

Bahamian insurer shrugs off 'profitability pressures'

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By Neil Hartnell, Tribune Business Editor

A Bahamian general insurer yesterday saw its financial strength and creditworthiness reaffirmed by the industry's major rating agency in the face of "profitability pressures".

A. M. Best, in a statement, upheld RoyalStar Assurance's financial strength rating of A (Excellent) and long-term issuer credit rating of 'a' (Excellent) while maintaining a 'stable' outlook on the property and casualty underwriter.

The ratings agency said its assessment reflects RoyalStar's "balance sheet strength", which it labelled as "strongest", along with its "strong operating performance, limited business profile and appropriate enterprise risk management (ERM)".

These were sufficient to offset the growing pressure being imposed on all Bahamian property and casualty insurers by the reduction in reinsurance capacity, which is driving premium increases for homeowners and businesses. And, while A. M Best indicated its belief that RoyalStar will continue to maintain its competitiveness against rival underwriters regardless, it reiterated that The Bahamas must escape the European Union's (EU) tax blacklist to ease these concerns.

"RoyalStar's balance sheet strength assessment continues to be supported by its strongest risk-adjusted capitalisation, as measured by Best's Capital Adequacy Ratio (BCAR), strategically conservative investment portfolio and comprehensive reinsurance programme," A. M. Best said in its assessment.

"These strengths are offset partially by Royal Star's exposure to weather-related catastrophic events, given its geographic concentration of business and investments in the Caribbean, and its high reliance on reinsurance to protect surplus from catastrophic events.

"RoyalStar's strong operating performance continued in 2022 with improved profitability and operating metrics versus 2021," A. M. Best continued. "RoyalStar's operating performance has benefited from a lack of catastrophic events since Dorian in 2019. Favourable reinsurance terms also contributed materially as investment and commission incomes derived from business ceded to reinsurers has become a significant portion of revenue.

"Profitability may be pressured over the near term as reinsurance capacity is limited across the Caribbean and insurers, including RoyalStar, are incurring higher costs and lower commissions. However, it is likely that RoyalStar will continue to maintain its relative performance, as opposed to its Caribbean peers, as all companies in the region are encountering the same challenges.

“Nevertheless, RoyalStar and other Bahamas-domiciled insurance companies remain at risk of losing additional reinsurance capacity if the country cannot remove itself from the European Union (EU) and German lists of non-cooperative jurisdictions for tax purposes.”

Turning to RoyalStar’s growth potential, A. M. Best said it views the carrier’s business profile as “limited” It added: “The company provides personal and commercial lines coverages throughout The Bahamas, the Cayman Islands, the Turks and Caicos Islands, the US Virgin Islands, the British Virgin Islands and Anguilla.

“Like many property/casualty insurers operating in the Caribbean, RoyalStar cedes a significant portion of its written premiums to reinsurers under its reinsurance treaties. In addition, earnings remain subject to highly competitive, mature regional markets with limited potential for organic growth. RoyalStar’s plans to actively expand its offerings outside The Bahamas have been on hold due to a lack of reinsurance capacity for new business.

“A. M. Best continues to assess Royal Star’s ERM programme as appropriate given its business risks. Reinsurance terms will be less favourable prospectively, but RoyalStar’s programme remains comprehensive. For 2023, RoyalStar was able to secure sufficient reinsurance coverage despite reduced capacity in the region. The company has established processes in place to mitigate key identified risks and senior management is very active in risk taking decisions.”