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FINANCIAL INSTITUTIONS
MARKET UPDATE 2018

With approximately USD130Bn of catastrophe losses from Hurricanes Harvey, Irma and Maria (HIM), 2017 may almost certainly prove to be the most expensive year on record for insurers.

Moreover, insurers' suffering has been compounded by a prolonged period of reduced profitability, particularly in specialty classes such as professional lines. Naturally, our thoughts turn to what this means for the insurance market going forward and whether we can expect a toughening of conditions to trickle down to the Financial Institutions market. A considerable driver to market conditions is the cost of reinsurance, and given many insurers renew these contracts on the first of January, we have an update on how these negotiations have transpired.

In the build-up to the end of the year, some observers were predicting a very difficult reinsurance renewal season with premium increases being enforced across the board. Historically, this view had some merit as in 2001 a similar combination of heavy losses and a reducing premium pool manifested itself as a dramatic hardening across all classes of insurance. This year there were also concerns that the alternative capital or ILS (Insurance Linked Securities) market would exit or increase in cost directly if it was heavily exposed to HIM. Pleasingly, this conjecture did not manifest itself, and instead we have only seen modest reinsurance price increases for insurers who have not had losses.

The extent of surplus capacity in today's market, which has seen it transition away from a cyclical market to one that's able to bear heavy losses easily, and the ILS market comfortably taking the strain and operating as a competitive foil have both prevented a global hard market and have reduced market volatility.

Turning to Financial Institutions specifically, given their insurance results do not correlate with natural catastrophes we do not expect 2018 conditions to show blanket increases in premium. There is, however, an increasing groundswell of opinion amongst insurers that premium rates have reached a low point and a sentiment that they need to at least hold flat over the year. We believe that in some instances this will be the outcome, but would point out that market dynamics, which always trump sentiment in that for risks that are well perceived, where the limits of liability are manageable and where the broker is able to effectively generate competition between insurers (and we believe markets will be still be prepared to compete for business in 2018) that premium discounts will still be achievable.

In addition we also point to policy wordings which, surprisingly, given their current drafting are assured friendly, do not seem to have attracted nearly as much attention from insurers. We expect these policy wordings to hold firm as any insurer actively trying to reduce exposure by reducing coverage will be subject to competition from rival insurers prepared to offer the existing coverage.

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WOULD YOU LIKE TO TALK?:

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