# Mauritius Non-life Insurance Industry 2020 Analysis

## 1 Introduction

The COVID-19 pandemic is still being felt around the world by individuals, businesses and economies around the world. Undeniably, the insurance industry did not escape from this impact. However, it should be noted that different insurers have responded differently to the crisis. With the successful roll-out of vaccines and recovery of the economy, it is expected that with challenges, insurers will also be able to exploit opportunities in the medium to long term. This article starts by analysing the environment of Mauritius followed by a high-level analysis of the industry results and finally looking at other key considerations as well.

## 2 Environment

### 2.1 Economic Environment

The Mauritian economy has demonstrated growth in real GDP at an average of 3.8% over the past ten years steady growth rates despite its small size. However, as a result of the pandemic, Moody's expect a growth slowdown. This is due to a complete halt in tourist arrivals as a result of government-imposed lockdown and with Mauritian borders closing. It should be noted that tourism's direct contribution to GDP was at 8.2% in 2019. Furthermore, the Government of Mauritius introduced various measures to provide enhanced support to economic operators, SMEs, households and individuals impacted by COVID-19 leading to an increase in government spending along with lower nominal growth.

In February 2020, Mauritius was included in the FATF list of countries under increased monitoring, commonly known as the 'grey list'. Consequently, the European Commission announced that Mauritius would be included on the EU's list of high-risk countries having strategic deficiencies in their AML-CFT Framework, the so-called EU 'blacklist'.

### 2.2 Regulatory Environment

The Financial Services Commission ("FSC", "Regulator") is the regulator for non-bank financial services. Further to the announcement of the curfew period, the Regulator provided a regulatory relief with regards to filing and reporting obligations due to unprecedented challenges faced by insurers to ensure operational continuity.

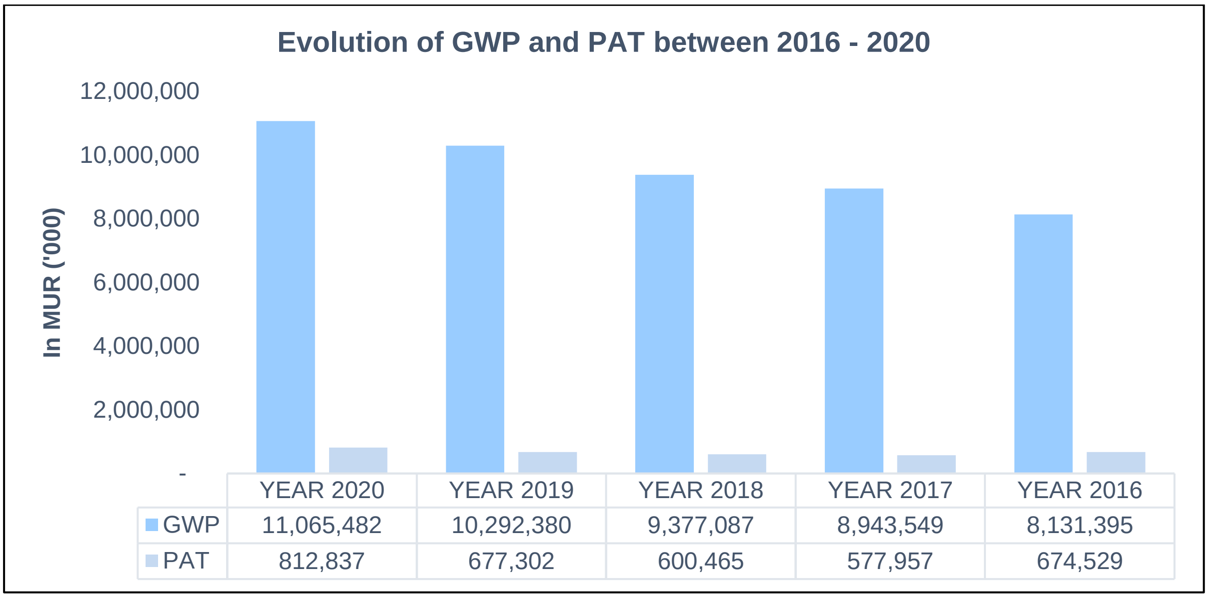
The Regulator also made an amendment to the Insurance Risk Management Rules (2016) whereby documentation relating to risk management framework, auditor's report and actuary report (together referred to as "RMF returns") is now due not later than 6 months after each balance sheet date rather than 3 months after each balance sheet date with effect as from October 2020.

During the year, the Regulator sent three surveys to insurers:

- Insurers were required to report on the progress made in the preparation for IFRS 17 by filling an IFRS 17 Self-Assessment questionnaire.
- Insurers were required to fill in a survey on their views of the adoption of a Solvency-II type Framework in Mauritius.
- Insurers were also asked to complete a questionnaire titled "Impact of COVID-19 on Insurance Companies in Mauritius" to understand the impact of the global pandemic on the assets, liabilities, solvency, liquidity and profitability and any other areas of concern that insurers may have.

## 3 Financial Performance of the Industry

The graph below illustrates the evolution of both Gross Written Premium (GWP) and Profit After Tax (PAT) for the latest 5 years.




The table below shows some key metrics that were calculated from the annual data for the last 5 calendar years.

| METRICS / CALENDAR YEAR | YEAR 2020 | YEAR 2019 | YEAR 2018 | YEAR 2017 | YEAR 2016 |
|---|---|---|---|---|---|
| Increase in GWP | 7.5% | 9.8% | 4.8% | 10.0% | 7.5% |
| Increase in NEP | 15.3% | 4.7% | 6.5% | 12.0% | 12.8% |
| Claims Ratio | 60.1% | 63.6% | 64.0% | 63.0% | 62.1% |
| Expense Ratio | 34.1% | 33.5% | 32.6% | 33.7% | 34.1% |
| Combined Ratio | 94.3% | 97.0% | 96.6% | 96.7% | 96.2% |
| Investment Return Ratio | 5.1% | 6.7% | 6.2% | 6.0% | 7.3% |
| Return on Equity | 10.1% | 8.5% | 7.5% | 7.5% | 9.0% |

The formulae for calculating the metrics in the table above are as follows:

- $Increase\ in\ GWP_t = \frac{GWP_t}{GWP_{t-1}} - 1$
- $Increase\ in\ NEP_t = \frac{NEP_t}{NEP_{t-1}} - 1$
- $Claims\ Ratio = \frac{Net\ claims\ incurred}{Net\ Earned\ premium}$
- $Expense\ Ratio = \frac{Management\ expenses + commision\ paid - Commission\ Received}{Net\ Earned\ premium}$
- $Combined\ Ratio = Claims\ Ratio + Expense\ Ratio$
- $Investment\ Return\ Ratio = \frac{Investment\ Income}{Average\ Investible\ Assets\ between\ t\ and\ t-1}$
- $Return\ on\ Equity = \frac{Profit\ After\ Tax}{Average\ Equity\ between\ t\ and\ t-1}$

The non-life insurance industry delivered top-line growth of 7.5% from Rs 10.3 billion in 2019 to Rs 11.1 billion in 2020. It should be noted that travel restrictions and border closures had an inevitable impact on the travel insurance segment.

The proportion of premiums ceded has been around 34% on average during the period of investigation. While a hardening in reinsurance rates is being observed around the world, the reinsurance ceded premiums have increased marginally over the recent calendar year. In Mauritius, risk-based capital requirements penalise insurers that cede premium to reinsurers rated less than "A" by Standard & Poor's and Moody's and make it uneconomical to use insurers rated less than "BBB" by S&P, "Baa" by Moody's, or equivalent as otherwise this would call for a 100% capital charge on premiums ceded to such reinsurers.

The claims ratio decreased by 3.4% points due to reductions in property and casualty claims from government-imposed lockdown. However, many insurers witnessed a sharp rise in their average cost of claim due to unavailability of spare parts increased cost of the medical consumables and non-availability of regular cargo supplies among others. The main contributors to the increased cost were invariably the freight cost and depreciation of the rupee vis-à-vis the main currencies.

An increase in the level of expenses was observed due to the need to supply requisite technological tools for employees to work from home while focussing on digitalisation and innovation. Insurers also upskilled their employees' skills through online training programs during the lockdown.

The investment climate during the financial year under review has been challenging, as we observe a fall in the level of investment return ratio. The pandemic resulted in more difficult economic and financial conditions. The already-low market interest rates have fallen further attaining new all-time lows, while equity markets have been in turmoil.

Overall, the industry recorded a positive return on equity higher compared to 2019, which is highly laudable in this exceptionally difficult year.

## 4 Key Considerations For Insurers Over the Next Few Years

### 4.1 Insurance Risk

Due to the uncertainty in the operating environment, insurers need to ensure that claims provisions are determined using accurate information on claims settlement patterns, court awards and forecast inflation. Managing premium inflation should also be of paramount importance given premiums need to reflect the cost of claims which have continued to edge upwards.

### 4.2 Liquidity Risk

Insurers will also need to ensure that they have sufficient liquid resources to meet their daily cash outflows. Key metrics such as Liquidity Coverage Ratio (LCR) could be used to ensure that insurers maintain an adequate level of cash resources or assets that are readily available on demand.

### 4.3 Market Risk

A depreciation of the rupee has been observed and insurers must analyse the impact on the cash flows as a result of foreign exchange gains/losses. Short-term insurance liabilities are not directly sensitive to the level of market interest rates as they are undiscounted and contractually non-interest bearing.

### 4.4 Business Continuity Risk

Business Continuity Risk is considered a key risk within all financial institutions and is managed through the development, implementation, and maintenance of a robust Business Continuity Management Framework. This should be documented in a Business Continuity Policy and due to the ongoing pandemic, it is recommended that this is embedded in the business and tested robustly to ensure that insurers will be able to continue or recover its activities within the predetermined timeframe.

### 4.5 Reinsurance Risk

Insurers should also monitor their exposure to concentration risk with respect to reinsurance counterparties. Generally, the Reinsurance Management Strategy would dictate how reinsurance counterparties are chosen, for example, credit ratings being higher than BBB. Due to the pandemic, some reinsurers have experienced a downgrading and insurers should ensure that the reinsurance structure is compliant with the Company's internal Reinsurance Management Strategy and the risk appetite.

Additional insights could be drawn from the Company assessing its capital requirements per line of business and whether the current reinsurance programme in place is sufficient to cover all losses. In addition, insurers may benefit from a reinsurance optimisation exercise to ensure that it has an optimal reinsurance programme.

### 4.6 Credit Risk

Insurers have material balances' exposure to credit risk from reinsurer's share of insurance liabilities, amounts due from reinsurers in respect of claims already paid, amounts due from policyholders, amounts due from agents and brokers, investment in held to maturity financial assets, cash and cash equivalents and loans and receivables. It is recommended that insurers monitor their concentration of credit risk and ensure compliance with their internal credit risk policy. Furthermore, it should be noted that assets such as premium receivables due for more than a year and reinsurance receivables due for more than 8 months are treated as disallowed assets and as such result in a reduction of the total capital available in the capital calculations according to the General Insurance Business Solvency Rules.

### 4.7 Capital Risk

Insurers are required to perform an annual ORSA process that considers the Company's projected capital requirements. While best practice calls for an Out-of-Cycle ORSA when there is a material change in the risk profile, there was no such requirement that insurers had to perform one. The ORSA process also considers the resilience of the Company's capital to various stresses, and it was observed that many insurers considered a "COVID-19 stress" in their ORSA report.

## 5 Conclusion – 2020: The year that was!

While the global pandemic has shaken the world with unprecedented challenges, it was noteworthy that the non-life insurance industry has performed well in such difficult circumstances.