The European Reinsurance Market: Analysis of the Last Renewal Campaign

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The 1998/1999 renewal season was characterized by a further deterioration both of direct insurance and reinsurance conditions.

Changeovers of programs from a proportional structure to a non-proportional one have largely increased, resulting in lower income for a higher vertical exposure.

Underwriters have also had to cope with the Y2K problem, which is particularly acute regarding liability, industrial fire risks, marine and all-risks business.

Adding to the depressed situation in rates, the excess of loss covers were proposed with pluri-annual periods (especially in France, Italy, The Netherlands and Germany).

Recent mergers and acquisitions which have affected the insurance market are also amongst the reasons for the late presentation of renewal information. For the same reason, mega-companies are now in a stronger position to pervade the market with very competitive conditions.

Related to the Millenium Problem most of the European companies have decided to follow the millenium rules set by their respective insurance associations, this includes Germany, Austria and Switzerland, where cedants are more flexible and do not impose strict conditions, but nevertheless seem to control the situation by analyzing their portfolio and potential exposure, followed by suggestions and recommendations aimed at their main clients.

Some French companies, who, at renewal, were willing to apply the APSAD (Assemblée Pleiniére des Société d'Assurances Dommages) conditions, decided at a later stage to step back, becoming slightly more flexible by allowing restricted millenium coverage. Cover is granted providing there is material damage resulting from a date error, excluding pure financial losses. This is the case for machinery breakdown for example.

Another particularity can be seen in the Dutch market concerning business in force (for new business an exclusion has been introduced), this is to introduce a due diligence clause with the result that all-risks policies have been brought back to named perils in respect of the Y2K issue. In this market, and in addition to the above mentioned technicality, a safety net (Millenium Herverzekeringsmaatschappij) has been set up with the aim of capping and pooling certain types of millenium related losses between the participants. However, foreign companies and the broker dominated Beurs market were reluctant to adopt the attitude of the national association of insurers (VVV) .

The above comments are applicable to commercial and industrial property risks, as for simple risks - the exposure being considered minimal - no millenium exclusion is foreseen.

For other more specific types of business like marine and energy, no Y2K exclusions have been set up, but the companies are imposing clauses on their clients to ensure that their own and third party electronic equipment are compliant, by receiving written confirmation of this. Should manufacturers not be able to give such confirmation, the insured must ensure that all systems are properly tested. Those who do not comply with the above measures must expect that insurers will refuse to cover losses arising from non-compliance.

For aviation business, all markets have agreed to apply the AVN2000 exclusion clause, although with the possibility of a cover write-back should full compliance be confirmed.

To complete the picture, in some countries like Scandinavia, Israel, France and Germany, in order to avoid cover debates, some companies have decided to renew their 1999 reinsurance contracts for two or more years.

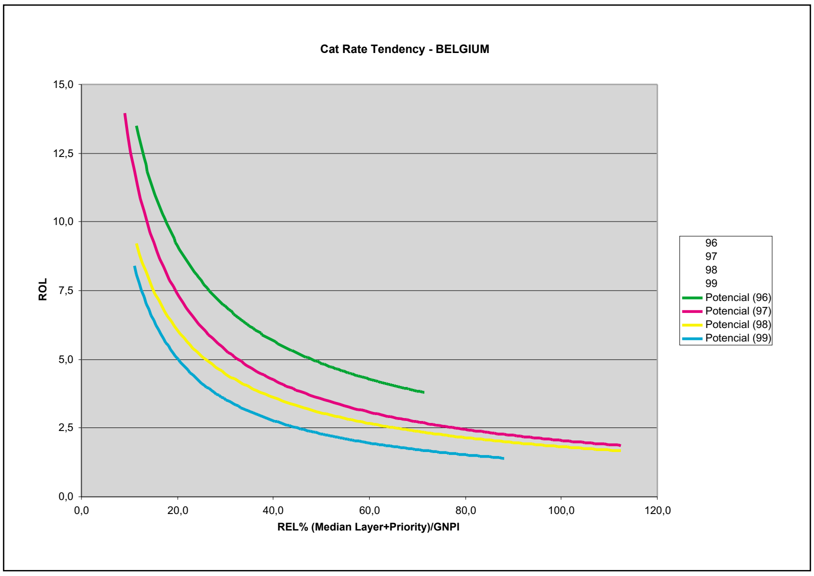
Regarding the problem of Reduction in Rates it is calculated that pricing levels related to non proportional treaty business have dropped by some 20% for CAT XL business, and by 10% for risk XL business.

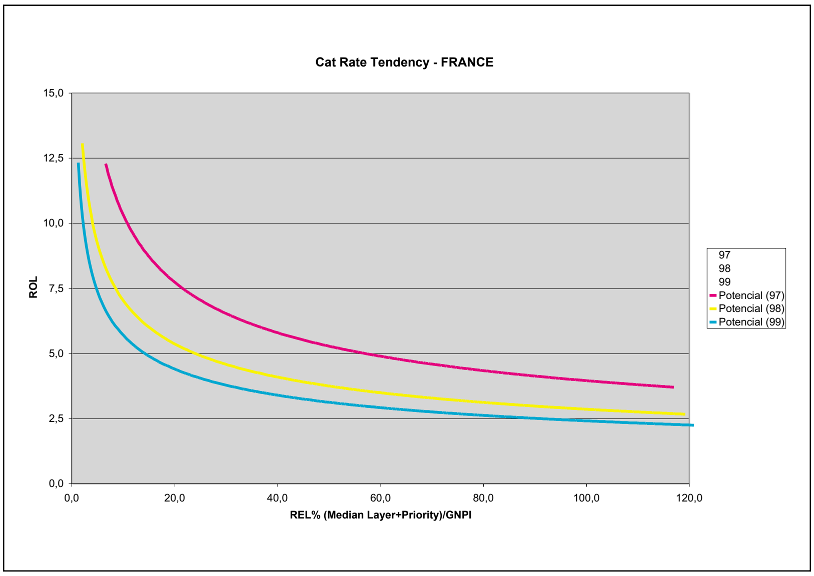
This deterioration, which has affected the market for more than 4 years now, goes hand in hand with a substantial increase in the programs' monetary exposure and/or with a wider range of cover.

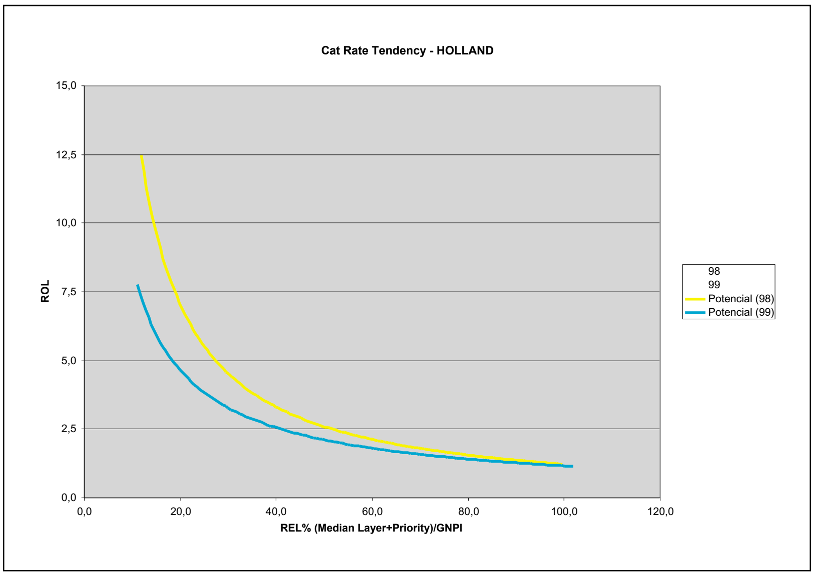
With respect to CAT covers, a chart is included which illustrates this feature (parallel between the Rate on Line and the layer's median).

In risk XL business, current trends seem to indicate that prices remain unchanged for programs affected by losses, and are systematically reduced for loss-free programs.

For facultative business (which in fact reflects the situation of the original conditions),







rates were reduced by an average of about 20%.

For good property risks this decrease has reached 35-40%. This is added to another wave of decreases affecting the previous renewal campaign by an average of 15/20%.

Another significant factor was the increase of property covers from limited perils to all risks ones. This was more felt in Germany for example, and to some extend in France. It has to be noted that in most cases these cover increases were not accompanied by rate increases, but have instead seen even further rate reductions.

Facultative placements being in general quite costly, the amount of semi or fully automatic covers has increased in order to reduce the handling costs. This aspect has been seen in countries like Germany and Holland for example.

Likely Future Trends

In the present context, where size seems to be the leitmotiv of the vast majority of insurance and reinsurance companies, the present level of competition is not expected to decrease in the near future, and it is only after further negative results for the market that we can expect a turnaround.

For the same reasons, mergers and acquisitions in industries are expected to continue, leading to a smaller number of bigger players.

Ceding companies will continue to increase their retentions, and a major increase in retention is still to be expected from well capitalized markets where the retention ratio is low, for example Germany where the importance of motor QS treaties will continue to drop. ■