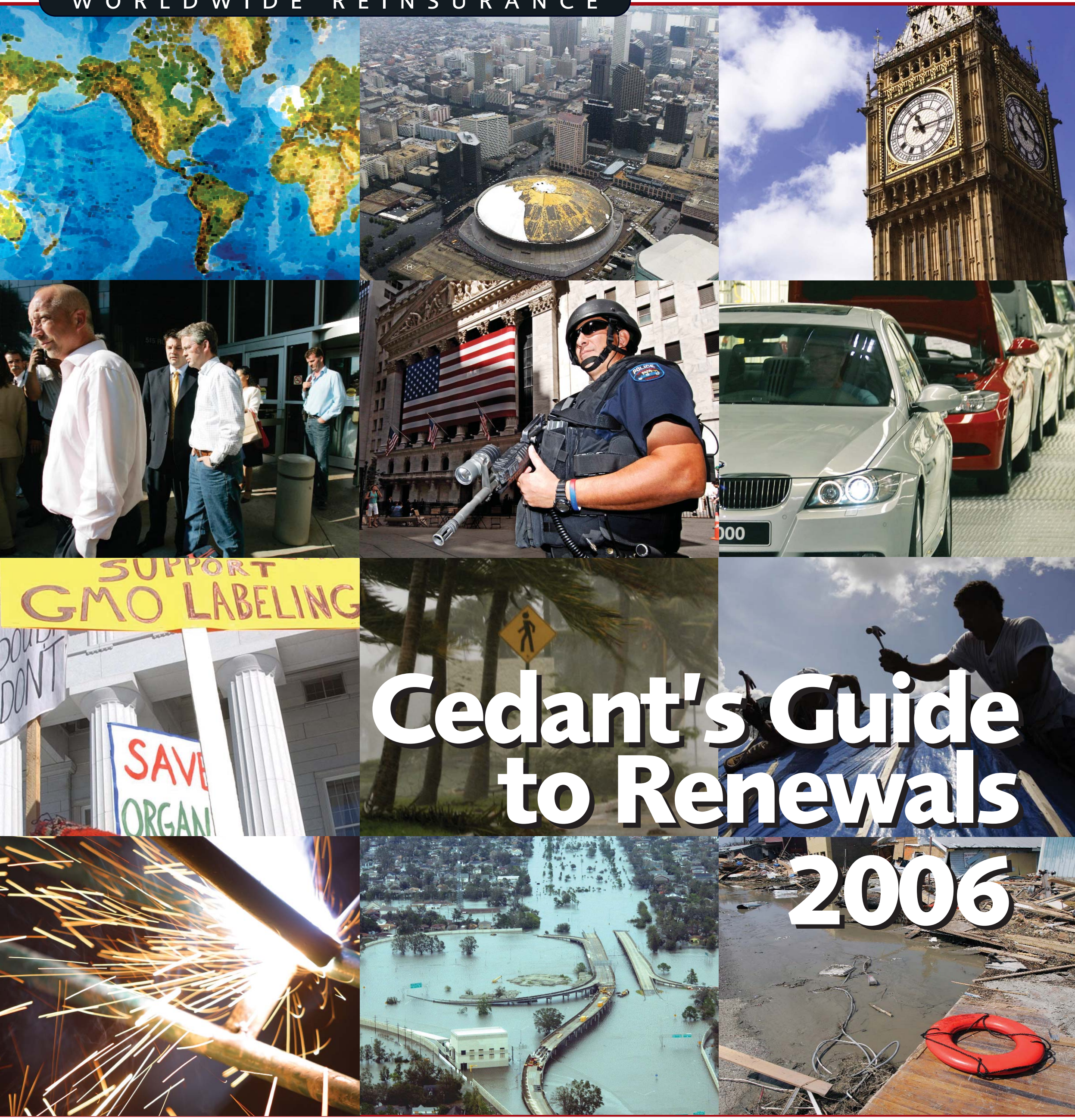
THE Review

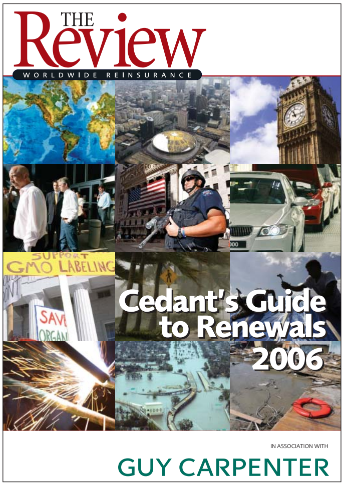
WORLDWIDE REINSURANCE



Cedant's Guide to Renewals 2006

IN ASSOCIATION WITH

GUY CARPENTER



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No room for complacency

What a difference a year makes. Discussions in the lead up to last year's renewals season were inevitably dominated by the impact of Hurricane Katrina. Twelve months on its legacy will still have a strong influence on upcoming meetings – namely in the guise of reinsurers continuing to talk up the market, particularly in Europe. However, the relatively benign 2006 cyclonic season has, so far, ensured that this year's Baden-Baden meeting will not necessarily be dominated by catastrophe talk, barring a major windstorm occurring at the time of course.

Even if the industry is unfortunate enough to witness some severe hurricane activity before 2006 is out, there is an undeniable feeling that it is in a much better position to weather the storms because of the lessons learned from last year's experiences. As the opening chapter of this year's *Cedant's Guide to Renewals* reveals, the search for new capital brought in more than $20bn to the market after Katrina. It is this impressive figure, coupled with many reinsurers reducing their catastrophe exposures, and generally sound balance sheets and earnings momentum throughout 2006 that has seen the reinsurance industry maintain its stable outlook this year. This despite the challenging conditions of the past 12 months, and indeed, the preceding year.

The influx of new capital and new investment vehicles also brings challenges of their own.

However, the influx of new capital and new investment vehicles also brings challenges of their own. According to the rating agencies, the ease with which new capital can now enter and exit the markets, including catastrophe bonds and swaps, is a major factor why the reinsurance industry will not see a change in its outlook to positive in the near future. There were many at Monte Carlo who speculated about the future of sidecar arrangements for example, particularly whether they could actually destabilise the hard cat market. As one CEO was heard to remark during the Rendez-Vous "I am not sure the terms that made sidecars so attractive are still there any more". Nevertheless, the mobile capital markets still represent an attractive proposition for those cedants struggling to secure traditional cover and there were warnings from some at Monte Carlo that if reinsurers did try and push up their prices too high for cat business cedants would continue to look elsewhere.

As is discussed in chapters three and four of this guide, the lack of cat losses to date in 2006 has resulted in a renewed focus on casualty business – both in Europe and in the US. The greater need to diversify one's portfolio, especially for those who have previously been predominately catastrophe players, means that pricing across global casualty lines should provide for some interesting renewals discussions. Besides Katrina there remains significant challenges across various pockets, namely the perennial one of motor excess of loss programmes and the increase in class action lawsuits in Europe.

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2006 has also provided a particularly challenging year for the rating agencies as they have re-evaluated their capital adequacy models and their catastrophe tests in order to more accurately reflect lessons learned from the past two years. The rating agencies are also putting greater emphasis on carriers' risk management procedures, only adding to the compliance pressures that re/insurers have to navigate in today's increasingly transparent world. 2006 may have been relatively quiet year so far, but is clear that re/insurers can not afford to rest on their laurels.

Many thanks to Guy Carpenter for enabling *The Review* to deliver, what is now regarded as, an essential renewals resource to our readers. The analysis provided over the following pages should ensure that both cedants and reinsurers are well prepared for the challenges ahead.

Greg Dobie
Editor
The Review – Worldwide Reinsurance