

The role of insurance hubs



The advancement of (re)insurance hubs in Asia has created unparalleled opportunities for insurance groups to examine their options for running a more efficient and innovative business according to **Generali Global Corporate & Commercial's Ken Lai.**



There is no doubt that Singapore and Dubai are recognised as the (re)insurance hubs of Asia and the Middle East, while Hong Kong is taking steps to revitalise itself as an insurance hub with developments focused on reinsurance, marine and captives, as well as leveraging its unique role as a 'super-connector' in the Belt and Road Initiative.

Shanghai has also pledged to put significant investment into insurance. It launched the Shanghai Insurance Exchange in June 2016, with the aim of becoming a major insurance hub by 2020. The exchange, which is China's first insurance asset trading platform, aims to connect both domestic and global insurance markets, as well as to act as a bridge between insurance markets and capital markets to facilitate the development of a reinsurance trading and pricing centre. It will also become an important vehicle for catastrophe insurance development.

Regional specialisation

Other hubs in the region are more tailored to specific market needs, such as Labuan, which mainly acts as the offshore hub for the Malaysian market and a friendly domicile for Asian captives.

While the fast development of (re) insurance hubs in Asia is a natural consequence of the significant economic growth in the region, coupled with the forward-looking vision of the various government and industry bodies involved in the sector, it has brought with it a number of other benefits, for example:

- Legal, tax and insurance regulatory modernisation, to foster a conducive business environment;
- Injection of funding into the local capital markets or investments into local assets to maintain the required level of solvency in support of the volume and risk profile of the business portfolio managed out of the hub;
- A surge in demand for professional services and a strong emphasis on innovation; and
- Local talent development and an influx of talent from abroad.

Choosing Asia

There are a few emerging reasons for an insurance company to consider establishing hub operations in an Asian (re)insurance hub.

The hub-and-spoke model of business management or operations has become familiar and takes its name from a bicycle wheel, which consists

of a strong central hub with a series of connecting spokes. This model proved popular for transportation operations, logistics companies, and many other sectors a few decades ago. In the case of aviation, it led to an airline routing all of its traffic through one central hub or hubs, with almost all of the airline's flights operating along spokes between the destination and the hub, and very few direct flights between individual destinations. Routing all traffic through the hub makes the overall system more efficient, although it can be frustrating for passengers at times.

Search for efficiency

It is no secret that many international insurance groups have been successful in using one or multiple hubs in the region to manage reinsurance arrangements for their local business units, generating capital efficiency and tax benefits and stabilising local results, and streamlining operations.

The best way to optimise local ownership in such an arrangement lies in seeing which activities are better decentralised (ie, are better carried out locally) for reasons of regulatory or governance requirements, lower costs, and local skillsets, etc, as opposed to starting with a list of activities and controls to be done from the hub. It is also important to accept that any hub arrangement can be virtual or real.

Taking a less traditional view, having a centre of excellence could be considered as an alternative to the hub arrangement. Such a setup involves having a team to provide leadership, best practice, research, support and training for a focused area. In the case of the insurance industry, the focused area might be technology, product research and development, or a business initiative managed from the hub.

Hub checklist

From my own experience of managing the underwriting function for

While a hub structure is not the answer to everything, it is an effective way of accelerating progress in many underwriting areas, including portfolio management.

Generali in Asia, I see increasing reasons to revisit the regional hub arrangement following interaction with various country teams:

- **Capital efficiency** – It is a hot topic nowadays and always something that is on the table for the board. This can often be made possible by establishing a reinsurance hub to consolidate the local reinsurance arrangements into a regional reinsurance structure, resulting in a risk diversification effect over the specific treaty cost drivers of individual countries, be it CAT-driven (eg, flood in Thailand) or other limitations, such as reinsurer selection.
- **Compliance and sanctions** – We are living in a world of uncertainty, more so with the continuing geo-political developments and emerging protectionism. A focus on compliance continues to be at the forefront of everything we do today, with sanctions compliance firmly in the top rank. As a region, Asia is still lagging in terms of sophistication compared with more developed economies. It is not surprising to see that local business units are busy developing country-specific solutions. It would make a lot of sense to use an operation hub arrangement to ensure consistent screening and monitoring of high-risk business across multiple business units and countries, especially when the same business may flow from one country to another country, such as through an internal reinsurance arrangement. The

same applies when dealing with multinational clients having operations in multiple countries.

- **Business model transformation** – We no longer have the luxury of continuing with inefficient business models in countries lacking scale. Fast-tracking changes in selected existing business units by examining a more sustainable business model has become a high priority for many international insurance groups. A hub business structure dedicated to supporting a target business model would free up local resources, while driving focus among the country team to execute the local business strategy with a lean and less expensive team.

While a hub structure is not the answer to everything, it is an effective way of accelerating progress in many underwriting areas, including portfolio management (eg, the implementation of a central corporate data warehouse and BI reporting capability), people empowerment (in terms of optimising local decision-making power and speed) and expenses management.

This approach is not intended to dispute the benefits of maintaining a fully-fledged local operation. The caveat is always about finding ways to make our business more resilient and to be vigilant in challenging the status quo, responding to the ever-changing environment and staying ahead of the game. ▀

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