MEDIAN

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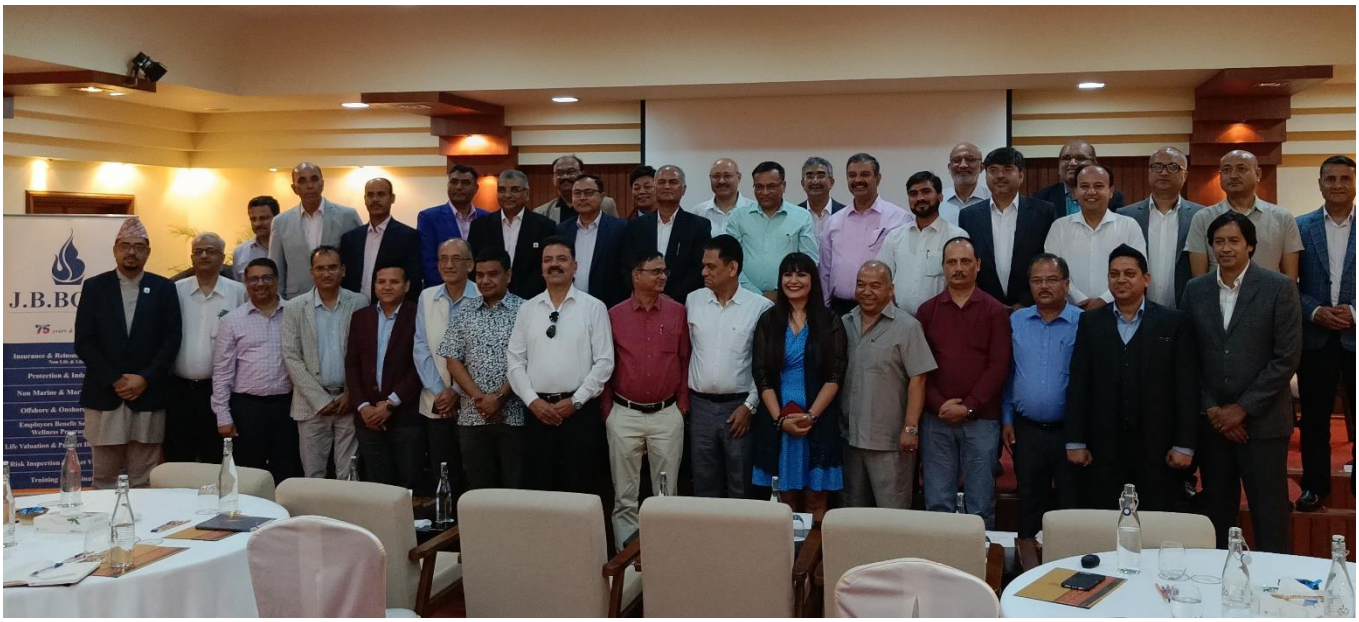
J.B.BODA

NEWS AT J.B.BODA



Knowledge sharing session on "**Towards Resilient & Reinventing Reinsurance Partnership**":
was jointly organized by J.B.BODA Group & Nepal Reinsurance Co. Ltd.
It was attended by stalwarts of Nepal Market at Paradise Island, Maldives on 1 & 2 June, 2022

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PRIME STORY

Inflation hits property catastrophe reinsurance renewals

Concerns over inflation and reduced property catastrophe capacity made June reinsurance renewals difficult and protracted, with many ceding insurers facing double-digit rate increases.

“For Florida, we would expect the rate increases to be easily 30% or higher for those that are able to get deals done,” said Brian Schneider, a Chicago-based senior director in Fitch Ratings Inc.’s U.S. insurance group.

The increase in inflation was a major factor in renewal discussions.

“Probably the biggest topic of conversation in the reinsurance market this year is how people are looking to handle inflationary factors,” said Adam Schwebach, Tampa, Florida-based executive vice president and branch manager for Gallagher Re, the reinsurance brokerage unit of Arthur J. Gallagher & Co.

The Florida reinsurance market is the hardest since perhaps 2007, he said.

Rebuilding costs and home values are rising, Mr. Schwebach said. “Everybody is taking a hard look at what is being added to property values year on year so reinsurers can be comfortable with valuations and limits.”

Capacity was also an issue as some reinsurers retreated from the catastrophe reinsurance market. For example, Axis Capital Holdings Ltd. said in a recent filing with the U.S Securities and Exchange Commission that it cut its property catastrophe reinsurance business by 27% at April reinsurance renewals, which followed a 45% reduction in its property catastrophe reinsurance book at January renewals.

“During the Jan renewals, where we write more than 50% of our reinsurance business, we advanced our corporate objectives to reduce volatility, allocate capital rigorously and produce the most optimized portfolio for the current market. As such, we took decisive action and reduced our reinsurance property and property cat premiums by 45%,” Axis CEO Albert Benchimol said on the company’s fourth-quarter earnings call.

"We've certainly seen less capacity being offered out there and the capacity that is being offered is being more selective," Mr. Schneider said.

In Renaissance Re Holdings Ltd.'s first-quarter earnings call on May 4, CEO Kevin O'Donnell said the reinsurer has steadily reduced its exposure in Florida. "With respect to Florida, even with these rate increases, we are unlikely to increase offered limits at the June renewal," he said. "Over the last several years, we have steadily reduced our exposure to the Florida domestic homeowners market and it now represents about 2.5% of our gross written premium."

"The strategy is to reduce as much volatility as they can," Christopher Grimes, a Chicago-based director at Fitch, said of reinsurers' moves away from Florida property catastrophe business.

While there are some newer reinsurers in the market, such as Bermuda-based Convex Ltd., founded in 2019 by industry veteran Stephen Catlin, "Their size isn't that big compared to the rest of the market," Mr. Grimes said, adding that even such new players are being very selective in their deployment of limits.

Another factor in the June renewals was a scarcity of capacity in retrocessional markets, where reinsurers sometimes transfer risk off their own books.

"Now, there is not a lot of space in the retro market, so there's not a lot of space to pass on that risk," Mr. Schneider said.

In a twist for this renewal cycle, on May 26 Florida Gov. Ron DeSantis signed property insurance reform legislation that among other things established the $2 billion Reinsurance to Assist Policy program allocating capital to reinsurance for insurers willing to give their policyholders premium relief, essentially creating new reinsurance market capacity.

Source: Business Insurance

NATIONAL

IRDAI-appointed panel recommends wider investment options for insurers

A panel formed to recommend reforms for the general insurance industry has recommended that investment rules for insurers be relaxed. The recommendations are set out in a report by the panel which has been submitted to the IRDAI. The report is being reviewed by the regulator, said an official.

The panel proposed that the liberalisation could include permitting insurers to invest in Additional Tier-1 (AT-1) bonds of banks that have declared dividends for the preceding two years, except in cases where the bank is a promoter entity of the insurer.

AT-1 bonds offer higher returns to the investors, and at present, insurers are not allowed to invest in such instruments.

Another recommendation concerns removing the requirement that insurers invest only in the equity of dividend-yielding companies. The panel listed examples of some companies that are high dividend-paying, but have underperformed compared to benchmark indices for years. Allowing insurers to invest in companies that do not declare dividends but have high growth prospects would help them in getting institutional backing.

The committee also says that insurers could be allowed to increase investments in the infrastructure sector through banks.

Source: Business Standard & Asia Insurance Review

Relaxed solvency rule for crop insurance frees nearly US$180m

The IRDAI, continuing with its series of reforms, has reduced the solvency margin requirement for insurers engaged in crop business, the regulator says in a statement.

Since the fiscal year ended 31 March 2018, the IRDAI has relaxed the period of admissibility of premiums due from the government for solvency calculation purposes, from 180 days to 365 days. Now, the regulator has decided to extend the above relaxation from the fiscal year that started on 1 April 2022 till further notice.

The move will improve the solvency status of the general insurance industry as a whole, and, consequently, the capacity of general insurers to underwrite more business.

The IRDAI statement said, "It is expected that the effect of this relaxation will be positive on the industry as it will free up capital, which can be utilised for underwriting more business. It is estimated that approximately INR14bn ($179m) will be unlocked and general insurers may use this opportunity to optimise this freed up capital in a way which leads to increased insurance penetration in India."

Source: Asia Insurance Review

GLOBAL

New Zealand: Insurance body highlights need for better enforcement

Much better enforcement of existing laws and regulations is required to protect consumers from mis-selling of motor vehicle add-on insurance products says the Insurance Council of New Zealand (ICNZ).

Vehicle insurance products, including those for mechanical breakdown, and those related to car loans—such as repayment and gap protection—typically provide cover that people later rely on to avoid massive liabilities, said ICNZ chief executive, Tim Grafton.

"The Fair Trading, Credit Contracts and Consumer Finance Acts are in place to protect people against being sold financial products that are inappropriate or that they can’t afford. These laws need to be enforced."

Breakdown cover is there in case of major mechanical problems outside of that which should be prevented by proper maintenance. Loan repayment and gap insurance cover loans taken out for a vehicle. They pay out if regular loan repayments can no longer be made under certain circumstances such as illness or redundancy. Gap cover pays any shortfall between a regular comprehensive car insurance claim for a total loss and any outstanding car loan amount.

"Providers have moved to cap the price at which third parties can sell these products to consumers to provide them with better value. They are also going beyond the statutory five-day cooling-off period, in which people can receive a full refund if they change their minds, voluntarily extending it to 14 days. This is a better approach than a deferred sales approach as that would lead to few people being protected and higher risks for lenders leading to higher costs for, and lower availability of, loans for borrowers.

"The Commerce Commission looked into this issue last year with a view to protecting consumers. Better enforcement of consumer protection laws and tighter controls over commissions, selling practices and 14-day cooling-off periods will all help keep these insurance products in place for people who would otherwise be left with huge bills to pay in the event of a major breakdown or if they were otherwise no longer able to meet their loan obligations," said Mr. Grafton.

Source: Asia Insurance Review & NZ News

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