News Release

MARKET CONDITIONS SHIFT AS (RE)INSURERS ADJUST TO THE CHANGING NATURE OF RISK

New York and London, September 08, 2019 – The growing complexity of risk is manifesting itself in the (re)insurance sector as underwriting assumptions are being challenged, and capital inflow levels and risk appetites respond accordingly. Crucially, the accumulation of losses from a range of diverse natural catastrophe perils in 2017 and 2018 has brought an end to years of soft (re)insurance market conditions as carriers reassess their views of risk, says Guy Carpenter & Company LLC, a leading global risk and reinsurance specialist and a wholly owned subsidiary of Marsh & McLennan Companies (NYSE: MMC).

In a report released today – “The Changing Nature of Risk” – Guy Carpenter says that the shift in market conditions reflects the surprise impact of the magnitude of loss creep for virtually every major peak peril loss sustained during the last two years, with claims continuing to develop adversely. The report also highlights the significant loss contribution made by non-peak perils, with, for example, insured losses from wildfire activity in California in both 2017 and 2018 surpassing the combined costs of any previous decade. The scale of these losses is not commensurate with the traditional view of wildfire as an attritional peril, it states. Underlying assumptions are therefore being reassessed to reflect more closely the contribution made by wildfire and other attritional perils to overall expected losses.

Commenting on the findings, Julian Alovisi, Head of Research and Publications, said: “If the last two years provide any sort of template for what can be expected in years to come, loss development for major events will be uncertain and the scale and severity of attritional perils will accentuate protection gaps. Ominously, the specter of climate change points to a future that will see only more frequent and severe weather events. As our report outlines, recent trends around increased wildfire activity and stalling hurricanes are thought to potentially have some link to a changing climate. This raises important questions about insurability and relevance in the long term. Risk models, already under scrutiny due to loss creep and spiraling costs from attritional events, will need to be recalibrated to better understand the risk potential associated with these exposures.”

The report also highlights important developments in the casualty sector, where increased loss frequency and loss severity across several long-tail lines are placing pressure on carriers’ margins, with social inflation appearing to be a factor in upward loss cost trends. “Such developments are significant in the context of wider market trends,” Alovisi added, “as the casualty market has been the main catalyst of nearly all past market turns, and it comes at a time of diminishing reserve redundancies. Given the smaller pool of carriers operating in the casualty space, replacing lost or reduced capacity can be challenging, making it more vulnerable to capacity constraints should carriers’ claims assumptions change.”
The study warns that the changing nature of risk poses serious challenges to the risk transfer market, adding that the degree of change predicted over the next decade looks set to fundamentally alter the risk landscape like never before. Digital technology is likely to be at the forefront of change during this time. A world driven by software is going to transformational. Ominously, a number of innovations associated with digitalization rely on legacy software that may be outdated or rushed to market for which cyber security is often a distant afterthought.

Robert Bentley, CEO, Strategic Advisory at Guy Carpenter, commented: “How the risk landscape evolves will be pivotal in shaping the future of (re)insurance. Insurability is likely to become a key challenge for the sector as there is a dearth of data and modeling solutions for many new exposures. There are even questions around the insurability of some established risks, given that the long-term trends associated with climate change remain difficult to measure, predict and, ultimately, model.

“Whatever the future holds, reinsurance will be an important part of the solution,” he concluded. “While capital inflows into the reinsurance sector have slowed recently as loss experiences have deteriorated, reinsurers’ desire and ability to underwrite risks remain healthy overall. This is a market that has matured materially since the days when large catastrophes created massive price volatility. By working closely with reinsurance and intermediary partners, insurers can minimize earnings volatility, reduce capital requirements, improve solvency and, ultimately, innovate and grow — all crucial to our ability to not only manage but prosper in a rapidly evolving risk environment. At Guy Carpenter, we are uniquely positioned to support clients by applying best-in-class analytical tools and creating innovative and bespoke solutions designed to mitigate the changing nature of risk.”

“The Changing Nature of Risk” report is available to download at: [https://go.guycarp.com/changingnatureofrisk](https://go.guycarp.com/changingnatureofrisk)

TAGS/KEYWORDS
Guy Carpenter, Reinsurance, Loss Creep, California, Wildfire, Casualty, Robert Bentley, Julian Alovisi

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