

## ***Emerging Markets; the insurance industry In the face of globalization.***

**Report by: SWISS RE**

### **Introduction**

Since the beginning of the nineties, international primary insurers have been intensively expanding their activities in emerging markets. The market share of insurers who are either partly or fully foreign owned, has tripled in Latin America and central and eastern Europe to 47% and 41% respectively. The average in Asia is 12%. The figure depends largely on the relevant legal framework - market entry restrictions and structure of local providers - and range from less than 2% in China and Russia to more than 70% in Hungary and Chile.

The high growth potential in the emerging markets is one of the major factors attracting foreign insurers, in the nineties the growth rate in these countries was as high as in the industrialized countries.

Overall, the emerging markets account for 9% of global premium volume. Most of global insurers studied generate between 3% and 5% of their premium income from these markets.

### **Focus and structure of the study**

While premium growth rates in mature insurance markets have fallen to very modest levels - especially in non-life business - the emerging markets of Central and Eastern Europe, Asia, Latin America and South Africa are expanding rapidly, often reporting double-digit growth. High growth in these countries is attracting global insurers, who, given the deregulation process during the nineties, are now able to take over local companies or set up their own national subsidiaries.

Global insurers are defined as the largest primary insurers worldwide which are striving to establish a global presence for their business and already have significant operations in emerging markets. (Significant) means having primary insurance activities in at least two of the regions examined in this study, and in six different countries in total. Applying these criteria, the list of global insurers comprises:

## **Driving Forces of Globalization**

The insurance industry has also succumbed to the general trend towards globalized markets and risks. This general trend is evident in the fact that in recent years there has clearly been more rapid growth in global trade, direct investments and portfolio investments than in the production of goods and services.

In the following, more detailed consideration is given to the driving forces behind the globalization of the insurance industry.

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**Push Factors****Foreign insurers motives****Following existing customers**

- increasing global trade
- growing direct investments

**Potential growth**

- saturation in industrial countries
- strong growth in emerging markets

**Gains in Efficiency**

- diversification
- economies of scale/ know how

**Removal  
of barriers  
to market  
entry**

**Pull Factors****Emerging markets factors****Demand for cover**

- Strong economic growth
- Increasing trade

**Capital requirements**

- major risks
- solvency regulations

**Know-How requirements**

- new products
  - new risks
  - tougher competition
- 

**The push and pull factors behind increasing globalization**

Well-oiled insurance and financial markets will become more important as trade becomes more international. Globally active industrial and service companies expect worldwide support from their insurers. Commercial insurance is thus as a rule the first branch in which foreign insurers become active in a new market. The last decade witnessed a sharp increase in direct investments. These investments are an indication of cross-border mergers, takeovers and new companies being founded by industrial and service companies in emerging markets.

In recent years there has been a strong increase in the demand for insurance in the emerging markets. The average annual growth rate in the emerging markets has, since 1990, been twice as high as in industrialized countries in both life and non-life insurance. At the same time the global insurers home markets are marked by certain saturation in non-life business. Combined with the large increase in underwriting capacity in recent years this led to a marked price war and competition for market share. The strong growth markets of Asia, Latin America and Central and Eastern Europe thus offer global insurers a welcome opportunity to conquer new markets to ensure future potential profits with the aim of enhancing the corporate value.

A further reason for foreign insurers to expand into emerging markets can be found in heightened competition and the ensuing on costs. The process of globalization offers new opportunities for risk diversification and reducing costs.

One advantage of global non-life insurers - particularly in commercial business is their huge financial strength. International insurers are able to take on risks, which exceed the financial capacities of local insurers. As the former have lower capital costs owing to their diversification they are able to raise the efficiency of risk transfer and offer lower prices or greater capacities. In addition, the global insurers often have superior know-how relating to products, rating and risk management. This is an advantage in life and health business, namely in Latin America and Central and Eastern Europe, due to the demand for new life, health and workers compensation products on the back of privatized social security systems. Foreign insurers are able to fall back on the experience gained in other countries. They are also able to profit from their reputation as sound, financially strong companies, which is a particularly significant factor in life insurance, given its long-term nature.

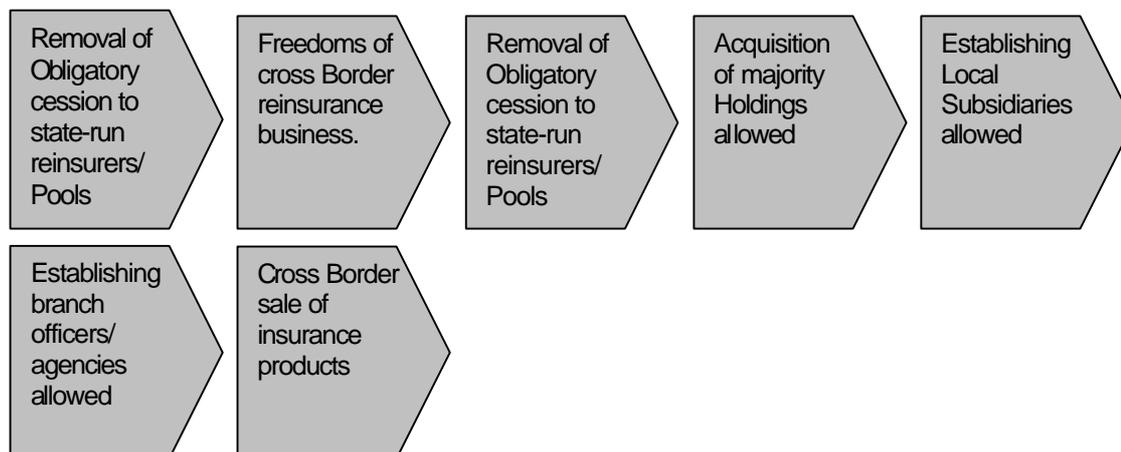
However, the alignment of products, services and distribution channels to the needs of the local markets is not without costs. It is questionable whether economies of scale can be achieved with expansion in emerging markets, since the complexity of the organization increases with international expansion and, as a consequence, the demands made on management. Regulatory and cultural differences cause further costs, which can have a detrimental effect on the use of economies of scale)

The emerging markets continuing integration into the global economy and sound economic growth have fuelled the demand for insurance cover. A shift in regulatory controls towards solvency control and the opening up of new business areas have raised the capital and know-how requirements. In Latin America and Asia, a number of local insurers have therefore begun to search out suitable foreign partners in recent years. Many local insurers were, and still are, family businesses or form part of a comprehensive financial services/industrial company. Economic reforms and privatization have given rise to improved business opportunities in other sectors as well, which has prompted some companies to concentrate on certain areas and sell off their insurance holdings.

## Regulatory framework

### *The stages of Liberalization*

The globalization of the insurance markets was only made possible by the liberalization and deregulation of what had hitherto been a strongly protected insurance industry. In the early nineties, radical reforms were introduced in Latin America and Central and Eastern Europe. In Asian countries the liberalization process has clearly gained momentum following the Asian crisis. The process has been favored and speeded up by multilateral agreements, such as the WTO, EU and NAFTA.



## **The role of the GATS/WTO**

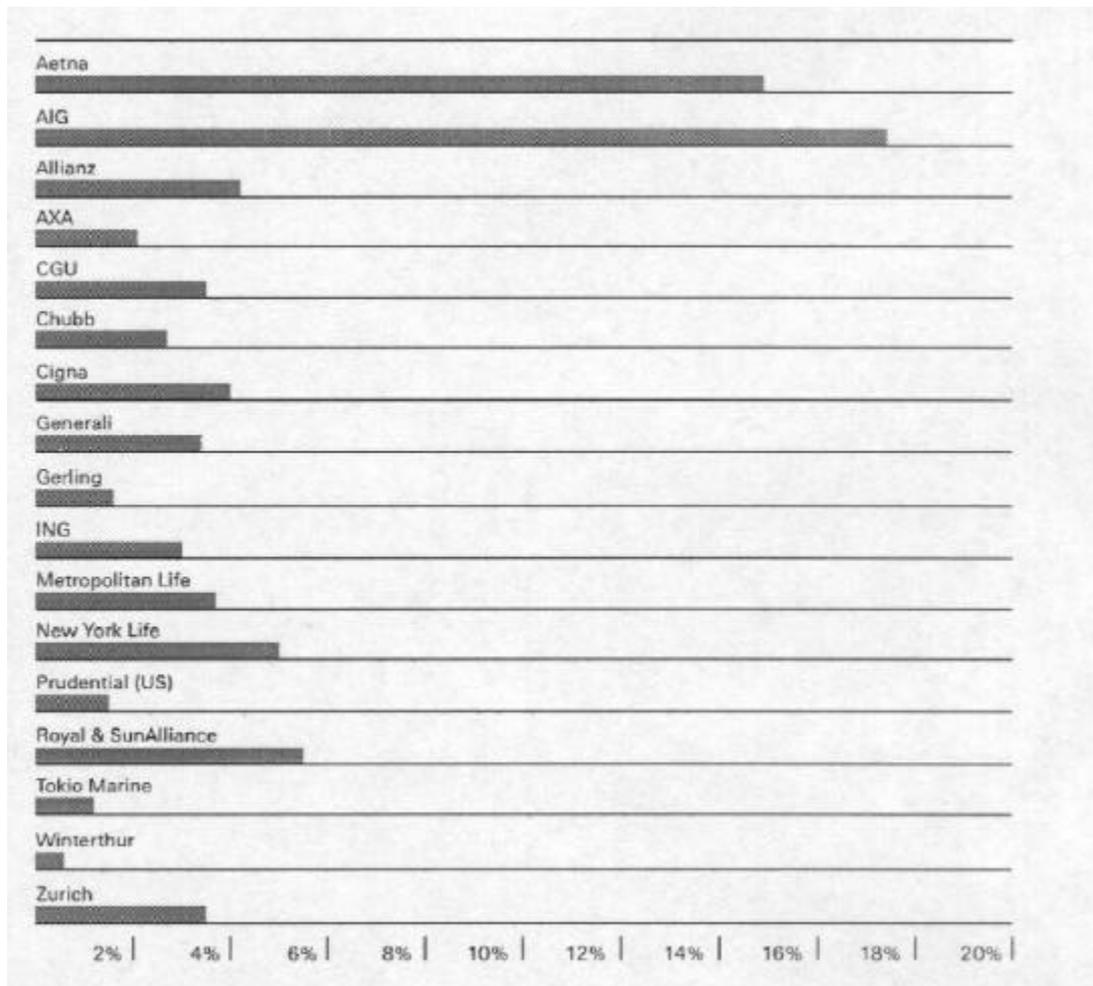
Of particular significance in the liberalization process are the multilateral negotiations as part of the General Agreement on Trade in Services (GATS), a component of the World Trade Organization (WTO). A major breakthrough was achieved at the end of 1997 with the agreement on the liberalization of financial services, after the Uruguay Round in 1995 had failed to yield any agreement on specific commitments. In this agreement, which came into force on 1 March 1999, a total of 70 countries offered improved conditions of access to their markets. Thirty-two countries maintained the promises undertaken in 1995 so that altogether 102 countries undertook a commitment to liberalization as part of the GATS.

## **Overview of the Most important Global Primary insurers in Emerging Markets**

The importance of emerging markets varies significantly from one global insurer to another. After a long period in which mainly European companies and AIG were globally active, US insurers have, over recent years, increasingly extended their operations into the emerging markets. While some companies specifically target emerging markets in order to benefit from the high growth rates available, others see emerging markets more as a complement to their global activities. Two firms in particular, Aetna and AIG, already generate a substantial portion of their premiums in emerging markets. The majority of companies examined in this study generate between three and five percent of their premium volume in emerging markets.

## **The Importance of Emerging Markets for Global primary insurers**

(Share of direct premiums generated in the 22 emerging markets considered in the study of the companies total direct premium.)



Below is a summary of key information on the emerging market activities of the global insurers included in this study.

**AIG:** with a presence in more than 130 countries, AIG rates as the most global of all insurance companies. As soon as a country allows foreign insurers to qualify for a license, AIG forms a new subsidiary or looks for a local joint venture partner.

**Allianz:** Allianz aims to be a leading player both in mature and emerging markets, and in recent years has concluded new acquisition and joint ventures in Asia especially in pursuant of this goal. Allianz was the first foreign insurer to enter the central and eastern European markets in the second half of the eighties and remains the biggest global insurer in the region. Its acquisition of AGF in Nov 1997 Doubled its market presence in Asia and Latin America.

**AXA:** the French group expanded to become one of the biggest insurance group in the world through a series of major acquisition in the nineties, the focus of its activities to date have been the bigger mature insurance markets. So far AXA has not been one of the leading foreign insurance provider in emerging markets, but its now plans to expand its market position in Asia and Latin America through additional offices and acquisitions.

**CGU:** CGU is the result of the merger of Commercial Union and General Accident In 1998. Through the recent merger with Norwich Union, its position in the UK has further strengthened. The new company is focusing in expanding its life activities as well as building up a a strong position in Poland Life Market, the group has been active chiefly in Asia. CGU is particularly interested in expanding its life business in Asia in the future.

**Royal & SunAlliance:** Royal & SunAlliance was the result of a merger between Royal Insurance Holding and the Sun Alliance Group in 1996. The group already has a strong presence in Latin America and Asia and plans to step up its expansion drive in asia especially. The main focus will initially be on commercial lines, with personal lines to follow.

AIG and Allianz have the biggest presence in the countries studied, both in life and non-life business. Other global insurers focus on specific regions and specialize in life or non-life business, or even in individual sub-segments. For example: the presence of Cigna and Aetna in emerging markets reflects their global strategy of concentrating on health insurance, while Chubb, Gerling and Tokio Marine focus on commercial business. Other insurers, such as ING, specialize in certain lines of insurance such as life business in some regions, even though they offer the full range of insurance products in other markets.

Looking at the activities of global insurers in the recent past, it is clear that a large part of their attention is being concentrated in

Asia. European global insurers in particular are trying to establish and expand their positions in this region. Some of them, such as AIG, Royal & SunAlliance and CGU, have long been established in the region.

In Latin America most global insurers already have an established presence. In the markets studied there are virtually no restrictions on shareholdings and the formation of new subsidiaries. As a result, the global insurers have their most pronounced market presence in this region. Several global insurers have taken the opportunities for substantially expanding positions in individual markets by acquiring local insurance companies. In March 2000, for example, ING acquired a stake in Commercial America, the largest Mexican insurer; New York Life acquired Seguros Monterrey, ranked number three in the Mexican life market at the end of 1999; while Allianz purchased Colseguros, number two in Colombia. Generali secured top place in the Argentinean market by acquiring a stake in the market leader Caja de Seguros y Ahorro.

Various foreign companies set up subsidiaries in Central and Eastern Europe following the liberalization and opening up of the markets in the early nineties. Other opportunities to acquire market share have arisen from the privatization of the former state monopolies. So far it has mainly been AIG and those global insurers from the neighboring Western European countries which have gained a foothold. Metropolitan Life and Prudential are two other insurers from the US that have acquired a license for the Polish life insurance market.

In South Africa during the nineties, several foreign insurers acquired holdings in local primary insurers or set up their own subsidiaries, almost exclusively in non-life business. Whilst the global insurers maintain a significant position in this segment despite several withdrawals from the market, in the life business, where volumes very attractive, it is exclusively domestic insurers who are active,

### **Benefits and challenges of liberalization in emerging markets**

The opening up of the insurance markets in developing countries to foreign competition has long been a contentious issue. Numerous arguments, including the unfavorable balance-of-payment effect and the need to protect infant industries, have been advanced to justify measures to confine foreign inroads. It is often the case of striking a fine balance between the stability of the insurance market on the one hand and ensuring efficiency and consumer values on the other hand. While most Latin American and Central and Eastern European countries embarked on their liberalization processes in the early nineties, nothing like the recent financial crisis in Asia has been more instrumental in bringing to the authorities attention the issue of liberalization. Most policymakers have concluded that liberalizing long-term capital inflows (eg foreign direct investments) is more conducive to sustainable economic growth than solely freeing short-term capital movements.

The benefits of liberalization are multi-faceted. Foreign insurance companies can enhance the efficiency of the local insurance market by providing superior customer services, introducing new products and transferring technological and managerial know-how. Liberalization increases competition and encourages a more pronounced specialization according to comparative advantages. While for example most insurers in Latin America were composite companies insuring all kinds of risks, an increasing number of specialized companies have emerged in recent years.

From a macroeconomics point of view, opening up the insurance market could help to mobilize national savings and narrow the investment gap of developing economies. In emerging markets, domestic savings have not been fully mobilized despite huge funding needs arising from infrastructure projects, for example. Insurance companies as important long-term institutional investors, therefore functioning as financial intermediaries, contribute to bringing together savers and borrowers. The benefit would be most sizeable with the participation of foreign insurers possessing superior financial skills (eg asset-liability management). Enhancing domestic financial intermediation would further render emerging economies less dependent on short-term and highly volatile foreign capital inflows.

Due to their greater financial strength and risk diversification capabilities, foreign insurers are often characterized by superior claims paying ability, which would also help to enhance the financial condition of individuals, households and corporations in emerging markets. Although form and rate controls have been employed by developing market supervisors to maintain financial stability, this has proven to be less than cost efficient as well as suffocating the development of a competitive environment. The recent switch towards solvency-based supervision in emerging markets is expected to result in a shake-out of companies. It is particularly against such a backdrop that foreign insurers could provide the financial security needed for a smooth transition towards a more consolidated marketplace.

Last but not the least, the participation of foreign insurers could improve the capital allocation efficiency of emerging economies. Underwriting and investment decisions made by foreign insurers based on their international experience and best-practice considerations could send useful signals for efficient resource allocations. The availability of these signals, particularly in markets where credit allocations are not completely based on economic considerations, is important in improving capital productivity.

## *P&I - 12 Months On From the Cross Roads*

*Report by: - GE Frankona*

**12 months ago, many analysts viewed the P&I industry and specifically the International Group of P&I clubs, as being at a crossroads. Today, perhaps, a fork in the road is a more appropriate analogy.**

### **The Cross Roads**

In June 1999, the International Group had repelled the challenge from DGIV of the European Commission at little real cost. The Pooling Agreement had been given negative clearance and the International Group Agreement itself had received a further, positive, 10-year exemption until February 2009. It could look forward to a further period of safety from intrusive regulation. However, not all was bright in the land of mutuality. The Newcastle Club had just disappeared in a merger with the North of England. Ocean Marine had just gone into receivership, a prelude to liquidation; its membership were offered terms by the Liverpool & London Club, itself struggling. The first issue, fixed cost versus unknown cost, is essentially now irrelevant, as the existence of excess supplementary calls and overspill calls insurance products can render any mutual premium virtually fixed. The important thing is now the actual cost concerned, rather than its potential volatility.

The second issue, that of limits of coverage offered, also assumes lesser importance.

The gap between the coverage limit the International Group offer, and that offered by the fixed cost markets, where limits of US\$ 1,000,000,000 are now widely available, is narrowing. The declining cost of the International Group programme, having reduced every year for the last five, means that the extra coverage offered by the International Group is only marginally more expensive and ceases to be a significant cost factor in the pricing of cover.

So, 12 months ago the mutual marketplace faced the pressures of increased competition, consolidation, demutualisation and mergers, all of which was in an environment of falling premiums and reducing investment yields. A crossroads, indeed, but how did it respond? with major internal reconstruction and downsizing. The Charterers Club had (gone fixed), and was soon to be followed down that road by British Marine, both Hull and P&I, as demutualisation became the in vogue buzzword. Merger mania was widely predicted.

Competition from the fixed sector was beginning to flex its muscles again, after having had limited impact at 20 February 1999 renewal. The great (fixed v mutual) debate raged once more. Whilst it is not the intent to go over those arguments again, it is worth noting that two of the principal tenets of the debate have in fact now become so blurred as to be of only academic relevance.

### **The Chosen Way**

The speculation has been that, in the same way that brokers and underwriting companies have sought economies of scale through merger, the mutual club market would follow this same path. This, to date, has not been the case. Of late, aside from the renewing L&L tonnage into the North of England, talk of mergers has subsided with the notable exception of the proposed merger between the management companies of the Standard Club (Charles Taylor) and the Britannia Club (Tindall Riley). This was not a merger borne through distress of either Club, as both are financially sound. The fact that the merger was rejected, by certain members of the shipowning board of Britannia, suggests that there are philosophical differences between the Clubs even at the shipowners level. Such (differences) are typical of competitors in any market, especially where the product is so generically similar.

Therefore the historical pattern of merger through distress only looks set to continue, with the next Club to be talked of in the context of merger probably being one that is perceived, rightly or wrongly, to be under the greatest competitive or financial strain. Economies of scale can be achieved in other ways. The fusion of commercial capacity allied to the mutual management environment is not a new concept. In such circumstances the club manager becomes an MGA to underwrite a class complementary to its core business, the fee income from which can be used to defray the management costs of running the mutual. The present market is witnessing such activity.

The UK Club has a new hull and machinery facility under the name of (Dex), supported by Swiss Re and Chartwell. The Steamship Club have a history of developing lines of business away from P&I and recently announced facilities for loss or damage to containers targeting NVOCC, and a property and liability package for Terminals (Portsure), both of which are underwritten in the Lloyds market. More recently collapsed talks between two Clubs, the Steamship and North of England, with Newmarket Underwriting, a Lloyds agency whose corporate capital is from Marsh, is further evidence that these strategic alliances could have far reaching implications for underwriters and brokers alike.

Certain alliances are, however, taking on a much more sophisticated appearance. The Gard Club has announced the formation of Skandia and Storebrand. More recently

Tindall Riley have announced similar intentions, with their partner being Allianz. The lure for both partners in these alliances is tremendous, as the Clubs enjoy unparalleled loyalty from their membership year on year - a position much envied by conventional insurers. If this loyalty can be replicated in other lines, backed up with Club type levels of service, then these alliances will prove highly successful.

The question remains as to whether there is any underlying motive? Will these newly formed organisations prove to be the vehicles into which the concept of mutuality disappears? For the time being most of the Clubs continue, now more so than ever in recent times, to wave the (mutual is best / insurance at cost) flag.

The arguments in favour of mutuality are compelling: it is a proven and successful system. British Marine Mutual has recently demutualised with the backing of Capital Z, but they promise to retain a (clubby) environment. Observers will watch this new entity development with interest.

Having recently become a fixed premium underwriter, British Marine joined an expanding list of commercial P&I carriers, the largest and highest profile of which was the JL Jones syndicate. The recent take-over of the Terra Nova by Markel has resulted in their declining to offer continued support to the JL Jones syndicate, effectively cutting adrift their present high profile position in blue water P&I after only 18 months. British Marine has stepped into Markel shoes and has acquired the former JLJ portfolio of business and staff - giving them much needed expansion, but also bringing with it a diversification into areas new.

These facilities reflect a heightened interest of the commercial markets in the P&I world today, which has, at the same time, offered shipowners a truly competitive alternative to the rather closed shop of the International Group. As the market hardens and capacity becomes in short supply in more conventional short tail classes, it will be interesting to see to what extent there remains an appetite for this class. The fixed market does not have the best track record for longevity, and the cracks may already be beginning to show.

The Markel decision may be an early sign that the market appetite to confront the Clubs in their own back yard is on the wane. The resultant consolidation in the fixed premium sector could be the precursor to fewer, and not more, choices in the fixed market options.

### **The Fork**

The lines in the sand are already being drawn. Some, generally the larger Clubs such as the Gard, UK, Steamship and Britannia, are becoming quasi commercial.

Will this manifest itself in a schism within the International Group between these and the smaller (roots) Clubs? How quickly will others jump on this bandwagon, if indeed they choose to at all? If the Members of the Group become philosophically distanced, can the Group Agreement continue to stand the test of time, as its constituent parts pursue more commercial paths with different partners, or will pooling win the day? If the presence of the fixed markets becomes less of an influence, where will the vibrancy of competition come from? Will the Ocean Marine Mutual be missed in this regard? Surely, if the dynamism of the Group is to change, might it be the case that there is a breakaway Club, or Clubs, who feel they can profit by operating away from the Group Agreement, or will this opportunity be realised by a new Club? Further even more radical options exist.

How long might it be before a club is hijacked by an insurance company who approach its Members directly and (bid) to manage the club at a significant cost saving? To offer these services for free could be a small price to pay in order to gain an instant potential client base for other lines of cover, particularly in the context of a market surely now on the turn.

The patterns are not yet fully emergent and no clear path as to the complexion of the P&I market of 12 months hence is apparent.

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# Momentum for Rate Hikes Continues With Each Reinsurance Renewal

## (Outlook of the Hardening Reinsurance Market)

**Report by: - GUY CARPENTER**

### OVERVIEW

After steady erosion throughout most of the 1990s, reinsurance rates had increased in almost all sectors at 2000 year-end renewals. Since January 1, 2001, the pace of reinsurance rate increases has accelerated. At the time of this writing -- mid-June 2001 -- it appears likely that rate increases at July 1 renewals will be even higher than in earlier months. Indeed, July 1, 2001 may end up being the demarcation point in time when the market moved from (gradually firming) to (definitively hard.) A key factor driving the reinsurance market upturn is obviously the continued poor underwriting results for reinsurers-as reflected in combined ratios averaging 114 percent, and a rate of return on surplus of 5 percent-despite relatively low catastrophe losses in 2000.

Other factors that are probably of equal or greater importance in causing the turn are:

Almost without exception, the major reinsurers are experiencing a severe deterioration in accident year loss reserves for the years 1997, 1998, and 1999. Adverse loss development for these years has been accelerating on a quarter-to-quarter basis, for at least the last four quarters, causing severe trepidation among reinsurers and reinforcing, for them, the inadequacy of prior rate levels. Whatever they had previously viewed as the extent of the pricing inadequacy, their current view is that it is much worse.

Change in the psychology at reinsurers, starting at the top and reaching down to the line underwriter. In the soft market, line underwriters were reluctant to hold the line on price, as they feared that they would lose the business. In the current renewal cycle, leaders have held firm and, are now finding the business coming back to them, after firm order terms of cedents initially went out to market below their (lead) terms. Price increases are sticking. This is reinforcing their resolve. Many covers and programs are not being completed the first time into the market. As this occurs with more frequency, it encourages successive underwriters on the placement to hold out longer for their particular issue. The chain reaction is continuing. Cedents are being made aware that the initial pricing on programs is not necessarily indicative of completed program costs.

Reinsurance underwriters feel that their livelihood is at stake, in terms of their compensation and, indeed, their very jobs. They do not need any further encouragement from shareholders or management to re-price.

At the same time as the deterioration in financial results, those reinsurers that relied on retrocessional protection were faced with a pronounced hardening in that market. Price increases of 25 percent to 40 percent were common, and necessary retrocessional capacity could not be found for some programs at any price. Since the support that reinsurers provide to the primary market often depends on their ability to obtain their own coverage, shrinking retrocessional protection normally results in higher reinsurance prices.

In the United States, the reinsurance and the primary insurance market corrections have been mutually reinforcing. On the primary side, the upturn in the cycle in commercial insurance preceded the turn in reinsurance rates by at least six months. This persuaded reinsurers that primary companies could accommodate, to some extent, the cost pressure from the price increases on the reinsurance side.

This is not to say that programs were automatically renewed at higher rates. Negotiations at year-end 2000 were intense, and the renewal period was longer than normal, with some cedents holding out the hope that reinsurers would eventually drop their rates. In fact, a number of renewals had not closed until after the contract inception date.

There has been considerable variation in rate increases. Rather than taking a (one-size-fits-all) approach to pricing, reinsurers are analyzing each account individually. Where pricing is believed to be significantly out of line with exposures and losses, they are seeking substantial price increases and, in some cases, declining the business. In situations where experience has been good, they may still renew at expiring rates.

It remains to be seen whether this pattern of (customized) pricing will continue through 2002 renewals. It is possible that we could see reinsurers pushing for increases in their base rates, so that even their best customers experience rate hikes, with even higher rate adjustments on accounts viewed as needing (corrective) action.

### DIMINISHED RETROCESSIONAL CAPACITY

The capacity crunch and hardening rates in the retrocessional market have profoundly affected property reinsurance pricing levels. With many reinsurers suffering thinner profit margins in their original business and a shrinking cushion in their reserves, they depend even more heavily than before on retrocessional coverage as both a means to transfer risk and an essential tool in the management of earnings volatility.

On the supply side, however, the worldwide catastrophe losses in 1999, combined with the collapse of the Australian reinsurance market, have caused many providers of retrocessional coverage to withdraw from the market. Notwithstanding the new capacity that has entered the market, demand exceeds supply, and retrocessional prices have firmed by as much as 25 to 40 percent in the last six to twelve months.

The main impact of the decrease in retrocessional support has been to return reinsurers to a more disciplined underwriting stance that ensures that they are charging appropriately for the liability that they are assuming. In addition, markets are moving

away from risks that they are unable to quantify. For example, if reinsurers are unable to obtain retrocessional coverage for certain types of exposures (e.g., cyber risk), they are likely to exclude those exposures from their original business. This inability to obtain retrocessional support for some exposures, combined with the substantial rise in cost of the coverage that is available, will continue to affect the price of property reinsurance. Fortunately, the impact will not be as great as it was five years ago, because more of the retrocessional programs are written on a structured financial risk basis and are thus less affected by market changes.

**FUTURE OUTLOOK**

If there is good news in this for insurers, it is that this market turn has been buyer sensitive, with the degree of firming varying by geographic region and by peril. There is some reason to expect that this will continue to be the case.

In general, reinsurers appear to be following an approach that dictates that the base rate they seek is the technically adequate rate, determined by actuarial analysis, modeling, and experience. This means that the rate increases they are seeking are not uniform across customers, even within a single line. It seems, however, that reinsurers realize that major price corrections will need to be phased in over a few years. So where corrections of 40 percent to 50 percent are called for, reinsurers are making gradual changes.

The importance of comprehensive quality data cannot be over-emphasized. Work on improvements in this area can start now. Better information can offer some opportunity to improve the outcome for a cedent.

There is, however, growing evidence, particularly from the July renewal cycle, that more severe rate increases are in store for 2002 renewals. Primary insurers should be thinking of budgeting towards the higher end of their range of reinsurance cost projections. Re-pricing in the midst of placement will almost certainly be more expensive than entering the market once at a price that will insure a quick completion.

Long-term relationships will also carry weight. Reinsurers will be more willing to balance accounts and forego large immediate rate hikes for cedents viewed as long-term partners. Cedents with roughly the same panel of reinsurers for five or ten years can hope for moderation. In all likelihood, they were not overly aggressive in taking advantage of reinsurers in the soft market, and both partners made accommodations to stay with one another over the period.

The availability of other risk transfer options, notably insurance securitization, may also have an impact, with the capital market ample additional capacity having the potential to keep reinsurance market pricing lower in the years ahead.

How all of this actually translates in the marketplace is uncertain. We have not yet reached a plateau. The property/catastrophe reinsurance market will continue to turn-but just how abruptly? The industry waits to see.

**SPOTLIGHT ON FLAG STATES**

**Source: - Willis - Marine Newsletter**

Two researchers at Cardiff University in Wales have devised a methodology of categorizing and measuring the performance of flag states. The methodology provides a tool for measuring the capacity of a flag state both to enact relevant maritime legislation and to effectively enforce it. The Flag State Conformance Index **Flasci** is described as (a highly accurate and robust means of measuring the performance of flag states on a wide range of variables) and could prove a useful and interesting guide for shipowners, underwriters and financiers.

The index which has been produced is a composite of measures of best practice and combines the perceptions of seafarers with more measurable factors such as port state control detention records, the legal and social regime, casualty statistics and pollution figures. The characteristics of the registered fleet under each flag are assessed, along with trends over the last 10 years. The study looked at 37 flag states and grouped them under certain general characteristics. The highest scores were given to traditional maritime nations and second registers that are centrally operated and controlled. Mediums to high scores were given to semi-autonomous second registers, while medium scores were attached, both to more established open registers, (some seeking EU membership) and national registers. Newer open registers make up the next category, with low to medium scores, while new entrants to open register market were found to have the lowest scores.

The study showed that Bolivia was the fastest growing ship-register, which between 1997-99 saw the vessels under its flag increase by a staggering 5,900%. Cambodia saw its fleet increase by 140% during the same period.

Rank	Country	Score
1	Norway	84
2	UK	80
3	DIS	77
4	NIS	77
5	Netherlands	76
6	GIS	75
7	Kerquelen Islans	72
8	Hong Kong	64
9	Isle OF Man	64
10	Maderia	64
11	Bermuda	63
12	Cayman Islands	62
13	Canary Island	60
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