GUY CARPENTER

GC BRIEFING

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JANUARY 2014 RENEWAL REPORT: CAPACITY: EVOLUTION, INNOVATION AND OPPORTUNITY; EXECUTIVE SUMMARY

The January 1, 2014 renewal saw rates on line (ROLs) fall significantly in nearly all regions and business segments as relatively low loss experiences, strong balance sheets and an influx of capital spurred competition and innovation in the reinsurance market. This culminated in a marketplace focused on meeting individual client needs as reinsurers reacted to the challenge posed by alternative markets and alternative markets, in turn, sought to deliver unique solutions. Insurers also looked to capitalize by adapting their buying strategies and prioritizing their risk transfer goals.

2014 Renewal Spurs Innovation

Guy Carpenter's Global Property Catastrophe Reinsurance ROL index fell by 11 percent at the renewal. Much of this was driven by 15 percent decline in the United States while property catastrophe pricing in Continental Europe and the United Kingdom also came under pressure, with rates falling by 10 percent and 15 percent, respectively. The Asia Pacific region also saw pricing fall. Indeed, it was the first renewal in over a decade where all major territories saw pricing move in the same direction, with some isolated exceptions including Canada, Germany and Denmark.

Softening market conditions also spilled into other business segments. Price movements across non-catastrophe business showed a general trend of decline as reinsurers deployed more capacity into these lines. Casualty pricing was generally flat to down.

In responding to the call for innovation, many reinsurers offered more tailored coverage at January 1, 2014, utilizing options such as aggregate and quota share cover, multi-year arrangements, extended hours clauses, better reinstatement provisions and early signing opportunities at reduced pricing. Expanded coverage for terrorism and cyber risks was also offered. Many buyers retained the bulk of their traditional coverage at the renewal as a result.

Market Drivers

The decline in pricing was driven by a combination of factors, including strong competition from capital markets and abundant capacity. Manageable loss experience in 2013 (with global insured losses limited to approximately USD40 billion) also bolstered carriers' results and added to the sector's excess capital position. Indeed, Guy Carpenter estimates dedicated sector capital remained at near record levels having risen marginally to USD322 billion at year-end 2013. All of this meant reinsurance supply often outstripped insurer demand.

Opportunities for Growth

Innovation in general, and new product generation specifically, are likely to drive future sector growth. Despite the sustained challenges of modest economic and premium growth, low investment returns, higher long-term catastrophe loss trends and early indications that reserve redundancies may soon run out, Guy Carpenter believes profitable growth opportunities can be created by utilizing the surplus capacity in the marketplace to provide cover for risks that are currently uninsured. By focusing on innovation and providing solutions that expand insurance coverage, whether through narrowing the gap between economic and insured losses for catastrophe risks, increasing insurance penetration in new high growth economies or creating innovative new products to provide protection for emerging risks, risk carriers can exploit these opportunities and successfully grow their business in the current environment.

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