FEATURE

Softening GIFT City reinsurance rates drive interest in offshore retrocession

As competition weighs on rates, some reinsurers are testing the Indian market before they commit.



By Blake Evans-Pritchard
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(Re)in Summary

- New capacity in GIFT City has created more competition and pushed down rates, so some international reinsurers are looking to retrocession as another way into India.
- Sources disagree on why rates have softened. Some say most GIFT City entrants were already writing Indian business offshore, while others point to global surplus capital and a benign loss year.
- Weak demand, discounting by primary insurers and loose underwriting discipline are also weighing on the market.
- Retro lets reinsurers get to know India without a large upfront commitment.

While international reinsurers have been flocking to GIFT City amid growing excitement around its potential, the resulting expansion in capacity is sharpening competition and weighing on rates. This has prompted some to explore retrocession as another way into the Indian market.

"So many people have gone to set up in GIFT City that the economics of demand and supply no longer work [for us]," says a senior executive at an international reinsurer that does not yet have an onshore presence in India. "The market has become saturated, which means that prices are staying artificially low."

Nonetheless, the size of the Indian market and its growth potential continue to make it an attractive prospect for international reinsurers, many of which are strengthening their presence across the Asia-Pacific region.

Given that accessing the market from offshore remains challenging, retrocession offers an alternative route into India.

"Retro XL [excess-of-loss] is a good strategy because you have somebody aggregating the market for you, and you sit behind that and earn a margin on the assumed risk," says Sonia Rawal, chief executive of Allianz Jio Reinsurance. "It's less operationally intensive compared to a company and thus efficient. Retro is also an intelligent way to approach the market in a soft cycle because retrocession tends to be more resilient than the primary market."

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Sonia Rawal
Chief executive of Allianz Jio Reinsurance

Falling rates

There is some disagreement over what has driven the sharp softening of rates in GIFT City. Some attribute this to intensifying competition as more reinsurers enter the market, but the reasons may be more nuanced.

"When people say there is more competition in the market, this is actually only half the truth," says Satyendra Shrivastava, co-founding partner of Consortia Legal. "Most of the reinsurers who have been setting up in GIFT City were already present in the ecosystem as a cross-border reinsurer, and so—with very few exceptions—there has not been any fresh capacity coming to the market. This is simply capacity that is moving around."

Because of this, the explanation for soft pricing has to be found elsewhere, most likely as an extension of the broader softening of markets that is happening globally.

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Satyendra Shrivastava
Co-founding partner of Consortia Legal

"Yes, pricing has softened, but GIFT City is only one driver, alongside global surplus capital and a relatively benign loss year," says Nymphea Batra, CEO of Marsh Re India.

Rawal, meanwhile, points to a separate problem in India: weak underlying demand. Insurance penetration has yet to increase significantly, she says, meaning the market is not growing as quickly as many reinsurers had hoped.

"With the exception of health, insurance in India is still very much a 'push', rather than 'pull', product," says Rawal.

The lack of growth has intensified the pressure on established players to defend their market positions, Rawal says, contributing to aggressive discounting in the primary insurance market. She also points to a lack of underwriting discipline, with insurers maintaining low deductibles and buying more reinsurance rather than increasing the amount of risk they retain.

It is these conditions that are helping to fuel interest in the retrocession market, says Rawal. Allianz Jio has its own retrocession programme and is receiving considerable interest from reinsurers looking to participate, she adds.

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Nymphea Batra
CEO of Marsh Re India

Long-term thinking

Whether a reinsurer establishes a presence in GIFT City depends, to some extent, on its longer-term view of the Indian market.

"For us, the decision is clear," says Javier Sanchez Cea, Asia Pacific regional officer at Mapfre Re. "We have established our branch in GIFT City because we believe in the long-term potential of India and in the value of being closer to our clients. Our presence is a strategic commitment, not a short-term response to market conditions."

What appears to be happening is that many players are using retrocession to gain exposure to India while assessing its longer-term potential.

"We will at some stage do something in India, but at this point in time, we see it as quite challenging," says the executive at the international reinsurer.

> "Our presence is a strategic commitment, not a short-term response to market conditions."



Javier Sanchez Cea
Asia Pacific regional officer at Mapfre Re

Retrocession can help reinsurers gain familiarity with the Indian market without making a major commitment. For those with relatively modest portfolios, cross-border arrangements or retrocession may also be more economical than establishing an office in GIFT City and taking on the associated costs.

As portfolios grow, however, the economics can shift, particularly as the cost of providing collateral becomes more significant.

"Some players are saying, 'You know what? We'll wait it out for four or five years,' because they feel it's not worth setting up now and then potentially being subject to the same regulatory requirements as domestic reinsurers," says Rawal.

For those increasing their participation in the offshore retrocession market, the longer-term question is whether GIFT City can attract business from beyond India and establish itself as a regional centre for reinsurance.

"Over the longer term, an area we will be watching closely is whether GIFT City evolves beyond serving primarily the Indian market and develops into a broader regional reinsurance hub," says the executive at the international reinsurer. "If it succeeds in attracting specialist underwriting talent, regional business flows and meaningful risk leadership, that could create a compelling strategic opportunity for global reinsurers."

Whether GIFT City can make that transition remains to be seen.

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