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Asia-Pacific Insurers Seek Overseas Expansion To Drive Growth and Strategic Diversification

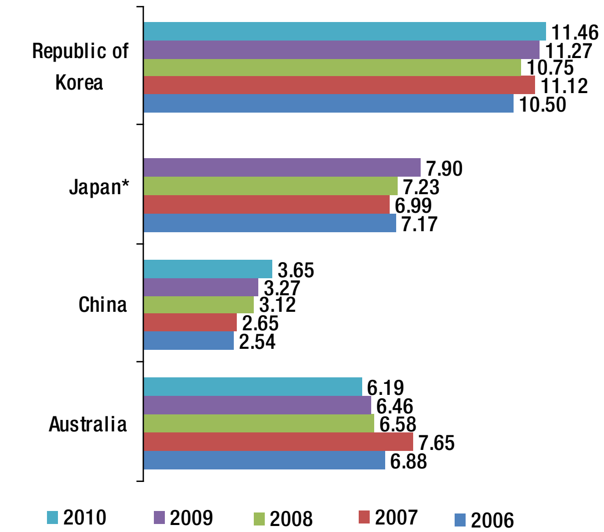
By Iris Lai

After spending decades building their regional businesses, a host of Asia-Pacific insurers have set their sights outside of the region and have launched aggressive global expansion strategies. Several prominent Asia-Pacific insurers have spent upwards of $10 billion since 2008 for acquisitions that advance their business interests within the region and on three continents. Those include:

- Tokio Marine Holdings Inc., one of Japan's largest nonlife insurers, said in December it would buy U.S.-based Delphi Financial Group Inc. for about $2.7 billion in cash. It follows the 2008 acquisition of U.S. property/casualty insurer Philadelphia Consolidated Holding Corp. for $4.7 billion and Bermuda-based Kiln Ltd., a Lloyd's insurer, for US$574 million in cash.
- Mitsui Sumitomo Insurance Co. Ltd., a subsidiary of Japan's MS&AD Insurance Group Holding Inc., acquired a 50% stake in Indonesian life insurer PT Asuransi Jiwa Sinarmas for $800 million as part of its expansion strategy in Asia.

Continued: GROWTH, page 5

Insurance Penetration Rates as % of GDP



Source: AXCO Global Statistics

*Note: 2010 Penetration Rates for Japan not available

Best's Lee: Strong Domestic Base Aids International Growth

Lee

Asia-Pacific insurers and reinsurers have room to grow in overseas markets, as they have the capital and strong domestic bases from which to build, according to MM Lee, general manager of analytics at A.M. Best Asia Pacific Ltd.

"Asian companies venturing out for overseas business have already a good foothold in their domestic market but it's not easy for these players to grow further beyond market growth," said Lee. Overseas business offers companies extra revenue prospects, he said.

Lee noted these companies usually have a large amount of accumulated risk in their domestic market based on a strong home presence. Any additional local premium leads to higher risk concentration.

As their accumulated overseas premium risk trends to be relatively small, Lee said "additional overseas risk can be underwritten without adding much accumulated risk."

Continued: ASIA-PACIFIC INSURERS, page 9

Domestic Economic Concerns Drive Japanese Insurers Into Overseas Markets

Japanese insurers have accelerated their international expansion by seeking to acquire foreign life insurers in emerging markets, while major nonlife deals have emerged in the United States over the past year.

Shibata

The country's three major nonlife insurance groups are "pursuing global expansion and expansion of life subsidiaries by utilizing their sales channel and innovative products," said Naoyuki Shibata, executive partner of financial services at consultancy Accenture.

Japan's aging population and shrinking automobile market "is really serious for them and it means their main business line is struggling," said Shibata. The three largest groups, which control a majority of the nonlife market share in Japan, aim to boost their international presence after setting up holding companies in 2010.

The March 11, 2011, earthquake and tsunami in Japan did not adversely impair their financial positions as they have huge liability reserves, noted Shibata. They continue their expansion strategies in emerging and mature markets.

The biggest recent deal was Tokio Marine Holdings Inc.'s US$2.7 billion acquisition of U.S.-based Delphi Financial Group Inc. Shibata said the company "looks likely to make acquisitions in the developed country's niche market, which had already generated high profitability," given its earlier nonlife acquisitions in the United States and United Kingdom.

If Delphi were included in Tokio Marine's 2011 earnings, international business would represent 46% of the group's total adjusted earnings. Acquired in 2008, Philadelphia Consolidated Holding Corp. contributed nearly 47% of total net written premiums to the group's overseas primary nonlife business in the fiscal year ended March 31, 2011.

Conversely, MS&AD Insurance Group Holdings Inc. and NKSJ Holding Inc. have focused on developing countries, especially in Asia, according to Shibata. NKSJ is accelerating overseas mergers and acquisitions, particularly smaller ones. That entry into major markets such as Europe is a strategy to sustain global growth. Accumulation of market knowledge through acquisition and equity participation in Europe assists the company's penetration into local markets.

Nipponkoa Insurance Co. Ltd., a subsidiary of NKSJ, acquired Dutch underwriting agency Nateus Nederland B.V. in October 2011. With a "full-fledged" entry into the European market, Nipponkoa said it "will construct a stable overseas business base and strengthen its earning ability."

"They've done overseas expansion through merger and acquisition with not only Asian insurers but also other regions' insurers," said KyongSun Kong, an analyst with consultancy Celent. Japanese nonlife insurers developed a midterm plan to lift their profit ratio in overseas markets and offset an aging population and falling cars sales at home.

Nipponkoa Insurance Co. Ltd.

AMB# 084413
($ million)

Period Ending	Gross Premiums Written	Total Admitted Assets	Best's Financial Strength Rating
2006	7,104.8	29,582.1	A
2007	7,045.7	28,776.5	A
2008	8,163.5	29,980.2	A
2009	7,773.6	27,465.2	A
2010	7,869.1	27,972.7	A

Source: BestLink

Sompo Japan Insurance Inc.

AMB# 085258
($ million)

Period Ending	Gross Premiums Written	Total Admitted Assets	Best's Financial Strength Rating
2006	14,213.7	50,481.1	A+
2007	14,013.5	51,138.6	A+
2008	16,289.4	54,316.8	A+
2009	15,623.5	49,924.2	A+
2010	15,986.6	54,265.4	A+

Source: BestLink

Dai-ichi Life Insurance Co. Ltd.

AMB# 085255
($ million)

Period Ending	Gross Premiums Written	Total Admitted Assets	Best's Financial Strength Rating
2006	28,923.7	276,331.2	NR
2007	27,933.9	284,776.7	NR
2008	31,233.1	320,885.8	NR
2009	29,856.6	308,628.7	NR
2010	30,613.9	332,574.4	NR

Source: BestLink

MS&AD has purchased overseas life businesses to diversify portfolios, "We aim our life insurance business to work cooperatively with our nonlife business which has solid foundation," said MS&AD in a financial presentation. The group has life operations in China, Malaysia and Indonesia, where it sees potential life insurance growth.

Mitsui Sumitomo Insurance Co. Ltd., an MS&AD subsidiary, acquired a 50% stake in Indonesian life insurer PT Asuransi Jiwa Sinarmas for about US$800 million as part of its expansion strategic in Asia last year.

MS&AD set up MS Financial Reinsurance Ltd. in Bermuda in November 2011 to provide reinsurance cover for variable annuities sold by Mitsui Sumitomo Primary Life Insurance Co. Ltd. MS&AD said the group "has positioned its life insurance business as an important growth area."

■ Continued: **OVERSEAS MARKETS,** page 14

Japan May Ease Overseas Expansion Rules

The proposed relaxation of regulation that curtails Japanese insurers' ability to expand abroad and hampers long-term growth are under review by the Financial Services Agency.

The March 11, 2011 earthquake and tsunami alerted the regulator to the problem of concentration of assets and risks in Japan. In view of a sluggish domestic economy and high risk of natural perils, the regulator realizes the need to enable insurers to further strengthen their diversification strategies, according to legal consultants.

Proposed changes would enable Japanese insurers to more easily acquire foreign insurers, said Masahiko Todo, partner of Tokyo-based law firm Ushijima & Partners.

Changes are proposed in two areas: the business scope of a foreign acquisition and foreign credit share of Japanese insurers' total assets, according to the report filed with the FSA.

"The restriction on the acquisition of shares exceeding 10% of its total assets has effectively precluded Japanese insurers from the acquisition of a large-scale foreign insurer," said Todo.

Under current regulation, Japanese insurers and subsidiaries are only allowed to engage in acquisitions on "admitted businesses." The foreign insurer is required to divest non-admitted business before the completion of an acquisition.

In the bidding process for the acquisition of a foreign insurer, Todo said Japanese insurers must determine whether any subsidiary of the target has nonadmitted business. If that is the case, the Japanese insurer's offer must be contingent on those operations being excluded from the deal. The United States, United Kingdom, Germany and France do not have such restrictions.

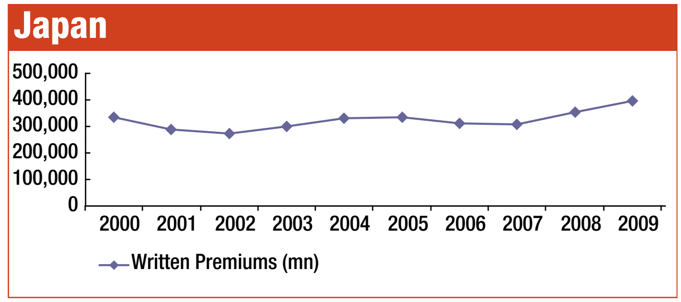
This restriction makes foreign acquisitions difficult and adversely affects Japanese insurers' competitive position in international markets, said Shinichi Takahashi, partner of law firm Nishimura & Asahi in Tokyo.

However, Takahashi said "the proposed new regulation will grant Japanese insurers a certain grace period after the completion of an acquisition during which the non-admitted businesses will be divested."


Takahashi

Kyong Sun Kong, an analyst with consultancy Celent Japan, said Japanese insurers mainly engage in corporate business in foreign markets but recently they are becoming interested in retail business as well.

"As the domestic market is stagnant in Japan, the relaxation is inevitable," said MM Lee, general manager of analytics at A.M. Best Asia Pacific Ltd. The proposed change may not have an immediate impact on Japan's insurance industry.




Kong

Japanese insurance companies have actively acquired foreign insurers "to expand its profit-earning opportunities in recent years," given the mature domestic market and strong yen, said Todo. "FSA is apparently assisting the Japanese insurance industry."

This acquisition trend "will continue for the time being," said Todo. There were 11 overseas merger and acquisition deals by Japanese nonlife insurers since 2004. Japanese insurers' investments in the foreign life insurance sector reached about ¥300 billion (US$3.9 billion) in 2011, three times larger than the amount in 2010.

The proposed new rules would enhance Japanese insurers' flexibility and service in overseas markets so that they could do business "in a more efficient manner," contributing to an expected rise in profit, said Kong.

Large Japanese insurers are mainly active in international merger and acquisition activities, said Kong. This regulatory change might make overseas expansion attractive to small and medium-size companies.

In December, a working group of the Financial System Council, an advisory body for the government, submitted a report for regulatory review, with suggestions to amend the rules by the end of the 2012 fiscal year.

"It appears that the proposed changes to the rules were requested by the industry," said Todo. Representatives from Tokio Marine & Nichido Fire and Nippon Life played an important role in leading the discussion based on the working group's minutes.

In the past, Kong noted the restrictions were meant to promote sound business practices rather than restrict their overseas mergers and acquisitions, said Todo.

Stricter requirements for risk management and solvency, have enhanced insurer supervision, including group-level activities, according to the report.

— Iris Lai

Overseas Expansion Challenged by Cultural, Regulatory and Management Differences

Wide diversity across Asia-Pacific insurance and reinsurance markets makes mergers and acquisitions a complex affair for insurers given the differences in regulatory development, culture and operating environments.


Holderness

Some are extending their international underwriting platforms by establishing representative offices, branches or subsidiaries and acquiring local firms. Entry strategies in new markets differ by jurisdiction, said Andrew Holderness, global head of corporate insurance at law firm Clyde & Co.

Major insurance and reinsurance companies with strong positions in local markets are looking outside their borders because there is little opportunity to grow further at home. "This may be either due to competition issues, which would prevent them from merging with one or more of their competitors, or due to ownership structures within that jurisdiction that would make any such mergers unlikely," said Holderness.

Local regulation determines both inward investment of foreign companies and outward expansion of local firms, and some regulators are reviewing rules governing expansion. Japan's Financial Services Agency, for instance, is now reviewing regulatory restrictions on Japanese insurance companies' international merger and acquisition activities.

Bank Negara Malaysia, the central bank and regulator of Malaysia, lifted the cap on foreign equity holdings for operators of conventional insurance and takaful companies from 49% to 70% in 2009, in a bid to allow more foreign participation to fuel growth (*Best's News Service, May 5, 2011*).

India and China are among the hot targets for Asia-Pacific companies to expand their footprints, but both closely regulate foreign acquisitions. In China, foreign insurers are restricted in extending their operations as insurance licenses are awarded on a provincial or city basis. In India, foreign investment in local insurers is capped at a 26% stake.

Over the past decade, China and India have both liberalized the insurance market for foreign players with a common goal to boost development. However, foreign insurers still have a way to go to gain an equal footing through their investments. Foreign insurers must participate in joint venture partnerships in both countries. The relationship with local partners has influenced the success of expansion into foreign markets.

Differences in country and company cultures are critical. Some company cultures "just don't integrate well and this can significantly impair deal success," said David Simmons, national leader of insurance M&A services at consultancy Deloitte and director of Deloitte Tax LLP. There are many regulatory obstacles, and while some are easy to navigate, such as restrictions on foreign ownership, others are more difficult.

"It's very different operating an insurance company in a highly regulated market than a lightly regulated or developing regulatory market," said Simmons. Foreign insurers entered the United States through acquisitions in the 1990s but they withdrew later because of the difficulty of operating in a highly regulated environment.

Insurers face entrenched competitors in mature markets, while they find more open conditions in emerging markets with fewer competitors, noted Simmons.

Lack of experienced management talent in local markets is another obstacle. Simmons said expansion into mature markets of Europe and the United States is also "a means of acquiring management talent that they can deploy elsewhere."

Despite the obstacles, mature markets appear to be expansion targets for companies due to familiarity with the operating environment and know-how of acquisition. For instance, Australia's sophisticated and affluent environment, western business practices and developed regulatory framework make it an attractive market.

Japan's Dai-ichi Life Insurance Co. Ltd. completed the acquisition of Tower Australia Group Ltd. which was renamed TAL Ltd. in 2011. Dai-ichi Life said the group aims to "expand its overseas business through enhancement of Tower Australia's core capabilities and core value." Japanese insurers are among the most active Asia-based companies to enter the U.S. market, beginning in the 1990s. Tokio Marine Holdings Inc. bought U.S. property/casualty insurer Philadelphia Consolidated Holding Corp. for US$4.7 billion in 2008. The U.S. unit contributed nearly 47% of total net written premiums for the group's overseas primary nonlife business in the fiscal year ended March 31, 2011. The Japanese insurer established Tokio Marine North America to hold the group's U.S. operations with the aim to drive the market's growth strategy.

Tokio Marine recently agreed to acquire Delphi Financial Group Inc. for about US$2.7 billion in cash. If Delphi were included in Tokio Marine's fiscal 2011 earnings, international insurance business would represent 46% of the group's total adjusted earnings, according to Tokio Marine.

In the long term, Simmons said "the principles of a

■ Continued: **EXPANSION CHALLENGES,** page 11

■ GROWTH

From page 1

• Australia-based IAG sealed three acquisition deals within the region with a strategic focus on motor insurance in the second half of 2011. Valued at about $400 million, the deals included AMI Insurance Ltd., enhancing the Australia-based insurers position as leading nonlife insurer in New Zealand.

• QBE's recent U.S. acquisitions include crop insurer NAU Country Insurance, Renaissance Re and Puerto Rico-based Optima General. In South America, the Australian insurer acquired CNA Aseguradora de Riesgos del Trabajo, a leading insurer in the Argentinean workers' compensation market, and Seguros Colonial, the largest non-life insurer in Ecuador.


Simmons

Some initiated forays into the London market:

• China Re entered into a strategic partnership with Catlin Group to form a Lloyd's syndicate in November 2011.

• Samsung Fire & Marine Insurance Ltd. expanded its London office into a subsidiary in 2011.

In mature markets such as Japan and Australia, some insurers "are seeking faster top-line premium growth through expansion in emerging markets," said David Simmons, national leader of insurance mergers & acquisitions services at consultancy Deloitte.

Insurers with balance sheet strength are considering overseas expansion for basic diversification and to offset considerable uncertainties associated with specific markets, said Clark Troy, research director at consultancy Aite Group.

Japanese and Australian companies appear to be active buyers in global insurance acquisitions. The most recent deals came from Australia's leading nonlife insurers QBE Insurance Group Ltd. and Insurance Australia Group Ltd., which are both opting to pursue overseas acquisitions to diversify portfolios and revenue.

Globally, QBE has grown its business through acquisitions that contributed about 85% of gross written premiums in the past five years. The acquisition strategy focuses on further product diversification and geographic spread of risks.

In the past half year, IAG sealed three acquisitions within the region with a strategic focus on motor insurance. Its agreement to acquire AMI Insurance Ltd. will enhance its position as New Zealand's leading nonlife insurer.

Japanese insurers are also active players in recent global mergers and acquisitions, according to Mark Saunders, risk consulting practice leader in the Asia-Pacific region and managing director of Hong Kong at consultancy Towers Watson.

A strong yen, experience operating in a low-interest-rate environment and mature market conditions and a long history of business experience in Japan "move the needle" for Japanese insurers to seek overseas expansion, said Saunders.

Indonesia is one of the hot places for acquisitions given with its low insurance penetration, large demographics and rising economy, said Saunders. Indonesian companies are also attracted by cash injections from foreign investors.

Mitsui Sumitomo Insurance Co. Ltd., said, regarding its half-ownership in Indonesian life insurer PT Asuransi Jiwa Sinarmas that it "aims to actively invest in overseas nonlife and life insurance" as part of its strategy to achieve sustainable growth.


Troy

Changing market and regulatory conditions also contribute to the need for overseas expansion. Simmons said some insurers have to realign their business portfolios in anticipation of, or response to, regulatory and accounting changes. "Others are seeking to diversify their business and geographical loss exposure risk," added Simmons. Insurers based in low-growth countries such as Japan and Australia are eyeing the high-growth prospects in Asian emerging markets.

"This is a natural expansion as they are familiar with these markets, having had trading relationships in the region for many years," said Simmons.

Some Asian insurers are making inroads into the more mature markets of Europe and the United States. "The historically low insurance company valuations for insurance companies in the U.S. coupled with a weaker dollar relative to currencies such as yen, make the current U.S. market very attractive for foreign entry," said Simmons.

Tokio Marine established Tokio Marine North America in May to manage all of the group's U.S. businesses with an aim to achieve further growth. If the Delphi Financial Group were included in its fiscal 2011 earnings, international insurance business would represent 46% of the group's total adjusted earnings, excluding losses from the Thailand floods, according to the Japanese insurer.

As the demographic and economic dynamics of the United States, Europe and emerging Asia differ considerably, Troy said making investments in mature economies offers diversification benefits while taking stakes in enterprises in emerging markets offers growth prospects.

The trend would see more Asia-based companies buying into mature western markets. Troy noted Western consumers, who were uneasy about the prospect of ceding leadership in the world economy, "may well be reticent about purchasing insurance from branded Asian insurers over the next few years." The difficulties Aegon and ING had emerging from the credit crisis give American consumers "some pause looking at even European carriers," he added.

Australia

IAG

Dec. 2011: Kurnia Insurans Bhd., Malaysia

Dec. 2011: AMI Insurance Ltd., New Zealand

Aug. 2011: Bohai Property Insurance Pty Ltd., China

QBE

Dec. 2011: Optima Insurance Group, Puerto Rico

NAU Country Insurance, Ramsey, Minn.

Renaissance Re, Bermuda

CNA Aseguradora de Riesgos del Trabajo, Argentina

Seguros Colonial, Ecuador.

China

China Reinsurance Corp.

Nov. 2011: Strategic partnership with Catlin Group Ltd. to form Lloyd's syndicate,UK

Japan

Mitsui Sumitomo Insurance Co. Ltd.

A subsidiary of Japan's MS&AD Insurance Group Holding Inc.

May 2011: PT Asuransi Jiwa Sinarmas, Indonesia

April 2011: Hong Leong Tokio Marine Takaful Bhd., Malaysia

Tokio Marine

Dec. 2011: Delphi Financial Group Inc., US

Aug. 2011: First Insurance Co. of Hawaii, US

2008: Philadelphia Consolidated Holding Corp., US.

2008: Kiln Ltd., a Lloyd's insurer, Bermuda

Japan (continued)

Nippon Life

March 2011: Reliance Life Insurance Co. Ltd., India

Sompo Japan Insurance Inc.

June 2011: Berjaya Sompo Insurance Bhd, Malaysia

April 2011: Established branch in Beijing, China

Oct. 2010: Established new reinsurance unit in Malaysia

Nipponkoa Insurance Co. Ltd.

Jan. 2011: PT Asuransi Permata Nipponkoa Indonesia, Indonesia

Aioi Nissay Dowa Insurance Co. Ltd.

A unit of MS&AD Insurance Group Holding Inc.

July 2011: Established branch in Zhejiang, China

Dai-ichi Life Insurance Co. Ltd.

Nov. 2011: Permit to establish joint venture life insurance company in China

South Korea

Korean Reinsurance Co.

2011: Established branch in Beijing, China

Samsung Life Insurance Co. Ltd.

2011:Established branch in Beijing, China

2011: Became largest stockholder of Siam Samsung Life Insurance, Thailand

Samsung Fire & Marine Insurance Ltd.

2011: Expanded its London office into a subsidiary, Samsung Fire & Marine Insurance Company of Europe

2011: Established reinsurance subsidiary in Singapore


East Siberian Sea
Beaufort Sea
Chukchi Sea
Bering Sea
Gulf of Alaska
Canada
Hudson Bay
Baffin Bay
Greenland
Labrador Sea
North Pacific Ocean
United States
North Atlantic Ocean
Mexico
Gulf of Mexico
Jamaica
Honduras
Haiti
Dom. Rep.
Puerto Rico
Antigua & Barbuda
Dominica
St Lucia
St Vincent & the Grenadines
Grenada
Nicaragua
Costa Rica
Trinidad & Tobago
Venezuela
Guyana
Suriname
French Guiana
Colombia
Brazil
Peru
Bolivia
Paraguay
Chile
Argentina
Uruguay
South Pacific Ocean
Solomon Islands
Coral Sea
Vanuatu
Fiji
Tasman Sea

South Korean Insurers Pushed to Expand To Outrun Intense Domestic Competition

Following a series of initial public offerings, the next move for South Korea-based insurers and the national reinsurer is to grow overseas and deepen their roots in the insurance markets of newly emerging economies, as a balance to the escalating competition and declining profitability in the saturated domestic market, according to industry watchers.

South Korea's insurance penetration in terms of premiums to gross domestic product in 2010 was 11.2%, overtaking Japan's 10.1% and ranking third in Asia, after Taiwan's 18.4% and Hong Kong's 11.4%, according to Swiss Re's sigma study.


Shin

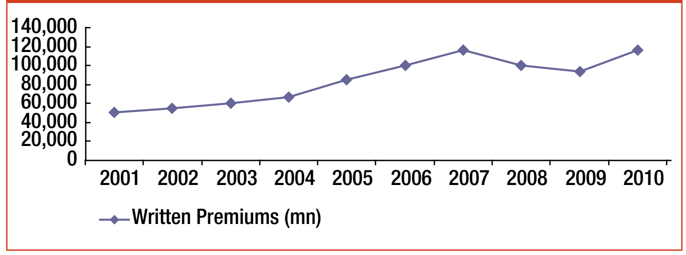
"The insurance penetration rate of South Korea is one of the highest in the world, implying that customer base expansion will be a challenging task," said Bosung Shin, a researcher at Seoul-based Korea Capital Market Institute, in a report.

The domestic insurance sector in South Korea is more sophisticated, but with limited organic growth opportunities, compared with growth markets in the region such as China and India, with respective insurance market penetration of 3.8% and 5.1% in 2010. In those countries, insurers remain focused on their home market growth, where large populations and favorable demographic factors continue to support developing markets.

South Korea's insurance market needs a "breakthrough," through one of two options: One is to find a solution within South Korea, and the other is to go abroad and look for new markets, trying to ease the problem of "market saturation under fierce competition where returns on equity are in the downward trend," noted Shin.

Although increasing market concentration through mergers and acquisitions can help eliminate domestic competition and overcome the sluggish growth of the market, Shin said the growing concerns about the "adverse" consequences of market concentration "reduce the room for financial institutions to grow their market power through M&As," which motivates insurers to shift out of the South Korean market and into overseas markets.

Republic of Korea



The drivers for international expansion include "spreading local country market risks and balancing business cycles, managing costs more efficiently and taking advantage of attractive stock prices," said Rob Hetherington and Michael Neale, analysts at consultancy Accenture, in a report.

The ideal destination for overseas expansion should be a nation with a fast-growing economy, but without an advanced financial industry; "a nation where high growth is pushing up demand for capital, but where that demand is not sufficiently being met," said Shin. Such a country would provide abundant business opportunities to South Korean financial firms.

"Fortunately, neighboring Asian nations satisfy the criteria," he said, adding "economic and cultural proximity makes Asian nations attractive targets for overseas expansion."

Prior to South Korean insurers' foreign growth strategy, many life insurers from developed markets such as the United States, Japan and Europe have looked to expand in the emerging markets of Asia. They recognize the rapid growth in wealth and demand for secure investment propositions. "The recent deregulation and opening of markets in both China and India has been a particular attraction," said Charlotte Raut and Russell E. Ford, also of Accenture.

Last November, the country's second-largest life insurer, Korea Life Insurance, said it won Chinese regulatory approval to set up a 50-50 joint venture in China with Zhejiang International Business Group, a Chinese state-owned asset management company, with a total investment capital of 500 million yuan (US$79 million).

"With the insurance market potential and domestic economic growth in China, the joint venture is expected to begin its business in the Yangtze Delta region," said

■ Continued: SOUTH KOREA, page 9

Korean Reinsurance Company

AMB# 085225
($ million)

Period Ending	Gross Premiums Written	Total Admitted Assets	Best's Financial Strength Rating
2006	2,974.5	3,443.7	A-
2007	3,413.3	4,029.3	A-
2008	3,749.3	4,355.5	A-
2009	2,907.4	3,606.2	A-
2010	3,770.1	4,656.5	A-

Source: BestLink

■ SOUTH KOREA

From page 8

Seoul-based Korea Life, which will be responsible for the overall management of the venture, with a strategy of localizing the operation. The new company is expected to start operations in 2012, based in Hangzhou, the capital of Zhejiang province in eastern China (*Best's News Service, Nov. 16, 2011*).

Korea Life is a subsidiary of the conglomerate Hanwha Group. It was listed on the South Korea Stock Exchange in March 2010, raising capital to fund further development in the domestic life insurance sector. The insurer's global network includes offices in Tokyo and London, as well as an investment subsidiary in New York.

In the nonlife sector, Samsung Fire & Marine, the largest nonlife insurer in South Korea, said organic expansion and entry into Asian emerging markets are among the long-term strategies of the company; while "risk management at the highest possible level" is the insurer's most important criteria to achieve its planned overseas expansion.

The insurer intends to become the second-largest nonlife player in Asia and reach the global top 10 by 2020, with sales reaching US$30 billion and assets amounting to US$100 billion. To achieve its overseas expansion goal, Samsung Fire & Marine earlier said it is in the process of building a base and infrastructure to "expand organically" to foreign markets, while it studies other global insurers to benchmark successful cases of overseas expansion. It plans to set up a reinsurance subsidiary in Singapore to support the company's Asia expansion.

Korean Re, the country's reinsurer, is looking to become one of the top five reinsurers in the world,

Samsung Life Insurance Co. Ltd.

AMB# 085849
($ million)

Period Ending	Gross Premiums Written	Total Admitted Assets	Best's Financial Strength Rating
2006	16,205.4	103,720.4	NR
2007	16,632.3	116,303.3	NR
2008	15,713.4	118,836.4	NR
2009	10,572.3	87,538.2	NR
2010	12,860.0	117,757.7	NR

Source: BestLink®

Samsung Fire & Marine Ins. Ltd.

AMB# 085850
($ million)

Period Ending	Gross Premiums Written	Total Admitted Assets	Best's Financial Strength Rating
2006	7,494.2	17,434.7	A+
2007	8,795.5	20,297.9	A+
2008	9,288.3	21,684.0	A+
2009	7,004.9	17,021.0	A+
2010	9,667.3	24,181.6	A+

Source: BestLink®

with projected gross premiums from overseas markets reaching 50% in its portfolio by 2020, compared to 17% in 2010. "Korean Re intends to become a truly global reinsurer, from a regional reinsurer," said the reinsurer's chief executive, Jong-won Park, in a statement.

To diversity the business portfolio, Park noted Korean Re is moving to acquire equity stakes in local insurers and in countries with growth potential. He said with its strong credit rating, the reinsurer's overseas business focus "will shift from Asia to the Middle East, East Europe and South America during the initial phase; while expanding to Europe and the U.S. in the second phase."

— Rebecca Ng

■ ASIA-PACIFIC INSURERS

From page 1

"As you generate more revenue with less accumulated risk, your cost base is also geographically better diversified. Ultimately, you could become more competitive in your own domestic market," said Lee.

Acquisition targets depend on the companies' risk appetite and strategic time line, said Lee. Japan's Tokio Marine Holdings Inc. has expanded globally, not only in the United States and Europe. The Japanese group currently has more than 220 subsidiaries and 30 associated companies with a presence in about 40 countries and regions, according to BestLink.

As Korean Re's main market is South Korea with relatively low catastrophe risk, Lee noted "they went into Asian markets first due to familiarity as well as low catastrophe risk." The sole domestic reinsurer in South Korea has put an emphasis on Asian business during the past few years and overseas premiums from emerging markets in Asia and Eastern Europe has increased, according to BestLink.

The present seems to be a favorable time for Asia-based companies to expand overseas as their Western counterparts in Europe and the United States become less competitive under current global economic conditions. However, Lee said instead of guessing the right timing, companies should be prepared to take on new and additional risk to their portfolio.

"As long as companies keep in mind flexibility and compatibility, the benefits will overweigh the risks," said Lee. Companies have to be compatible in offering risk solutions to the markets, along with flexibility in adapting local culture.

Acquisitions Boost Profits for QBE, IAG

Strategic acquisitions by Australia's two largest nonlife insurers over the past three years are expected to contribute significantly to their bottom lines.

- Insurance Australia Group intends to boost its Asian footprint to a point where it contributes 10% of gross written premiums by 2016.
- Acquisitions contributed to QBE's earnings with a 30% growth in gross written premiums for the first half of 2011. Furthermore, acquisitions contributed to more than 90% of QBE's premium growth from more than 50 transactions since 2005 (*Best's News Service, Aug. 23, 2011*).

For IAG, the boost will be achieved through new market entry such as in Indonesia and Vietnam, increased ownership in existing markets, bolt-on acquisitions in established markets and organic growth, said IAG in a financial presentation. IAG already has nonlife joint ventures and wholly-owned units in Thailand, Malaysia, India and China.

To that end, IAG sealed three acquisition deals in the region in 2011, with a strategic focus on motor insurance. The insurer agreed to pay US$288.7 million to acquire AMI Insurance Ltd. to enhance its position as New Zealand's leading nonlife insurer. IAG's Malaysian joint venture, AmG Insurance Bhd., sought regulatory review for the proposed acquisition of Kurnia Insurans Bhd., which has most of its business in motor insurance. In August, IAG entered China's nonlife market with an agreement to pay US$108 million to acquire 20% of Bohai Property Insurance Pty Ltd., which is also predominantly a motor insurer.

For QBE, its acquisition targets have been mostly in the Americas markets. Most recently, QBE agreed to acquire Puerto Rico-based Optima Insurance Group in late 2011.

QBE's other U.S. acquisitions include crop insurer NAU Country Insurance, Renaissance Re and Balboa. In South America, the Australian insurer acquired CNA Aseguradora de Riesgos del Trabajo, a leading insurer in Argentina's workers' compensation market, and Seguros Colonial, the largest nonlife insurer in Ecuador. QBE also acquired the Australian operations of U.S.-owned CUNA Mutual Group.

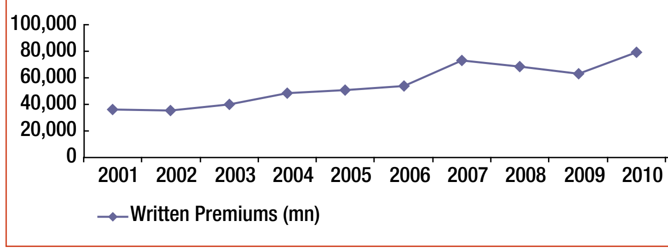
QBE Insurance Group Ltd.

AMB# 085434
($ million)

Period Ending	Gross Premiums Written	Total Admitted Assets	Best's Financial Strength Rating
2006	8,186.6	25,065.8	NA
2007	10,876.3	34,728.7	NA
2008	9,077.2	33,418.1	NA
2009	11,239.0	36,723.0	NA
2010	13,629.0	42,188.0	NA

Source: BestLink

Australia



One of the group's focuses is to continue its acquisition strategy targeted at bolt-on portfolios and underwriters to enhance existing business, said QBE in a financial presentation. In the longer term, QBE said it focuses on acquisitions which do not rely on investment income to support insurance margins.

"Given past experiences of Australian insurers and banks with overseas expansion, it's surprising that Australian insurers are so keen to do this in recent times," said Michael Sherris, professor of actuarial studies at the University of New South Wales.


Sherris

Increasingly, deals "may be driven by the relative strength of the Australian dollar or a view that diversification of risks would be beneficial given the size of the Australian market," said Sherris.

Australia's nonlife insurance sector is led by six companies that write more than A$35 billion of combined premiums, representing some 85% of the market total. The larger companies often write through multiple brands and licensed insurers, according to consultancy KPMG's 2011 general insurance report. QBE, IAG and Suncorp are the three largest in terms of net premiums in Australia. Mergers and acquisitions reduced the total number of nonlife companies from 172 in the mid-1980s to 128 last year, some of them with the same parents.

The level of competition remains strong with increasing transparency of pricing and policy features due to financial services reform and greater information availability, said KPMG. With limited expansion and competition in the home market, Australian insurers are seeking growth in overseas markets armed with established products, distribution and underwriting experiences.

QBE Insurance Group Ltd. said in a financial presentation that acquisition is a strategic driver for premium and profit growth for the group. With a presence in more than 49 countries, QBE said it builds on its "disciplined long-term strategy of growth through product diversification and geographic spread." Acquisitions contributed

■ Continued: **AUSTRALIA ACQUISITIONS,** page 11

AUSTRALIA ACQUISITIONS

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to more than 90% of QBE's premium growth from more than 50 transactions since 2005.

The Americas were QBE's biggest growth region, generating US$5.2 billion of gross written premiums for 2010, according to the company's annual report. With diversified portfolios, QBE's Europe and Australia operations and its reinsurance unit Equator Re earned gross premiums of US$4.2 billion, US$3.7 billion and US$2.5 billion, respectively.

Australia is prone to natural perils with an increasing frequency of severe weather events over the past decade. KPMG said any long-term impact of climate change on Australia may be significant for insurers, considering the large concentration of properties in coastal cities and towns.

In 2011, a series of natural catastrophes brought US$4.5 billion in claims to nonlife insurers, according to the Insurance Council of Australia. Increasing reinsurance costs exerted pressure on insurer balance sheets and premiums

IAG has increased its catastrophes reinsurance cover 15% to A$4.7 billion in the January 2012 renewal season. Total reinsurance cost is expected to increase to as much as A$720 million this year from A$620 million in 2011

Insurance Australia Group Ltd.

AMB# 086837
($ million)

Period Ending	Gross Premiums Written	Total Admitted Assets	Best's Financial Strength Rating
2006	4,698.2	12,391.3	NR
2007	6,265.0	18,365.5	NR
2008	7,493.0	18,633.9	NR
2009	6,311.2	15,580.9	NR
2010	6,666.8	17,516.1	NR

Source: BestLink

Overseas expansion modes of Australian insurers "may also be influenced by recent increased reinsurance premiums," said Sherris. "It will be interesting to see if there are any significant long-term benefits from such activity, especially given the structure of the Australian market."

Reinsurance costs are reflected by global reinsurers' re-evaluation of Australia and New Zealand risks, and consequently affecting insurance premium rates. "Skillfully managing these increased costs will be an important competitive factor over the next one to two years," said Mike Wilkins, CEO and managing director of IAG, in a speech

Three years ago, QBE attempted to acquire IAG, but IAG had rejected QBE's A$8.7 billion (US$8.9 billion) acquisition bid, citing an "inadequate and incomplete proposal by QBE."

— Iris Lai

EXPANSION CHALLENGES

From page 4

solid strategic rationale for doing a deal, proper deal valuation, flawless transaction execution and risk-based integration" are essential for a successful approach.

However, Simmons said "one should never underestimate cultural differences and the impact this can have on the success of a transaction."


Saunders

Company culture and the reasons for geographic expansion influence an insurer's strategic approach in mergers and acquisitions. "Some companies like to develop a toehold in the market and observe and learn for a number of years; others jump in," said Simmons. It also depends on the target markets as some markets prevent majority stakeholdings by foreign companies.

While local regulation is a determinant factor for acquisitions, an insurer's strategic focus also affects the approach. Japanese insurers tend to take on "a more humble" approach, with a more progressive acquisition strategy, according to Mark Saunders, risk consulting practice leader in the Asia-Pacific and managing director of Hong Kong at consultancy Towers Watson.

Dai-ichi Life's acquisition of Tower Australia was progressively pursued with a 29.7% stake purchase from British investment company Guinness Peat Group in 2008, and then full acquisition in 2010. The two entities had jointly built business alliances in various operations including sales of group insurance for Japanese companies and reinsurance.

Japanese companies are more comfortable buying minority shares or forming joint ventures as an entry into new business instead of acquiring the whole company in a single deal, said Saunders. The Japanese companies are big and well-capitalized with sound financial risk management, contributing to a strong position going aboard.

Insurers have to evaluate execution risks after a transaction, with a consideration of issues such as management change, adequacy of local resources and the acquired company's existing culture and structure, according to Saunders.

In terms of difference among Asia-based life and nonlife insurers in seeking overseas expansion, the variations are more due to the mode of distribution. For reinsurance, the business is already global in nature these days, said MM Lee, general manager of analytics at A.M. Best Asia Pacific Ltd.

— Iris Lai

China Re's London Foray Heralds Global Plans

China and India's state-owned reinsurers adopt divergent strategies

The state-owned reinsurers of China and India have traveled different paths to expansion. With its recent investment in a Lloyd's syndicate, China Reinsurance Group is mapping an international course that leads to Europe, the Americas and Africa.

In the year ahead, market observers expect the Chinese reinsurer to be more competitive and to "look outward" more than its Indian counterpart, with sufficient capital reserves and regulatory supports following its first overseas strategic partnership.

China Reinsurance (Group) Corp. started operating a special-purpose Lloyd's syndicate this year by forming a strategic partnership with U.K.-based Catlin Group Ltd. to write reinsurance cover for an existing Catlin syndicate. The Chinese state-owned reinsurer earlier said it and Catlin would provide capital for Syndicate 2088, which will have a stamp capacity of about £50 million (US$78.7 million).

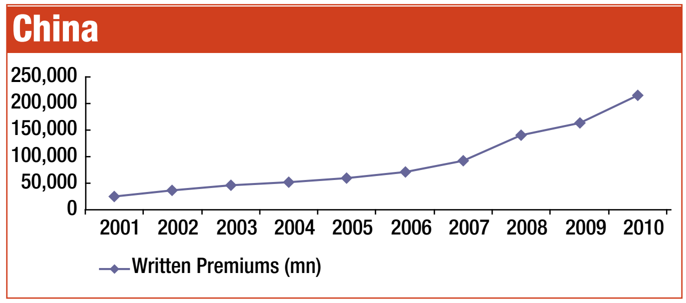

Li

"As the biggest reinsurance company in China, China Re's strategy is to grow both in the home market and abroad, and to have a greater involvement in international markets," said Chairman Peiyu Li. Setting up Syndicate 2088 and the alliance with Catlin will be a "milestone" in China Re's international strategy, while the new venture will help the reinsurer to gain a better knowledge of Lloyd's and benefit from its worldwide network (*Best's News Service, Nov. 8, 2011*).

It will also increase the company's experience of international reinsurance operations and management and help build a foundation for China Re to grow into an important player in the world reinsurance market, said Li. The company intends to continue its "internationalization" growth strategy by gradually setting up overseas representative offices and branches, and seeks to become a medium-size international reinsurer by 2015.

China Re's plan is to "focus on Asian market growth, with steady business participation in Europe and America, while gradually developing emerging markets like Latin America and Africa by leveraging on its strong capital base and positive international credit ratings," Li said.

Currently, about two-thirds of China Re's international business is generated from traditional Asian markets, while the remaining one-third comes from mature markets like Europe and America. This compares with other regional reinsurers, such as Korean Re's business ratios of 43% from Asia and 23% from Europe and America; as well as Japan-based Toa Re's 24% from Asia and 74% from Europe and America, noted the Chinese reinsurer.



To further expand in the international market, Li said China Re can either increase the ceding of part of its own reinsurance business to foreign reinsurers, or underwrite part of the ceded reinsurance business from overseas reinsurers in addition to establishing its own overseas branches or subsidiaries, or to expand through mergers and acquisitions.

Different from relying on a foreign partner to tap further into the global market, India's state-owned reinsurer — General Insurance Corporation of India — entered the overseas market earlier than China Re by opening its own branch offices in London, Moscow, and most recently, Malaysia. It has also developed as a reinsurance solutions partner for the Afro-Asian region, and operated reinsurance programs in the South Asian Association for Regional Cooperation countries, Southeast Asia, the Middle East and Africa.

During the fiscal year ending March 31, 2011, GIC Re reported year-on-year premium growth of 20% to 116.81 billion rupees (US$2.29 billion). Among the total, foreign business accounted for approximately 40.3%, down from 44.7% for the previous year, according to its annual report.

In 2010, China Re noted premium income of less than 1.5 billion yuan (US$238 million) from overseas ceded reinsurance business, accounting for 6% of the group's total. Its premium income generated from reinsurance and insurance business during the year totaled 38.13 billion yuan, including 13.82 billion yuan from direct insurance and 24.31 billion yuan from reinsurance. The group had operating income of $38.8 billion in 2010, with total assets and pretax profits of 99.5 billion yuan and 3.06 billion, respectively.

When focused on the primary insurance market, China and India are both growth markets, while the Chinese players again are better positioned for global growth, as limited local insurance business size and smaller domestic market base have curbed the Indian companies' expansion ambitions.

"The Indian insurance market itself is still way

■ Continued: **CHINA RE,** page 13

■ CHINA RE

From page 12

> "The Indian insurance market itself is still way under-penetrated, more so than China, and there is still huge room for growth."
>
> Sharon Khor
> Hong Kong-based Partner and Head of Insurance for Greater China
> Accenture

under-penetrated, more so than China, and there is still huge room for growth," said Sharon Khor, a Hong Kong-based partner and head of insurance for greater China at Accenture, an international consultant.

"Unlike China, the number of India's domestic insurers is still rather small, which is dominated by one mega government-owned insurer. Thus the probability of any local insurer in India looking outward is extremely low," noted Khor, who said Indian insurers and the state-owned reinsurer "will likely focus on their domestic market, instead of overseas expansion."

Low insurance penetration, a vast population and rapid economic development, however, would continue to provide a largely untapped potential to be explored in India, such as traditional property, engineering and marine classes, liability, oil and energy, aviation, health and nuclear power, GIC Re's chairman and managing director Yogesh Lohiya said earlier.

Given the economic situation and the expectation of an insurance growth slowdown, particularly in 2012, Khor said Chinese insurers "will continue to stay focused on their core business in China in the near term," in addition to finding ways to sustain the growth momentum and improve operational productivity and efficiency.

The domestic Chinese market still has growth opportunities, which means overseas expansion is "less compelling" where the markets may be more saturated and challenging, especially in the West. "I will not preclude the possibility of Chinese insurers investing in other emerging or developing markets, for example, in Southeast Asia and Africa, or even taking up a minority stake in a foreign financial institution entity in a matured market," said Khor.

The China Insurance Regulatory Commission said Chinese insurance companies have steadily implemented a "going global" strategy in the past decade since China joined the World Trade Organization, which has helped them enhance their domestic and international competitiveness.

— Rebecca Ng

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■ OVERSEAS MARKETS

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NKSJ wants to acquire business in emerging Asian markets. Nipponkoa raised its stake in PT. Asuransi Permata Nipponkoa Indonesia to 80%, converting it into a subsidiary last year. Its other subsidiary, Sompo Japan, invested about US$173 million to raise its stake in Malaysia's Berjaya Sompo Insurance Bhd. to 70% to make it a subsidiary in June 2011.

"Merger and acquisition plans will be maintained because the [March 11] earthquake had only a limited impact on capital," said NKSJ in a financial presentation. The group planned to invest ¥200 billion on overseas acquisitions for the three years ending with the 2012 fiscal year.

Apart for primary business, Sompo Japan established a new reinsurance unit in Malaysia with an eye on business from Southeast Asia and the Middle East. The Kuala Lumpur branch is its second reinsurance operations outside Japan.

Tokio Marine opened offices in Switzerland and Australia in July 2010 to expand its reinsurance and commercial property business. Tokio Marine said the company is "working towards profitable international growth on all fronts." The group's international reinsurance cover is grouped under Bermuda-based Tokio Millennium Re.

In addition to geographic diversification, the three nonlife groups are seeking to build a more balanced business portfolio. Tokio Marine said the group aims to develop a wide spectrum of businesses including life and takaful (Islam-compliant insurance), together with nonlife business in emerging markets such as Asia, Brazil and the Middle East in driving medium and long-term profit growth.

Mitsui Sumitomo completed its acquisition of a 35% stake in Hong Leong Group's takaful unit, Hong Leong Tokio Marine Takaful, for US$11 million in Malaysia. The buy cemented Mitsui Sumitomo's strategic alliance with Hong Leong, through which it aims to boost life, nonlife and takaful businesses in Malaysia, supported by cross-selling.

Despite the merger and acquisition activity, Kong said Japanese life insurers lag behind their nonlife counterparts.

Many Japanese life insurers are mutual companies, and Shibata said "there is a difficulty for financing arrangements. As a result, overseas expansion is really limited for life insurance companies."

Dai-ichi Life Insurance Co. Ltd. demutualized in April 2010 with a US$11 billion public offering on the Tokyo Stock Exchange as part of its long-term growth strategy of domestic and international expansion. After that, Dai-ichi Life acquired Sydney-based Tower Australia Ltd. now TAL Ltd. Shibata noted "other mutual companies have potentially the same aspiration."

Japan's largest mutual life insurer, Nippon Life Insurance Co. Ltd., invested US$632 million in Allianz SE commercial paper as part of its overseas strategic investments. Similarly, mutual insurer Meiji Yasuda Life Insurance Co. Ltd. formed a capital and business alliance with Germany's Talanx AG to seek expansion in Europe.

Recently, Meiji Yasuda and Talanx jointly reached an agreement to acquire Polish insurer Europa Group. In Asia, Meiji Yasuda entered the China market with the acquisition of a 25% stake in Haier New York Life Insurance Co. Ltd. from New York Life Insurance Co. in January 2011. The mutual insurer also invested US$11 million in Indonesian life insurance company PT Avrist Assurance as part of its overseas expansion plan.

Nippon Life purchased a 26% stake in Reliance Life Insurance Co. Ltd. for US$592 million in India and invested US$250 million in Northwestern Mutual Life Insurance Co. to enhance ties with the U.S. life insurer and share U.S. investment opportunities. It also purchased a Prudential Insurance Co. of America surplus note as well.

Kong noted many Japanese life insurers "face severe competition with foreign insurers" in new markets. Strategic alliances with foreign life insurers for investment and business opportunities is a more progressive approach for big life mutual insurers like Nippon Life.

—Iris Lai

Nippon Life Insurance Co. Ltd.

AMB# 085457
($ million)

Period Ending	Gross Premiums Written	Total Admitted Assets	Best's Financial Strength Rating
2006	41,188.4	429,915.1	A+
2007	41,169.3	439,671.2	A+
2008	49,292.1	485,203.7	A+
2009	51,778.0	471,090.0	A+
2010	51,980.6	525,309.5	A+

Source: BestLink

Aioi Nissay Dowa Insurance Co. Ltd.

AMB# 085028
($ million)

Period Ending	Gross Premiums Written	Total Admitted Assets	Best's Financial Strength Rating
2006	8,596.8	23,486.1	A
2007	8,736.2	23,618.7	A
2008	10,230.2	26,597.0	A
2009	9,787.9	24,875.1	A
2010	9,953.6	26,147.3	A

Source: BestLink

Mitsui Sumitomo Insurance Co. Ltd.

AMB# 084422
($ million)

Period Ending	Gross Premiums Written	Total Admitted Assets	Best's Financial Strength Rating
2006	13,535.9	64,113.5	A+
2007	13,464.6	65,683.5	A+
2008	15,809.9	70,243.2	A+
2009	14,936.5	61,447.1	A+
2010	15,278.1	64,437.7	A+

Source: BestLink