MANAGING CATASTROPHE RISK WITH REINSURANCE

Building a professionally advised catastrophe cover strategy

In an age of rapid climate change characterized by global warming and increased geopolitical risk, the frequency and severity of natural disasters, political instability and even war is prompting individuals, businesses, industries and entire economies to reconsider the mechanisms that they use to manage the risk associated with catastrophic events.

The insurance industry has traditionally managed unexpected large-scale natural or man-disasters through reinsurance, transferring risks that could threaten the financial stability of a company to another insurer. Reinsurance is a standard risk transfer strategy practiced by the insurance industry for centuries. Well known international reinsurers include Munich Re, Swiss Re, Africa Re and Continental. These globally trusted reinsurance brands ensure the efficient and safe functioning of the global insurance industry, helping insurers maintain financial stability while increasing their ability to take on risk and grow market share.

Today, reinsurance contracts can take on a number of formats. In excess-of-loss reinsurance, for example, the client, usually an insurance company, sets a specific dollar amount as a threshold for catastrophe loss. If losses exceed this amount, the reinsurer will pay the excess amount, up to an agreed limit. This allows the insurance company to limit its exposure to catastrophic losses while still being able to offer coverage to policyholders. Quota-share reinsurance on the other hand requires the insurance company to cede a portion of its risk to the reinsurer. In return, the reinsurer receives a portion of the insurance company's premiums and losses. By spreading the risk across multiple insurers, more capital is available in the event of large-scale disasters. More recently, catastrophe bonds and other alternative risk-spreading mechanisms are evidence of how investment bankers are also adapting institutional investment instruments to take on the exceptionally large risks that increasingly accompany the advance of climate change or the fallout of heightened global geopolitical risk.

In this new wake of every greater and more severe risk, Coronation Insurance stands out, in the way it structures its reinsurance contracts using advanced analytics to present a data-driven view of the behavior, of its various client exposures.

Using big data to accurately balance exposures for severity and frequency of loss, Coronation Insurance is able to gather the intelligence required to structure cost-effective reinsurance contracts that accurately target real risk. This not only ensures that the risks that Coronation takes on for its clients will be covered, but it also helps manage the cost of covering these risks. This is ultimately reflected in more competitive client premiums.

Backed by a corporate culture supported by the highest professional qualifications and deep experience, the effectiveness of Coronation Insurance's reinsurance structures were particularly evident during the 2021 Lagos rain storm as well the End SARS riot in 2020 engulfing the bulk of country. Losses in both of these catastrophes were both numerous and severe, challenging the reinsurance structures of many insurers. The rigor of Coronation Insurance's analytically-informed reinsurance structures, meant that Coronation was almost unique in the Nigerian market and in its ability to cover all of its client's risks despite the scale of devastation and loss caused by these catastrophes

As the severity and scale of catastrophe loss increases, insurance companies are working to combine the full range of traditional and new reinsurance instruments in sophisticated multidimensional reinsurance strategies. By working with reinsurers to create customized reinsurance programs, insurance companies, like Coronation Insurance, can tailor their reinsurance strategies to ensure that clients are adequately protected even in the event of multiple catastrophes.