BEST'S MARKET SEGMENT REPORT

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Asia-Pacific Reinsurers Achieve Strong Results in Improved Investment Environment

Underwriting performance benefitted less directly from rate hardening market conditions, but stability over the years is remarkable

Principal Takeaways

- In 2023, the Asia-Pacific reinsurers recorded strong top-line growth and favourable earnings, supported by a more stable investment environment and benign catastrophe activity.
- For the Asia-Pacific reinsurance composite, insurance revenue grew by 8.8% under IFRS 17. The composite's combined ratio improved from 94.5 in 2022 to 91.6 in 2023. Return on equity surged from 0.1% to 9.2%.
- Asian reinsurers' underwriting performance benefits less directly from rate hardening and the high interest rate environment, but the stability of operating performance over the years has been remarkable.
- Optimism has returned to the lower layers in South and Southeast Asia in 2024, driven by reinsurers' growing confidence in current pricing levels.
- South/Southeast Asian reinsurers are incorporating stricter terms and conditions to limit their risk in the event of treaty underperformance.
- Retrocession costs remain high, although rates are moderating. Reinsurers have strengthened their accumulation management; some South/Southeast Asian reinsurers have adopted the use of multi-year agreements and named-peril coverages to manage retrocession costs.

Asia-Pacific Reinsurance Composite

AM Best's Asia-Pacific reinsurance composite consists of a group of leading reinsurers domiciled in the region. Given the varying implementation dates for IFRS in different Asian markets and the limited comparability of IFRS 17 financial results to previous accounting standards, this year we have refined the Asia reinsurance composite to contain only IFRS 17 reporting companies. The composite results for prior financial years in **Exhibit 1** have been restated accordingly.

The composite achieved strong growth in non-life insurance revenue in 2023, up 8.8%, much of it attributable to China Re's international expansion. China Re's overseas subsidiary, Chaucer, recorded over 20% gross premiums written growth under IFRS 4 in 2023, benefitting from favourable market conditions.

The Asian reinsurers' underwriting strategies for 2024 are diverse and depend on their ability to secure retro capacity, as well as their ability to manage the underwriting cycle. Given the challenging retro hard market conditions of the past two years, the large Asian reinsurers have adjusted their catastrophe capacity offerings in their home markets to shrink their catastrophe exposure accumulation. Others have deployed a mature market growth strategy to capture the benefits of material rate increases.

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Exhibit 1

Asia Pacific Reinsurance Composite – IFRS Reporters – Trend Summary

(%)

IFRS 4	2019	2020	2021	2022	IFRS 17	2022	2023
Net Written Premium (P/C only)	17.5	14.3	7.3	7.8	Insurance Revenue[1]	N/A	8.8
Net Earned Premium (P/C only)	16.1	15.4	5.6	8.4			
Total Revenue	22.8	13.5	7.1	4.4	Total Revenue[1]	N/A	4.7
Shareholders' Equity (End of Period)	8.3	18.0	-0.4	-9.6	Shareholders' Equity (End of Period)[1]	N/A	21.0
Loss Ratio	72.7	74.2	74.6	75.0			
Expense Ratio	28.8	27.4	26.6	25.4			
Combined Ratio	101.5	101.6	101.2	100.3	Combined Ratio	94.5	91.6
Net Investment Ratio[2]	6.6	7.2	7.3	5.6	Net Investment Ratio[3]	5.7	8.5
Operating Ratio	94.9	94.5	93.9	94.8	Operating Ratio	88.8	83.1
Return on Equity	5.3	4.6	6.2	1.9	Return on Equity	0.1	9.2
Return on Revenue	3.0	2.6	3.6	1.0	Return on Revenue	0.1	7.3
NWP (P/C only) to Equity (End of Period)	161.0	156.0	168.0	200.0	Insurance Revenue to Equity (End of Period)	101.0	91.0
Net Reserves to Equity (End of Period)	200.0	198.0	230.0	280.0	Net Reserves to Equity (End of Period)	131.0	120.0
Gross Reserves to Equity (End of Period)	257.0	260.0	292.0	351.0	Gross Reserves to Equity (End of Period)	178.0	157.0

[1] 2022 calculations not available due to changeover to IFRS 17.

[2] Net investment ratio based on P/C net earned premium.

[3] Net investment ratio based on P/C insurance revenue.

Results based on reported currencies converted to USD.

Source: AM Best data and research

Under IFRS 17, the net/net combined ratio improved from 94.5 in 2022 to 91.6 in 2023. Additionally, the reported return on equity (ROE) increased significantly from 0.1% in 2022 to 9.2% in 2023. This improvement is due to the recovery of realised/unrealised investment losses and higher investment income in a higher interest rate environment (except for China), as well as improved underwriting results.

Global peers are benefitting from a higher interest rate environment and favourable investment returns, but China faces distinct challenges. The country's post-COVID recovery remains weak, exacerbated by the property crisis. As a result, China's interest rates are moving in the opposite direction from the rest of the world. Limited overseas investment channels confine most of China Re's investment funds to domestic investments, which are only partly offset by Chaucer and its Hong Kong subsidiary capturing overseas investment opportunities. Overall, Chinese reinsurers' ability to achieve historic investment yields is more difficult in the country's current environment, so enhancing underwriting profit is crucial. However, low interest rates help insurers raise capital at a lower cost. In 2023, China Re redeemed its capital supplementary bond issued five years ago at a 4.97% annual coupon rate and refinanced with an issuance of capital supplementary bonds at a 3.45% annual coupon rate. In addition, Taiping Reinsurance (China) Company Ltd. raised capital via capital supplementary bonds with a 3.88% annual coupon rate in 2023.

Given that Asian reinsurers' liability lines are proportionally smaller and the liability duration in the Asian market is shorter than in other mature markets, the ratio of Asian reinsurers' net reserves to equity is low in comparison with its international peers. Many international peers had extraordinarily good operating results in 2023 and 2024 year-to-date, supported by benign large catastrophe experience and benefitting from investment returns on their large liability reserve pools in the high interest rate environment. However, Asian reinsurers' business profiles, characterised by a more traditional property line focus, as well as a relatively large book of proportional treaties, have benefitted less directly from rate hardening and the high interest environment of past years.

Nevertheless, the stability of operating performance of Asia's reinsurers over the years has been remarkable, and they are working to improve profitability by expanding business overseas.

The capital position of the major reinsurers in the Asia-Pacific composite remains robust. All of their consolidated Best's Capital Adequacy Ratio (BCAR) scores remain at the "Strongest" levels. Diversification will remain the business philosophy and strategy for Asia's large reinsurers. In addition to geographic expansion, diversifying their lines of business from traditional property treaties such as building liability, life and health, and specialty books, will allow reinsurers to better manage the reinsurance cycle.

China — Capacity Needs Are Filled by Onshore and Domestic Primary Insurers

The dynamics of China's reinsurance market have shifted notably in 2024, characterised by a smoother placement process than in 2023, attributed largely to the strong support of onshore reinsurers as well as primary insurers with inward treaty books, which have provided stable capacity for the non-life segment. In addition, there has been an uptick in lower-rated reinsurers underwriting China reinsurance business through fronting partners, and in medium-sized primary insurers expanding their portfolios to inward treaties upon obtaining a credit rating.

The loss-free programmes have seen a flat to single-digit risk-adjusted rate increase, while programmes hit by Typhoon Doksuri in 2023— the costliest event in 2023 in Asia (a USD 2 billion insured loss as estimated by Munich Re)—have experienced significantly higher rate hikes. Nevertheless, 2024 renewals were more orderly than in 2023. Overall, attachment points have increased in the past few years, placing greater rate pressure on the lowest-attaching catastrophe layers. By contrast, the upper layers have enjoyed ample capacity supply in the 2024 renewals, leading to more favourable positions. This environment has prompted some cedents to consider multi-year options for the bottom layers, to lock in pricing and secure capacity for the next three years.

Lastly, the focus on reviewing the Chinese Interest Abroad exposures following losses incurred in recent years has grown, reflecting the global expansion of Chinese firms. The Belt and Road-related overseas risks require a comprehensive risk management and underwriting strategy.

Taiwan — The Silicon Island

Taiwan's insurers face a dilemma: whether to allocate their reinsurance budget to the top layers to manage the RBC ratio and balance sheet or invest their reinsurance budget in the lower layers to improve their profits from frequent but less severe events to help rebuild capital strength.

Taiwan is home to suppliers of the world's most advanced semiconductor chips, exported to tech giants such as Apple and NVIDIA. However, due to its location, Taiwan is prone to natural disasters such as floods, typhoons, and earthquakes. The semiconductor manufacturing plants are particularly vulnerable to earthquakes and floods. A major event could lead to high insured losses from property damage owing to the high insured values of the equipment and the potential business interruption if production is suspended. Given the high insured values, these mega-risks depend on international reinsurance players to provide capacity.

Insured losses from the magnitude 7.2 earthquake in Taiwan in April 2024 came predominantly from high-tech firms, which sustained considerable property damage. However, thanks to robust risk management and business contingency planning, these firms resumed production swiftly, minimising their business interruption losses. The domestic primary insurers participating in these commercial risks that may have been impacted by the earthquake are seeing incurred losses in the catastrophe excess-of-loss (XOL) treaties. After challenging renewals in 2024, particularly for per-risk XOL treaties, the focus for the January 2025 renewals is shifting toward the catastrophe XOL layers. To protect their balance sheets from further losses due to natural catastrophes for the rest of 2024, some primary insurers have already purchased back-up cover. Unfortunately, Typhoon Gaemi swept across the island of Taiwan at the end of July. The potential impact on Taiwan primary insurers' catastrophe XOL layers is still too early to determine.

Nevertheless, a noticeable risk-adjusted rate increase is expected in forthcoming renewals for both catastrophe excess of loss XOL treaties for domestic insurers and facultative contracts for large commercial risks. The renewal of large, high-tech policies in the fourth quarter of 2024 will serve as a crucial indicator of how much support facultative reinsurers are willing to extend in terms of reinsurance capacity.

For primary cedents, reinsurance demand has increased since the settlement of pandemic-related claims that came close to USD 9 billion in 2022 and 2023. The claims losses led to an industry-wide capital erosion of around 20% below 2021 levels for the non-life primary insurance market (as of year-end 2023), with some insurers exhausting or significantly depleting their contingency reserves for paying pandemic-related claims. This has led to an increase in reinsurance demand for capital relief to improve insurers' risk-based capital (RBC) position and protect capital from further volatile underwriting results.

Japan — A Turning Point in Supply & Demand

For Japan's non-life insurers, 2023 was relatively benign in terms of natural catastrophes. The magnitude 7.5 earthquake on 1 January 2024 did not materially affect the pro-rata reinsurance commissions rate in April renewals and exerted a very limited impact on the catastrophe XOL treaties. Given the more than double increase in the compound rate of wind XOL programme since 2018, coupled with the improving operating performance of global reinsurance buyers, reinsurers were eager to protect their existing positions or expand their market shares in April 2024 renewals, which tipped the scales in favour of insurers.

The renewals saw a noticeable increase in reinsurers' appetites for catastrophe risks, signalling a turning point for Japan CAT capacity supply and demand. This environment resulted in stable to minor risk-adjusted reductions in pricing. Although property CAT capacity was more than sufficient, placement of property risk, engineering, and casualty lines continued to present challenges. Cedents could strategically leverage the competitive environment to negotiate on pricing and terms and conditions for their portfolios on a broader scale, to support the placement of more challenging treaties. The marine hull and cargo reinsurance market has also undergone significant changes in the past two years, including adjustments to terms and conditions to reflect the evolving landscape of international sanctions and geopolitical tensions.

South Korea — A Landscape of Contrast and Adaptation

South Korea's non-life market saw substantial adjustments in 2023, following a series of man-made and natural catastrophe losses. The property treaty reinsurance market faced a steep increase in premium rates and retention levels for XOL covers, while commission rates for pro-rata reinsurance were reduced significantly. This adjustment reflected a market in flux, in response to the pressure of recent loss events.

In stark contrast, the 2024 renewal season unfolded with greater predictability. South Korean non-life insurers entered renewals with a comprehensive understanding of reinsurers' expectations, which were, in turn, more attuned to the insurers' requirements. Although there were no major changes to catastrophe pricing, programme structures, or conditions during the 2024 renewals, insurers secured limited improvements.

The market for catastrophe reinsurance in 2024 was characterised by ample capacity, due partly to the improved pricing and terms in 2023, which attracted additional capacity into the Korean market. Both new entrants and existing players sought to increase their market shares. Despite the influx of capacity, catastrophe XOL pricing remained largely stable, with flat to low single-digit increases. Capacity for the per-risk excess of loss market, however, remained constrained. Reinsurers became more selective following several large fire losses in 2021 and 2022. The per-risk market experienced significant adjustments in 2023, with some accounts seeing further increases in deductibles at the 2024 renewals. The selectivity and adjustments in the per-risk market underscore the ongoing recalibration as the South Korean reinsurance market continues to navigate the aftermath of past events and prepare for future risks.

South/Southeast Asia/Australia/New Zealand

Reinsurers based in Singapore and South/Southeast Asia reported favourable earnings in 2023, supported by strong investment returns amid elevated interest rates, as well as by robust underwriting results. In line with global trends, monetary policies tightened considerably in many of the region's economies, including Singapore, where interest rates climbed steeply from mid-2022 to early 2023. Despite significant unrealized losses recorded in 2022 due to rapidly rising interest rates, the same rate increases helped generate healthy interest income from recently purchased fixed-income instruments now offering higher rates. Reinsurers' underwriting results also improved in 2023, owing to effective portfolio remediation measures.

Hard market conditions during the 2023 reinsurance renewals bolstered the full-year results of reinsurers writing regional business out of Singapore. Like the global reinsurance players, Singapore-domiciled reinsurers generated solid underwriting margins for a third year in 2023. According to statistics from the Monetary Authority of Singapore (MAS), underwriting profits for the reinsurers' Offshore Insurance Fund (OIF)[1] increased by 23% in 2023, to reach SGD 1.1 billion (USD 0.8 billion).

Underwriting results for the reinsurers' OIF in recent periods benefitted from lower insured catastrophe losses, underwriting discipline, and a more favourable pricing environment. Property reinsurance, which accounted for more than half the gross premiums of reinsurers' OIF, saw the biggest improvement, with the loss ratio declining by approximately ten points. Hard market conditions became evident for cedents in the 2023 renewals, when excess reinsurance capacity dried up. During the 2023 renewals, non-proportional reinsurance programmes reported meaningful double-digit rate increases while terms tightened for proportional treaties. Capacity scaled back considerably, as reinsurers re-evaluated their appetites for regional catastrophe exposures, given growing concerns about climate risk. Reinsurers' underwriting discipline, coupled with benign catastrophe loss activity in the region, bolstered results significantly.

The underwriting performance of regional reinsurers writing Association of Southeast Asian Nations (ASEAN) and other international business from outside of Singapore has generally improved, albeit to a smaller extent than that of Singapore-domiciled reinsurers. With some exceptions, reinsurers with a larger property reinsurance focus benefitted more from the favourable market conditions. Regional

[1] OIF records the results of Singapore-based reinsurers, including branches, with respect to offshore policies and includes results from direct business written by these reinsurers.

reinsurers with more diversified underwriting portfolios saw a more modest improvement in combined ratios, given that the underwriting improvements are predominantly in property reinsurance. In some instances, these regional reinsurers were also partly affected by large risk losses, as well as by losses arising from the non-property lines in their domestic markets.

Reinsurance renewals in January 2024 and throughout the first half of the year have been more orderly than in 2023, generally aligning with market expectations. Rates in most markets flattened, with improvements in either direction largely range-bound in the low single digits. Renewals were stable, with few material changes in reinsurance structures, although capacity for property catastrophe reinsurance has grown. Following the rate hikes and tightened underwriting discipline in 2023, market conditions have improved, prompting reinsurers to return to the market. In some markets, oversubscriptions for reinsurance treaty placements contrasted sharply with the experience of one year prior, when it was a challenge for some players to fully place their programmes.

In 2024, renewed interest has emerged for lower-layer reinsurance coverage, reflecting reinsurers' growing confidence in prevailing rate adequacy, as well as higher reinsurance attachment points since recent hardening. In recent periods, reinsurers have become significantly more cautious about the frequency of severe catastrophe losses. Between late 2021 and early 2023, the region was affected by numerous costly weather-related events: floods in southern India, Malaysia, eastern Australia, and New Zealand; Super Typhoon Rai in the Philippines; and Cyclone Gabrielle in New Zealand. As catastrophe losses became more frequent, reinsurers moved away from the lower XOL layers during the 2023 renewals, particularly for areas more prone to weather events, such as the Philippines, Australia, and New Zealand. At this level, risk-return dynamics become more palatable, as demonstrated by the favourable results of the past year, resulting in capacity becoming more readily available in 2024.

The shift in sentiment underscores the cyclical nature of the reinsurance market. However, reinsurers' acute awareness of the ongoing challenges posed by changing climate risk indicates that the players will likely maintain a vigilant approach to risk assessment and pricing.

Despite reinsurers' greater willingness to deploy capacity, this has not yet reverted to a buyers' market. Favourable reinsurance market conditions provide the foundation for reinsurers to dictate terms. Contract terms tightened considerably in the 2022/2023 renewal season and have been maintained in 2024.

Reinsurers are now incorporating stricter terms and conditions, to limit their risk in the event of treaty underperformance. Apart from lowering commissions, reinsurers continue to impose sliding-scale commissions and loss participation clauses on proportional reinsurance treaties. Although these measures limit the level of protection and risk transfer for cedents, they help minimise excessive risk and catastrophe losses accruing on reinsurers' books; they also incentivise cedents to ensure the underwriting quality and rate adequacy of the underwriting portfolio.

Reinsurers writing risks in Vietnam and the Philippines applied minimum conditions for property reinsurance treaties during the 2024 renewals to ensure price adequacy for the risks borne. In the Philippines, the minimum conditions include terms to enforce minimum regulatory tariff rates. In Vietnam, reinsurers have incorporated minimum conditions in response to a recent local regulation that allows for discounting on several lines, including property risks. These measures are designed to mitigate the underperformance of proportional treaties, particularly when excessive market competition in the primary market leads to inadequate technical rates to cover the costs of underwriting.

Although reinsurers may want to optimise returns and minimise risks, their ability to do so can be limited by regulatory pressures. Reinsurance placements in India have used burning costs as minimum rates in the past, although the insurance regulator has requested that they remove minimum rates in reinsurance contracts since the 2023 renewals. The inability to impose desired terms in reinsurance contracts may expose reinsurers to greater pricing risk, but the risk may be mitigated in part by favourable market conditions in general.

Reinsurers have taken actions to not only improve the quality of inward business, but also manage their own underwriting, to support cost-effective retrocession purchases. Declining capacity and sharply rising retrocession rates in prior periods have led retrocedents to increase retentions, limit the reinsurance capacities they offer, and strengthen their accumulation management to minimise peak zone accumulations. To optimise retrocession purchases, some reinsurers have also adopted the use of multi-year agreements and named peril coverage at higher layers to lower retrocession costs and ensure stability, apart from simply buying less protection to lower costs. Although retrocession costs remain high, rates have moderated. Retrocession capacity is also more readily available, supported by retrocessionaires' renewed appetites for natural catastrophe risks, as well as greater comfort with retrocedents' catastrophe risk management.

Appendix

Asia Pacific Reinsurance Composite – AM Best Rated Reinsurers

Ratings as of August 8, 2024

AMB#	Company Name	Country of Domicile	FSR	Long-Term ICR	FSR & ICR Rating Action	FSR Outlook	ICR Outlook	FSR Effective Date
85568	Asian Reinsurance Corp	Thailand	B+	bbb-	Affirmed	Positive	Positive	13-Jun-24
86496	Central Reinsurance Corp	Taiwan	A	a	Affirmed	Stable	Stable	7-Aug-24
90957	China Life Reinsurance Co Ltd.	China	A	a+	Affirmed	Stable	Stable	17-Nov-23
88692	China P&C Reinsurance Co Ltd	China	A	a+	Affirmed	Stable	Stable	17-Nov-23
90955	China Reinsurance (Group) Corp	China	A	a+	Affirmed	Stable	Stable	17-Nov-23
71783	China Reinsurance (Hong Kong) Co Ltd.	Hong Kong	A	a+	Affirmed	Stable	Stable	17-Nov-23
74619	FuSure Reinsurance Co Limited	Hong Kong	A-	a-	Affirmed	Stable	Stable	24-May-24
86041	General Insurance Corp of India	India	B++	bbb+	Affirmed	Positive	Positive	22-Nov-23
86052	General Reinsurance Australia Ltd.	Australia	A++	aa+	Affirmed	Stable	Stable	2-May-24
86652	General Reinsurance Life Australia Ltd.	Australia	A++	aa+	Affirmed	Stable	Stable	2-May-24
91541	Hanoi Reinsurance Joint Stock Corp	Vietnam	B++	bbb	Affirmed	Stable	Positive	28-Mar-24
74846	Himalayan Reinsurance Limited	Nepal	B+	bbb-	Upgraded	Stable	Stable	24-Jan-24
85225	Korean Reinsurance Co	South Korea	A	a	Affirmed	Stable	Positive	8-Dec-23
86913	Labuan Reinsurance (L) Ltd	Malaysia	A-	a-	Affirmed	Stable	Stable	25-Oct-23
78303	Malaysian Reinsurance Berhad	Malaysia	A-	a-	Affirmed	Stable	Stable	2-Feb-24
86771	National Reins Corp of the Philippines	Philippines	B++	bbb	Affirmed	Stable	Stable	22-Sep-23
91406	Peak Reinsurance Co Limited (CS)	Hong Kong	A-	a-	Affirmed	Negative	Negative	19-Oct-23
95077	Qianhai Reinsurance Co., Ltd.	China	A-	a-	Affirmed	Stable	Stable	15-Dec-23
88684	SCOR Reinsurance Asia-Pacific Pte Ltd	Singapore	A	a+	Under Review	Developing	Developing	24-Jul-24
85224	Singapore Reinsurance Corp Ltd	Singapore	A	a	Affirmed	Stable	Stable	31-Aug-23
85830	Swiss Re Asia Pte. Ltd.	Singapore	A+	aa	Affirmed	Stable	Stable	8-Sep-23
94637	Taiping Reinsurance (China) Co Ltd.	China	A	a	Affirmed	Stable	Stable	29-Sep-23
85029	Taiping Reinsurance Co Limited (CS)	Hong Kong	A	a	Affirmed	Stable	Stable	29-Sep-23
85179	The Toa Reinsurance Co, Limited	Japan	A	a+	Affirmed	Stable	Stable	31-Aug-23
92785	Tune Protect Re Ltd.	Malaysia	B++	bbb	Affirmed	Stable	Positive	7-Dec-23
91508	Vietnam National Reinsurance Corp	Vietnam	B++	bbb+	Affirmed	Stable	Stable	31-May-24

FSR = Financial strength rating; ICR = Issuer credit rating.

Source: BESTLINK

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