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FIRST ON **PROTECTION**

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J. B. BODA
MEDIAN

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NEWS AT JBB

ATA Carnet Insurance – First time in India

We are glad to announce yet another feather in the cap of JBB to have acquired its position being leader.

We have got the ‘ATA Carnet Insurance Guarantee’ cover in India for FICCI, in lieu of Bank Guarantee or Cash Deposit, from the London market. J. B. Boda Insurance Brokers in association with The New India Assurance Company Limited and in collaboration with the overseas associates shall be introducing this new product in the Indian market for the first time. This will help most of the export oriented Micro, Small and Medium Enterprises including media and entertainment industry for obtaining ATA Carnet Certificate without bothering for arranging Bank Guarantee or Cash Deposit with help of ATA Carnet Insurance, which will be the catalyst for growth of Exports from India.

This news is being released upon the formal consent received by FICCI from the Central Board of Excise and Customs, Ministry of Finance, Government of India and the product will be launched with the help of New India Assurance and RI support arranged by J B Boda London office shortly.

Thanks to our Sr. ED. Mr. C. R. Vaidya & his team to have put in the tremendous effort and experience in getting this unique initiative to success.

Medical Policy for our employees

The Management is also happy to announce the Medical Policy for all our employees commencing from this month onward.

ON "WRITE" SIDE

In depth: Reinsurance reaches crunch time as challenges mount

Disparity between the stronger and weaker players is set to rise in a still-deteriorating market
After a period of good results, attributable mostly to the unusually favourable major loss experience and reasonable rating levels, the reinsurance sector appears to have reached a point at which results are on the verge of turning negative.

For recent entrants to the market, this will be a new experience but for older hands, cyclicality is a crucial part of the business and something that has to be managed.

However, the key question for the industry is not so much how it performs as trading conditions deteriorate and loss experience worsens – as it inevitably will at some point – but whether or not reinsurance has entered an entirely new phase that has no previous parallel. Riding out the trough of the cycle is only worth it if the market improves at some point further down the line.

The market has been debating this issue for a while and come to no firm conclusion. Now results are deteriorating, reinsurers will start to see how recent developments – such as the role of alternative/convergence capital, increasing loss exposures, new risks and changing client demand – actually play out when results move towards the red.

Global reinsurance has been a highly profitable market since the loss-hit 2011 year and, on AM Best's calculations, the sector delivered a return on equity (RoE) of 12.4% in 2012, followed by 13% in 2013 and 11.6% in 2014, before falling to 9.5% last year. With further softening of rates and an upturn in losses, the RoE fell to 7.7% for the first six months of 2016, the rating agency said.

On Moody's figures, the sector's RoE over the past 12 months dropped to 8.3% from 10.3% at the end of 2015. After adjusting for a more normal major loss experience, "most reinsurers reported RoEs would be two to five percentage points lower and essentially at or slightly above the cost of capital", the rating agency said. "This indicates some reinsurers may have been pricing business below their cost of capital, although their reported results do not yet reflect it."

The downturn in performance is visible in our table of group and reinsurance unit performance for the first half of this year. The table presents highlight figures for the relevant groups with a significant interest in the reinsurance sector and then breaks out the reinsurance-specific figures wherever possible. Figures are shown in dollars to aid comparability.

Weakening market

The table adds some granularity to the overall scenario of a weakening market. The general picture is clear: most companies posted weaker underwriting results, higher combined ratios and lower net profit compared with the first six months of last year. Although typically worse, combined ratios remained below the 100% breakeven mark for most players, with several still operating in the 80s. It is a mark of how much perceptions have changed that ratios in the low-90s and high-80s can be viewed as a disturbing deterioration.

At the other end of the scale, an increased number returned ratios above 100%, usually on the back of company-specific problems.

Some companies managed to post better underwriting results despite the adverse environment – for example, Markel’s reinsurance division lopped 10 points from its ratio at the same time as premium increased.

Premium totals present a more cloudy picture because of the acquisition activity that has taken place at several leading companies, including XL, RenaissanceRe and Endurance. For the underlying business, companies seem to have been more cautious, particularly for reinsurance and even more specifically for property catastrophe accounts.

Again, not every company conforms. To give some examples: Mapfre Re’s account was up 10.9% during the period, Alleghany’s reinsurance book (mostly TransRe) was up 24.6% and net premiums at Swiss Re’s non-life reinsurance book was up 15.6% on the back of growth in casualty. Endurance, under John Charman’s leadership, is recording increased reinsurance business as a result of general expansion, as well as the impact of the Montpelier acquisition.

The extreme turbulence in the foreign exchange markets has had a bigger impact on the table than usual because of the strength of the US dollar against the pound, the euro and other currencies. Swiss Re’s figures look larger compared with those of their main continental European rivals – Munich Re, Hannover Re and Scor – because the Swiss group is the only one of the pack to report in dollars.

On a dollar basis, Munich Re’s lead over Swiss Re as the largest reinsurer in the world has narrowed. Differences in reporting disclosure make it hard to compare but Swiss Re Group’s gross earned premium from assumed business totalled $14.7bn for the 2016 period. That compares with a gross written premium figure of $17.12bn for Munich Re’s non-life and life reinsurance divisions, plus the reinsurance element within Munich Health.

Hannover Re and Scor are confirmed in third and fourth positions, some way behind their two larger rivals. Lloyd’s is not due to issue its report for the half-year until September 22 but for the 12 months of 2015, the market wrote reinsurance gross premiums of £8.59bn ($12.69bn).

Berkshire Hathaway writes reinsurance through two divisions: Berkshire Hathaway Reinsurance Group (BHRG) and General Re. The net earned premium total for the two combined was $6.67bn for the first six months, up as a result of additional business at BHRG from the relationship with Insurance Australia Group.

Groups known to assume large amounts of reinsurance but not shown in the table include the three Japanese mega-groups – Tokio Marine, MS&AD and Sompo Japan – Korean Re, China Re, Axa Group (mostly life).

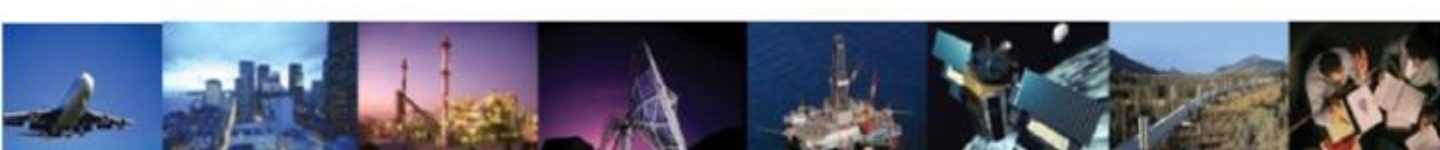
The four metrics shown in the table do not tell the whole story, of course, and further examination is needed to gain a clearer idea of where the reinsurance market stands. Most obviously, scrutiny of the underwriting performance suggests the market is not doing as well as the low combined ratios suggest. Exactly when reserving will move from the present position of strong surplus to deficiencies is unclear, although all observers expect it to before too long. Selected individual companies have had to add to reserves recently, perhaps presaging a more general shift.

Rating agency AM Best calculates reserve releases have massaged combined ratios by an average of six percentage points over the past five years but the benefit from the first half of this year was down to 3.2 points.

Major losses

The first six months gave the market an unwelcome taste of more normal major loss experience. Munich Re estimated natural catastrophes produced economic losses of $70bn, up from $59bn, while the insured component increased to $27bn from $19bn. To put the figures in context, insurance losses were in line with the inflation-adjusted average for the past 10 years and above the $15bn average of the past 30 years.

Major events this year include two earthquakes in Japan and another in Ecuador, as well as flooding and heavy weather damage in Europe. In North America, the Fort McMurray wildfire in May caused insured losses estimated at $2.7bn and about $7.6bn in losses in Texas from a series of catastrophic losses. The Property Claim Services division of the Insurance Services Office estimated the cost of cat losses for the period was $13.5bn, well up on the 10-year average of $11.6bn.



Among third-quarter losses so far are the Italian earthquake, hurricane Hermine, typhoon Lionrock and severe flooding in Louisiana. Reinsurers will be relieved the prevalence of quake cover is low in Italy and initial loss estimates for Hermine are fairly small. Homeowners' Choice has already said it does not expect the storm will trigger reinsurance recoveries.

Catastrophe exposure is a key area for reinsurers and one they have addressed with increasing sophistication, putting them at the forefront of the wider insurance industry in terms of understanding and risk assessment. But competitive forces and exposure trends are working against them.

In a recent note, Standard & Poor's (S&P) said most rated reinsurers have reduced their exposure to working layers, with net exposure at the one-in-10-year return period down 13% because of lower inwards cessions and higher outwards retrocession. But the rating agency found more than one-third of rated reinsurers had experienced a yearly increase in exposure relative to profit. "Earnings deterioration has meant at five reinsurers, exposure to earnings has increased 10 percentage points or more at a one-in-10-year level," the firm said.

Overall, S&P now calculates average exposure to cat risk is more than twice as likely to produce an underwriting loss than it was as recently as 2012, moving from 5% that year to 12% in 2016. For more extreme events, at the one-in-250-year level, six of 21 reinsurers studied by S&P would fall to the BBB rating range following such an event.

One possible response is a further move by reinsurers away from cat-exposed business or into specialty primary business. But some of these lines are now feeling the competitive strain almost as much as core reinsurance, while most offer lower profitability prospects than property cat in a loss-light year.

At the half-year mark, brokers reported on a slowing down in the rate of price reductions for reinsurance business, although rates continue to fall. US reinsurance broker Holborn said mid-year placings this year attracted an average reduction of 8%, down from the double-digit falls of recent renewals. Savings were allocated towards the purchase of additional limit, the broker said, "whether in response to rating agency influence, opportunistic purchase or the resurgence of traditional UNL [ultimate net loss] coverage (now competitive relative to insurance-linked securities alternatives)". Terms and conditions continued to relax and expand to the detriment of reinsurers.

It is no surprise the major rating agencies have a negative outlook for the reinsurance sector, based on a combination of surplus capital and continued high competition, alternative capital pressure, the possibility of a more normal major loss experience, reducing reserve releases and historically low investment returns.

It is not all gloom for reinsurers, though. In terms of capital, they are at or close to an all-time high of $585bn at the end of June on Aon Benfield's figures. Even significant cat losses are likely to cause serious damage to profitability rather than solvency or financial solidity.

(contd. in Part II – Nov 2016 issue)

NATIONAL

Over half health policyholders underinsured

Almost 51 percent of health insurance policyholders in India are underinsured, or have purchased low sum insured health insurance policies, which could prove inadequate during medical emergencies. The findings have been reported in a study conducted by Health Insurance Company. The prevalence of underinsurance, the study added, is more among the higher age groups. Survey says that there are around 0.7 million health policyholders across 82 Indian cities, and has found that both men and women across metros, tier I and tier II cities, and towns are underinsured. At 52 percent, men are more underinsured than women at 46 percent. According to the study, people in their 20s should ideally have a sum insured cover of Rs 0.5 million if they are residing in a metro, and/or tier I/tier II cities; those in their 30s and 40s should have a cover of at least Rs 0.7 million, if they live in a metro or tier I city, and Rs 0.6 million in case of tier II cities. People nearing the retirement age should go for policies with a sum insured of Rs 0.9 million, if they live in a metro/tier I city, and Rs 0.8 million if they reside in tier II cities. People aged above 60 years should have a sum insured of at least Rs 1 million.

However, people most often choose the lowest sum insured policy. Lack of awareness about how to select the right sum insured, over-dependence on corporate health insurance coverage and willingness to pay a premium that is only up to the highest limit of rebate u/s 80D of the Income Tax Act are some of the reasons that make them take this decision. “On the one hand, India faces the challenge of lack of health insurance penetration, and, on the other hand, those who have the cover are under insured. Underinsurance not only results in sudden out-of-pocket expenditure for policyholders during medical exigencies, but also gives them a false sense of assurance of being covered. People must understand that health insurance is not merely a tax-saving tool, and, therefore, they be mindful while choosing a sum insured for themselves and their family”. The study also found that the phenomenon of underinsurance is more prevalent in the higher age groups, as 62 percent of the policyholders above the age of 45 are underinsured. The underinsurance percentage of people in the age group of 61-65 is 75 percent. On the other hand, only 38 percent of those in the age bracket of 18-35 are underinsured.

Source: Financial Chronicle

Daily enrolments see big drop in Jan Suraksha insurance

This has dropped to 23,150 this financial year (April 1-September 26 period), according to data from the Jan Suraksha website

The Pradhan Mantri Jan Suraksha Yojana (PMJSY) insurance scheme has seen a steep fall in daily average enrolments this financial year, against the year-ago period.

The June 1 to March 31 period in the last financial year saw an average enrolment of 0.4 million policies in pure-term and personal accidents a day. This has dropped to 23,150 this financial year (April 1-September 26 period), according to data from the Jan Suraksha website.

During FY16, the number of enrolments under Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) and Pradhan Mantri Suraksha Bima Yojana (PMSBY) stood at 123.57 million as on March 31. This means, on an average, for the 10-month period for which the scheme was operational, 0.4 million enrolments were done every day. Banks were delivering these schemes via direct debit of premia.

This financial year, where the scheme has completed around 176 days, only four million new policies have been enrolled. This makes it an average of 23,150 daily.

Insurance executives said, in the initial phases, bank channels had played an active role in getting new policyholders. Such initiatives have gone down. "Since it is not their core business, promotional activity from banks has also reduced significantly, which has directly affected new policy numbers under the scheme," said a chief executive officer of a midsize private life insurance company.

The PMJSY, which provides a pension scheme, a term insurance cover under PMJJBY and an accident insurance cover under PMSBY, has already crossed 127 million insurance policyholders. The plans have a cover of Rs 2 lakh each, with a premium of only Rs 12 a year for accident insurance and Rs 330 for the life product.

Source: Business Standard

Health Insurance Regulations, 2016: Breakthrough in the offing

The health insurance vertical will benefit from a special clause in the recently notified Health Insurance Regulations 2016, wherein insurers have been allowed the freedom to test pilot innovative, unconventional products for up to five years. A whole new health insurance umbrella could open up for those consumers who seek special covers. A multitude of breakthrough innovations in the coming years as a result of the new guidelines is seen. For instance, currently bariatric surgery—which is out of the purview of standard health insurance plans—may find its place in a pilot health product covering treatment of obesity and other medically prescribed weight management treatments. Similarly, doctor consultations aren't covered unless the product selectively offers out-patient coverage.

Ayurveda could see health covers specifically targeting alternative traditional forms of treatments such as Unnani, Siddha and Homeopathy. An emergence of pilot products offering customised benefits to those individuals who have diabetes, cancer or other life-threatening diseases is also seen. There could be a host of innovative policies launched with the “Pilot” tag to study the pricing of such health risks and the claims. Not that insurers couldn’t offer such products before the Insurance Regulatory and Development Authority of India guidelines. But the nascent state of the Indian health insurance market has left insurers empty handed in terms of reliable standardised data.

Source: The Financial Express

Rural death claims higher than urban

Lack of medical infrastructure, coupled with high incidence of fraud, has increased the number of death claims being reported from rural areas, data with life insurance companies reveal. States from the Northeast such as Mizoram, Manipur, Nagaland, Meghalaya and Assam, reported the highest incidence of death claims in the country, as per a study conducted by the Insurance Information Bureau (IIB). It examined 35.59 crore policies that brought 8.64 lakh death claims in 2013-14. The study, released this month and shared exclusively with FC, shows that Andhra Pradesh reported the highest claim incidence among the larger states. Andhra Pradesh, Karnataka, Telangana, Assam and a few other North Eastern states had 30 to 35 percent higher claim incidence than the national average, while Jammu & Kashmir, Kerala, Maharashtra, Delhi and Odisha reported 20 to 35 percent lower claim incidence than the national average. “Most districts figuring among the top-50 list by claim incidence fall in the hinterland. None of them cover major cities,” said the study. The claim incidence of top 50 districts (ranked by claim incidence) is 84 percent higher than the national average (4.48 versus 2.43). Claim incidence is defined as the number of claims per 1000 life insurance policies.

Principal and consulting actuary at Milliman (an international actuarial firm), said, “While cities have access to medical treatment and hospitals, these facilities are lacking in remote areas. Secondly, there is high incidence of fraud in rural areas. For instance, it is easy to get a fake death certificate. Since the claim amounts are low, life insurers do not want to spend large amounts on claim verification. Therefore, the claim ratios remain high from rural areas.” A majority of life insurance policyholders die of heart attack, which formed 32.1 percent of the total deaths claims, the IIB study said. Interestingly, women reported 40 percent lower claims than men (1.65 vs. 2.73). A study of the repudiation of claims showed that more repudiation was evident at higher levels of death benefit/sum assured. Agriculturists, house wives, women with unearned incomes, students and retired persons, saw higher claim repudiation, while the lowest repudiations were in the case of employees and professionals. Rajesh Dalmia, president, Institute of Actuaries of India said, “We have seen that people from the urban areas are more informed about their rights and honestly declare their pre-existing ailments while filling their proposal form, thus plugging the scope for claim repudiation. But in rural areas, farmers, housewives, students and retired people rely completely on their agents to fill their forms and in most cases the information furnished is incorrect.

Source: Financial Chronicle

General insurance firms post 19 % gross direct premium growth in Aug

General Insurance companies continued to post positive growth at 19.1% (year-on-year) in gross direct premium in the month of August. Data from the General Insurance Council show that private players have seen high premium underwritten as compared to public sector insurance companies. While specialised insurers like ECGC and AIC continued to see negative growth in August. The general insurance segment saw gross premium income at Rs 90.14 billion against Rs 75.67 billion in August 2015. While private insurers registered gross premium income at Rs 41.26 billion up by 40.1% compared to last year. While public sector insurance companies saw growth of 15.2% at Rs 38.25 billion in August, 2016. The general insurance segment in the last few months has seen sustained growth and higher participation from private players as against public sector insurers.

Source: The Financial Express

Government to roll out new health scheme

The health sector in the state received a shot in the arm on Tuesday with the state health department announcing the implementation of a new health insurance scheme titled 'Atal Amrit Abhijyan' by October 2. The new scheme is aimed at providing health insurance to people of the Guwahati state with a coverage up to Rs 0.2 million for cancer, kidney disease, brain and heart-related ailments and burn injuries. The beneficiaries will be given smart cards and a unique identification number. They will be able to avail the smart cards by April 1, 2017. The scheme will be free for BPL people.

Source: The Times of India

INTERNATIONAL

Twin perils take toll on reinsurance underwriting

Formation of hurricane Hermine did little to soothe nerves

Reinsurers have faced the twin threat of increased major loss activity and less favourable reserve development this year, leading to significant reductions in underwriting profit at the half-year mark.

Insurance Day's quarterly analysis of the Bermudian market found a sample of 15 leading companies suffered a 30.9% fall in underwriting profit for the six months, down to $1.68bn, as the Alberta wildfires, Ecuador earthquake, various US storms and other losses combined to put finances under stress.

Disclosed catastrophic losses rose to slightly more than $1bn from $300m for the corresponding period of 2015. The formation of hurricane Hermine at the end of August did little to soothe nerves but preliminary estimates put the insured loss bill at around $400m to $500m, well below the level likely to cause significant damage to reinsurers.

A reassuring early sign for reinsurers came from Floridian company Homeowners Choice, one of the largest insurers of residential property in the state, which said the event was unlikely to trigger any reinsurance recoveries.

The recent flooding affecting Louisiana will produce losses for insurers and reinsurers, although much less than the $8.5bn to $11bn range of exposed value affected that AIR Worldwide has identified. And Asia has been hit in recent weeks by several severe typhoons.

The upturn in loss activity has come at a time of still falling rates for property cat reinsurance although brokers and underwriters report the rate of reduction has slowed. Bermudian players have responded in several ways including scaling back on their in-house property cat accounts.

Several companies have pruned their cat accounts this year in light of the competition and poor rating but as the table shows this is not the case for all players.

Cat business written by Endurance and XL was inflated by absorption of Montpelier and Catlin respectively, although RenRe's takeover of Platinum has not resulted in that company writing more cat reinsurance.

Axis highlights another trend in Bermuda during the first six months: the purchase of extra retrocession cover, particularly for cat business. The company added 19.2% to its gross cat book as it picked up new business but on a net earned basis premiums were down 11% because of additional protection for the cat and property reinsurance books.

Most reinsurers are ceding more business as they take advantage of favourable pricing and capacity trends in the retro market and attempt to moderate their exposure to catastrophic loss, a trend that has been going on for the last couple of years, according to Standard & Poor's (S&P).

But the rating agency pointed out the underlying deterioration in underwriting performance means reinsurers, despite their efforts at reducing exposure, are more than twice as likely to suffer an underwriting loss because of their cat exposure than they were in 2012. And with their strong appetite for cat business, Bermudian reinsurers are more at risk than other global players, according to S&P.

Adding to this year's underwriting difficulties is a reduction in reserve releases, a benefit that reinsurers have depended on for some time to inflate their performance. AM Best calculated US and Bermudian reinsurers improved their loss and combined ratios by six percentage points last year through reserve releases.

But releases for our Bermudian sample fell 13% to just short of $1.3bn for the six months of 2016 and one company, Third Point Re, had to strengthen reserves overall.

Tomorrow's Companies House looks in more detail at developments in Bermuda including capital management, retrocession, reserving and the impact of major losses on individual companies.

Brit to launch new syndicate in January 2017

Names-backed syndicate will have £52m capacity for first year.

Brit is set to launch a syndicate backed by Names, the company announced today.

The global specialty insurer has been given in principle approval from Lloyd’s for the launch of Syndicate 2988, which will begin underwriting business attaching on or after January 2017, subject to final approvals. .

Syndicate 2988 will have a capacity of £52m ($82m) for its first year of trading and will to be supported by private Lloyd’s members.

It will write a “well-balanced” global portfolio of both insurance and reinsurance across a broad range of specialty lines in which Brit already has well established product offerings, the company said. Underwriting will be undertaken by Brit’s existing teams.

The new syndicate will be managed by Brit Syndicates Limited, Brit’s Lloyd’s managing agent, which also manages Brit’s Lloyd’s Syndicate 2987.

The insurer said the launch of the syndicate “reinforces Brit’s long-term commitment to the Lloyd’s market and ambition to use its infrastructure to expand its current position as the largest Lloyd’s only insurer”.

Matthew Wilson, Brit Group deputy chief executive and Brit Global Specialty chief executive, said: “Syndicate 2988 will help us further position Brit as the specialist underwriter of choice, building on our existing strength across underwriting, claims and capital management and track record of delivering attractive returns for capital providers.”

Last week, former Cathedral executives Peter Scales and John Lynch announced the launch of Blenheim syndicate 5886, which will be managed by Asta.

The syndicate, which has received "in principle" approval from the Lloyd’s franchise board, will commence underwriting policies incepting from January 1, 2017.

Blenheim has a planned stamp capacity for 2017 of £150m ($196.1m), underwriting US and international treaty books, direct insurance (direct and facultative) and some speciality lines.

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