

THE Review

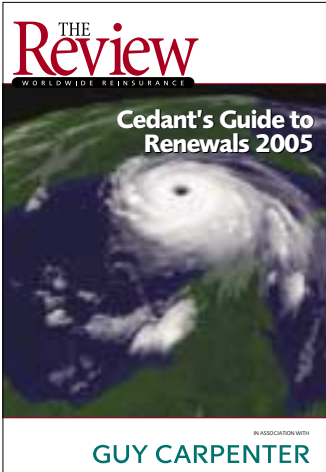
WORLDWIDE REINSURANCE



Cedant's Guide to Renewals 2005

IN ASSOCIATION WITH

GUY CARPENTER



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Katrina shows how much



Discussions in the lead up to this year's renewals season will inevitably be dominated by the effects of Hurricane Katrina. Even two months after the worst ever insured loss, there remains a high level of uncertainty over exactly how this event will affect the market. Indeed, the final level of losses seems set to remain unclear until well after January 1. But that kind of uncertainty is no good to underwriters looking to assess risk for the end of the year.

Price spikes and the influx of new capital into the industry mostly in the form of new companies accompanied the previous two costliest losses – September 11 2001 and Hurricane Andrew –Bermuda was born and re-born after the events.

It appears that this will not happen this time. What is the reason? There are some who speculate that there is not the same sufficient expected returns this time round from premium increases to justify the influx of capital. A number of companies have announced capital-raising initiatives but there has not been anything like the same level of response this time around.

One of the reasons must surely be the extent to which these hurricane conditions are here to stay. Scientists seems to concur that the climatic conditions are part of a natural cycle that will ensure that the Gulf of Mexico will have hurricane seasons with above average activity for some years to come. If so, and events such as Katrina or four lesser, but still strong, hurricanes in one year are commonplace, what does it mean for assessing rates by frequency. What, indeed, does a one-in-50 year event mean anymore?

These are challenging times, not least because cedants that have not been affected by the hurricane will resent seeing their premiums increase. The argument has come from companies such as Munich Re that what we are seeing is the effects of anthropogenal climate change and that all regions of the world are more risky.

This is expected to lead to a re-writing of the rate card around the world as

Some companies argue that we are seeing the effects of anthropogenal climate change increasing overall risk

the market has changed

reinsurers point to an increased typhoon incidence in Japan, flooding in Switzerland as well as in Central and Eastern Europe and many other such perils and say that the game has changed; this is a new world of risk and cedants will have to pay the price.

But, it would seem, there is no great enthusiasm or even resignation on the part of cedants to swallow the kind of increases the market after either Andrew or 9/11. If capital providers can smell a hard market less hard than before then that bodes badly for reinsurers that need to replenish depleted capital stores.

In that light it is necessary to be able to stand back in a dispassionate way to look at individual risks and markets and what is influencing them. Many of the chapters in this year's guide are designed to assist cedants in getting the most up-to-date information about the state of the market.

One area that is highlighted is that of contract certainty. A breakfast briefing that *The Review* held in Monte Carlo in conjunction with RI3K brought some interesting evidence that it is cedants that are the sector of the market most resistant to the kind of changes necessary to bring contract certainty about. This attitude must change. Contract certainty will improve the image of the market, not only to the hard-to-impress regulators but also the end policyholders. Who knows, your annual and growing legal bills might just reduce as a result?

We are once again very grateful to Guy Carpenter for allowing us to bring this guide to this year's Baden-Baden attendees. We are sure that, as with last year, it will prove an indispensable tool for this year's renewals season.

Jason Groves
 Editor
The Review – Worldwide Reinsurance

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