

REINSURANCE WITHDRAWAL IN SOUTH AFRICA

Pravin Pather, Technical and Risk specialist at Centriq sheds light on the withdrawal of reinsurance capacity in the country

The global underwriting model has seen a shift of centres of expertise to offshore regions. Here, global standards and criteria are applied, which do not address local insurance conditions sufficiently. This makes reinsurance renewals extremely difficult, particularly on currently marginally profitable books.

One aspect that is not accommodated in the global underwriting model, among others, is the fact that South Africa is broker-driven. International reinsurers do not always value this modus operandi of valued relationships which is unique to our country. And seeing that global re-insurers tend to increase their pricing of risk and cost while focusing on higher bottom line yields only, relationships with brokers and underwriting management agencies (UMA's) are compromised.

Locally, brokers and UMA's cannot always follow the shift in appetite of global market players, which may affect them negatively as far as pressure on margins and increasing compliance risk exposure and costs are concerned.

SA vs THE WORLD

Factors which dictate the allocation of reinsurance capacity in South Africa include the following:

- Continuous correction of risk pricing to yield and maintain profitability
- Proper data records for actuarial evaluation
- Modelling and track history
- Specialist classes
- Net risk retention
- Non-proportional capacity to support primary proportional capacity layer
- Existing relationships
- Loss participation and losses carried forward clauses

On a global level, first world markets generally reserve their reinsurance capacity for domestic or other western markets with the belief that risk can be priced more correctly and that catastrophes can be projected more accurately.

Generally, board compliance pressures advocate that international reinsurers are more risk-adverse than emerging markets such as South Africa, for example, signifying a strong focus on core business and markets while South African based risks are underwritten by the few remaining licensed insurers.

It is furthermore a well known fact that local reinsurers' appetite to provide proportional capacity has reduced in recent years. Historically some portfolio's and book transfers were undertaken with minimal underwriting while the resultant negative bottom line rendered local re-insurers more wary.

Due to the recent collapse of international markets, local reinsurers now also have to adhere to stricter head-office reporting criteria, making them less flexible and less willing to negotiate. That said, it is evident that the internal reinsurance quote offer is now on a 'take it or leave it' basis.

In conclusion, it is important to note that the need to spread the risk is always present. If the formal reinsurance providers cannot or will not support these local insurers on a proportional basis, then local insurers could consider increasing net risk retention or simultaneously reinsure inwards on a reciprocal basis among retail competitors. This way, efficiency will improve while commercial yields and practices dictating the pace of our ever-changing environment will be allowed. The alternative is a consolidated market which can dictate and ensure that the pricing of risk remains commensurate with the required return of capital at risk.

512 WORDS