MEDIAN

Oct 2021

J.B.BODA

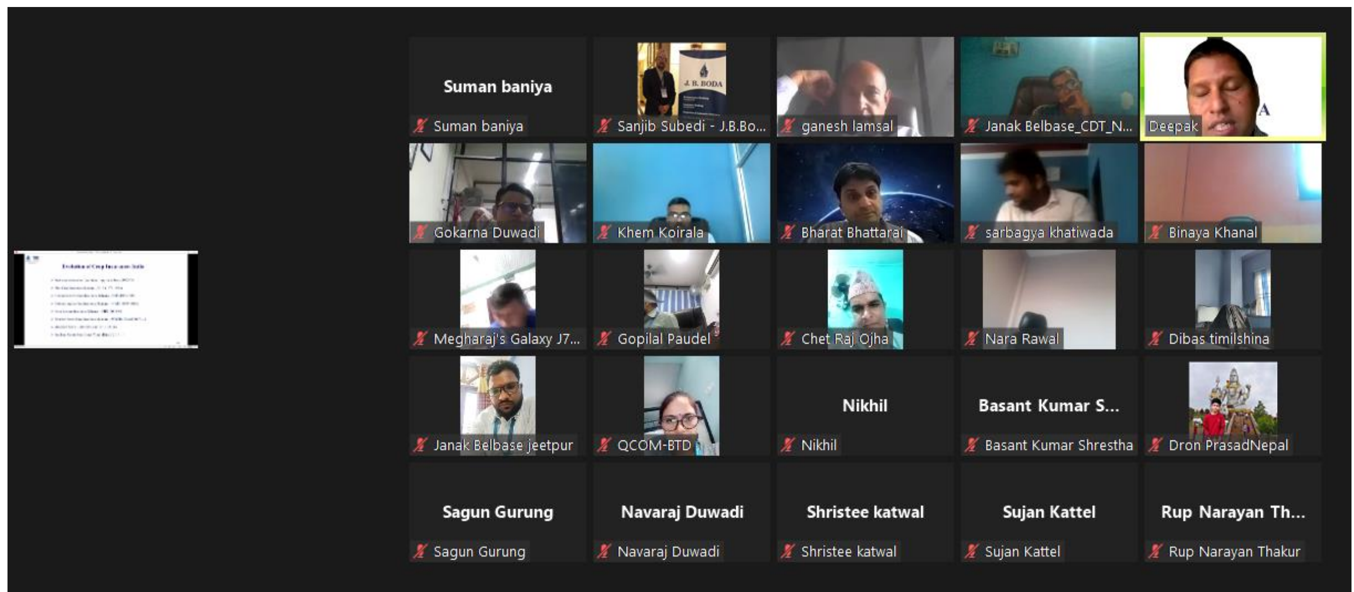
- **NEWS AT J.B.BODA** **2**
- **PRIME STORY** **3-5**

  Climate change not yet a significant determinant of reinsurance… 3-5
- **NATIONAL** **6**

  IRDAI permits insurers to sell short-term Covid policies… 6
- **GLOBAL** **7-8**

  Retro softened through 2021, with ILW prices down materially 7-8
- **J.B.BODA GROUP SERVICES** **9**

NEWS AT J.B.BODA



J.B.Boda Agri Team conducted a virtual training between 10th to 12th Aug., 2021 for Neco Insurance, Nepal. It was attended by more than 60 participants and the training covered agriculture & livestock insurance, area yield index insurance and weather index insurance.

PRIME STORY

Climate change not yet a significant determinant of reinsurance pricing

Analysis from S&P Global Ratings suggests that reinsurance firms may be underestimating their natural catastrophe exposures by anywhere from 33% to as much as 50%, as they grapple with incorporating climate change into their decision-making process.

After running a stress test on reinsurance firms designed to illuminate the potential exposure to climate risk at an industry level, S&P said that only 35% of reinsurers surveyed include a specific component of the price allocated to climate change.

The stress tests looked at reinsurers' estimates of their exposure to natural catastrophe risk, therefore physical climate risk, finding that they could be underestimated by 33%-50%.

S&P noted that this is 91% of the sector's buffer above the 'AA' capital requirement and while not the rating agency's base case, it said the scenario illustrates the significant potential for volatility in earnings and capital.

"Unmodelled risks and the inherent difficulties in attributing extreme events to climate change create the risk that climate change may not be fully reflected in reinsurers' catastrophe modelling, particularly in the short term," explained Dennis P. Sugrue, S&P Global Ratings credit analyst. "We believe that those companies that take a more proactive approach to understanding and adapting their exposure to climate risk will be better protected against future capital and earning volatility linked to climate-related losses."

Those reinsurance firms that do take climate change specifically into account when pricing only factor in 0%-10% of the rate charged on average, S&P also said, which it believes "does not appear to be a significant determinant of market pricing."

"Re/insurers may consider that the effects of climate change will not be felt for some time, and that at present, the ability to annually reprice most property policies provides them with some insulation. However, there is clear scientific consensus that climate change is already influencing the frequency and intensity of extreme weather–and therefore (where not suitably mitigated), insured losses–today," the rating agency said.

Adding that, "A comparison between the historical premium rate movements for global catastrophe insurance versus the amount of estimated rate increases required to account for future climate-driven losses demonstrates why annual repricing is not a solution on which reinsurers should rely too heavily."

S&P also believes that unmodelled risks and the challenge of attributing extreme events to climate change heightens the risk that "climate change may not be fully reflected in catastrophe modelling," particularly in the short term.

All of which means that, "If re/insurers are not properly accounting for the impact of climate change in their catastrophe modelling and pricing today, it could lead to significant unexpected volatility in their earnings and capital, resulting in pricing corrections that could have implications for the cost of reinsurance purchased by primary writers, thereby hitting their profitability and risk profiles as well."

The stress test scenario used by S&P indicates that the reinsurance industry may need to materially increase the amount of capital they hold for their catastrophe exposures (the one-in-250 catastrophe charge in S&P's risk-based capital model), which could amount to as much as $21.7 billion in aggregate for the industry.

On top of this, the modelled exposure to a one-in-10-year event for the reinsurance industry could increase by at least $7.4 billion in aggregate, S&P added.

To offset the potential additional capital burden, S&P said price hikes may be required in reinsurance, to cover the added costs.

Importantly though, S&P notes this could be a challenge in itself, as "The industry's ability to reprice for the risk of climate change may not be sufficient or responsive enough, particularly in a largely commoditized market with differing viewpoints on the adequacy of pricing for physical climate risks."

Of course, this isn't news to reinsurance firms, which are increasingly aware that frequency and severity changes are exposing the industry's capital base to climate related risks, particularly those that can be considered physical risks of climate change itself.

This will apply across insurance-linked securities (ILS) as well, where pricing largely aligns with reinsurance, although accounting for different costs-of-capital in some cases.

What does this mean?

It could suggest that in future reinsurers' cost-of-capital is going to rise, making efficiency and lower-cost options to bring in capital to attach to catastrophe and climate risks will be increasingly important, perhaps also putting an increasing emphasis on the need for efficient retrocession and risk transfer tools such as the catastrophe bond.

But those risk transfer tools also need to be priced commensurately with the risk and to account for physical climate risks and any changes to them.

All of which suggests that while firming is slower this time around, than in previous hard reinsurance markets, it may be sustained for a longer period if reinsurers continue to exhaust catastrophe budgets and find their capital threatened.

Of course, this also all reads across to primary P&C insurers, which will need to ensure pricing at the front of the market chain is accounting for these risks as well.

It is quite damning for the industry if analysts believe reinsurers are not yet adjusting their pricing sufficiently for climate change, especially as the industry makes so much noise about climate change and the way certain risks are escalating.

The industry has often made a big deal of its ability to change pricing on an annual basis, as a way to ensure climate risk is incorporated. But if this isn't moving fast enough, then things may need to accelerate on that front.

With clear implications for the cost of reinsurance capital and ultimately for the cost of insurance.

Investors in reinsurers will also be displeased with this, as they are keen to know their reinsurance investments are being properly priced for the climate we live in at any one point in time.

Source: Artemis

NATIONAL

IRDAI permits insurers to sell short-term Covid policies till March 2022

Amid rising number of coronavirus cases in the country, the Insurance Regulatory and Development Authority of India (IRDAI) had last year asked all insurance companies to come out with ‘Corona Kavach’ policies (standard indemnity based health policy) and Corona Rakshak policies (standard benefit-based health policy).

Several insurance companies had come out with short-term products, which became popular because of lower premiums compared to regular health insurance policies.

In a circular, the regulator said all insurers are “permitted to offer and renew” short-term Covid specific health policies up to March 31, 2022.

Meanwhile, in another circular, the IRDAI said the exemptions granted general insurers for issuance of electronic policies as well as dispensing with physical document and wet signature have been extended up to end-March 2022.

The regulator had granted the relaxation last year after it received representations from the insurance companies for exemption from the requirement to issue physical policy document and hard copy of proposal form in the wake of the Covid-19 pandemic.

Source: Financial Express

GLOBAL

Retro softened through 2021, with ILW prices down materially

The retrocession market failed to harden as hoped for through 2021, with in some cases rapid and material declines in pricing seen, especially in industry loss warranty's (ILWs'), according to Guy Carpenter's Sebastian Cook, providing some insights into the property market, both treaty reinsurance and retrocession.

The retrocession market has been in-flux for a number of consecutive renewals now, with capacity having evaporated for certain aggregate products the industry had become accustomed to relying on and while replacements were available, the structures did not always suit and so dynamics have been evolving quickly across retro buying of late.

Cook highlighted that in the property retrocession market, "Renewals have been closely watched, as some observers expected hardening market impacts to be significant."

While there has been consecutive renewals of rate hardening in retrocessional reinsurance since 2017, something which Cook said should not be overlooked, he highlighted that the market turned in 2021.

"Pricing momentum slowed closer to 1/1, and through the mid year renewals, with risk adjusted decreases on some of the placements," he explained. And that, "Ultimately, supply and demand dynamics did not support the rate increases initially targeted by some reinsurers. Softening was driven by demand reductions and increasing supply of UNL excess-of-loss capacity, as well as the availability of index products."

One area supply was not so strong though, was in aggregate excess-of-loss retro, on a UNL basis, which Guy Carpenter sees as down roughly $1.25 billion.

Rate changes reversed, from positive increases of as much as +15% at the January 2021 renewals, to declines of -5% to -7.5% at the mid-year 2021 renewals, in the retro excess-of-loss space. However, positively for buyers, Cook noted that, "Pricing divergence, between aggregates and occurrence, also stabilised. "

The retro quota share market remains in-flux it seems, although Cook pointed out that, "demand continues to outstrip supply for rated and collateralized products," in this segment.

That suggests demand for reinsurance sidecars may increase, as this is one way a reinsurer can lock-in investor appetite for retrocessional access to catastrophe risk-linked returns.

In the industry loss warranty (ILW) market, dynamics also quickly adjusted as 2021 progressed.

Cook explained that, “For ILW’s, the early 1/1 renewals, showed around 5% increases in price, before declining rapidly and materially as an orderly retro market emerged.”

In fact, Guy Carpenter estimates that aggregate ILW pricing declined by -15% to -22.5% at the mid-year renewals and occurrence ILW pricing by -17.5% to -30%.

These steep declines in index-trigger ILW pricing will have been partly in response to demand from ILS funds and investors for these products, alongside catastrophe bonds, which have driven softening across index-based risk transfer products and other securitized reinsurance instruments in recent months.

Looking ahead, Cook said that retrocession market conditions will remain exposed to capacity levels, as well as to catastrophe losses.

We suspect retro market conditions will also depend on investor demand for ILS going through the rest of this year and into the renewals.

“While supply continues to exceed demand in Q3, dynamics could change quickly dependent upon wind season activity,” he explained.

Source: Artemis

J.B.Boda Group of Companies

Company	Services
J.B.Boda & Co. Pvt. Ltd.	• Facilitating Employee Benefit Schemes and Life Actuarial • Valuation & Product Development • Facilitating Non Life Actuarial Services • Wellness Programmes • Risk Inspection • Training & Seminars
J.B.Boda Insurance & Reinsurance Brokers Pvt. Ltd.	• Non Life & Life Broking
J.B.Boda Insurance Surveyors & Loss Assessors Pvt. Ltd.	• Fire, Engineering, Miscellaneous Accident, Marine Hull and Cargo Surveyors & Loss Assessors • Marine Inspection • Superintendent Services • Tank Calibrators, Samplers & Analysts • Asset Valuation
Crowe Boda & Co. Pvt. Ltd.	• Protection & Indemnity Insurance Services Correspondents in India for : - Steamship Mutual Underwriting Association Ltd. (SMUA), London - Shipowners' Mutual Protection & Indemnity Association (SOP), Luxembourg
Atrium Consultancy Services Pvt. Ltd.	• Consultancy Services

Head Office:

Maker Bhavan No. 1, Sir Vithaldas Thackersey Marg, Mumbai 400 020 (INDIA)

Telephone : + 91 22 6631 4949 / 6631 4917 * Telefax : + 91 22 22623747 / 22625112

E-Mail : jbbmbi@jbbodamail.com * Web : http://www.jbboda.net * Follow us on

For any further enquiry regarding J.B.Boda Group kindly write to jirafe.vinayek@jbbodamail.com

DISCLAIMER

- This document is intended for general information purposes only. We do not accept any responsibility or liability for any errors or omissions therein / therefrom.
- We have not verified the contents of this document and we do not vouch for their authenticity. We hereby disclaim any responsibility or liability in these regards.
- Any statements, facts, figures, opinions, beliefs or views contained in this document do not necessarily reflect our sense, opinion or view and we cannot be held responsible or liable for them.
- Nothing herein contained shall constitute or be deemed to constitute a recommendation or an invitation or a solicitation or a suggestion for any party, person, product or service.
- Reproduction or distribution of this document without our permission is strictly prohibited.
- All disputes subject to Mumbai jurisdiction only.