RECENT TRENDS IN THE CATASTROPHIC RISK INSURANCE AND REINSURANCE MARKET

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Powerpoint presentation

This document is circulated for Session 1 of the Conference on Catastrophic Risks and Insurance, to be held on 22-23 November 2004 at the OECD Headquarters, 2 rue André Pascal, 75016 Paris, starting at 9:00 a.m.

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OECD - “Recent trends in the catastrophic risk insurance and reinsurance market”

Pat Murphy-O’Connor

Date 22nd November, 2004
Global reinsurance market (ceded premiums)

Source: Swiss Re sigma 5/2003

Total (2001) USD154bn

- Non-life 84%
- Life 16%
- North America 56%
- Western Europe 27%
- Asia 9%
- Latin America 4%
- Rest of World 4%
Global reinsurance market, 2003 NPW

Total USD161bn

- Munich Re: 19%
- Swiss Re: 15%
- Berkshire Hathaway: 7%
- Hannover Re: 5%
- Employers Re: 6%
- Lloyd’s: 5%
- Converium: 2%
- XL Re: 2%
- PartnerRe: 2%
- SCOR: 3%
- Next 30: 34%

Source: Standard & Poor’s
Capital movements

Source: Company Reports & Accounts. Berkshire Hathaway includes GCR and National Indemnity Co.

Reinsurance market trends

- Legacy issues remain despite substantial reserve strengthening
- Results have improved but 2003 fell short of expectations
- Secular shift from ‘old money’ (direct) to ‘new money’ (broker)
- Reinsurers not hit by the higher catastrophe losses in 2003
- Investment markets improving but still unhelpful
- ‘New money’ moving into next phase of expansion
- Increased scrutiny from rating agencies/regulators
The Big Squeeze continues

- More than USD18bn of reserve additions in past 12 months
- Asbestos reserve shortfall USD16.5bn?
- 1997 – 2001 years deteriorating fast
Catastrophe loss trends

Source: Swiss Re sigma 2/2004
• Capacity adequate in most lines

• Property rates flat to down, casualty rates firm

• Discipline still evident even where rates reduced

• Modelling an important price driver e.g. RMS PMLs

• Credit quality/ratings a key concern

• Cedants less price sensitive in pursuit of credit quality

• Terrorism coverage - increased supply at a price
• Continued retrenchment of direct reinsurers

• Withdrawal of unlimited quota shares in Europe created new demand for non-proportional coverage

• Bermudians looking to broaden book by class and territory
  - Major players in Europe at renewal
  - Large line size but generally disciplined approach
  - Significant move into casualty lines
European renewals

- Disciplined – no irrational competition from new capital
- Increased competition in catastrophe lines
- Adequate capacity in most lines
- Cycle management a key theme
- Flight to quality – Swiss Re beneficiary; Munich Re claims no impact from S&P downgrades
- Favourable outlook for profitability
Reinsurance recoverable

Source: Schedule F/Benfield IAR

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Post 9/11 rating trends – a market correction

• End of “AAA” an overdue “coming into line”

• More realistic balance between stakeholders’ interests

• Culling of Double “A” - problems for long-tail cedants?

• Bermuda reinsurers’ ratings intact

• More focus on willingness to pay – but how to measure?
Reinsurance market outlook

Positive for pricing

• Underwriting discipline
• Pricing power of key players
• Unhelpful investment climate
• Legacy issues
• Focus on ratings/security
• Declining investor interest
• Terrorist threat re-emerges

Negative for pricing

• Cyclical pressures
• Aggressive new capacity
• Rising interest rates
• Benign loss scenario
• Balance sheets recovering
• Availability of capital?