



“It is kind of fun to do the impossible”



## September Insurance Update

### Global news

#### Property underinsurance is still a global issue



The issue of underinsurance affect the property sector hardest, both households and commercial property. It has been calculated that about 80% of commercial properties are underinsured.

According to the recent Swiss Re report, cumulative damage to property worldwide resulting from Nat Cat during the last 10 years has been estimated at USD 1.8 trillion. Only around 30% of those losses were insured.

Lack of information on insurance products (especially in the emerging markets), lack of affordability and lack of confidence in governments in conjunction with poor trust in insurers are just a few factors contributing to the underinsurance problem. The prospects are adverse: the insurance gap is widening while the losses from natural disasters grow every year.

However, statistics which show this problem can be viewed in optimistic light and regarded as an opportunity.

A client-oriented strategy for insurers is the key to identifying market needs and responding by providing the products that are required. The main challenge would be the risks that are normally difficult to measure quantitatively, for example, terrorism, cyber and supply chain risks.

Property underinsurance is a global and complex issue, yet the most exposed markets are the least protected. To narrow the protection gap the insurers would need to launch integrated development programs supported by local authorities and regulators.

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### Cyber risks

Recent increase in demand for cyber risks insurance is a result of greater dependence of businesses upon digital technologies and consequential growing number of cyber attacks. The insurance markets have slowly responded to the rapidly growing demand for coverage.



The volume of gross written premiums for cyber risks coverage had grown almost three fold between 2012 and 2014 (Timetric report). Globally, estimates of total losses from cyber attacks vary between USD 300 billion and USD 1 trillion (2014). Cyber risks remain poorly measured.

Due to cyber attacks being a common threat for governments, there is a possibility that cyber risks insurance might be obligatory for certain classes of business. In 2017 European Union the General Data Protection Regulation is coming into force across EU nations which will harmonize data protection law across the EU. The regulation will make notification of data breaches compulsory and provides the competent authorities to fine the company's that suffer data breaches. This is likely to increase demand for cyber risks cover, which might dramatically expand the protection gap for such risks.

Insurance companies have already faced a recent boost in demand for cyber risks cover, mostly requested by companies holding customer data.

The European cyber insurance market is estimated at USD 150 mln in gross written premiums (2014), and is considered as underpenetrated, while the USA market in 2014 was valued at USD 2 billion generating almost 90% of global premiums for cyber insurance.

Unlike the USA market, Europe is still experiencing difficulties matching supply with the growing demand for cyber products. In order to expand the product distribution, European insurers believe that there is a need for more research before embracing cyber business. Yet, the expectations of the insurance buyers are high and the prospects remain positive.

## Russian news

### Business dynamics in different Russian sectors



The current political and macroeconomic situation in Russia has affected all business sectors, forcing companies to adjust their business models and profit expectations. However, things are not as gloomy as they might seem. The RAEX (rating agency) research identified that the 600 largest national companies in 2014 experienced an increase in the overall income of 13.1%, comparing to the previous period. The overall income has accounted for 60 trillion rubles.

Despite negative forecasts, Russian companies continue to develop and grow. In 2014, 29 out of 30 largest companies showed growth in revenue, 16 of which showed double digit growth (%).

The main sectors for income growth in 2014 were:

- Agricultural sector: 32.1% increase
- Banking sector: 20.9% increase
- Retail sector: 19.6% increase

The success of the agricultural sector is the most impressive. Counter-sanctions and consequent substitution of imports with local products has generated considerable income growth among local producers. Currently the agricultural sector only accounts for 1% of the total revenues among the top 600; it has high potential for future growth in the current market conditions.

The banking sector produces 9% of income of the top 600. In 2014, banks' income increased by 20.9%. The industry is supported by the Central Bank's efforts to improve the solvency of companies in the financial sectors and lack of foreign credit capacities. Commission income has increased as well, and it includes increase in revenues from sales of insurance products.

Among sectors, which contribute the most to the overall income of the top 600, oil and gas industry still holds the leading position with almost 30% share.

Companies from construction and mechanical engineering sectors have notably increased their presence in the top 600.

### (Re)insurance sector

The Central Bank's continuing focus on regulatory compliance resulted in a number of licenses being withdrawn. In 1H2015, 42 (re)insurance companies had to leave the market for non-compliance with regulatory requirements. In the top 600 rating, the insurance sector comprises of 10 companies. In 2014, their gross written premium accounts for RUB 587 264 900 000 and shows 8.4% growth rate year on year.

In terms of profits, in 1H2015 insurers earned RUB 60.3 billion. This is two times larger than in 1H2014.

In 2015 the reinsurance market is expected to increase by 11-13%. The amount of reinsurance premiums ceded abroad have been rising and totaled to 101.4 billion rubles or 73% in 2014 (as reported by Xprim reports). To compare, in 2013 the amount of premiums ceded abroad totaled to RUB 83.2 billion, indicating continuing interest in foreign reinsurance capacities.

Due to US and European sanctions, some companies from top 600 experience difficulties managing their risks. For instance, state controlled companies form, if not a dominant, but a very powerful segment of large companies sector in Russia. In top 600, state controlled companies account for 40% of the overall income. Companies in the military and defense sector continue to experience significant income growth due to existing export contracts and continuous stable financing of development programs.

However, insurers won't accept risks which they know they cannot receive sufficient reinsurance coverage for. This can undermine future development and growth of many industries, unless insurers develop a suitable strategy, adapted to the current market conditions. This indicates a significant opportunity gap for alternative reinsurance capacities.

### Future prospects

Lower prices for energy resources, a strained geopolitical environment and heightened volatility of the financial markets create new reality of the Russian market which companies have to adjust to in order to survive and continue growth.

In order to sustain development, companies need reliable risk management strategies, including insurance. For some, affected by the sanctions, this would require insurers to have alternative reinsurance covers to be able to offer sufficient protection.

Overall, many companies required restructuring and optimization of their business models. The market should not expect fast growth in the few recent years, but steady development is not only possible, but has also been proved by practice.

## Demand for space risks insurance grows in Russia

It is estimated that capacity of Russian market for space risks insurance in 2014 was about USD 18-20 mln. for property risks and USD 40-50 mln. for the associated liabilities. Russian companies also actively participate in reinsurance of large, international space risks.

The risks of recent launch of carrier-rocket “Soyuz-FG” with transport pilot spacecraft “Soyuz TMA-18M” and its further space-link with the International Space Station were insured by two large Russian insurance companies with sum insured RUB 2.4 billion.



The space craft and carrier-rocket were insured from a total loss in case of failed launch procedure and from destruction when proceeding docking with The International Space Station.

The pilot space craft “Soyuz TMA-18M” with three astronauts on board launched on September 2<sup>nd</sup> from space port Baikonur (Kazakhstan) and, after two-days flight, successfully connected to Russian segment of The International Space Station.

The appearance of orbiting garbage on trajectories of the space craft creates a real danger for the craft, thus, the Federal Agency of Roscosmos claimed its obligation to protect the proprietary interests of the state through an insurance program.

This year several significant losses have already occurred. The biggest one occurred when a cargo space craft “Proton-M” launched from Baikonur space port on April 28<sup>th</sup> 2015 did not manage to reach the intended orbit and was destroyed.

The latest large project was a tender from Gazprom for space satellites insurance with insurance premium estimated at EUR 9.5 mln. On 15<sup>th</sup> September 2015 Russian carrier rocket ‘Proton-M’ was launched from Baikonur. The sum insured was RUB 1.8 bln.

The demand for the insurance of space risks grows, and Russian insurers nevertheless manage to meet it.

## Company news

### Monte Carlo Rendezvous 2015



Challenge Group has traditionally attended Monte Carlo, to discuss activities with its peers. The Group was represented by Charles Catt, George Lavrishchev and Elena Bredikhina.

During the conference, there have been lots of discussions regarding the future of reinsurance rates, including expectations that the bottom, at least for some lines, is not that far. These assumptions have been made based on the

slowdown of rate decline. The suggestions have been made by several respected market specialists, including Tom Bolt, underwriting performance director at Lloyd's.

Among other topics that have been covered in discussions during the conference were:

- Underinsurance
- Future of cyber risks and its coverage
- Feasibility of growth through M&A in current climate conditions
- Product innovation as competitive strategy

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### IUA Catastrophe Risk Management 2015



On 30<sup>th</sup> of September Challenge Group sponsored one of International Underwriting Association's (IUA) one day seminars, held in London. Industry speakers have expressed their view points on the following current market issues:

- Threats of cyber space and cyber security
- Flood Re scheme
- Challenges of Euro windstorm
- Sun as a natural hazard
- Modeling challenges in China
- and other

Contact **Challenge group** team if you need any help with insurance, reinsurance, agricultural expertise and assessment, compliance function or alternative risk management solutions (captive programs)

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