LA CHRONIQUE EUROPEENNE
PAR ADRIAN LADBURY, BIE

AMRAE chronicle 3 – September 2009

The first half of September was a very busy time for the insurance market and insurance buyers with major meetings in Monte Carlo, Frankfurt and Munich. Adrian Ladbury, International Editor of Business Insurance reports.

The first half of September was a very active time for European risk and insurance managers as major meetings took place that will determine the future direction of the insurance market and strategic response of the buying community.

The reinsurance market held its annual gathering in Monte Carlo where the potential direction of rates, terms and conditions in the year-end renewals are first discussed seriously with brokers and customers.

This is an important meeting for corporate insurance buyers the world over because the outcome of these initial talks will have a significant impact on the cost of insurance next year for all buyers as the top end reinsurance prices and terms are fixed and then passed on.

Just before the Rendez-Vous de Septembre kicked off CEIOPS, the committee with responsibility for creating Solvency II – Europe's planned new insurance capital adequacy regime, hosted a meeting in Frankfurt with key representatives of the European insurance buying community.

The Federation of European Risk Management Associations (FERMA), the European Captive Insurance & Reinsurance Buyers' Association (ECIROA), the Maltese Financial Services Commission and the Dublin Insurance Management Association were given the opportunity to state the case for the buyers.

They took the chance to voice concerns about key issues such as proportional treatment for captives, the potential loss of capacity and increase in rates if higher capital charges hit smaller insurers and mutuals.

Then the German insurance buying community gathered in Munich for the annual meeting of the Deutscher Versicherungs-Schutzverband (DVS) to discuss hot issues that are top of their agendas.

Insurer security, the value of credit ratings, lessons from the financial crisis, the ability of insurers to meet demands for emerging risks, the failings of the credit insurance market and potential improvements in service in areas such as global programs were all discussed in another lively gathering in Bavaria.

And, the FERMA board met the day before the DVS meeting opened in Munich in its last gathering before the federation's Forum in Prague in early October.

The good news is that numbers registered for the Forum are in line with the last meeting two years ago in Geneva, despite the economic downturn. Also, Peter den Dekker, the energetic new president of the Federation, used the meeting to commence work with the committee on some exciting reforms and ventures that should see the federation rise to a new level of professionalism and represent the insurance buyer community more effectively.

The news for insurance buyers from Monte Carlo was good (particularly as I successfully completed the first and very terrifying leg of a team effort in the Monaca Iron Man – 1.9 km in a jelly fish infested sea for prostate cancer charity).

The reinsurers did their best to talk the market up. The pointed out that capital remains scarce and if a big catastrophe hits capacity will be under pressure. They are proud that they have not been hit hard by the credit crisis as most of them cleaned up the asset side of their balance sheets after the shock of the financial downturn in 2002.

But margins are still under pressure as investment returns are poor and premium volumes weakening as insurers need to manage their reinsurance budgets tightly. For these reasons they said that insurers should not expect another easy renewal.

Insurance buyers, brokers and the credit and equity analysts see it differently, however, and it seems clear that ceding insurers can expect a flat renewal at worst, so long as a big catastrophe does not mess it all up between now and year-end.

The capital markets are recovering and fresh capital is finding its way to the reinsurance market in search of returns in the form of some new companies, sidecars and catastrophe bonds and ILWs.

Catastrophe losses have been light to date and combined ratios are holding up. The largely de-risked balance sheets mean that while it may prove increasingly difficult for the reinsurers to post returns on equity over 10-15%, they should not find themselves in hot water, even if the wind blows hard.

"Absent another major shock, all signs point to a flat renewal. If there is not market-changing event, reinsurance pricing will be based on available capital," said Richard Booth, vice chairman of broker Guy Carpenter & Co, summing up the feeling at the meeting in the Monaco sunshine.

Detail was scarce on the CEIOPS meeting but Guenter Droese, global head of insurance at Deutsche Bank and founding chairman of ECIROA, said during the DVS meeting that the insurance buyer community was given a fair chance to state its case and took the chance.

The Association of British Insurers sent a letter to CEIOPS just before the meeting in which it warned that, under its current format, the planned new capital rules would cost the British insurance industry an extra £50 billion was mysteriously leaked to the British press.

The German insurance association the GDV apparently sent a similar letter and this gave Mr. Droese, Mr. Den Dekker and their colleagues the chance to stress the importance of not treating the insurance market in the same way as the bankers.

The failure of banking regulation and desire from politicians the world over to establish their place in history by making sure it does not happen again with a far tougher set of capital adequacy and governance rules means that it is clear that the insurance and insurance buying community has a tough job on its hands.

The insurance and reinsurance market has performed very well through the crisis but the much discussed problems of AIG and to a lesser extent XL, will mean that CEIOPS will be under big pressure to make sure Solvency II is as tough as it can be.

As stated in previous AMRAE newsletters, it is becoming increasingly critical for the insurance buying community to back its representatives in the national associations, FERMA and groups like ECIROA to make sure that CEIOPS hears the voice of the buyer and does not penalize the insurance industry too hard for the failings of the banking market.

Solvency II was discussed in detail during the DVS conference in Munich but the main issue of concern was security.

Stefan Sigulla, president of the DVS and chief executive officer of insurance at Siemens, said that the financial crisis had underlined how important it was for risk and insurance managers to carry out serious due diligence on insurers.

Mr. Sigulla said that traditionally risk managers had focused on achieving the right terms and conditions and not really worried about security. Now that attitude is not good enough and insurance buyers need to look more closely at insurance company results, where they are located and the like, he said.

A panel discussion on security chaired by Jurand Honisch, senior vice president for corporate risk management and insurance at Bertelsmann A.G. the following day concluded that insurance buyers had become too complacent and relied too heavily on the analysis of credit rating agencies.

It was even suggested that one solution for the problem could be the creation of a state-backed credit ratings service to help insurance managers assess the strength of their core insurance carriers.

There is clearly a need for more diverse and better counterparty analysis from insurance buyers and blind reliance on credit rating agencies and brokers is not the full answer.

This state-backed idea does not, however, seem like a workable solution to this humble journalist but it is a good opening point for the discussion that needs to be investigated.

Watch out for further thoughts on this in future articles and prepare to be questioned about this at the AMRAE meeting in Deauville!

This will be one of the hot issues that the board of FERMA will need to consider and it will also be investigated during the forum in Prague next month.

The timing of this meeting could not be better and any AMRAE members who have not yet committed to attending should do so promptly.

Myself and Herbert Fromme of FT Deutschland are hosting the two key sessions during the forum where we get the chance to place top insurer and broker executives and risk managers "on the grill".

Herbert and I will certainly take the opportunity to ask some awkward and direct questions about some of the pressing matters mentioned above and not let the panelists leave the podium until they are answered.

The issue of security and role of the credit rating agencies, buyer demands for improved service from insurers on claims and product development for emerging risks and the problem of broker payment as contingent commissions seem to be making a comeback in the United States will all be on the agenda.

There will be plenty of time set aside for questions from the floor – so if you would like some straight talking from the leaders of AIG, XL, Allianz, Aon and others please do come along armed with your questions.

If you cannot make it but have any ideas about what should be discussed please email me direct and I will make sure that they are tackled – aladbury@businessinsurance.com.

I look forward to seeing you in Prague.

Adrian Ladbury
International Editor
Business Insurance

*** Following the merger of Business Insurance Europe into Business Insurance we are keen to ensure that Europe's risk managers receive the newspaper. If you are a risk manager and would like to receive a free copy of BI please contact me at the above email address.**