

A fond farewell to a fine year

With a surprisingly calm, catastrophe-free year nearly behind us and an abundance of fresh capital poured into the market, **David Spiller** finds much to be grateful for as the year draws to a close



David Spiller is president and chief executive of Guy Carpenter.

Our fast-moving business and bustling lives leave us marvelling at the light speed with which 2006 has passed — and nary a moment to appreciate the year it was. But appreciate it we should: our global industry was dealt abundant good fortune in the past 12 months. We have much for which to be grateful.

The universal reinsurance market hardening, which was widely expected after the record property losses in 2005, never materialised. To the surprise of many, our industry chose this year to demonstrate that it was past the volatility of adolescence and ready to settle into a mature, discerning approach to risk.

According to Guy Carpenter's analysis, there was an average rate increase for catastrophe covers of 76% in the US. Outside of North America, increases were 2%. Even within the bounds of the US, many non-coastal-exposed programmes were granted stable conditions.

Perhaps as some cosmic reward for this restraint, our industry (as of this writing) dodged any major assault in 2006, experiencing not one single major hurricane loss. And this was despite predictions that a fierce North Atlantic hurricane season was gearing up for battle!

Five years after the World Trade Centre attacks, there has been no extreme-scale terrorist attack anywhere in the world, and no attack at all on US soil. This may be luck. It may be the fruits of effective counter-terrorism measures undertaken around the world, like those that disrupted the airline bombing plot in Britain earlier this year. Whatever the reason, it is a blessing of the highest order.

Saving grace

A lack of major catastrophes makes a discerning market more palatable. But there is another saving grace: mobile capital came to the table as never before in 2006. Our industry moves into 2007 emboldened by the flexibility that capital market vehicles can bring to the reinsurance markets. The reinsurance markets and capital markets strode further down the path to convergence in 2006.

Catastrophe-bond issuance reached new highs, expected to exceed \$4bn. Sidecars drove more than \$3.5bn in capital in support of North American catastrophe risk.

Insurance underwriters and executives are appreciating advancing technology that is giving them a springboard to higher-level risk assessment and management — and alleviating the labour intensity of certain aspects of our business.

At Guy Carpenter, we see this firsthand as our new online risk-management platform, i-aXsTM, empowers clients to interact more meaningfully and efficiently with their massive amounts of data — whether they are running down catastrophe losses in real-time or pinpointing in minutes the concentrations of exposures that once took many days of analysis to uncover.

The world economies worked in our favour over the past 12 months. Global equities markets are strong. Stock markets in the US, UK and elsewhere have rallied to record highs, bolstering insurer balance sheets.

The stars are in place

We saw nations take it on the chin from the oil-price hikes and come out swinging. Conventional economic wisdom tells us that \$80 barrels of oil would tumble the world's economies into a recession, or worse. But it didn't happen in 2006.

All of this happy news has helped to ferry the commercial property and casualty industry to record or near-record profitability in many lines of business. With reserves appearing to be adequate — even to the most conservative of industry analysts — it would seem that we can now raise our glasses without fear of abrupt reversals of fortune.

During this season of gift giving, our industry has wrapped up precisely what it should: the ability to deliver secure programmes, fit fairly and squarely to the dimensions of risk.

Personally, I give thanks for the well-being of my family. The work that Guy Carpenter does daily and the people who do it are a source of immense pride. I am privileged to work side by side with the greatest minds in our business: my Guy Carpenter colleagues, clients and markets. I am gratified to have been warmly welcomed in my new role.

Could it get better than this? Personally, I could not ask for more. At this moment, in the universe of (re)insurance, it seems that the stars are in the right place. And so am I.

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