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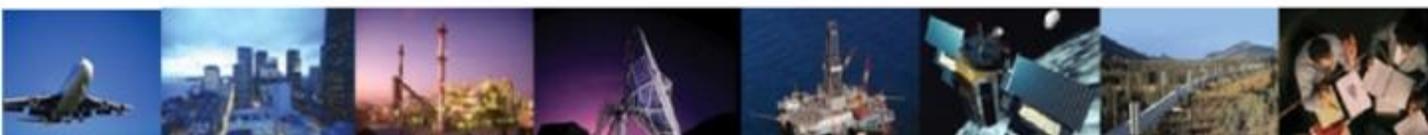
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ON “WRITE” SIDE

Minimising reinsurers’ risks when fronting in emerging markets

Influence over the conduct of claims should be seen as critical to managing exposure.

The London re/insurance market has a long history of working in developing countries and jurisdictions where direct insurance policies must be underwritten by licensed local insurers.

This process, typically known as fronting, remains commonplace around the world and even manifests itself in highly developed markets such as Japan. But the common factor between Japan and many of the world’s less developed economies is the international market will have to rely on its local counterparts to adjust and settle claims.

Unfortunately, local insurers faced with claims by large corporations based in their home markets may come under both commercial and political pressure to settle claims which arguably fall outside the intended scope of cover. Reinsurers should understand, therefore, they will only be able to step in and control settlement negotiations and limit exposures if they insist on more rigorous terms and conditions. Given the present trend towards reinsurers relaxing terms as the soft market continues, this suggests a fairly challenging scenario for underwriters but one that the industry can meet if it considers carefully on matters of wordings and legal jurisdiction for business where a fronting insurer is taking the lead.

In the last five to 10 years, underwriters in the London market and internationally have targeted business emanating from the Brics nations (Brazil, Russia, India and China; with South Africa latterly being added to the original quartet).

Projections in 2011 were that the insurance penetration in the Brics economies could increase at a rate of between 1.6% and 4.2% per year in the coming decade, depending on the country, because of rising per capita income. This may need revision in light of a significant slowdown in Brazil and the ongoing regime of sanctions brought against Russia in the wake of its military action in neighbouring Ukraine.

Nevertheless, in the next decade these jurisdictions are likely to be joined by other South American, Asian and African nations as growth areas for the development of insurance and reinsurance.



The rapidly developing political situation in the Middle East and the relaxation of sanctions for oil-rich nations such as Iran are likely to open up further opportunities, particularly in the marine, aviation and transport and energy sectors.

However, these countries remain off limits except for reinsurance. For example, in the Brics countries, Lloyd's underwriters are only permitted to write direct insurance in South Africa. Risks domiciled in Brazil, Russia, India and China can invariably only be written as reinsurance.

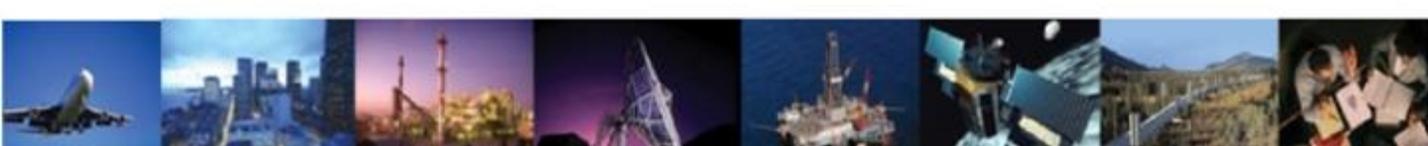
With insurance penetration slowly increasing – albeit from a low base in many countries – it is of increasing significance that some of the largest claims are now emanating out of these jurisdictions. In the first half of 2015, the earthquakes in Nepal, and a heatwave in India and Pakistan, resulted in a huge loss of life with more than 9,000 deaths in Nepal alone. The biggest catastrophe loss in the second half of 2015 so far has been the Tianjin explosion in China, with estimates ranging from \$1.6bn to \$3.3bn. Meanwhile, losses arising from the Petrobras corruption scandal in Brazil are escalating rapidly.

A common feature of all these losses is London and international underwriters writing the business as reinsurers must rely to some degree or another on the professionalism of the direct carriers to adjust and settle claims. As stated above, a particular concern is local insurers faced with claims by large corporations based in their home markets may come under both commercial and political pressure to settle claims that arguably fall outside the intended scope of cover.

In circumstances like these, the existence of clauses that allow reinsurers to step in and provide support to the local underwriters is an essential tool for the London market.

Reinsurance policies are often subject to a huge range of claims co-operation and control clauses. One of the reinsurance word database alone includes a menu of 20 different market clauses and there are numerous bespoke wordings also in circulation.

At one end of the spectrum, there are some relatively toothless claims co-operation clauses such as LSW782, under which reinsurers would need to rely on the cedant's goodwill to influence the settlement of claims. These wordings are flimsy and when paired with a "follow the settlements" clause, reinsurers could easily find themselves bound by an underlying settlement falling outside the scope of cover they intended to provide.





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At the other extreme, much stronger claims control clauses such as NMA 2738 are available, which are enforceable as condition precedents (so reinsurers would not need to prove the causative effect of breach – at least for now, the position will of course change under the Insurance Act 2015), and allow reinsurers to step in and control settlement negotiations.

NMA 2738 may be the preferred choice because not only will the fronting insurer be obliged to give written notice to the reinsurer of any claim made or circumstances which could give rise to such a claim, the local carrier will also have to provide all information known, keep the reinsurer fully informed and also fully co-operate with any adjuster appointed by the reinsurer to control the investigation and settlement of any claim notified.

The benefits of a robust claims control clause are significant, but they may not be sufficient on their own. Reinsurers should endeavour to ensure the policy is subject to English law, so the clause is strictly enforced; this can be a challenging aspect of negotiation and the parties' respective bargaining positions may mean this is not possible.

No one should ignore the challenges reinsurers face; insisting on a set of rigorous terms in a historic soft market can be difficult. But given the overall protection provided by robust claims control and home field advantage prevailing in many jurisdictions that recognise English law (even in arbitration tribunals) the ability to exert real influence over the conduct of claims is possible and should be seen as critical to managing reinsurers' exposures.





NATIONAL

60 percent of vehicle owners initiate a claim only when there is a major damage: Survey

A recent survey conducted reveals that 60 percent of vehicle owners only make a claim when the damage to the vehicle is big. Kolkata is the only exception to the rule where 69 percent of the respondents said they would initiate a claim even if there is a minor damage. Also, people are not very clear about the claims process. The familiarity about claim process highest in Ahmedabad (52 percent), followed by Bangalore (46 percent). The survey also reveals that while the awareness about both own damages and third party insurance cover is high - 80 percent bike-owners are aware of own damages cover and 76 percent of car owners know about it - only about 40 percent of them have availed them. 23 percent bike owners and 28 percent car owners buy insurance keeping third party liability in mind. Also, compared to car owners, more bike owners buy insurance to cover vehicle repairs due to damage caused in an accident. While 76 percent bikers buy to cover repairs only 66 percent car owners buy insurances for the same.

Source : The Economic Times

Irdai tightens norms for cross-border re-insurers

Insurance Regulatory and Development Authority of India (Irdai) has tightened norms for cross-border re-insurers (CBR) operating in India. It has said that the CBR should have credit rating of at least BBB (with Standard & Poor's) or equivalent for the past five years.

CBR means those re-insurers that do not have any physical presence in India and do re-insurance business with Indian insurance/re-insurance companies.

The regulator said the CBR planning to write re-insurance business should file its information sheet before transacting re-insurance business with any of the Indian insurance/re-insurance firms for the financial year. It said insurers have to do due diligence, scrutinise documents and ensure compliance with the criteria prescribed in these rules.

Source : Business Standard



IRDAI to adopt graded approach for violations by brokers

Move by regulator is aimed at simplifying application of penalties in case of non-compliance or violations

The Insurance Regulatory and Development Authority of India (IRDAI), in its norms on non-compliance by brokers, said that there would be a graded approach to any violation.

The step is taken to simplify the application of penalties in case of non-compliance or violation of regulations, the regulator said.

In case of non-compliance for the first time, IRDAI said that generally a warning would be given.

Further, it said, brokers will not undertake placement of new business till the time the problem is rectified or for two or four months, whichever is later, if there is a non-compliance issue for the second time.

In case of non-compliance for the third time, the regulator will initiate steps for suspension or cancellation of the license with the condition that the broker will not undertake placement of new business till such time the problem is rectified or six months, whichever is later.

The IRDAI has also put greater onus on the principal officer to ensure compliance as he will be held personally responsible along with the compliance officer.

Source : Business Standard

Terrorism cover limit hiked

Domestic companies would be able to buy a higher cover from terrorism pool from next year onwards. National reinsurer General Insurance Corporation (GIC Re), along with others, has decided to increase the cover limits under the terrorism pool from the current limit of Rs 15 billion per event per location to Rs 20 billion. K Sanath Kumar, acting chairman cum managing director, GIC Re, said, “We have proposed to increase the capacity of the terrorism pool from Rs 15 billion to Rs 20 billion per event per location. The pool may offer up to Rs 20 billion from the next financial year. This will take some months because each member of the pool will have to take the proposal to its board. In addition, we also require approval from the insurance regulator.”

Source : Financial Chronicle





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New crop insurance scheme interests private insurers

The Pradhan Mantri Fasal Bima Yojana is likely to see a higher interest from private general insurers, with one authority to implement the scheme and availability of localised risk coverage.

Source :Business Standard

Group should have a minimum 20 members for health insurance: IRDAI

Insurance sector regulator IRDAI today proposed a 'Group' should have a minimum size of 20 members to be eligible for issuance of a Group Health Insurance Policy. Releasing an exposure draft on IRDAI (Health Insurance) Regulations, 2016, the authority also proposed that the "premiums filed shall ordinarily not be changed" for a period of three years after a product has been cleared in accordance to the product filing guidelines specified by it. Thereafter, the insurer may vary the premium rates depending on the experience. On Group Health Insurance, the draft said no policy would be issued by any insurer where a Group is "formed with the main purpose of availing itself" of insurance. "There shall be a clearly evident relationship between the members of the group and the group policy holder for services other than insurance. The Group shall have a minimum size of 20 members to be eligible for issuance of a Group Insurance Policy," it added.

Source :The Economic Times

Health insurance for scribes soon: I&PR Secretary

Information and Public Relations Secretary has promised that all working journalists would be provided health insurance facility soon after the ongoing identification process is over. Identification of working journalists in the State is in the last phase and they would come under health insurance cover soon.

Source : The Pioneer



INTERNATIONAL

Lloyd's of London develops common core for cyber risks

Lloyd's said it had developed the data requirements, which will enable it to track exposures and help underwriters to better develop policies to cover cyber risks.

Cyber insurance is an important new area of coverage, and it is essential to have good quality standardized data to track exposures.

Good quality, standardized data is needed to help underwriters better model and underwrite cyber risks. Models for natural catastrophe risks are well developed in the (re)insurance industry, and the data requirements are relatively standardized. But in comparison, models for cyber risks are still developing, and need the industry to work collectively so that risk can accurately be calculated. Lloyd's is pleased to have worked with AIR, RMS and the Cambridge Centre for Risk Studies to progress this issue.

China: Sports insurance policy to protect Shanghai schools

Eighty percent of all primary and secondary schools in Shanghai have signed up to a new insurance scheme created by the city's Education Commission in association with the country's biggest life insurer.

The insurance plan will pay out in the event of children being injured while engaged in sport at school, reported the Shanghai Daily.

The scheme is principally designed to give schools more confidence to hold “vigorous or competitive” sporting events without fear of litigation by parents, said the director of the Sport, Health and Arts Department at the Shanghai Education Commission.

Source: eDaily

Lloyd's of London says managing agents can offer Iran insurance for oil transportation

The Lloyd's of London insurance market said that from a European Union perspective its managing agents can now provide insurance and reinsurance for the transportation of Iranian oil and petroleum products, following the lifting of sanctions.

However it added that some restrictions on U.S. trade remain in place.



Lloyd's, other insurers not liable to cover \$17 million oil rig claim

Lloyd's of London and other insurers are not obligated to provide \$17 million in coverage for a damaged oil rig because there were two incidents, each of which fell under the policies' \$10 million deductible, says an appeals court in upholding a lower court ruling.

Houston-based Seahawk Drilling Inc., operated an oil rig that was damaged in a February 2010 storm. Then in July 2010, the rig's hydraulic-jacking system became disengaged which caused the hull to slide down the legs and float in the sea. It sustained further damage during the 30 hours it floated in rough seas, according to the ruling.

After the July storm, the rig was put in dry dock for further repairs until December 2010. While it was in dry dock, Seahawk submitted a \$17 million claim to insurance policy issuers to cover the cost of repairs, which the insurers rejected.

Seahawk filed suit against the insurers in U.S. District Court in Alexandria, Louisiana, in February 2012. Insurers in the case included Lloyd's as well as 13 other insurers. After a three-day bench trial, the District Court determined the insurers had properly rejected the claim because they found there were two occurrences, each of which fell under the policies' \$10 million deductible.

Seahawk appealed the ruling, and a three-judge appeals court panel unanimously upheld the lower court.

Insurers to benefit from growth of construction sector

EXPANSION of the construction sector in Kenya will uplift the insurance industry which is expected to benefit from higher demand for property insurance.

The UK-based company said the high number of construction projects in the pipeline or ongoing will provide growth opportunities for property insurers.

Construction output in Kenya rose from Sh289 billion in 2010 to Sh687.5 billion in 2014, supporting the growth of property insurance, says the summary of the report.

Construction sector shrugged off high interest rates in 2015 as building activities increased towards the end of the year driven by rise in borrowing.

In the third quarter of last year, the sector grew by 14.1 per cent compared with 8.8 per cent in the same quarter a year earlier, latest official data show.



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