MEDIAN

May 2022

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NEWS AT J.B.BODA

This business season just got a head-start with series of celebrations for the Group…
An ICONIC LEADER of this generation, J.B.Boda Group Chairman, Shri Atul D. Boda
being honoured and felicitated by the J.B.Boda family
at a surprise event organized to celebrate his 40th Work Anniversary
on Friday, 22nd April 2022 at our Head Office, Mumbai, India

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PRIME STORY

PCS says Ukraine insured losses could rise above $20bn

The ultimate insurance and reinsurance industry loss from the ongoing conflict in Ukraine could rise above US $20 billion, according to analysis from PCS, a Verisk company, which has provided some data the ILS market may find helpful in understanding what, if any, exposure its structures may hold.

PCS cautions that deriving an accurate estimate is not possible with the conflict ongoing and war raging in the country still. But after analysing data from its own relevant product offerings, the PCS Global Aviation, PCS Global Marine and Energy, and PCS Global Large Loss services, as well as internal research, PCS has provided us with some useful data that will help insurance, reinsurance and insurance-linked securities (ILS) market interests in understanding any potential exposure to the ongoing war in Ukraine.

PCS says it currently believes the industry loss will come in between a low-end estimate of $13.05 billion, to more than $23 billion. And currently has a working estimate of $20.6 billion, based on its analysis of various specialty lines of business.

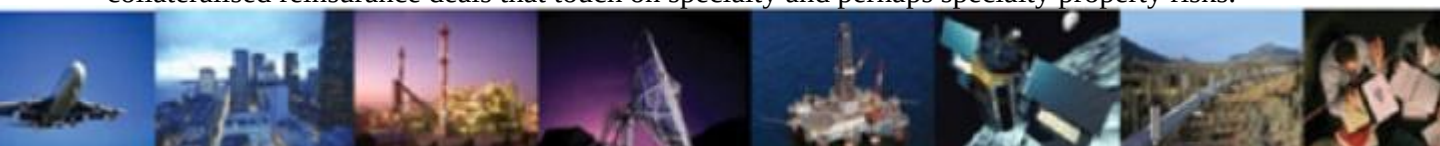
Overall, it states that the insurance and reinsurance market loss from the conflict in Ukraine will be the largest political violence loss in history.

Saying, “PCS believes that aggregate industry-wide insured losses could exceed approximately US$20 billion based on market intelligence available to date. It’s still early in the conflict, though, and the flow of information is but a trickle compared to what will likely come through when loss adjusters eventually gain access to affected sites. As a result, the conflict in Ukraine has the potential to become the largest industry-wide insured loss, across all classes of business, in history, even exceeding that of the terror attacks of September 11, 2001.”

The analysis PCS has undertaken could be very helpful to those in the ILS market that have specialty lines exposure.

With the ILS market having expanded into some areas of specialty lines, with increasing collateralised reinsurance participation in these market segments, while some retrocessional sidecar structures and quota shares have lines of business such as aviations, energy and marine included, PCS’ data touches on these areas.

There is an expectation that the ILS market will face some losses due to the Ukraine crisis, with the majority expected to be via retro sidecars (Hannover Re cautioned on this early on), some retro structures that cover specialty lines, as well as some very specific quota shares or private collateralised reinsurance deals that touch on specialty and perhaps specialty property risks.



In the aviation lines of business, PCS believes the insurance industry loss will range from $7 billion to as high as $13 billion, with $10 billion its current working estimate, on which it says, “The losses may be more distributed than market participants currently expect, with the entire supply chain potentially sharing in the loss.”

In marine, PCS sees a range of potential sources of loss, from sinkings, to ports and cargo, with the industry loss ranging from $3 billion to $6 billion and its working estimate sitting at $5 billion so far.

In marine lines of insurance PCS warns to watch out for blocking a trapping related exposures, which can take months to be realised, but it believes could account for as much as $1 billion of the loss.

In the energy lines of insurance, PCS notes that renewable losses could be a $1 billion alone, while broader energy exposure is possible from areas like nuclear power and energy infrastructure. The energy loss estimate range is from $1 billion to $4 billion, with a current working estimate of $2.5 billion.

Property per risk exposure is another area of significant uncertainty with the conflict in Ukraine, given the level of destruction wrought on the country by Russia and the fact it remains an active war zone where loss adjusters cannot assess damage claims. A low-end of $2 billion for property per risk claims is “a bare-minimum estimate based on specific estimated loss information received so far, and the loss is likely to creep further,” PCS said.

Currently PCS is working off a $3 billion estimate for property per risk, but notes that there is significant uncertainty around the top-end of the range.

“It is extremely difficult to forecast the ultimate industry-wide insured loss from property per risk in the Ukraine conflict, and it will take some time for even a wide range to emerge. So far, it seems likely to exceed US$2 billion, based on intelligence received by PCS, but as with the energy sector estimate above, it’s tough to determine more than that,” the Verisk unit explained.

Finally, PCS provides a small addition to the overall loss to cover personal and small commercial property, which it believes won’t be a large contributor to the industry loss, especially given relatively low levels of insurance uptake and low insured values in Ukraine. As a result, PCS is working off a $100 million estimate for these lines of insurance.

All of which provides the range estimate of $13.05 billion to above $23 billion, as well as PCS’ current working estimate of $20.6 billion.

PCS cautions that the industry loss could take a long time to become clearer, particularly with the war triggered by Russia's invasion of the country meaning that Ukraine is not safe for loss adjustment and notifications of claims may not begin until long after the conflict ends, as it will require people to return to the country as well.

Any losses from the ongoing war in Ukraine that fall to the insurance-linked securities (ILS) market, or to collateralised reinsurance and retro vehicles backed by capital market investors, are unlikely to be too unexpected.

Buying into specialty lines exposure in the ILS market brings with it exposure to many different types of loss event, including political violence. Any incident or occurrence that causes physical or financial loss to the covered business lines, such as aviation, energy, marine and some specialty property classes of insurance, could result in some attrition and losses to structures such as certain sidecars.

While the majority of sidecars, quota shares and collateralised deals entered into by ILS funds remain purely natural catastrophe exposed and so won't have any Ukraine exposure at all, those with a specialty lines component, or focus, could have exposure and may face some losses as a result. But it could be some time until there is clarity over any losses, as clarity for the ceding companies or sponsors may also be slow to emerge, given the challenging situation on the ground and the ongoing war, as well as the chance of litigation surrounding issues such as leased aircraft.

Finally, Tom Johansmeyer, Head of PCS, cautioned that, "It's important to remember just how early we are in this loss event right now. What we've estimated is a point-in-time view based on solid information from the market so far. There's room for loss creep here. It'll be crucial for reinsurers and ILS funds to keep an eye on this event as it continues to evolve."

Johansmeyer also said the Ukraine related industry loss will once again demonstrate the need for hedging and retrocession.

"The nature of the flow of loss data so far underscores the utility of the specialty lines ILW market," he explained. "There is the potential for marine and onshore energy events to reach significant levels, as we've shown in our briefing. And the risks to the aviation sector have been well documented generally, even if the potential insured losses from airports haven't received much attention. We may see loss activity relevant to the specialty retro market.

"Although it's probably too late to transfer risk exposed to the conflict, it's an important time to look forward. The conflict in Ukraine will likely mark the fourth consecutive year with a political violence event exceeding $2.5 billion in industry-wide insured losses. That could have strategic implications for risk and capital management.

"Also, it's important to think about what's next for cyber. If an uptick in cyber activity is likely to follow the eventual cessation of the kinetic phase, then the window to complete cyber ILWs may be closing."

Source: Business Insurance

NATIONAL

Senior insurance execs cite lack of reinsurance support as a top risk

About four in 10 (41%) of respondents to a survey by the Insurance Institute of India (III) feel that inadequate reinsurance support due to a hard market cycle is a top risk, while 35% believe that capital shortage is a risk.

The survey of CEOs and business heads of insurance companies also reveals that some insurers are apprehensive to some extent about pricing risks, according to a report quoting the poll results.

The hard reinsurance rates have had an impact on domestic insurers with many of them revising their property insurance rates. In the last two years, the impact of global hardening was felt in the life insurance market as well with many domestic insurers hiking premium rates for term policies.

According to industry experts, the hardening cycle has continued as there has been increased risk aversion triggered by the volatility in global capital markets. The Russia-Ukraine war has added to the uncertainty.

The findings of the survey shows that 30% of the respondents expect exponential growth in demand for insurance post-pandemic. The remaining 70% expect growth to revert to the trend previous to the pandemic.

Source: Asia Insurance Review

GIC Re set to participate in reinsuring Kudankulam units

GIC Re will be participating in reinsuring the Rs 432 billion insurance coverage of the under-construction units of Kudankulam nuclear power plant. It has quoted a 15% share of the risk.

But GIC Re's quote is not the lowest as a global reinsurer has quoted a lower price. Also, there could be a 10% shortfall in commensurate premium for the state-owned reinsurer. And eventually the final rate will prevail and everyone will participate. No reinsurer takes 100% of the risk. With New India Assurance and nuclear power plant involved, GIC Re cannot say no to coverage.

The negotiations for placement of risk have not yet taken place and are likely to happen soon. The erection-all risk cover for unit 3 and 4 of the nuclear plant is one of the biggest insurance coverages and will have multiple reinsurance players quoting for some portion of the risk.

Source: Asia Insurance Review

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GLOBAL

South Africa declares state of national disaster to tackle widespread floods

As the cost of floods which badly affected KwaZulu-Natal Province reached billions of rands, South African President Cyril Ramaphosa declared a National State of Disaster.

The cabinet met in a special session and decided to declare a National State of Disaster, Ramaphosa said in his televised address.

The primary responsibility to coordinate and manage the disaster is assigned to the national sphere of government, working closely together with provincial governments and municipalities.

The implications, consequences and the damage were wide reaching beyond KwaZulu-Natal, said the president, adding that the damage to the Port of Durban had far-reaching consequences, and that is why the cabinet decided to declare a National State of Disaster.

The Port of Durban - one of the biggest and busiest port terminals on the continent and an important part of the country's economy - has been severely damaged. Access to the port has been disrupted by extensive damage.

While 1 billion Rand ($68 million) was immediately available, the matter would be taken to the parliament to ask for more resources, said Ramaphosa.

KwaZulu-Natal has recently experienced the worst floods since 1987, which killed at least almost 440 people and severely damaged houses, businesses, roads and bridges.

It is estimated that more than 40,000 people have been displaced, the president said. "This is a humanitarian disaster that calls for a massive and urgent relief effort."

To address the unfolding humanitarian crisis, the first priority would be providing urgent humanitarian relief, and the second priority would be providing rehousing to displaced people and reconstruction and rebuilding, he added.

Source: Business Standard

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