

# ReCover

Risk Management Services Ltd.

Risk Managers and Insurance Brokers speaking the same language

78/18

## Renewal Rates: Is a Turnaround in Sight?



An aberration or the new normal hurricane season? Photo: NOAA

With US\$344 billion in global economic losses, 2017 was the costliest year on record for weather disasters, according to Aon Benfield's catastrophe model development team. Weather related events caused 97% of the 330 natural catastrophe events in 2017. Losses from natural catastrophe events were 93% higher than the 2000 to 2016 average.

Insured losses for the private sector and government-sponsored programs came to US\$134 billion, just behind the record of US\$137 billion set in 2011. Aon Benfield's report further noted that 36% or about US\$80 billion of the economic damage from Hurricanes Harvey, Irma and Maria (H.I.M) was insured.

So how will these losses affect renewal rates locally?

In general, for the 2018 January renewal season, reinsurance pricing stopped its downward trajectory, reaching an inflection point in the underwriting cycle. While it is still early in the year, reinsurers have not imposed the level of rate increases on insurers than were initially anticipated. An increase of 5% has been the general response so far, with higher increases levied on those territories in the Harvey-Irma-Maria pathway.

Insurers have slammed the brakes on further rate reductions for their own insureds. Some of our island neighbours have been getting rate increases ranging from 25% to 35% on homeowners and about 10% - 13% for commercial businesses.

Our own homeowners with renewals early in the year may actually see slight reductions since these terms were negotiated well in advance,

### Gross Premiums vs Gross Claims for Trinidad - Non Life Insurance Companies (TT\$Mn)

Date	Gross Premium Property	Gross Claims Property	Gross Premium Motor	Gross Claims Motor	Gross Premiums Total	Gross Claims Total
2017	1454.9	2514.8	1375.7	692.7	3480.9	3568.8
2016	1430.9	295.3	1467.3	691.8	3562.5	1254.1

Source: Central Bank of Trinidad and Tobago

Liability and Group lines not shown

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however other homeowners will be lucky to retain their existing low rates. Commercial properties may also anticipate single digit increases in this first half of the year.

Given the recent upsurge in seismic activity and overall criminal activities, all insureds should take advantage of the existing low property rates to revisit the sums insured on their properties.

with only historical records - meaning prior to the increase in the effect of global warming - we would have under-designed the structure. If we want to seriously avoid the problems of the impact of the hurricane on people's lives, we simply have to enforce the building codes".

His statements echo those of Philmore Mullin, Director of the National Office of Disaster Services in Antigua, who, following the decimation of Barbuda by Hurricane Irma, stated that reconstruction on the sister isle must adhere to a more robust building code. He added that the present code had not been adhered to in their sister isle.

In Dominica, losses from Hurricane Maria are expected to be "exponentially higher" than the EC\$500 million in damage which was sustained by the island from Hurricane Erica just over a year ago. The island faces losses comparable to those of Hurricane Ivan which caused damage of more than 200% of Grenada's Gross Domestic Product in 2004.

## Disaster Readiness for a New Reality



There lies the dichotomy; while the Caribbean has long weathered some of the worst hurricanes, the current infrastructure is no match for the frequency and severity of hurricanes fueled by a warming ocean.



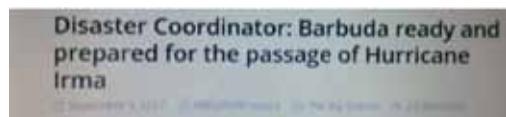
Photo: Zaimis Olmos/UNDP

Dominica has taken Maria's lessons to heart and has incorporated a Build Back Better approach to its reconstruction plans. For housing, this includes:

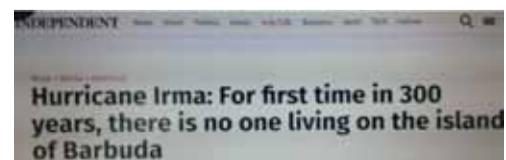
Dr. Richard Clarke, senior lecturer at the St. Augustine Campus of the University of the West Indies (UWI) says one of the "biggest lessons" from 2017's hurricane season is for the Caribbean to now "seriously consider the impact of global warming on the level of the hurricane, on the level of the wind speed we need to be designing for."

Dr. Clarke was in Dominica as part of the Caribbean Disaster Emergency Response Agency's assessment of Hurricane Maria's direct hit on the island as a category 5 hurricane. Dr. Clarke continued "If we have to go

This is exemplified by newspaper headlines immediately preceding and after Irma's passage through Barbuda:



Two days later, when contact with Barbuda was re-established, the headline read:



- repair and replacement to resilient standard
- training that targets construction firms, builders and communities
- raising awareness of home owners on safe housing construction
- quality assurance for reconstruction by training building inspectors
- review, strengthen and implementation of a housing reconstruction policy
- updating and authorizing the building code for resilient construction practices and identifying and implementing strategies for raising compliance and defining agency responsibilities



- raising awareness of hazards and disaster risk reduction among homeowners

Back at home, as far as disaster preparedness is concerned, Tobago, even more than Trinidad, faces special challenges. Both islands have suffered and are at risk from future earthquakes. Tobago is within the hurricane belt and while the chance of a major hurricane is not as prevalent as our island neighbours, even less severe storms and the unpredictability of a 'wrong way' hurricane such as 1999's "Lenny", can cause significant damage.

There is no national building code and a guideline for design and construction of small buildings developed by the Trinidad and Tobago Bureau of Standards was only published in 2006 and is only available in print at a cost from the Bureau's office in Macoya.

Many Tobagonians do not have deeds for their land, and would not have received approvals for the design or construction of their buildings. This lack of proof of ownership makes it difficult to obtain loans to rebuild or to obtain insurance.

One positive for Tobago is the relative lack – comparatively speaking – of beachfront development. While coastal roads and bridges are at risk of damage from storm surge, most homes and commercial properties away from the south-west tourist hub, can concentrate on preparing for the inevitable earthquake, windstorm and landslides that follow.

Fortunately, the cost of retrofitting is not as high as one might think. UWI's Department of Civil Engineering has

published a manual for retrofitting single story unreinforced buildings using hexagonal mesh (aka chicken wire) and cement, that may help prevent building collapse during an earthquake which is freely available as a download at

<http://richardpclarke.tripod.com/hurri/manual.pdf>

Despite the challenges of the current economic climate, we hope that the Ministry of Planning and Development, the Bureau of Standards and the Tobago House of Assembly can work to together to expedite revision of the guidelines for small buildings based on the new projected windspeeds and then make it freely available to all homeowners.

Any work done now in implementing strict inspection of all new buildings, retrofitting of existing structures and preserving the natural environment can go a long way to mitigating the widescale suffering now being experienced by our Caribbean neighbours when a disaster does come our way.



## Earthquake Cluster Headaches

Between January 26th and 28th, our island got a little shaken up by a swarm of earthquakes - over 22 - recorded at a magnitude ranging from 3.8 to 5.1. Earthquake swarms are clusters of earthquakes - sometimes hundreds of them - with no definitive mainshock. The largest events in a swarm are all of roughly the same magnitude and occur in a limited area. While no damage is

expected from the January swarm, it is an opportune time to point out the specific clauses that will affect a claim by catastrophe perils such as earthquakes, hurricanes and floods caused by those perils.

### (1) Catastrophe Deductible

Most insurance policies for buildings, contents and stock in Trinidad and Tobago have a deductible of 2% of the sum insured for earthquake and hurricanes. This means that insurers will only pay a claim caused by earthquake if the loss exceeds 2% of the sum insured. For example, a \$5,000,000 building would have to have damage exceeding \$100,000 before insurers would respond. If your property is underinsured, then insurers will reduce your claim in the same proportion of the underinsurance, and then apply the 2% deductible.

There are instances where a building is not damaged directly by the earthquake but by another peril such as fire or explosion that was a direct result of the earthquake. In such cases, the earthquake deductible will apply.

Catastrophe deductibles are imposed by reinsurers on all insurers in the region, so they are not negotiable.

### (2) "72 Hours Clause"

In an earthquake swarm, a series of earthquakes occur over a period of time. The 72 hours clause states that the policy deductible is applied for each "loss occurrence", and the duration and extent of any "loss occurrence" is limited to 72 consecutive hours.

If an earthquake on Friday caused a partial loss, then only one deductible would apply to any further tremors causing damage - up to 72 hours.



Photo: UWI Seismic Research Centre

earthquake, the contents and goods that disappear are not covered.

**Deductible Buyback?**

The Harvey-Irma-Maria chain of hurricanes showed how vulnerable insurers and reinsurers are to multiple catastrophic events, so the market for 'deductible buybacks' – where policyholders could purchase insurance for high deductibles – has also disappeared.

risk to be insured. The provision of this information is necessary for the insurer to underwrite the risk i.e. to make an informed assessment of the risk to be insured and agree the terms and conditions of the insurance as well as to calculate the premium.

For convenience, the information generally required is captured in a document called a 'Proposal Form'. Proposal Forms would vary depending on the type of insurance required and forms an integral part of the contract of insurance as it is the basis upon which the contract is formed and is incorporated into the contract.

If another earthquake occurred four days after the initial tremor and caused further damage, then a second deductible would apply – provided that the insurer could distinguish between the damage caused by the two earthquakes.

Caribbean governments could consider requesting administrators of the Caribbean Catastrophe Risk Insurance Facility to allow companies – and even homeowners – to insure part of the catastrophe deductible.

In completing a proposal form, the proposer is required to answer all questions truthfully, since it is on the basis of the information provided, that the risk will be assessed and the terms and conditions set. To ensure that all questions are answered truthfully, the proposal form contains a Declaration at the end of the questionnaire, just before the signature. This Declaration, once signed, warrants the truthfulness of all the information provided and has legal consequences.

**(3) Flood occurring after an earthquake or hurricane**

Buildings that withstand an earthquake unscathed still face the risk of a subsequent flood. Flood, or more accurately "overflow of the sea", does not have to be a Japanese type tsunami to cause damage. Even moderately sized waves during high tide can cause flooding in low lying areas such as downtown Port of Spain. This "overflow of the sea" is also subject to a deductible of 1% or 2% of the sum insured depending on the policy wording.

**Completing a Proposal Form**

*It's more important than you think*



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*Attorney-at-Law & Chartered Insurance Practitioner*

Insurance policies are termed contracts of 'Utmost Good Faith'. The logic behind this principle is to correct the inequality between the parties since 'the proposer is deemed to know everything about the risk to be insured', whereas, "the insurer is deemed to have no knowledge of the risk." As a result, there is an implied obligation of "Utmost Good Faith" on the proposer to ensure the truthfulness of all information provided to the insurer.

**(4) Looting**

Looting is excluded under the standard Fire and All Risks Policy wordings, so if looters help themselves to contents and stock following an

In arranging for insurance coverage, the proposer is under a duty to provide the insurance company with all relevant particulars regarding the

Because of the obligation placed on proposers, failure to provide all



information or withhold and/or provide misleading information that is relevant to the insurance, may result in the policy being void from inception.

Generally, when a claim occurs, the insurance company would conduct a full investigation into the circumstances of the accident and then the truth is discovered about the proposer's history. In such circumstances, the insurer would have the option to repudiate liability under the policy and not pay any claim. In certain circumstances, the policy can also be voided from inception for mis-representation of material facts.

Example:

At the time of completing a proposal form for motor insurance, the proposer said he had no previous accidents. However, following an accident and a claim being made under the policy of insurance, it was revealed that the insured was involved in a previous accident in which he was liable. The insurer would have the option to deny the claim and void the policy from inception.

In such case where the policy is voided, the insured would be without insurance cover and would now be personally liable to fund the cost of his own claim as well as pay for damages to all other third parties for property damage as well as personal injuries.

Therefore, extreme care must be taken when completing Proposal Forms so as to ensure truthfulness of all information provided.



funds in these accounts for funeral expenses, the employee or family may find themselves with no funds while wills are in probate or if the employee died intestate. The deceased may not have purchased or maintained life insurance due to medical or financial reasons.

Companies now have the ability to offer employees a much needed financial planning tool – an insurance plan that pays a cash benefit within 2 days of notification of the death of an insured person. Previously available only to members of credit unions, the range of offerings has expanded, allowing companies to administer a group plan on behalf of their employees and up to five family members.

The employee can choose benefit payments ranging from \$10,000 to \$100,000 for each person named under the policy.

Eligible family members include:

- The employee's spouse or "significant other"
- The employee's parents or the parents of the employee's spouse or "significant other" who have not reached 76
- The employee's dependent and adopted children aged 1-25. Children who are permanently disabled are covered for the duration of their life once they are enrolled before age 26.

The advantages of this 'bereavement' policy include:

- One monthly installment covers the employee plus up to five family members

## A Boost for Employee Benefits



### New Products help Employees Prepare for the Unexpected

A reality for which every good employer must prepare is helping employees cope with the loss of their own family members.

In addition to dealing with the emotional toll of loss, employees are often unaware and unprepared for the financial implications of a sudden death. The employee or his family may discover that, even if they do have the finances to cover the funeral expenses, they are unable to access the funds they need immediately if bank or credit union accounts are solely in the name of the deceased. Or, having utilized the



- The employee can choose between six levels of coverage and premiums
- Cover is for lifetime of the insured, spouse and parents once the monthly premiums are paid. Children who are married or over 25 must take out their own family policy.

There is a 6 month waiting period before the plan is approved. Since there is no medical examination, if any covered person dies during the waiting period, claims would not be allowed, unless the death was accidental.

The bereavement policy allows for claims to be made up to 2 years from the time of death however, no benefit is payable if the death was as a result of engagement in criminal activities.

There are other benefits to the plan;

- Unlike other life insurance policies, this plan does not require a medical examination or declaration. Persons unable to obtain or afford other life insurance products due to medical reasons can effect a higher sum than the actual cost of the funeral in order to leave a small estate.
- The entire proceeds are paid within 2 days to the named beneficiary, providing needed funds if the deceased was a financial provider.
- Parents can be covered once they enroll before age 76.

With good planning, financial issues should no longer be one that employees face following the death of a loved one.

Companies wishing to find out more about these bereavement policies can call their Account Executive or our Employee Benefits department. Individuals can access a similar annual product through our Group Plans department.



## Farewell

After 29 years, four CEOs and 3 job positions, RMS said farewell to **Senior Account Executive, Razeefa Khan.**

Joining RMS in 1988 as a Counter Service Representative, Razeefa quickly rose to take over the Personal Lines division. She easily made the transition to handling commercial accounts bringing with her a dedication to customer service and technical detail. We hope she enjoys her well-deserved retirement.

Also retiring is **Tarran Dookie.** Tarran joined RMS in 2003 as an inhouse trainer and editor of our publications, ReCover and World Insurance Digest. A superb teacher, he was instrumental in helping clients and members of staff understand the intricacies of various policies. He retired in December to exercise his green thumb and keyboard fingers. We know he will enjoy the fruits of his labour.

After three years, with RMS, account executive **Lisa Jagroo Manack** moves her career in a slightly different direction. We wish her well and bon voyages.

