Disasters drive premiums higher

Reinsurers fall victim to rising catastrophes

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Johannesburg – The recent increase in natural catastrophes around the world was putting pressure on the local reinsurance market, resulting in sharp premium increases, according to a survey by Guardrisk, the specialist life and short-term insurer.

The report said reinsurance groups, which were mostly foreign companies, were imposing huge premium increases on insurers despite prudent risk-management techniques adopted by managers.

The view was echoed by Chris Fimpel, the managing director of Alexander Forbes Reinsurance Brokers.

"Some local reinsurers, influenced by the hard line adopted by their overseas parents and mindful of their own past performance, have opted for a take-it-or-leave-it approach to renewals," Fimpel said.

The local reinsurance market is dominated by subsidiaries of international groups. These include Munich Re, Swiss Re and Hannover Re, formerly a subsidiary of Rand Merchant Bank. These groups operate in the healthcare, short-term, life assurance and also reinsure Sasria, the government-owned special-risks insurer.

Chris Grieve, the general manager of personal business at Mutual & Federal, the short-term insurer, said the international catastrophe markets had hardened because of the increase in storms and other natural disasters around the world.

Grieve said many local insurers obtained their catastrophe cover from these markets and the premium increases were filtering through to the local end users of catastrophe cover.

Fimpel said prudent risk management was no guarantee against enormous rate increases. He said a local mining company saw its premiums soar by a staggering 6 000 percent on renewal.

"Gone are the days when claims were processed to keep the clients happy. In today's environment, claims tend to be negotiated downwards and concessions will cost the client dearly on renewal," he said,

But Munich Re, a subsidiary of the German-based reinsurance group, said cover for natural disasters was too low in South Africa.

"Insurers have paid out over R250 million worth of claims as a result of natural disasters last year ... The current rates are unrealistic. Premiums have to go up."

The report said more and more corporates were getting fed up with being the victims of a trend over which they had no control. Corporates were turning to alternative risk-management solutions.

The report said: "The alternative insurance market is booming ... Six cell captive insurers have been established since 1993."