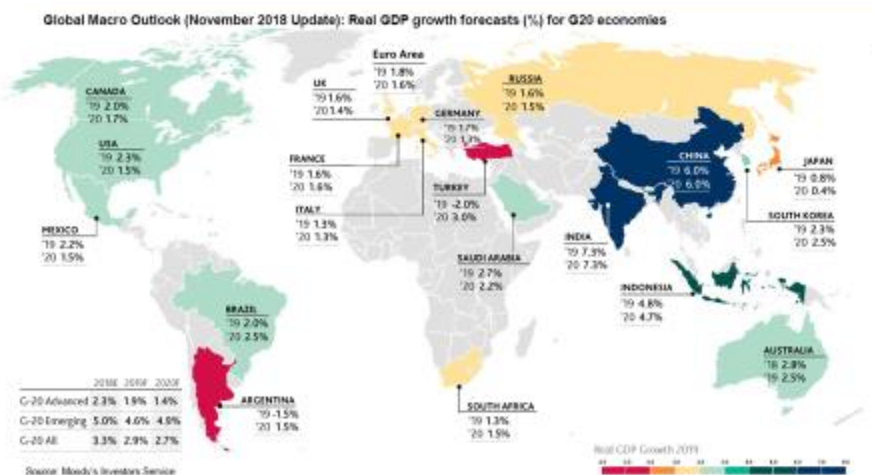
I'd like to give you another example, this time drawn from a much smaller market, but in a different business line.

This time it relates not so much to a product developed for a particular market, but more to a means of empowering a medium sized local insurer to enter the trade credit market, without relying on one of the major trade credit players. By forming a practical triangular partnership it allowed the local insurer to grow in a line of business which is being encouraged for development by their government – obviously to foster trade and enhanced economic activity. It allowed the reinsurer to support the insurer, while seeing the introduction of best practice, risk control, effective reporting etc. through a partnership with a risk underwriting service . The pain point for the insurer was access to accurate and high quality information sources, given their location, and through the partnership this pain point has been removed, allowing a much better view of a customer's credit risk profile. It also allows and fosters local knowledge and technology transfer – and this is all done in the region. Small at the moment, but directionally important.

The point here is that emerging Asia is using its initiative to develop the means of building out its insurance infrastructure and capital base to service its own growing economy. As this continues, I suggest that they will look at possibly expanding beyond their own borders as a region into other parts of the world – and of course they already are. However, I think a significant difference here is that within their own domestic markets, it looks unlikely that either opportunity or headroom to grow are going to be exhausted in the short or medium term.

It’s not all a success and there is still much to be done. We need as an industry to continue to bring risk to capital (and I don’t hold the belief that there is too much capital – its rather that we are not terribly good at bringing risk to it) and we still need to bring more people and communities under the shelter of the umbrella of insurance, and this is happening in emerging Asia. But it needs to continue. I have sometimes caught myself saying in unguarded moments that in the local markets it seems that insurers are still fighting over the same risks as they fought over 20 odd years ago – but you can see from the growth that this is not the case. Things have changed and are continuing to do so.

Just to emphasis the fundamental premise…..

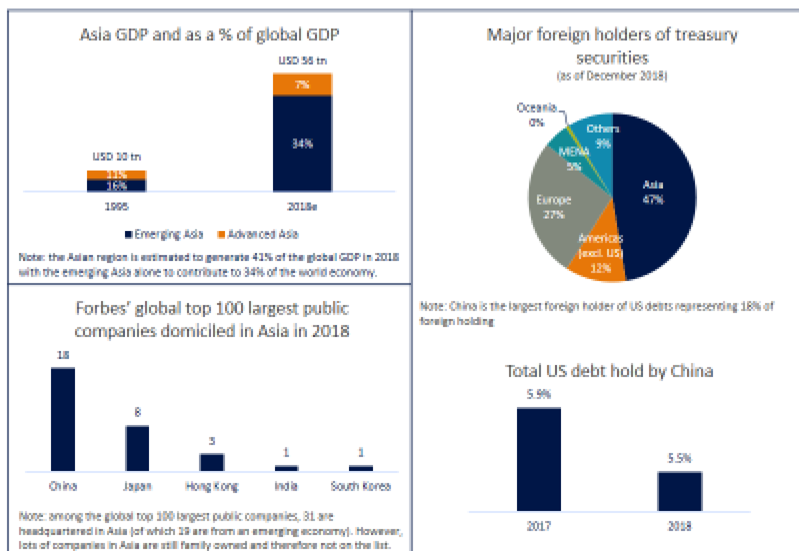


As you can see from this slide, which I actually lifted from our Chief Investment officer who showed it at an internal meeting last week, and he in turn borrowed it from Fitch, economic growth rates across G20 nations don't look very exciting for the next few years – with three notable exceptions – China, which is slowing as it matures and trade fears persist, India, and Indonesia. It's worth noting that these three countries are three very different economies, China having been export driven, India domestic demand driven and Indonesia being notably a natural resource economy …I have spoken using China and India as a primary focus, but please let me just emphasise one more point about these two markets. It will not be until 2030, assuming India gets everything right, that its economy will reach the same size as China's was in 2015. There is still a massive amount of investment needed to upgrade Indian infrastructure, and if anyone has ever done the drive from Mumbai to Pune – on one of India's better roads – you'll know what I mean. My colleague who focusses his time on India tells me that there is 3tn

US dollars of infrastructure spending slated for India, along with a potential government sponsored universal health scheme, that will be written by P&C insurers, which will be similar in size to the agriculture scheme in premium terms if it goes ahead.

I'd also just like to share this slide,

Growing influence to world economy



which again shows that Asia GDP number as a proportion of global GDP, but also the extent to which Asia holds US treasury securities. Asian nations save – and they invest. And then look at the global largest public companies and where they are headquartered....please bear in mind that many large/very large Asian companies are still privately owned....they may be partially listed, but substantially not.

Here are few names some of which will be more familiar than others for now.

So – I hope that this has given you some sort of update – the opportunity in Asia is definitely there and it's growing in the world of insurance. It's important to understand these markets and to be aware of how they differ. It's important to recognize that even within markets there are major differences – China is one country but several diverse regions, with different cultural aspects in different parts of the continent. India, likewise.

That understanding is not just language – it runs deeper than that – and anyone looking to engage must be willing to develop an understanding of the features and nuances of those cultures. If you don't understand the culture, you will never understand the business.

So, recapping – the economies have grown, the insurance premium in those economies have grown, and there is still a very large underserviced and unserved market in those countries that could and in my view should be of interest to any member of our insurance community who has an eye on the medium term future.

Thank you for listening.