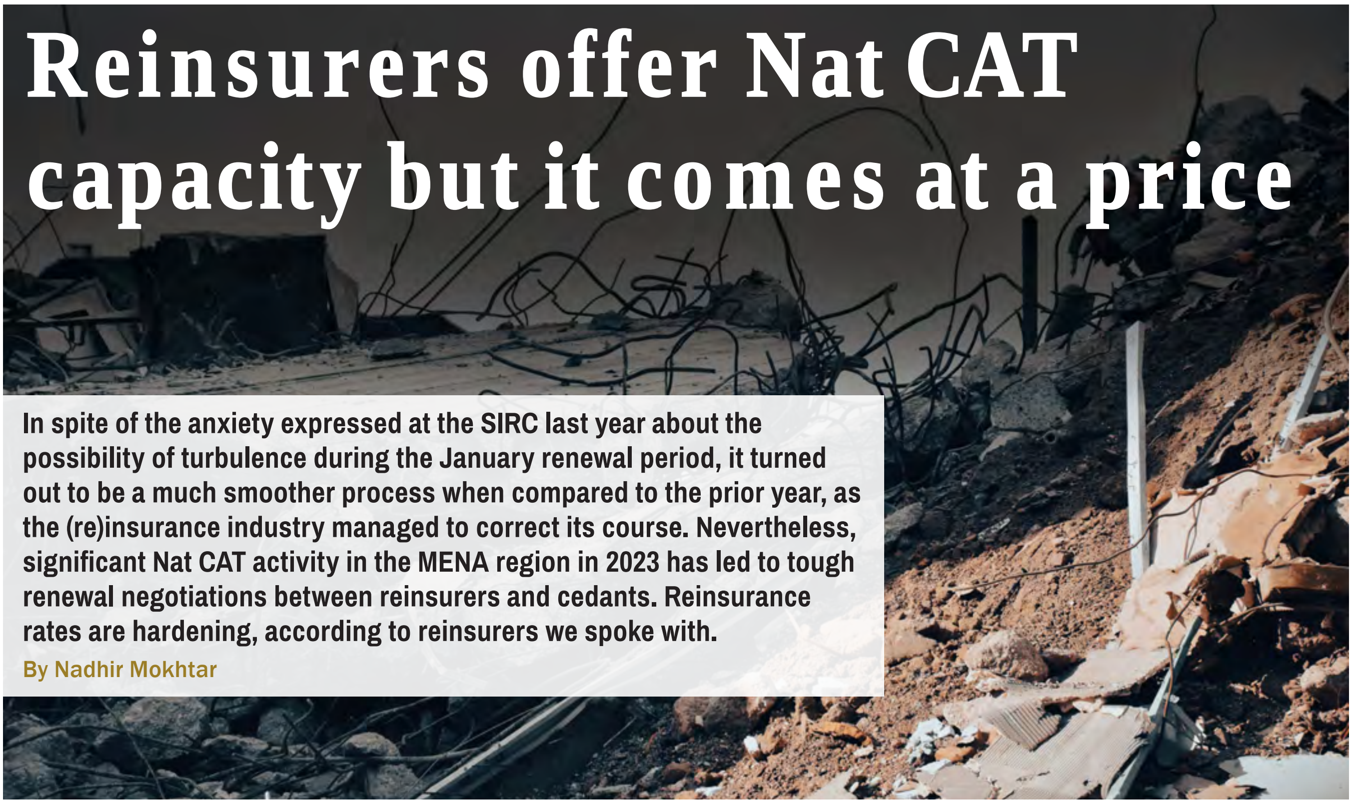
REINSURANCE – SIRC CONNECT



Reinsurers offer Nat CAT capacity but it comes at a price

In spite of the anxiety expressed at the SIRC last year about the possibility of turbulence during the January renewal period, it turned out to be a much smoother process when compared to the prior year, as the (re)insurance industry managed to correct its course. Nevertheless, significant Nat CAT activity in the MENA region in 2023 has led to tough renewal negotiations between reinsurers and cedants. Reinsurance rates are hardening, according to reinsurers we spoke with.

By Nadhir Mokhtar

Much of the focus of discussions during the annual Singapore International Reinsurance Conference (SIRC) tends to be around the level of harmony – or disharmony – that might define contract renewal discussions.

From earthquakes in Türkiye and Syria to wildfires in North Africa, 2023 has seen significant Nat CAT activity that has cast a light on the insurance coverage in the MENA region. January renewal negotiations have been tough with reinsurers looking to make changes for better margins or being cautious in renewing any business that seems too risky.

"The MENA region has a vast potential and diversifying effect that contributes positively to the cost of capital, it continues to be an attractive market for the reinsurers. As a result of improved profitability prospects owing to already improved terms and conditions in 2023 renewals, there is no shortage of capacity, but it comes with a price," said Mille Re assistant general manager Özlem Civan speaking to *Middle East Insurance Review.*

Ms Özlem Civan

January renewals

According to Ms Civan, cedants with better history results and closer relationships with reinsurers have easier access to capacity. However, she said even in such cases, reinsurers remain disciplined in their underwriting approach and refuse to renew any business that does not fit their risk appetite.

"In the January 2024 renewals, there was a restricted number of leading markets, driving tougher negotiations for the improvement of the terms and conditions particularly regarding proportional treaties. Consequently, some surplus treaties disappeared and were converted to quota shares, while others have been restructured with fewer number of lines and larger quota share capacity. Limited Nat CAT cover was offered under proportional treaties," she said.

On the other hand, she said there was hardening in the region during January 2024 renewals of non-proportional programmes, with many of them seeing upward rate adjustments. She said there was further increase in retention levels of CAT programmes that have been severely loss affected in 2023.

"As far as Turkish insurance market is concerned, following the Kahramanmaras earthquake in February, the market faced the most challenging renewal over decades. The capacity was tight for the proportional treaties despite conditions were subject to radical changes to provide reinsurers with better margins. Nevertheless, shortfalls in placement of some proportional treaties have been inevitable, forcing cedants to change their reinsurance structures," she said.

She said there was adequate supply for CAT programmes, with additional capacity provided by some new players taking an "opportunistic approach to benefit from sharp increases in programme rates on-line". She said this is due payback expectations of reinsurers as well as loadings made for any presumed model shortfalls.

"Despite the hardening in the market, there were shortfalls in some of the placements, which compelled cedants to revise programme structures or seek alternative solutions," she said.

Stringent terms

Speaking to *Middle East Insurance Review*, IGI Dubai senior executive officer Henri Labat said most of the business renewing in Türkiye after the February 2023 earthquake experienced more stringent terms and conditions.


Mr Henri Labat

"There is now less capacity, it is much more expensive and retentions are increasing. The Turkish Catastrophe Insurance Pool (TCIP) faced a tripling of rate on line in its $2bn reinsurance programme. Not only local players but a fair number of international players were affected by this large CAT event, which also had an impact on the pricing of other heavily exposed accounts in the region. Regionally, capacity has left heavy CAT areas such as Türkiye, a country that is very seismic, and has moved into less exposed areas such as the UAE, Qatar and Saudi Arabia," he said.

Despite significant activity in 2023, some feel the impact on reinsurers is limited.

"The events themselves in 2023, whilst big for the region, are not resulting in capital issues for reinsurers. The impact will instead be seen more in terms of pricing as opposed to capacity. We would expect there to be more aggregate management concerns for regional reinsurers particularly with the potential introduction of new CAT pools within the region," said AXA XL, reinsurance senior executive officer Mohamed Alali speaking with *Middle East Insurance Review.*


Mr Mohamed Alali

Increased demand for Nat CAT cover

According to Mr Alali, there has been a heightened awareness of Nat CAT exposures. He expects the trend of CAT pools in the region to continue.

"This is currently being discussed for the Egyptian market as well as the Omani market," he said.

Mr Labat said he also expects more pools to be implemented.

"There is an increase in treaty covers for CAT events as well as limits purchased by insured clients. Named peril policies are becoming a lot less common than all risk policies. Customers are turning to new approaches such as parametric insurance and reinsurance.

"Overall, due to recent experiences, insured clients as well as insurers and reinsurers are becoming more aware of CAT exposures in the Middle East and are willing to transfer more risks to the insurance and reinsurance industry. This is also driven by an important increase in the overall sum insured in the region due to a continuous investment in new infrastructures being constructed in the Middle East over the last 20 years," he said.

Secondary perils

The region has also seen significant secondary perils in the past year.

"Last year, there was again flooding in Dubai. Not only are these events increasing in frequency, but also in severity due to the huge expansion in the construction of infrastructure and new buildings in the region as well as increasing population. Property motor insurance is the main business line affected by those events," said Mr Labat.

While the region benefits from new capacity with the perception of a relatively low CAT exposures, he said the risk of climate change related secondary perils, which are relatively new over the past 10 years, has not been assessed properly due to the lack of historical data.

"While we are experiencing a hardening market in heavy CAT areas, we have been seeing some pressure downwards in less CAT-exposed areas in terms of pricing, where there's more capacity. CAT exposure is really becoming a differentiator in terms of pricing and conditions," he said.

"Secondary perils have been significantly impacting the commercial property market and have consistently accounted for over 50% of insured natural disaster losses in recent years. Despite the industry's increasing concern about their mounting financial impact, secondary perils can be considered in the category of overlooked risks since the modelling capabilities are still limited, leading to pricing challenges, capacity constraints and consequently protection gaps," said Ms Civan.

Mr Alali believes more attention should be placed on secondary perils.

"The major missing exposure in the past was flood or flash flood, which is better addressed now. As the region grows into new areas (for example the expansion in Saudi and UAE), there could potentially be new exposures to be addressed such as wind and sandstorms," he said.

Improving Nat CAT coverage

All three reinsurers spoke about improving Nat CAT models to improve understanding of volatilities.

"The introduction of named perils coverage last year went a long way to addressing secondary perils, but this has been limited to retro programmes in most cases which is the major aggregation concern. Widening this to the underlying programmes would certainly improve Nat CAT management for reinsurers. Introduction of Nat CAT models for the region also helps to affect a better understanding of the exposure for both insurers and reinsurers. The models would need to be reviewed but they offer a good starting point for discussions," said Mr Alali.

Mr Labat said, "Climate change is a real challenge for insurers and reinsurers globally and in the Middle East. Historic models are no longer accurate and insurers and reinsurers need to reassess their real exposure in the light of these changes."

Ms Civan said the increased reliance on CAT models for pricing and managing Nat CAT risks means that quality data is needed to measure the financial impact of natural disasters and implementing action plans to build resilience.

"Transparency of assumptions and methodology used in models is also important to ensure that models are reliable and can be effectively used by all parties. Openly sharing the assumptions, statistical methodologies and parameters would enhance the understanding of uncertainties associated with the models and more reliable pricing.

"Investing in models should be among top priorities. Considering the lessons learned from the recent events, as well as the latest scientific work conducted, vendor models should be updated more frequently to identify shortcomings and improve model accuracies to ensure meeting the needs of the industry," she said.