



DEMOCRATISATION OF SELF-INSURANCE

Benefitting from cell captives in a challenging reinsurance market

Captives, Key Themes and Market Outlook for Southeast Asia

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Moderated by:

Captives, Key Themes and Market Outlooks for Southeast Asia

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Panellists



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Agenda

Captive Landscape

Southeast Asia Market Segment Outlooks

Southeast Asia Reinsurance Market

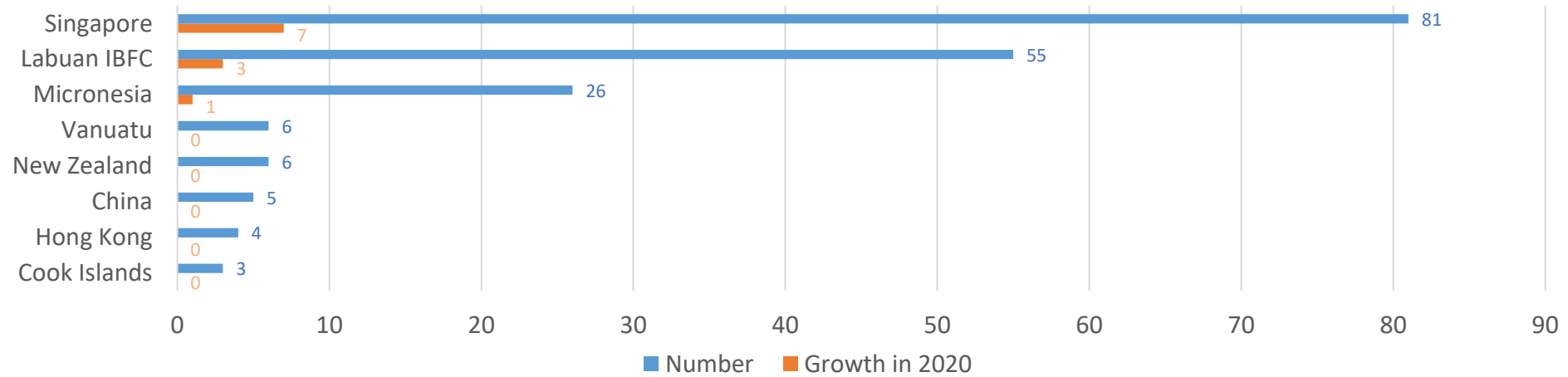
Question & Answer

Captive Landscape

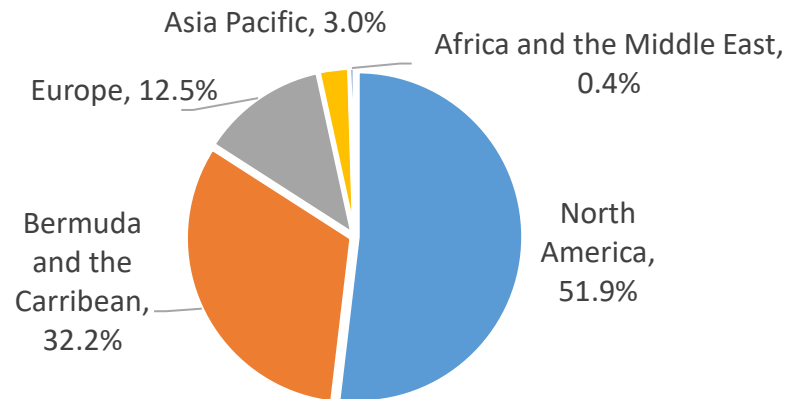
Chris Lim – Senior Financial Analyst

Overview of Captive Statistics – Asia Pacific

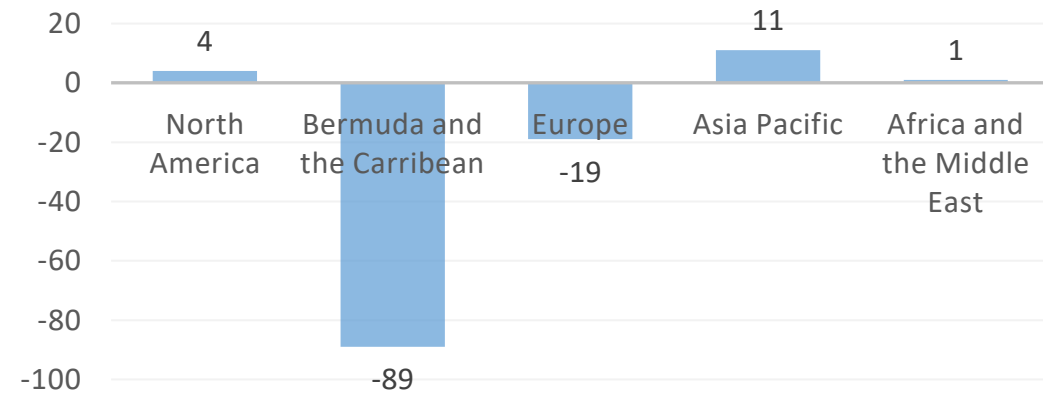
Number of Captives in APAC and Growth in 2020



Proportion of Captives Globally in 2020



Change in Captive Count in 2020



Captive Landscape

Hard Market

**Increasing
Awareness and
Usage for Risk
Management**

**Policy Support
and Regulatory
Incentives**

Emerging Risks

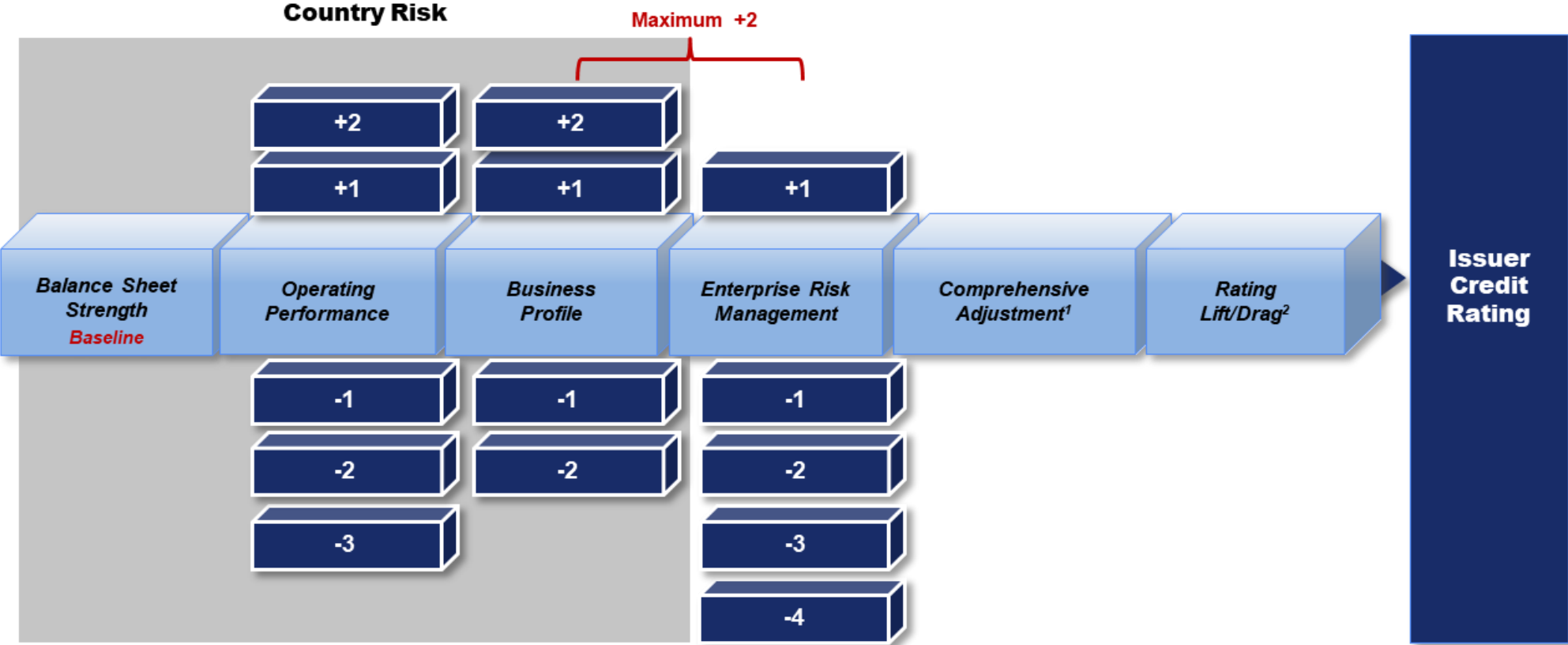
**Global Tax
Environment
and Implications**

Source: CaptiveReview

Our Insight, Your Advantage™



Best's Credit Rating Methodology – Building Block Approach



- For captive entities, our BCRM is supplemented with specialty criteria considerations for Alternative Risk Transfer (ART)

Best's Credit Rating Methodology – Captive Specific Considerations

Balance Sheet Strength	Operating Performance	Business Profile	Enterprise Risk Management	Lift/Drag
<ul style="list-style-type: none"> • Risk-adjusted capitalisation, BCAR¹ • Other quantitative and qualitative factors • Letters of credit • Exposure to large losses • Loan-backs to parents 	<ul style="list-style-type: none"> • Mission to provide consistent tailored coverage at stable pricing • Volatility of operating results • Earnings diversification 	<ul style="list-style-type: none"> • Relationship with parent determines access to business in absence of market profile • Business/geographical concentration • Typically high product risk 	<ul style="list-style-type: none"> • Analysis of ERM framework, and of the captive's risk management capability relative to its risk profile • ESG approach often linked with parent organization 	<ul style="list-style-type: none"> • Assessment of the non-insurance ultimate parent's credit profile • Implicit/explicit support evaluated based on the captive's integration, strategic importance, and contribution to the overall enterprise

Note: For more information, please refer to the "Alternative Risk Transfer (ART)" specialty criteria procedure from <https://www3.ambest.com/ambv/ratingmethodology/>

1 – BCAR stands for Best's Capital Adequacy Ratio

Market Segment Outlooks

Yuan Tian – Senior Financial Analyst

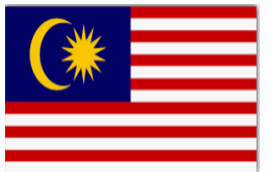
What is a Segment Outlook?

AM Best's Market Segment Outlooks

- Examine the current trends in particular segments of the insurance industry over the next 12 months
- Typical factors considered include:
 - Current and forecast economic conditions
 - The regulatory environment and potential changes
 - Emerging product developments
 - Competitive pressures
- AM Best's Market Segment Outlook can be **Positive**, **Negative**, or **Stable**, like a Best's Credit Rating Outlook for a company
- Many segments covered internationally
- AM Best ratings take into account how companies manage these factors and trends
- Not an indicator of rating movements

AM Best Market Segment Outlooks – Southeast Asia

Malaysia	Indonesia	Vietnam	Philippines
Non-Life: Stable	Non-Life: Negative	Non-Life: Stable	Non-Life: Stable



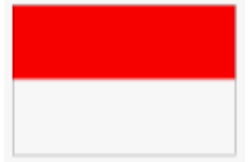
Malaysia Non-Life: Stable

- Good underwriting discipline by non-life insurers and active market transformation efforts amid a phased de-tarrification

Headwinds	Tailwinds
Muted economic growth prospects amid the COVID-19 environment	Underwriting discipline expected to be maintained despite phased de-tarrification of motor and fire
Low interest rate environment	Product innovation and digital distribution advancements



Indonesia Non-Life: Negative



- Non-life insurers face significant headwinds including the economic fallout and heightened investment risks from the COVID-19 pandemic

Headwinds	Tailwinds
Weaker than expected economic recovery amid extended mobility restrictions	Premium tariffs limiting unhealthy price competition
Claims escalation in credit insurance	Technology investment to support distribution and operational efficiency
Higher investment risks and low interest rates	



Philippines Non-Life: Stable

- Favourable regulatory developments and growth prospects expected to remain over the long-term for the non-life market

Headwinds	Tailwinds
Exposure to natural catastrophe risks	Solid growth prospects over the long term
Near-term economic slowdown due to COVID-19	Rising minimum net worth requirements to strengthen the industry's combined capital position
Fierce market competition for fire insurance	Increased use of digitalization in retail sales

Vietnam Non-Life: Stable



- Favourable demographics to support long-term growth and regulatory changes to advance the non-life insurance market

Headwinds	Tailwinds
Adverse social and economic consequences of the COVID-19 pandemic over the short term	Demographics to support long-term growth
Low interest rate environment	Digital transformation for distribution
	Regulatory advancements and a potential rise in foreign shareholding

Key Trends to Watch

**Ongoing Impact
of Pandemic**

**Market
Competition**

**Regulatory
Developments**

**Large Loss and
Catastrophe
Exposure**

**Low Interest
Rate
Environment**

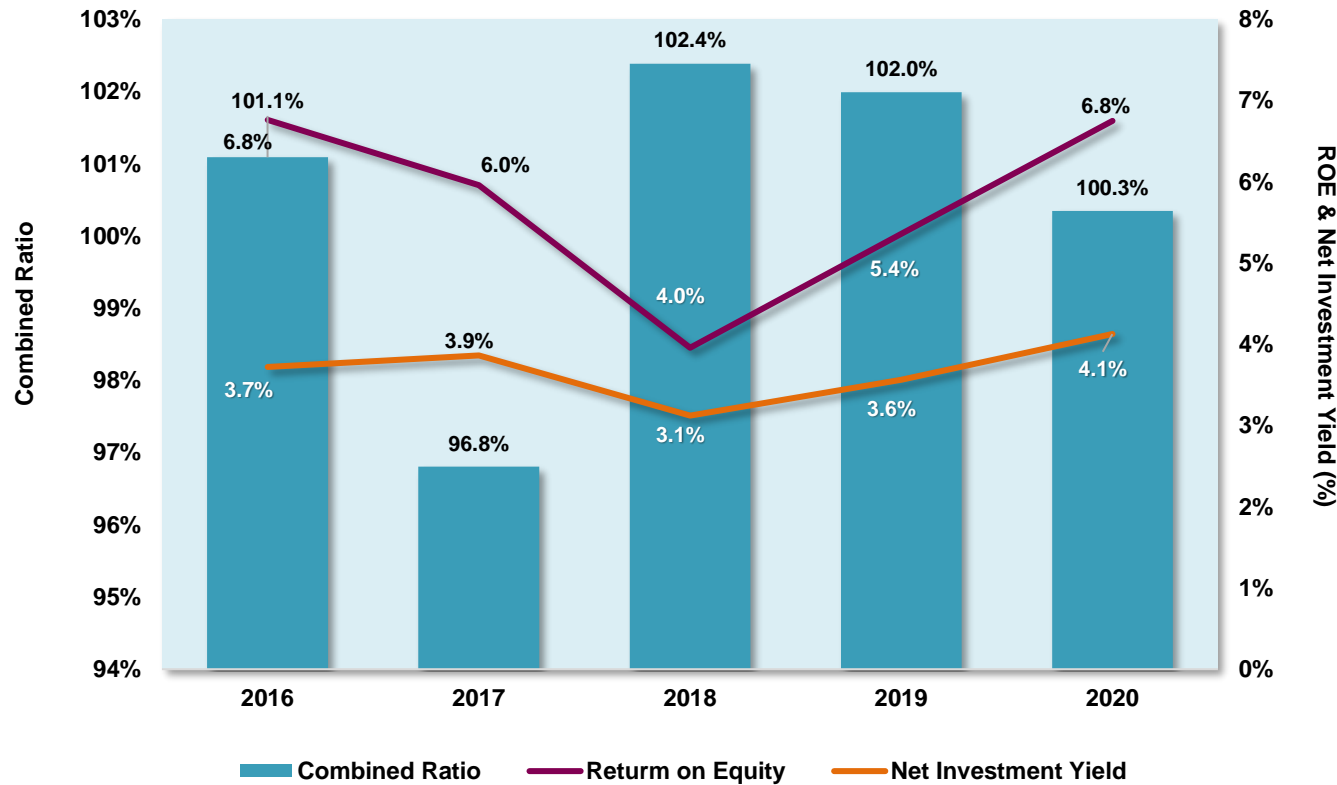
Digitalization

Southeast Asia Reinsurance Market

Myles Gould – Head of Analytics,
Southeast Asia, Australia & New Zealand

Headwinds Remain Despite Resilient Response to COVID-19

SEA Reinsurers' Operating Performance



- Manageable COVID-19 related business interruption claims supported by exclusions embedded from prior pandemics
- 2020 technical performance benefited from lower claims experience in select classes of business due to COVID-19 driven movement restrictions
- Moderate catastrophe loss experience in 2020 after elevated loss experience in 2018 and 2019
- Despite improvements, 2020 technical performance remained loss making due to rate inadequacies
- Suppressed interest rates drove lower investment yields. However, market volatility presented opportunities to realize gains.

Note:

- Covers select AM Best rated non-life focused reinsurers domiciled in SEA. Combined ratio excludes life underwriting profit/loss, which accounts for a relatively small proportion of the total underwriting results.
- Net Investment Yield includes gains/losses

Changing Investment Conditions

Selected SEA Countries – Base Rate Movements			
Country	Interest Rate Jan 1, 2020	Interest Rate Nov 5, 2021	YTD Δ (bps)
Indonesia	5.00%	3.50%	-150
Malaysia	3.00%	1.75%	-125
Philippines	4.00%	2.00%	-200
Thailand	1.25%	0.50%	-75
Vietnam	6.00%	4.00%	-200

- Deposit rates and treasury yields in emerging SEA markets have typically been attractive and considerably higher than in many developed markets
- However, the economic fallout from COVID-19 has driven lower returns in 2020 and 2021 and is likely to continue
- Rising bond yields have driven fair value volatility on fixed income portfolios

2021/2022 Reinsurance Market Conditions

- Traditional capital continued to support significant capacity deployment which stifled previously anticipated price increases in 2021 renewals
- Notable rate hikes on loss hit accounts
- Markets progressed to a correction phase, albeit fell short of hard market conditions
- Greater focus on underwriting profitability with robust negotiations on contract terms and coverages
- Retro price hardening continued in 2021 with limited capacity in retrocession market

Opportunities

- Rate increases in upcoming renewals to aid technical profitability
- Access to alternative capital and risk transfer solutions
- Diversification opportunities with growing Life and Health insurance segment in the region

Challenges

- Competitive market conditions
- Challenging investment conditions

Question & Answer

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