

Reinsurance Costs - 2009 Insurance News



Reinsurance Cost Pressures – 2009

November 2008

Introduction

Reinsurance, and in particular treaty reinsurance is a fundamental part of any insurers' internal risk management plan.

The protection of the company balance sheet and capital base from extremes in loss frequency and severity or aggregations is of critical importance to the viability of an insurer.

Reinsurance is a global business heavily intertwined with the trade, commerce and finance industries of most, if not every nation on earth.

Events of significance to, or which impact on the reinsurance industry will affect all insurers to some degree.

Recent events may combine to have a sizeable impact on 2009 reinsurance renewals.

Disclaimer

This newsletter is for information purposes only and is not legal advice.

Hurricanes Gustav & Ike

They did not have the same news profile as that attributed to Katrina and the subsequent flooding of New Orleans but, the most recent loss estimates suggest that Gustav & Ike will contribute significant claims to reinsurers. In particular, the oblique angle at which Gustav approached the Gulf Coast as it produced a greater than anticipated impact on the rather dense concentration of oil and gas facilities in that region.

Recently reported figures suggest a combined industry loss from Gustav and Ike in the US\$20 - \$25bn range (A\$28 – 35bn). Losses of this magnitude will put pressure on many insurer and reinsurer margins.

Global Credit Crisis

The sub-prime mortgage problem in America has put the international banking industry in the spotlight. Some have failed and many forced to merge or seek funds from the State. The supply of credit has evaporated or become prohibitively expensive as inter-bank lending ground to a halt. In addition the dive in world share prices will bring ratings, valuation and capital adequacy pressures to many other companies across all market sectors.

Of more immediate concern to the Insurance Industry is the potential for capital to disappear or be re-directed away from reinsurance. In addition, poor investment decisions may have a profound impact on otherwise secure businesses and downgrades may result where ratings agencies are obliged to delve more fully into any affected company.

Impact on Reinsurance

Reinsurance cost pressures will develop due to:

- Reinsurer difficulties in sourcing new capital and/or an increased cost of capital.
- Capital Market demands for increased returns.
- Capacity restrictions.
- A flight to quality (of security) – cedants to reinsurers and vice versa.
- Reduced return on investments.
- Write-downs in value of investments.

Recent comment from reinsurers suggests an upward pressure on treaty pricing for the December 2008 renewal season with flow on effects to insurance contracts during 2009.

**The Team at Vero
Marine and Aviation**