Insurer eyes ‘beyond Caribbean’ expansion despite $3m profit fall

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By Neil Hartnell, Tribune Business Editor

A Bahamian insurer yesterday revealed it is targeting expansion beyond the Caribbean after overcoming a more than $3m net income drop as catastrophe costs “increased over 50 percent”.

Anton Saunders, RoyalStar Assurance’s managing director, told Tribune Business that The Bahamas’ escape from the European Union’s (EU) tax blacklist has enabled the property and casualty underwriter to resume “feasibility studies” on which Caribbean market it will enter next within the upcoming 18 months.

And he disclosed that the carrier has expansion “beyond the region in the back of our heads” as it seeks to further diversify its geographical risk, and exposure to hurricane loss perils by eliminating the “eggs in one basket” concern.

Mr Saunders told this newspaper that RoyalStar is “back to our five-year strategic plan” after The Bahamas’ delisting in February 2024 removed all threat that it could be cut-off from European reinsurance markets. However, this comes after the Bahamian underwriter saw its 2023 net income slump by more than 40 percent year-over-year, dropping from $8.651m to $5.169m.

However, a $1.888m one-off gain on the revaluation of RoyalStar’s land and buildings brought its total comprehensive income within range of prior year figures at $7.058m - an 18.4 percent fall compared to 2022. While insurance premium revenue rose by more than $17m, or 17.6 percent, in rising from $98.648m to $116.019m, this was more than countered by rising reinsurance costs.

Bahamian insurers, due to their relatively thin capital bases, have to acquire huge amounts of reinsurance support on an annual basis to enable them to cover all property, auto and marine risks. Reinsurance-related and other expenses jumped to a combined $111.5m in 2023, representing around a $20m jump on the prior year’s $91.5m.

As a result, gross insurance-related income fell year-over-year by 39.2 percent to $4.344m compared to $7.149m in 2022. Mr Saunders confirmed that, while margins had shrunk due to what he described as the toughest trading and reinsurance market for more than three decades since Hurricane Andrew struck in 1992, RoyalStar had not passed all these cost hikes on to consumers.

Not taking the ability of business and household clients to afford surging insurance premiums for granted, he added that the entire property and casualty industry is hoping for a “not devastating” 2024 hurricane season given the impact that multi-billion losses and claims payouts in the Caribbean and US could have for Bahamian coverage rates moving forward.

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With the increase in top-line premiums and related expenses both driven by the higher prices demanded by reinsurers, Mr Saunders told Tribune Business: “I can say that our catastrophe costs increased by over 50 percent when compared to 2022. 2023 was the most hectic reinsurance renewal that I ever experienced in my life. 2024 was not so hectic but still a very hard market.”

Asked to predict what will happen if a Dorian-strength storm strikes The Bahamas, elsewhere in the Caribbean or US Gulf and east coasts this year, with hurricane season looming, he added: “It’s crystal ball gazing, but we can say that if something happens it will only be to the negative for the Caribbean. We’re just hoping that, although the season is expected to be active, it’s not devastating.

“Otherwise I don’t think none of us can dream what the potential fall-out might be. It’s all going to depend on what happens with the reinsurance market. We’ve preached this game over and over again. Until the Caribbean companies start taking more skin in the game, start taking more of the risk, we’ll always be at their mercy.

“We’ve committed to start building up our equity, and start taking more of the risk to our bottom line, and that is the long-term strategy that RoyalStar is committed to. It’s slow, steady but necessary.” RoyalStar’s current net equity, as at year-end 2023, stands at $58.515m.

And, with access to its German and other European reinsurers secured due to The Bahamas’ escape from the EU’s tax blacklist, Mr Saunders said the company is also focusing on the longer-term despite the immediate pressures from hurricanes and rising costs.

“The blacklist is behind us now, so we’re doing our feasibility studies to see where we go next,” he told Tribune Business. “We’re not only looking at that [the Caribbean]. We’re looking at how we expand beyond the region. That’s in the back of our heads in the next two years.”

While declining to name the Caribbean territories and other regions that RoyalStar is targeting, Mr Saunders said further regional expansion will likely take place in the next year-and-a-half. “It takes time to get the licences and all the rest of it, and reinsurers on board and support,” he explained. “We’ll never move anywhere unless we have reinsurance protection.

“We were delayed a year-and-a-half because of the blacklist. We can now concentrate our efforts on diversification, whereas previously we were concentrating our efforts on how we manage the blacklist and, if it comes to fruition, how we still access the reinsurance markets.

“That took a lot of management time and strategies away from what we were trying to achieve. All the contingency plans we had in place we can now put them on the shelf and go on with our regular business plan... We determined that we don’t like our eggs in one basket. That is how insurance works. The more diversified you are, the better long-term you are. We’re back to our five-year strategic plan.”

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RoyalStar underwrites business in the Cayman Islands, Turks and Caicos Islands, British Virgin Islands, United States Virgin Islands and Anguilla as well as The Bahamas. Mr Saunders said the restricted reinsurance capacity throughout the Caribbean was limiting the ability of underwriters to provide coverage to new development projects, although thus far RoyalStar has not been impacted by this.

"The unfortunate thing is development is continuing for the territories that we deal in," he told this newspaper. "We're looking at about a 10 percent increase in organic insurance per year across these territories. The demand for catastrophe insurance has outstripped the supply." Developers unable to find coverage were instead having to place their risks in the "facultative market" and incur prices 10-20 percent steeper.

"We are fine," Mr Saunders said. "We would like to grow a bit more but understand the reality of where we are and what we're trying to do more is contain costs.... The margins shrunk [in 2023] and we did not pass on all the costs to the customer because we have to ensure that customers can afford the product.

"I think over the past few years we have seen where a lot of people have increased their deductibles, some are eliminating the catastrophe cover and just taking the fire. It's tough. We can't sit on our laurels and say people have to buy insurance or are forced to buy insurance. We have to do the best we can to keep the product affordable and turn a small profit."

Households and businesses with mortgages secured on their property have to acquire insurance protection as part of the loan terms. Mr Saunders said of the market: "The toughest I have ever seen it was when I joined the industry after Andrew. This is the second worst."