



International Perspectives

Unlocking opportunities and navigating challenges in a transitioning market cycle

April 2021



Gallagher

Insurance | Risk Management | Consulting



FOREWORD

We are delighted to share the first Gallagher *International Perspectives* report of 2021, bringing together commentary and insights from CEOs and subject matter experts across Gallagher's international territories including Singapore, Southeast Asia and Continental Europe through to Latin America and the Caribbean.

The report provides a view on emerging trends and structural changes shaping a number of key insurance markets with a particular focus on the industries and sectors driving growth and economic change in those regions.

Climate change, cyber risk and business interruption are likely to remain top of the corporate agenda in 2021, with company directors and executives becoming increasingly concerned by their exposure to both balance sheet and decision based risk. There is also the growing spectre of insolvency and structural change as industries decimated by pandemic restrictions look for ways to rebuild and rebound.

This is undoubtedly a period of time with no parallels in recent history, shaped by converging economic, political and social forces and a growing recognition that there will be no return to a pre-pandemic norm.

Insurance continues to play a significant role in response to heightened uncertainty, regulatory scrutiny, rising civil and criminal legal proceedings, and a growing agitation for systemic change. While the new world that emerges from the pandemic may be a game change in some respects, the scope of risks that shape both prevailing challenges and drive the next wave of innovation will enable the industry to adapt to meet new demand.

While the international agenda continues to evolve, there is definitely increased scope for optimism despite the near term challenges to regional and global insurance markets. A closer inspection of the perspectives and commentary included in this report, reveals a diverse and contrasting commercial landscape which needs to be viewed in context and on its own individual merits.

We also welcome your feedback on other topics that are top of mind or of growing concern that could be featured in future editions of this report.



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CONTRIBUTORS TO THIS REPORT

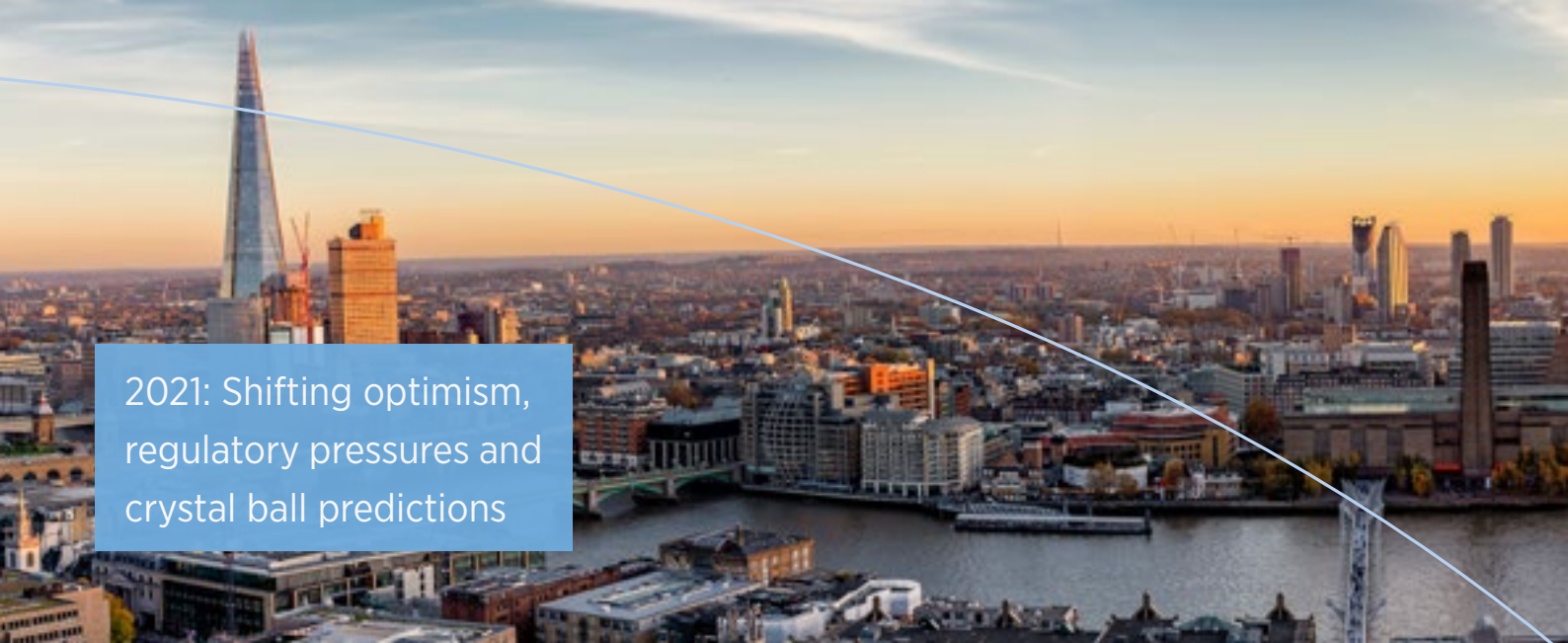
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2021: Shifting optimism, regulatory pressures and crystal ball predictions

EXECUTIVE SUMMARY

While there may be growing room for optimism this year, there is no escaping the near term challenges of capital market volatility, asset risks, anaemic interest rates, regulatory change and a heavier compliance cost burden placed on corporate organisations and commercial business owners. In that sense 2021 is likely to be a case of grappling with the challenge of stabilising productivity and growth, while the sands continue to shift. For some, it may seem like the equivalent of predicting the future through a crystal ball.

With Brexit trade deals inked and the inevitable bureaucratic head scratching that followed, President Biden pressing on with an agenda of alliance building and economic stimulus, and continued geopolitical and trade war tensions hampering growth in developed economies, 2021 has every potential for unexpected twists and turns. On a positive note, with a number of the world's emerging and developing economies in prime position to grow, the opportunity to capitalise on the demand for infrastructure development, raw materials and goods to drive domestic productivity in the world's major economies will bring renewed optimism of better times to come.

Attention is now turning to life beyond the pandemic. On one hand, growing expectations of insolvency, trade credit and supply chain issues remain cause for concern, while on the other, with vaccination programmes underway and international mobility opening up,

we should start to see a steadier flow of trade and a freer movement of specialist labour and investment. Consumer demand for nascent products in the post-COVID environment could also increase, which may in turn help to drive demand in low penetration markets.

COVID-19 has profoundly affected how people engage with one another across industries and geographies. Physical distancing has shifted activities once conducted in person to digital and remote channels. As such, COVID may well have fundamentally altered society's relationship with technology. Most businesses in the insurance sector have already taken steps to address the immediate impacts of the pandemic (remote working and expanding online service channels). Now we must focus on re-imagining distribution for a more remote world and re-thinking distribution models. If ever there was a time for evaluating how customers wish the insurance industry to engage with them, it is now.

The M&A landscape is showing promising signs of recovery and investor confidence, particularly in the Asian region where appetite and deal volumes are steadily lifting. 2021/22 deals will most likely have a stronger strategic emphasis focused on reversing out of unprofitable markets and sectors, building regional and local scale to unlock growth opportunities, and enabling the diversification of operating models including product innovation and bringing in specialist capability and expertise. While the pandemic may have delayed deal-making across the insurance and others sectors, it did not derail activity altogether.



A further tightening of regulatory controls will influence and inform the insurance sector's post-pandemic response. As always, the emphasis should be on creating an environment that provides the appropriate checks & balances while driving sustainable economic growth and ease of doing business internationally.

Cyber resilience remains a critical concern, requiring increased board involvement to identify and safeguard against against ransomware attacks, social engineering and other fraudulent activities, and navigating the evolving silent cyber risk challenge. One positive from this situation could be a meeting of minds to drive innovation and closer partnerships between insurance experts, government, regulators and the broader business community.

From a reinsurance perspective, a decade of low interest rates and tougher underwriting conditions forced reinsurers to assess their appetite for investment risk. COVID-19 accelerated upward reinsurance rate increases that began in 2018 deriving a positive impact for underwriting margins. In one of the stronger (if not strongest) underwriting markets in at least a decade, the insurance sector has demonstrated a degree of resilience underpinned by a lift in premium volumes against the headwind of a global economic downturn.

We trust this report presents a thought provoking read and the Gallagher team will be delighted to assist should you wish to discuss your current insurance and risk management arrangements. Contact details can be found in the rear section of this report.



VYVIENNE WADE

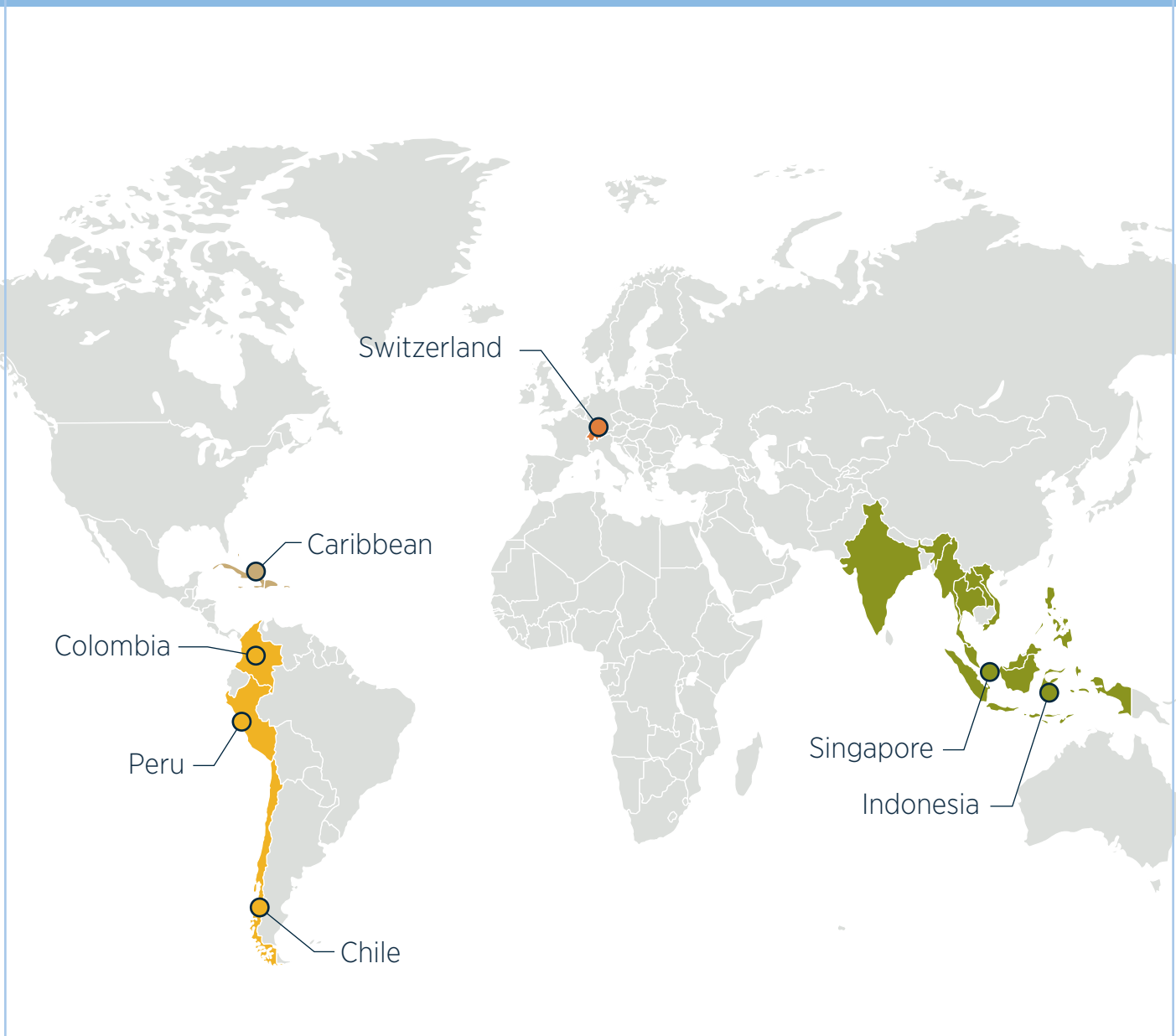
**Chairperson, EMEAA and Latin America
CEO, Europe and Asia**
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REPORT HIGHLIGHTS

The international perspectives provided in this report present a number of notable headlines, including:

- **A Cyber divide has emerged in several markets** with price leading the appetite for many small to medium business owners versus the growing incidence of ransomware and cyber-attacks making it a non-negotiable risk for larger corporate and international enterprises.
- **Reinsurance capacity continues to evolve in the major markets**, in turn changing the structuring of underwriting programs for selected risks, resulting in a reduction of domestic market capacity whilst retaining a healthy primary insurance market environment. In some markets, increased scrutiny of ‘good’ risks is becoming more commonplace.
- **Structural change continues to shape the Singapore Marine (Hull) market** with the erosion of hull capacity and a wave of new entrants are beginning to compete for business alongside well-established names.
- **Political and civil unrest in Latin America** continues to impact and influence underwriting appetite, however, recent government and regulator intervention in certain markets is helping to return the economy and commercial environment back on to a firmer footing.
- **The roll-out of COVID-19 vaccination programs** is stimulating increased demand for insurance in international markets and developing economies. Adversely, ongoing restrictions to port terminals, general trading and labour mobility heighten risk exposure concerns across multiple industries and sectors and a hardening rate environment.
- **Bankers Blanket Bonds (BBB) insurance** is experiencing a turning point with some carriers electing to move their entire portfolio to a facultative reinsurance platform or MGA partner willing to provide capacity.

INTERNATIONAL PERSPECTIVES



CYBER SNAPSHOT

One of the topics that transcends international borders is cyber, which remains one of the highest priority challenges for businesses across all industries and sectors. The rapid switch to online trading and remote working practices that followed the arrival of the global pandemic, alongside a pre-existing drive to digitise sales and service innovation over the past decade, placed increased pressure on IT security systems design to offset a growing vulnerability to cyber-attack and the determination of cyber criminals to penetrate the infrastructure of some of the world's most iconic brands.

Given the alarming rise of cyber incidents – data breaches, phishing attacks, credentials abuse and fraudulent activities – cyber risk remains a hot topic from board room agenda through to small business owner. And the picture is not a balanced one with cyber becoming more pervasive and at times outpacing the ability of underwriters and technology developers to develop a robust defence, and the ability to shape a regulatory response to manage the growing push by consumers and customers to safeguard their privacy and commercial interests.

Add to this the rapidly accelerating demand for connectivity and digital transformation, Asia Pacific as one example with its mix of developing markets and key economic hubs has become increasingly vulnerable to cyber-attack in recent months, in addition the wave of attacks globally. Ultimately, cyber is a risk without boundaries and no territory, industry or technology platform will remain untouched.

Price versus risk – the new cost:benefit equation

Despite a broad recognition of the heightened exposure to cyber risks at this time, we are seeing a divergence of opinion between executive decision makers in large corporate organisations versus small to medium business owners in a number of regions. The latter, with pressing concerns of trading conditions and cash flow challenges, are viewing cyber insurance as a non-mandatory purchase at this time and in some cases fully prepared to take risk. This reflects a range of considerations including the belief that a cyber-attack will generally targeted more sophisticated systems where the prize is thought to be higher, through to a 'nice to have, but not now' mindset.

In contrast, key decision makers in larger corporations with growing exposure to balance sheet and reputational risk are prepared to take the financial hit and rather than risk the fall-out from a high profile ransomware attack or scrutiny from the regulator. Given the increasingly complex scope of cyber risk and scale of expected claims, significant rate increases for cyber insurance purchasers at renewal is a fair and realistic expectation.

Here are some of the perspectives raised during the writing of this report:



The overnight switch to remote working left IT departments with minimal time to secure technology and data processing systems. This presented a backdoor opportunity for cyber hackers to exploit vulnerability and a workforce in crisis mode. The resulting wave of ransomware attacks is a significant cause for concern.

Lionel Soffia
CEO Chile



With social engineering attacks, in particular phishing emails, driving more than 30% of notifiable data breaches, it is clear that cyber-attack perpetrators are willing to exploit the inherent trust of employees and business owners to achieve their desired aim.

Guido Hesse
CEO Switzerland



Growing dependence on third-party software and connected device chains has opened up a wave of attacks on corporate organisations who have built their infrastructure on Cloud based platforms with mobile access. Heightened scrutiny has been placed on risk management protocols and security controls, with increased capital investment being required to safeguard against a rapidly evolving and sometimes unclear risk.

Swandi Kendy
CEO Indonesia



Other perspectives on cyber insurance and risk can be found within the various country sections in this report.

SINGAPORE



BENJAMIN FONG
DIRECTOR - MARINE



DICK HEATH
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MARKET OUTLOOK: MARCH 2021

The Singapore economy is forecast to deliver between **4%** and **6%** GDP growth this year, off the back of an economic that contracted by roughly **5.5%** in 2020 due to pandemic related challenges.

With the economy now in recovery mode, while the flow of inbound travel & tourism income continues to be hampered by international border closures and tight travel restrictions, buoyant demand in the manufacturing sector and growing demand for domestic services will deliver some upside. International trade flows and business transactions will also be beneficial from an employment perspective, and enabling broader investment and commercial opportunities.

Marine (Hull) market perspectives

Marine renewals remain a challenging exercise, partly driven by a lack of general mobility and remote working, leading to a significant fall in face-to-face interactions which have been historically crucial in navigating renewal outcomes especially on more complicated fleets.

In Singapore, the collapse of home-grown firm Hin Leong and its sister company Ocean Tankers sent shockwaves impacting the supply of bunker fuel and adding to the pile of growing issues faced by ship owners already dealing with the disruption caused by the pandemic.

On the underwriting front, in the closing months of 2020 Singapore witnessed long-time syndicates existing the marine market completely and others closing their Asia marine team altogether, bringing down more than 30 markets in 2017 to 15 markets writing today. The erosion of hull capacity within a relatively short period of time has presented a range of challenges for marine operators including reduced capacity and insurers exiting risks.

The Southeast Asian region, which currently finds local insurance companies sandwiched between increasing facultative reinsurance costs and the need to placate local shipowners, may end up opting for the path of least resistance by retaining the business while running the risk of not fulfilling the solvency requirements set by international rating agencies.





Shifting claims landscape

While 2020 was a fairly benign year in terms of attritional claims and total losses trending downwards, 2021 may prove to be more challenging as sustained crew fatigue and delayed regular maintenance bring about an exponential increase in machinery related claims.

The broader implications for ship owners who were ill prepared and made a rushed adoption of IMO 2020 low Sulphur fuel requirements also remains to be seen, where some have encountered increased frequency of machinery issues caused by off-spec variants of low Sulphur bunkers.

The longstanding issue of container fires also remain a key concern as ongoing port congestion both in Singapore and major container ports across the continent, the risk of a catastrophic ship-to-shore fire is quite real.

At the time of writing, the grounding of the Ever Given and subsequent blocking of the Suez Canal has captured global attention as people seek a more newsworthy event to talk about other than the pandemic. Much ground has been covered by various insurers, brokers and lawyers addressing possible causation and the relevant insurances affected.

The Japanese owner of the Ever Given is expected to declare General Average under their Hull & Machinery policy along with Cargo Insurers of cargoes on board expected to make their contributions. All 3rd party claims brought against the ship owner will be dealt by the Vessel's P&I Club mostly from the Suez Canal Authority for the unscheduled canal closure and alteration to its walls. Providers of Trade Disruption/Marine Delay Insurance, are also expected to respond but it is unlikely that many affected ship owners have taken up this niche offering.

A significant portion of the bill to Hull Insurers will come from the high salvage costs given the multiple parties involved to refloat the vessel, however the claim is expected to be contained within the local Japanese market. This incident will also serve as a stark reminder that continual improvement of waterways, port infrastructure and salvage equipment to cater for larger ships are essential to mitigate the risks that large modern fleets bring.

Emerging trends

Given the increasing adoption of remote surveys as underwriters rely more on the use of drones and virtual video inspections, it is likely that we will see a lift in investment in both satellite and IT infrastructure needed on board vessels and in ports.

As an established maritime hub, Singapore is well positioned to become a decarbonisation hub for the industry as well which aligns with the Singapore Green Plan 2030 to help the country eventually reach its goal of net zero emissions. Local players are already pushing ahead with feasibility studies to assess the benefits of implementing a green fuel supply chain infrastructure alongside the recent introduction of a sustainability-linked loan for the maritime industry.

Where financial institutions have pledged to help support the industry to achieve its carbon neutral goals by setting ESG goals linked to lower borrowing costs, marine insurers could end up playing a role in supporting these initiatives by offering premium discounts linked to such loans or endeavours. The idea of a decarbonisation credit sitting alongside a no claims bonus in a policy may well happen soon.

With the growing sophistication of the technology available today, a dynamic hull policy that scales up or down in coverage and premium as the fleet trades is no longer an impossibility. The traditional static annual policy may well evolve and deliver more accurate results to all parties in the chain with the eventual objective of optimising hull insurance costs.

More shipowners are open to the idea of switching conditions from the time-tested ITC clauses to the Nordic plan supported by the additional convenience of being able to place all their marine insurances H&M/P&I and WAR into a single market.

Underwriting capacity and appetite

Fleets with historically poor performance (> 60% gross loss ratio) or containing tonnage that has fallen out of favour such as containers, car carriers as well as singleton or doubleton, has led to underwriters walking away from certain accounts or otherwise implementing significant rises in certain cases.

More experienced underwriters may choose to scale back on coverage with a particular focus on imposing an increasing number of warranties specific to lay-up and reactivation. General deductible levels, which have remained largely unchanged for the better part of a decade, are now more likely to be reviewed as underwriters brace themselves for a growing number of claims brought about by exhaustion of both man and machine.

Market transitioning at a slower pace

The rate hardening is expected to continue but at a slower pace than in 2020. Underwriting discipline has largely held steady for renewable business but there have been reports of some markets going 'dark' and offering 24 month deals and expiring rates towards new business. A wave of new entrants are beginning to compete for business alongside well-established names, which may shift the competitive agenda over the next 12-18 months.

MGAs have also grown in popularity led by individuals who are familiar with the marketplace and have timed their arrival well at the beginning of the hard market cycle.

ReCAAP ISC reported a total of 97 incidents in Asia in 2020, representing a 17% year-on-year increase compared to 2019. The majority of the incidents were low-level risks such as armed theft with minimal damage to vessel or injury to crew. The flow on effect from a pricing perspective is minimal, with no significant impact on P&I Clubs nor the Kidnap & Ransom (K&R) market, and the take-up rate on the latter remains low especially for shipowners trading domestically.

┌ **New entrants to the market are competing for marine business alongside the historic players, shifting the competitive agenda.** ┐



2021 – What's on the horizon?

We are currently expecting shipowners with clean or highly profitable track records (< 20% Loss Ratio) to remarket their insurance programme to take advantage of a rising number of intermediaries competing to capture additional market share.

For shipowners with more challenging loss records, including those trading within countries with high NATCAT exposures or tonnage which are out of sync with underwriting appetite, such as containers and car carriers, we anticipate increased underwriting scrutiny who may elect to impose additional warranties, named windstorm exclusions and higher machinery deductibles. This will require looking at alternative means of structuring a hull policy which may include factoring in non-traditional sources such as parametric insurance to address their client's insurance needs.

More pressure on broker remuneration as underwriters look to reduce acquisition costs while shipowners begin to expect a better quantification of the services rendered beyond just the placing, servicing and handling of claims.

INDONESIA



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MARKET OUTLOOK: MARCH 2021

Following a **2.5% to 2.7%** contraction of the ASEAN economy in 2020, current growth expectations for the region sit at **3-4%**, against broader global growth expectations of around **3%**. Despite a gradual lift in economic performance in the closing half of 2020, concerns remain with an increasing in loan defaults of around **3%** being reported in Q4, 2020 and both domestic and inbound foreign investment being sluggish at best.

Premium growth market for Property & Casualty insurance

Despite the COVID-19 related setbacks dampening growth prospects for Indonesia, it remains one of the world's emerging economies packed with potential for growth with abundant and diverse natural resources, a young and growing population, and a rapidly expanding middle class with low labour cost and relatively stable political environment under the current President Joko Widodo (Jokowi). Jokowi's leadership since 2014 has focused on infrastructure development and the implementation of new toll roads and mass transportation systems to support future economic growth plans.

The 2020 Job Creation Act is part of a broader move to attract foreign investment with a more attractive regulatory environment and land acquisition options. Domestically, the ambition is to accelerate job creation and stimulate domestic and foreign investment confidence with improved access to business permits. Although it is still early days post-implementation, these moves signal an economy focused on growth and increased productivity which bodes well. This extends to the penetration of insurance, which has steadily increased in recent years to around 3.25% in 2020, although this has been increasingly challenged by the COVID-19 pandemic which has placed increased pressure on household incomes and business cash flows leading to a generally reduced uptake of purchasing insurance cover.



The 2014 introduction of tariff rating for Property and Motor Vehicle Insurance has played a significant role in driving premium growth in recent years prior to 2020 and boosted performance of the domestic insurance market. It was one of the key contributing factors for the Property & Casualty insurance premium growth along with infrastructure developments.

Following Indonesian Parliament approval of a US\$29 billion budget for infrastructure development as part of a broader economic stimulus package, there is further headroom for insurance sector growth as work commences on a range of major projects aimed at improving connectivity and generating foreign investment. Although this presents a number of challenges, including the ease of implementing further toll roads developments and the mobility of the labour force while the country remains in COVID-19 crisis mode, there is still considerable room for optimism in what this will bring to Indonesia longer term.

Insurance landscape

Property & Casualty insurance remains integral to the Commercial and Corporate landscape in Indonesia. As we continue through the pandemic crisis period the conversation is primarily focused on premium reduction requests and premium funding instalment payments to assist cash flow constraints, particularly for businesses and sectors severely impacted by the pandemic. In recent months we have seen a steady rise in demand for Trade Credit insurance and Cyber Liability, the latter most likely due to growing concern following a wave of cyber-attacks in the pandemic period involving recognised international brands through to local operators.

Offshore and international placement continues to be the preferred method of doing business and is likely to remain so for the foreseeable future. Indonesia's local insurance and reinsurance carriers remain reluctant to pump in new investment capital to increase their retention, resulting in the heavy reliance on international (re)insurers to support their Treaties. This is despite Indonesian reinsurance companies having sufficient capacity to retain more of the risks of domestic insurance carriers, which suggests it will take further time to restore confidence in local placement options.

With the rise of natural catastrophe and extreme weather events in the first quarter of 2021 – flooding, landslides, earthquakes – in line with practices adopted by the other South East Asian countries, international carriers generally impose a sub-limit and increase in pricing and deductibles for Natural Catastrophe (NAT CAT) risk post an event. However, we have not seen (or are expecting) any material deviation from historic operating terms at this time.

Educating clients and the local business community on the contributing factors for the current hardening market cycle remains critical. With many businesses driving deep cost containment and reduction programs, the risk of underinsurance and adverse exposure through non-insurance is growing following a push for premium reductions and a more limited scope of insurance cover. From a placement perspective, we are seeing more insurance programs being spread across multiple carriers to accommodate acceptable premium levels.



Capacity shifts and premium movements – transitioning market landscape

In line with other Southeast Asian countries, Indonesia has experienced reduced capacity, market exits and ongoing upward premium movement, particularly for Financial Lines risks such as D&O, Cyber, Bankers Blanket Bond, and Professional Indemnity reflecting the prevailing pressures on the financial services sector globally. Indonesia has not seen the arrival of new market entrants over the past 12-18 months, and with several larger insurers exiting certain risks and markets, it is reasonable to expect this situation will continue in the near term.

From a Construction and Infrastructure insurance perspective, Wet Risks insurance, coal related risks and risks specific to large infrastructure projects remain more challenging with significantly reduced underwriting appetite. Indonesia is still largely dependent on international capacity and with regional and global shrinking, this directly impacts Indonesia's underwriting appetite. As the global insurance market moved into a hardening market cycle, The Paris Agreement reduced appetite for coal related risks which led to a reduction in local capacity for Infrastructure and Wet Risks projects due to the general uncertainty and heightened concern of increased risk exposure. This has been instrumental in driving increased pricing and deductibles, and the gradual shift in commercial underwriting appetite in the region.

One positive, however, is that we are not seeing any notable changes in the claims environment, where the Indonesian claims environment remains relatively stable in comparison with prior years.



Rebooting the economy and building growth momentum

Infrastructure and construction projects have understandably been affected by the COVID-19 pandemic, and in the early part of 2020 we had seen a lot of projects being delayed and those project that were at discussion stage being postponed until further notice. In late 2020, we have since seen many of the previously delayed projects being resumed and new projects being approved.

Infrastructure and Construction Projects Insurance rates have been hardening since late 2019, prior to the arrival of the pandemic crisis. As such, we are not seeing a material or significant difference in the placement of insurance as a result of COVID-19.

The longer term trend of upward rate movement forewarned contractors and large infrastructure developers of things to come, and as such we have not experienced any adverse pattern of insurance program and project cancellations. Delay in Start Up (DSU) insurance cover is not a standard requirement in Indonesia unless specified by foreign lenders as part of the broader contractual obligations.

This extends to the scope of Construction Insurance policy wordings where we are not seeing any notable changes other than the inclusion of coronavirus and/or communicable disease exclusion being requested.

For larger, more complex and government funded projects, international risk engineering advisors and insurance experts continue to be engaged to structure insurance and risk programs for those projects.



Infrastructure and Construction Projects Insurance rates have been hardening since late 2019.

SWITZERLAND

INTERVIEW



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FRANCESCO GIAQUINTA
HEAD PROJECT BUSINESS

MARKET OUTLOOK: MARCH 2021

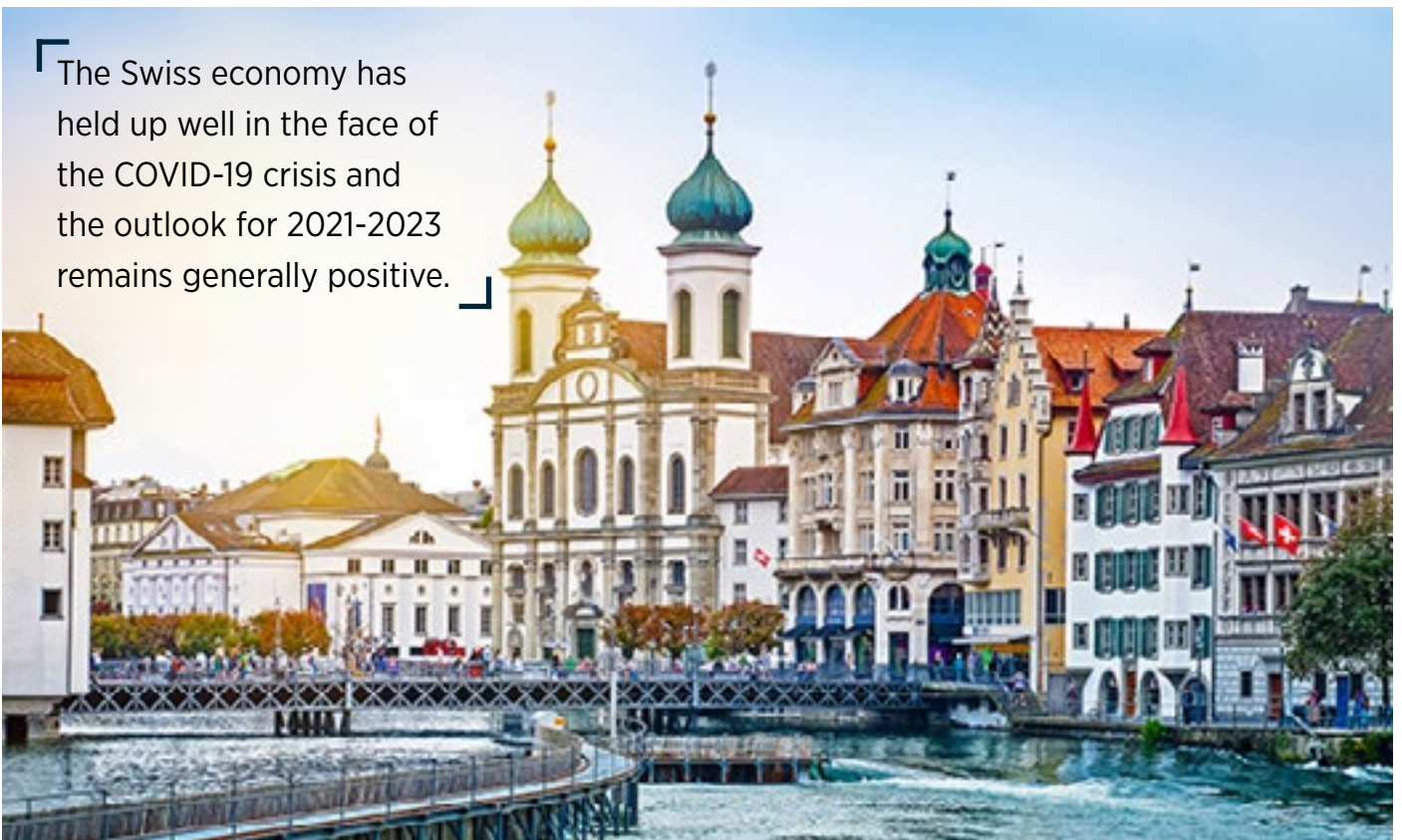
Switzerland, as one of the world's most stable and secure economies, remains a positive environment for international investors and somewhat resilient to the downward economic pressures imposed by the COVID-19 pandemic.

The Swiss economy has held up well in the face of the COVID-19 crisis and the outlook for 2021-2023 remains generally positive despite the current shutdown of some sectors. Forecasts predict the Swiss economy will grow by roughly 3% in 2021, further buoyed up by a containment of the virus and implementation of the national vaccination program to enable a rapid and strong recovery from spring onwards.

Following a 3% contraction of the economy in 2020, compared with 6% for neighbouring Germany and Austria and 9% for France and Italy, the softer landing point was primarily due to Switzerland's spring lockdown being less strict than in other countries. Switzerland's industry structure, with its significant focus on Chemicals and Pharmaceuticals, has also proved to be a stabilising factor. In addition, the second wave of coronavirus infections in late 2020 had a lesser impact on Swiss consumer behaviour than the first wave and global market trade has been more robust in the latter half of the year aided further by China showing stronger growth again, which helps export volumes.

The Swiss insurance market's financial strength buffered it from the broader hardening market cycle trends putting it in a better position to absorb the prevailing challenges. The hardening market as a chance for us to grow since we are technical insurance broker, being able to draft our own wordings and place them on the insurance market. This is unique to Switzerland which offers a competitive advantage to other European alternatives.

The Swiss economy has held up well in the face of the COVID-19 crisis and the outlook for 2021-2023 remains generally positive.





Switzerland - market perspectives

Rate hardening and strong demand for commercial insurance driven by heightened anxiety and rising claims losses during 2020 have positioned the commercial insurance sector to rebound in 2021.

This is particularly the case for financial lines where we have seen significant premium spikes correlated with capacity reduction. For Property and Business Interruption classes the situation is similar, however, less dramatic.

Similar to other European and global insurance markets, Switzerland has seen a number of insurer exits and a reduced appetite to write certain risks. As with any market movement, there are opportunities to capitalise on the situation including a shift in the balance between domestic, local insurers and their international counterparts. Whereas we have seen one major carrier electing to close their subsidiary in Switzerland, local insurers have emerged as a valid market for capacity, irrespective of whether they choose to act as co-insurer, layer-insurer or reinsurer.

For more complex and harder to place risks such as the chemical industry or for clients with a poor claims loss history, securing coverage continues to be more challenging (although not impossible). Special risks like pharmaceutical product liability, motor vehicle product recall, professional indemnity and cargo insurance also remaining challenged by capacity and rate movements, which we expect will continue in the near term.

Personal Lines insurance has also experienced rate hardening for specific classes including compulsory and complementary accident insurance, as insurers are looking to restore operating performance and offset historic adverse loss ratios.

The current market acts as a timely reminder of the critical role of an insurance broker as strategic adviser and the need to support clients by setting out the prevailing commercial landscape and helping businesses to navigate a period of increased balance sheet pressures.

Claims landscape

The incumbent claims environment has also transitioned in line with the market cycle and we're seeing increased scrutiny and a general hardening of attitude towards claims lodged at this time particularly for more complex claims where legal experts are generally involved as standard practice. In some cases, we have seen junior lawyers with limited commercial experience reviewing claims without some of the necessary perspective and commercial judgment required.

INDUSTRY SPOTLIGHT: WASTE TO ENERGY

As the world turns its attention to the ESG agenda and a more responsive attitude towards climate change, renewable energy insurance including Waste-to-Energy is playing an increasingly important role. Growth in these areas has been generally unaffected by COVID-19.

We are seeing a marked increase at this time in the volume of claims being lodged for Property, Engineering and Professional Indemnity lines of risk. This is leading to a growing expectation that it will become increasingly difficult for us to place those risks at renewal. A pattern is emerging with some insurers withdrawing from those risks altogether and others introducing more restrictive underwriting guidelines and minimal capacity, higher premiums and standardised wordings such as named perils coverage.

Brokers, therefore, are increasingly challenged with managing complex risk portfolios requiring strong partnership local and international insurance and reinsurance markets. Alternative Risk Transfer arrangements, reinsurance vehicles, and bespoke insurance industry solutions are becoming viable options alongside early entry into renewal negotiations than in previous years. Having the right strategy and the best available advice is key to success in the current market.

Reinsurance challenges, capacity shifts

In line with other major European insurance markets, we have seen a reduction of domestic market capacity, whilst retaining a healthy primary insurance market environment. Increased scrutiny of 'good' risks is becoming more commonplace and, as such, it is becoming increasingly challenging to maintain the current scope of policy wordings at time of renewal.

Changing times require a change in strategy. In particular, given that many waste recycling plants operate under public law, commercial operators increasingly find themselves in a partly open competition environment. This increases cost pressure and the pressure to succeed.

To offset this challenge there is a stronger recognition of the importance of rigorous risk management practices, and the need for expert risk engineering advice. Investment is being made across the board to improve aspects of the safety and functionality of plants and further reduce risk exposure.

This requires a certain amount of coaching and education, which includes maintaining a regular risk dialogue with clients and the insurance market, which helps to improve transparency and understanding and in turn increased underwriting appetite and a willingness to compromise.

Environmental law in Switzerland

The Swiss Environmental Liability Act has not been adapted to EU directives which has led to a relatively relaxed legal starting position in the local market, and a legally based liability for ecological damage a legal based liability does not exist at this time whereas Environmental Damage cover is often provided within the scope of a standard general liability policy wording.

To put this into perspective, historically there have been relatively few waste sector related incidents in Switzerland that result in the scale of environmental damage, that may occasionally be seen in the chemical industry. In contrast, Professional Indemnity cover for planning liability in the plant construction sector, due to a marked increase in losses, is rarely available in the domestic market at this time with capacity coming at considerable cost and premiums continuing to rise year-on-year.



Claims loss

The Waste to Energy industry is characterised by a high risk of fire, machinery breakdown and business interruption due to the processing of large quantities of waste in a small space and the enormous investment sums involved. Due to the compact design, general space constraints and highly efficient processing procedures, numerous “bottleneck” installations such as fermenters, generators and turbines increase the loss potential and exposure to business interruption risk. In particular, technical damage to generators and turbines to produce energy (electricity, steam, district heating) is burdening the market. The claims situation is getting worse. The cost of property damage is rising as is the contingent cost of disruption to normal business operations.

A key contributor to this situation is a significant decline in the manufacturing quality of key components such as turbines and generators, that leave waste to energy operators more exposed to mechanical failure than in

previous decades. Operation of the processing plants now require increased monitoring measures and more investment to maintain business continuity requirements

In light of these challenges, increased attention will be paid on the optimisation of processing procedures, shaping procurement practices around quality and sustainability backed by a well-stocked inventory of spare parts and a qualified repair team, and motivating increased cooperation among operators to implement diversion agreements, managing the forwarding of waste, and buffer agreements.

The net benefit is a visible reduction in property risk and Business Interruption risk, noting that facility risk can only be reduced to a limited extent and is dependent on the individual characteristics of a plant. Structural conditions and the existing machinery as well as the security concepts are the key points to consider as basis for possible ongoing improvements.

INDUSTRY SPOTLIGHT:

CHOCOLATE, LUXURY WATCHES AND MANUFACTURING RISKS – THE COVID CONUNDRUM

Despite COVID-19 presenting a significant challenge to manufacturers and production facilities, we have not seen the scope of Employee Practice Liability policy wordings being adjusted over the last 6-12 months. Although the gradual implementation of rapid testing and vaccine programmes is being viewed as a positive by many, the broader effectiveness of the vaccine in terms of delivering a return to near normal trading environments remains to be seen.

As lockdowns and travel/mobility restrictions were introduced in March 2020, we observed a growing machinery and equipment challenge along with growing supply chain disruptions emerging, particularly in relation to China. With many companies moving quickly to stockpiling strategies to offset short term supply issues, we have since seen this situation change and operations have returned to near normal operations with significant disruptions now expected in the short to medium term.

One area of concern, is the Management Liability risk associated with protecting employees from becoming infected with the COVID-19 while in the workplace. With inconsistent risk management and leadership practices being implemented, we may see collective employee legal action becoming an issue over the next 9-12 month period, where infective Health & Safety and social distancing measures have been put in place to safeguard employee wellbeing.

Pandemic, Brexit and geopolitical uncertainty

Elevated uncertainty due to the global pandemic, Brexit, and a general downturn in business and consumer confidence has contributed in some respects to upward rate pressure for manufacturing related risks. Suppliers (including insurers), erring on the side of caution, have turned to price increases. While the global pandemic, Brexit, and ongoing trade war tensions and geopolitical uncertainty have contributed to increased premiums and reduced commercial risk appetite, there is every expectation that client and business risk appetite generally may change over the 6 to 12 months.

Businesses are challenged on two fronts - under pressure with premium increases and grappling with internal cost pressures while retaining accountability to mitigate all risks from the corporate balance sheet. This could lead to a number of outcomes, for example, the decrease key insurance covers such as Property Damage Liability and Business Interruption and an increase in cover for Cyber risks and focus on parametric pandemic options. A second perspective would be increased consideration for Alternative Risk Transfer arrangements and Captive platforms.



COLOMBIA

INTERVIEW



ERNESTO DE LIMA
VICE PRESIDENT - PLACEMENT

MARKET OUTLOOK: MARCH 2021

As the global pandemic continues to impact the pace of economic recovery and a return to historic trading levels. Following a second wave of COVID-19 infections in February followed by tighter government restrictions and curfews, Colombia faces a challenging situation for the foreseeable future.


Current predictions are that a mix of consumer demand and investment will enable a modest 3% to 5% growth in 2021 and in the region of 3.5% to 4% in 2022. The Central Bank's response to cut interest rates and offer additional lines of credit will provide a degree of interim relief, and the early March arrival of COVID-19 vaccines via the COVAX program will further aid longer term recovery plans and help to restore investor and consumer confidence.

General outlook: vaccines and economic recovery

With the arrival of vaccines in early March, providing a photo opportunity for politicians and a wave of media reporting, the first cohort of roughly 50,000 people comprising the elderly and most vulnerable were the first through the door. The numbers will lift in the coming weeks with a further 500,000 to 2 million Colombians being inoculated. For many, this will be a welcome relief after an extreme lockdown period marked by strict curfews and mobility restrictions.

COVID-19 has cast its shadow over the Colombian population, with ICUs and critical care services generally running at 90-95% of full capacity. And insurance coverage for vaccines has understandably been a growing market in Colombia in recent months, tapping into London market capacity.

Commercial and consumer optimism remains moderate, partly down to the slow rolling out of the vaccine. Whatever the view, it is progress. Economic recovery will roughly travel in line with the pace of vaccination, with flat to marginal growth expected. With the economy contracting by 6.8% in 2020, and the unemployment rate sitting at around 16 - 17%, a 2% increase in GDP would be viewed as a positive in some circles.



The pace of Colombian economic recovery will be fueled by the pace of vaccination.

Insurance outlook: H1, 2021

Property & Casualty insurance is generally stable at this time, and we have seen increased uptake of Cyber insurance where premiums have remained relatively flat. Whereas La Previsora – a Colombian government-owned company – were able to offer COVID-19 coverage, the lack of Treaty reinsurance to underpin it has created an unexpected headache.

From a Motor Insurance perspective, where the market fell in 2020 by roughly 33% to 1.5 billion pesos (USD\$400 million), and a fall of more than 25,000 vehicles that were no longer insured. There are a number of moving parts to this situation. First, lower car sales and significantly reduced vehicle usage during lockdown led to many motorists suspending their insurance until lockdown restrictions are lifted. Second, with less than 30% of vehicles insured in Colombia, a rate which drops by roughly two-thirds once the vehicles pass the 5-year age mark, a health system funding gap of 1.5 trillion pesos creates a

concerning issue for the country's accident care system. What's more, the pace of this change – within a six month period – highlights the impact of the financial blow COVID-19 has dealt to the Colombian and Latin American commercial sector.

Trade credit and business continuity challenges are also growing in severity. With a growing number of commercial operators experiencing cash flow pressures and financial distress, now requesting premium or payment flexibility, Colombian business owners and company directors are clearly feeling the squeeze. Government-owned entities are continuing to move forward. On the retail insurance side, we have seen some varying degrees of flexibility from insurance companies to negotiate alternative payment terms in order to retain the business. Reinsurance presents a different picture, with minimal flexibility being offered at this time.

A hardening market with soft edges continues

The Colombian insurance market remains a mix of hardening rates and flat to softening lines. As one example, the Property Liability market in Colombia has remained reasonably soft due to the general availability of local and multinational Treaty Reinsurance capacity backing it, which we expect to remain for the foreseeable future.

In parallel with global insurance markets, financial lines continues to be a tougher placement environment with an expectation that this trend will continue in 2021. Insurers are paying more scrutiny to risk exposure in their portfolio, particularly anything relating to government projects and public sector bodies, and the oil and gas sector. There are some situations where the insurance market appetite goes in one direction, and the reinsurance decision may go another, which presents an interesting market dynamic in Colombia. Elsewhere, Property Liability remains a challenging environment, primarily due to loss ratios and lack of profitability driving reduced commercial appetite amongst the larger insurance carriers.

Medical Malpractice capacity has shifted over the last 12 months, following a wave of carrier exits leaving less than 50% of the original players remaining. This is undoubtedly cause for concern with the lack of capacity requiring tighter underwriting scrutiny and navigating reduced liability limits. This has flowed into renewal submissions where the risk of declination is higher than in previous years, and we have seen requests to secure reinsurance emerging in recent months. The rapid shift to a new norm in the space of 6-7 months illustrates the generally fluid and ambiguous nature of the global pandemic.

Shifts in underwriting decision making

Whereas in the early days of the market transitioning, local underwriters were prepared to have the tougher conversation with the Head Office or regional counterparts, we are seeing stability through a clearer understanding of which insurance carriers are going to be receptive to a conversation. While this is not ideal in some respects, it is nonetheless helpful when structuring renewal programs.

Property – stable and competitive

The Colombian market has seen a fresh wave of competition for capacity between domestic and international players. This extends to the Facultative Reinsurance space.

Directors' & Officers (D&O) risks with private exposure is generally stable with a limited number of carriers continuing to have underwriting appetite in this space. For government related exposure, however, particularly in the Oil & Gas sector the situation remains challenging with reduced capacity and limited underwriting appetite.

Bankers Blanket Bonds (BBB) insurance, is also experiencing a turning point with some carriers electing to move their entire portfolio to a facultative reinsurance platform or an MGA partner willing to provide capacity to mitigate their exposure, preferring instead to focus on IRF policies (Insurance Reserve Fund) that carry no exposure to BBB related risks.

Cyber continues to be marked by a somewhat scattergun approach to underwriting and a broad appetite by consumers to purchase cover. In line with global events, the growing incidence of cyber related claims losses has led to insurance carriers adjusting their stance with pricing increases being more frequently seen. Looking more closely at what is driving the current situation and two things emerge – large organisations, partly motivated by reputational concerns and a general nervousness on their exposure to cyber-attack, are in the majority of cases viewing Cyber as a mandatory cover.

In contrast, small to medium sized (SMB), increasingly challenged by cash flow constraints, are pulling back from purchasing the cover despite generally a steadily growing recognition of its importance. To add to this, there is also a section of the SMB community believe they are broadly covered for cyber related incidents in their general business package policy, which is an area for ongoing concern and highlights the critical need for risk education in that section of the business community.

「The Colombian insurance market remains a mix of hardening rates and flat to softening lines.」



Competitive tension shifts market focus

We are seeing evidence of the Motor Insurance space continuing to drive an aggressive pricing environment as insurers look to recoup losses from the 2020 contraction in demand, as well as the expectation of a higher volume of vehicles returning to the road.

The same trend is likely to play out across Life Insurance Accident and Health, and also Travel insurance – again to recapture lost revenue and market performance, and to shore up losses derived from COVID-19 related claims. This is not necessarily a bad thing given the growing underwriting capacity in the market, which will act as a counterbalance to even out of the pricing and rate environment longer term.

Property Liability and D&O will also continue on a similar path to 2020 – the latter being in some respects more sensitive to the prevailing environment, where any suggestion of a corporate scandal or government corruption will further exacerbate the situation. In the absence of both of those scenarios, however, it would be reasonable to predict that things will remain reasonably consistent with the previous year. And with reinsurance capacity remaining, there is some upside to an otherwise challenging situation. Employers Practice Liability (EPL) casualty capacity remains relatively stable at this time.

Government subsidies for construction and infrastructure help to kick start the economy

With one of the poorest infrastructure in Latin America, the Colombian government has set out plans for major infrastructure improvement works. Although these improvements come at a later stage than other countries in the region, the impending wave of investment could signal better times to come as the country transitions beyond the current pandemic challenges.

Surety insurance is likely to involve a tougher conversation given the size of the infrastructure contract and the equity carried by contractors and construction firms being more fragile in a post-pandemic environment. Insurance carriers are understandably nervous about providing increased capacity and liability limits at a time when business confidence is fluctuation and uncertainty remains. As a long tail class of business, the once abundant Surety capacity in Colombia has gradually been wound back over the last 12 months, as commercial appetite has waned, with roughly 8 to 10 players remaining from an original 20 to 22. Facultative reinsurance may be part of the answer.

2021: conclusion - outlook

2021 in many respects is a natural continuation of 2020, marked by a growing disconnect between retail insurance and reinsurance operators in the Colombian domestic market at this time. As always, closer scrutiny is required to fully understand the situation and it appears to affect certain lines of risk on a class-by-class basis.



PERU

INTERVIEW



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MARKET OUTLOOK: MARCH 2021

The Peruvian economy is forecast to grow by **10%** in 2021 following its worst performance in almost three decades, in 2020. A general rebound in commercial investment and a more favourable trading environment is anticipated over the next 12 - 18 months.

Ongoing regulatory and political uncertainty may dampen private sector spending levels, along with a dependence on the successful implementation of a COVID-19 vaccination program. Public debt levels, in the region of 35% of GDP, will require government intervention to increase tax revenues as part of a longer term recovery plan. In the interim, financial and economic stimulus packages are likely to be implemented to support metal prices and capital inflows to emerging markets.

After a period of government switching and general political instability, which has seen a revolving door of four presidents in a five-year term, the arrival of Francisco Sagasti has stabilised Peruvian politics after a political crisis last November. Despite signing vaccine deals, Sagasti's government is unpopular as rising coronavirus (COVID-19) cases have led to new mobility restrictions. No clear frontrunner has emerged for the April general election, but we expect a centrist will win and the next administration will continue Peru's orthodox economic policies.

In an escalating scandal involving the misuse of COVID-19 vaccines, Peruvian President Francisco Sagasti has publicly expressed a sense of betrayal at Cabinet ministers who were secretly vaccinated against the virus. To diffuse the scandal and implement a comprehensive vaccination program, Peru has closed deals to buy 38 million doses from Sinopharm in addition to more than 30million doses from Pfizer AstraZeneca, and almost 15 million through the COVAX platform.

While the current reinsurance market remains challenged in some respects, it is also presenting new and emerging opportunities to innovate and respond to niche opportunities that this market presents. As one example, Gallagher has recently placed the insurance for the vaccines in Peru to protect distribution and liability relating to the vaccination process.





Market movements

Given its robust regulatory framework and industry capitalisation, Peru's insurance market remains relatively stable when compared to its Latin American counterpart. Peru is a concentrated insurance market with a limited number of carriers and concentration of brokers. Despite the market contracting by roughly 4.5% in 2020, there are still opportunities available including government backed, infrastructure reconstruction projects such as the \$4bn damage repair to the road network in northern Peru following the 2017 El Niño catastrophe event that devastated large areas with floods and landslides.

A similar situation remains in 2021 that carries over from 2020, with significant rate increases across financial lines risk classes, in particular D&O. From a facultative reinsurance perspective, a similar rate increase trend continues, and on the treaty side we are seeing increased competition amongst the domestic players maximizing their capacities to secure the business.

Automobile insurance premiums were hit hard during 2020 lockdowns and travel restrictions which led to the larger carriers looking for ways to recoup their losses and restore balance to a market that had become stagnant. This has led to insurers adopting the approaching of using Treaty Reinsurance as a tool to adjust pricing and in some respects insulate them from the impact of the global pandemic. As we progress towards the mid-year point, there are early signs that Mining and other specialist lines of risk may be more susceptible to pricing fluctuations as treaty reinsurers exert increased pressure to balance their books, which may involve increased deductibles and/or a change to the scope of policy wording.

Motor insurance

Insurance carriers operating in the Motor insurance space, similar to other Latin American countries covered in this report, have experienced a significant decline in renewals and an increase in cancellations, leading to a sharp fall in revenue – with declines somewhere in the region of 15% to 20%. This is down to a number of reasons - struggling to pay the premium, lockdown and mobility restrictions that left many households taking their vehicle off the road. We expect a period of turnaround of gradual lift in demand in the latter half of the year as the vaccines are rolled out and people return to the road and start moving again.

Pandemic aftershocks

Similar to other Latin American countries, Peru has been hit hard by the COVID-19 pandemic and lockdown restrictions, with hospitality, tourism and leisure industries challenged by a rapid decline in income following international border closures and limited commercial air travel. As vaccination programs take effect in the developed economies that support Peru's tourism sector, business owners remain optimistic of a steady and gradual return to pre-COVID trading levels and have generally retained consistent levels of insurance cover.

Mining, a major employer and export market for Peru, has been challenged by mine closures and workforce mobility restrictions which production levels falling significantly over the preceding 12 month period, and expecting a slow return for full production levels as part of the government's plans to revive the economy and bring down rising unemployment levels.

Health insurance uptake and demand has remained stable within the formal labour market during the pandemic period, in contrast to the informal sector which remains Peru's largest employer.

Facultative Reinsurance rate movement

With a prevailing trend of fluctuating rate movement, reinsurance continues to present the expected characteristics of a harder market cycle which will continue in 2021.

Large reinsurers, having predicted increased losses in recent months, are making the necessary adjustments which ultimately translate back to insurance rate increases. That said, regional market capacity remains via reinsurance hubs including Miami, Colombia and Brasil, where we are also seeing rates increasing in line with broader global trends.

Flexible payment terms are still being requested, however, generally less than in 2020. When the pandemic started, given that nobody realistically knew how long it would last, carriers were more open to flexible payment terms. As the pandemic continued into the latter half of 2020, the appetite and willingness to agree to premium funding started to wane as carriers adjusted to meet more conservative market expectations.



Political and economic stability – beyond the pandemic crisis

Achieving political stability in Peru will take time, given the fragmented Congress system and election process, and ongoing civil unrest. With the Peruvian population fatigued by the revolving cycle of Presidential candidates and a general distrust of political decision making, there is considerable work still to be done.

That said, Peru has been on a positive growth cycle over the past two decades and is considered by some to be one of Latin America's success stories.

Part of the economic recovery plan on infrastructure investment to improve connectivity and ease of trading, which should also go some way towards alleviating a rising unemployment rate further elevated by the COVID-19 pandemic. Balancing social inequality and the broadening gap between the most affluent versus poorest sections of the community, will also help.

Mining and commodities, one of the key economic drivers of the Peruvian economy contributing roughly 30-35% of total GDP, will further aid longer term economic recovery given Peru's strategic role as a major exporter of copper, silver, zinc and gold.

Cyber

With growing concerns following a spate of cyber-attacks retail operators, financial services and other industries in recent months, cyber insurance has understandably become a regular topic of conversation. Despite the recognition of the omnipresent cyber risk facing businesses of all shapes and sizes, there remains a general reluctance to purchase the cover at this time. Part of the reason for this is a generally held view that Peru's commercial sector has not reached the level of digital (or technological) sophistication where cyber insurance becomes a mandatory requirement. Outside of the large corporate organisations, this situation suggests ongoing education and awareness of cyber related risks is required. In the meantime, we hope that it doesn't take a high profile cyber-attack to change this view.

CHILE

INTERVIEW



LIONEL SOFFIA
CHAIRMAN,
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MARKET OUTLOOK: MARCH 2021

Chile is set for a gradual recovery over the next two years, with activity expected to return to pre-pandemic levels in late 2022. GDP is forecast to grow between **4.4%** and **4.9%** in 2021, after a **6%** contraction in 2020.

Investment will regain momentum driven by government infrastructure plans and financial stimulus packages, lifted further as global trade flows steadily improve. Household consumption will play a key role in the recovery process, supported in the near term by government led support packages to rebuild consumer confidence and pre-pandemic spending levels, which will leave Chile's fiscal deficit sitting at around 8.7% of GDP.

Big changes are afoot in Chile following the 2020 elections and 78% of the voting population supporting of a referendum to rewrite the constitution, for the first time since Pinochet's Presidential tenure.

Integral to Chile's post-pandemic recovery there is every hope that this development will mark a turning point and a return to stability and prosperity.

As at early March, more than 8 million vaccine doses have been imported, and over 3 million people have been vaccinated out of a total 19.25 million population within a relatively short period of time. If the current trajectory continues, it could place Chile firmly on the path to longer term recovery sooner rather than later. Despite negative sentiment being raised initially, the government's switch to as multi-supplier strategy to drive accelerated vaccination appears to be paying off.

Commodity prices are also responding well to this development with copper, as one example, hitting a record price in roughly two decades. With more than 50- 60% of Chilean income being derived from copper exports, the decision to continue production during the COVID-19 crisis was a prudent one and will benefit Chile as it progresses its broader recovery plan and offers an interim competitive advantage given other key exporters such as Peru halted copper production in 2020 and will take some to gear this up again.



Demand for insurance is stable and starting to lift

Demand for insurance has remained relatively steady, broadly in line with the economy and GDP growth projections. As Chile transitions out of the COVID-19 crisis period there are early indicators of productivity and domestic consumption starting to lift. In 2020 as the pandemic hit hard the supply of, and demand for, motor vehicles switched with a cut in production to compensate for plummeting demand. 2021 promises to be a different year and there is a reasonable expectation that vehicle sales will significantly lift which bodes well for the insurance industry in terms of premium growth and policy uptake.

From a Catastrophe Insurance (CAT) perspective we have seen a relatively stable rate environment at this time although there is every expectation of movement over the next 12 month period, consistent with a worldwide trend of hardening rates and reduced capacity. And with reinsurance treaties with local carriers up for renewal, it would be reasonable to expect a hardening of terms and rates.

As the pace of economic recovery starts to take hold and the flow of export trade moves closer to pre-pandemic levels, the marine & cargo and transportation sectors will start to rebound with the expected lift in insurance requirements. Although the current hardening market cycle will lend itself to a degree of upward premium movement, ultimately positive economic growth can only be a good thing after the challenges of 2020.



2021: Political and social unrest

Continued social unrest presents ongoing challenges, particularly for corporations and retail brands that have exposure via their business premises, particularly shopping malls, retail outlets and the larger international brands such as Walmart and McDonalds who operate at scale across Chile.

Understandably, the demand for Terrorism and Crime risk cover has risen over the last 12-18 months with appetite from both medium sized and large corporations, representing a growing income stream for the insurance industry, and rates are currently expected to stay in line with 2020. At the same time, we have seen a gradual reduction in capacity, partly due to the general lack of robust security measures or fire protections in commercial business premises, leading to high premiums.

This extends out of the cities and large commercial centres to regional areas that include agriculture, food production, industrial and manufacturing output, as well as the forestry and mining sector, where civil unrest and criminal damage has targeted business premises and damage to households and motor vehicles.

Cyber

Similar to other Latin American markets, there has been an emerging division in the purchase of cyber insurance between the large domestic and international corporations who are viewing cyber risk as the key point of vulnerability at this time following a steady increase in the rise of reportable breaches. In contrast, medium-sized enterprises remain reluctant to come on board, primarily due to pricing concerns and in some spaces the view that the scope of cover is beyond what they realistically need.

┌ The Chilean insurance market has continued to undergo commercial and structural changes over the past 12 months. └



Captives – a captive audience?

Captive insurance continues to be met by a degree of suspicion and scepticism in the Chilean market, including the government and regulators who have expressed concerns about captives being used for tax evasion purposes and a way for corporate enterprises to hide profits. There is some way to go before this alternative risk management vehicle becomes more readily accepted and a means of structuring more complex insurance programs.

Carrier movements

The Chilean insurance market has continued to undergo commercial and structural changes over the past 12 months, with a number of the larger international carriers who had historically grown market share through bolt-on acquisitions now refocusing on different spaces and exiting higher loss risks - such as ISR (Industrial Special Risks) - that no longer fit with their commercial appetite. This has led to a number of local insurance carriers switching from industrial and commercial risks to personal lines and affinities (and vice versa), to leverage from emerging markets and the gradual lift in consumer demand as the economy recovers.

CARIBBEAN

INTERVIEW



MATTHEW PRAGNELL
CEO - CARIBBEAN

MARKET OUTLOOK: MARCH 2021

As the global pandemic and international travel restrictions continue, the impact on the Caribbean economy is evident.

Although the roll-out of vaccination programmes in major economies will drive a rebound in global tourism longer term, for the Caribbean 2021 could end up being more of a steady plod through to the end of the year as traveler and consumer confidence slowly lifts. The Travel and Aviation sectors have been deeply hit with foreign tourism levels sitting at roughly 50% of their pre-COVID level, and cruise activity has been halted altogether.

In Jamaica, the arrival of the first 50,000 vaccine doses from India was a welcome move for front-line and key workers, particularly in light of the recent spike in the infection rate. With the islands under lockdown and varying curfew restrictions, hospitals are operating at full capacity and offices are either empty or operating with key workers only. In Cayman, in contrast, the whole island has been vaccinated without a single COVID-19 case being reported. Although Cayman is arguably a more manageable option with its island population of roughly 65,000, Jamaica with a population approaching 4,000,000 offers significant cause for concern when considering the critical role it plays in the regional economy.

There has been growing debate in recent weeks on whether the Caribbean economy will quickly rebound once the borders reopen and mass travel begins again.

A conservative and slower path is the most likely outcome, with an expectation that the economy will start to recover and it will be at least 18 months until things are back on a firmer footing. With a November to March tourism season, the opportunity exists to invest and retool in the slower months. All eyes will be on Jamaica which is generally reliant on the US and Canada for tourism and economic growth, whereas the eastern Caribbean generally attracts a more European audience.

We have seen some cases of hospitality property owners and tourism operators using the hiatus period to look at repairs and upgrades to their real estate. For many, however, cash flow will be the issue. We have seen a fair amount of contractual risk type insurance activity as venue and resort owners repair roofs, upgrade rooms and focus on other critical maintenance requirements.

Extreme weather events take their toll

Turning to the insurance outlook for the opening half of the year, we have seen Catastrophe Insurance harden slightly and broadly in line with other markets. Reinsurance placement for the Caribbean, being generally managed from Miami, London and other key European markets, had a tougher year in 2020 and one of the most active on record.

In November when Jamaica was hit by a wave of extreme weather and natural catastrophe events – flooding, landslides, earthquakes and the Eta and Zeta tropical storms – which led to more than 280 roads structurally damaged and widespread devastation, and the USD 1.3 billion loss orchestrated by Hurricane Iota. Adding in the scale of uninsured loss, 2020 was a challenging year for all concerned.



Shifting risk appetite, capacity challenges and rate movement continues

For financial lines risks, particularly Directors' & Officers' and Cyber, we have seen significant pricing shifts in a number of cases, and the placement of Cyber Liability for niche markets and industries being harder to place. Property Liability also continues to see upward rate movement. Given this, it would be reasonable to expect a domestic consolidation of carriers to follow and a more challenging ratings environment to continue for the foreseeable future.

Business Interruption is also tightening, more in respect of the terms negotiated than the pricing. Machine breakdown has become more a more challenging risk in recent months, with higher excesses and reduced underwriting appetite. On one hand, you have COVID and a tougher trading environment, and on the other the environmental challenges that naturally arise given the Caribbean sits within the Ring of Fire.

Heavy Engineering, Utilities and Energy markets are tougher with rate increases of up to 50%, reflecting a price driven environment. The London market has been somewhat spooked by how the pandemic period has played out and that has translated to shifts in capacity, particularly amongst the larger insurance players who have historically set the tone for appetite and underwriting rigour. Capacity exists, however.

On the surface Motor Insurance presents a more stable picture, given its lack of CAT exposure. However, when taking into consideration Jamaica's roughly 750,000 vehicles and 150,000 in Barbados, an underlying concern is the growing under and/or non-insurance situation borne out of the COVID-related economic downturn and households cutting any household expense not deemed as essential.



Jamaica - agricultural sector

The downturn in commercial consumption due to hotels being closed or operating at historically low levels, food production operators and farmers are struggling. Discussion has increasingly turned to diversification and a shift to international export market opportunities. Using the domestic Caribbean stock markets as a general barometer, 2020 was far from being a bullish year, with the market roughly a third down on previous year performance. Given the Jamaican Stock Exchange's strong performance globally for the prior two years, the current situation is a stark contrast and for local producers and suppliers, a hard reality check message.

Trinidad – manufacturing sector impact

From a commercial trading perspective, Trinidad as one example, has an economy that is heavily reliant on oil and gas. A key economic driver is the manufacturing sector, a major employer given the island's geographic advantage for entry to US and Latin American markets and a generally well educated workforce, which has now been involuntarily placed in a hiatus period. We have seen increasing reports of supply chain issues, further exacerbated by air border on supply chain issues exacerbated by air border closures and ports operating at a significantly reduced capacity. With the flow of supplies and exports being hampered over the last 6-12 months, this could signal claims loss and business interruption on the horizon in the near term - something we will continue to monitor with interest.

Captives offer a way forward

Captives, however, offer a degree of optimism. Against the backdrop of pricing increases in the region of 50% to 90%, tightening commercial terms and higher deductibles, captive solutions or alternative risk transfer options present a workable strategy.

The Caribbean Catastrophe Risk Insurance (CCRF) as the first and only multi government-owned captive has been structured to respond to infrastructure recovery plans and has been instrumental in helping the region to stabilise during the COVID pandemic period, and beyond. The scheme is essentially insuring GDP and, in the event of a significant natural catastrophe, the insurance is measured parametrically providing an automatic payout that enables infrastructure continuity – keeping hospitals, airports and other essential services open and operational.

A positive move has been an extension of the scheme to cover difficult areas such as crop insurance and microinsurance, and overseen by the World Bank.

At a time when optimism is much needed, the availability of index insurance is an uplifting message. Which makes sense given this innovation originates from Jamaica.

CONTRIBUTORS TO THIS REPORT

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We hope you have found this International Perspectives report of value, and that it has provided useful information on important events currently shaping the insurance market and commercial landscape. Should you require any advice or a review of your current insurance and risk management program, please do not hesitate to get in touch.

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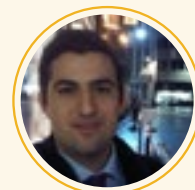
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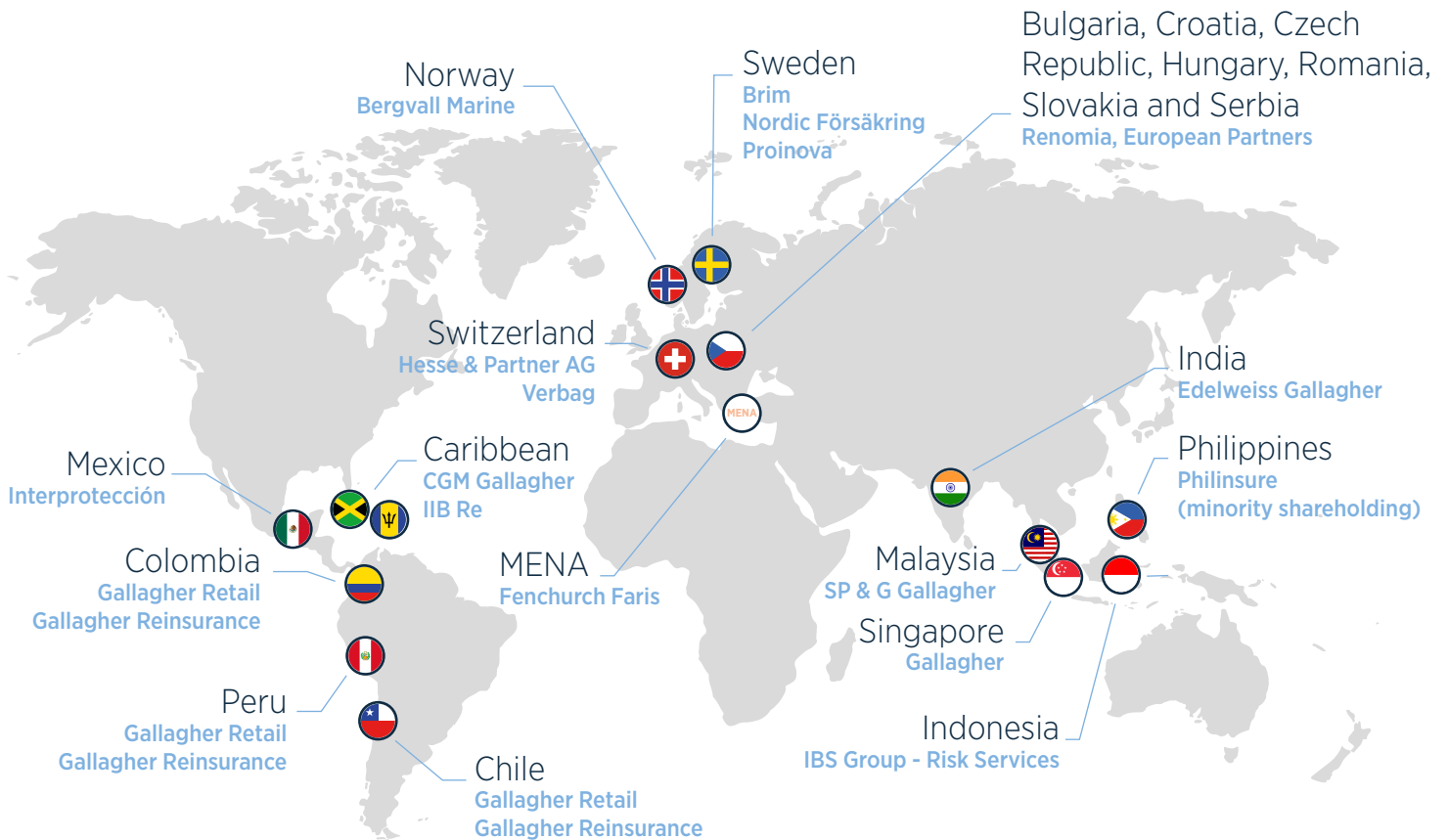
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GALLAGHER - INTERNATIONAL OPERATIONS

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