Changes to the status quo

Discussions in the lead-up to last year's renewals season were inevitably dominated by the capital markets and their remarkable supply of capacity. It will be interesting to see whether 2007 goes down in the annals of history as the year in which the capital markets' participation in the reinsurance sector took a significant step forward or whether the industry preferred to adopt the 'better the devil you know' strategy.

Speaking just before the 2007 Monte Carlo Rendez-Vous, Guy Carpenter CEO David Spiller told *The Review* that "cedants' fervent wish is that the abundance of capital readily available to support traditional and non-traditional solutions persists in 2008".

Judging by the fact that many seasoned market commentators observed that there was a 'substantial increase' in the number of attendees present from the investment banking sector in Monte Carlo this time around, it appears they have little to worry about come renewals.

Make no mistake; the traditional reinsurance community has been disturbed by this increased presence. Judging by its recent comments, all of a sudden it appears that, to date, 2007 has not been the relatively benign catastrophe year that many had previously supposed.

Despite their combined losses not being a patch on 2004 and 2005 figures, the likes of European winter storm Kyrill, the UK floods and the New South Wales storm/flood events in Australia are now being cited as prime examples why nat cat covers should remain stable, at the very least. But while reinsurers are fighting to keep rates adequate in the softening market, will the increased capital markets competition upset the applecart? We consider this in the opening chapter of this year's *The Cedant's Guide to Renewals*, while the future development of the convergence of both markets, and the increase in issuance of cat bonds in particular, are examined in chapters four and five respectively.

As well as the new risk solutions offered by the capital markets, the continuing global credit crunch that has followed the sub-prime mortgage crisis in the US is currently occupying many re/insurers' thoughts, possibly due to a lack of real loss activity in the US.

Although the initial verdict appears to be that the impact on the re/insurance sector will be minimal, at the time of writing it appears that there will be a very real knock-on effect for the D&O market. We review this, and other significant challenges across the various casualty pockets in the US in chapter two, while the future prospects for the UK, Continental European and Asian casualty markets are examined in chapter three.

Challenges to the status quo aplenty then, and that is before we even consider the continuing spectre of regulatory pressure on the industry. Across Europe, full implementation of Solvency II may have been delayed until the end of 2012 but re/insurers need to make the most of the extra time they have been granted. In chapter six we explain how integrating an internal capital model into key enterprise business processes can turn this regulatory burden into a competitive advantage.

Will the increased capital markets competition upset the applecart?

But perhaps the biggest spectre hanging over the insurance industry as it looks ahead to the 2008 renewal season is the continuing uncertainty over the scope of the extension of the Terrorism Risk Insurance Act in the US and the over tense geo-political conditions that may contribute to the threat of a terrorist act. As we reveal in the final chapter of this guide it seems that insurers will have more coverage in 2008 than they have today.

Many thanks to Guy Carpenter for enabling *The Review* to once again 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