

# The Asian crisis that does not seem to go away

Luis La O  
MAPFRE RE Manila

The Asian crisis is far from over and there will certainly be more surprises in store during the coming years. It is expected that the crisis will last much longer than most originally estimated. Those involved in the insurance industry will simply have to cope with the difficulties that lie ahead.

The crisis started in July on 1997 with Thailand devaluing its baht and things have not been the same in the Southeast Asian Region since then. All the countries in Southeast Asia have been affected without any exception. There are many reasons for the financial meltdown, such as

easy availability of money, overvalued currencies, loose banking controls, financial liberalization without the necessary safeguards, excessive investments in stocks and real estate, etc. But the fact is the severe economic slowdown is felt by all sectors including the insurance industry.

As business grinds almost to a halt so do the insurance markets of the region. There just is substantially less business available to insure as a result of the crisis. The pie has been reduced and this is reflected by the drop in the market premiums of most countries in the area. Personal lines business has also been severely affected as the middle classes of the region are going through perhaps their most difficult period in recent memory. When families are unable to pay housing mortgages it is not that probable that insurance would remain high in their list of priorities. Life insurance operations have also been hampered by the crisis for similar reasons. Most life companies are showing reduced premium incomes as a result.

Turning attention to reinsurers, one notes that these organizations are also being affected by the crisis. When there is less to insure there certainly is less to reinsure. When one considers the very substantial effective currency devaluations that have affected most countries in the region one realizes that premium incomes of reinsurers have been drastically reduced from 1996 levels.

It is interesting to note, however, that despite all these difficulties, most reinsurers continue to be committed to the Asian Region. No major reinsurer has withdrawn from the region since the problems began in 1997. In fact, most reinsurers continue to defend their respec-

tive market shares. This has translated into a status quo situation of the soft reinsurance market. It is strange that one actually sees that capacity is more readily available today than a few years back. Proof of this is the re-emergence of the binding authorities which almost completely disappeared a few years back because of the problems these created. There is one difference with today's binding authorities and this is that many times the security behind such covers now comes from solid reinsurers. This is certainly difficult to explain but it is the situation the market is at present in.

The majority of insurers and reinsurers are also suffering because of the drastic drop in the values of the stock market, real estate and currencies of the countries of the region. When translated into hard currencies the equities of the Southeast Asian companies have experienced steep drops. This has seriously affected the solvency of many insurers and reinsurers. Fortunately or unfortunately the regulatory authorities of the region have more serious problems to deal with at this time and have thus really not looked into this potential problem very closely. There have been some insurance failures so far and quite a few more can be expected.

The Asian crisis is far from over and there will certainly be more surprises in store during the coming years. It is expected that the crisis will last much longer than most originally estimated. Those involved in the insurance industry will simply have to cope with the difficulties that lie ahead. What is perhaps important to keep in mind during this period is that it is necessary for the organizations to go back to basics for these to be best prepared to survive this crisis and move ahead when it is finally over. ■