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FIRST ON
PROTECTION

J. B. BODA
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1943 - 2018
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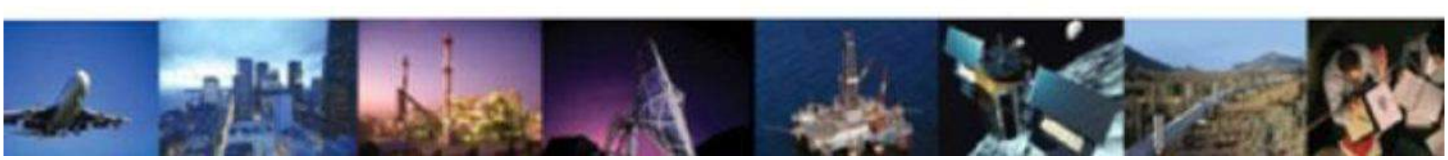


NEWS AT J. B. BODA


Singapore team, Mumbai visit – 3rd & 4th Aug.

Training

Entrust – Gurgaon, Delhi & Noida – 3rd Aug.

Liability insurance – Bangalore – 10th Aug.


Training conducted on revamped Indian Earthquake and Flood model – Mumbai – 28th Aug.

D&O, PI and Cyber – Sri Lanka – 29th Aug.

PRIME STORY

Price inadequacy of long-tailed lines mean ILS could take a closer look

The reinsurance market is expected to take a much closer look at the adequacy of pricing and profitability for many long-tailed lines of specialty and casualty business, especially as reinsurers have generally been unable to command the payback they may once have been used to, following the catastrophes of 2017.

This could make it an attractive time for the insurance-linked securities (ILS) market to take another look at long-tailed risks, as there may be an opportunity for the efficiency of ILS capital and benefits from diversification to be put to work in some cases, helping ILS funds to benefit from areas of the market that are expected to see ongoing rate increases.

Reinsurance firms had in the main been expecting much larger rate increases at the renewals so far this year, after taking significant losses in 2017.

But the renewal seasons so far have seen rates increase only slightly, with many accounts renewing flat and only the main loss impacted regions experiencing upticks in pricing.

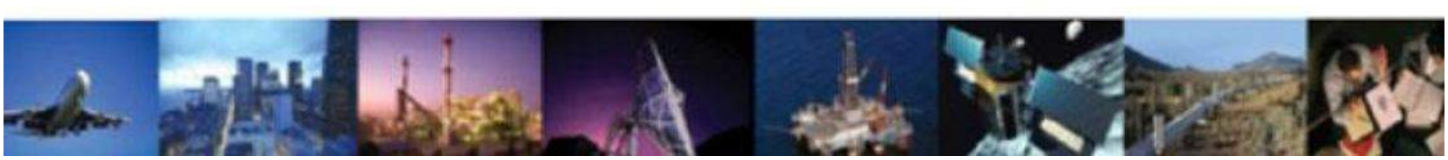
Meanwhile the outlook for 2019 now looks likely to be a return to softening reinsurance prices, unless there are major losses through the 2018 hurricane season.

This inability to secure the rate increases hoped for in catastrophe lines, has driven some reinsurers to apply more upwards pressure to other lines of business, according to analysts at Keefe, Bruyette & Woods (KBW), who feel reinsurers have taken another look at underperforming lines of business.

“We think last year’s catastrophe losses unmasked other reinsurance lines’ overall price inadequacy that is now driving up those lines rates,” KBW’s analyst team explained.

As a result, reinsurers which are more diversified or have less concentration into property catastrophe risks, are generally seen as more insulated from the pressures of insurance-linked securities (ILS) competition.

But if reinsurers are successful at pushing up rates in long-tailed casualty and specialty lines of reinsurance, that is only going to make it more attractive for ILS markets to continue their efforts to find solutions that allow them to invest in long-tailed lines.



There are an increasing number of ILS funds and investors that are attracted to specialty and casualty lines. While investment in these areas of reinsurance remain far smaller than those into property and catastrophe risks, they continue to be a feature of the market, and the better the pricing looks, the more interest these areas can be expected to receive from third-party capital.

KBW's analysts also believe that the run-off market is experiencing "a legitimate hard market" making it increasingly attractive to reinsurers with the expertise to take on closed portfolios of legacy business.

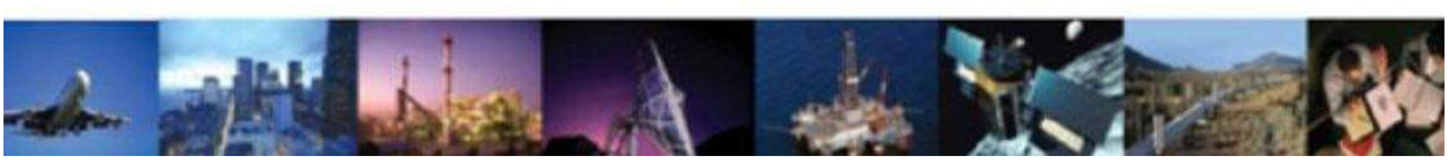
But again, the run-off market is an area that institutional investors are already attracted to and ILS investors extremely aware of the opportunities, which should ensure that any hardening of this market is only going to make it more attractive to create innovative structures and partnerships that allow ILS investors to fund run-off portfolios.

This is a conundrum for reinsurance firms these days, as any area of the market where they can force through rate increases could well become a fresh target for the ILS market. Or at least for institutional investors with broad enough mandates and the ability to work in partnership with others to extract the returns from the portfolios of long-tailed or run-off risks.

It's also worth considering the underperformance of the Lloyd's syndicate market, as certain lines of business are certainly not enabling players to make returns commensurate with their costs of capital and rates will at some point have to rise.

If there is an appetite and an ability, through the new diversification it can generate, for ILS funds and investors to come in and back these risks with a lower cost-of-capital we could see more of a wholesale move into that specialty re/insurance market as well.

This all suggests there may be nowhere left to hide for traditional companies, with their only options being to modernise, become more efficient, find ways to leverage third-party capital in areas of the market where returns do not meet their own costs-of-capital, and focus on the areas where they can get paid sufficiently for their expertise.



NATIONAL

Insurance surveyors propose new guidelines

Indian Institute of Insurance Surveyors and Loss Assessors (IIISLA), has proposed guidelines to assess the damage incurred to vehicles and buildings in the flood in order to ensure speedy disposal of insurance claims. IIILSA has put forward a suggestion that owners of vehicles, which suffered damages in the flood, be allowed to repair them in local workshops since service centers are already flooded with damaged vehicles. The damages will be assessed in three categories, carpet, seat and completely submerged. As of now, damaged vehicles have to be taken to service centres for repairing and the insurance surveyor will assess the damage before submitting a report to the insurance company for releasing insurance amount.

“All service centers are flooded with damaged vehicles. It will take time to repair all vehicles at service centres. Delay in repair will only lead to aggravating the damage. It will also increase the burden on the insurance companies and exacerbate the difficulties of people. The purpose of the guidelines is speedy disposal of claims considering the widespread damage suffered by people in the state. The guidelines we submitted before the insurance companies at a meeting held on Wednesday,” said IIILSA Kerala secretary Santhosh P A.

The new set of guidelines are in tune with the similar ones introduced in Chennai and Gujarat, which were ravaged in natural calamities in 2015 and 2001 respectively. One of the suggestions is to give consolidated amount upto Rs 50,000 to meet repair amount in local workshop. Another suggestion is to give Rs 2,500 to people whose bikes got damaged, as a relief. “The insurance claims will skyrocket in the days to come. The submerged vehicles will get total loss insurance amount,” he said.

Regulator orders insurers to cover mental illness

The Insurance Regulatory and Development Authority of India (IRDAI) has directed all insurance companies to make provision to cover mental illness in policies.

“Reference is drawn to the Mental Healthcare Act, 2O17, which has come into force w.e.f 29.5.2018. As per Sec 21(4) of the said Act, every insurer shall make provision for medical insurance for treatment of mental illness on the same basis as is available for treatment of physical illness.

“All insurance companies are hereby directed to comply with the aforesaid provisions of the Mental Healthcare Act, 2017 with immediate effect,” IRDAI said in its orders.

Reinsurance premium may rise for flood risk cover

Even as different estimates of losses suffered by Kerala in the monsoon floods are doing the rounds, general insurance experts said that there will certainly be an increase in the premium charged by reinsurers for covering flood risks. They said the reinsurers may increase the loss deductibles to quote a lower rate to cover catastrophic risk.

In the case of Kerala floods, the loss will be higher under the motor insurance portfolio as the state has a sizeable number of costly vehicles.

Loss deductibles are the amount of loss that a primary insurer has to bear from its own pockets while anything above it is borne by the reinsurer. "Incidents of floods in India seems to be regular in recent years. The reinsurers may ask the primary insurers to manage the risk with their premium rates. If the primary insurers want a catastrophic insurance cover, then the reinsurers may levy higher deductible to cut down on his own losses in case of flood losses," a senior insurance industry official told news agency on condition of anonymity.

The deductible varies from primary insurer to insurer based on their loss experience. Floods seem to be a regular occurrence in India eg. Uttarakhand, Jammu and Kashmir, Chennai and other places. So, the reinsurers may increase the deductibles. The reinsurers may increase their rates and also the deductibles. But the premium rate for the policyholders may not be increased by the primary insurers on their own. They have to get the insurance regulator's nod, KK Srinivasan, a former Member of regulator IRDAI (Insurance Regulatory and Development Authority of India), said.

According to an expert, there had been instances in the past where general insurers rejected a claim on the pretext that insurance policy covers flood loss caused naturally and not floods due to opening of dams/reservoirs by the government after due warning. However, the IRDAI nipped this concept in the bud. Normally, the policy covers the risk of floods and inundation without specifying the causes, a former IRDAI official remarked.

Speaking of the damage to property in Kerala due to floods, an industry official said that the state is not an exception to the general rule of under insurance or no insurance. The loss may be high in the case of motor insurance portfolio. Further, Kerala has a sizeable number of costly cars. The insurers may be impacted due to losses in the motor insurance portfolio.

INTERNATIONAL

Egypt: Port Said racing to start new national health insurance scheme

The Port Said Governorate is currently racing to start the first trials of the new national health insurance system which was launched in July 2018.

The governorate is identifying the beneficiaries of the system, comprising those who have already registered with the health insurance system previously, and recording the data of new beneficiaries, reports Al Ahram. Neighbourhoods contribute to the awareness campaigns related to registration for the scheme.

The Ministry of Health is following up on construction of new healthcare centres, including the development of eight hospitals that have been allocated to Port Said, to cater to the increase in demand for medical care as the health insurance scheme takes effect. Existing medical centres are to be upgraded.

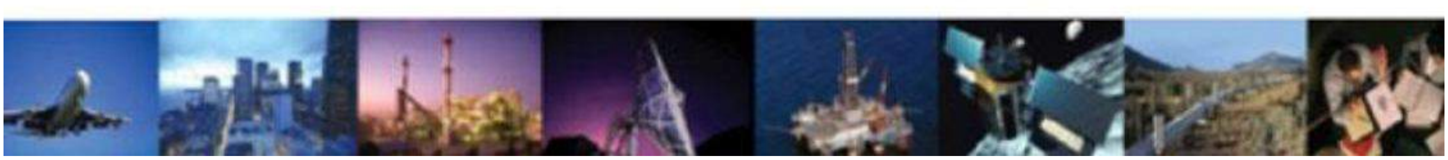
The ministry has made good progress in training personnel for Port Said including doctors and administrators. The new health insurance scheme is implemented first in Port Said, followed by Suez, Ismailia, North and South Sinai. The scheme will be introduced to other parts of the country in several stages with the last phase to be completed by 2032. It expands healthcare to the entire population, including the 30% who could not previously afford it.

Global: Half of top 20 reinsurers more exposed to Nat CAT risk this year

Half of the world's top 20 reinsurers are more exposed to Nat CAT risk in 2018 than in 2017, says S&P Global Ratings in a report titled "Are Global Reinsurers Ready For Another Year Of Active Natural Catastrophes?"

Although the global reinsurance sector is entering the 2018 CAT season with robust capital and earnings, a repeat of 2017 Nat CAT losses would likely wash away full-year earnings and CAT budgets and further test reinsurers' capital resilience, says the report. In such a scenario, the picture might be quite different from what S&P has observed so far in 2018, since the international rating agency thinks price hikes would be likely after the events and more players could take more risk on balance sheet, leaving the sector more exposed. Negative rating actions could result for overexposed reinsurers, says S&P.

Insured Nat CAT losses hit a record high in 2017, at $138bn globally according to Swiss Re sigma. Three major hurricanes in the Caribbean Islands, Texas, and Florida resulted in $92bn of insured losses.



The top 20 global reinsurers picked up about 20% of the total insured industry losses, which S&P estimates at close to a 1-in-25-year aggregate loss for the peer group. The loss magnitude, roughly 3x what reinsurers would expect in an average Nat CAT year, hurt the industry's earnings, and a few players' capital adequacy, but failed to materially push up global reinsurance prices. As a result, a number of reinsurers have taken defensive actions to reduce their exposure to catastrophe risk. Nevertheless, for players who decided to maintain or increase their exposure, S&P expects higher sensitivity of earnings and capital toward catastrophe risk.

The top 20 reinsurers in aggregate expect a catastrophe budget of about $11bn or 8% of the combined ratio for 2018. If not exceeded, this should enable the sector to report pretax profits of about $21bn in 2018, reflecting a consolidated buffer of about $32bn before capital would be hit in a severe nat cat stress scenario.

S&P's analysis highlights that the Bermuda property catastrophe specialists and London reinsurers are likely to be the least resilient as a result of their higher-than-average appetite for catastrophe risk. Despite some capital depletion, the sector remains resilient to extreme events. Albeit fewer than last year, 12 out of 20 global reinsurers are likely to maintain at least 'AA' capital adequacy following a 1-in-250-year event.

In the first half of 2018, worldwide nat cat losses were lower than in the same period of 2017. Insured catastrophe losses according to Munich Re's statistics declined to about $17bn from about $25.5bn in first-half 2017, but remained at the average of the last 30 years. However, in general, the first quarter is not the most representative part of the year since the North Atlantic hurricane season starts 1 June and finishes 30 November.

New Zealand: Survey shows 24% of directors don't have insurance

Recently, the Institute of Directors released a report which highlighted that 24% of executive and non-executive directors do not have directors' and officers' liability (D&O) insurance. Directors responsibilities and accountabilities have grown substantially in the last few years and without D&O cover they may find themselves personally responsible for what goes wrong."

D&O insurance covers past, present and future board directors and officers of a company or not-for-profit organisation for any liability they may have stemming from their own or the business's wrongful actions or decisions. Claims against directors or officers can be made by members of the public, employees, shareholders, creditors and even competitors.

Directors have responsibilities under a wide range of Acts, including the Companies Act, the Commerce Act, the Fair Trading Act and the Health and Safety at Work Act. This may include, among other things, responsibility for the health and safety of their staff, employment issues, regulatory reporting and adherence to laws governing the business's operations, and governance decisions.

D&O cover will prohibit covering fines under the Health and Safety at Work Act, directors or officers for criminal, intentionally non-compliant or fraudulent acts.

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