RoyalStar Profits Quadruple Amid Premium 'Hardening'

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By Neil Hartnell, Tribune Business Editor

RoyalStar Assurance's chairman has warned Bahamian insurance consumers to brace for "hardening" premium prices, following a storm-free 2017 in which its profits more than quadrupled.

Sir Franklyn Wilson, writing in the property and casualty insurer's annual report, warned that the Bahamas was not immune from the $50 billion worth of Caribbean insurance claims stemming from hurricanes Irma and Maria despite this nation largely escaping their wrath.

The global reinsurance market's share of these losses meant that Bahamian insurers such as RoyalStar, who purchase coverage from this sector, will be faced with increased costs as companies seek extra compensation to cover the increased risk and 2017 losses.

"Due to substantial global losses in 2017, we believe that 2018 will be the start of a 'hardening' insurance market cycle where reinsurance capacity will continue to be available, however, at a higher price," Sir Franklyn wrote. "This will present RoyalStar with new opportunities to grow the insurance business in selected markets."

Global reinsurers tend to treat the Caribbean as a single market, grouping the Bahamas with the entire region and Florida, which means insurance premiums here will feel the impact of Irma and Maria's Category 5 winds throughout 2018.

Bahamian insurers have not choice but to purchase huge quantities of reinsurance annually, as their multi-million dollar capital bases pale into comparison to the multi-billion dollar risks they underwrite. This effectively makes them a 'price taker' from reinsurers, which cover the bulk of these risks.

Anton Saunders, RoyalStar's managing director, said the year-over-year decline in the insurer's net written premiums was due to it choosing not to renew coverage on risks where "pricing pressure" has pushed premiums below its target underwriting margins.

Writing in the same annual report, he said: "Net Written Premium (NWP), after deduction of catastrophe and excess of loss reinsurance costs, was $15.912 million, a reduction of $765,900 compared to 2016.

"The reduction in NWP was mainly due to the group not renewing business where pricing pressure reduced premium levels below the group's underwriting margins."

RoyalStar's 2017 financial performance highlighted the swings in property and casualty industry profitability, which typically peaks in years when the Bahamas avoids a major hurricane impact.

The underwriter's 'bottom line' quadrupled or increased more than four-fold, from $1.009 million in 2016 to $4.607 million, due almost entirely to the near-$4 million drop in net claims incurred.

These fell to $5.873 million from $9.709 million the year before, when RoyalStar and its competitors were dealing with claims payouts stemming from Hurricane Matthew.

Gross written premiums increased from $64.728 million to $69.573 million, a 7.48 per cent increase, although net premiums earned were flat year-over-year at just over $21 million due to reinsurers taking a greater share.

Mr Saunders said RoyalStar's 2017 profits included both underwriting and investment returns, an improvement upon the previous year when Matthew drove it to an underwriting loss.

"The RoyalStar Group of Companies produced a very strong result of $4.607 million, which is comprised of an underwriting and investment profit of $2.656 million and $1.951 million, respectively," he said. "This is compared to prior year, which produced a result of $1.008 million comprised of an underwriting loss and investment profit of ($91,100) and $1.1 million respectively.

"The current year results were in line with our budget projections. Our total equity as at December 21, 2017, was $47.191 million, which produced a Return on Equity (ROE) applicable to ordinary shareholders of 11.29 per cent compared to the prior year of 0.98 per cent."

Sir Franklyn, meanwhile, said RoyalStar's corporate restructuring, which saw the creation of RoyalStar Holdings as the parent company owning 100 per cent of the underwriter, will enable the group to diversify "and assess profitable investment opportunities as they become available".

"Through the creation of RoyalStar Holdings (RSHL), the group is now in a position to maintain consistent underwriting and investment results in the future," he added.

RoyalStar's financials, meanwhile, reveal that in January 2018 it contributed $659,758 to pay off a $7 million loan from CIBC FirstCaribbean International Bank (Bahamas) to an affiliate in which it has a 19 per cent equity stake.

That affiliate is Luxury Homes (Bahamas), the real estate holding company that owns a 100-acre plus tract opposite St Andrew's School at Yamacraw. Some of that land was sold to BISX-listed AML Foods, and is now the site for its Solomon's Yamacraw outlet.

Luxury Homes (Bahamas) other shareholder is Arawak Homes, an affiliate of Sunshine Holdings, which holds most of the equity in RoyalStar Holdings' 53.05 per cent majority shareholder, SunStar Ensure Ltd.

"During January 2018, the directors of Luxury Homes decided to repay the outstanding loan balance due to FirstCaribbean," RoyalStar said. "This required a capital injection by the company in the amount of $659,758, which represents the company's obligation of the outstanding loan balance."