IBSNEWS
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IBS Group
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Indonesia Listed As Marine War Risk Zone Following Bali Bombing

James White, Technical Advisor - IBS

The October 12th bombing in Kuta Beach, Bali has prompted an influential British insurance committee, the War Risks Rating Committee, to list Indonesia as a War Risk Zone, and has recommended international insurers issue notices of cancellation for War, Terrorism, Riot and Strike risks for vessels and cargo sailing into and out of Indonesian waters. The notice of cancellation will allow underwriters to review upwards the premium required for this coverage, however, the declaration is a recommendation only and does not have a mandatory affect on individual insurers and reinsurers.

All marine cargo policies can provide coverage for war at sea (war on land is not covered), strikes, civil commotion, terrorism and similar perils as an -cont'd

HIGHLIGHTS

extension to the general Institute Cargo Clauses. This extension is provided for under the Institute War and Strikes Clauses and the cost is normally included within the rates charged by insurers. After the September 11th attacks in the United States last year, general marine rates increased across the board, however, these increases were predominantly due to the higher price required by insurers to cover Institute War and Strike risks. Following the announcement from the Committee, Lloyds of London has taken action and issued 7 days notice of cancellation for Indonesian War and Strikes risks. Clients with insurance or reinsurance on their marine policies placed into Lloyds may expect extra premium to be charged to reinstate this cover, or may be forced to make a cost-effective decision to self-insure the risk, should the extra premium be regarded as too high.

So far, most local and regional insurers who are not dependent on Lloyds for reinsurance support are not following the Lloyds lead just yet. We believe most of these insurers are still assessing risk developments in the area, and are waiting feedback from clients and brokers before making a decision.

IBS has forcefully lobbied against implementation of the recommendation by these insurance markets and will continue to do so. We are concerned that further terrorist attacks leading up to year end may prompt non-Lloyds insurers to follow the Lloyds lead, particularly if the Bali bombing is found to be an act of domestic rather than international terrorism, although this appears unlikely.

In the interim, we recommend readers review the current status of their marine Institute War and Strikes Clause coverage and/or consult with their insurer or broker in this regard. IBS has prepared a summary Group on 021 515 3131 – Ext 2610.

IBS Appoints New President Director

We are pleased to announce the formal appointment of Mr. Jacob Kosasih to the position of President Director of PT IBS Insurance Broking Service, parent company of The IBS Group.

Jacob, age 39, will join IBS on January 2nd 2003, having completed his contractual obligations at Swiss Reinsurance Group in Singapore, where he has been Client Manager for Indonesia for the past 4 years. Previous to that Jacob was President Director at PT Asuransi Raksa Pratikara between 1993 and 1998, and also spent a period at IBS as Senior Manager in our Corporate Risk Division.

We are pleased to welcome Jacob back to IBS in this key role and see his appointment as a crucial step forward for the IBS Group, and a demonstration of our continuing commitment to recruitment of key personnel in pursuit of excellence throughout the company. We are committed to offering our clients unequaled service levels in Indonesia whilst at the same time providing access to both the Indonesian and global insurance markets on their behalf. Jacob's appointment at IBS will reinforce our ability to do so.

Insurance Market Capacity Reduction Continues

Brian J. Dallamore, Technical Advisor - IBS

Increasing financial pressures on the major reinsurers around the world are fueling harder market terms throughout the Asia Pacific region, with negative consequences for Indonesian insurers. Notwithstanding major increases in all areas for buyers of both insurance and reinsurance over the past 18 months, there is still significant upside pressure on renewal terms for both domestic and international clients.

As the full affect of London and European market increases are felt in Singapore, who are the primary suppliers of Indonesia reinsurance capacity, Indonesian insurers face the upcoming treaty renewal terms in December 2002 with increasing pessimism.

The very adverse affects of the falling equity markets are adding to this pressure for all. Global consolidation of reinsurers as a direct consequence of balance sheet depletion and adverse claims experience worldwide (and not exclusively caused by WTC and 9/11) continues, with the latest being well publicized discussions between SCOR (France) and Gerling Global (Germany). If successful, this merger will result in further capacity reduction for the ASEAN market place.

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What does all this mean for Indonesia?

The annual Indonesian reinsurance conference, the Bali Rendezvous, held over three days last month confirmed the strong warnings rising from leading capacity providers, Munich Re and Swiss Re, that capacity available to Indonesian insurers is set to substantially reduce from 31st December, 2002.

Indications are that reinsurers are preparing to withdraw or reduce the reinsurance support they provide on a Proportional or Quota Share basis (i.e., taking an equal % share in all risks from the ground up), in favor of less exposed Excess Of Loss treaties where they provide coverage only above large self-insured primary risk levels to be absorbed by the local insurer. Clearly this will greatly increase exposure to Indonesian insurers balance sheets and cash flow. Flexibility of underwriting will reduce, with local insurers increasingly dependent on facultative (i.e., single risk specific) offshore reinsurance placements, with the inevitable premium increases and cover reductions that result from accessing the international reinsurance market.

IBS Re to Open Reinsurance Office in Singapore

In order to respond to these market developments, IBS Re is increasing resources within their Jakarta operation to better manage our major clients capacity in these areas, and will open a fully licensed reinsurance broking operation in Singapore early in the second quarter of 2003.

The Singapore office will directly access all leading regional reinsurance markets, to whom IBS is already the largest single provider of Indonesian private sector insurance premium, and we will keep you appraised of our progress in establishing this office.

Catastrophe Perils Highlight the Problem

The one area singled out for immediate attention by reinsurers is the accumulation of catastrophe perils exposure in Indonesia and the pricing levels associated with them.

Deductibles have been increasing over the past 6 months for earthquake, volcanic eruption, storm and flood coverage including the introduction of co-insurance requirements i.e. 10.00% of any claim, together with minimum amounts to be paid by the client per claim, ranging up to US$ 2,500,000 depending upon the size of the underlying asset values.

Particular difficulties have arisen for risks residing in the West Java area i.e. Cilegon to Cirebon due to large value accumulations in Jabotabek, the Merak chemical industries and related industrial estates. Some local insurers are declining new catastrophe perils risk submissions in these areas due to insufficient reinsurance support and the very high minimum and deposit premium requirements demanded by the overseas reinsurers.

Catastrophe Reinsurance Pool Approved

Arnanto Harjokusumo, Director - IBS Re

In our last Client Bulletin we reported that the Ministry of Finance had strongly supported the establishment of a risk sharing "pool" of insurers and reinsurers to cover earthquake risk in Indonesia. The pool was initially suspended pending finalization of terms and procedures, but also to allow discussion between interested parties who had raised questions on the effect the pool may have on the insurance market.

Participation in the pool is to be mandatory, meaning any client requiring earthquake coverage in Indonesia must effect it with the pool and be subject to the premium charge required by the pool.

In our article we expressed concern with the pool, most notably due to the cost implications to our clients but also regarding the ability of the pool to meet substantial earthquake losses, given the very low capital base of local insurers and consequently the very low exposures that they would be able to retain within the domestic insurance market. Nothing that we have seen since has changed that view.

A sum insured of only US$2.50 million any one **loss** is proposed for the pool, with an aggregate limit (the total amount of claims that can be paid in one **year**) of only US$ 35 million. A reinsurance program of US$ 32.50 million x's USD 2.50 million has been purchased in support of the underlying pool capacity.

It would not be difficult to imagine a loss well beyond the pool limits in the event of an earthquake with an epicenter in the West Java area, however, US$ 35 million is the maximum capacity the domestic insurers can actually afford to buy. The Ministry of Finance ruling proposes that any claims above the US$35 million limit would be borne by the participating insurers, a large number of which may not have the capital strength to absorb the loss.

Premium rates to be applied by the pool was initially variable but at the time of issuing this article is now 10 cents on the values of risks for risks in Bali and South Java. This rate is well above those being charged for much higher limits by the local and regional insurance markets today but are strongly supported by major international treaty reinsurers. Whilst additional capacity for higher limits will be available from the professional reinsurance market, IBS is very concerned at indications that this market will also demand the same pool rates for coverage to be provided by them.

From an insurance buyers viewpoint the pool poses significant problems. The ability of our clients and many others to afford such expensive capacity is real enough to persuade many insurers that the concept simply is not saleable. IBS is developing solutions to support our clients' needs in this area and your Account Executive will contact you to discuss these and keep you updated on any developments with the pool.

Insurers Hit Back at Claims of Overreaction to WTC

Post Magazine – 20th June 2002

The insurance industry has rejected criticism that it is guilty of overeacting in the wake of 11 September and of adopting a "risk-averse culture" that is threatening to paralyze business.

The claims are made in the preliminary findings of research by think-tank Global Futures, which is sponsored by Lloyd's and the Association of Insurance and Risk Managers."The specter of intentional risks has led to ambivalence about ambition and fear of sophistication," warned report author professor Frank Furedi of the University of Kent.

"Overreaction and speculation about threats are disabling to a reasoned risk management response and inhibit good planning." He referred to insurers categorizing these "intentional risks" – including terrorism – as uninsurable: "It is better for the insurance industry to treat some aspects of 11 September as normal, insurable events and to discourage societal pre-occupation with the idea it is exceptionally vulnerable."

But insurers and brokers said attitudes are already changing, an historical perspective is taking shape and capacity has begun to re-enter the market.

A spokesman for a major international broker said: "you could argue that the market's reaction may prove to have been short-sighted," but added: "there was less time for buyers to understand the process. There was no chance for dialogue – the market was starting to harden and then hardened immediately." "The event did not trigger a major aversion to risk and I think it would be extremely surprising if, in three or four years, people are not underwriting on much the same basis as they were before."

The Parish, head of channel management at Zurich London. said that the referral to "intentional risks" was confusing. "We deal daily with man-made and intentional risks such as crime and arson. It was the catastrophic element of 11 September that changed our perceptions, which forced insurers to deal with an intentional risk beyond any one insurer's balance sheet."

The market has also questioned the report's suggestion that such "risk aversion" would spell the end for tall, prestigious buildings – based on a survey of 50 property managers from the UK's top 250 companies. "You will find if you talk to Canary Wharf that it is still going ahead with its next phase of development", said one broker.

IBS in New Identity

Being the largest independent risk services provider in the Indonesian and South East Asian markets demands continuous evaluation of IBS's strategy. One of the more critical areas to focus on is the integration of all our operating subsidiaries into one umbrella – **the IBS Group**. There are currently 4 operating entities under the group, servicing clients through 5 core centers of expertise i.e.: risk services, risk management services, reinsurance services, healthcare management and technology. We are currently launching a single brand identity to all our clients and partners. In order to better deliver our services as a whole in a seamless way we start to use this new identity on November 25th 2002, in such as way designed to reflect what we believe to our strengths and presence in the market.

All previously known entities such as Integra, IBS Re and RMI will now be known as **IBS Group**. There is no change, however, to the individual legal entities, both in name and status.

Our new website address will become **www.ibsrisk.com** and our e-mail addresses will change to **forename.surname@ibsrisk.com.** Our postal and telephone numbers will remain the same.

IBS strengthens its Healthcare Management Team

We welcome our new Senior Management team member, Nanny Nusalim as Managing Director of Integra, our Healthcare and Affinity Group Marketing company.

Graduating as a medical doctor, Nanny has in addition spent 15 years working with a major international insurance group focussing on the employee benefits business in Indonesia. The last 7 years of which was spent as a member of the Executive Management Board heading the group's joint venture establishment strategy and subsequent business operation.

Nanny has a unique blend of experience in general insurance, medical and life insurance, with the professional designation of Senior Associate from The Australian & New Zealand Institute of Insurance and Finance, Fellow of the Life Office Management Association and is qualified as a Managed Health Care Professional from The Health Insurance Association of America. She is also Chairman of the FLMI Society of Indonesia.

Nanny joined IBS Group in August 2002 in this new and important role heading up our business unit specialising in Employee Benefits Management and Sponsored Marketing Programs.

Ranked as one of Indonesia's leading employee benefit advisors, Integra's mission is to provide creative solutions in healthcare management strategies for our core corporate clients including benefits design, systems management and MIS transparancy.

The services provided encompass the whole range of Employee Benefits solutions, including;

- Medical Benefit for employees
- Medical Benefit on retirement
- Company Travel insurance protection
- Group Term Life
- Pension scheme advisory services
- Group Disability Insurance
- Kep. Mennaker 150 solutions
- Key Employee insurance
- Non Insurance solutions

Product development concepts are matched according to the needs of the client and encompass Insurance products, Clinical management, Third Party Administration, Risk Management and others.

Specifically Integra's role includes:

- Conducting competitive analysis of a client's Employee Benefit Program
- Identifying issues and deficiencies in the plan

- Assessing Employees perception of benefits provided
- Developing Employee Benefits design and cost containment measures
- Providing bid specification and conducting competitive bids
- Developing support and communication programs
- Conducting claims audit and assist in claims disputes
- Developing utilization and financial analysis data

World.Com : Insurance Fallout

Despite the assertion by rating agency Fitch that a number of specialist Directors and Officers underwriters could be affected by the collapse of telecommunications giant Worldcom, any claims are expected to be refused because of standard exclusions for fraudulent acts.

Worldcom is reported to have had $100m of D&O cover and a S$ 10m deductible, with AIG offering the primary layer of D&O cover and Hartford, CL, CAN Financial and Swiss re also named as providers.

A report by Wachovia Securities named Lloyd's as a likely provider of the excess D&O cover and while concurring with reports that claims will be refused, it notes there could be legal costs relating to litigation over possible claims.

Fitch claims no insurers has a big enough exposure to Worldcom to suffer a downgrade in its rating but that solvency ratios could be affected due to the impact on capital markets.

Fitch estimates that US insurers have more than $5bn of direct investment exposure to Worldcom, but preliminary investigations indicate that while the investment loss to the insurance industry will be large, it is not concentrated in the portfolios of a small number of players.

The rating agency said it was more concerned about the impact on the equity and bond markets and the consequent effect this will have on the already weakening solvency margins reported by many insurers.

Fitch said it would continue to closely monitor the balance sheet strength of individual insurers, with specific regard to the impact of negative movements in investment markets.

Table of State Losses

Ace	No material impact on operating results or book value
Aegon	$200 m
AXA	E 40m
Everest Re	$ 30m
Manulife	$ 172m
Munich Re	$ 79m
Prudential	$150m
SCOR	up to $20m

Risk Management - A Solution to Market Hardening

Brian J. Dallamore, Technical Advisor - IBS

The increase in risk retention forced onto clients through increased deductibles and lower policy limits during the current hard market requires increased focus on risk control and risk identification services. In view of this, our group risk management company "Risk Management Indonesia" is expanding its engineering resources and capability to help plug the increasing gap between our clients' real exposures and their ability to transfer those exposures to the conventional insurance industry.

Risk retention is rising through a combination of factors emerging from the harder market, namely:

- Increased self insurance through deductibles (particularly in business interruption exposures)
- First loss limits below maximum loss exposures
- Inability to buy adequate coverage due to wording limitation e.g. terrorism etc.
- Co-insurance or self insurance due to the high cost of buying low levels of insurance coverage

We are finding that our clients are generally slow to fully recognize the increased exposure to the continuity of the Profit and Loss account and Balance Sheet arising from these factors and which often results in millions of dollar of retained risks on the balance sheet. Equally, lenders are often unable to protect their loans to major borrowers sufficient to cover outstanding capital and interest payments.

What is the Role of Risk Management

The risk management function is there to identify, measure and help steer resources into lowering the physical and financial exposure experienced in a business. In order to achieve this a high degree of commitment is necessary from management to generate the underlying value of such an exercise. As an alternative to paying higher premiums to insurers for what may be considered as non working exposures, resources can be directed into loss prevention, loss minimization and contingency planning for better immediate and short-term gain.

We provide this service by delivering highly experienced engineering inputs directed to identifying key risk exposures in the business followed by improvement recommendations targeted at removal or reduction of the risk. Examples might be:

- Installation of additional fire suppression systems e.g. hydrants etc.
- Procurement of spare parts to back-up vital processes in the event of an accident to key machinery
- Alteration of work practices to reduce physical exposures e.g. welding, storage of inflammables etc.
- Advice on fire fighting training and establishment
- Assessment of the interruption financial risks.

Most people are generally aware of the physical aspects of loss control as a fundamental part of the risk management process. However, pure risk management exists on many levels and includes an array of financial related services aimed at better management of value for money in insurance expenditure and better long-term planning in managing insurance cost overall. We provide services therefore in the areas of:

- Captive insurance vehicles (parent owned insurance vehicles designed to insure their own group risks)

- Alternative Risk Transfer Solutions (multi year risk transfer funding etc.)
- Burning cost self-insurance schemes etc.

We are finding that our clients' needs are changing as they continue to bear the brunt of greater insurance cost and greater risk retention as a direct result of the harder insurance markets. There are no easy solutions to these problems, which will likely last as long as the hard insurance cycle exists. We see no immediate prospect of change at least for the next one or two years and urge our clients to consider risk management and its application in their business.

Updates

Insured property losses from the 11 September terrorist attack on the World Trade Centre total $ 20.3bn (£ 13.6bn), according to the latest estimate by the Property Claim Services (PCS) unit of the Insurance Services of the US PCS forecasts 49,000 claims in New York (30,000 personal, 15,000 commercial and 4,000 motor), totaling $20.34bn, and 2,000 claims in Virginia, totaling just $6.5m. (*Post Magazine – 20th June 2002*)

Gloucestershire Fire Brigade has become the first in Britain to stop its firefighters using a pole to slide to the ground as a result of the EEC's 1992 Working Conditions Regulations. Brian Sockton, Gloucestershire Fire Service health and safety adviser said the practice has been stopped while they evaluate the risks. (*Post Magazine – 20th June 2002*)

WTC Claim not laid to rest. The dispute between World Trade Center leaseholder Larry Silverstein and 22 insurers led by Swiss Re is set to go to trial, after a New York judge denied his request that the attack be ruled more than one event for insurance purposes. The decision, which came in the week the last steel beam standing from the collapsed WTC in New York was cut down and moved in a ceremony attended by NY Governor George Pataki, former NY Mayor Rudoplh Giulani and Hillary Clinton, will mean the case will go before trial by Jury in September. (*Post Magazine – 07 June 2002*)

IBS Group is the largest risk services provider with more than 25 years of experience in Indonesia. With a focus on our customers' needs, IBS provides services that include market positioning of clients' risk in Indonesia and throughout the world, selection of underwriters and vetting of security standards, negotiation with underwriters of correctly worded policies, negotiation on pricing levels and dedicated claims assistance. All these services are provided through IBS Group's 5 core businesses : risk services, reinsurance services, risk management services, healthcare management and technology. For more information please visit our website at www.ibsrisk.com or call us at +62 21 515 31 31.

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