

News Release

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Baden-Baden Reinsurance Symposium Considers Whether the Market Has Turned

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Guy Carpenter & Company, LLC, the leading global risk and reinsurance specialist and a member of Marsh & McLennan Companies (NYSE: MMC), hosted “Has the Market Turned?,” the Reinsurance Symposium held in Baden-Baden on October 23. The event examined the various factors that are influencing reinsurance market conditions, providing a range of industry perspectives from the broker, buyer and seller to the analyst and capital markets.

The Symposium was moderated by Chris Klein, Head of Sales Operations (UK/EMEA) and Market Relationships at Guy Carpenter. Nick Frankland, CEO of European Operations at Guy Carpenter, provided the opening remarks and was followed by presentations from: Christopher Hitchings, Senior Vice President, Research at Keefe, Bruyette & Woods Ltd; Costas Miranthis, President & CEO of PartnerRe Ltd; Frank Majors, Managing Principal at Nephila Capital Ltd; and Clement Booth, Member of the Board of Management of Allianz SE, Global Insurance Lines & Anglo Markets. Wolfgang Gerstner, Lord Mayor of the City of Baden-Baden, welcomed attendees to the city.

In his opening remarks, Mr. Frankland presented an overview of what he considered to be the main challenges facing the reinsurance industry. He said, “These are difficult times for the market – something of a test of corporate nerve. Those that can demonstrate the most credible plans in these circumstances will be best rewarded by their reinsurers.”

Mr. Klein outlined the key developments presently influencing the potential direction of reinsurance pricing. He said, “Despite difficult economic conditions and competing pricing pressures, reinsurance capacity remains in good supply with the market unable to put down an anchor to stop drifting. While individual loss experience will be rated accordingly and revised models may have an impact in affected territories, we believe that with skilful negotiation and finesse, and in the absence of a major event, clearing prices on a risk-adjusted basis may be little changed for many at the January 2012 renewal.”

In his presentation, Mr. Hitchings explored the developments in the reinsurance market that have the potential to drive an upturn in the cycle. However, he noted, “The fixation with when the reinsurance cyclical upturn will arrive seems somewhat premature. Judging by all of the available pricing metrics, we do not appear to have had the downturn yet.”

In his assessment of the current balance between supply and demand in the reinsurance market, Mr. Miranthis said, “In the forthcoming renewal, we are likely to witness some very complex dynamics. While there will be demand, and there will be capital to meet that demand, I am not sure whether all of that capital will be put to work. The psychological approach to risk has changed and the number of alternatives to reinsurance that are available is something that we have not seen in the past.”

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Mr. Majors questioned the relative value of focusing solely on rate movements, adding that there are more pertinent issues that need to be considered. He said, "Predicting price movement ignores more important questions. First, irrespective of what is happening, is the return we expect to generate sufficient for our capital base? Currently, we think the answer is 'yes', but each organisation will have to answer that question based on its business model. Secondly, is the demand for risk financing being met efficiently? We don't think so. The reinsurance industry handles many risks very well, but we see much unfulfilled demand, suggesting the industry's basic business model is not financing peak risks very effectively."

Highlighting the major events that have impacted the reinsurance sector in 2011, Mr. Booth discussed the potential for a hardening of the market in 2012 and considered whether the current soft market environment is sustainable. Given current market dynamics, he said, "Continuity of secure coverage can only be assured with adequate risk pricing."

TAGS/KEYWORDS

Guy Carpenter, Baden, symposium, Klein, Frankland, Hitchings, Miranthis, Majors, Booth, reinsurance, renewal

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