GLOBEX UPDATE

Events, developments, and opportunities in the international marketplace

Japan.

Japanese non-life insurers are tightening their risk management to limit losses in the face of the increasing frequency and magnitude of catastrophes hitting the country. The tighter risk controls follow several severe storms and the expectation that these typhoons will only become more frequent and intense. Typhoon Phanfone, which hit the Tokyo metropolitan area, delivered heavy rains and record wind speeds to central Japan with more than one million people in central and eastern Japan being advised to evacuate to shelters. Although insured losses from the Typhoon are likely to be manageable, Japanese non-life insurers are taking steps to limit losses from natural disasters by reducing their catastrophe risk retentions, placing more international reinsurance or issuing more catastrophe bonds. They also plan to increase premium rates for insurance products that cover fire, wind and flood risks - the Non-Life Insurance Rating Organization in Japan (NLIRO) saying that the standard premium rate for these products will rise by 3.5% on average. Earnings at Japan's non-life insurers have been recovering the last two years - however, the sector's performance remains sensitive to major catastrophes that could weaken their capital buffers. Efforts to control risks and limit losses from natural disasters and plans to raise premium rates will contribute to improvement in the future.

RECENT SUCCESSES

- Bound no fault compensation clinical trials policy for a 500 participant study in Malawi.

- Provided terms for a contract tender totaling $22m for the construction of a hotel in St Kitts.

- Bound local property and required AUS$20m General Liability policy for new Australian subsidiary of US company.

- Secured quotes for overseas offices of computer software group in UK, India & Singapore.

Turkey.

The insurance industry in Turkey reported a 6% increase in premiums to TRY17.1 billion (US$7.5 billion) for the first eight months of this year compared to the corresponding period last year. The non-life sector reported total premiums of TRY15 billion while the life sector collected premiums of TRY2.1 billion. Motor insurance, the largest business line, grew by 3% to TRY3.6 billion. The key challenge for the Turkish property/casualty (P/C) insurance sector is intense competition, which places pressure on earnings. The Turkish P/C sector's ROE in 2013 improved to 14.7%, a strong performance, based on pricing increases implemented to offset significant losses in 2012, when ROE was -10.4%. The sustainability of the improved pricing environment is uncertain because insurers are still willing to cut prices to retain or even increase market share. As a result, the P/C insurance sector will continue to rely on investment income for profit from reduced, but still high, interest rates in Turkey.

Kuwait.

Despite having the oldest insurance company in the region, the Kuwait market continues to suffer from problems. Cut-throat competition, a crowded marketplace, regulatory uncertainty and unstable financial performances of several players are some of the key issues facing the sector. On the surface, the market looks favorable, growing by around 10% in 2013 to KWD277 million (US$967 million) - the same growth rate achieved in 2012 - while 2010 saw the biggest leap of over 20%. This overall growth, however, is not a good reflection of the financial standings of a good number of operators. According to market sources, seven of the market’s 36 insurers have lost 75% or more of their capital. Although there are profitable companies, the shortcomings of others and the market fragmentation has pushed some to “unprofessional” competition to preserve their market shares. The market comprises 26 national operators, six Arab and four foreign insurers. In 2013, domestic players generated 89% of the market volume, Arab companies 4%, and foreign insurers controlled the remaining 7%.

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