Calmer seas ahead? The 2015 Monte Carlo agenda

The 10th annual Pre-Monte Carlo Executive Briefing, hosted by *The Insurance Insider* on 9 September, saw hundreds of industry professionals gather together to gain an insight into the key issues affecting the global (re)insurance market.

Delegates may have been braced for more doom and gloom – and while speakers admitted times were still tough, some comfort perhaps could be found in predictions that market conditions are beginning to stabilise.

Paddy Jago, global chairman of Willis Re, opened proceedings with insights from the broker's latest research paper, which found that levels of reinsurance capital had started to plateau after years of growth.

Dedicated global reinsurance capital has remained at $425bn, the record-breaking amount first reached at the end of 2014, according to the report's findings. This included $65bn of insurance-linked securities capital.

"Now, by no means are we saying this is the end of the soft market, and perhaps not even the beginning of the end, but there seems to be a softening in the softening, which suggests that the outlook for 2016 might not be quite as bleak as may have been inferred from January's and April's renewals," Jago said.

While market conditions may start to slowly improve, unfortunately the same cannot be said for the financials of global reinsurers. Jago warned that reinsurers had "entered a new reality" for returns on equity (RoEs), with diminishing returns likely to continue for the foreseeable future.

The companies covered in Willis' reinsurance market report recorded a seemingly healthy 12.8 percent aggregate RoE at the middle of last year, and an RoE of 11.1 percent at the six-month point of 2015.

However, these figures have been flattered by the low level of catastrophe events and continuing reserve releases.

With a more typical cat level, on an accident-year basis, returns would fall to just 5.1 percent, Willis Re said.

"From our perspective, half-year results certainly heighten concerns around the sustainability of reserve releases, in addition to the challenge of profitable deployment of excess capital," said Jago.

Other speakers at the event said they were seeing a subtle change in the market, with hints of a pricing floor being established.

James Few, Amlin's global managing director of reinsurance, said the model-driven environment – particularly in the property cat space – has led to "rate

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Paddy Jago: 2016 outlook is less bleak

Amlin's James Few: models will hold up rates

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reduction, after rate reduction, after rate reduction".

This reliance on modelling could create a pricing floor, he said, adding he believed the industry was now approaching that level.

"The attractive nature of property cat was that it had higher returns relative to other investment classes such as corporate debt," Few said. "[But] the gap between those two investment options has become less and less, and I think we are approaching a natural floor."

JLT Re's global head of analytics, **David Flandro**, also told delegates that a cycle change was in the air.

There was a "fragile change" in the industry this year, with capital now entering the market more slowly than it has since 2013, he said. Investor behaviour has now adjusted to the lower returns the sector can offer.

"It looks like we're starting to reach an inflection point in terms of capital inflows, which is the first time we've seen anything like this in about three years," said Flandro.

The market could be approaching a trough in terms of pricing, with the 1 June renewals showing a slowing in the pace of rate reductions as some cedants bought more limit, he added. "People are getting jittery."

However, Flandro noted that underwriting behaviour had been irrational in the past.

"I don't know if rates will shoot up, but clearly 2015 is a very different story in terms of margin and in terms of cost. The underwriters are noticing that and the buyers are noticing that," he said.

In this new market dynamic, scale will be crucial.

Liberty Mutual's director of global reinsurance strategy, **James Slaughter**, predicted that the top tier of global reinsurers could capture as much as 75 percent of the market's premium in the future, as consolidation becomes more intense.

At year-end 2013, 47 percent of global premium was concentrated among the industry's top nine carriers. But in the "not too distant future" a group of around 15 of the largest players could dominate 75 percent of the market, Slaughter said, as today's middle-tier players consolidate to gain scale and relevance while the third tier disappears.

Slaughter said he saw a role for insurance brokers in the future but questioned whether reinsurance brokers would survive.

"The days of owning relationships are numbered," he said. "Sellers and buyers are much more interconnected than ever before."

His comments stood in contrast to the stance taken by TigerRisk CEO **Rod Fox**, who earlier in the session claimed this point in the market was the "single greatest opportunity I have seen in my whole career".

The traditional distribution model will evolve, and the segmented nature of the broking community will break down – creating larger companies with multiple capabilities, he said.

"You had better be huge or you better be nimble in the distribution game," he added. "I think as time goes on you're going to see six to 10 major interdependent models, where they are combining retail, wholesale, some form of MGA, and you then are going to have specialised distribution around that."

The future will belong to those distributors that are able to bring capital to risk efficiently and innovatively, he added.

David Flandro: cycle change in the air

James Slaughter: top-tier reinsurers will forge ahead

Rod Fox: brokers need to be nimble