

Update on the Philippine Reinsurance Market

Philippine Non-Life Insurance Summit, 25th April 2012

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1. Treaty Renewals – 1/1/12

1.1 General

Backdrop of massive Thai flood losses. Impact on the Philippine market in terms of restrictions was tempered by the catastrophe reporting and monitoring systems already in place such as the CRESTA earthquake zoning and reporting system (also used for typhoon/flood), cession limits and separate/minimum premiums for natural perils.

Also, while there were several medium to large losses in 2011, these did not affect all the companies in the market:

- a) Typhoon Nesat (9/27/11) – est PHP1.10B (US\$25.5M) for Property and PHP0.13B (US\$2.9M) for Motor
- b) Typhoon Washi (12/16-17/11) – est PHP1.28B (US\$29.8M) for Property and PHP0.15M (US\$3.4M) for Other Classes
- c) Gaisano Mall (Cebu City, 12/23/11) – est PHP639.75M (US\$14.9M) for Fire

1. Treaty Renewals – 1/1/12

1.2 Proportional Treaties

Generally good results. Focus was on wider adoption of Event Limits to cap reinsurers' exposures at least on a per event basis.

Of the total number of Fire treaties written by PhilNaRe for 2012, 73% had event limits. PhilNaRe is lead reinsurer in 52% of these treaties.

If event limits were applied to the earthquake aggregates reported by its cedants under Zone A, PhilNaRe's total aggregates went down by 37%.

PhilNaRe continued to implement a minimum premium rate warranty for natural perils policies ceded to treaties. Of its total Fire treaties written, 70% such warranty especially where PhilNaRe is leader.

1.3 Non-Proportional Covers

Generally good results. However a significant number of Fire/Property Excess of Loss covers written by PhilNaRe, or 39% of total covers, saw increases in rates of up to 31%.

2. Continuing Concerns/Developments

2.1 Increase in Catastrophe Exposures

Market exposures in Earthquake, Typhoon and Flood have increased over the years as seen in the IC Annual Report compilation.

PhilNaRe's net retained catastrophe exposures also rose from 2010 to 2011 by around 10% for earthquake and nearly 40% for typhoon/flood.

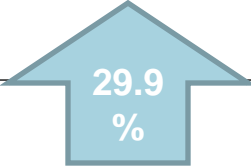
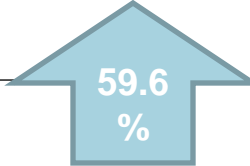

The total earthquake accumulation figures reported by PhilNaRe's cedants increased from PHP145.5B in 2010 to PHP185B in 2011 or a 27% jump.

- a) The loss potential from these exposures as well as the increasing cost of Excess of Loss protection for such exposures plus pressure on PhilNaRe to adopt mitigation measures such as a market-wide implementation of event limits for all Fire proportional treaties that cover natural perils. Also under consideration is the adoption of event limits under Motor Car treaties. Motor business suffered considerable losses from the floods spawned by Typhoon Ketsana.

Total Risk Written on Direct Business Earthquake , Typhoon/Flood

Year	EARTHQUAKE		TYPHOON AND FLOOD	
	Total Risk Written		Total Risk Written	
	Amount in Billions	Growth Per Year	Amount in Billions	Growth Per Year
2010	2,146	6%	4,192	14%
2009	2,024	0%	3,667	-3%
2008	2,024	81%	3,794	93%
2007	1,119	-48%	1,962	-2%
2006	2,160	52%	2,011	-27%
2005	1,419		2,741	
Average Growth Rate		8.54%		8.82%

Number of Policies Issued

2005 to 2010	EARTHQUAKE	TYPHOON AND FLOOD	FIRE
Year	Number of Policies	Number of Policies	Number of Policies
2010	 136,455	 228,043	 856,599
2009	105,043	142,872	764,249
2008	104,182	144,545	733,177
2007	79,025	113,763	727,258
2006	71,872	97,932	743,636
2005	65,927	80,188	734,567
Ave. Growth Rate	17.83%	30.73%	2.77%

2. Continuing Concerns/Developments

- b) PhilNaRe is also seriously considering shifting reinsurance protection for natural perils from proportional treaties to Excess of Loss covers where catastrophe exposures can be better evaluated, priced and monitored.
- c) It is also looking at incorporating the SwissRe SR460 Hours Clause which applies to event definition in reinsurance agreements and the restriction of territorial scope to pure domestic business (eliminate “incidental interests” abroad).

2.2 Continued implementation of minimum premium rates for Natural Perils

Although market premiums for natural perils have risen over the past few years, the average premium rates are still below the minimum rates of 0.10% for earthquake and 0.05% for typhoon/flood.

Direct Premiums Written on Earthquake , Typhoon and Flood

Year	EARTHQUAKE		TYPHOON AND FLOOD	
	Premiums Written		Premiums Written	
	Amount in Billions	Growth Per Year	Amount in Billions	Growth Per Year
2010	1.86	64%	1.02	49%
2009	1.13	-15%	0.69	-17%
2008	1.34	18%	0.83	51%
2007	1.13	21%	0.55	16%
2006	0.93	-24%	0.47	-7%
2005	1.24	0%	0.51	0%
Average Growth Rate		8.34%		17.12%

Risk Rates Per Year - 2005 to 2010

Year	EARTHQUAKE	TYPHOON AND FLOOD	FIRE
	Risk Rate Per Year	Risk Rate Per Year	Risk Rate Per Year
2010	0.086%	0.024%	0.127%
2009	0.056%	0.019%	0.132%
2008	0.066%	0.022%	0.121%
2007	0.101%	0.028%	0.131%
2006	0.043%	0.023%	0.102%
2005	0.087%	0.018%	0.142%
Ave. Growth Rate	-0.13%	5.42%	-1.82%

2. Continuing Concerns/Developments

It is interesting to note that in 2009, when Typhoon Ketsana spawned massive floods within Metro Manila and caused huge losses estimated at around PHP13B, the total natural perils premiums amounted to only PHP1.82B or covering just 14% of the total estimated property losses. If the current minimum rates were applied in 2009, the total natural premiums would have doubled to PHP3.86B and reduced the number of years that the natural perils business would have needed to recover from the Typhoon Ketsana flood loss.

2. Continuing Concerns/Developments

2.3 Philippine Catastrophe Pool

Given the vulnerability of the Philippines to natural catastrophes and the need to rationalize and better manage the underwriting of such perils, PhilNaRe wholeheartedly supports the initiative of the Asian Development Bank with the strong support of the Insurance Commission and the Philippine Insurers and Reinsurers Association (PIRA) to set up catastrophe pool in the country. To simplify matters, the pool is envisioned to initially cover earthquake for middle class residential risks and SMEs.

The discussions on and the actual setting up of the pool are very timely. From the tables showing data from the IC Annual Reports, one can see that while earthquake and typhoon/flood liabilities have increased by an average of nearly 9% from 2005-2010, the industry's total net worth rose by slightly over 4%. Furthermore, if one were to apply a 5% PML on the total earthquake and typhoon/flood exposures (using 2010 figures), the resulting "as if" losses would wipe out the industry's total net worth.

Non Life Industry Totals 2005 to 2010 Net Worth vs. Risk Written (figures in Billions)

Year	Net Worth		Earthquake		Typhoon and Flood	
	Total Net Worth	Annual Growth Rate	Liabilities / Risk Written	Annual Growth Rate	Liabilities / Risk Written	Annual Growth Rate
2010	49	9%	2,146	6%	4,192	14%
2009	45	25%	2,024	0%	3,667	-3%
2008	36	-9%	2,024	81%	3,794	93%
2007	39	-4%	1,119	-48%	1,962	-2%
2006	41	5%	2,160	52%	2,011	-27%
2005	39		1,419		2,741	
Average Growth Rate		4.26%		8.54%		8.82%

Scenario Testing Net Worth vs. 5% of Risk Written (figures in PHP Billions)

Year	Total Net Worth	Earthquake	Typhoon and Flood
		5 % of Total Risk Written/Liabilities	
2010	49	107	210
2009	45	101	183
2008	36	101	190
2007	39	56	98
2006	41	108	101
2005	39	71	137

Update on the Philippine Reinsurance Market

THANK YOU

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