Lim Hng Kiang: Metamorphosis – Singapore as a global capital for Asian risk transfer

Official keynote address by Mr Lim Hng Kiang, Minister for Trade and Industry and Deputy Chairman of the Monetary Authority of Singapore, at the 14th Singapore International Reinsurance Conference, Singapore, 1 November 2017.

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Opening

Distinguished guests, ladies and gentlemen, a very good morning to all of you.

2 I am delighted to be here with you today at the 14th Singapore International Reinsurance Conference.

3 This year's conference is significant because this is the first year the SIRC becomes an annual event. It is a milestone worth commending as the SIRC is now finally able to serve as a platform for annual renewals, much like the Monte Carlo Rendez-Vous and Baden-Baden Meetings of the East. And this is just the beginning. In the longer term, I am confident that the SIRC can be built up into an annual gathering of key global and regional industry practitioners, meeting to discuss key issues facing the industry, and charting out future growth directions.

4 The SIRC's journey reflects the transformation of the Singapore reinsurance industry over 20 years – from starting out as a domestic market in the early days, to going through market liberalisation in 2000, to being a regional insurance powerhouse in 2010, and now to becoming a global insurance marketplace going into 2020.

5 Singapore is now widely recognised as the leading specialty insurance and reinsurance hub in Asia.

- We are home to:
  - four of the top five global insurance players;
  - a vibrant ecosystem comprising a strong brokers' cluster where nine out of ten of the top global brokers are based here;
  - the largest captive community in Asia Pacific;
  - a growing concentration of more than thirty specialty players; and
  - the largest grouping of Lloyd's syndicates outside of London, with 26 syndicates.
- Reflecting the increasingly important role of non-life insurance in driving overall industry growth:
  - The share of offshore non-life insurance as a proportion of total non-life insurance premiums has increased steadily, rising from 60% in 2010 to close to 70% in 2016.
  - Over one-third of offshore premium flows are attributed to specialist lines of business, such as large and complex property, marine, construction and engineering, energy, financial lines and agriculture.
- Insurance companies are gradually anchoring more global and regional positions in Singapore, and most Asian risks, including large reinsurance programmes and specialty risks, can now be fully placed in Singapore.
  - Singapore's share of global Asia-Pacific originated reinsurance premiums has also risen from 3% in 2013, to close to 10% in 2016.

Vision 2025: Global capital for Asian risk transfer

6 So what next after this?

7 The global reinsurance industry continues to face structural challenges, in a few forms:

- Alternative capital, which gives rise to excess capacity and softening rates, is expected to persist.
- Insurance underwriting is not keeping pace with the rate of emergence of new risks, such as cyber, supply chain, and reputation risks.
- Companies are increasingly demanding comprehensive risk management solutions that encompass both traditional and alternative risk transfer arrangements: for example, overlaying a standard reinsurance policy with a catastrophe bond to cover low-frequency and high-severity risks.
- New technologies and digital innovations are threatening to disrupt the insurance value chain, such as the underwriting and claims processes potentially being automated with the use of artificial intelligence.

8 In addition, as Asia continues to grow in economic importance – fuelled by rapid urbanisation, infrastructure development and trade growth – insurance penetration continues to be low, and the growing protection gap in the region remains a challenge. The low penetration arises from of a lack of risk awareness and data paucity, making it difficult for risks to be well-modelled and priced. As a result, less than 5% of disaster losses in Asia were insured over the past decades. In other words, more than 95% of Asia is not receiving the protection it needs.

9 Asia needs to close that protection gap soon, and Singapore is pursuing three strategies in parallel to help with that:

- First, to develop alternative risk transfer mechanisms like insurance-linked securities and government pools in our repertoire of insurance offerings, so that we are in a position to provide financing quickly and effectively in the aftermath of loss events.
- Second, to incubate insurance solutions for new and emerging risks, such as cyber, reputation and environmental liabilities.
- Third, to transform the insurance market through technology and innovation.

10 Today, let me focus on the first strategy of developing Singapore's alternative risk transfer market through insurance-linked securities and public-private partnerships.

Insurance-linked securities (ILS)

11 Let me begin with insurance-linked securities, or ILS.

12 We know that alternative capital has been growing more rapidly than traditional capacity over the years, a clear demonstration of greater acceptance of ILS instruments by both investors and issuers. In particular, issuance of catastrophe bonds have grown strongly and total catastrophe bonds outstanding reached a new high of almost USD 30 billion as at the third quarter of this year. This is despite the persistent reinsurance headwinds of excess capacity and depressed rates.

13 Catastrophe bonds present unique benefits to reinsurers: they provide multi-year capacity and pricing certainty; they are more secure due to their fully collateralised nature and ability to be rated; they are a good alternative to traditional reinsurance for risks that are hard to model; and they are capital-efficient.

14 To an investor, catastrophe bonds proffer strong benefits too: their low correlation with the

financial markets make them an effective asset diversification instrument; they have low volatility and stable returns; they provide liquidity; and they can be issued via private placements or as tradable securities.

15 We are therefore seeing a growing cluster of institutional investors and fund managers like Quantedge exploring allocation into catastrophe bonds, as they venture into niche and specialised strategies to extract better risk-adjusted returns.

16 On the supply side, we too have seen healthy interest from Asia-Pacific issuers in the development of an APAC market for catastrophe bond issuances, due to the proximity to and better understanding of the underlying risks.

17 Given the above, the MAS has thus taken progressive strides towards developing the catastrophe bond market in Singapore.

18 As a first step, we have formed an alternative risk transfer work-group comprising industry experts in the ILS space. Chaired by Jon Paradine of Renaissance Re, the work-group advises the MAS on specific initiatives that will support the development of Singapore as an ILS hub.

19 Today, I am happy to announce one such initiative – the newly created ILS grant scheme. To catalyse the development of Singapore's ILS market, the MAS will fund 100% of the upfront costs incurred in issuing catastrophe bonds out of Singapore. This grant will run from 1 January 2018 and will be applicable to ILS bonds covering all forms of risks beyond just natural catastrophe risks.

20 It is my hope that this grant scheme will encourage insurers and reinsurers to consider issuing a catastrophe bond here. In fact, MAS is already working with key industry players such as **IAG Re Singapore** with a view to issuing a catastrophe bond in Singapore. This is but the first step of a longer journey, as we look forward to working more closely with the industry to further deepen our ILS ecosystem here.

Public-Private Partnerships

21 Moving on, I would like to touch on public-private partnerships – the other equally important arm of our alternative risk transfer strategy.

22 Continued industrialisation, expanding cross-border trade, and infrastructure development are at the heart of Asia's growth. These create vast investment opportunities in the region, and will also drive demand for insurance solutions to mitigate a variety of business risks.

23 One such initiative is China's One Belt One Road (OBOR) initiative, the most ambitious infrastructure project of its kind to-date. OBOR seeks to connect China and countries across Asia, the Middle East and Europe through a series of land and sea trade routes. Vital public infrastructure, such as roads and railways, gas pipelines, power plants and ports will be built in over 60 countries, with total estimated infrastructure investment to exceed USD 1 trillion.

24 However, modern risks lie along these ancient routes. There are a myriad of geopolitical, legal, credit and environmental risks in many countries along the corridor. Political instability, rioting, terrorism and conflict can lead to contractual issues and financial losses. Unfamiliarity with legal frameworks and regulations can lead to expensive delays. Non-payment risks can be exacerbated by emerging markets' vulnerability to external shocks, such as currency and commodity price volatility.

25 The MAS is thus seeking to co-create new risk solutions with regional governments and the industry, and utilise these solutions on a pre-emptive basis to help governments and investors safeguard against key risks like natural catastrophes, construction risks and political risks.

26 To this end, I am glad to announce the formation of the Singapore-based infrastructure consortium for OBOR projects, with China Re Singapore as the administrator. The OBOR insurance consortium is envisaged to provide top-up capacity and specialised insurance coverage for OBOR projects in APAC ex-China, by bringing together Singapore-based insurers, reinsurers, and brokers who will contribute insurance capacity and provide risk management services for OBOR projects.

27 The OBOR consortium will initially focus on key lines of business that play to the specialty risk strengths of Singapore's insurance markets, with a view to ultimately be a one-stop solution for both P&C insurance and other specialty insurance.

28 We will pilot the OBOR consortium with two lines of business: Construction; and Project Cargo & Liability. This is particularly relevant for Asia as industrialisation and infrastructure investments in this region will propel demand for insurance solutions to mitigate construction and project cargo risks. We have established a group of interested lead and follow markets in Singapore to offer coverage in these two lines. The markets comprise leading insurers, reinsurers and Lloyd's syndicates operating in Singapore. We look forward to the industry's active participation in this bold venture.

Conclusion

29 Ladies and gentlemen, insurance is fundamentally about risk management. As the region around us continues to grow, the insurance industry can support this growth and development by creating relevant risk management solutions that can pave the way for a broader range of corporates and investors to participate in its growth.

31 The two strategies of ILS and public-private partnerships that I have highlighted earlier mark the metamorphosis of Singapore's reinsurance industry as we transform from a mainstream traditional reinsurance hub, to a sophisticated full-fledged global capital for Asian risk transfer.

32 I invite you to be a part of this metamorphosis, as we chart new paths together in this journey that Singapore is embarking on.

33 Thank you very much.