

DEDICATED REINSURANCE CAPITAL FOR ASIA LIFE BUSINESS

Increasing Appetite for Legacy Deals

According to the latest estimates by Guy Carpenter and A.M. Best, total dedicated reinsurance capital globally equaled USD 505 billion in 2022. We estimate that ~27% of the global reinsurance capital, USD 135 billion, was dedicated to life business globally and ~30% of that global life reinsurance capital, USD 40 billion, was dedicated to the Asia life market.

Reinsurance capital dedicated to Asia life business grew from USD 33 billion in 2021 to USD 40 billion in 2022, despite a drop in global dedicated life capital over the same period, highlighting the attractiveness of the region and large opportunity pool, particularly on legacy deals (in-force blocks) in the mature markets such as Hong Kong and Japan.

Most of the new available capital is from “asset-intensive reinsurers,” with appetite for legacy products with investment risk. The increase in interest was most notable after the first offshore life reinsurance deal in Hong Kong in 2021 between a multinational insurer and a US asset-intensive reinsurer on a legacy block of whole life policies. Asset-intensive reinsurers are typically backed by asset

management companies or private equity firms, and have an extensive track record of deals in the US. They are now entering the Asia market and have been successful on familiar product sets and suitable currencies of the underlying product, such as US dollars, which ultimately allows them to leverage their in-house investment expertise and write these blocks at attractive prices for insurers in Asia.

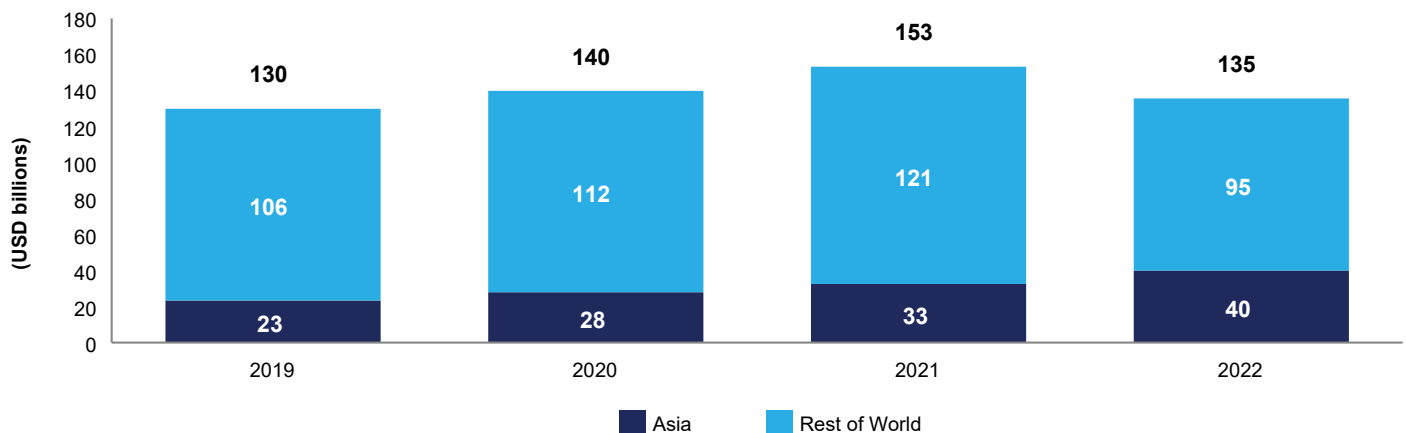
Soft Market

The current life reinsurance market for Asia can be considered as a soft market, particularly for asset-intensive deals because (a) more capital is available, including recent capital raisings and increasing allocation to Asia, and (b) higher interest rates, which means lower initial premiums for coinsurance structures.

Since 2021, USD 9 billion in Japan and USD 6 billion in Hong Kong of legacy deals were completed with offshore asset-intensive reinsurers.

We expect deals completed with new capital sources to continue increasing at an even quicker pace when asset-intensive reinsurers develop more experience in Asia.

Figure 1: Estimated Dedicated Reinsurance Capital for Life Business



Source: A.M. Best data and research; public disclosures, Guy Carpenter analysis

Reinsurance Needs

Due to the upcoming regulatory capital reforms and accounting changes in Asia, insurers operating in the region are facing increasing demands to optimise their capital position and improve shareholder returns. A solution used by many insurers is to reinsure legacy portfolios of asset intensive products such as whole of life policies and annuities on a coinsurance structure.

Guy Carpenter is the largest life reinsurance advisor in the Asia-Pacific region and has placed USD 40 billion of present value premiums in total. Guy Carpenter has a successful track record advising and executing large, complex and value accretive asset-intensive deals in Asia, including the first-in-market whole life participating portfolio (Hong Kong 2021). We continue to help insurance companies in Asia enhance capital efficiency and maximize value by advising on capital management, reinsurance strategy and specific reinsurance placements.

Contact

Matthew Rose

Head of Life & Capital, Asia Pacific
Matthew.Rose@guycarp.com
+61 288 648 513

Marcus Leung

Senior Vice President, Life & Capital, Asia Pacific
Marcus.Leung@guycarp.com
+852 9809 1219

Victor Hai

Senior Vice President, Life & Capital, Asia Pacific
Victor.Hai@guycarp.com
+852 6828 5650

Hirokuni Amano

Vice President, Life & Capital, Japan
Hirokuni.Amano@guycarp.com
+81-80-7061-9035

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