

## **Article: “Insurance rates to rise this year”**

This country’s foreign exchange woes are threatening to cripple the local insurance market.

In fact, the Association of T&T Insurance Companies (ATTIC) has deemed obtaining foreign exchange to make reinsurance payments the “greatest challenge” currently facing local insurers. In 2019, local insurers paid approximately \$1 billion in reinsurance payments on property business.

There is a long list of reinsurance companies that local insurance companies work with including Munich Re, Hanover Re, Swiss Re, Everest Re, AXA XL, Odyssey Re, R&V Re.

And already the difficulty in accessing foreign exchange to pay the annual bill to those re-insurers is being blamed in part for some of them reducing their support here.

“By simply lowering their coverages eg if they were providing 10 per cent support on a risk they have decided to provide five per cent support,” ATTIC stated.

Other re-insurers have gone a step further and have already started actively considering withdrawing their business here altogether.

And according to ATTIC that is a “very likely” possibility if “they feel they are not adequately compensated for the risks they are underwriting.”

As a result of the current situation, property owners will have to pay more for property insurance in the near future.

The rate increase is expected to take effect as early as this year in some instances.

The rate hike is expected to be in the vicinity of five per cent.

While the possible increase in insurance premiums will hit individual pockets, the situation concerning the re-insurers is not something the country can afford to take lightly, ATTIC stated, since local insurers are dependent on international reinsurance for support should there be a catastrophic event here.

“Reinsurance is also a mandatory regulatory requirement. In recognition of their unique national role in providing policyholder protection, local insurers must ensure that their operations can meet their claim obligations and remain viable,” ATTIC stated.

ATTIC added this is further reinforced by the recent proclamation of the Insurance Act 2018 which came into effect the start of this year.

“The welcomed new act, whilst strengthening policyholders’ protection, further increases local insurance capital requirements and operating costs. Local insurers will nevertheless continue to act in amending local rates, in a reasonable and responsible manner, to ensure that the industry continues to be a position to satisfy its policyholders’ obligations,” ATTIC stated.

International credit rating agency AM Best has described reinsurance partnerships as the “cornerstone” that provides the capacity for insurers to profitably write business in the Caribbean.

“Analysts noted that these longstanding partnerships have proven to be extremely resourceful in the context of prudent catastrophe risk management, given that exposure to natural catastrophes is the greatest peril faced by carriers operating in the Caribbean,” AM Best stated.

“Most insurers in the region continue to maintain conservative, yet robust, property reinsurance treaties, employing a combination of property and excess of loss treaties, and in many cases purchasing reinstatement premium as cover for second and third events,” it stated.

But what exactly is reinsurance?

“Reinsurance is insurance protection purchased by an insurance company from another insurance company or companies. It represents the transfer of risk from one insurer to others in order to ensure that large claims eg catastrophe claims will be settled,” ATTIC stated.

“From a regulatory perspective insurers are required to have reinsurance protection. It just makes sense quite simply because while some of the larger local insurance companies may be able to carry more risk because they have more robust balance sheets and capital the fact is that if we get hit with a category five hurricane or God forbid T&T experiences a significant earthquake just the share claim, the dollar value damage that will be done, none of those companies has the ability to make those payments and continue doing business, they will be bankrupt,” ATTIC’s vice president Keston Howell stated.

“So what the industry effectively does is they insure that risk, they transfer that risk to re-insurers,” he said.

In 2017, when the Caribbean region was hit hard by Hurricanes Irma and Maria, which impacted Barbuda, St Maarten/Martin, Anguilla, and the Virgin Islands, as well as Puerto Rico and Dominica financial relief was forthcoming because of a significant protection gap of more than 80 per cent.

Howell said re-insurers receive premiums from around the world so the global issues would affect that industry.

“If the reinsurance sector is being burdened with claims from Asia because they had some typhoons or the US because they had a lot forest fires combined with a set of hurricanes that hit Florida and then they have to deal with COVID-19 claims which have not impacted the local industry but have impacted the international industry they will underwrite risk differently,” Howell said.

And this would lead to an adjustment in rates.

“The pricing that occurs on property insurance to a large extent is driven by the reinsurance companies comfort with what they are getting relative to the protection they are providing or the risk they are taking. And what has been happening is because they have been paying far more claims than they are accustomed paying they now want to adjust those rates,” he said.

Reinsurance rates over the last few years have been increasing.

According to a report from rating agency Moody's Investor Services Inc, re-insurers have faced "a confluence of impacts" on their business.

This includes low interest rates, more than three years of global catastrophe losses and high liability losses due to "social inflation" or increased court judgements and settlements. Further compounding this is the on-going uncertainty surrounding liability for infectious diseases, COVID-19, ATTIC stated.

"Contrary to these international trends, average property insurance premiums in Trinidad and Tobago have declined and are significantly lower than other Caribbean territories. This trend is no longer acceptable for well-known reinsurance supporters of our market," ATTIC stated.

Source: T&T Guardian

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