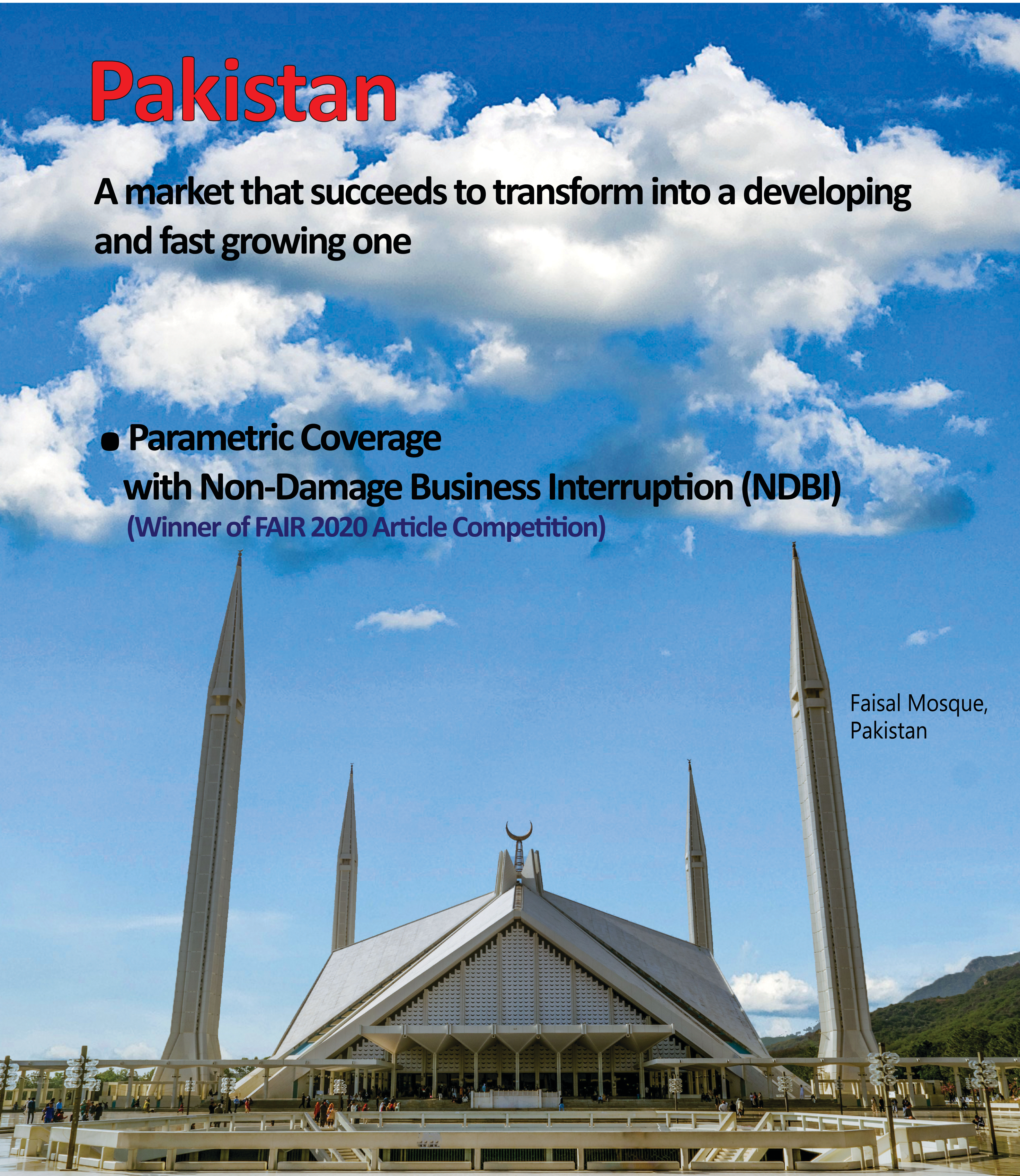
FAIR Review

Issue No. 185 - Sep. 2020

Pakistan

A market that succeeds to transform into a developing and fast growing one

- **Parametric Coverage with Non-Damage Business Interruption (NDBI)**
  (Winner of FAIR 2020 Article Competition)



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FAIR Review

FAIR in Brief

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Vision:
FAIR aims to become a driving force international insurance cooperation by promting collaboration and adoption of international standards.

Mission:
FAIR will lead the effort to achieve harmonization of insurance markets by promoting the adoption and implementation of international standards among members facilitating the sharing of information and expertise and enhancing cooperation to be of added value to members.

FAIR's added value is based on:

- Wide recognition of brand and name of FAIR on the world scene,
- A broad range of deliverable affecting the members' interests,
- Strong national membership base,
- Extensive networking at both international and regional levels,
- Building regional bases (hub) that provides a variety of shared resources and services to local member companies.

FAIR Review

The "FAIR Review" is published quarterly by the central office and circulated to Members free of charge. It is devoted to disseminate the research work, articles and information, to enhance professional knowledge among insurance professionals.

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Sep. 2020

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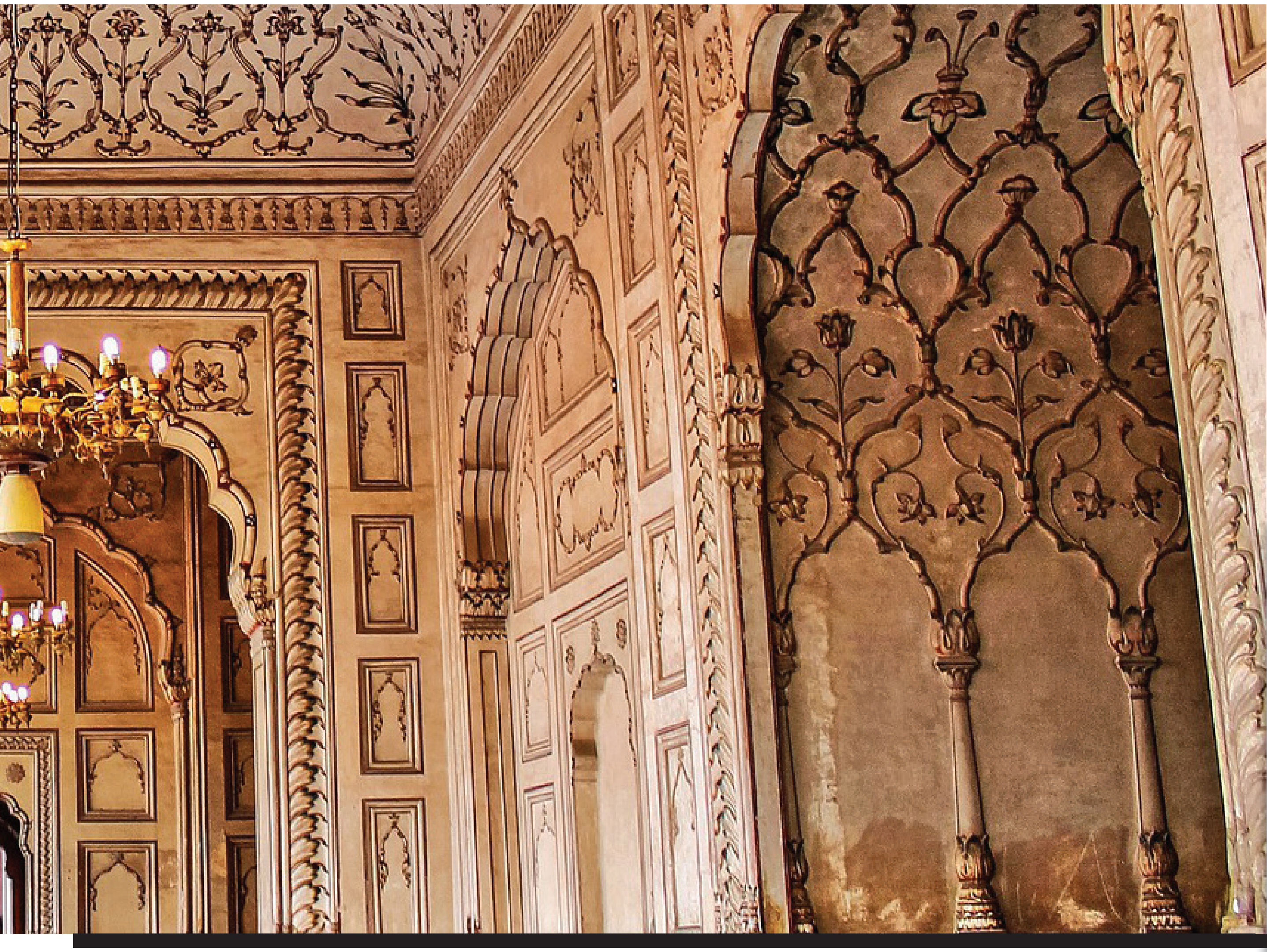



SECURITY
ALERT

Global News

• *World economic resilience to fall in 2020; protection gap hits $1.24tn:* Swiss Re

The impact of the ongoing COVID-19 pandemic is expected to drive an almost 20% reduction in global macroeconomic resilience in 2020, while the global protection gap (disparity between economic and insured losses) has hit a new high of $1.24 trillion, according to Swiss Re Institute.

In its latest annual resilience indices, Swiss Re Institute warns of a sharp fall in global resilience from the levels seen last year as government enforced stimulus packages exhaust the fiscal and monetary buffers of countries in all corners of the world.

Despite a year-on-year improvement, the global economy entered the ongoing crisis with less "shock-absorbing" capacity than it did when entering into the 2008 global financial crisis.

Swiss Re Institute's Macroeconomic Resilience Index (E-RI) shows that for the world, a score of 0.62 in 2019 represented an improvement on the 0.61 for 2018. However, this is predicted to fall by almost 20% to 0.50 in 2020.

The index shows that for advanced markets, the E-RI score is projected to fall by around 24%, from 0.71 in 2019 to 0.54 in 2020, and for emerging markets by approximately 10%, from 0.52 in 2019 to 0.47 in 2020.

Of course, stimulus packages have been of huge importance and have softened the economic impacts, but at the same time, such measures have depleted many countries' fiscal and monetary reserves, leading to resilience score declines.

According to Swiss Re, the majority of buffers will be largely depleted in most advanced economies, with the UK, Japan and the U.S. expected to see the biggest impacts to their fiscal buffers. On the other side of the spectrum, the report finds that Switzerland, Finland and Canada are the three most resilient economies, while China's score is anticipated to remain largely in-line with last year owing to a rapid response to the outbreak.

Swiss Re's Group Chief Economist, Jerome Jean Haegeli, commented: "The fiscal and monetary stimulus response to COVID-19 was key to cushioning the economic impact of government-ordered lockdowns.

"However, the reality of wartime-like spending is that it leaves much less room for future policy manoeuvre. What's more, the key economic policy risk is that these temporary government measures are too challenging to unwind and become permanent, leaving economies dependent on ongoing stimulus. A focus on replenishing resilience by reinstating fiscal and monetary buffers, through structural reforms to improve long-term growth prospects, will be critical."

Additionally, the report warns that insurance resilience against mortality, health spending and natural catastrophes weakened in 2019, with the combined global protection gap for the three perils now standing at a new high of $1.24 trillion.

Across the world, mortality resilience fell by the most, driven mostly by a widening protection gap in the Asia-Pacific region as China's protection gap swelled on the back of burgeoning household debt. In spite of some declines in emerging markets, Swiss Re says that health resilience was stable, while the global health protection gap widened by over 5% to $588 billion.

While Swiss Re notes that the lowest ranked of the three perils was natural catastrophe resilience, the reinsurer does expect that both health and mortality protection gaps will continue to widen as the financial implications of the pandemic continue to be felt across the globe.

"The widening global protection gap is a huge opportunity for insurers to fulfil their mandate as risk absorbers and improve societal resilience. In times of crisis, households need risk protection. Insurance is a key tool to help households reduce their financial vulnerability in disruptive environments," said Haegeli.

The global protection gap is seen as one of the re/insurance industry's greatest opportunities and challenges, and the fact it continues to grow is a stark reminder of the need for affordable and adequate insurance protection to reach the world's most vulnerable. ■

Source: Reinsurance News (ReinsuranceNe.ws) 26 Aug 2020

Jerome Jean Haegeli

• *Reinsurers to absorb large share of COVID losses:* Fitch

Analysts at Fitch Ratings believe that reinsurers are set to absorb a large share of the losses stemming from the COVID-19 pandemic.

Fitch reported a 10.4 point increase in the overall combined ratio of the reinsurance sector over the first half of 2020, which rose to an underwriting loss at 101.8% from 91.4% in the prior year.

This underwriting result includes 9.7 points of coronavirus-related incurred losses and 1.4 points of natural catastrophe and civil unrest losses.

Of the four companies in Fitch's group to report coronavirus-related losses greater than 10% of H1 earned premium, three are in the reinsurer segment.

These include Sirius International Insurance Group, Ltd., PartnerRe and AXIS Capital Holdings Limited.

Fitch notes that performance over the second half of the year also remains uncertain due to natural catastrophe losses at the height of hurricane season and potential for further pandemic losses.

However, it acknowledged that reinsurer business fundamentals have greatly improved with recent substantial pricing actions and a swing towards more conservative terms and conditions.

PartnerRe and AXIS were the only companies in Fitch's group to post net written premium declines over the first six months of 2020, at 14% and 4%, respectively.

But notably, these companies have been focusing on reinsurance portfolio optimization through non-renewals and decreased line sizes in an effort to reduce volatility and improve profitability.

Additionally, Fitch found that the reinsurers were the only segment to report higher unfavorable reserve development during the H1 period, increasing the group combined ratio by 1.1 points, up from 0.2 points in the prior year.

Reserve additions were particularly high at PartnerRe, analysts said, leading to a 4.9 point increase in the company's combined ratio, partially reflecting increases in casualty claims severity from deterioration in loss costs trends. ■

Source: Reinsurance News (ReinsuranceNe.ws) 27 Aug 2020

• *Lloyd's to create new specialised syndicate to insure transportation of COVID-19 vaccine to emerging economies*

Lloyd's, the world's leading specialist insurance and reinsurance market, announced the creation of its newest "syndicate in a box," Syndicate 1796, set up to insure the storage and transportation of a COVID-19 vaccine once developed to emerging economies.

Syndicate 1796 has been developed by Parsyl, an insurance technology company and Lloyd's Lab alumni, in close partnership with Ascot as managing agent, and in cooperation with AXAL XL, McGill and Partners and Gavi, the Vaccine Alliance. The Syndicate forms the foundation of the new Global Health Risk Facility (GHRF) at Lloyd's, which aims to provide comprehensive insurance and risk mitigation services to support the manufacturing and distribution of COVID-19 vaccine development efforts. It aims to start writing business from 1 October 2020.

In the GHRF, Syndicate 1796 will be backed by development finance capital, allowing it to share risks with leading cargo syndicates, making better, fairly priced cargo coverage available. The GHRF will offer 'All Risk' cargo coverage for transit and storage risks on all global health products related to COVID-19 and any other infectious disease control and prevention programs. The creation of a public-private syndicate to address a global health emergency is the first in Lloyd's 330-year history.

Led by Ascot, the GHRF will take a portfolio approach, focusing primarily on global distribution of products to low income countries supported by global public health agencies, such as Gavi, the Global Fund to Fight AIDS, TB and Malaria, PEPFAR and UNICEF.

The GHRF will also offer coverage via direct insurance or reinsurance, for in-country distribution risks to ensure vaccines and other commodities are protected as they are stored in central warehouses and travel through health systems. Eligible insureds will include private manufacturers, procurement agents, logistics companies, Ministries of Health and other public agencies supporting the distribution of COVID-19 vaccines and other lifesaving products to low income countries. ■

XPRIMM - 27 Jul 2020

• *Total Return Reinsurers Underperform Traditional Bermuda Reinsurers:* AM Best


Steven M. Chirico

Although total return reinsurers, which like to take more risk on the investment side of their balance sheets than other reinsurers, have the potential to generate significantly higher investment returns than traditional reinsurers, AM Best says the results of those it rates have thus far been volatile compared to Bermuda reinsurers.

An AM Best special report explores the financial results of an AM Best composite of five total return reinsurers that have operated for at least five years, comparing their results against those of the rating agency's long-standing Bermuda reinsurance composite.

According to AM Best, total return reinsurers have overall significantly underperformed the reinsurers that comprise the Bermuda composite, with an average five-year combined ratio (2014-2019) of 111.2 for the total return composite compared with 98.4 for the Bermuda composite.

Several factors seem to be driving the underperformance of the companies in the total return composite, AM Best says. These include higher loss and expense ratios, driven partly by concentrations in medium-term casualty lines and given the companies' relatively short tenure compared with the Bermuda reinsurers. Return on equity for the total return composite has been volatile and disappointing as well, with a five-year average of -0.3%

According to the report, all of the total return reinsurers have adjusted their investment allocations, such that 20-50% of invested assets now are allocated to risk assets, a sea change from the 80-90% seen in the total return model's initial allocations. The change could help diminish volatility in investment results and increase market acceptance, given the claims-paying ability invested in lower-volatility assets, AM Best analysts believe.

Additionally, recent reinsurance rate hardening could allow total return reinsurers to deploy recently freed capital from their investment reallocations to write profitable reinsurance business.

"The long-term viability of the total return reinsurer model hinges primarily on management's ability to realize the theoretical returns that can be generated by effectively deploying capital and taking risk on both sides of the balance sheet," said Steven M. Chirico, director, AM Best.

AM Best said it has taken the "uniqueness and relatively short tenure of the total return model" into account in its Best's Credit Rating Methodology. Total return reinsurers' operating performance has been less than optimal; however, balance sheets are assessed as strong or very strong in all cases, supported by healthy Best's Capital Adequacy Ratio (BCAR) scores.

Although the investment environment is "the wild card with regard to the total return reinsurers' operating performance and business profiles," AM Best said it believes that the hardening pricing environment may allow total return reinsurers to "improve underwriting results over the next few years, supplemented by the migration to higher-margin business." ■

Source: Insurance Journal – 31 Aug 2020

EAST AFRICA

• *JB Boda: To penetrate the East African agricultural market*

JB Boda Insurance & Reinsurance Brokers is looking for new opportunities in agricultural reinsurance in East Africa.

The company intends to develop its business through partnerships with local governments and private companies.

The Indian insurance&reinsurance broker has been operating in several East African countries since 1990. The company also hols multiple marketing offices in Egypt, Morocco, Nepal and Sri Lanka. ■

Atlas Magazine – 12 Aug 2020

MAGHREB REGION

• Solid growth to continue for Maghreb insurance markets despite challenges, says Best

The insurance markets of the Maghreb region – Morocco, Algeria and Tunisia – have seen solid growth in the last five years, above global market averages, and that trend is expected to persist, despite the challenges of Covid-19 and the associated economic downtown, according to AM Best. However, there are numerous challenges in the short- to medium-term, which have the potential to limit the region's insurance expansion, it added.

While the long-term prospects of the insurance markets of the Maghreb region are good, political and economic pressures, the population's negative perception of insurance and the evolving nature of regulatory and governance frameworks remain challenges, together with the knock-on effects of Covid-19, said the ratings agency.

All three markets share the characteristics of generally high levels of competition and market concentration, and in each country, the five largest insurers account for a sizeable share of total business. Best said that the combination of low insurance penetration levels, under-developed segments and the potential for new product development, when coupled with solid performance fundamentals, creates profitable growth opportunities across the region.

Best pointed to the imminent introduction in Morocco of compulsory decennial insurance and construction covers which it said should help the development of property insurance. "With the region exposed to various natural perils, there is increasing awareness at national levels of the need for protection against catastrophic events. In AM Best's view, the introduction or strengthening (depending on the country) of national natural catastrophe protection schemes can lead to significant personal and commercial property premium generation and help close the insurance protection gap arising from such events," said Best.

Capital requirements and solvency calculations remain largely unsophisticated across the region, although Best said it views measures currently under consideration in Tunisia and Algeria to raise absolute levels of minimum capital for insurers and reinsurers as a first step towards fostering a solid and stable market. It added that this could pave the way to regulators adopting a more risk-based approach to capital management, as is currently happening in Morocco.

Best explained that Morocco is the region's largest insurance market and the second largest in Africa, and is one of the most liberalised insurance markets in Africa, well-diversified by line of business and comprised of mainly private sector insurers, with a good representation of international players and freely set tariffs. Algeria's insurance market, on the other hand, is at an earlier stage of development. Although its insurance market is among the largest in Africa by premium volume, Algeria has the lowest insurance penetration rate in the Maghreb region, and the largest number of state-owned insurers in the Maghreb.

Tunisia is the smallest insurance market in the region, but its premium income has developed faster than its neighbours, with an average annual premium growth rate of nearly 10% between 2014 and 2018.

Best concluded: "Further regulatory advances will help to alleviate some of the structural issues holding back the development of the Maghreb insurance sector, foster improved market practices, and enhance the financial strength of insurers operating in the region. AM Best views the national reinsurers of the Maghreb as well-placed to continue to support the development of the local and regional insurance markets." ■

Maghreb Insurance – Overview

Data as at August 21, 2020

	Algeria	Morocco	Tunisia
AM Best Country Risk Tier (CRT)	CRT-5	CRT-4	CRT-5
Population (millions)	43	36	12
Gross Domestic Product (GDP)			
-- Real GDP Growth 2019 (%)	0.7	2.2	1.0
-- GDP per Capita (USD)	2,867	3,034	3,266
Inflation Rate (%)	3.5	0.0	6.2
Gross Written Premium (GWP)			
-- GWP Growth 2018 in Local Currency (%)	2.7	6.0	8.4
-- GWP 2018 (USD millions)	1,214	4,520	819
-- GWP 2017 (USD millions)	1,218	4,358	902
Average GWP Growth Rate (2014-2018) (%)	4.0	8.6	9.8
Ranking – Insurance Market Size (2019)			
-- Global	84	69	76
-- Africa	6	2	7
Number of Direct Insurers	22	22	21
Insurance Penetration (% of GDP)	0.7	3.9	2.2

Sources: BESTLINK *Best's Financial Suite - Global*, International Monetary Fund, United Nations, Swiss Re Institute sigma 4/2020 - World insurance, Axco, AM Best data and research

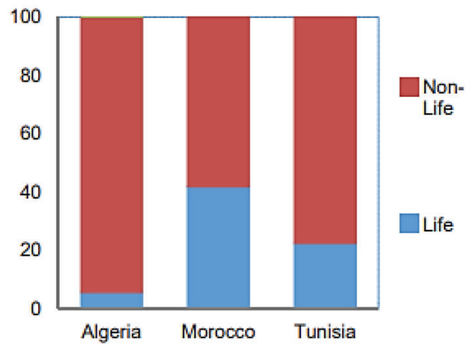
Maghreb Insurance – Gross Written Premium by Distribution Channel, 2017 (%)

Distribution Channel	Algeria Combined	Morocco Non-Life	Morocco Life	Tunisia Non-Life	Tunisia Life
Direct and In-House Agents	67	26	10	33	23
Brokers and General Agents	30	60	18	66	18
Bancassurance	4	12	72	1	52
Other	0	2	0	1	7

Sources: Ministère des Finances / Direction Générale du Trésor (Algeria), Comité Général des Assurances, Axco

Maghreb Insurance – Gross Written Premium, Life & Non-Life Split, 2018

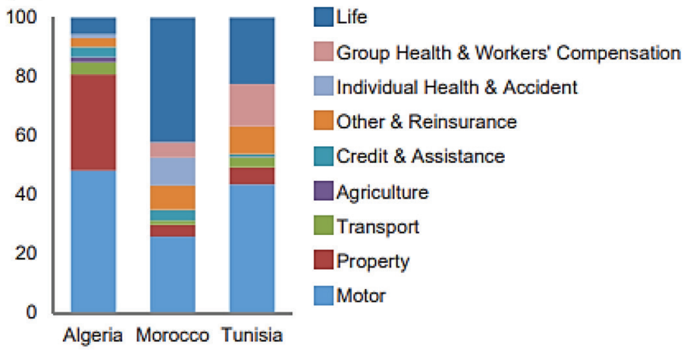
(%)



Sources: Conseil National des Assurances, Comité Général des Assurances, Fédération Tunisienne des Sociétés d'Assurances, Autorité de Contrôle des Assurances et de la Prévoyance Sociale

Maghreb Insurance – Breakdown by Lines of Business, 2018

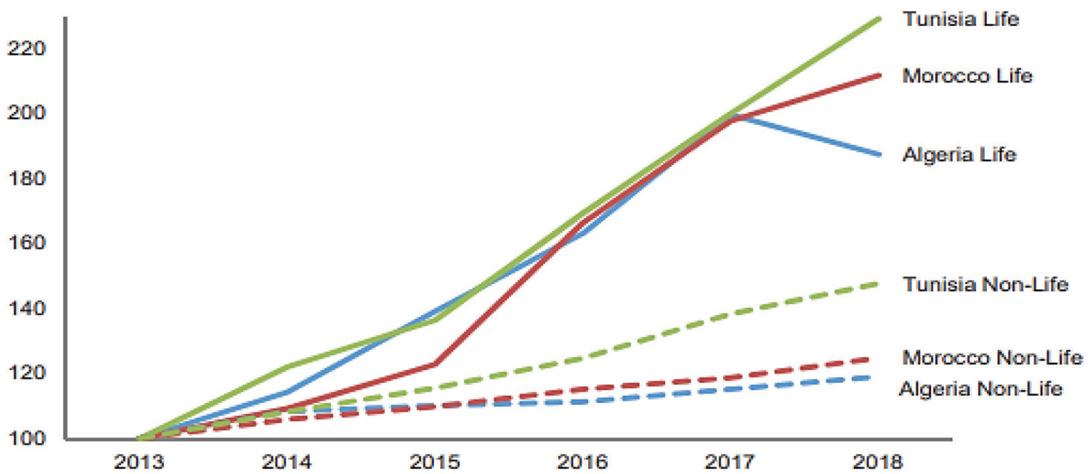
(%)



Note: Percentages may not add up to 100% due to rounding.
Sources: Conseil National des Assurances, Comité Général des Assurances, Fédération Tunisienne des Sociétés d'Assurances, Autorité de Contrôle des Assurances et de la Prévoyance Sociale

Maghreb Insurance – Life and Non-life Gross Written Premium Development 2013-2018

(Index)



Sources: Conseil National des Assurances, Comité Général des Assurances, Fédération Tunisienne des Sociétés d'Assurances, Autorité de Contrôle des Assurances et de la Prévoyance Sociale

Maghreb Reinsurers – AM Best-Rated Entities Ratings as of August 21, 2020

AMB #	Company Name	Country	Best's Long-Term Issuer Credit Rating (ICR)	Best's Financial Strength Rating (FSR)	Best's ICR & FSR Action	Best's ICR & FSR Outlool	Rating Effective Date
90777	Compagnie Centrale de Réassurance	Algeria	bbb-	B+	Affirmed	Stable	12-Sep-19
84052	Société Centrale de Réassurance	Morocco	bbb	B++	Affirmed	Stable	27-Nov-19
83349	Société Tunisienne de Réassurance	Tunisia	bbb-	B+	Affirmed	Stable	15-Jul-20

Source: BESTLINK *Best's Financial Suite - Global*, AM Best data and research

Sources: - A.M Best Special Report : "The Maghreb: One Region, Three Unique Insurance Markets" - 25 Aug 2020
- Commercial Risk Online - 28 Aug 2020

DR of CONGO

• Rawsur Life and FINCA launch two new life insurance products

In partnership with the Congolese microfinance institution FINCA, Rawsur Life is launching two life insurance products.

The first product, known as “Outstanding balance”, covers the creditor in case of death of the insured before the loan is due.

The second product, “Kimia Famille”, covers the funeral expenses in the event of the death of the insured or a member of their family. ■

Atlas Magazine – 28 Aug 2020

EGYPT

• Egyptian insurers to break into the MSMEs market

The Insurance Federation of Egypt (IFE) has published a study on the challenges facing the penetration of insurance in the micro, small and medium enterprises (MSME) sector.

The report highlights the need for compulsory coverage and recommends the regularization of the informal sector. The number of micro-enterprises and SMEs was estimated at 3.65 million in 2017-2018.

Nearly 55% of these operators work in the informal sector and do not benefit from any insurance nor social security.■

Atlas Magazine – 30 Jul 2020

• Insurance market predicted to see 15-20% decrease in premiums in FY21

Premiums in Egypt’s insurance sector are expected to decline by 15-20% in the financial year ending 30 June 2021 (FY21) due to the coronavirus pandemic, according to a senior industry official.

Mr Alaa El Zoheiry, chairman of Insurance Federation of Egypt, said that COVID-19 has negatively affected some insurance branches. Travel and aviation insurance business have been severely affected as a result of the interruption of air traffic, while motor insurance was hit by the authorities suspending the issuance of new registrations during the lockdown period, according to a report by Amwal Al Ghad.

He noted though some positive effects from the pandemic, including a 50% reduction in supplementary motor compensation as well as a 20% fall in medical insurance compensation.

He added that 79% of medical insurers in Egypt provide complete coverage for COVID-19-related medical treatment while the remaining 21% cover only the cost of coronavirus tests.

In an interview with Amwal Al Ghad published last month, Mr Reda Abdel Moaty, FRA vice chairman, said that total premiums estimated for the insurance sector for FY20 were EGP33.7bn ($2.1bn), distributed between EGP18.5bn for P&C business and EGP15.2bn for life insurance.

In comparison, the total market portfolio reached about EGP35.2bn for FY19. The reason for the 4.3% decline in FY20 was due to economic impact from the pandemic. ■

Source: Middle East Insurance review (MEIR) – 6 Aug 2020

• *Insurers' association outlines tasks of proposed Nat CAT pool*

The Insurance Federation of Egypt has said that it is working on completing a study on the establishment of a Nat CAT insurance pool which would contribute to increasing the current capacity of insurance companies operating in the Egyptian market, to cope with natural disasters.

One of the objectives of the natural risk insurance group is to mitigate losses that might be made by member companies arising from natural catastrophes, reported Al Mal.

Among the objectives of the group is to increase negotiating power for appropriate reinsurance cover.

Each member insurance company which participates in the consortium will build effective systems for managing natural perils and assisting in setting conditions and technical bases for proper subscription.

Pool members can also help prepare maps and statistical data on natural catastrophes in Egypt and the risks insured by member companies. ■

Source: Middle East Insurance review (MEIR) – 17 Aug 2020

ARAB REPUBLIC OF EGYPT - FINANCIAL REGULATORY AUTHORITY
الهيئة العامة للرقابة المالية
FINANCIAL REGULATORY AUTHORITY
جمهورية مصر العربية - الهيئة العامة للرقابة المالية


Alaa El Zoheiry


Reda Abdel Moaty

KENYA

• M&As and govt projects among factors that will drive insurance market growth

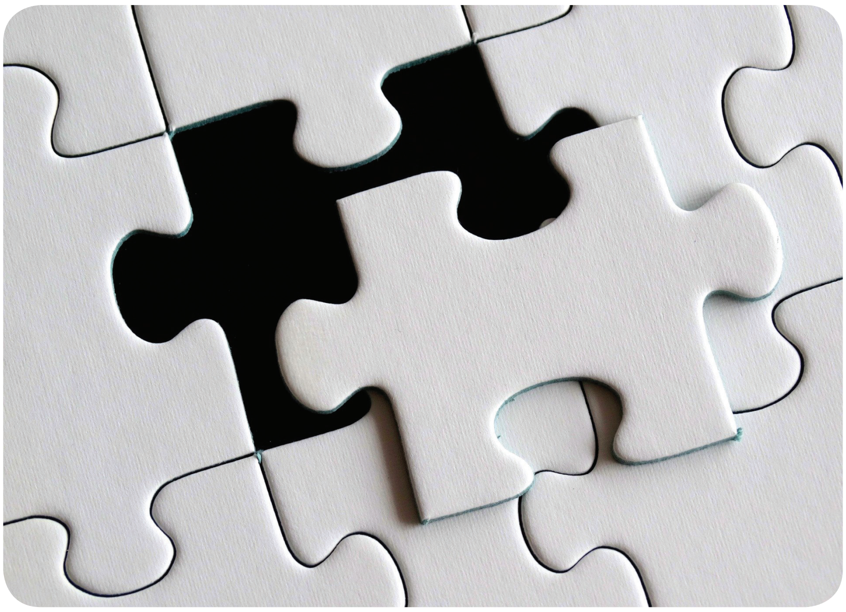
Jadiah Mwarania

The Kenyan insurance market should expect growth due to the mergers and acquisitions in the industry as well as big government infrastructure projects being undertaken, says Mr Jadiah Mwarania, the managing director of the Kenya Reinsurance Corporation in an article on the website of Kenya Broadcasting Corporation.

The recent Kenya Commercial Bank acquisition of the National Bank of Kenya, the merger of Commercial Bank of Africa and National Industrial Credit (NIC) Bank, the proposed construction of Mombasa Island-Likoni mainland connecting bridge, and the Mombasa – Nairobi express highway are indicators of positive market opportunities for the insurance industry.

Other projects include the Lamu Port-South Sudan-Ethiopia-Transport (LAPSSET) Corridor project, the oil drilling in Turkana and the special economic zones being established across the country, he added.

Many reinsurers, however, are focusing on the short term challenges of soft rates and low investment returns. But with limited growth in traditional markets and a range of disruptive new threats on the horizon, Mr Mwarania questions whether there should be time for a more radical rethink of how to shape for the future. Reinsurers should focus on their clients' needs in order to have the greatest chance of securing and retaining business. As customer expectations and sources of capacity continue to evolve, the market is going to demand more creative, targeted and specialised solutions from their reinsurer.



Insurance entities will need to focus on risk insight and innovation to break away from competitors. Reinsurers must compete on more than just the pricing aspect. There is need to capitalise on internal expertise to get closer to clients and understand their needs.

Insurers should work together with the local reinsurers to propel the industry as a whole to be better and more fruitful despite the ongoing pandemic.

While there is a rising interest to explore different policies, people will look for more basic types of products due to financial constraints because of the pandemic. This means that post COVID-19, there is likely to be a hybrid purchasing mode, where consumers continue to trust reliable, accessible and knowledgeable insurance agents while seeking online options.

Post COVID-19, a speeding up of firming is expected due to uncertainty of potential loss, restricted capital inflows as a result of financial market conditions and reinsurance total risk profile concerns. The reinsurance market should heavily focus on treaty exclusions related to the pandemic as well as other contracts features that increase risk to insurers.■

Source: Middle East Insurance review (MEIR) - 31 Aug 2020

LIBERIA

• Establishment of an insurance commission in Liberia

Saye D. Gbalazeh, CEO of Activa International Insurance, has suggested the creation of an insurance commission. The new law should therefore dissociate the insurance sector from the Central Bank of Liberia.

S. D. Gbalazeh considers that the commission should have the status of an autonomous agency managed by experts.

The latter shall issue licenses to all stakeholders in the sector, supervise them, enforce laws and regulations and apply regulatory sanctions in case of operations in breach of legislation. ■

Atlas Magazine – 29 Jun 2020

Saye D. Gbalazeh

• Equity Assurance becomes Sunu

As a logical follow-up to the acquisition of a 63% share in Equity Assurance Limited by the SUNU group at the beginning of the current year, the Liberian insurance company will change its name to become Sunu-Liberia Limited at the end of July 2018.

As a reminder, the SUNU group is one of the main insurers in the CIMA zone. ■

Atlas Magazine – 6 Jul 2020

NIGERIA

• Cloud over insurance market reaching targeted premium level

Mayowa Adeduro

Insurance executives have expressed doubt over the realisation of the federal government's aim for the insurance sector to achieve NGN1tn ($2.6bn) in premium income in the current financial year.

This springs from challenges facing the economy, especially the insurance industry. With compulsory insurances virtually non-existent, operators feel that the likelihood of meeting the target is remote, reported The Guardian.

At the Nigeria Insurance Summit in December 2014, the government said it planned to grow the sector's premiums to NGN1tn in 2017, and NGN5tn in 10 years. At the time of the summit, the industry reported annual premiums of NGN-300bn.

The target appears ambitious because the Nigerian Insurers Association (NIA), revealed the volume of business written by the industry rose to only NGN490bn in 2019, a 15.55% increase over NGN413.8bn in 2018.

Stakeholders say that low penetration and racketeering activities remain major hindrances to the realisation of the NGN1tn target.

Nonetheless, they say that business could increase if the government enforced compulsory insurance policies and increased awareness of insurance among the public.

Mayowa Adeduro, managing director of Law Union & Rock Insurance, says that the plan cannot be achieved because it remains a plan without the necessary structural, legal and regulatory alignment needed. "Nothing has changed outside the paper; the industry structure remains the same; the Insurance Act and NAICOM Act remains the same and no executive order was pronounced to give teeth to the vision. Seven years after, we have barely added NGN150bn to the figure then." ■

Source: Middle East Insurance review (MEIR) - 17 Aug 2020

• Recapitalization deadline extended for Nigerian insurers and reinsurers

Due to Coronavirus, the National Insurance Commission (NAICOM) is to extend recapitalization deadline for Nigerian insurers and reinsurers.

Primarily set for June 2020, the deadline is extended to 30 September 2021. However, insurance companies are expected to hold 50% of the capital set by the regulator by 31 December 2020.

It is expected that by the end of June 2020, reinsurers will have to increase their capital to 60% of the required ceiling set at the end of September 2021.

It is noteworthy that NAICOM will be restricting the scope of activity of companies that do not comply with these requirements by the end of December 2020. ■

Atlas Magazine – 29 Jun 2020

• Sanlam acquires FBN Insurance

FBN Holdings, a Nigerian financial group, sold its entire stake of 65% in FBN Insurance, to Sanlam Emerging Markets.

The latter previously held 35% of the Nigerian company. This operation enables the South African insurer to take full ownership of FBN Insurance and its subsidiary FBN General Insurance. The amount of the transaction was not disclosed. ■

Atlas Magazine – 10 Jun 2020

New requirements set by NAICOM

Class of business	Minimum available capital in June 2020		Minimum required capital by 31 December 2020		Minimum required capital by 30 September 2021	
	In billion NGN	In million USD	In billion NGN	In million USD	In billion NGN	In million USD
Life	2	5,15	4	10,31	8	20,61
Non-life	3	7,73	5	12,88	10	25,77
Composite	5	12,88	9	23,19	18	46,38
Reinsurance	10	25,77	12	30,92	20	51,53

SOUTH AFRICA

• Old Mutual's profit plunge may hit 72%

JOHANNESBURG – Insurance giant Old Mutual that it expected its earnings to plunge up to 72 percent during the six months to June on a fall in business volumes and impairments due to the Covid-19 pandemic.

Iain Williamson

The 175 year-old group told investors that the significant deterioration in the operating environment during the six months to June compared to a year earlier had hurt its earnings.

Adjusted headline earnings for the six months ended June would likely plummet by as much as 72 percent to between R1.4 billion and R1.98bn from R5.21bn a year earlier.

"The notable decrease in the gross domestic product growth for South Africa and increased uncertainty around future cash flow projections is expected to result in the recognition of material impairments in respect of the carrying value of our investment in Nedbank and the goodwill related to our investment in Old Mutual Finance," said the group.

Chief executive Iain Williamson said new business sales volumes had taken a knock as most of its tied advisers were unable to sell during the lockdown period due to the partial closure of the branch network and lack of access to customers' homes, work sites and branches.

"Although lockdown restrictions have been eased, and economic activity has somewhat resumed, sales levels remain below prior-year levels. This impact was most severe in the Mass and Foundation Cluster, where sales volumes were too low to cover the largely fixed initial expenses and this resulted in negative Value of New Business for the first half of 2020 for this segment," said Williamson. He said there had been a spike in business interruption claims in Old Mutual Insure during the second quarter. "We also made a decision to offer commercial settlements to certain qualifying small, medium and micro enterprise customers," said Williamson.

Last month, Old Mutual competitor Santam, South Africa's biggest short-term insurer, said it would pay up to R1bn in urgent relief to policyholders in the hospitality, leisure and non-essential retail services industries who had the Contingent Business Interruption extension in their policy coverage with the company. The relief payments, which were as a result of Santam's proposal to the regulators, aimed at finding a way of assisting policyholders in these tough times.

Santam faced a litany of urgent court applications for flouting the regulator's warning and refusing to pay out valid Covid-19 business interruption claims.

Williamson said while uncertainty around the Covid-19 pandemic remained, Old Mutual had raised short-term provisions in anticipation of worsening mortality, morbidity and persistency experience in the second half of 2020. "These reserves are intended to allow for expected short-term variances to our long-term assumptions," said Williamson.■

Source: Independent Online, popularly – 25 Aug 2020

• Santam pays over R500m in business interruption insurance payments

The business interruption claims that were initially rejected by Santam and other insurers in South Africa are being paid now. The insurers were initially reluctant to honour the policies because in their view the damage was caused by government's lockdown and not the actual pandemic.

More business interruption insurance clients have now received some form of relief. The country's largest short-term insurer, Santam, has finally paid out over R500m in relief payments months after claims were lodged by policyholders hard hit by the COVID-19 lockdown.

Following an agreement with regulators in July, Santam have committed to pay out up to R1bn in relief to some business interruption clients. The financial services company had so far made relief payments to over 1,300 policyholders who had contingent business interruption cover.

Many of these policyholders are the small and medium businesses operating in the tourism and hospitality sectors severely affected by the pandemic.

Santam said the average time between receiving the necessary documentation and payment was less than five days. These relief payments were set at a minimum of R25,000 and a maximum of R1.5m.

Santam CEO Lizé Lambrechts said, "Relief payments are set at a minimum of R25,000 and a maximum of R1.5m for individual contingent business interruption policyholders. We have made it clear that we will not make the process of claiming the relief too onerous for its qualifying clients and will rather focus on swift payment of the relief to the most impacted industries."

It is an interim measure, while insurers sought legal certainty in court. Another insurer, Guardrisk, took a different route and was settling valid business interruption claims as a result of the coronavirus pandemic. ■

Source: Independent Online, popularly – 30 Jul 2020

Santam

Lizé Lambrechts

UGANDA

• *Uganda Insurance Market: 2019 results*

The Ugandan insurance market recorded an increase of 13.2% in premiums in 2019. According to the report issued by the supervisory authority (IRA), written premiums have increased from 859.80 billion UGX (230 million USD) at the end of 2018 to 973.58 billion UGX (261 million USD) at the end of 2019.

This growth is attributed to the non-life class, which alone generated 622 billion UGX (168.6 million USD) in premiums in 2019.

However, the IRA forecasts a decrease of about 50% in premiums during the second quarter of 2020, as insurance underwritings have significantly decreased due to the pandemic. The market will also be impacted by low investment rates in public infrastructure.

Finally, it should be noted that the current fiscal year will also record a decrease in travel and marine insurance underwritings. ■

Atlas Magazine – 2 Jul 2020

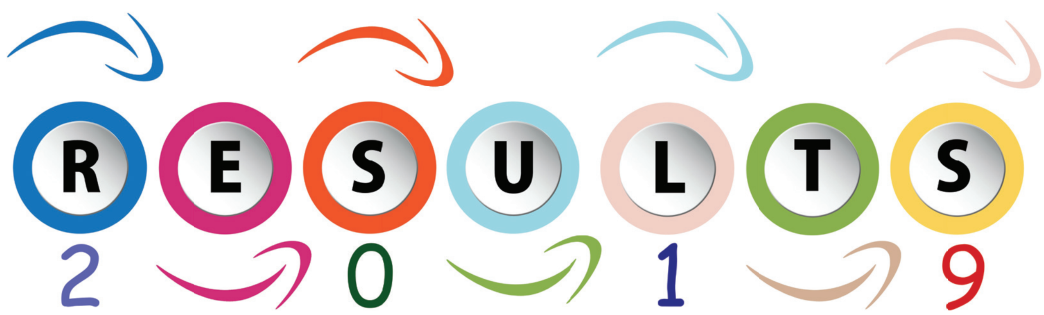
• *Uganda Re: Results 2019*

Uganda Reinsurance Company (Uganda Re) recorded a turnover increase of 50.7% for the year 2019. Premiums rose from 33.5 billion UGX (8.96 million USD) in 2018 to 50.5 billion UGX (13.69 million USD) twelve months later.

The net result amounted to 5.55 billion UGX (1.5 million USD), an increase of 8.4% compared to the 5.12 billion UGX (1.37 million USD) recorded on 31 December 2018.

The technical result downgraded by 63% was set at 1.36 billion UGX (370,000 USD). In contrast, the investment income increased by 20% and was established at 5.66 billion UGX (1.53 million USD). ■

Atlas Magazine – 25 Aug 2020



ZIMBABWE

• Zimre Holdings says impact of COVID-19 is mild on its operations

Diversified insurance group, Zimre Holdings, is looking at leveraging its regional operations and service delivery as one of its strategies for post COVID-19 recovery.

The pandemic has caused turmoil as a result of disruptions to production and trade due to lockdowns as countries closed their borders to limit the spread of the disease.

"The impact of the COVID-19 pandemic on group performance is expected to be mild given the different responses to contain the disease and stimulate economic recovery in each country where the group has operations," said the company in a trading update for the first quarter of the current financial year.

For Zimre Holdings, its financial strength and regional operations are expected to work to its advantage, reported The Herald. The group has operations in Mozambique, Botswana, Malawi and Zambia which should help offset the effects of COVID-19.

All the strategic group business units traded positively in the first quarter with comprehensive income closing the period at $72m representing a growth of 453% year on year. Zimre Holdings will also focus on cost management accompanied by revenue enhancement measures, to ensure moderate profitability is achieved in 2020. ■

Source: Middle East Insurance review (MEIR) – 31 Aug 2020

• Deal reached to lead to restructuring of holdings in reinsurance companies

Zimbabwe-based First Mutual Holding Limited (FMHL) has reached a deal with Aleyo Capital, a Botswana based company for the latter to acquire a 29.1% stake in the financial services group.

FMHL is said to have struck the deal with Aleyo Capital in a bid to raise capital and as a part of a restructuring exercise, according to local media reports.

According to a report in Pindula News, a circular by First Mutual about the deal reads in part:

"The transaction is pursuant to a capital raising exercise undertaken by FMHL for its reinsurance businesses to house capital in a stable economy, in Botswana. The capital raised will be utilised to capitalise FMRE Zimbabwe and FMRE Botswana, and to further boost the subsidiaries' solvency, liquidity and other technical considerations to support expansion."

The deal is subject to shareholder approval. Under it, First Mutual will have a subsidiary First Mutual Reinsurance Holdings Limited (FMRHL) in Botswana, which will in turn be the parent company of FMRE Zimbabwe and FMRE Property and Casualty which is in Botswana.

According to the website of First Mutual Holdings, this financial services group offers services in risk management, wealth creation and wealth management in the insurance sector. The company has been in operation for over a century in the field of short-term insurance, short-term reassurance, life assurance and long-term re-insurance. It has a property management and development division and offers an actuarial consultancy service. Its main subsidiaries include: First Mutual Life, First Mutual Properties, First Mutual Health, Tristar Insurance Company, First Mutual Wealth Management, First Mutual Reinsurance and FMRE Property & Casualty (Botswana). The group's head office is in Harare. ■

Source: Middle East Insurance review (MEIR) - 31 Aug 2020

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Asia News

• Asia's life players battle low rates and Covid volatility

Asia's life firms have faced a host of challenges as a result of the pandemic, but the collapse in bond yields might be the toughest.

Even before Covid-19, returns on government bonds had declined sharply. The 10-year Thai government yield, for example, fell almost 100 basis points last year, ending 2019 at 1.5%.

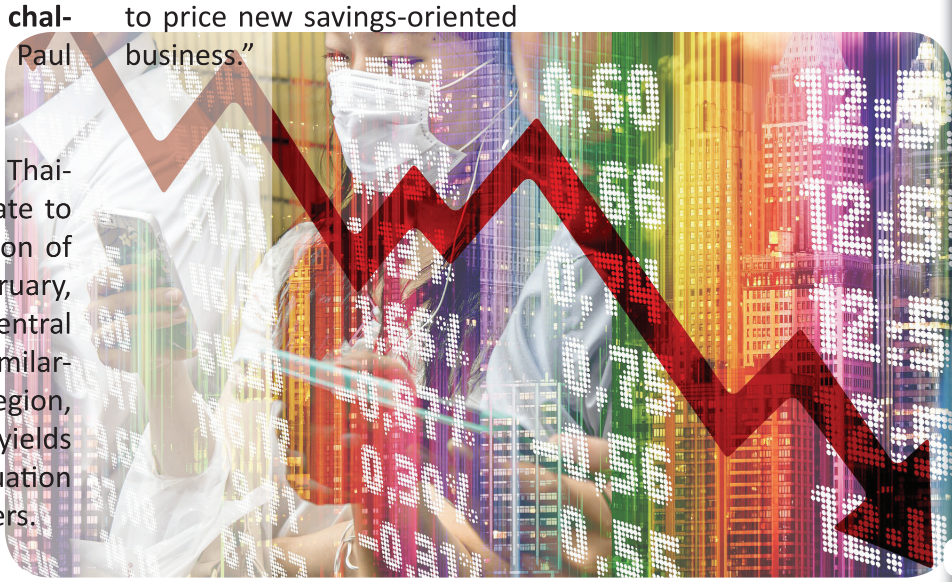
"Just when they thought things couldn't get any lower, yield curves have had a big jolt from the economic challenges around Covid." Paul Sinnott, Milliman

This year, the Bank of Thailand has cut its policy rate to 0.5% through a succession of quarter-point cuts in February, March and May — and central banks have responded similarly across most of the region, dragging down bond yields and making a bad situation even worse for life insurers.

"Just when they thought things couldn't get any lower, yield curves have had a big jolt from the economic challenges around Covid," says Paul Sinnott, a principal and consulting actuary at Milliman in Hong Kong.

Sinnott added: "That's caused significant challenges managing in-force block of business, particularly for many of the traditional portfolios with guarantees where premiums keep coming in, but it's also making it increasingly difficult to price new savings-oriented business."

Paul Sinnott



Embedded value

Although Asian markets had been affected by volatility in 2019, many of the region's life insurers ended the year in a strong position, with total reported Asian embedded value (EV) growing by 11.1% to US$816 billion, up from US$734 billion in 2018, according to Milliman's EV report.

China Life, Ping An Life and AIA reported the biggest EV in the region at US$135 billion, US$109 billion and US$62 billion, respectively.

"We saw very strong signs of recovery in new business sales from our markets as containment measures were eased." Yuan Siong, AIA

Adjusted net worth was positive for all markets except Japan, with Taiwan posting the biggest percentage growth of 53%, followed by Hong Kong at 27%, while Japan reported a fall of 2%, mainly due to a decrease in unrealised gains on domestic securities.

The value of in-force business grew in all markets except Japan, Korea and Taiwan, largely as a result of falling investment assumptions.

Covid-19 was not fully reflected in the year-end results in any markets, even where the reporting date was March 31, providing a useful baseline for the pre-pandemic market situation.

2020

Half-year 2020 results from some of the regional insurers give an indication of how seriously the pandemic is affecting Asia's life markets.

AIA's overall EV fell by 3.9% during the first six months of the year, after almost 10% growth in 2019, with significant declines in Thailand (-14%), Hong Kong (-6%) and Singapore (-7%). AIA's EV in mainland China, however, grew by 10% and the company says that business is already starting to bounce back elsewhere.

"We saw very strong signs of recovery in new business sales from our markets as containment measures were eased," said Lee Yuan Siong, who became AIA's group chief executive and president in June.

But Covid-19 clearly took a significant toll on the first-half results. Hong Kong experienced the biggest drop in new business, with AIA reporting a 68% decline compared to the same period in 2019, while Malaysia was down 38% and Singapore 27%.

"The industry has been using the pandemic in marketing campaigns to raise awareness of life and health protection to generate more demand from consumers." Paul Sinnott, Milliman

Prudential also saw the biggest effect in Hong Kong, where new business premiums were down by 64%. Its overall EV, which includes the US operations, was down by 10.5%.

"We have delivered a resilient performance in the first half, despite a challenging new business sales environment, which is likely to persist for the rest of the year, and further falls in interest rates," said Mike Wells, Prudential's group chief executive.

Regulations

With such difficult conditions, some life firms in the region are asking regulators for understanding.

The low yields in Thailand, for example, have led some players to ask the Office of the Insurance Commission (OIC) to review risk charges under the revised risk-based capital regime introduced at the end of 2019.

With global IFRS 17 implementation already delayed to 2023, and even later in some markets, such as Taiwan, it remains to be seen if the pandemic will challenge the timetable further.

As far as the pandemic is concerned, there is light at the end of the tunnel as restrictions ease and even some potential upside for the market in the form of greater penetration in response to the health crisis.

"There have been some positives," says Sinnott. "The industry has been using the pandemic in marketing campaigns to raise awareness of life and health protection to generate more demand from consumers."

Clearly 2020 is going to be a tough year for the life sector, but it could also serve as a turning point, with protection becoming more valued than savings. ■

Source: InsuranceAsia News – 1 Sep 2020

• Despite Covid, Asia's Reinsurers Target Growth

Asia's market players are well positioned to seize growth opportunities in the region as the coronavirus crisis recedes. While reinsurers in Europe and the US have amassed billions of dollars of pandemic-related claims during the first half, Asian reinsurance books have escaped largely unscathed and remain strongly capitalised.

"The pandemic may affect claims development, but we have not yet seen widespread, significant pandemic-related losses for Asian reinsurers," said Siew Wai Wan, an analyst at Fitch Ratings. "The tight measures to curb the spread of Covid-19 likely helped to limit the possibility of a sharp spike in related claims."

Siew Wai Wan

In Asia, slowing demand as a result of underlying weak economic growth is a bigger concern than pandemic losses, but even this is a lesser issue relative to the rest of the world.

Underscoring the opportunity in Asian reinsurance, Ageas announced (August 27) that it had agreed a deal to buy a 25% stake in Taiping Re for US$400 million.

"This transaction offers Ageas a unique opportunity to enter the Asian reinsurance market and to benefit from its strong potential," said Bart De Smet, chief executive of Ageas.

Christian Badorff

Loss development

In China, Indonesia and Thailand, says Fitch, reinsurers' average solvency ratios are well above regulatory minimums at more than 300%, which should provide a healthy buffer against a rise in pandemic-related losses.

However, any significant claims development is unlikely at this point. In markets across the region, the cost of treating infected individuals is either covered by public insurance funds or offered for free by public-sector hospitals, while the limited amount of business interruption business sold in Asia usually excludes contagious diseases.

This is in stark contrast to the loss experience elsewhere. The top global reinsurers reported US$7.6 billion of pandemic-related non-life claims during the first six months of 2020, according to Moody's, which added 10 percentage points to their average combined ratio. And there was an additional US$1 billion in life losses.

With significant restrictions still in place in many parts of the US and Europe, global reinsurers remain unsure about the full extent of losses they may face. Swiss Re has indicated that Covid-related losses could total between US$50 billion and US$80 billion worldwide.

"Price increases in recent policy renewals are in the mid-to-high single digits on average, and significantly higher natural catastrophe-exposed business in the US and Asia Pacific." Christian Badorff, Moody's

In Asia, slowing demand as a result of underlying weak economic growth is a bigger concern than pandemic losses, but even this is a lesser issue relative to the rest of the world. UK economic growth slumped by a fifth in the second quarter, marking its worst recession on record, while US growth was down by more than 30%, its biggest ever quarterly fall.

This is reflected in results. Moody's sample of the world's biggest reinsurers, for example, reported an 89% fall in net income during the first half — down to US$1.7 billion from US$16 billion in the same period of 2019.

Challenges

Growth has been much more robust in some key Asian markets — China reported that its economy grew by 3.2% during the second quarter, while India expanded at 4.5%. But South-East Asian countries are hurting. Thailand's tourism-dependent economy contracted by 12%, Indonesia by 5% and Malaysia by 17%.

This is bound to affect demand for reinsurance coverage, but at least pricing is moving in the right direction. Asian reinsurers' premiums are estimated to have risen by more than 10% on average in 2019 and that pricing trend has continued into this year for market players worldwide, even in lines that have not been affected by losses.

China's Greater Bay Area, for example, has an economy that is forecast to triple over the next decade to US$4 trillion and sits in the path of frequent typhoons.

"Price increases in recent policy renewals are in the mid-to-high single digits on average, and significantly higher natural catastrophe-exposed business in the US and Asia Pacific," according to Moody's analyst Christian Badorff.

It remains to be seen if this will translate into better risk-adjusted returns, particularly given low investment returns. Catastrophe losses are also a worry. Asia accounted for the world's biggest share of economic losses from catastrophes in 2019 at US$66 billion, or 45% of the global total. And protectionist policies that mandate domestic cessions in countries such as India and Indonesia mean that more of these risks are being retained domestically.

Opportunity knocks

Asia's under-penetrated insurance markets still offer plenty of growth potential. In particular, the continued focus on developing ILS in Hong Kong and Singapore should help to attract additional capacity to the region.

China's Greater Bay Area, for example, has an economy that is forecast to triple over the next decade to US$4 trillion and sits in the path of frequent typhoons. Sophisticated models already exist and Hong Kong clearly has a well-developed capital markets community. Expanding the ILS market to capitalise on such potential will expand reinsurers' capacity and diversify their sources of capital, says Fitch.

Uncertainty might still dominate the outlook, but there is plenty of potential for Asian reinsurers to emerge from this crisis in good health. ■

Source: Insurance Asia News – 28 Aug 2020

BAHRAIN

• *ARIG shareholders say YES to cessation of reinsurance business*

Third party firm may carry out 'run-off' of existing ARIG portfolio

The extraordinary general meeting (EGM) of the shareholders of Arab Insurance Group (ARIG) on Thursday (August 13) decided to cease writing further reinsurance business.

The EGM authorised the board to carry out an orderly run-off of the existing portfolio internally or by appointing a third party to carry out the run-off.

Alternatively, the company has decided to explore the possibility of finding a buyer to take over the company. "The board has been given the authority to pursue all possible ways to preserve and enhance shareholder value," a company statement said.

Runoff insurance protects the third party or the acquiring company from legal claims made against the company being acquired (here Arig) or a company that has merged or ceased operations. A run-off policy applies for a certain period after the policy is active acting as a claims-made policy rather than an occurrence policy.

Board decision on cessation

The board of directors of Arab Insurance Group (Arig) had decided to cease its underwriting activities in its meeting in last May itself.

Founded in 1980, Arig's shareholders involve the Emirati, Libyan and Kuwaiti governments along with other private investors.

The Bahrain based Arig slipped into the red with a loss $3.62 million for the first half ending June 2020, against $9.54 million profit a year earlier.
The insurance giant reported a steep decline in gross written premiums, which went into negative, at $12.61 million against $171.74 million for first-half 2019, which impacted the bottom line hard. The total assets have fallen from $1.036 billion as of December 2019 to $888.82 million as of June 30, 2020

The board in its meeting held on May 13, resolved to recommend to the shareholders the cessation of the company's underwriting activities. The Central Bank of Bahrain (CBB) was informed of the board's decision and an EGM had been scheduled on August 13, to discuss and decide on the board's recommendation.

GCC reinsurance market

The reinsurance market across the GCC has been showing a state of hardening especially in property and engineering segments in the recent past. This is also in view of the fact that several regional reinsurers have closed their shops in the past more than two years. ■

Source: Business Benchmark News – 16 Aug 2020

CHINA

• *China's insurance growth to be strongest worldwide in 2020:* Swiss Re

Thanks to China's effectiveness in implementing measures to help its economy rebound from the wide-ranging impacts of COVID-19, Swiss Re expects the country's insurance industry growth to be the strongest worldwide in 2020.

Furthermore, the reinsurer sees double-digit growth in the country to resume in 2021.

According to analysis from a Swiss Re Institute report, China's insurance industry is performing robustly, with premium growth returning quickly to its pre-pandemic trend rate.

Health insurance maintained a 20% growth rate in the first half of the year as demand surged while the transition to online distribution channels for insurance products also continued at pace.

Swiss Re analysts expect the industry to benefit from the economic recovery due to a combination of strong regulatory support and rising consumer risk awareness.

The insurance regulator has issued new guidelines to support insurers that include targeting 80% digitalization of certain P&C lines by 2022 to promote online insurance business.

There have also been moves to raise the upper limit of the equity allocation in qualified insurers' asset portfolios to 45% from 30% to help mitigate the impact of low interest rates.

Additionally, there's been a focus on promoting the development of reinsurance business, particularly by encouraging international reinsurers to participate. ■

Source: Reinsurance News (ReinsuranceNe.ws) 21 Aug 2020

• *China green lights US$2.3bn agriculture reinsurer*

The China Banking and Insurance Regulatory Commission (CBIRC) has given the go ahead to a new state agriculture reinsurer, according to a report by Xinhua.

The agricultural reinsurer, China Agricultural Reinsurance, will hold a registration capital of Rmb16.1 billion (around US$2.34 billion).

It will focus primarily on growing and broadening coverage for natural catastrophe losses to protect agricultural production in the country.

China's agricultural insurance market is the second-largest in the world, following the US.

Nine shareholders jointly established the new reinsurer, including state bodies and state-linked (re)insurance market players. The shareholders include China's Ministry of Finance (MOF), China Re and Ping An P&C, a subsidiary of Ping An Group.

InsuranceAsia News (IAN) has reached out to China Re and Ping An for comment.

Earlier this year in April, the Chinese government reiterated its support for agricultural and rural entities in "financing and government guarantee(s), to tide them over the tough times," noted Xinhua at the time.

The MOF's April circular noted that the state will work together with domestic financial institutions to expand financing support for such entities through a state-financed 'guarantee fund.'

The fund, said the circular, "will work with banking [institutions] in bulk-guaranteed loan businesses; [and plans] to expand to Rmb400 billion (around US$56.5 billion) in reinsurance services this year."

China Agricultural Reinsurance is in line with the PRC's larger priorities — finding new state and market mechanisms to better develop and protect the agricultural market.

Late last year, Adeline Chua, head of P&C solutions China at Swiss Re, told IAN that one of the [market] needs is to "better manage nat cat exposure — and this can be done through better risk management capabilities."

And the recent June renewals in China highlighted "encouraging signs of capacity returning," said Stephane Baldanoff, Lockton's Asia Pacific director for food and agriculture.

He added: "However, terms and conditions tightened across the board, in particular for livestock coverage". ■

Source: InsuranceAsia News – 31 Aug 2020

Adeline Chua

Stephane Baldanoff

HONG KONG

• Peak Re posts robust performance in H1, COVID-19 impact "mild"

Hong Kong domiciled reinsurer Peak Reinsurance has reported a net income of $26.1 million over the first half of 2020, up from $13.5 million in the prior year period.

Despite the negative impact COVID-19 continues to have on overall re/insurance industry performance, Peak Re's results in the period are strong.

In fact, the company expects the total impact of COVID-19 for 2020 performance to be mild, thanks to the kinds of risks it underwrites and fact it has a business concentration in Asia where the epidemic's influence is low.

Peak Re generated premium income of $855.9 million in H1, up from $815.8 million in 2019.

The underwriting margin improved to 10.8% in the first half underwriting year of 2020, against the 7.4% seen in 2019.

Peak Re attributes this to further portfolio molding and rates hardening in Japan and US.

Additionally, Peak Re introduced a strong corporate focus on the Non Commoditised Business, which it hopes will ensure strong pricing stability based on business development.

As of 30 June 2020, total investment return was 0.7%, with investable assets and net assets at $2.0 billion and $1.1 billion, respectively. ■

Source: Reinsurance News (ReinsuranceNe.ws) 28 Aug 2020

INDIA

• AXA and BHARTI to combine their non-life operations in India into ICICI Lombard

AXA and BHARTI announced that they have entered into an agreement to combine their non-life insurance operations in India, BHARTI AXA General Insurance Company Limited (BHARTI AXA GI), into ICICI Lombard General Insurance Company Limited (ICICI Lombard).

The transaction will propel the combined entity to Top 3 amongst non-life insurers in India, with a market share of ca 8.7%.

AXA and BHARTI's ownership of BHARTI AXA GI is 49% and 51% respectively.

Under the terms of the agreement, AXA and Bharti will receive a total of 35.8 million shares of ICICI Lombard on closing, which would represent Euro 521 million at current market value, and an implied HY 2020 P/BV multiple of more than 5 times. The transaction is expected to result in a one-time positive Net Income impact of approximately Euro 0.2 billion in AXA Group's FY 2021 consolidated financial statements.

The transaction is subject to customary closing conditions, including the receipt of regulatory approvals, and is expected to close by 4Q 2021.

About BHARTI AXA GI

BHARTI AXA GI is the 11th largest non-life insurance private sector player in India. The company has ca. 2,300 employees and has a pan-India presence through 152 branches. It distributes a comprehensive suite of retail and commercial non-life products through a multi-channel approach including motor dealers, agencies, the Airtel network (BHARTI's flagship company and one of the world's largest telecom providers), bancassurance and digital. The Underlying Earnings of Bharti AXA GI recorded in AXA Group's FY19 consolidated financial statements was Euro 1 million.

Apart from Bharti AXA GI, AXA's presence in India also comprises of its 49% ownership in Bharti AXA Life, a life insurance joint venture with Bharti.

About ICICI Lombard

ICICI Lombard is one of the largest private sector non-life insurer in India based on gross direct premium income in fiscal 2020. The company offers its customers a comprehensive and well-diversified range of products, including motor, health, fire, personal accident, crop, marine, engineering and liability insurance, through multiple distribution channels. ■

Source: XPRIMM - 24 Aug 2020

• AIG, GIC Re on hook for Air India's US$50m crash pay-out

A recent report by The Indian Express outlined that 90% of Air India's reinsurance is underwritten by global reinsurers, with AIG as the lead underwriter.

Public player GIC Re holds 5% of the reinsurance, as part of state regulations. AIG has reportedly approved the total claim as of August 12.

The claims settlement for the Air India crash at Kozhikode Calicut International Airport on August 8 is underway — and it's understood the airline will receive a total loss claim, meaning a US$50 million payout.

Air India is reported to have taken out a liability policy valued at US$750 million. The company owned (not leased) the Boeing 737 aircraft, and is said to have recently refurbished the plane.

Air India now has a fleet of 24 Boeing 737s — 16 of which are company-owned, with eight leased out.

A market source told Telangana Today: "Like the consortium of primary insurers, a consortium of reinsurers has insured the aircraft of Air India. The lead reinsurer, AIG London, has approved the hull claim (claim for loss of aircraft). Other reinsurers in the consortium will also give their approval." There could be further liability losses.

Four Indian national insurers — New India Assurance, National Insurance Company, Oriental Insurance and United India Insurance — insured Air India's (and its subsidiaries) total fleet of 170 aircrafts.

InsuranceAsia News (IAN) has reached out to AIG and Charles Taylor for comment.

On August 8, Air India Express flight IX-1344 crashed at Kozhikode Calicut International Airport in the country's south-western state of Kerala. The plane "went down 35-feet into a slope before breaking up into two pieces," said Hardeep Singh Puri, civil aviation minister to CNN.

18 people died and at least 30 were injured in the crash.

On April 1, Air India renewed their policy for around US$30 million; and holds coverage for aircraft and hull liability, and third-party and passengers.

The August crash is set to become one of the airline's greatest insurance claims. They may see an increased cost for cover during their renewals next year.

In July, an Ethiopian Airlines cargo plane caught fire at Shanghai Pudong International Airport. The expected insured loss is US$190 million.

Gary Moran, head of aviation Asia at Aon, told InsuranceAsia News (IAN) at the time: "The aviation insurance market, much like the wider industry ecosystem is currently enduring challenging times. Prior to Covid-19 it was already transitioning to a hard market with premium rate increase being the 'new normal'. This was on the back of a period of unprofitability, where positive returns were few for most of the sector." ■

AIG

General Insurance Corporation
आपत्काले रक्षिष्यामि
GIC

Gary Moran

Source: Insurance Asia News - 13 Aug 2020

IRAN

• Coronavirus patients covered by supplementary insurance in Iran

The head of Central Insurance of Iran (CII) said that Iran insurance companies spent over $35 million for supplementary insurance of the coronavirus patients

Referring the homeowners' insurance, Gholamreza Soleimani said: "In the first quarter of the current Iranian year [started on March 20], 500,000 housing units were insured for damages from floods, earthquakes, fires and natural disasters," Trend reports citing Mehr News Agency.

Soleimani went on to say that the value of the insurance industry in the world is $6300 billion, and while the per capita insurance in the world reaches $818, this indicator stand at $178 in Iran.

"The insurance penetration rate in the country has increased from 0.5 percent in 1979 to about 2.5 percent today," he added.

Data released by CII, the body in charge of supervising the industry, shows that the COVID-19 pandemic has impacted the business of insurance companies. Unsurprisingly, insurance companies paid hefty sums in claims in the medical insurance category during first two months of the current Iranian year. ■

Source: Trend News Agency - 11 Aug 2020

• Iran Insurance Industry Successful Despite Sanctions

Chairman of the Central Insurance of Iran Dr. Gholamreza Soleimani says Iran's insurance industry has performed very successfully despite sanctions and it has now appropriate insurance coverages for all major risks.

The chairman of the Central Insurance Company and the policy-making board of insurance industry of the country met Majlis Speaker Mohammad Baqer Qalibaf.

During the meeting, Mr. Qalibaf expressed his satisfaction over the performance of insurance industry regarding the economic growth and observing social responsibilities. He added that the cooperation between Majlis's related committees with insurance industry is an undeniable necessity and by launching a workgroup, all ways for growth of insurance industry will be reviewed and it will pursue seriously amending the laws or legislating new ones.

Meanwhile Mr. Soleimani, for his part, said that insurance industry in the nick of times like in the unfair sanctions, Coronavirus crisis, quakes and recent floods have proved itself, and with the support of the legislative body and approving important insurance laws, the current trend will continue with more speed.

He added that establishment of

Gholamreza Soleimani

Mohammad Baqer Qalibaf

national risk management was an important development for balancing the national economy and by its launch, all activists in businesses, production, services and imports and exports can continue their activities peacefully.

Soleimani further said the authority of insurance industry has been one of the achievements of the sanctions, noting that fortunately, insurance industry has performed very well despite sanctions and it currently has appropriate coverages for all big risks. ■

Source: Iran News Economic Desk - 4 Aug 2020

MALAYSIA

• Malaysia's P&C sector sees "steepest" ever H1 GWP drop

Antony Lee

The size of Malaysia's general insurance sector declined by 3.5% in the the first half of 2020 compared to the same period last year.

The market registered M$8.6 billion (US$2.05 billion) of gross written premium (GWP).

The General Insurance Association of Malaysia (PIAM) noted it is the market's "steepest half-year drop in recent years" as it "bore the full brunt of the Covid-19 pandemic."

The pandemic particularly impacted the motor segment which is the country's dominant class. Motor GWP declined "significantly" by 7.4% to M$3.87 billion (US$923 million), according to PIAM. This was in part as a result of vehicle sales dropping by 40% in H1 2020.

Despite lockdown measures and a reduction in traffic movements country-wide, Malaysia's insurers paid out a sizeable amount of motor claims at M$2.4 billion (US$572.3 million) for the first half. The PIAM notes road accidents are consistently increasing, with the number of accidents up by 16% since 2015.

Antony Lee, chairman of PIAM, commented: "...risky driving behaviour should be recognised with higher insurance premiums. The time for change is now. The industry eagerly awaits the full liberalisation of the motor insurance tariff by Bank Negara Malaysia (BNM) which will pave the way for a risk-based pricing model for motor insurance premiums."

In other lines, personal accident coverage recorded the largest drop of 13.4% to M$522 million (US$124.4 million). Marine aviation and transit (MAT) fell by 0.7% to M$0.8 billion (US$190.7 million), while cargo and offshore oil-related classes shrunk by 9% and 8.7% respectively.

Meanwhile, medical and health GWP saw 3% growth to M$586 million (US$139.7 million) and fire insurance increased 2.2% to M$1.76 billion (US$419.7 million).

PIAM highlighted the business outlook will be "extremely challenging," given that the pandemic has not yet subsided.

"Deep uncertainties prevail in the external environment. The global economy is witnessing some of the biggest disruptions and unexpected financial pressures in these unprecedented times. [We] expect the industry to decline further for the full year with the road to recovery a long and arduous one ahead," said the organisation. ■

Source: InsuranceAsia News - 18 Aug 2020

SAUDI ARABIA

• Top 10 insurance companies in Saudi Arabia: Ranking 2019

In thousands

Rank 2019	Rank 2018	Companies	2019 turnover In SAR	2019 turnover In USD	2018-2019 evolution(1)
1	1	Bupa Arabia	10410868	2772518	21.53%
2	2	Tawuniya	8375860	2230575	9.61%
3	3	AlRajhi Takaful	2569804	684365	-13.58%
4	4	Medgulf	2421277	644810	17.00%
5	5	AXA Cooperative	1409777	375438	-2.50%
6	6	Walaa	1215394	323672	9.99%
7	9	Allianz Saudi Franzi	1011666	269417	16.19%
8	8	Al Etihad (Ex. Trade Union)	861936	229542	-7.30%
9	11	Malath Insurance	835236	222432	14.56%
10	7	SAICO	834341	222193	-12.17%
		Total of top 10 Saudi insurance companies	**29946159**	**7974962**	**9.77%**
		Rest of the market**	**7944341**	**2115657**	**2.73%**
		Total market	**37 890 500**	**10 090 619**	**8.21%**

(1) Growth rate in local currency
(2) 21 companies in 2018 and 20 companies in 2019
(3) Provisional turnover for 2019

Sources: Atlas Magazine (depending on companies' reports)

● First insurance coverage for UAVs (drones) in Saudi Arabia

مؤسسة النقد العربي السعودي
Saudi Arabian Monetary Authority

The Saudi Arabian Monetary Authority (SAMA) has issued the first insurance product covering the risks of Unmanned Aerial Vehicles (UAVs), commonly known as drones.

The new product covers UAVs approved by the Authority to:

- Carry out aerial topographical survey operations,
- Improve geographic information systems,
- Carry out inspection operations of telecom facilities, industrial entities, power lines, renewable energy units,
- Take aerial photographs in authorized areas. ■

Atlas Magazine – 28 Aug 2020

● Health insurance pools in Saudi Arabia

The Saudi regulatory authority SAMA has introduced a draft law regulating the establishment and management of health insurance pools.

SAMA has called on the interested parties (public, SMEs, specialists) to suggest improvements to the draft bill.

Through this new law, the regulator aims to develop health insurance and make it accessible at fair prices. ■

Atlas Magazine – 28 Aug 2020

TURKEY

• Insurance Fraud In Turkey: Key Highlights

There are a growing number of studies into insurance fraud being conducted in Turkey. The following is a review of a description of the types of insurance fraud in Turkey, giving a breakdown of the branches of insurance and quantitative data on the insurance industry and insurance fraud.

The Table shown below provides a breakdown of the number of reported cases of insurance fraud in Turkey from 2015 to May 2019 by the type of insurance.

The largest number of cases was reported for auto insurance, followed by fire insurance.

The number of frauds in per-

The Number of Insurance Fraud in Insurance Branches

	2015	2016	2017	2018	May 2019
Vehicle	2,636	507	426	974	749
Personal accident	35	27	6	25	4
Life	8	13	3	24	5
Health	11	19	18	17	13
Fire	23	18	267	14	7
Agriculture	–	–	–	4	–
Transportation	–	3	–	3	–
Engineering	2	–	–	2	1
Private pension	5	2	9	1	2
Other	22	42	31	34	27
Unemployment	3	7	2	–	–
Genel Toplam					

Source: Insurance Fraud Information System (SİSBİS).

sonal accident, health, and life insurance areas is notable.

The Table shown next provides breakdown of the types of auto insurance fraud, under the two main insurance types of mandatory traffic insurance and comprehensive vehicle insurance.

after an accident with 16%, intentional damage with 15.9%, and statement of hit and run with 9.7%. Similar ratios continue in the first five months of 2019.

Insurance Fraud Related to Traffic and Comprehensive Vehicle Insurance (%)

	2015	2016	2017	2018	May 2019
Driver replacement	–	–	16.3	27.3	25.4
Statement of "hit and run"	16.8	16.9	15.8	9.7	12.1
Fraud by insuring after the accident	9.1	16.8	15	16	10.3
Fraud using fake policies	–	–	12	–	–
Fraudulent accident reports	16.9	12.4	10.6	–	8
Planned (organized) damage	19.7	15	–	15.9	18.9
Alcohol	–	8.3	–	9	–
Other causes	–	30.5	30.1	22.1	25.2

Source: Insurance Information Center.

The Table shows that driver replacement was the most common type of fraud in 2018, accounting for 27.3% of the total, followed by insurance

As seen in the literature review (Yılmaz, 2015), in his study, 9,779 fraud cases in Turkey in the 2010–2014 were examined and it was identified that 103 cases (1.5%) had been carried out by making irregularities in the insurance. A breakdown of sub-categories shows that accident fraud was followed by comprehensive vehicle insurance fraud, replacing a driver who was under the influence, fault rectification/false reports of theft, fraudulent write-offs, and misrepresentations of facts in the livestock industry.

(1) Comprehensive vehicle insurance after an accident (74%):

Comprehensive vehicle insurance is bought after an accident happens, and after waiting for some time a claim is made stating that the accident has just happened with the intention of trying to get the insurance company to pay for the damage.

(2) Replacement of the driver under the influence (6.5%):
When the driver at the time of an accident was under the influence, another person purports to be the driver to allow a claim to be made under the terms of the comprehensive vehicle insurance.

(3) Fault rectification/false reports of theft (6.5%):
To get the car repaired for faults that are not covered by the insurance, an accident is faked or a false report of theft is made in an effort to benefit from comprehensive vehicle insurance.

(4) Fraudulent write-offs (3%):
When the cost of repairing a vehicle after an accident exceeds 70% of its value, the vehicle is considered to have sustained severe damage and is thus written off.

These vehicles can still be street legal, but their resale value declines, and comprehensive vehicle insurance for these vehicles is either not possible or very expensive.

In this sort of fraud, a report of severe damage is prepared and the market value of the car is collected from the insurance company, even though the repair cost after the accident is small, after which the vehicle is resold with minimal loss of value.

(5) Livestock (10%):
This sort of fraud involves replacing the ear tag of a diseased or dead animal with the ear tag of an insured animal to collect money from the insurance company (Yılmaz, 2015).
■

Source:
INSURANCE FRAUD IN TURKEY: Studies and Comments on Insurance Fraud in Turkey – by Feride Hayirsever Baştürk; Contemporary Studies in Economic and Financial Analysis, Volume 102, 77–97, Publication date: 10 February 2020

UAE

• UAE Insurance Premium 2018/2019

(Figures in US $ 000)

RANK	Insurance Company	GWP		NET PROFIT		EQUITY		ROE
		2019	2018	2019	2018	2019	2018	%
01	ORIENT INS	1,057,500	1,002,180	115,810	110,360	837,610	751,770	13.83
02	ADNIC	1,023,500	792,650	77,390	64,310	625,620	572,760	12.37
03	OMAN INS.	965,950	1,007,900	52,040	3,550	515,800	449,600	10.09
04	AL AIN ALAHLIA	314,500	412,540	15,810	13,100	327,800	320,170	4.82
05	EMIRATES INS.	309,810	284,200	38,150	31,060	323,980	305,720	11.78
06	SALAMA	307,910	289,640	16,080	270	210,100	197,540	7.65
07	DUBAI INS.	264,600	145,000	20,710	13,900	147,410	132,430	14.05
08	UNION INS.	252,600	259,400	5,730	2,800	88,830	85,290	6.45
09	BUHAIRA NATIONAL	236,040	132,690	5,990	12,800	178,740	176,020	3.35
10	TAKAFUL EMARAT	165,100	163,220	-10,350	3,810	32,150	44,960	-32.19
11	RAK NATIONAL	158,580	134,600	1,090	6,260	51,770	57,760	2.11
12	NGI	146,050	150,140	4,630	8,450	124,520	126,430	3.72
13	ABU DHABI NATIONAL TAKAFUL	133,250	104,630	19,900	19,070	107,900	94,550	18.44
14	AL SAGR NATIONAL	110,900	97,010	-	6,000	93,800	123,500	N/A
15	DAR ALTAKAFUL	109,810	79,290	1,100	1,900	34,600	33,500	3.18
16	NOOR TAKAFUL (1)	105,000 *	113,000	N/A	N/A	N/A	N/A	N/A
17	DUBAI NATIONAL	103,810	95,640	15,800	14,440	155,040	147,410	10.19
18	WATANIA	94,000	81,740	3,540	3,270	27,240	26,160	13.00
19	AL DHAFRA INS.	88,300	91,100	21,530	15,530	106,820	98,370	20.16
20	ALLIANCE	77,700	79,300	13,350	13,900	140,330	135,430	9.51
21	METHAQ TAKAFUL	77,120	86,370	540	4,360	22,350	22,890	2.42
22	WATHBA NATIONAL	75,000	74,000	11,260	11,260	232,500	232,500	4.84
23	FUJAIRAH NATIONAL	74,930	72,700	8,440	8,440	77,380	66,750	10.91
24	ORIENT UNB TAKAFUL	69,490	51,770	280	-2,450	50,960	50,680	0.55
25	AMAN	68,120	102,450	2,720	360	20,430	19,610	13.31
26	INSURANCE HOUSE	64,300	57,500	4,350	3,000	35,960	26,980	12.10
27	FIDELITY UNITED	60,220	39,800	280	-2,400	20,710	19,080	1.35
28	ASCANA	38,400	45,750	-1,360	5,990	79,010	85,010	-1.72
29	AXA GREEN CRESCENT	12,530	10,890	-	-1,360	32,970	31,880	N/A
30	SHARJAH INS.	12,000	14,440	4,090	4,630	53,140	53,140	7.70
31	KHAZNA	-	14,700	-3,800	-3,800	20,160	28,610	-18.85
	TOTAL	6,577,020	6,086,240	445,100	372,810	4,775,630	4,516,500	9.32

DAMAN NATIONAL HEALTH *	1,370,000	1,370,000
FOREIGN COs OPERATING *	3,700,000	3,700,000
TOTAL	11,647,020	11,156,240

(1) Merged With Dar Al Takaful

* ESTIMATE

VIETNAM

• PVI Re shows stable underwriting results over time - AM Best

PVI Reinsurance Joint-stock Corporation (PVI Re) has shown strong operating performance, as demonstrated by a five-year average return-on-equity ratio of 16% (2015-2019), notes AM Best.

Underwriting performance has shown good stability over time, supported by affiliated domestic business, particularly in the commercial and industrial lines. Underwriting performance in the first half of fiscal-year 2020 remained stable compared with the prior period.

While lower insurance demand for property and engineering reinsurance, due to dampened economic activity, could pose downside risks to overall earnings in the near term, AM Best expects the company's prospective operating results to remain strong, albeit closely tied to the performance of its major cedant and affiliate, PVI Insurance Corporation (PVI Insurance). In addition, AM Best notes an increasing dependence on investment income to support earnings, particularly in recent years, which could lead to earnings volatility given lower investment returns that are expected over the near term.

Financial strength

AM Best has affirmed the Financial Strength Rating of B++ (Good) and the Long-Term Issuer Credit Rating of "bbb" of PVI Re. The outlook of these credit ratings is stable.

The ratings reflect PVI Re's balance sheet strength, which AM Best categorises as strong, as well as its strong operating performance, limited business profile and appropriate enterprise risk management (ERM). In addition, PVI Re benefits from rating enhancement from HDI Haftpflichtverband der Deutschen Industrie (HDI).

Although PVI Re's operations account for a small portion of HDI's overall revenues and earnings, the company is viewed to be a strategic component to the HDI group's international expansion plans. Going forward, AM Best expects PVI Re to benefit further from the HDI's international product expertise in areas of risk selection, pricing and reserving, as well as its oversight and support in respect of risk management.

PVI Re's balance sheet strength assessment is underpinned by risk-adjusted capitalisation that remains at the strongest level, as measured by Best's Capital Adequacy Ratio. Risk-adjusted capitalisation showed a notable decline in 2019 given higher capital requirements arising from significant business growth in 2019.

While the company has exhibited a high dividend payout ratio over recent years, retained earnings have remained sufficient to support business growth. A further offsetting balance sheet factor continues to be the company's high retrocession usage and dependence to enable the underwriting of large commercial property, energy and engineering risks.

Business profile

PVI Re's business profile is assessed as limited. PVI Re is the smaller of two domestic reinsurers in Vietnam, with a significant volume of business arising from PVI Insurance. PVI Re's long-term strategy includes reduced dependence on PVI Insurance through more-focused efforts to grow other business. Apart from the high cedant concentration risk arising from PVI Insurance, PVI Re is also viewed to have a moderate business concentration to catastrophe-exposed property and engineering lines, which are largely sourced domestically, albeit that catastrophe retrocession is in place to protect against severe events. ■

Source: Asia Insurance Review - 26 Aug 2020

PAKISTAN

INSURANCE MARKET OVERVIEW

By Hussein Elsayed
Misr Insurance Company

Official Name:
Islamic Republic of Pakistan
Surface Area:
796,095 km²
Capital:
Islamabad
Population:
233 mn (Jul 2020 est.)
Currency:
Pakistani Rupee (PKR)
Religion:
96.28% Islam (State religion) | 1.85% Hinduism | 1.59% Christianity)
Language:
Punjabi 48%, Sindhi 12%, Saraiki (a Punjabi variant) 10%, Pashto (alternate name, Pashtu) 8%, Urdu (official) 8%, Balochi 3%, Hindko 2%, Brahui 1%, English (official; lingua franca of Pakistani elite and most government ministries), Burushaski, and other 8%

In the past few years, Pakistani Insurance Sector has transformed into a developing and fast growing market which is generally divided into three components: life insurance, general insurance and health insurance.

According to the results of 2018 the gross written premium of Life (Convention and Takaful) was PKR 221 billion and Non-Life gross written premium of Life (Convention and Takaful) was PKR 87 billion, But the potential of insurance growth in Pakistan is too much in all areas of insurance classes because the penetration of insurance is negligible i.e. less than 0.9% of GDP as compared to the population of the country.

As per the report by MAPFRE which calculates and ranks the insurance potential of different countries, the report puts Pakistan in the top 20 countries with greatest insurance potential for both life and non-life sectors.

According to Fitch Solution Report, the Pakistani non-life market remains at a nascent stage of development, displaying very low levels of penetration and density. The market is relatively fragmented when compared to its larger life sector counterpart in terms of the competitive landscape. Furthermore, the non-life market has not yet attracted significant amounts of multinational investment that would bring valuable expertise and access to capital.

Growth remains restricted due to a lack of product and service diversification, and regional expertise would bode well for future growth of the market.

The Pakistan life insurance segment has solid growth potential over the medium-to-long term, and the evolutionary dynamics of the market are such that life insurance and savings levels remain low by regional and global standards.

The lucrative growth prospects displayed by the life market suggest that Pakistan is set to attract major foreign investment over the coming years. We highlight that foreign capital in the life market will bring much-needed product diversity and depth to the insurance market in the long run.

Fitch also note that the market presents significant operational challenges, but new regulatory efforts to streamline the insurance industry ought to bode well for the long-term development of the sector.

(I) ECONOMIC DATA

	2015	2016	2017	2018	2019
Population (million)	190	194	197	201	205
GDP per capita (USD)	1,426	1,440	1,545	1,566	1,360
GDP (USD bn)	271	279	305	315	278
Economic Growth (GDP, annual variation in %)	4.7	5.5	5.6	5.8	1.0
Consumption (annual variation in %)	2.9	7.6	8.5	6.2	3.0
Investment (annual variation in %)	15.8	7.5	10.3	11.2	-12.8
Industrial Production (annual variation in %)	5.2	5.7	4.6	4.6	-2.3
Unemployment Rate	5.9	6.0	6.0	5.7	-
Fiscal Balance (% of GDP)	-5.3	-4.6	-5.8	-6.6	-8.9
Public Debt (% of GDP)	61.8	65.5	65.1	69.9	83.7
Money (annual variation in %)	12.8	14.5	13.9	9.5	10.8
Inflation Rate (CPI, annual variation in %, eop)	3.2	3.7	5.4	5.4	12.7
Inflation Rate (CPI, annual variation in %)	2.5	3.8	4.3	5.3	9.4
Policy Interest Rate (%)	6.50	5.75	5.75	6.50	12.25
Exchange Rate (vs USD)	104.9	104.4	110.7	139.8	155.0
Exchange Rate (vs USD, aop)	102.8	104.7	105.3	121.7	150.4
Current Account (% of GDP)	-1.0	-1.7	-4.1	-6.3	-4.9
Current Account Balance (USD bn)	-2.8	-4.9	-12.6	-19.9	-13.5
Trade Balance (USD billion)	-17.3	-19.1	-26.0	-30.9	-27.6
Exports (USD billion)	24.1	22.0	22.0	24.8	24.3
Imports (USD billion)	41.4	41.1	48.0	55.7	51.9
Exports (annual variation in %)	-3.9	-8.8	0.2	12.6	-2.1
Imports (annual variation in %)	-0.8	-0.6	16.7	16.0	-6.8
International Reserves (USD)	16.0	20.9	18.7	12.4	10.2
External Debt (% of GDP)	24.1	26.5	27.4	30.3	38.2

COUNTRY RISK METRICS

Countries	LT Foreign currency rating					General gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	Usable Reserves / CAPs* (months)	Short-Term External Debt by Rem. Mat./ CARs	Gvt. Interest Exp./ Rev. (%)	Gross Ext. Fin. needs / (CAR + Use. Res.) (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
Asia	S&P	Moody's	Fitch	CI	IHS								
Armenia	-	Ba3	BB-	-	B-								
	-	Stable	Negative	-	Stable	-5.0	62.0	-	-	9.9	-	-8.5	0.9
China	A+	A1	A+	-	A								
	Stable	Stable	Stable	-	Stable	-11.1	56.0	14.4	47.0	2.2	66.7	1.2	0.4
India	BBB-	Baa3	BBB-	-	BBB								
	Stable	Negative	Negative	-	Negative	-11.5	84.6	10.6	56.8	32.1	84.1	-0.9	1.1
Kazakhstan	BBB-	Baa3	BBB	-	BBB-								
	Stable	Positive	Stable	-	Negative	-5.1	20.9	5.4	34.9	8.9	100.0	-5.9	3.4
Pakistan	B-	B3	B-	-	CCC								
	Stable	Stable	Stable	-	Stable	-9.5	88.2	0.5	42.7	61.2	145.8	-1.5	0.5

* *Current account payments*

** *Under Review for Downgrade*

Source: S&P Global Ratings, Fitch Ratings, Moody's Investors Service, CI Ratings, IHS Markit, Byblos Research - The above figures are projections for 2020

(II) INSURANCE MARKET

Laws/Rules

- Insurance Rules 2017
- Trade Organizations Rules, 2013
- Trade Organizations Act, 2013
- Microinsurance Rules 2014
- Memorandum & Articles of Association of IAP
- IAP Code of Conduct
- The Companies Act 2017 (9th July 2019)
- The Marine Insurance Act 2018 (2nd February 2018)
- The Finance Act 2018 (22nd May 2018)

Supervisory Authority

- The supervision of the insurance industry lies with the Insurance Division of the Securities and Exchange Commission of Pakistan (SECP)
- The division is responsible for the supervision, development and regulation of the insurance sector, including life and non-life insurance companies, takaful operators, insurance intermediaries and bodies connected with insurance, such as the Insurance Association of Pakistan, the Pakistan Insurance Institute and the Pakistan Society of Actuaries.
- The Insurance Division of the SECP started its work in January 2001. It is broadly divided into two departments:
  - *Policy, regulation and development*
  - *Supervision.*

Establishing a Local Company

- On 9 February 2017 the draft *Insurance Rules, 2015* were brought into force with immediate effect as the *Insurance Rules, 2017* and repealed the *Insurance Rules, 2002* and the *Securities and Exchange Commission (Insurance) Rules, 2002*.
- *Article 6* of the *Insurance Rules, 2017* lists the principal primary documents required of an insurer or takaful operator wishing to be granted a licence to operate in Pakistan

Types of Insurance Organization

Companies that are registered to conduct insurance business must be constituted as joint stock companies, listed or closed. There are no restrictions on holding company structures, including those involving life and non-life companies, but life and non-life companies must be incorporated separately, as composite insurers are not permitted. Persons permitted to transact insurance business are listed in *Part II, Section 5* of the *Insurance Ordinance, 2000* as either:

- a public company a body incorporated under the laws of Pakistan (not being a private company or the subsidiary of a private company).
- Banks' shareholding in insurance companies is restricted to 30%.
- On 16 July 2012 the regulator published Takaful Rules, 2012. These rules, which replaced all previous provisions regarding takaful, are comparatively comprehensive, providing for family and general takaful companies, as well as for takaful windows within conventional insurance companies transacting family or general takaful business.

Types of Licence

- Companies may be authorized to accept either life or non-life business. Composite licences are not available.
- Personal accident and healthcare business may be written by both life and non-life insurers and are classified as non-life and life classes of business within *Insurance Ordinance, 2000.*

Statutory Tariffs

- The *Insurance Ordinance, 2000* abolished all tariffs, which for many years had been compiled by the Insurance Association of Pakistan.

Foreign Ownership

The regulator's *Circular No 5 of 2007* states that the government permits 100% foreign equity in insurance business in Pakistan subject to the conditions noted below.

- Foreign companies must have minimum capital of USD 4mn, but no less than USD 2mn must come from abroad.
- There are no restrictions on the number of branches.
- There are no restrictions on foreign insurance companies with regard to whom they may employ, and foreign companies are treated in the same way as local companies.

Capital Requirements

- *Article 11* of the *Insurance Rules, 2017* states that, as from 31 December 2017, the minimum paid-up capital requirement for non-life insurers is PKR 500mn (USD 4.12mn).
- It should be noted that this minimum paid-up capital requirement applies to all non-life insurers licensed and registered under the *Insurance Ordinance, 2000,* but takaful windows within non-life conventional insurance companies are subject to a separate and additional minimum capital requirement of PKR 50mn (USD 412,370).
- Under Article 37 the required paid-up capital for brokers was set at PKR 15mn (USD 123,711) for new brokers with existing brokers given until 31 December 2017 to comply.

Compulsory Insurances

<u>Compulsory classes of insurance include</u>

- Motor third party liability.
- Professional indemnity for insurance brokers and insurance surveyors.
- Insurance provided under the state Crop Loan Insurance scheme.
- Third party liability and passenger legal liability for airlines.
- Insurance for employees, where 20 or more are employed, for contingencies not covered under workers' compensation legislation (being written as group life insurance).
- Shipowners' liability against marine oil pollution (financial guarantee or insurance).

Non-Admitted Insurance

- Non-admitted insurance is not generally permitted in Pakistan because the law provides that insurance must be purchased from locally authorized insurers.

Intermediaries

- Local brokers are required to be registered with the regulator. Agents are not required to be licensed but they must be included in the register of their principal and the principal is prima facie liable for its agents' errors and omissions.
- Brokers and agents (via their principals) are bound by all non-admitted insurance regulations.
- Intermediaries are not permitted to place business with non-admitted insurers except in cases specifically authorized by the regulator as per the provisions of *section 48* of the *Insurance Rules, 2017* or in cases covered by the exceptions in *Sections 12* and *13* of *Chapter XV* of the State Bank of Pakistan's *Foreign Exchange Manual*.

Insolvency Regulation

- In accordance with *Section 59* of *Insurance Ordinance, 2000*, the regulator has powers to intervene if it believes on reasonable grounds that an insurer is or is likely to become unable to meet its liabilities or that an insurer has contravened or is likely to contravene the provisions of the *Insurance Ordinance, 2000* or the rules made thereunder. The regulator may investigate the affairs of an insurer and, wherever necessary, employ an auditor or actuary or both to assist it in any investigation.
- The *Insurance Rules, 2017* specify the powers of the regulator to issue directives to protect the interests of policyholders as is deemed appropriate if the regulator has reasonable grounds to believe that an insurer registered under the *Insurance Ordinance, 2000* has failed or is about to fail to comply with the conditions of licensing set out in *Insurance Ordinance, 2000 (Section 11).*
- There is no statutory fund for compensating those who hold policies with insolvent insurance companies.

Reinsurance

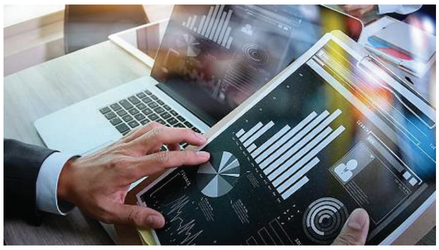
A separate licence is not required to enable a direct insurance company to underwrite inwards facultative reinsurance, since Insurance Ordinance, 2000 provides permitted classes of business definitions for non-life insurance categorised as "for direct and facultative reinsurance business" (collectively).
As this categorization prefaces only the non-life insurance class definitions and not the life classes, however, any PA and healthcare written by a life insurer is not subject to this provision.

Direct insurance companies can also write treaty reinsurance subject to licence, although very few companies write significant volumes of such business.

Alternative risk transfer:

ART is not mentioned in the insurance legislation in Pakistan.

Insurance Market
Performance and Statistics



Size of Insurance Market of Pakistan for 2018 (Including Public Sector)

Conventional Business	
Life Insurance	
Number of companies	07
Gross Premium Written	PKR 196 billion
Premium to GDP ratio	0.57 %
Non Life Insurance	
Number of companies	30
Gross Premium Written	PKR 77 billion
Premium to GDP ratio	0.22%
Takaful Business	
Family Takaful Operators	
Number of companies	02
Gross Written Contribution	PKR 09 billion
Contribution to GDP ratio	0.03%
General Takaful Operators	
Number of companies	03
Gross written Contribution	PKR 2 billion
Contribution to GDP ratio	0.006%
Window Takaful Business	
Window Family Takaful Business	
Window family takaful companies	04
Gross Contribution	PKR 16 billion
Premium to GDP ratio.	0.05 %
Window General Takaful Business	
Window takaful companies	21
Gross Contribution	PKR 8 billion
Premium to GDP ratio.	0.02 %
Total Premium written by Conventional (Life & None Life) Insurance Companies.	273 billion
Total contribution written by Takaful (Family & General) Operators.	11 billion
Total contribution written by Window Takaful (Family & General) Operators.	24 billion
Total	**308 billion**
GDP ratio of total business	**0.89 %**
Reinsurance	
Pakistan Reinsurance Company Limited	
Premium (Non-Life conventional only) Written	PKR 11 billion
Premium to GDP ratio	0.03%

Source:
Insurance Year Book 2018-19
by The Insurance Association of Pakistan (IAP)

Overview of insurance industry for CY18 (PKR million)

	Life	Family Takaful	Non-Life	General Takaful	Aggregate 2018	Aggregate 2017
Assets	1,206,856	29,359	196,087	2,917	1,435,219	1,294,381
Investments	997,251	23,237	106,438	681	1,127,607	1,005,847
Equity	21,887	1,474	94,505	1,004	118,870	112,277
Gross Premium	202,977	12,399	79,138	1,756	296,271	270,687
Net Premium	200,408	2,589	44,621	554	248,172	226,944
Net Claims	87,833	1,718	23,468	616	113,635	99,733

Source: Unaudited/Audited published financial statements of insurers and Takaful companies

Top 6 Life Insurance Companies by Gross Premiums, US$mn

	2014	2015	2016	2017	2018
State Life Insurance Company	755. 1	777.9	859.7	958.2	945.9
Jubilee	215.9	291.5	362.7	446.8	425.9
EFU	180.2	304.6	235.4	298.7	252.7
Adamjee Life	51.6	89.0	107.9	130.7	109.4
IGI Life (ALICO)	25.1	38.6	72.4	53.3	39.4
TPL Life (Asia Care)	3.4	4.5	1.1	2.6	3.6

Top 10 Non-Life Insurance Companies by Gross Premiums, US$mn

	2014	2015	2016	2017	2018
Adamjee	98.2	132.7	157.0	182.7	176.4
EFU	143.6	148.0	164.1	193.5	170.8
Jubilee	68.9	78.4	78.8	79.0	82.6
IGI	21.2	22.8	n.a.	27.9	37.8
United	24.5	34.7	41.1	48.6	43.0
UBL	11.0	15.6	22.3	28.5	31.4
TPL	12.1	15.9	19.6	21.7	28.5
East West	14.0	17.2	19.7	24.0	25.6
Askari	17.0	19.6	22.4	26.2	26.1
Security General	18.0	18.0	19.9	19.0	20.7

Source: IAP, Fitch Solutions

Pakistan's non-life segment is dominated by three sub-sectors. Property insurance (including household and commercial fire and other risks) accounts for over 40.6% of all activity in 2019 based on Fitch estimation. The catch-all 'other' category accounts for a larger 44.6%. This includes the key basic line of motor insurance as well as another popular line in developing markets - workers' compensation - and health insurance. Transport insurance is a comparatively minor line, making up 14.8% of premiums written.

Clock Tower, Faisalabad built by British Government in 19th Century

Market Concentration for Life & Non-Life

	Non-Life 2015	Non-Life 2016	Non-Life 2017
Top 5 Companies	63.47%	62.90%	65.10%
Top 10 Companies	78.56%	79.99%	82.72%

	Life 2015	Life 2016	Life 2017
Top Company	51.96%	52.44%	50.69%
Top 3 Companies	91.47%	88.92%	90.12%

Distribution Channels for Life & Non-Life

	Non-Life 2015	Non-Life 2016	Non-Life 2017
Direct (%)	17	17	17
Broker (%)	7	8	8
Agent (%)	73	72	72
Bancassurance (%)	2	2	2
Internet (%)	1	1	1

	Life 2016	Life 2017	Life 2018
Direct (%)	5	3	2
Broker (%)	1	1	1
Agent (%)	25	22	20
Bancassurance (%)	67	72	75
Internet (%)	2	2	2

Source: AXCO GlobalStatistics

Reinsurance Business:

As Annual Report of Pakistan Reinsurance Company (PakRe) for the year 2018 there was the 34% surge in gross written premiums (GWP), rising from PKR8.04bn ($56.75m) in 2017 to PKR10.73bn last year.

Another point of note was the significant jump in underwriting profit which improved by 186% to PKR581m as compared to a loss of PKR677m in 2017.

"During 2018, the company achieved a healthy top line growth and improved profitability in core underwriting business,". In addition, the company's net premiums increased 9% from PKR5.01bn (2017) to PKR5.46bn (2018) and net claims were down to PKR2.99bn (2018) from PKR3.74bn (2017), a decrease of 20%.

PakRe also managed to secure its retakaful license late last year and looks set to capitalise on being able to provide retakaful services.

PakRe **Pakistan Reinsurance Company Limited**

Performance 2014-2018

Rupees in million

S. No.	PARTICULARS	2018	2017	2016	2015	2014
	FINANCIAL DATA					
1	Paid up capital	3,000	3,000	3,000	3,000	3,000
2	General & Capital Reserves	3,763	4,259	6,476	3,938	3,987
3	Equity	9,871	10,506	12,316	6,938	6,987
4	Investment	8,634	9,223	13,375	6,318	6,650
5	Fixed Assets	43	37	39	44	49
6	Cash & Bank Deposits	2,602	2,517	2,240	3,285	3,081
7	Total Assets	24,831	24,341	25,983	17,388	17,621
8	Total liabilities	14,959	13,835	13,667	10,450	10,633
	OPERATING DATA					
1	Gross Premium	10,734	8,036	8,807	8,135	8,661
2	Net Premium	5,464	5,006	5,802	5,219	4,784
3	Net Claims	2,992	3,740	3,336	2,775	2,793
4	Net Comission	1,047	1,148	1,264	1,101	950
5	Underwriting Results	581	(677)	545	722	515
6	Total Management Expenses	844	796	657	621	523
7	Investment Income	691	3,326	961	935	1,079
8	Profit Before Tax	1,740	2,876	1,427	1,772	1,565
9	Profit After Tax	1,235	2,226	974	1,377	1,244
	SHARE INFORMATION & PAYOUTS					
1	Number of shares (In million)	300	300	300	300	300
2	Cash dividend %	20	35	25	25	25
3	Bonus Shares %	-	-	-	-	-
4	Total Dividend %	20	35	25	25	25
	FINANCIAL RATIO ANALYSIS					
1	Claims ratio	54.76	74.71	57.50	53.17	58.38
2	Total Assets Turnover (Times)	0.43	0.33	0.34	0.47	0.49
3	Total Liabilities / equity (%)	151.54	131.69	110.97	150.62	152.18
4	Paid up Capital / Total Assets (%)	12.08	12.32	11.55	17.25	17.03
5	Equity / Total Assets (%)	39.75	43.16	47.40	39.90	39.65

There was an all-round improvement in all lines of business activity – both treaty and facultative business,". "Despite the downturn in the equity market, the investment returns were also satisfactory. PakRe registered investment income of PKR691m in 2018, a 79% drop from PKR3.33bn in 2017.

Pakistani Insurance at Regional and Global Level

Total Premiums	2017	2018	2019	2018 Global Ranking	2019 Global Ranking
Total Direct Premiums (US$ m)	2939	2963	2492		
Real Premium Growth (%) inflation-adjusted	10.7%	0.5%	-4.7%		
Penetration (% of GDP)	1%	0.9%	0.9%		
Density (per capita in US$)	14	14	12		
Share of EMEA emerging Total Premiums (%)	1.58%	1.53%	1.29%		
Share of World Total Premiums (%)	0.05%	0.05%	0.04%	**56**	**53**

Life Premiums	2017	2018	2019	2018 Global Ranking	2019 Global Ranking
Life Direct Premiums (US$ m)	2032	2054	1723		
Share of Country Total Premiums (%)	69.2	69.3	69.1		
Real Premium Growth (%) inflation-adjusted	12.7%	0.7%	-4.9%		
Life Penetration (% of GDP)	0.7%	0.7%	0.6%		
Life Density (per capita in US$)	10	10	8		
Share of EMEA emerging Life Premiums (%)	2.81%	2.67%	2.32%		
Share of World Life Premiums (%)	0.08%	0.07%	0.06%	**53**	**52**

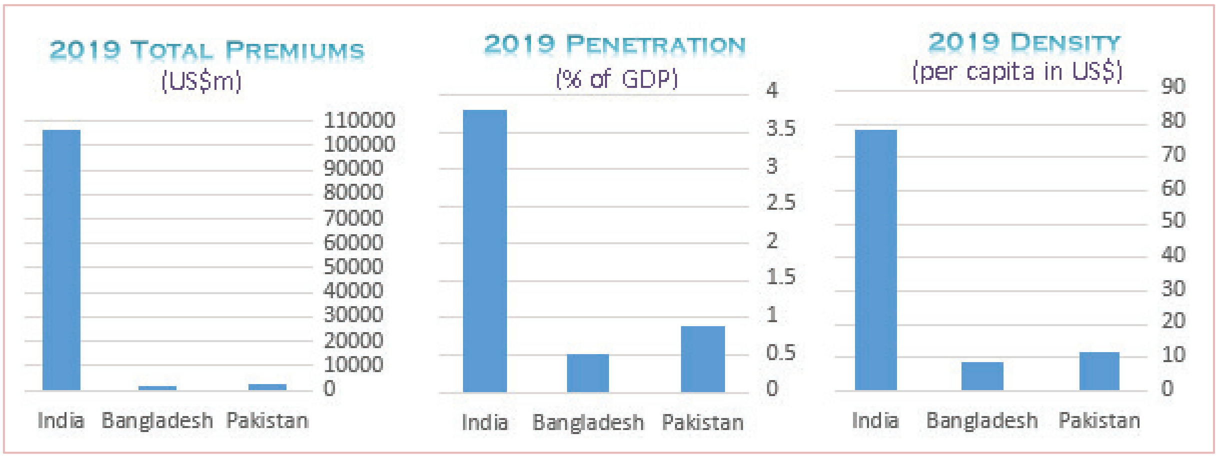
Non-Life Premiums *	2017	2018	2019	2018 Global Ranking	2019 Global Ranking
Non-Life Direct Premiums (US$ m)	906	909	770		
Share of Country Total Premiums (%)	30.8	30.7	30.9		
Real Premium Growth (%) inflation-adjusted	6.4%	0	-4%		
Non-Life Penetration (% of GDP)	0.3%	0.3%	0.3%		
Non-Life Density (per capita in US$)	4	4	4		
Share of EMEA emerging Life Premiums (%)	0.80%	0.78%	0.65%		
Share of World Non-Life Premiums (%)	0.03%	0.03%	0.02%	**69**	**74**

* *Include PA&H Insurance*

Pakistani Insurance Market total premium as a percentage of GDP and expenditure on a per capita basis expressed in US$ for the year 2019;

Comparisons are made with Bangladesh and India.

	Pakistan	Bangladesh	India
2019 Total Premiums	2492	1475	106307
2019 Penetration	0.90%	0.50%	3.80%
2019 Density	12	9	78



Source: Swissre Sigma Explorer

Pakistani Insurance Market: Outlook and Forecast:

Fitch Solutions see heavy downside risks to the insurance industry over the coming months, as slowing economic growth due to the lockdown to contain Covid-19 will weigh on consumers' ability to take up insurance policies. Fitch Solutions forecast Pakistan's economy to grow by only 0.4% in FY2020-21 (July-June).

Given that Pakistan's insurance sector is still at an early stage of development, we believe that there is still significant room to strengthen the regulatory environment, which will likely bode well for growth over the coming years. That said, the country continues to face structural challenges, such as a low savings rate, which reduces demand for both non-life and life products. Insurance in Pakistan is regulated under the Insurance Ordinance of 2000.

In the past few years, it has transformed into a developing and fast growing market which is generally divided into three components: life insurance, general insurance and health insurance.The Pakistani non-life market remains at a nascent stage of development, displaying very low levels of penetration and density. The market is relatively fragmented when compared to its larger life sector counterpart in terms of the competitive landscape. Furthermore, the non-life market has not yet attracted significant amounts of multinational investment that would bring valuable expertise and access to capital. Growth remains restricted due to a lack of product and service diversification, and regional expertise would bode well for future growth of the market.

Fitch Solutions highlight that carriers will have to look for innovative solutions to capture the segment of the population that is averse to its benefits for cultural reasons.

Life Sector To Consistently Grow Faster Than Non-Life Sector

The Pakistan life insurance segment has solid growth potential over the medium-to-long term, and the evolutionary dynamics of the market are such that life insurance and savings levels remain low by regional and global standards.

The lucrative growth prospects displayed by the life market suggest that Pakistan is set to attract major foreign investment over the coming years. We highlight that foreign capital in the life market will bring much-needed product diversity and depth to the insurance market in the long run. We also note that the market presents significant operational challenges, but new regulatory efforts to streamline the insurance industry ought to bode well for the long-term development of the sector.

Gross Insurance Premiums Written (Pakistan 2018-2023)

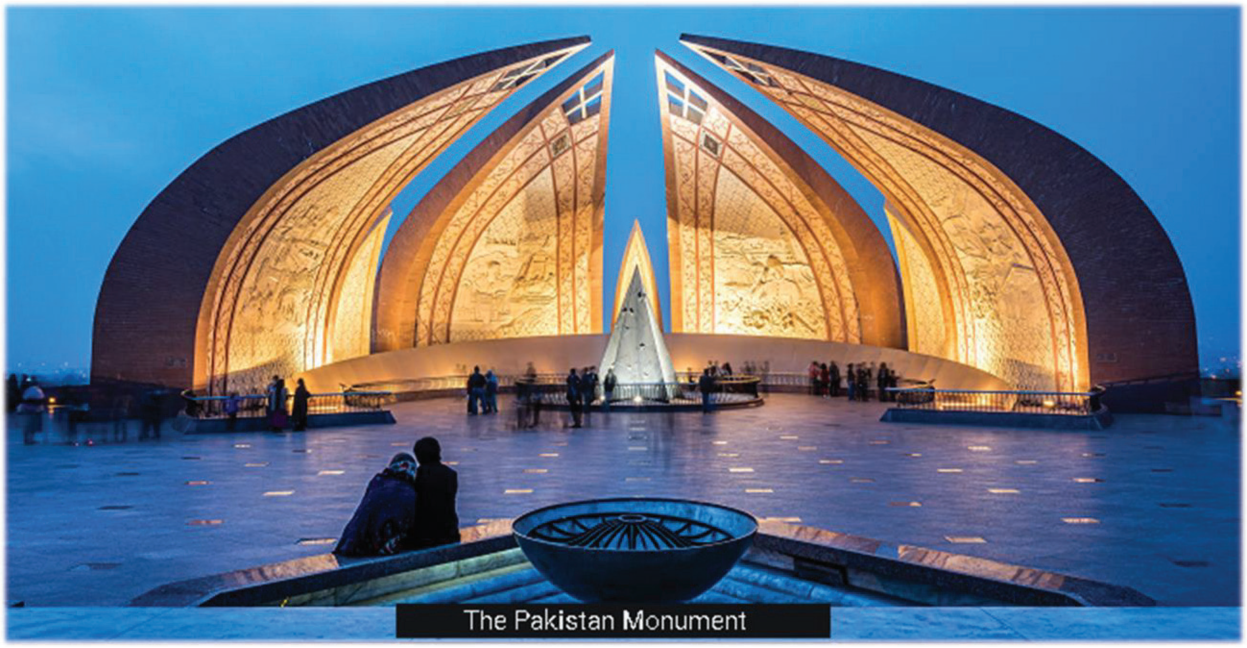
Indicator	2018	2019e	2020f	2021f	2022f	2023f
Total gross premiums written, PKRbn	317.88	360.25	370.57	405.31	446.18	490.34
Total gross premiums written, PKR, % y-o-y	9.1	13.3	2.9	9.4	10.1	9.9
Gross life premiums written, PKRbn	225.80	256.40	265.77	293.40	326.43	362.64
Gross life premiums written, PKR, % y-o-y	8.3	13.6	3.7	10.4	11.3	11.1
Gross non-life premiums written, PKRbn	92.08	103.85	104.80	111.90	119.74	127.70
Gross non-life premiums written, PKR, % y-o-y	11.2	12.8	0.9	6.8	7.0	6.6

e/f = Fitch Solutions estimate/forecast. *Source: SBP, Fitch Solutions*

GROSS INSURANCE PREMIUMS WRITTEN (PAKISTAN 2024-2029)

Indicator	2024f	2025f	2026f	2027f	2028f	2029f
Total gross premiums written, PKRbn	536.39	584.35	640.88	700.29	762.36	826.82
Total gross premiums written, PKR, % y-o-y	9.4	8.9	9.7	9.3	8.9	8.5
Gross life premiums written, PKRbn	400.23	439.14	485.96	534.99	585.93	638.46
Gross life premiums written, PKR, % y-o-y	10.4	9.7	10.7	10.1	9.5	9.0
Gross non-life premiums written, PKRbn	136.16	145.21	154.92	165.31	176.43	188.36
Gross non-life premiums written, PKR, % y-o-y	6.6	6.6	6.7	6.7	6.7	6.8

e/f = Fitch Solutions estimate/forecast. *Source: SBP, Fitch Solutions*



The Pakistan Monument

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Parametric Coverage with Non-Damage Business Interruption (NDBI) Insurance can fill Protection gap post Pandemic

by Dipan Panja (BE, FIII), GIC Re

This Article is presented by Dipan Panja (BE, FIII), GIC Re, the winner of FAIR 2020 Article Competition

With the rise of Urbanisation and economic development, Business Insurance covers are getting popular day by day as every person, organization or company wanted to hedge or transfer the risk associated with it.

With the economic growth of world, the debt ratios are increasing for every business house and the immediate choice for sustainability of the business in uncertain times is Business Insurance (BI) coverage.

The foremost challenge faced by a company is to stay afloat during crisis and the prominent palpable recourse for companies is to rely on Business Interruption insurance to recover the losses of business income.

The COVID-19 pandemic has already proven to be an unprecedented disaster, with a much broader impact in terms of scale & complexity, be it the loss of human life or economic loss. Due to COVID-19, several countries have taken nationwide lockdown measures, economic activities came to a halt and businesses are facing various operational constraints, resulting in severe disruptions and temporary closings.

Traditionally the BI insurance is an extension to property insurance policies, wherein it covers short term financial loss arising from interruption to a business operation as a result of damage to the business premises or equipment. However, these BI policies do not provide coverage to BI losses not arising from physical damage to property and assets.

Further to the above, the coverage generally excludes losses resulting from any communicable diseases/infectious disease, as the standard wordings usually have these exclusion clauses.

Though very few policies have an add-on coverage of interruption of civil authority but again the fundamental question comes whether physical damage are there and therefore many insurance companies are facing class action lawsuits from insureds claiming that policies and extensions provide cover for COVID-19 losses.

The regulators are also intervening to clarify contractual ambiguity. No doubt, on account of these above exclusions, seemingly fitting nature of the phrase "business interruption" to the current situation, BI insurance is unlikely to provide cover for COVID-19 related losses.

Generally BI losses are on average 10-20-fold of PD losses for normal risk losses but the BI loss quantum for non-damage faced by the businesses in this pandemic is expected to be much more.

Non-Damage Business Interruption (NDBI)

The Non-Damage Business Interruption (NDBI) Insurance has developed quite recently and particularly in advanced market and generally sought through policy add-ons/extensions to existing BI policies, with some exception of a standalone NDBI insurance policy.

The utility sought through NDBI extension is more focused for the exposures like denial of access to premises by the civil authority action, infectious diseases, Cyber risk, political unrest, supply chain disruptions etc.

As per AGCS's Risk Barometer report 2020, Cyber incidences ranked first, and Business interruption ranked second as top perils faced by the companies globally.

Now a day's consumer chain & supply chain system are interconnected, and any disruptions have a cascading effect.

Contingent Business Interruption are now more widespread than it was some years ago. The telecommunication, software or service companies are more reliable on technology wherein third-party suppliers have a critical role.

Failure of Internet services, data breach or server failure may have a greater impact on these lines of business. For example, a Film production house may suffer loss of production due to political un-

rest or loss of viewers due to lockdown, which is happening now in the pandemic. Even the BI risk can be reputational also.

So, the businesses required to identify the coverage gap, review the risk management practices, and need to apply risk mitigation methodology available in the market.

The NDBI covers are more tailor made and can be suited for the risks faced by the insured for in their businesses.

Many companies who have taken NDBI cover stand adequately covered against BI losses not arising from the damage to property in this pandemic.

However still these NDBI insurance markets are very scant, less matured, and only few insurers/reinsurers have risk appetite for this type of cover.

Being as an offbeat new product the challenge lies with risk assessment, risk modelling, pricing and capacity required for it.
The insurers required to design NDBI risk hedging options by Reinsurance capacity or trying different models.

This pandemic may provide an opportunity to gauge the potential value of NDBI cover. NDBI covers can be further developed with collaboration of actuarial input and modern technology like Artificial Intelligence or Blockchain technology.

Parametric Coverage can fill the gap

After we emerge from this crisis, parametric coverage might take a resourceful place combining NDBI covers.

There are still lacking in respect of NDBI covers, which can be filled with parametric coverages with inputs from AI or blockchain.


Our foundation
goes real deep.
Total Assets: US $ 12 billion
Net Worth: US $ 5.7 billion
(including US $ 3.5 billion on Fair Value Change Account)
Global Ranking (2015):
14th among Global Reinsurers (A M Best)
18th among Global Reinsurers (S & P)
Ratings:
Financial Strength: A- (Excellent) A M Best Company
Claims Paying Ability: "AAA(In)" by CARE
आपत्काले रक्षिष्यामि
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Website: www.gicofindia.in
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When there's a disruption to any business operations due to some unfortunate event the insured don't want to wait for a lengthy survey or legal issues but rather demands fast payment process that removes the uncertainty of cash flow.

Parametric covers being very simple in nature, the focus is to pay out fast as per contractual conditions to the insured when a covered event is triggered to get the business back up and running.

Generally business income losses triggered by low-frequency, high-severity catastrophe events like a devastating earthquake or flood, with the magnitude of the earthquake and the water level data serving as the parameters that activate the insurance.

Parametric cover can plug the coverage gap of traditional indemnity programs. However, in respect of NDBI covers, parametric cover can be tailored for multiple perils with trigger point like loss of revenue more than a certain percentage due to pre specified perils.
The following examples are illustrated to understand the tailored coverage of it.

1. For Hospitality industries: Loss of Business revenue more than a certain percentage or reduction of hospitality index can be covered under parametric insurance.
   The perils could be different like pandemic, reduction of flight, NATCAT events or political violence etc. The revenues or profit margin can be checked with last 5-7 years data of that business and with the use of Big Data analytics an average model can be prepared for that location and future growth can be assumed.
   If there is less than a certain percentage of footfall to that hospitality industries due to specified perils, claim payment process can be initiated.

2. For Refineries or Petrochemical complex:
   Loss of Gross Refinery Margin (GRM) more than a certain percentage can be covered under parametric insurance.
   The perils could be disparate like very low crude oil prices, trade war, civil authority interruption or leakage & contamination etc.
   Here we can use BIG Data and Blockchain technology to gauge the loss of refinery margin and tailoring of trigger point like more than 50% loss of GRM up to a predefined limit. After removing the fluctuation associated with crude oil prices, the risk exposure can be hedged through parametric insurance.

3. If some small businesses get a notice of audit with respect to some regulation, the cover will help with predetermined amount for financial loss due to fine or legal charg-

es. Even for micro insurance like payment of financial loss (e.g. Late fees or cancellation charges) on account of delayed shipping from manufacturer under NDBI covers.

Though Lloyd's had started offering hotel-focused parametric product from last year however there were few takers.

The idea of parametric cover for precisely NDBI insurance is to cater Business Interruption coverage with linking trigger point as loss of Business revenues for multiple perils.

The perils may create a physical damage and may not at all, but the business vulnerability needs to be covered.

The insured always looks out for quick liquidity post loss and flexible use of funds, both of which can be helped by parametric covers.

Both parties to a risk-transfer transaction like this would generally agree to an authoritative organization with publicly available data, such as the World Health Organization (WHO) for pandemic or National Disaster Response force for Flood/hailstorm.

This approach does provide a quick resolution for urgently needed transactions where no alternatives are available.

The quick cash flow at the time of financial loss without any litigation will make this Parametric NDBI cover an exceptional product.

Post 9/11 insurance market was collapsed as terrorism insurance was never modelled. However, post COVID-19 pandemic, the industry will not collapse but some lines may get affected.

The last pandemic SARS was occurred in 2003 and from that time pandemic modelling had started. Post COVID-19 pandemic, there will be hardening of rates and reduction of coverage which enables the perfect rise of Parametric NDBI covers.

There will be demand for it from the corporate houses as every risk manager will review their risk management practices and this can help plug the coverage gap at prices clients can afford.

Challenges and Opportunity

Unless the government's willingness to create a pool for pandemic insurance, parametric NDBI insurance will be one of the best risk transfer options for uncertain pandemic.

The underwriters can face pricing and modelling challenge but with the use of Internet of Things, Big Data and Blockchain ledger technology the insurance companies need to evolve.

The world is getting more connected through digital technologies and as a result now we have an enormous level of

data which can be processed by Data Analytics.

The Insurance/Reinsurance companies need to develop different models with these data for different event and innovate ways to the dynamics of that industry for pricing precision.

From the underwriter side, one of the key aspects of pricing will be Business Continuity plan for that particular industry in an unplanned disruption.

As per Artemis survey nearly half of the respondents estimate that the non-life underwriting loss will be between USD 80-150 billion due to COVID-19. Also 68% of the survey respondents feel that the pandemic will change BI policy wordings.

It may happen that COVID-19 pandemic can be coined as black swan event, but the loss creep magnitude will be high.

Further to the above, the lower interest rates, lower bond yields, dip of Return of Equity and exposures in Credit insurance will give headache to the Re/Insurance companies and may notch down the solvency ratios.

The Insured should refocus on protection gap and partners with quality security to avoid any surprises at the time of claim.

Despite the challenges, it has created an opportunity and we need to tide up with our collective underwriting process and a renewed focus on technical risk evaluation.

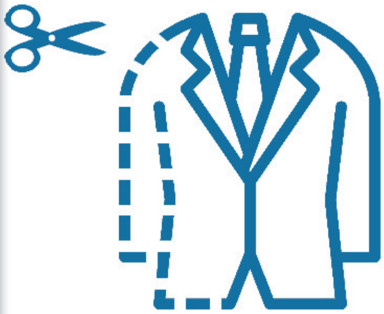
If the market demands and there is scope to cover pandemic risk and we must offer advance coverage solutions with parametric NDBI coverage.

As there are always someone who will grab the opportunity and do innovative things in response to the demand in marketplace.

Massachusetts, US based insurtech 'Machine Cover' have already taken that opportunities and developing the first parametric-based pandemic insurance product designed to fill the gap in the currently available commercial insurance policies.

There are opportunities for capital markets and ILS communities also by providing capacity for reinsurance and retrocessional transactions for the insurers assuming original risk.
It will be prudent to provide more opportunities with parametric NDBI insurance products to reduce the business impact of the next one.

With these tailor-made coverages, companies will be better equipped to weather future storms and become more resilient against future shocks and disruptions like this one. Parametric NDBI insurance can be sold as a mainstream product in near future due to its simpler nature. ■

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