Supply chains matter for insurers too

Reinsurance is no different to any other product and is dependent on a supply chain, delegates at a recent roundtable agreed.

At the event, hosted by Afro Asian Insurance Services, CEO Udai Patel *(pictured above)* stressed that the need for a supply of products was just as great for reinsurers as for any other business, and added that the Covid-19 pandemic had damaged that chain just as much in the insurance sector as elsewhere.

Corneille Karekezi, group managing director and CEO of Africa Re, said it is too early to predict the overall impact but warned: "Trade is suspended and one can only imagine what the impact will be. We have a series of predictions, for oil-producing countries, for low-income countries and for South Africa. For the moment the most severely hit has been South Africa, where the suggestions are that there will be a 10% contraction in output this year. In any case, it is the biggest shock that has happened in recent history."

Vincent Grailhon, head of international at SCR Morocco, agreed: "While in some instances industry has converted to producing masks etc in response to the pandemic, the story is not finished. North Africa is heavily dependent on tourism but no one is visiting. And in some countries the curve of contamination is not controlled as yet, while in some places the pandemic is just taking hold."

Jeph Gwatipedza, chief operating officer at Zep Re, added: "In east Africa we are seeing that the focus of governments is to reallocate budgets, including loans. Investment returns have been coming down. The Kenyan insurance market has been making losses for some years so there has been pressure to increase rates, but competition remains stiff. I think there will be a shortage of capacity that will push rates up."

He was the first of the group to raise the subject of liquidity, warning: "Shortage of capital will affect some of our markets."

Lawrence Nazare, director at Continental Reinsurance, agreed: "The impact has not been on claims so far here in Africa. Internationally, this is first major event that has impacted on both sides – assets and liabilities. In Africa, the immediate impact has been on asset side. We saw a rapid decrease in interest rates, a collapse in major capital markets like Nairobi and Lagos, and record losses in terms of valuations.

"There will be significant pressure in certain markets in terms of solvency," he continued. Regulators have already had to defer recapitalisation plans – in Nigeria, for instance.

"The greatest impact will be on revenues – in a market like Nigeria we are anticipating a 50% drop in oil revenue, which is a devastating blow. In all those countries, oil is the fulcrum that is holding up rest of the economy, so it impacts all other sectors."

Added to that, he said: "The Nigerian government is a major buyer of insurance, so there will be a reduced purchase of insurance."

The lack of cover purchases is already sounding alarm bells across the continent. As Mr Nazare said: "All reinsurers will tell you that there is no liquidity. Funds are drying up and we are not getting paid. In the third quarter it will get a lot worse, primarily because key sectors have not been trading – mining, oil hospitality, manufacturing. Insurance is seen as a grudge purchase and is probably first item off the shopping list for most buyers. Corporates will look to defer payment on insurance."

Joseph Kusi-Tieku, managing director of GN Re Ghana, agreed: "It is true. In Ghana, insurance companies have requested delays in the recapitalisation plans, because the insurance market has already taken a hit and cedants are already losing between 30% and 40% of budgeted income in these first few months."

In the CIMA region, Loseni Sangare, director of non-life at CICA Re, admitted it was all but impossible to quantify the impact of Covid-19 as yet, but he expects an impact on the balance sheets of both insurers and reinsurers alike, as cashflow dries up.

He is not expecting a rush of valid claims, but he is worried that clients will be spending less on their insurance programmes and that will impact everyone in the insurance chain.

Another unexpected challenge, he said, is that it has become much more difficult to transact internationally, with the banks demanding much more in the way of evidence around any transaction.

Claims

The group agreed that, generally speaking, there have been few Covid-19-related claims to date. Mr Nazare said: "We have seen attempts at litigation on business interruption claims but claims have been relatively low." Souvik Banerjea, of Continental Re, added: "We have seen a few instances where clients have been claiming for denial of access."

However, he suggested: "It is a wake-up call for the sector. We have seen claims coming in from Mauritius and from Egypt. In most all-risks policies, denial of access is an automatic inclusion and going forward we need to examine how those wordings work."

Letty Endeley, director of the Anglophone region for CICA Re, said that, in the CIMA region, most markets have rejected Covid-19 claims because they are deemed *force majeure* under the CIMA Code, however the regulators have responded that it cannot be *force majeure* and are insisting claims must be paid.

Brilliant Shumba, managing director of ZB Re, also warned: "Because we are all working from home, we know that notification of any claims (Covid-19-related or not) has been delayed to some extent. That is building up problems, as we receive less in the way of premium but the reserved element on claims is building."

Youssef Fassi Fihri, CEO of SCR Morocco, believes it will be important "to have a committee examining all the impacts of Covid-19, from wordings to the economic downturn". Like the others, he worries about the future collection of premiums.

Meanwhile, Jonathan Kwakye, head of business development at Ghana Reinsurance, added: "The lack of income from premiums could cause problems for some insurers in terms of their ability to pay any claims that do arise. It is a serious issue."

As a consequence, Mr Karekezi said: "There will be an impact on ratings. Some companies were already showing weaknesses in their portfolio and if you add the impact on asset side, it is clear it will impact on ratings. But if claims do not worsen, the impact might not be so great – maybe 40% of companies could face downgrades."

Looking ahead to the next round of renewals, Calisto Ogaye, head of non-life business at East Africa Re, said: "A number of enterprises will have challenges, so there will be pressure to move prices upwards; however, competition is cut-throat on pricing and I see that prevailing later in the year. I see us trying to get the prices up but there will be a challenge because of competition."

He believes the bigger issue is liquidity. "Players are compromised and are not getting premium payment. The extent to which we can leverage technical pricing will be compromised by the reduced liquidity in the market," he warned.

Mr Patel asked, as a consequence: "Are we now looking at a major structural change in insurance markets in Africa, say in the next 12 months, through acquisitions and mergers. Will our client base change?"

Mr Nazare responded by saying: "In all major markets, where regulators have called for recapitalisation, smaller companies have been struggling. The days of fragmented markets are gone. In the past, the attraction was that business is generally profitable on the underwriting side; but in the last few years that has gradually come off and most smaller companies have been surviving on investment returns.

"To get those you must have liquidity, capital markets that are flourishing and high interest rates – all those factors have gone and my view is that we will either see failures, particularly among smaller players, or significant consolidations."

Vinita Lotlikar, executive director of AfroAsian, said traditionally, pricing in Africa was often driven by retrocession rates. The question now, she said, was whether African reinsurers would take control of pricing without waiting for world giants to drive the conversation.

However, SCR's Mr Grailhon said: "Elsewhere in the world, there will be major claims. Losses will be in the range of $100bn – the largest loss ever for the insurance market, split between claims and asset losses.

"Until now, everyone has said a big loss would not be enough to turn the market on its own – it needed a big economic shock. We now have that scenario. We can expect a serious hardening from the international hardening market for the next two or three years. That will impact our retrocessions. And we will suffer from that."

Mr Karekezi added: "Pricing was already under pressure and the loss ratios were already moving towards 100%, and there was no sign of improvement before Covid-19. Our figures last year were good because of one thing – investments. In terms of underwriting, it was one of the worst ever.

"We are going to push rates upwards. We know that each treaty and fac policy will be looked at on its own merit. I believe the first market to react quickly will be the South African one."

However, Mr Kusi-Tieku argued that reinsurers "should be more welcoming and, if overseas reinsurers put up rates, then African reinsurers could offer better rates to take advantage and win more business".

As Mr Patel concluded: "You could have African reinsurers acting as a buffer but this is still a supply chain and unless reinsurers substantially boost their capital, African reinsurers will continue relying on external retrocessionaires."

And, as they all agreed, only time will tell if the required rate increases are achieved.