EU blacklist escape blocks double-digit insurance rise

The Tribune Business | February 21, 2024

By Neil Hartnell, Tribune Business Editor

Bahamian households and businesses yesterday escaped potential double-digit increases in insurance costs after this nation secured its removal from the European Union's (EU) tax blacklist.

Anton Saunders, RoyalStar Assurance's managing director, told Tribune Business that the entire Bahamian property and casualty industry - as well as its clients - can "breathe a sigh of relief" after this nation's delisting effectively preserved local insurers' access to 35 percent of their reinsurance market capacity.

While The Bahamas had one more shot at escaping the EU's clutches left in October 2024, failure to do so by then would next year trigger the imposition of "punitive" taxes and penalties on German carriers that provide much of this country's reinsurance capacity as a consequence of continuing to do business with a blacklisted nation.

The financial impact could have deterred the likes of Munich Re, Hanover Re and R & V Re from continuing to underwrite the bulk of The Bahamas' property and casualty risks, with the resulting loss of capacity causing premium rates to spike and pushing insurance affordability increasingly out of reach of many homeowners and businesses already threatened by more frequent and severe natural disasters.

Mr Saunders, who revealed that premium rates would have increased by "10 percent or more" if Bahamian carriers had been forced to seek alternative reinsurance sources, told this newspaper that the elimination of such a threat via yesterday's delisting will enable Bahamian carriers to "bring back to life" projects they had previously placed on hold.

From RoyalStar's perspective, he revealed this will involve further Caribbean expansion into two more territories that he declined to name as well as product diversification through the launch of motor coverage in jurisdictions where it already has a presence.

And, had The Bahamas not escaped the EU's blacklist yesterday, Mr Saunders revealed it would have resulted in RoyalStar clients experiencing premium rate increases for renewals from March 1 onwards as the company would have had to prepare for a loss of German reinsurance. That threat, too, has now been removed with the carrier able to adhere it its previous pledge of no rate increase for most insureds.

"I think everyone now who deals with the German reinsurance market can take a breath and a sigh of relief that we don't have to worry about the implications for capacity from the German reinsurance market as it now stands," the RoyalStar chief told Tribune Business of yesterday's EU blacklist escape.

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Bahamian property and casualty underwriters must acquire huge amounts of reinsurance annually because their relatively thin capital bases mean they cannot cover the multi-billion dollar assets at risk in this nation, thus making them dependent on global support to accomplish this.

With German reinsurers accounting for 35 percent, or more than one-third of this support, Mr Saunders said Bahamian property and casualty underwriters can now place the “very expensive contingency plans” they either have or were developing “on the shelf and concentrate on their core business” following yesterday’s delisting.

“The good thing about it is if we didn’t get off in February we still had October,” he added. “If we never got off we’d be talking about a lot of costs added to the Bahamian insurance market as a cost to do with the German reinsurance market.

“We would have had increases. If we couldn’t deal with the German reinsurers, the lack of capacity would be more acute. Some people would not even be able to get insurance from ourselves and our peers. If we went another route, it would be a cost factor of 10 percent or more added to the existing premium.”

Mr Saunders said yesterday’s EU blacklist verdict will also enable RoyalStar to honour its previous pledge that most clients will not see a premium rate increase for renewals coming due on March 1, 2024, and onwards. Had The Bahamas still been deemed non-cooperative for tax purposes, those prices would have been “increased to accommodate” and get ahead of the potential German reinsurance loss in 2025.

“There will be no rate increases generally,” the RoyalStar head said. “Those people below book rates will be bumped up to book rates, but those homeowners at book rate will not feel any increase.” Now that the EU threat has been eliminated, at least for the moment, Mr Saunders said his company and its competitors can refocus with Europe’s shadow now removed.

“We had to do what we had to do. Now we can concentrate on projects we had put on hold, bringing them back to life, and can concentrate on our core business,” he told Tribune Business, “to see where we can diversify to in future.

“We had always planned to look at further diversification in the region. We have two territories we are looking at. I can’t say which ones they are now, but we can put time and effort into feasibility studies in those two territories.

“There are jurisdictions we do business in that we will diversify the product offering by extending motor insurance to some of those territories. That will take time and effort. At least we don’t have this distraction and can concentrate our efforts on those projects. I am sure everybody in the industry you have spoken to are happy this is behind us.”

Mr Saunders said the Government, in the shape of the Prime Minister, Ryan Pinder KC, attorney general, and Simon Wilson, the Ministry of Finance's financial secretary, had "reassured us they were doing everything possible to get off the blacklist" and praised them for "following through" to ensure the necessary work was done and correct outcome achieved.

Mr Pinder, too, yesterday acknowledged the negative consequences for the ability of Bahamian households, businesses and the wider country to recover from the effects of natural disasters if German reinsurance capacity was lost due to a failure to exit the EU blacklist.

"We saw in the insurance industry where reinsurance remittances were threatened with a withholding tax, which would not only have a measurable adverse impact on the insurance companies but to each and every Bahamian when faced with recovering from destruction as a result of natural disasters," Mr Pinder told this newspaper.

Had The Bahamas remained blacklisted, German reinsurers would have been prevented by their home country's laws from receiving tax relief or deductions on hurricane-related claims payouts to this nation.

Given that such payouts will likely be worth hundreds of millions of dollars if a Dorian-strength storm strikes a major Bahamian island, the loss of such tax relief might have deterred German reinsurers from continuing to support local carriers by underwriting the bulk of this nation's risks.

Such a scenario would have occurred at the worst-possible time given that reinsurance capacity and willingness to underwrite risks in the disaster-prone Caribbean is at a near 30-year low. Insurance Company of The Bahamas (ICB), in its 2022 annual report, said the drop in reinsurance availability has already pushed property insurance costs for Bahamian homeowners and businesses to the highest levels it has seen in its 26-year history.

Bahamian insurers also reiterated that, in present market conditions, they would have struggled to replace the loss of capacity provided by German reinsurers. Besides further increasing already-high premiums, they added that the loss of reinsurance supply might also have left them unable to provide coverage for new homeowner and business clients.