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Emerging Markets

Comments on the South Korean Reinsurance Marketplace

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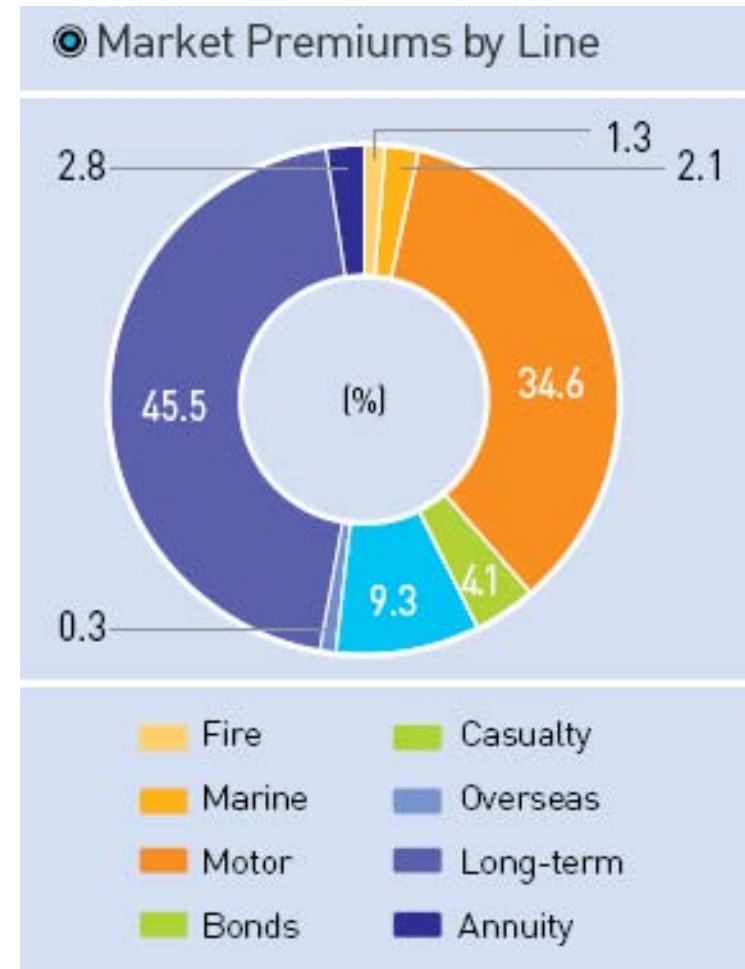


Context

- Until about 15 years ago, the Korean reinsurance market relied almost exclusively on markets in London, Europe, and the United States.
- Sophisticated reinsurance markets have developed in Singapore and Hong Kong, and are now supplying significant capacity. The new markets have been effective at reducing the cost of reinsurance to Korean companies.
- The insurance market in Korea is thriving and becoming less dependent on reinsurance.
- Primary insurance companies in South Korea are growing globally. Significant players include:
 - Samsung Fire and Marine
 - Hyundai Marine and Fire
 - LIG Insurance
 - Dongbu Fire
 - Meritz Fire
- Primary companies are making efforts to become large multi-national carriers via several strategies:
 - Writing assumed reinsurance
 - Opening branch offices in China, the United States, Australia, Guam, and elsewhere

The Marketplace

- Korean companies tend to buy very low.
- Reinsurers often participate in unprofitable lower layers in order to secure a position on profitable higher layers.
- Natural catastrophe exposure is almost exclusively typhoon. Modeling of this exposure has been developed in-house at the largest primary carriers.
- Casualty claims are rarely comparable in severity to casualty claims in western markets.
- Reinsurance strategy is controlled by well-staffed risk management departments with sophisticated tools.



Source: Korean Re

Korean Re

S & P Global reinsurer rankings

(Unit : USD millions)

Rank	Company	2010 Net written premiums	Rank	Company	2010 Net written premiums
1	Munich Reinsurance Co.	29,269	11	Korean Reinsurance Co.	2,757
2	Swiss Reinsurance Co.	19,433	12	Tokio Marine Group	2,617
3	Berkshire Hathaway Re	14,669	13	NKSJ Holdings Ltd.	2,526
4	Hannover Rueckversicherung AG	13,652	14	General Insurance Corp. of India	2,361
5	Lloyd's	9,762	15	QBE Insurance Group Ltd.	2,184
6	SCOR SE	8,141	16	Mapfre Re	2,125
7	Reinsurance Group of America, Inc.	6,660	17	Transamerica Re (AEGON)	2,038
8	PartnerRe Ltd.	4,705	18	XL Re Ltd.	1,921
9	Everest Reinsurance Co.	3,946	19	Odyssey Re	1,854
10	Transatlantic Holdings Inc.	3,882	20	Axis Capital Holdings Ltd.	1,815

Korean Re

- Korean Re is the nation's single reinsurer and the 11th largest reinsurance company in the world, with premiums of approximately \$4B.
- As in many other markets, Korean Re began as a state-owned enterprise (in 1963). The company was privatized in 1978, and is currently the largest reinsurance company in Asia.
- Most large commercial property in Korea is automatically reinsured at 20% through facultative reinsurance with Korean Re
- For large policies (such as the Samsung factories with TIV of \$20B), reinsurance schemes are extremely complex, with:
 - Automatic facultative reinsurance from Korean Re
 - Facultative reinsurance from foreign reinsurers
 - Proportional treaty reinsurance
 - Property per-risk covers

Current Market Conditions

- Reinsurance rates were generally up 5% to 25% on a risk-adjusted basis at the April 1, 2012 reinsurance renewal.
- General market hardening in Asia, stemming from losses in Thailand and Japan, created the pressure for rate increases.
- Heavy rains in July 2011 produced losses on a number of XOL treaties for the 2011 underwriting year.
- Treaty structures have been relatively consistent, though lead reinsurers of several treaties changed in the recent renewal.
- Property per-risk treaties which experienced losses in 2011 experienced pricing increases of 20%-30%, but loss-free treaties were largely stable.

