MEDIAN

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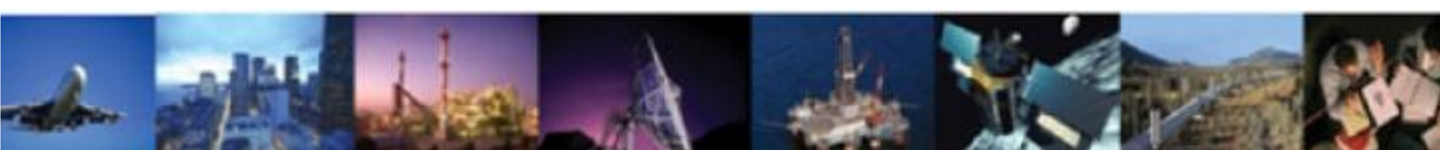
J.B.BODA



NEWS AT J.B.BODA

Our Group Managing Director, Mr. Rohit Boda was interviewed on the subject “***Reality Check for India Nat Cat***” by Mr. Alok Kumar, Managing Director of India and Head of Global Analytical Services, RMS on 20th January 2022, the second day of 15th India Virtual Rendezvous 2022 with a theme:
Towards a Sustainable and Resilient Indian Insurance Market – The Way Ahead

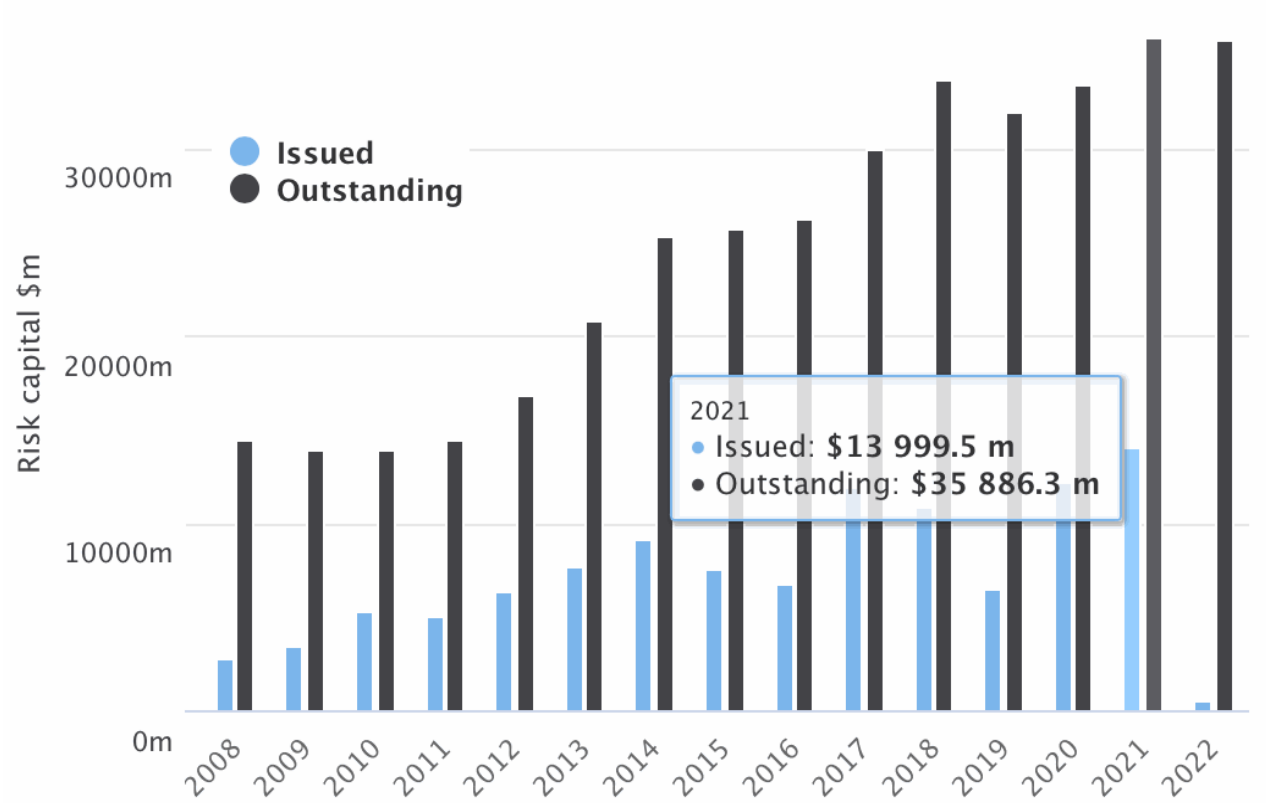
PRIME STORY

Catastrophe bonds increase in importance again: Fitch

Catastrophe bonds increased in importance for the global reinsurance industry again in 2021, Fitch Ratings has said, as the record levels of issuance seen helped to make cat bonds an even larger pool of risk capital supporting reinsurer businesses.

Momentum in the catastrophe bond market continues to increase, Fitch said in a recent report, highlighting both the record level of issuance seen in 2021, as we detailed in our latest report, but also the fact that the cat bond market keeps growing, so taking an increasing share of global reinsurance program capital.

By our numbers, on the outstanding catastrophe bond market, growth of 4.3% was seen through 2020, but then more than 7.6% in market growth was seen in 2021, expanding the importance of cat bonds within reinsurance programs.



Overall reinsurance capital only grew 2.9% in 2021, according to figures from broker Guy Carpenter and rating agency AM Best.

Overall alternative reinsurance, or insurance-linked securities (ILS), capital only grew by 3.7% over the course of last year.

Meaning that catastrophe bond risk capital grew at twice the pace of overall ILS, so far outpaced private ILS and collateralized reinsurance and grew much faster than traditional reinsurance capital, which only grew at 2.8%, during the last year.

Fitch highlights the continued inflows into catastrophe bonds seen in 2021. We documented that in our chart on UCITS cat bond fund flows here.

In 2021, “Catastrophe bonds gained in importance at the expense of collateralized reinsurance programmes and sidecars, continuing a trend that started in 2019,” Fitch Ratings explained.

Adding that, “Investors stuck to their preferences as catastrophe bonds offered higher liquidity and a more clear-cut definition of what perils are covered.”

Looking ahead, the rating agency forecasts that, “Fitch expects that alternative capital in general – and catastrophe bonds in particular – will maintain their role for the reinsurance market in 2022.”

It’s expected that catastrophe bonds will eat more into the domain of traditional reinsurance and retrocessional capital in time, as increasing numbers of new sponsors come to market and as the product itself evolves to provide new layers and kinds of coverage.

If issuance can be streamlined, made more efficient and with costs reduced, the cat bond market could witness a significant expansion. As cost and effort for new sponsors accessing cat bond market remains significant, which can present a blocker for getting new issuers into the marketplace.

Source: Artemis

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NATIONAL

Irdai reduces obligatory cession of premiums to GIC Re to 4% from FY23

The insurance regulator has lowered the obligatory cession of sum insured on each general insurance policy that is to be reinsured with state-owned reinsurer GIC Re to 4 per cent, beginning financial year 2022-23 (FY23), from 5 per cent earlier. The move could result in GIC Re losing about Rs 15-20 billion of premiums, said industry experts.

In a gazette notification, the Insurance Regulatory and Development Authority of India (Irdai) said: “The percentage cession of the sum insured on each general insurance policy to be reinsured with the Indian re-insurer(s) shall be 4 per cent in respect of insurance attaching during the financial year beginning from 1st April, 2022 to 31st March, 2023, except the terrorism premium and premium ceded to nuclear pool, wherein it would be made nil”.

Obligatory cession refers to the part of business that general insurance firms have to mandatorily cede to the national reinsurer, GIC Re.

“This decision may hit GIC Re marginally, but for the primary insurers the impact of this will depend on whether they are able to get more reinsurance capacity for the extra risk. Insurers started looking for reinsurance capacity at 95 per cent because 5 per cent was automatic cession to GIC Re. Now, it will start at 96 per cent. On an average around 5-70 per cent of the risk is re-insured, depending on the various lines of business,” a private sector insurer said.

Irdai has been reducing the obligatory cession over time — from as much as 20 per cent, to 15 per cent, and then to 5 per cent, and 4 per cent now. Slowly the regulator is making sure that more re-insurers get into the market to develop India as a hub, he added.

Furthermore, the regulator has also fixed the percentage of commission on obligatory cession for each class of business. In the motor third party, oil and energy businesses, there will be a minimum 5 per cent of commission, while it is 10 per cent in group health business, and 7.5 per cent in the crop insurance business. All other classes of insurance business will attract a minimum 15 per cent commission.

“Commission over and above, can be as mutually agreed between Indian re-insurer(s) and the ceding insurer,” Irdai said.

According to regulations, the reinsurer, in this case GIC Re, has to share the profit commission on a 50:50 basis with the ceding insurer based on the performance and surplus of the total obligatory portfolio of the ceding insurer. However, no profit commission is payable if the loss ratio exceeds 78 per cent and profit commission shall not exceed 14 per cent, the regulator said.

Source: Business Standard

GLOBAL

Japan's Showa Denko shuts Oita cracker after earthquake

Japanese petrochemical producer Showa Denko has shut its Oita-based ethylene cracker following an earthquake that hit southwestern Japan on the morning of 22 January.

Production was suspended at the naphtha-fed cracker following the quake, the sources added, although this has not been confirmed with the firm. There has been no damage to the facility. The plant, which has an ethylene production capacity of 695,000 t/yr and a propylene production capacity of 385,000 t/yr, is likely to resume operations later this week, according to the sources.

The 6.6-magnitude earthquake, with its epicenter off the coast of Kyushu, left buildings, roads and water pipes damaged in its wake, according to local news reports.

Tremors with a seismic intensity of more than five were felt in the nearby prefectures of Oita and Miyazaki, according to the Japan Meteorological Agency. The agency has warned that another earthquake with a similar level of shake intensity could occur in the same hard-hit areas this week.

Source: Argus Media

Closer ties between insurers and reinsurers

The interconnection between the insurance and reinsurance businesses is not new as merger operations are often favored by economic cycles and encouraged by the companies themselves.

While these mergers allow ceding companies to diversify their activities, they also give reinsurers the opportunity to position themselves closer to the risk.

Insurers' interest in the reinsurance markets

In recent years, several insurers have returned to the reinsurance market after having left it a few years earlier. This is the case of:

- Axa which ceased all reinsurance activity in 2006 following the sale of its subsidiary Axa Re (later renamed Paris Re). In 2018 The French insurer bought the Bermudan group XL for 12 billion USD.
- Covéa which has been making several attempts to re-enter the reinsurance market since 2018. It signed a memorandum of understanding with Exor in October 2021 to buy PartnerRe. The value of the transaction amounts to 9 billion USD. In 2002, the mutual group sold Le Mans Re to XL Capital.

In addition to these high-profile returns, major direct insurance groups have also arrived in reinsurance. This is notably the case of:

- American International Group (AIG), which in 2018 acquired Validus for 5.56 billion USD. In 2019, the American group created AIG Re, which combines the activities of Validus Re, Alpha-Cat and Talbot under one flag.
- Berkshire Hathaway which, after having taken its first steps in insurance with the acquisition of National Indemnity and GEICO in 1967, entered the reinsurance market in 1998. The conglomerate has offered 22 billion USD to buy General Re (ex-Cologne Re).

Insurers' ever growing interest in reinsurance is accounted for by:

a. the quest for diversification through greater geographic and business-based pooling,
b. access to an international network as well as to capital markets,
c. the establishment of higher margins than those provided by traditional insurance thanks to a large volume of premiums without recourse to important infrastructures,
d. the provision of technical expertise to absorb peak risks and major shocks.

Reinsurers' ever growing interest in direct markets

Unlike some insurers who have gone back and forth several times, coping with cycles and strategies, reinsurers seem more determined to embark on direct markets.

Thus, the world's leading reinsurers have acquired, since the beginning of the 1990s, entities dedicated to insurance. The main objective of these entities is to cover industrial and commercial risks and to remedy the increase in retentions in the primary market. These reinsurers include:

- Munich Re, which acquired several stakes in German insurance companies. The latter merged in 1997 and created Ergo, which quickly became the second largest insurer in the country after Allianz. In 2001, Ergo became a wholly owned subsidiary of Munich Re, operating in life and non-life insurance. In 2020, 42% of the German group's results were achieved by the direct entity.
- Swiss Re, which has developed an in-house entity to cover post-war industrial risks. In the early 1990s, the Swiss reinsurer created a department dedicated to direct business. To get even closer to policyholders, Swiss Re founded a separate entity in 2011 in charge of industrial and commercial risks, Swiss Re Corporate Solutions.
- Scor also keen on being closer to the risk and to the client. Thanks to the complementary nature of its insurance platform expertise (aviation, marine transport, engineering, property damage, etc.) and its reinsurance platform,
- Scor is tapping into its technical expertise to better assimilate risk.
- Specialized insurance, therefore, accounts for 25% of Scor Global P&C's premium turnover (property and liability class of business).

Direct insurance, therefore, enables reinsurers to:

a. diversify their portfolio,
b. better cope with cycles,
c. cope with the decline in cessions,
d. get closer to the insured and directly cover some huge corporate risks.

Source: Atlas Magazine

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