REINSURANCE

EBOOK 2023

For society, digitalisation is a force for giving more people access to insurance and thereby closing protection gaps – Jerome Haegeli, Group Chief Economist, Swiss Re

There is significant growth potential in East Africa, particularly in Kenya, Tanzania, Uganda, Rwanda, and Ethiopia – Jean-Alain Francis, CEO, EllGeo Re

We are seeing the profound impact of climate change on reinsurance, both globally and within Africa – Lawrence Nazare, CEO, Continental Re

COVER

CONTENTS PAGE

REINSURANCE

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"The increased frequency and severity of weather-related incidents play a pivotal role in reshaping the reinsurance landscape."
- Lawrence Nazare, CEO of Continental Re

NAVIGATING THE AFRICAN REINSURANCE LANDSCAPE: CHALLENGES,OPPORTUNITIES & INNOVATION

THE AFRICAN REINSURANCE MARKET STANDS AT A CRITICAL JUNCTURE, INFLUENCED BY A CONVERGENCE OF FACTORS RANGING FROM THE TRANSFORMATIVE IMPACT OF CLIMATE CHANGE TO THE EVOLVING DYNAMICS OF THE GLOBAL ECONOMY.

Industry leaders and experts, from companies such as **Continental Re**, **Mukfin** **Ellgeo Re**, and several other prominent reinsurance players, share insights that shed light on the challenges and opportunities shaping the future of reinsurance in Africa.

Climate Change: A Transformative Force

The impact of climate change is not merely a distant threat; it is a tangible reality that is reshaping global industries, particularly insurance and reinsurance. Lawrence Nazare emphasises the severity and frequency of climate change events, challenging existing reinsurance models and rendering them obsolete. Catastrophe insurance costs surge due to escalating climate-related events, prompting a re-evaluation of insurability in certain regions. Climate change transforms once low-risk areas into potential hotspots, prompting a global community contribution to a shared catastrophe pool. The globalisation of risk results in higher costs, affecting insured individuals who must bear the increased burden. In response, reinsurance, traditionally reactive, is now taking on a proactive role in shaping societal resilience. Collaboration between authorities, regulators, industries, and the reinsurance sector becomes essential, particularly as certain risks become uninsurable for private entities.

The evolving role of reinsurance involves using accumulated knowledge to contribute to adaptation initiatives, building codes, and construction standards that enhance community resilience. Collaboration is crucial, and a multi-pronged approach, like public-private partnerships, is needed to create models that protect the insurance sector from indeterminate risks and ensure rapid recovery for affected communities. In conclusion, amidst the transformative impact of climate change, there is an urgent need for collaboration, proactive risk management, and the evolution of insurance models to navigate the challenges faced by the insurance and reinsurance industries.

Munich Re's Approach to Challenges: Lessons for Africa

Munich Re as a leading reinsurance provider, addresses challenges posed by natural catastrophes, inflation, geopolitical unrest, and cyber risks in Europe. The insights from Munich Re underscore the increasing frequency and severity of weather-related events, including natural catastrophes exceeding 1 billion euros in losses, highlighting the global impact of climate change. Disciplined underwriting and collaboration with clients are emphasized as key strategies to adapt to evolving risks and develop new solutions. Munich Re's commitment to providing consistent and increasing capacities to address challenges while ensuring profitability and transparency in risk management sets an example for the African reinsurance market. Munich Re's focus on supporting clients through digitalisation opportunities and tailored solutions for capital relief presents valuable lessons for African reinsurers. As the continent faces its unique challenges, embracing digital solutions and innovative approaches to risk management can position African reinsurance companies for sustainable growth.

Emerging Markets and Growth Potential: A New Frontier for Reinsurers

Pacxedes Mukonzo, Client Relationship Manager at Mukfin, sheds light on the significant shift occurring in the global insurance industry. Reinsurers are increasingly exploring emerging markets, particularly in Africa, attracted by factors such as rapid economic growth, demographic changes, urbanization, and digitalization. While the potential for growth is immense, entering these markets presents unique challenges. Reinsurers must navigate distinctive regulatory frameworks, cultural differences, and unique risk profiles. Despite challenges such as limited capacity, political instability, regulatory changes, and technology gaps, emerging markets offer untapped potential with low insurance penetration, rapid economic growth, and opportunities for diversification. To succeed in these markets, reinsurers need to invest in talent development, adaptability to regulatory changes, and technology solutions to streamline operations. By proactively addressing challenges and embracing opportunities, reinsurers can not only capitalise on the growth potential but also contribute to the development of dynamic economies in emerging markets.

Global Economic and Insurance Market Outlook: Implications for Africa

The global economic and insurance market outlook for 2024-25, as presented by Swiss Re Sigma 6/23 introduces both challenges and potential opportunities for the African reinsurance market. A slowdown in the world economy due to cumulative monetary policy tightening and geopolitical uncertainties, especially with the outbreak of war in the Middle East, raises concerns. Major economies diverge, with the US growing, Europe stagnating, and China facing domestic growth challenges. While developed markets may experience higher-than-anticipated inflation and interest rates, posing risks to economic output, geopolitics plays a more dominant role in driving the outlook. The Middle East conflict adds non-linear downside risks. However, the insurance industry is seen as a key partner in government initiatives, potentially leading to growth in commercial lines of business. The implications for the African reinsurance market are significant, as it aligns with the global trend of insurers playing a vital role in driving economic initiatives.

The primary insurance industry faces a dampened outlook, with challenges such as rising frequency and severity of claims and natural catastrophe insured losses expected to reach USD 100 billion in 2023. Hard market conditions are anticipated in 2024, especially in claims-impacted lines. The Middle East conflict introduces stagflationary risks, emphasising the importance of monitoring alternative economic scenarios. Swiss Re tracks negative "tail risk" scenarios, including "1970s style stagflation" and a "severe global recession." The likelihood of an upside scenario is considered lower than the combined probability of the two downside scenarios.

OESAI Conference Insights into the Mauritian Insurance Market

The 45th OESAI Conference hosted in Mauritius provided valuable insights into the dynamics of the Mauritian insurance market and offers lessons for the broader African reinsurance landscape. In an interview, Jean-Alain Francis, CEO of EllGeo Re, and local organising committee chair, discussed the challenges faced globally in making insurance more accessible and highlighted the positive trend in health insurance uptake. EllGeo Re's measured expansion into East Africa, particularly Kenya, reflects a strategic approach focused on providing value and engaging in conversations.

The commitment to long-term success is reflected in strategic recruitments and emphasises collaboration, education, and diversity within the industry as key elements for growth and development across borders. The well-established nature of the Mauritian insurance market showcases the potential for stability and growth in African insurance markets. The positive trend in health insurance uptake points to evolving consumer needs and preferences, offering opportunities for innovative reinsurance solutions. EllGeo Re's emphasis on collaboration, education, and diversity aligns with the overarching theme of the article – the need for a collaborative and multi-faceted approach to navigate the challenges and seize the opportunities in the African reinsurance market.

Forging a Resilient Future for African Reinsurance

As the African reinsurance market navigates the challenges and opportunities presented by climate change, global economic shifts, and the exploration of emerging markets, a resilient and collaborative approach becomes paramount. The insights shared by industry leaders and experts underline the urgency for proactive risk management, innovative solutions, and collaboration across sectors. The evolving role of reinsurance, from reactive risk mitigation to proactive societal resilience shaping, requires a concerted effort from authorities, regulators, industries, and the reinsurance sector. The challenges posed by climate change are not insurmountable; they serve as a call to action for the industry to contribute to adaptation initiatives, influence building codes, and enhance construction standards that bolster community resilience.

The exploration of emerging markets, particularly in Africa, holds immense potential for growth. However, reinsurers must approach these opportunities with a strategic mindset, acknowledging and navigating the distinctive challenges presented by regulatory frameworks, cultural differences, and unique risk profiles. The global economic and insurance market outlook presents a backdrop of uncertainty, but within challenges lie opportunities. The role of the insurance industry as a key partner in government initiatives emphasizes the potential for insurers and reinsurers to contribute meaningfully to economic development. As witnessed in the OESAI Conference, the well-established nature of the Mauritian insurance market serves as a beacon of stability and growth potential. The positive trend in health insurance uptake signals evolving consumer needs, providing a platform for innovative reinsurance solutions tailored to the African context.

In conclusion, the African reinsurance market stands at the crossroads of challenges and opportunities. By embracing a collaborative, innovative, and adaptive approach, the industry can forge a resilient future that not only navigates the current complexities but also contributes to the sustainable development of dynamic economies across the continent.

UNLOCKING RESILIENCE: SOVEREIGN RISK POOLS COLLABORATE TO TACKLE CLIMATE AND DISASTER RISK

In an effort to address the growing challenges of climate change and natural disasters, a recent summit held on October 5, 2023, brought together the heads of key sovereign risk pools and various stakeholders from across the globe. This event, organized by the Centre for Disaster Protection and Gallagher Re resulted in the signing of a joint Memorandum of Understanding (MoU). The summit served as a platform for strategic engagement, collaboration, and the formulation of innovative solutions to enhance the capacity of sovereign risk pools.

The summit welcomed CEOs and senior advisors from organizations such as African Risk Capacity Limited (ARC Ltd) the Pacific Catastrophe Risk Insurance Company(PCRIC), the Caribbean Catastrophe Risk Insurance Facility(CCRIF SPC), and the Southeast Asia Disaster Risk Insurance Facility(SEADRIF). These entities together form the Sovereign Risk Pools, which have been established to serve the sovereign climate and disaster risk insurance objectives of nearly 100 nations globally. This initiative aims to secure access to financial resources before a disaster strikes, allowing countries to respond quickly to emergencies and mitigate their impact on people and livelihoods.

By pooling risks in a diversified portfolio and retaining some of the risk through joint reserves, countries can transfer excess risk to the reinsurance and capital markets, thereby enhancing their financial resilience. One of the main challenges discussed at the summit was the cost of re/insurance, which remains a significant obstacle. Representatives of the insurance industry engaged in extensive discussions to explore solutions and share best practices. The joint efforts and enhanced collaboration discussed at the summit aim to make risk coverage more affordable for countries.

The sovereign risk pool executives have agreed to cooperate under the joint MoU, with a focus on several key principles:

1. Defining Development Insurance Programs: The pools will establish principles that define insurance programs to promote development, including protecting vulnerable populations and supporting Sustainable Development Goals (SDGs).

2. Accelerating Innovation: The collaboration will drive innovation in disaster risk financing to make it more efficient and responsive.

3. Expanding Access: The aim is to expand access to disaster risk finance for the public benefit, ensuring that more countries can access the resources they need to respond to disasters effectively.

4. Seeking Capital: The pools will actively seek the necessary capital to achieve global scale in their operations. Furthermore, the summit attendees confirmed a shared interest in exploring the establishment of a joint reinsurance facility. This facility would facilitate global risk transfer access to global capital markets, providing an additional layer of financial support to enhance the insurance offerings to countries.

Ms. Hien Anh Than, Executive Director of SEADRIF Insurance Company, emphasized the importance of collaboration in strengthening financial protection against increasing climate risks. She highlighted that working closely with partners in the global family of sovereign risk pools is crucial in these efforts. The collaboration will extend to the development of parametric models and the exploration of meso-micro and replica schemes to complement sovereign-level risk transfer. ARC Ltd. CEO Lesley Ndlovu expressed his enthusiasm about this cooperation, citing the pool's expertise in these areas.

CEO Mr. Aholotu Palu of PCRIC expressed the commitment of his organization to providing cost-effective, bespoke parametric insurance products and actively engaging with other regional risk pools. This collaborative approach equips them with practical knowledge to develop impactful risk mitigation solutions.

Antoine Bavandi, Global Head of Public Sector & Climate Resilience Solutions at Gallagher Re, emphasized the critical role of sovereign risk pools in closing the protection gap. He expressed Gallagher Re's commitment to supporting the sustainable growth plans of these pools in collaboration with donors and development partners.
The Sovereign Risk Pool summit in London marked a critical milestone towards a more holistic and collaborative approach to climate and disaster risk finance. The outcomes of this summit promise a brighter future for disaster-prone nations by strengthening their financial resilience and enhancing their ability to respond effectively to emergencies.

INSURAMORE GLOBAL REINSURER RANKING

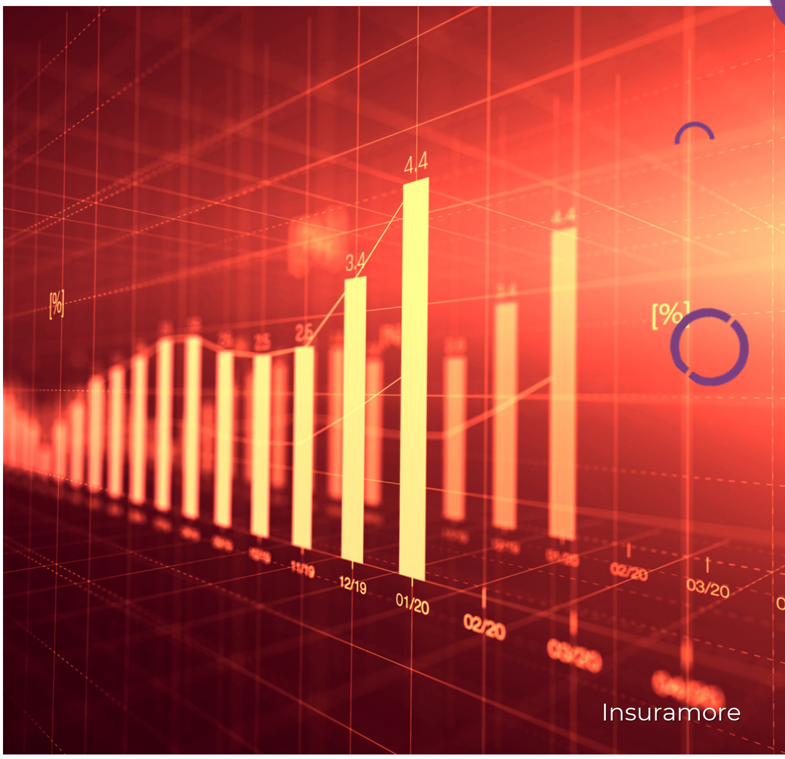
According to global rankings updated recently by Insuramore, and taking into consideration all forms of reinsurance cover, reinsurance premiums assumed worldwide (see definition overleaf) amounted to a value of around USD 500 billion in 2022.

This represented an increase of approximately 40% relative to 2019 or a compound annual growth rate over the time frame of just under 12%. Notably, these figures contrast with a 12% outright rise in the value of the world's total direct insurance market between 2019 and 2022, converting to a compound annual growth rate of just under 4%.

The superior growth of the reinsurance sector in recent years may be attributed in part to the rapid expansion of several groups specialising in life and annuity reinsurance. In fact, groups active only in this arena – whose activity may also include some health reinsurance – made up five of the top 20 reinsurance groups globally in 2022.

These were Great-West Lifeco (incorporating Canada Life Re), Global Atlantic Financial Group (belonging to private equity firm KKR), Legal & General, RGA and Talcott Resolution (belonging to Sixth Street, another private equity firm).Moreover, life and annuity reinsurance specialists accounted for 30 of the world's top 150 reinsurance groups as measured by reinsurance premiums assumed.

Overall, and while it is difficult to be precise due to a general lack of transparency in reinsurers' reporting in respect of how they classify health reinsurance, P&C (non-life) reinsurance is likely to have accounted for between 54% and 60% of the global value of around USD 500 billion in total reinsurance premiums assumed in 2022 with the rest due to life, annuity and health reinsurance.



Apart from the cohort of fast-growing life and annuity reinsurance specialists, which include Monument Insurance Group as well as some of the organizations referenced above, other reinsurance groups in the top 150 achieving a compound annual growth rate of more than 50% in their premiums assumed between 2019 and 2022 included the following:

- Apollo Global (in the wake of its having taken full control of Athene Holding in 2021, adding to its pre- existing ownership of Aspen Re)
- Ark Insurance Holdings (itself bought by White Mountains Insurance Group in 2021)
- China Pacific
- Convex Group (which launched in 2019); and
- Covéa (following the completion of its purchase of Partner Re in 2022).
- At the other end of the spectrum, as many as 20 of the world's top 150 reinsurance groups experienced a contraction in their premiums assumed between 2019 and 2022 which illustrates that the reinsurance sector is not characterised by one-way traffic.

Insuramore is a provider of marketing services and related consultancy with a primary focus on the insurance sector. (see www.insuramore.com/services) For Insuramore's insurance provider rankings, see www.insuramore.com/rankings

NAVIGATING THE STORM:
THE IMPACT OF CLIMATE CHANGE ON REINSURANCE


Lawrence Nazare, CEO of Continental Re

Climate change is no longer a distant threat; it's a reality reshaping the landscape of industries worldwide. Among those significantly affected are the insurance and reinsurance sectors. We are seeing the profound impact of climate change on reinsurance, both globally and within Africa.

The Unprecedented Ferocity of Climate Change

The unexpected severity and intensity of climate change events challenges the gradual and innocuous expectations held in the past. The increased frequency and severity of weather-related incidents play a pivotal role in reshaping the reinsurance landscape. The industry was unprepared for the scenarios unfolding today, rendering existing costing models obsolete.

The Changing Dynamics of Catastrophe Insurance

The escalating severity of climate change-related events has driven catastrophe insurance costs "through the roof." The traditional private sector approach to insurability is being questioned, with a growing realisation that certain categories may no longer be viable for private risk transfer. In regions like North America, insurers are withdrawing from providing coverage due to the disproportionate impact of events like flooding and fires on their balance sheets.

Globalization of Catastrophe Risk

Evaluating the evolving nature of catastrophe risk that is transcending geographical boundaries, climate change has turned once considered low-risk regions into potential hotspots, challenging the concept of excluding territories from the global catastrophe pool. The global community is now contributing collectively to the same pool, resulting in a higher cost of providing catastrophe insurance and reinsurance.

The Trickle-Down Effect on Insured Individuals

The increased cost of catastrophe insurance and reinsurance inevitably trickles down to the insured individuals. The risk must be spread across a wider spectrum, impacting the average person on the street. This shift prompts a re-evaluation of how societies approach and manage climate-related risks.

The Evolving Role of Reinsurance

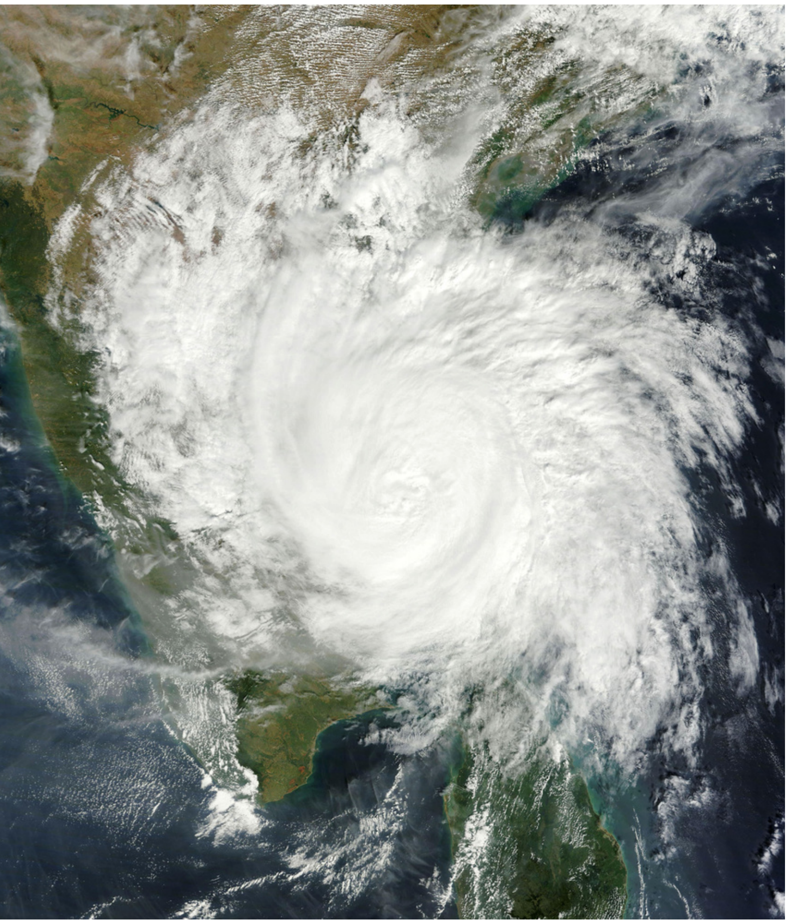
Historically reactive, reinsurance is now poised to play a proactive role in shaping society's resilience to climate change. The wealth of information accumulated by the reinsurance and insurance sectors over the years. This knowledge can contribute to the formulation of adaptation initiatives, building codes, and construction standards that enhance community resilience.

Collaboration for a Sustainable Future

An essential element is the need for collaboration between authorities, regulators, industries, and the reinsurance sector. As climate change renders certain risks uninsurable for private entities, a multi-pronged approach, akin to the public-private partnership (PPP) model seen in South Africa and Namibia, is crucial. The conversation should revolve around creating models that not only protect the insurance sector from indeterminate risks but also ensure rapid recovery for affected communities.

In conclusion

In an era where climate change is reshaping the dynamics of risk, the insurance and reinsurance industries face unprecedented challenges. There should be urgency for collaboration, proactive risk management, and the evolution of insurance models to navigate the storm of climate change. **As we witness the transformation of catastrophe risk on a global scale, the role of reinsurance becomes pivotal in fostering resilient communities and ensuring the sustainability of the insurance industry.**



SERIES OF BILLION-EURO MARKET LOSSES DUE TO NATURAL CATASTROPHES IN EUROPE

Insurance markets currently must cope with growing uncertainty: inflation, geopolitical crises, rising cyber risks, and an increased frequency and severity of natural events, also in Europe where we have seen an unprecedented series of natural catastrophe losses exceeding the 1- billion-euro mark this year.

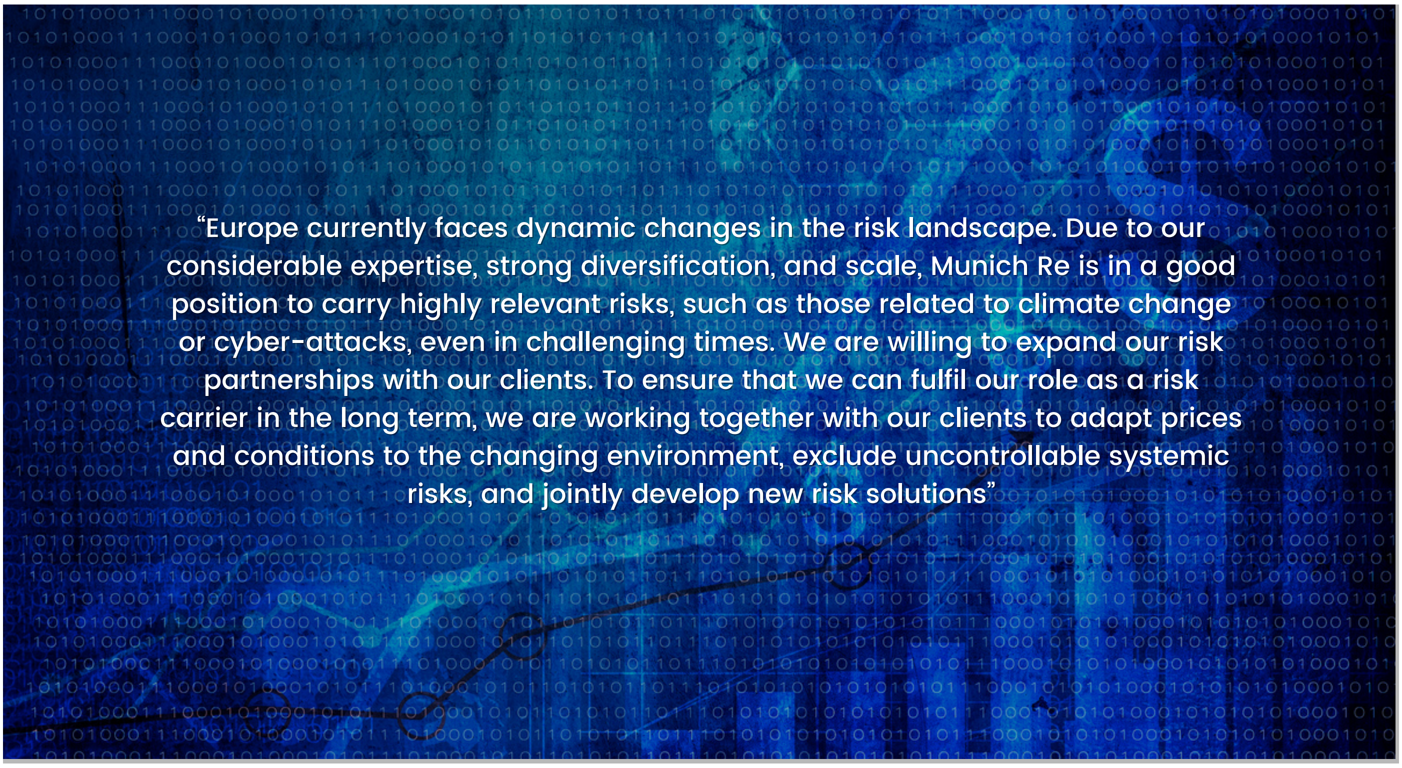
These changes will be at the centre of the upcoming renewal discussions. As leading provider in Europe, Munich Re is able to allocate additional capacities for natural catastrophes and other types of risks, provided that appropriate prices, terms and conditions can be achieved.

Both delivering added value for clients and maintaining the quality of its own portfolio are top priorities in the renewals. To achieve this Munich Re will continue to pursue a policy of disciplined, technically sound underwriting, allowing it to make capacity commitments early in the renewal process and based on clear criteria.

Inflation explosure & loss expectations on the rise

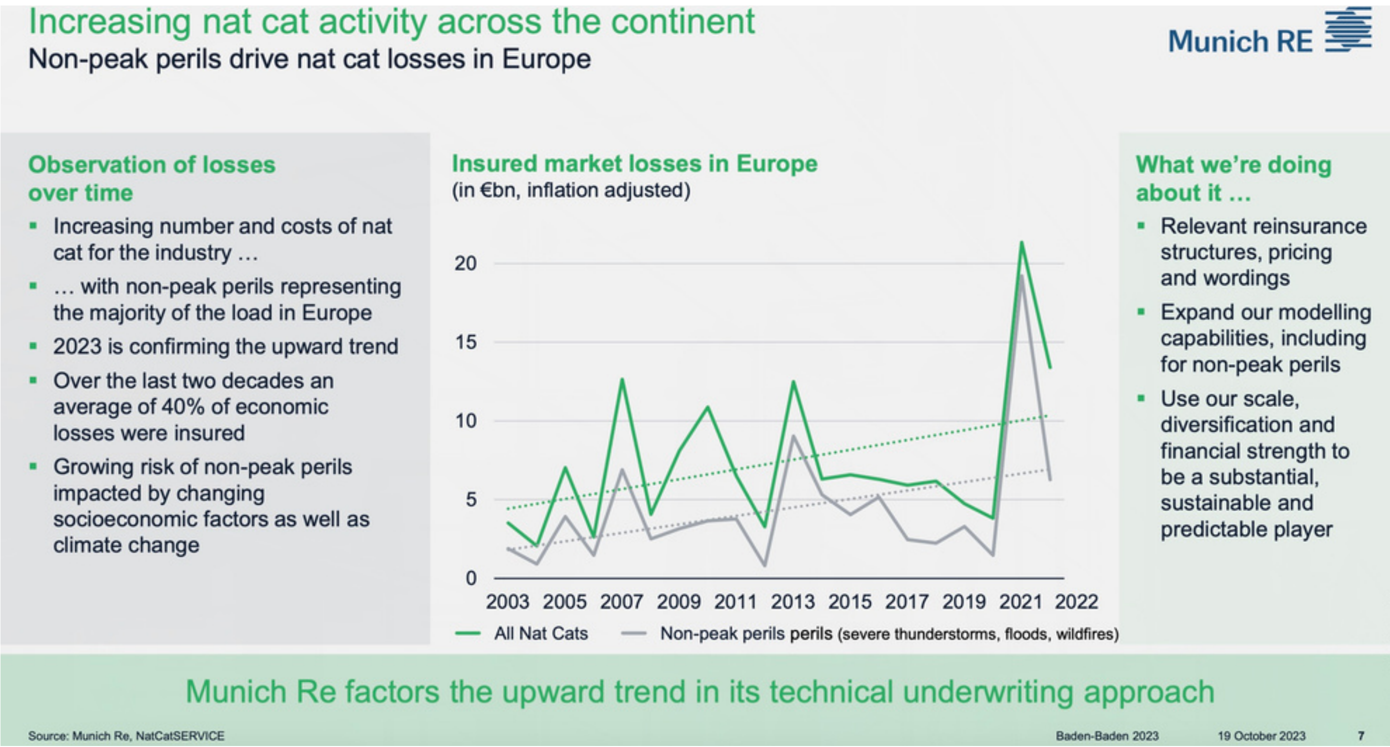
In the Euro area, the unusually high inflation dynamic seen in the past two years recently abated. However, energy and food prices remain high, and wages are growing. Accordingly, in the baseline scenario Munich Re Economic Research predicts an inflation rate of around 3% for 2024, more than twice the mean inflation rate for the 2010s. Moreover, Munich Re expects inflation in the Euro area to remain above the long-term average beyond 2024.

In insurers' portfolios, still-palpable price increases are producing higher exposure and loss expectations alike. This is particularly true for the motor book in the underwriting years 2021 and 2022. To offer suitable cover for future losses, in addition to general inflation, insurers and reinsurers need to factor in segment-specific inflation factors – such as higher prices for replacement car parts, higher construction costs, wage increases. Inflation will remain a key feature in pricing.



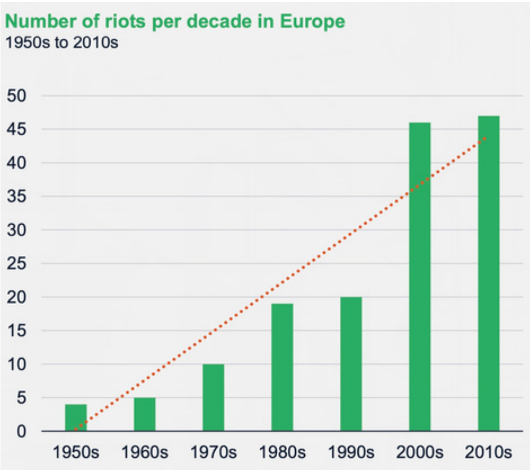
According to a Munich Re analysis (from late September), at least seven natural catastrophes in Europe fall into this category (2022: 5 / 2021: 4):

- Earthquakes in Turkey and Syria in February
- Flooding in northeast Italy and adjacent countries in May
- Storms Kai and Lambert in Germany in June
- Severe weather due to Storm Unai in northern Italy, Slovenia, and Croatia in July
- Flooding in Slovenia, Austria, and Croatia in early August
- Storm Hans in northern Europe in August
- Storm Denis with hail, especially in southern Germany, in late August



Munich Re continually invests to better understand natural hazards and underlying trends. Findings of internal and external scientists improve the basis for modelling natural catastrophes and provide valuable information for developing targeted measures to prevent risks and mitigate attendant losses, as well as for adequate pricing. Thanks to the quality of its underwriting, the underlying mix and diversification of risks in its portfolio, paired with its considerable financial strength, Munich Re offers consistent – and for Europe, increasing – capacities, which are stringently defined based on ensuring profitability. Clarisse Kopff: "Natural catastrophes have always been at the core of Munich Re's business. When top capacities are called for, we are a stable and dependable provider. We can see that, given the challenges posed by climate change and its growing economic impacts, there is a lasting demand for our core competences on the market."

Increasing civil unrest in Europe

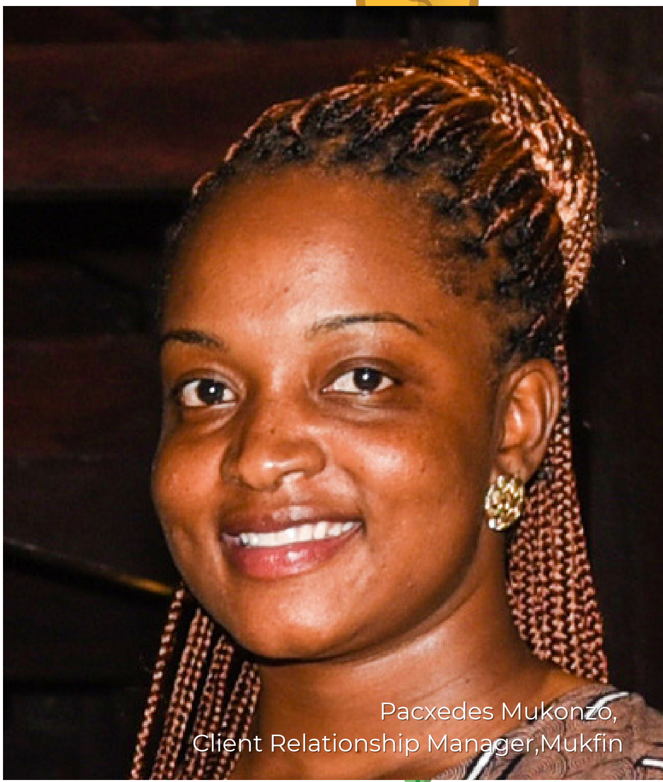


Civil unrest has worsened over the past several years, both globally and in Europe. These risks are only insurable as local events under property insurance and based on individual coverage designs (clear wordings with event definition and temporal and geographic limitations on events). Further, they must be assessed using a stringently technical underwriting approach. In terms of monitoring this dynamic risk, it is essential that the potential accumulation risk be continually evaluated. The potential for unrest and riots to spread both temporally and regionally could be seen in this year's events in France. In the city of Nanterre, what began as a vigil for a teenager shot dead by the police escalated into prolonged violent protests against the police in several cities. Retailers, supermarkets, banks, and restaurants were damaged, as well as public buildings and facilities. According to initial estimates, the riots resulted in economic losses in excess of €1.1bn.


We believe insurance extends beyond financial security, and that progress is more than just moving on. In every part of our business, we pioneer the industry, harnessing the power of evolutionary innovation and 140 years of expert vision. Our focus is on delivering insights that guide people and businesses to a future that is more confident, inclusive and impactful. A future we invest in, and that you can trust in.
Leading progress forward
Munich RE

EMERGING MARKETS: GROWTH POTENTIAL FOR REINSURERS

The global insurance industry has witnessed a significant shift in recent years as emerging markets have become increasingly attractive for reinsurers.



Pacxedes Mukonzo,
Client Relationship Manager,Mukfin

Due to the rapid economic growth, demographic change, urbanisation, and digitalization taking place in Africa, numerous prospects are rising in the reinsurance sector. These markets offer immense growth potential, but they also come with their own set of opportunities and challenges. In this article, we will explore the exciting possibilities and the hurdles faced by reinsurers when providing coverage in emerging markets.

The nature of reinsurance emerging markets.

Regulatory Differences

Emerging markets often boast distinctive regulatory frameworks that differ from their established counterparts. Reinsurers must navigate these complexities to ensure compliance and effectively operate within the local legal and regulatory environments. Understanding local regulations, licensing requirements and capitalisation standards is essential to establish a strong foothold.

Cultural Considerations

Cultural differences play a crucial role in shaping business practices and customer expectations in emerging markets. Language barriers, varying negotiation styles and differing business etiquette require reinsurers to adapt and establish strong relationships with local partners. Investing in building cultural intelligence and fostering cross cultural collaboration can enhance trust and facilitate successful partnerships.

Unique Risk Profiles

Emerging markets are characterised by unique risk profiles, influenced by factors like political instability, currency fluctuations, inadequate infrastructure, and exposure to natural catastrophes. Reinsurers must develop a deep understanding of these risks to accurately price reinsurance coverage and provide appropriate risk management solutions. Collaborating with local experts, leveraging advanced risk modelling tools, and investing in sophisticated underwriting capabilities are crucial to effectively manage these risks.

Opportunities

1 - Untapped Market Potential

The average level of insurance penetration in Africa estimated at 2.7% is almost half the average global insurance penetration which is 6.9%. This points to significant scope for growth. Emerging markets offer reinsurers a vast untapped market potential. Growing economies and expanding insurance industries translate into increased demand for reinsurance products. By entering these markets early, reinsurers can access a larger customer base and secure a competitive advantage.

2 - Economic Growth

Rapid economic growth in emerging markets translates into rising insurable assets, creating opportunities for reinsurers to expand their portfolios. Emerging markets often require massive infrastructure development including transportation, energy, and telecommunications. The substantial risks involved in these projects can be mitigated through reinsurance. Reinsurers can support infrastructure development by providing coverage for construction risks, property damage, liability, and other related risks.

3 - Diversification

Reinsurers operating in mature markets often face concentrated risks associated with specific regions or countries. Reinsurers seeking to diversify their risk exposure, emerging markets provide an excellent opportunity. By expanding into emerging markets, reinsurers can access new geographical regions with different risk profiles as well as various lines of business. There is also an aspect of currency diversification which can help to mitigate the risks associated with currency fluctuations and provide potential currency-related gains. Expanding geographically reduces reliance on mature markets and spreads risk across a broader range of economies and risk profiles.

4 - Regulatory Reforms

The implementation of regulatory reforms is typically aimed at enhancing market stability, promoting consumer protection, and fostering industry growth. These reforms often include establishing of robust regulatory frameworks for example the development of risk-based capital requirements, corporate governance standards and enhanced disclosure and reporting obligations. The reforms establish an environment that is more favourable for reinsurance companies to conduct operations and make investments within the region.

Challenges

1 - Capacity and Talent Development

Emerging markets may have limited reinsurance capacity and a shortage of skilled professionals. There may be a shortage of skilled professionals who possess in depth understanding of reinsurance practices, underwriting, risk assessment and claims management. This hinders the development of a competent workforce capable of meeting the complex demands of the reinsurance industry. Reinsurers must invest in talent development initiatives, including training programs and knowledge transfer, to bridge the skills gap and build sustainable capabilities.

2 - Political and regulatory instability

Political instability and evolving regulatory environments pose challenges for reinsurers operating in emerging markets. Emerging markets often experience political volatility, including change in government policies, regulations, and geopolitical dynamics. Frequent policy changes and government interventions require adaptability and agility to ensure business continuity. These shifts can create an uncertain business environment for reinsurers, making it difficult to plan and execute long-term strategies.

Conclusion

Reinsurance in emerging markets presents a wealth of opportunities for growth and diversification. However, navigating the regulatory, cultural and risk landscape requires deep understanding of the local dynamics and a flexible approach. Reinsurers that proactively address these challenges by building local expertise, fostering strong partnerships, and leveraging advanced technologies will be well positioned to capitalise on the immense potential that emerging markets may offer.

By embracing these opportunities and effectively managing the challenges, reinsurers can forge successful partnerships, drive sustainable growth, and contribute to the development of these dynamic economies.

RISKS ON THE RISE AS HEADWINDS BLOW STRONGER

Global economic and insurance market outlook 2024–25 - Swiss Re Sigma 6/23. We expect the world economy to slow in 2024 as headwinds from the cumulative monetary policy tightening intensify and the growth impulses of 2023 fade. The outbreak of war in the Middle East heightens the risks to the outlook. Major economies are diverging: the US continues to grow, while Europe is stagnating, if not already in recession in some countries, and China is grappling with structural domestic growth challenges. We forecast 2.2% global real GDP growth in 2024 before a rebound to 2.7% in 2025, supported by lower inflation and central bank interest rates.

Still, in developed markets both inflation and interest rates will likely stay higher than previously anticipated in this decade, and risks are skewed to the upside. We expect global CPI inflation to moderate to 5.1% in 2024 and 3.4% in 2025, but price pressures will likely be volatile. A slower disinflation process increases the cost to economic output and the risk of a protracted stagnation. A sharp rise in long-term US sovereign bond yields this autumn signals a durable regime shift, and we have raised our yield forecasts. Structurally higher real interest rates may expose fragilities in public and private debt balances.

More dominant role from (geo)politics in driving the outlook

The war in Israel adds new, potentially non-linear, downside risks, with potential energy price shocks the key risk channel to the global economy. An adverse scenario in which the conflict expands to include major regional oil producers could add 2.4 percentage points (ppts) to our global inflation forecast. More assertive industrial policy has emerged, with long- term implications. Major government initiatives to galvanise sectors from semiconductors to clean energy may add structurally to inflation, fiscal deficits and interest rates if implemented. The insurance industry is a key partner to such projects, and we see the potential for growth in commercial lines of business from liability to property, engineering, trade credit and surety as these initiatives take shape.

Primary insurance impact

The economic growth slowdown and elevated geopolitical uncertainty dampen the outlook for the primary insurance industry. We forecast total global real premium growth at only 2.2% annually on average for the next two years, below the pre-pandemic trend (2018–2019: 2.8%) but higher than the average of the past five years (2018–2022: 1.6%). Profitability is recovering and underwriting gaps closing as investment returns increase with high interest rates, but we estimate the industry will not earn its cost of capital in 2024 or 2025 in major markets. Events such as the Middle East war may hurt insurers' capital positions through channels such as inflation and market volatility.

Frequency & severity on the increa severity on the increasese

Non-life insurance is confronting challenging claims dynamics, with rising frequency and severity of claims despite declines in economic inflation. The pace of claims growth in the liability line of business challenges the insurability of those risks. We estimate that natural catastrophe insured losses are on track to reach USD 100 billion in 2023, for a fourth consecutive year, and the sixth year since 2017 (inflation-adjusted). We anticipate further hard market conditions in 2024 at least.

In the Property and Casualty (P&C) segment we estimate 3.4% real premium growth globally in 2023, stronger than our forecast for 2024–25 (2.6%). This reflects a significant repricing of risk, especially in claims-impacted lines. We expect health premiums to return to growth at 1.5% in 2024–25 (2023E: −0.6%). In life insurance, higher interest rates improve demand for savings-type products, continue to support bulk annuity transfers, and higher investment yields are expected to boost profitability in 2024 and 2025. We forecast 2.3% life premium growth on average for 2024–25 (2023E: 1.5%). Our forecast for life savings market growth over the next decade is significantly higher than in the past 20 years.

Risk of stagflation

The Middle East conflict adds stagflationary risk, a reminder of the importance of monitoring alternative economic scenarios to our baseline. We track two negative "tail risk" scenarios: "1970s style stagflation" and a "severe global recession". Under stagflation, the combination of high inflation, high interest rates and weak growth would stress underwriting performance, with liquidity, capital, and equity all heavily impacted. A severe global recession would raise solvency concerns through negative investment returns and falling premium growth. The probability of an upside scenario is lower than our two key downside scenarios combined, in our view. **You can download this Swiss Re Sigma: Here**

MAURITIUS' INSURANCE MARKET, EAST AFRICA EXPANSION AND THE OESAI CONFERENCE

Jean-Alain Francis, CEO of EllGeo Re

The 45th OESAI Conference, celebrating its 50th year, found a vibrant host in the picturesque island nation of Mauritius.

Tony, the interviewer, engages with Jean-Alain Francis, CEO of EllGeo Re and the local organising committee chair for the event. In this insightful interview, Jean-Alain shares his thoughts on hosting the conference, the dynamics of the Mauritian insurance market, and the company's strategic foray into East Africa.

Jean-Alain begins by expressing his enthusiasm for hosting the OESAI Conference in Mauritius after a delay caused by the pandemic. He emphasises the support received from the local authorities and the strong attendance, with over 50 countries represented, showcasing the growing recognition of OESAI as a regional insurance organisation.

Turning to the Mauritian insurance market, Jean-Alain highlights its well-established nature, owing to a history dating back to the 19th century. However, he acknowledges the need for growth beyond the island and the shared challenges faced by insurers globally, particularly in making insurance more accessible to the underserved population.

Despite these challenges, he notes the positive trend in the uptake of health insurance, indicating a potential shift in perception. The conversation then shifts to EllGeo Re's expansion into East Africa, specifically Kenya. Jean-Alain emphasises the company's measured ambition, aiming to provide value rather than conquering markets.

With a focus on engaging in conversations and developing bespoke solutions, EllGeo Re sees growth potential in East Africa, particularly in Kenya, Tanzania, Uganda, Rwanda, and Ethiopia. The strategic recruitment of experienced professionals on the ground reflects their commitment to long-term success.

In addressing the theme of collaboration, Jean-Alain underscores the importance of existing initiatives and gatherings within the insurance industry. He advocates for increased engagement with younger professionals, viewing them as the key to advancing the industry in Africa. Encouraging education about the value of insurance and the creation of career opportunities for young people can help shape a positive future for the industry.

Furthermore, Jean-Alain emphasises the importance of promoting gender equality within the industry, acknowledging the significant role women play in driving change in certain markets. He sees conferences as platforms for sharing information and positive experiences, fostering a sense of unity and common purpose among industry professionals.

The emphasis on collaboration, education, and diversity highlights the industry's commitment to growth and development across borders. OESAI is not just a meeting of minds but a catalyst for shaping the future of insurance in the region. Ellgeo Re and the Mauritius insurance market made sure delegates to the 45th conference experience exactly that.

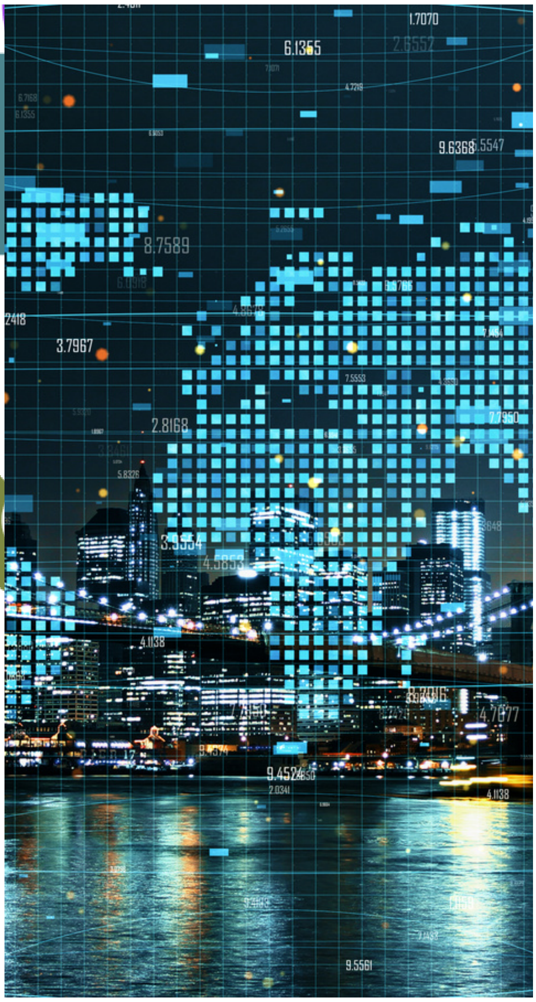
AFRICAN REINSURANCE TREATY TRENDS FOR 2024 A REGIONAL PERSPECTIVE

Colin Griffiths, Head of Broking, Oak Tree Intermediaries

The tough Reinsurance climate being experienced internationally again for the 2024 reinsurance treaty renewals is impacting African Reinsurance terms in the same way and mostly to the same extent across these markets. It's the new normal it seems and we a required to adapt to remain relevant and for markets to be able to compete in a sustainable way.

For example, in the East African markets, hard terms are epitomised by increases of approximately 10% on (loss free) reinsurance premiums on Excess of Loss programmes (higher) Rate-on-Lines and in some cases greater than 100% additional premium on reinstatement of covers. Reinsurers are also restructuring Excess of Loss programmes by increasing attachment points and on Proportional Treaties, unfavourable commission structures are being applied, and if these were not punitive enough, Reinsurers also commit to offer only small written lines making for challenging placements, in some cases, leading to differential terms and thus increasing the number of reinsurance players on a panel.

Another new and worrying trend on Retrocession Programmes is the reduction of capacity by A- Rated securities, which in turn is causing a deterioration in the quality of the retrocession panel. Additionally, poorly structured (with low deductibles) and priced Retro and Reinsurance programmes result in the same placing challenges which are becoming very difficult (if not impossible) to place. Those books which have not been performing well are struggling to get markets to support their programmes.



In the Primary East African markets, there is a sign of improved pricing at the risk level which is starting to create more stable and sustainable results for Insurers, with under-pricing of business dissipating. As a result, competition by rating alone in those markets is not as prevalent as in the past. This should also bode well for Retro Reinsurers in the coming years with a commensurate relief on pricing. The absence of large CAT losses across the region in 2023 has helped profitability in these markets. Regulators are beginning to play a pivotal and tougher role in some markets. For example, in Kenya, in terms of a program that has been renewed, for a company to be able to operate in 2024, the Regulator requires all Reinsurance balances to be cleared up to second quarter.

To support this requirement, Insurers are required to get a statement from their Lead Reinsurer to show that all premium balances are indeed cleared as required, other than for accounting reconciliation matters, and only then will they be given the clearance to continue to trade. Reinsurers too, are beginning to insist in some markets that outstanding balances in respect of premium remittances are to be made as a pre-requisite to renewal. In Tanzania, the Regulator has also made a stipulation that 30% of the Reinsurance programme needs to be placed in the local market with local Reinsurers. The Regulators there are comfortable however, that the Retrocession Programmes are placed in the international markets.

Such Regulatory issues are likely to become a trend in the East African Region. In Uganda however Reinsurers must be accredited, and Reinsurance Brokers have to have a local licence in order to operate there. In Botswana, the very same conditions prevail as in East Africa, however there are experiences of flat commissions being reduced and result dependant, sliding scales commissions are becoming more prevalent. Reinsurers are also preferring to opt for non-proportional structures rather than Quota Share or Surplus treaties. On the Retro side, increased deductibles on Excess of Loss Programmes, even on well performing treaties, is continuing into 2024. This is despite a willingness by clients to accept a pricing increase in favour of higher deductibles.

Another feature which is emerging is Reinsurers are sometimes reluctant to back Retro programmes where there are requests for new (innovative type) product lines to be ceded into the treaties as part of the renewal. Rather, they are preferring traditional retro programmes based on standard lines of business where there is a history of sound data for the conventional business, and which have predictable performance patterns and for which they have a better experience. The Regulator in Botswana now requires Reinsurers to have credit rating of BBB or better for Reinsurers on their Retro panel, which is also a new challenge as Reinsurers who do have a Credit Rating stronger than BBB are reluctant to support Retro business, as those Reinsurers have suffered a lot of Natural Catastrophe's from other international markets.

A conundrum indeed! As regards competition, some markets like Botswana have little to no barriers to entry, hence the market has become overtraded with Reinsurers each looking for their slice of an already relatively small cake. For example, new entrants do not need to be rated and thus competition is rife in the absence of regulation to protect the existing local players as is the case, for example in Namibia, where the State Reinsurer benefits from compulsory cessions. It would therefore seem that the Botswana Regulator is of the view that "the more the merrier" with 7 reinsurers currently operating there.

In this way, the oversupply impacts the ability to drive up much needed risk commensurate pricing to create sustainable performance, ultimately leading to a low growth environment and falling margins with very little room for reinsurance providers to negotiate more stringent reinsurance structures and/or risk improvements. Another trend across several African markets these days is the developing of protectionist measures - closing out players that are not locally incorporated and as such attracting local investors in the broking or Reinsurance spaces. As such, markets insure and reinsure “within” excluding foreign support in the form of capacity, support, and expertise. The problem lies in finding quality support for Retrocession capacity – without which a market disaster can have a serious detrimental impact. However, the positive here seems to be a growing demand at the risk level for a “back to basics” approach in terms of underwriting and pricing. For example, Reinsurers in some markets are starting to demand the submission of a bordereaux for both premiums and claims to accompany Quarterly Accounting Statements. The Rating for securities is getting centre stage and becoming a resounding check in the backdrop of Risk-based supervisions.

In some markets we are seeing that there is a general favour towards signing lines on stand-alone treaties rather than the traditional bouquet approach which hitherto was commonplace. This is most likely against the backdrop of the imminent IFRS 17 accounting standards coming into the fore where onerous contracts will be bearing heavy capital charges from the onset. We are also noticing a reduced appetite by several Reinsurers resulting in capacity constraints from them particularly on business where there is an unfavourable Premium/Liability imbalance, i.e. those that do not generate adequate premiums to warrant the capacities demanded by cedants. Following this, more and more exclusions are being introduced in treaties necessitating the placement of sub-layer or buy-down Treaty programmes and/or Autofac facility requests. Such programmes are difficult to find adequate reinsurance support for. Threats of a new trend of the increasing frequency of natural disasters which we have witnessed around the globe in recent years is also becoming more and more prevalent in the African region. This in turn is threatening underwriting results and creates challenges for Reinsurers to bring about a more realistic pricing of this business. This in turn, has led to a shortage of capacity on Reinsurance programmes, as these disasters occur with predictable regularity.

So, the simplified approach to underwriting and pricing which basis its theory on only past experiences, falls short of meeting the required underwriting margins for Reinsurers. Future pricing using extensive CAT modelling software and techniques is a solution, but due to the exorbitant pricing of such tools, this falls outside the pocket of the smaller up and coming reinsurers who are ill-equipped to do so and thus avoid such reinsurance programmes. Consulting services for these challenges and making use of highly specialised Reinsurance brokers who have strong actuarial abilities and good modelling tools is the way to go to sidestep these challenges. The rising cost of inflation is having serious impacts on losses and claims which are becoming more and more expensive to settle, due to the inflationary cost of importing parts and raw materials and pricing has not kept up with this trend. Insurance Policy wordings are also undergoing review and there is also much closer scrutiny to address wording ambiguities in reinsurance wordings to ensure a more appropriate approach to claims decisions.

This is also seen on the underwriting side where there is a kind of back-to-basics approach to underwriting and pricing to create a better alignment between Insurers and their Reinsurers. Underwriting profits have been eroded over the years and such measures are being employed to ensure improved underwriting performance and sustainability of the business whilst being cognisant that investment income can no longer be relied upon to boost profits. In terms of Insurance penetration, Africa has a long way to go to narrow the insurance gap and thus expanding our markets will present good opportunities for future growth. Education in the informal sector on Insurance and related products will doubtless lead to encouraging progress in the insurance sector for decades to come.