

Continental Europe: A Market at a Crossroads

Reinsurance decisions will not come easily to Continental European companies this renewal season, as market trends necessitate deep analysis and forward-looking reinsurance decisions. Michael Handler, Managing Director and Regional Manager for Guy Carpenter Continental Europe, elaborates.

As companies in Continental Europe prepare for 2005, many will be taking a harder-than-ever look into the future, considering the long-term security offered by reinsurance partners and the strategic implications of reinsurance choices. Several factors are driving the market to a more in-depth analysis of reinsurance decisions. Chief among them are the following:

Concerns about financial security

The reinsurance and insurance industries remain on fragile ground. Downgrades have far outpaced upgrades in recent years, and the spectre of uncertain reinsurance recoverables continues to cast a shadow over the industry. Meanwhile, catastrophic loss events are certain to occur at some point in the future. Recent trends indicate that the cost of natural catastrophe losses in Continental Europe continues upward.

Consequently, the financial security of reinsurers is a major issue, requiring thorough investigation. Financial strength

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ratings are good indicators of a market's ongoing viability; however, a comprehensive

assessment of a reinsurer's overall financial situation and claims-paying performance is usually now



standard operating procedure.

Notably, not only a reinsurer's financial ability to pay future claims is at issue, but its willingness. While willingness to pay claims has historically been more of a concern in the US, it is worth contemplating universally, with the balance sheets of many reinsurers under increased pressure.

In this environment, Guy Carpenter is increasingly called upon to provide clients with a broad perspective on a carrier's aggregated claims performance, which we do by drawing on our experience handling claims for the world's largest insurance organisations. This perspective helps clients assess a carrier's claims performance, beyond what financial statements and ratings reveal.

With this information in-hand, companies in Continental Europe, which have traditionally been highly relationship-driven, may face hard choices. It is up to each company to determine the degree of security with which they are comfortable – and whether those markets on which they have counted in the past are those they can and should trust for the future.

Questions of market discipline & commitment

While market conditions vary somewhat country to country,

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pricing in most lines, except for some specialty lines, appear to be stabilising. Conditions on liability lines will probably continue tightening. Some property reinsurance prices may reduce slightly, with conditions softening somewhat. How diligent will reinsurers be in their commitment to softening lines? How will reinsurers manage underwriting discipline as prices decrease, when this may mean forgoing revenue that probably can not be recouped with higher premiums charged in other lines, as it was in recent years past? The answers to these questions will be pivotal and relationships may be tested.

Greater transparency, emerging regulations

New corporate governance

responsibilities and rating agency scrutiny, coupled with emerging accounting regulations, notably Solvency II and Basel II, are already transforming the way some companies in Continental Europe consider reinsurance. Many multinationals are immersed in aligning operations with the new regulations; soon all companies in this market will be fully contemplating new capital allocations. Both traditional and alternative reinsurance solutions may play a significant role in helping companies address these new requirements and more disciplined capital allocations. Consequently, reinsurance purchases are likely to be viewed through a more strategic lens throughout the Continent as time goes by.

Against these major developments, Continental European companies are challenged in the months ahead to purchase quality reinsurance capacity at a reasonable price. Some will meet this challenge with present reinsurer relationships intact. Others will forge new bonds.

What is certain is that the modeling and analytical work supporting reinsurance decisions will reach unprecedented levels as companies exercise new levels of due diligence in reinsurance purchasing.

In an uncertain world, with transparency in high demand, planning is paramount to optimally position an enterprise for the future. Reinsurance is integral to this planning – as are trusted advisors to support companies in planning and executing prudent reinsurance strategies.

Guy Carpenter's business model aligns precisely with the due diligence and deep analytical, modeling and advisory services companies now require. We draw on the strength of our global Specialty Practices; InStrat's® quantitative skills and modeling capabilities; local account relationship managers; and specialists who counsel clients on emerging regulatory issues. We encourage the migration of best practices and strategies from around our global network to help clients in Continental Europe achieve the best possible security, maximise their reinsurance purchases and position their operations for success.