

Supply not demand

Tim Gardner reviews the issues that will be dominating global property market discussions during this year's Rendez-Vous



Insured losses from damage caused by Hurricane Dean have been minimal for reinsurers

If the central theme of global reinsurance markets in 2006 was increased demand, then the theme of 2007 is increased supply.

Following record catastrophe losses in 2004 and 2005, compounded by upward loss-cost revisions by modellers and rating agency pressure on required capital to support catastrophe risk, there was increased demand for catastrophe covers in 2006. This was particularly the case in peak zones like Florida.

The increased demand outstripped 'available' capital, which led to a severe crunch during summer renewals, especially for the southeast coast of the US. Guy Carpenter refers to it as 'available' capital because there was no

shortage of overall capital in the reinsurance industry. Rather, reinsurers were reacting to Hurricanes Katrina, Rita and Wilma in 2005, with strict limits on their capacity allocated to support peak zones.

RECORD YEARS

In 2007, 'available' capital increased, and the market imbalance was corrected. This reflected a less constrained view of North American coastal exposures, increased surplus of existing reinsurers and the injection of new capital to the industry, including catastrophe bonds, new entrants and sidecars. For instance, the catastrophe bond market witnessed a record level of issuance in 2006, with 20 transactions totaling \$4.69bn in risk capital transferred to the capital markets. This activity doubled the previous record of 10 transactions in 2005 and, in terms of risk capital, represented a 136% increase over the previous record total

of \$1.99bn in 2005.

The increased capital inflow to reinsurance markets was aided by a low level of catastrophes. Following the record years of 2004 and 2005, losses in 2006 appeared more normal at \$15.9bn. Indeed, when the final numbers are counted, 2006 is likely to go down as the most profitable year on record for the reinsurance industry. Looking to the future, the fortunes of insurers and reinsurers are tied to the vagaries of nature and, unfortunately, man (in the form of terrorist acts).

POSITIVE OUTLOOK

As the industry advances, so does our ability to assess and manage catastrophe risk. With a greater understanding of that risk, we have been able to attract capital from outside traditional industry sources. This bodes well for us, as we may better tackle new and evolving risks and potentially stem the tide of cycles that has made our industry volatile at times.



Tim Gardner is head of Guy Carpenter's global property specialty practice.

MARKET FOCUS

WORLD PROPERTY CAT REPORT RELEASED

In its annual study of the global property catastrophe reinsurance market Guy Carpenter reveals that globally, rates dropped by 6% in 2007, versus an increase of 32% in 2006.

According to the report, following the record years of 2004 and 2005, total insured/reinsured losses in 2006 reached \$15.9bn, down significantly from \$83bn in 2005. Concurrently, new capital has been entering the industry at a record rate. The cat bond market witnessed a record level of issuance in 2006, with 20 transactions totalling \$4.69bn.

"The theme of 2007 is increased supply," said Tim Gardner, global leader of Guy Carpenter's property specialty practice. "The demand for additional capital has been met by a distinct upward shift in cat bond issuance and the launch of new companies focused on the property cat business. Barring major disasters, we would expect to see further price declines at January 2008 renewals."

A copy of the full report, The World Catastrophe Reinsurance Market: New Capital Stabilizes Market, is available for download at www.guycarp.com

COMING UP TOMORROW

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