

*Events, developments, and opportunities in the international marketplace.*

### Global



Fitch Ratings has revised its global reinsurance and London market sector outlooks to 'Neutral' from 'Improving', reflecting increased risks from rising claims inflation, financial market volatility and weakening price momentum. When last updated in 2021, outlooks expected higher premium rates and a strong rebound in economic activity to significantly improve financial performance. Both markets should still report strong profit in 2022 but it is no longer felt that financial performance will improve significantly, as it will be very difficult for companies to achieve

above-inflation premium increases. The Russia–Ukraine conflict has exacerbated some of the negative macro-economic trends affecting reinsurers and the London market. The conflict itself represents a mid-sized catastrophe event, mostly affecting specialty lines such as aviation, marine, political risk, trade credit, and cyber insurance. In most cases, insurers and reinsurers are expected to suffer only a hit to earnings, rather than capital depletion, without any material rating implications. Nevertheless, there is still the potential for the frequency and severity of natural catastrophe losses to remain higher and reduce market profitability. Rising inflation, which was already pushing up claims' costs, has accelerated and while insurers and reinsurers may be able to increase premiums accordingly, as high inflation becomes longer-lasting, reserve deficiencies will start to arise on long-tail lines. Claims linked to wages and healthcare costs are increasing, as are litigation costs, and insurers and reinsurers are expected to have to set aside higher provisions as a result. Several factors should protect credit profiles that support the 'Neutral' sector outlooks. Capitalization is very strong and underwriting remains disciplined. The London market's financial performance should continue to benefit from the Lloyd's of London performance-management actions and, over time, higher interest rates to counter high inflation could lead to increased investment income, partially offsetting the effect of claims inflation on insurers and reinsurers' overall profitability.

### China

Western companies in Shanghai are facing a logistical nightmare as they start to reopen after a city-wide lockdown, with the problems expected to last for several more weeks. Chinese officials say they will help more than 600 firms restart operations in the major financial hub. Although some firms have restarted operations in Shanghai by having their employees remain on-site, many companies still face the challenges of labor shortages and logistical difficulties. It is estimated that less than 30% of the workforce are eligible to go to work due to the ongoing lockdowns, creating a huge gap between policy and the reality of implementation.



Business groups representing companies from the UK and US have raised concerns about the impact of lockdowns in Shanghai and other Chinese cities as the movement of workers and goods across Chinese provinces is coordinated. How fast that coordination occurs will help determine how quickly transportation and logistics bottlenecks are unplugged, with backlogs that may take several days to a few weeks to resolve. UK firms in China expect their profits to fall this year because of local Covid restrictions, with more than two-thirds of 200 companies surveyed saying they expected lower revenues this year. As restrictions have been eased, Tesla restarted production at its 'giga factory' in the city, but the Shanghai factories of German carmaker Volkswagen (VW) and Apple iPhone producer Pegatron remained closed.

### South Africa



The Durban Chamber of Commerce and Industry has called on local and provincial governments to share their disaster management plan with stakeholders in the wake of massive floods which inundated KwaZulu-Natal Province in eastern South Africa. It is still too early to determine the exact economic losses, but properties and critical infrastructure were severely damaged. The magnitude and the frequency of storms are proving to be a massive risk to the growth and development of

the local economy. Durban is part of the eThekweni municipality, the largest in the KwaZulu-Natal province, which is the second-biggest contributor to South Africa's GDP. The Port of Durban is sub-Saharan Africa's largest container hub, and the region is home to some of South Africa's largest manufacturers. Any loss in the economic infrastructure for an unspecified period has a potentially devastating impact on all businesses. The most deadly since 1987, the floods led to the loss of more than 400 lives. A preliminary assessment report indicates that more than 13,500 households were affected, with around 3,900 houses destroyed and 8,100 houses partially destroyed.

### Recent Success Stories

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- **Co-ordinated local D&O policies in Brazil and China as part of a controlled program for a US-based supply chain solutions company specializing in hardware, fasteners, electric components, valves, and instrumentation.**
- **Placed local policies for Property, General & Products Liability and Directors & Officers Liability in 4 overseas territories on behalf of a US-based family-owned business in the plumbing and healthcare industries.**

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