



Insurance Update

May Review

Global news

Increasing importance of Captives in non-traditional risks



A recent study has confirmed that use of captives is becoming more widespread, as the risk managers become more and more aware of the potential benefits they can provide. More specifically, in 2014 an increase in writing non-traditional lines was considerable, over 11%. Those lines included an increase in political risks of 83%, supply chain risks (inc. BI) of 50%, contractor risks of 40%, cyber risks of 18% and extended warranty risks of 6%.

Developing markets including Asia, Middle East and Latin America have also started to explore more into captive opportunities.

Those highlights and more were analysed in Marsh's report *the World of Captives: Growth and Opportunities without Borders*, such as:

- Captive domiciles flourish in the EU under Solvency II, though as the risk management practices become more sophisticated in the developing regions, they also see captive growth
- Small captives appear to be a very prospective segment
- Financial institutions represent the largest users of captives in the world (269 captives writing \$20 billion of annual premium)

With time there are more and more enterprises which realize the strategic importance of captives. With proper management, captives can become an invaluable tool in corporate risk management.

India is to reassess its agricultural insurance

The Indian government is looking into reorganization of agricultural insurance system. Since 2004, the subsidies program has indemnified farmers in accordance with the area of farming lands. However it has been recognised that the current approach does not provide sufficient insurance coverage for those suffering from natural perils, such as untimely rains.



Instead, it is now considered to change the basis for indemnity from crop area to yield based.

It is also noted that appraisal system and methods for determining indemnity levels should be made more transparent.

Currently only 20% of crops are insured, however, according to the recent study, 89% of farmers confirmed that they are not unable to pay the insurance premium. This indicates the scale of potential demand.

Russian news

New Approaches to Providing Risk Management Solutions for the Russian Agriculture Section



Despite certain government efforts to enhance national agricultural insurance system, the practical changes have not yet had the desired impact.

Due to certain attitude problems regarding traditional schemes from agricultural producers and lack of sufficient insurance capacity, there is an opportunity for new risk management practices in the agriculture sector.

Mutuals are non-commercial organizations, created with the purpose of mutualizing the risks of its members. The underlining idea behind Mutuals is to allow the members of the Mutual have control over the insurance process.

This helps to solve at least three problems of the Russian agricultural market:

- a lack of confidence in the insurance products offered to agricultural sector
- lack of involvement of farmers in risk management process
- limited supply from the national insurance companies

With a mutual solution, farmers will become a part of the risk management process, interested in minimizing chances of insured events from occurring. Considering that insurance premiums are not usually seen by all Russian farmers as “value for money”, keeping control over the process will assure the participants about appropriate allocation of the funds. All of these factors create great potential for the Russian market and the idea has already been introduced to a target region and has gained interest from both the agriculture sector and the State.

Demand is also likely to grow, considering ongoing emphasis of state authorities on development of self-sufficiency in terms of agricultural output. For instance, the Ministry of Agriculture of the Russian Federation is looking into an agricultural support scheme which will include giving out arable land for agricultural projects for free and transferring successful enterprises into full ownership of the producer as well as compensating some of the cultivation costs.

Challenge Group believes that with the proper reinsurance support mutuals for agricultural sector in the context of Russia have lots of development opportunities and can cover substantial territorial coverage.

Company news

Conquering African market: Challenge Group at the 42nd annual African Insurance Organisation conference in Tunisia.

On 24 – 27 May George Lavrishchev and Anna Nasyrova from Challenge Group – Insurance consultants and brokers attended 42nd annual African Insurance Organisation (A.I.O.) conference that took place in Gammarth, Tunisia, regarding business prospects in the region. The conference sessions covered such significant topics as:

- increasing frequency of political violence in Africa and its implication for the insurance industry;
- threats of natural disaster and the role of African insurers and reinsurers;
- new infectious threats to mankind: challenges for insurance and reinsurance.

Microinsurance development, implementation and regulation were also trending topics of the conference. The delegates discussed opportunities and perspectives of African (re)insurance industry with its regional specifications. May 25 was also noted for a refined dinner by Africa Re where the winners of African Region Innovation of the Year, Insurance Company of the Year and CEO of the Year awards were announced.

The conference was attended by more than 1000 participants from 69 countries.



George Lavrishchev addressing issues of reinsurance capacity on the speaker panel at the XIX Annual Reinsurance Conference (ARC) in Russia



The topic of lacking reinsurance capacity in the Russian market is still developing.

- How to operate under sanctions?
- What are the opportunities for future business development? All those questions and more have been discussed at the XIX ARC which took place in Moscow on 16-17 April.

George Lavrishchev, the General Director of Challenge Group –Insurance consultants and brokers Ltd., represented the Company at the event by participating on a speaker panel, discussing practical solutions to the current reinsurance issue. For instance, over 2,000 insurance contracts cannot be currently reinsured because of the Western sanctions.

One of the conclusions reached during the discussion was that the State Reinsurance Company can be a viable long term solution for creating a market buffer. However, sanctions and political complications affect the market today. Developing long lasting relationships with Asian and Middle East markets can not only create alternative capacity for the Russian market and bring new business opportunities to its partners, but also create a substantial business portfolio diversification for both sides. For years, Challenge Group has been working on developing ties with the Asia Pacific market and, with the help of the team of the Malaysian office, it will continue extending its influence and creating links between Asian and Russian markets.

Contact **Challenge group** team if you need any help with insurance, reinsurance, agricultural expertise and assessment, compliance function or alternative risk management solutions (captive programs)

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