

From left to right: Chris Shortell, Julian Hudson, Bernard Sauvage, Freddie Lim, Crispin Hodges, David Anderson, Matthew Strong, Rupert Sayer



Winning over Asia

PARTICIPANTS

Chairman:

Matthew Strong, managing director, Capital Risks Asia, JLT

Participants:

Freddie Lim, managing director, Arthur J Gallagher (Singapore)

Julian Hudson, regional manager, political risk & credit, Asia Pacific, Ace

David Anderson, regional manager, Asia Pacific, Zurich credit & political risk

Christopher Shortell, vice-president, trade credit, surety & political risk, Chartis Asia Pacific

Crispin Hodges, underwriter, political risk, trade credit & terrorism, Beazley

Bernard Sauvage, senior underwriter, Asia, political & special risks, Coface

The roundtable was kindly hosted by JLT.

Some of the leading trade credit and political risk insurance brokers and underwriters in Singapore gathered to discuss how successful their industry has been in selling their product to the Asian market.

Strong: The credit and political risks insurance market in Asia has seen considerable growth over the last three years – is this sustainable and can the market here in Asia be described as standalone?

Shortell: For the credit side of the business, it is definitely alive and sustainable. We can do here in Asia just about anything that needs to be done. I cannot really speak for the political risk insurance (PRI) side as well as some others here but I think we can continue to grow this business significantly. It has been growing 20% and above for the past four or five years. We have barely penetrated some of these markets.
Hudson: It is definitely a sustainable business model and market here. Just as

long as banks continue to lend, there will be demand. The key is awareness of the product, and this is hardly being penetrated and that is true for both short-term trade as much as it is for the structured trade and political risk.
Brokers and underwriters that have come to this market in the last year or two prove that it is a market that people want to be in and will continue to grow.
But it's not a truly standalone market at the moment. A number of deals are still placed into the London market. Also you have to bear in mind that a lot of the reinsurance capacity comes from London and Europe and a number of the underwriters use that capacity.
Hodges: We all effectively belong to companies whose headquarters are outside

Asia and we are not going to be standalone when we are sharing underwriting aggregates, criteria, information. Most of us have regular conference calls with our colleagues in different operations around the world.

As long as we are all linked in with one another and Asian operations are recognised for having a 'local premium' compared to other offices in say London, Paris or New York, on the basis that they should have more information locally in their offices, I do not think that is a problem.

I do not see that we should be deemed to be standalone because we are now part of global networks. We are in the insurance community in the same way that our client base are all part of global organisations and have operations all over the world.

Shortell: True. I took the question to mean placed in Asia. Of course we utilise a network and the capacity elsewhere.

Sauvage: It's remarkable that we are talking about a seller market but four years ago there was nothing and most of the people around the table were not sitting in Singapore. They were coming and going back and forth, but

they were not here. All the ingredients of a market are here now second to London, with of course the caveat to mention the aggregation and being part of a worldwide operation. But that is second place as far as the market is concerned.

There was no special incentive by the Singaporean government to bring all of us here, so it's quite an accomplishment and there is no reason why we shouldn't go from strength to strength.

Hudson: When I came 12 years ago, compared to today, the change is just phenomenal. There were one or two brokers and underwriters.

Lim: If we are talking about 15 years ago, there was not even a market. You went to London and with a bit of luck, you got something done. The question about whether or not it is sustainable, I think it is a given. The question should be how much growth are we going to get from Asia?

You are now increasingly part of the global capacity of Asia. I think for some, it is not often enough to say, "Okay I want to have an Asian base, Asia focus and writing capacity." I don't think there is any real understanding

about how the local market works sometimes. Taking the commodity traders, I do not think there is any real understanding about the actual requirement of these traders. We see now with some banks that they do not understand what they are looking at in terms of trade liquidity. There is a tremendous opportunity here; I just wish that there was a bit more Asian knowledge to bring this to the next level.

Hudson: There is a lot of focus on Asia's growth right now but that growth will not necessarily equate to the same sort of growth in our market. One issue is the ability to tap the Asian corporate base. What is your feeling on that?

Lim: I will give two examples. We have a local bank trying to set up facilities and they are aware of what we can do for them. I said, "Who do you have in the panel?" They say, "This, this, this and this," and I said, "Yes, but is there anyone here who understands what we are doing?" They are talking about the business model. A purely Asian Singapore bank doing business in India, China and so on. There is a feeling that maybe they are not getting the correct premium rate,



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because you guys are sitting out there somewhere. This is the perception that all the underwriting is done somewhere like London or New York. They do not understand what we are doing here. Therefore in terms of premium rates, we are not getting what we should be getting.

On the corporate side, we have an Indonesian plantation client; he goes out to a panel of underwriters and ends up asking, "Does this guy understand my business or am I being penalised because I am an exporter; are the rates you are going to charge me over and above what I should be getting?"

So from the traders' and corporates' perspective, an impression is created; they look around the market and think, "Is there anyone out there who understands what we are doing?" That is something that we really need to address. If you are going to focus on Asia and have an Asian base, you must understand the business and not come in and say here are X dollars and Y conditions. There needs to be some understanding.

Hodges: We often find talking to brokers that the client turns round and immediately compares the cost of the PRI and trade

credit insurance to attritional cover like marine cargo or property insurance and struggles to justify the cost of the disparity.

Strong: Around the table and across the whole industry, we have all got a role to play in increasing awareness of how the products work. In particular the broking community in Asia has got a very significant role to play in terms of increasing prospective users' understanding and familiarity of the products and their value, while at the same time working with underwriters to increase their familiarity with the client's business which is equally important.

Hudson: Is there something in our experience where we have just been adopting a London approach, whatever it is, into the Asian market but where something has got to change to make that next step here? In particular with the corporates, or is it just an awareness issue, or is there something that our policies are not responding to, that our clients do not like about the policies, premium aside?

Lim: I think premium is something that local corporates and banks have to understand, that this is not cargo insurance. They've



spent the last 15 years thinking about cargo.

This has got nothing to do with cargo.

Shortell: They are credit institutions.

They understand the reason why we price products the way we do, right?

Anderson: Not so much the corporates though.

Hodges: The corporates do but the local Singaporean banks do not do that.

Anderson: Brokers can lend credibility to the pricing because you have customers all over the world. Credit insurers in Asia have customers all over the world. You can tell them what the best customers who have been buying this product for decades are getting in terms of pricing. So in terms of credibility on pricing, there really should not be an issue.

Strong: There is sometimes an issue when



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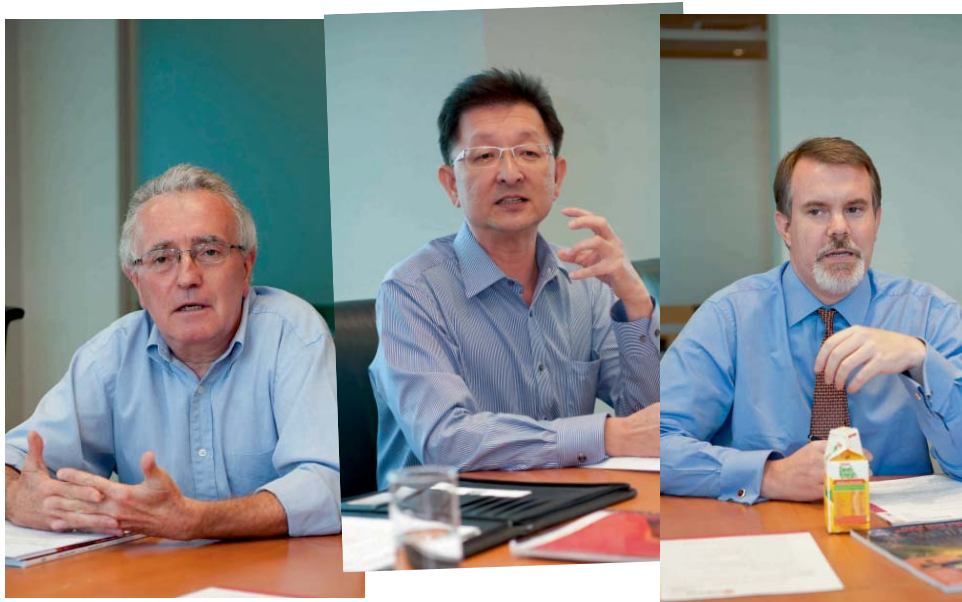
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comparing pricing from markets in Europe to where banks in Asia are pricing risk. However, they are experts in what they are doing so getting to understand and taking the time to understand why there may sometimes be a differentiation in pricing; that is the issue.

In answer to your question, I think there is sometimes a global view taken by underwriters. That is understandable of course; as you said, you are global businesses and therefore, like any part of the insurance world – whether that is London, Asia or the US – invariably the margins or premium rates would be compared in terms of what people are seeing in other parts of the globe. But it is also about understanding the underlying risk in relation to insurance costs.

I remember talking to a property underwriter here who said he had a long conversation with his colleague in London about how pricing for Asian property risk is so much and his London colleague was saying “Why are you writing it?” He said: “Look at the track record. There is actually far more profitable business here even though it is cheaper than what you guys are writing back in Europe, which has got a far higher loss ratio.” I am not saying there are not losses here in

Asia but you can look at the performance and claims track record over the last three or four years in terms of whether or not that has occurred. We have not seen significant losses here in Asia and the outlook is more positive generally.

Anderson: Although to be fair the amount of credit insurance that was outstanding when the Asian financial crisis hit was moderate. Asia has not been through a real financial crisis yet.

Strong: But I think Asian financial institutions have seen a lot more peaks and troughs, if you go back to 1997/98.

Anderson: And when you add that to the ECAs and multilaterals, with whom we can co-insure or reinsure, you are potentially looking at well over a billion for a single project.

Hodges: Back to the point that we all belong to underwriting companies who have established operations in other jurisdictions, where they have had insured businesses going for years and they get regular repeat business from banking clients, trade clients and certain corporates: a lot of that will be businesses originating in Asia.

Historically they will be sitting there seeing that they get regular business, for argument's sake, of 250 basis points. We

then come in from the Asian market with a logical and sensible presentation as to why they should be getting it at 200bp from us. You can understand why there is a challenge over capacity with colleagues from other areas saying, “Hang on, we are still getting this business at 250 over here. Why do we need to do it there for the sake of it?” I think it is trying to find a happy middle ground where we interact with our base camps, with our HQs, as an independent satellite; a satellite that reports back on the big scale things but still has the ability to conduct profitable business where it makes sense.

Sauvage: Going back to the previous concern, it's one parameter we should still have in mind when we are talking about corporates in most parts of Asia keeping risk when they feel comfortable with it and it is only when they really do not want to keep it that they will resolve the issue. Then you have the more adversely selected pattern here, which also means that the reaction from the underwriters is also in consideration of what you see. You only made incremental gains in pushing this before; sharing risk when it is a proper time to build that confidence with your insurers and brokers. This is slowly changing when

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you have people coming from outside, changing job from where they worked in a multinational to a more local company, but it is not that widely seen as you could see in Europe.

I do not want to dwell on that but really when you go and work with the subsidiaries of large European groups in a country like China or India, then locally you hear, "I do not need insurance". Insurance is often imposed from head office.

Hudson: I think that is a very big issue. I think there is a big divide between clients who use insurance for portfolio management, for risk management and genuine risk sharing and those that see insurance as a profit centre. I think there is a clear divide in Asia between those types of clients.

Strong: Is it more visible here because of the earlier stage of the market development? If you were to look back at the London or European market 10 or 12 years ago, could the same be said there?

Hudson: That is a factor but it is not the only factor. There is a different philosophy in using insurance.

Shortell: In the short-term credit world, a lot of the motivation is accessing finance, at least for our policyholders. We can underwrite as many of the obligors as we are capable or comfortable but for the ones that are buying for risk management purposes, it is still tortuous and it is the role of the intermediaries to educate the customers. That part of the market is still probably a weak spot. I am talking about if there are not enough well-educated players.

Hodges: Within corporates there is certainly also a disconnect between the head office based somewhere like Singapore or Hong Kong and then their regional offices around the Asia Pacific region who see absolutely no logic why they are being told by head office that, out of their P&L they are going to have huge costs as far as they are concerned for either PRI or trade credit or something coming out of their balance sheet.

They do not see the risk. Not only that, there

is a fight for us to persuade them that they need to be buying this product in the first place and then within their organisation they have to persuade some of their colleagues that they should be happy to pay for it. It is challenging.

Hudson: In terms of your capacity point, I think there is sufficient capacity for most of the deals in the Asian market. Obviously there are times when the market says no and you have to go outside of it but if we assume for a moment that the Asian market will underwrite all the deals that the London market will, so that there is no difference in who the underwriter is, then I think for most of the deals there is sufficient capacity here with the exception of the very large project finance, PRI type deals.

Shortell: It is about 90% of the business. In the room here there is probably US\$500mn in capacity at this table. That is plenty to do.

Anderson: For short-term credit. For the right deal.

Shortell: Even if it were a lesser amount, it would be sufficient to do most of the deals.

necessarily the answer. We need to bring in more young Asian brokers who can educate Asian clients on the need for this product and the need for prudent credit risk management and political risk management.

Lim: For the past five or six years I have done a workshop in Singapore on political insurance for Asia. Each time we have anything from 30 to 80 participants, who say, "trade credit – great". So I say, "What are you going to do about it then?" I don't think any of my clients need this because from a Singaporean point of view, they are just in the right place at the right time; they have the market growing and they go along with it. From a local broker perspective, why should they go and start doing something new in trade credit when their marine cargo colleague just sits there and every year automatically increases business, because commodity prices go up because new traders are coming in? I ask my marine cargo colleague, "Can you sell trade credit for me?" She just cannot be bothered because she is busy doing what she is doing. It is the same with other brokers.

Anderson: But that growth is exactly why it makes sense for more brokers to come in to the market because it is all you can do to keep up with the business you have. We need more people involved in the market to spread the word and educate more customers.

Strong: Is there demand for more players on both the underwriting and broking areas?

Hodges: In the underwriting market we have underwriting capacity available both in Lloyd's and the company market, all on a syndication basis as needed, with sizeable lines available from one or two company markets. I think there is plenty of capacity from that perspective and bringing in more underwriting capacity locally would achieve more critical mass for the Singapore market. For the broking market, I think there is definitely room for some more specialist brokers because what we need to see is new clients coming to the market rather than just rearranging the deckchairs and having clients that are being serviced in London, Paris or New York being serviced by a broker here. That is not actually adding new income and premium brokerage to the marketplace, it is just rearranging it.

Anderson: The challenge with the broking is that bringing in more expats is not

going out and educating prospective clients about the products and increasing the understanding and expertise in how best to utilise the credit and political risks insurance market. I think that helps us all in the end, in the broader picture.

Hodges: The ultimate desire would be to have specialists who are home grown and to clarify, I used the word specialist, I did not use the word expat.

That would be ideal to have specialists in any territory because logically they are going to be there longer and they are not going to have the costs of relocation from a P&L perspective. Wherever you are in the world, having local employees will be cheaper than bringing people in from elsewhere. We always need to bear in mind that we work in a very small niche market within the insurance world and this is not like property or marine cargo insurance where there are tens of thousands of people globally working in this sector. There are hundreds globally working in our area so there is not that pool of talent around the world who have a huge amount of knowledge here and can therefore start pumping out graduates every year. Being realistic, there needs to be someone in each organisation who is at a certain level of expertise that can then develop the next generation within.

Lim: I think your point about a local specialist would be very tough. Just on the one point alone, I have been asked this question every time I finished the workshop: "How many policies do you do a month?" I say "maybe about 10 a year" and these guys look at me like "oh really?"

They do more in insurance in a day and they cannot get their heads around it. I tell them that sometimes it takes a while to get a policy together. It is challenging but it is a lot of fun and the work is there. It is very hard to persuade them that this is something that is a specialist market and that is a little bit different because from their mind set they think they can do so many policies, they are happy so why would they bother with something that is so complex technically.

Hudson: My desire to have one or two more specialist brokers is predicated entirely upon developing new business. If they come in and fight over existing clients, that is not doing anything for anybody.

Hodges: The more we can get to the corporates that are so elusive at the moment and get a bigger client base in the market,



the better. I am entirely behind that purely from the point of view of new business. I think the idea of coming out and fighting over the same group of banks and commodity traders does not make sense at all.

Strong: There are a lot of new areas of opportunity in the market as a whole to go in and talk to people but it does link back to increasing familiarity and awareness of the products and the value that the products can bring to prospective clients, whether they are financial institutions or corporates.

Anderson: One of the things, going back to political risk insurance, is obviously Asia is now the source of most of the capital growth in the world economy and as that capital looks for higher return investments, particularly in Africa and Latin America, Asian companies will increasingly come across political risk as an issue.

It is already becoming more of an issue in terms of the Middle East and North Africa but I think in other parts of the world as well, Asian companies will become aware of it. So some of the cultural higher risk tolerance that Asian companies have right now, over time with their experience, will start to merge towards the European or American mind set. I think political risk insurance will become more of an issue in Asia in the near future.

Strong: You touched upon the events in the Middle East and North Africa and that potentially increases the demand

because of perception of an increasingly volatile risk environment. Is there any real impact from both an underwriting and demand side in Asia from events such as we are seeing right now in Egypt, Tunisia, Bahrain and Libya?

Hodges: There are certainly some Singaporean corporates who have sizeable contracts and projects in those areas who have approached the market in the past, have not really done much about it and are now suddenly coming back to the market quite quickly. I think they have suddenly been made aware of the product they probably saw as a discretionary purchase in the past as a "if we have any budget left in the numbers for the year, we can go and buy some PRI".

I do not think it has got to the point yet where people think they are going to start spending



PHOTOGRAPHY: FRANCIS ROQUEMONT

large amounts on it but there is certainly more of an investigation into it.

We have seen clients who were looking to close transactions in those territories where now the cover is obviously not there because they were getting a rate that they probably had been working on for the last nine months.

The rate was probably issued in the summer last year when there were no issues at all. Suddenly the insurers turned around and said their rates were going to be doubled or that they were pulling out and either way it is not going to work for the client.

Anderson: I think in China and Japan in particular the awareness is very acute because they have been directly affected and are struggling for answers. Now many of them will just go to their local export credit agency (ECA). But the private market will see some of those deals through reinsurance of ECAs and also we can complement the ECAs on some of the larger projects where they might not have enough capacity or there may be foreign content in those projects that those ECAs cannot participate on. I think all of that will lead to more projects going forward for the private market.

Strong: Across both the credit and PRI space, this is definitely the time. Both from Asia's and our market's perspective – because of the growth of the economic axis here and the increasing trade and investment flows out of this part of the world, across not just Asia but beyond Asia's borders. The buying power is here. The credit and political risk market should be able to support these increasing trade and investment flows and so if we cannot get traction now and increase the risk awareness of the product in the coming months and years, we would all have failed in what we are here to do. **GTR**

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