GUY CARPENTER

News Release

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GUY CARPENTER ADDRESSES CHANGING NATURE OF RISK

London, September 10, 2020 – The (re)insurance industry is navigating one of the most significant periods of change in recent times which is altering perceptions of risk across the sector. The impact of COVID-19, the first globally systemic insurance loss, has put pressure on a marketplace already addressing challenges on multiple fronts. During this period of transformational change, reinsurance continues to be a highly effective tool to enable insurers to respond. This is according to a panel of speakers at the media briefing ‘The Changing Nature of Risk’ hosted today by Guy Carpenter & Company, LLC, a leading global risk and reinsurance specialist and a business of Marsh & McLennan Companies (NYSE: MMC).

The briefing was led by David Priebe, Chairman of Guy Carpenter, who was joined by Lara Mowery, Global Head of Distribution, Christopher Ross, Managing Director, Erica Davis, Managing Director and North America Cyber Center of Excellence Leader, Jessica Turner, PhD, Senior Vice President, Catastrophe Advisory, and Shiv Kumar, President, GC Securities*.

In his opening address, Mr. Priebe highlighted the myriad of market developments providing the backdrop to the January 1, 2021 renewals, ranging from COVID-19-related losses and rate movements at the mid-year renewals, through to tightening capacity across certain insurance classes and loss developments on long-tail lines of business.

“Fortunately, the sector has a strong track record of responding to periods of change,” he said. “Putting capital to work to create new coverages and meet evolving demands will be crucial in securing the reinsurance sector’s long-term relevance. It is important to remember that transformative events have led to product innovation many times before. We expect a similar playbook this time round. Reinsurance will be crucial in supporting insurers in this endeavor, by supporting capital positions and reducing volatility.”

Focusing on developments in the property reinsurance sector, Ms. Mowery highlighted the fact that current levels of economic uncertainty were generating, “a heightened cautiousness to deploy capacity unless pricing and other terms met specific thresholds”.

“As we look ahead to the January 1, 2021 renewals,” she added, “there is an expectation that renewals will be more complicated and that negotiations will take longer than the norm. One aspect of this that contributes to the duration of the process is the increased differentiation we have seen in renewal outcomes. We as an industry have continued to become more sophisticated in this respect.”

Addressing market dynamics in the casualty sector, Mr. Ross stated that heightened claims frequency and severity in recent years had resulted in corrective actions by carriers, including “price increases, limit reductions, attachment point changes and underwriting appetite shifts, all meant to re-position portfolios going forward”.

In the context of current market uncertainty, he added: “We expect pricing to continue to increase and with limit and attachment point strategies currently in place, further hardening in the overall casualty market will take place. To adjust to these conditions, finding the proper capital management strategy is critical. The market will need to find the balance between allocating capital to potential past losses versus deploying it now to support business growth in a hard market."

In the following presentation, Ms. Davis examined the phenomenal increase in intangible asset values in recent years, adding that given the heightened market complexity created by COVID-19, "the new risk landscape reinforces the importance of reassessing the value of this changing asset base".

However, focusing on the largest intangible risk, cyber, she said: "Despite historical profitability and forecasts of hypersonic product growth, the industry's cyber growth trajectory has tapered off over the last two years and is evidencing some growing pains. This flattening market trend is directly at odds with a heightened threat environment and the increased valuation of intangible assets. And it is creating a widening protection gap for businesses that will only expand."

Addressing the increasing impact of climate change and the expanding scope of related pressures impacting the insurance industry, Ms. Turner urged carriers to apply greater climate-specific weighting to portfolio considerations.

"We can no longer be backward looking when considering cat risk. There will need to be greater consideration around risk selection and aggregation, for example, in regions where wildfire is becoming an increasingly prominent peril. Pricing of policies should also be examined closely. An individual firm's risk appetite and exposure will dictate decisions around tolerance for volatility and capital requirements in a changing climate."

In the final presentation, Mr. Kumar considered capital market developments. He noted strong momentum in the catastrophe bond market with a growing number of reinsurers accessing it as a substitute for retrocessional capacity. While recognizing that alternative capital had experienced a 2.7 percent decline from year-end 2019, he stressed that reinsurance market capital remained resilient.

"We have seen capital raises in the insurance industry totaling almost $28 billion in the first eight months of the year," he said. "A meaningful part of these has come in the form of equity. This capital has come into various subsectors ranging from P&C and life to mortgage and title insurance."

He added: "We believe strongly that alternative capital will continue to grow over the long term. The reinsurance sector provides diversification and yield, and both are in great demand by pension and sovereign wealth funds. We are already seeing the formation of new funds by highly credible management teams."

TAGS/KEYWORDS
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Guy Carpenter & Company, LLC is a leading global risk and reinsurance specialist with more than 3,100 professionals in over 60 offices around the world. Guy Carpenter delivers a powerful combination of broking expertise, trusted strategic advisory services and industry-leading analytics to help clients adapt to emerging opportunities and achieve profitable growth. Guy Carpenter is a business of Marsh & McLennan (NYSE: MMC), the world's leading professional services firm in the areas of risk, strategy and people. The company's 76,000 colleagues advise clients in over 130 countries. With annual revenue of $17 billion, Marsh & McLennan helps clients navigate an increasingly dynamic and complex environment through four market-leading businesses including Marsh, Mercer and Oliver Wyman. For more information, visit www.guycarp.com and follow Guy Carpenter on LinkedIn and Twitter @GuyCarpenter.