Preserving important relationships

Rates will soften in the upcoming renewals but some pragmatic cedants prefer to preserve their long-term relationships with reinsurers, Adam Manus of Holborn tells *PCI Today.*

Rates will fall again in the upcoming renewals as cedants continue to enjoy an overabundance of capacity and reinsurers compete with alternative capital for market share. But many cedants also value long-standing relationships with reinsurers and choose not to seek the cheapest deal, instead preserving established partnerships.

That is how Adam Manus, president and chief brokerage officer at Holborn, characterises the landscape for the renewals as the market meets at PCI in Miami to continue negotiations on deals and test the water on pricing and terms and conditions.

Since the small correction that occurred in the January 1, 2018 renewals, rates have again been falling, Manus said. He expects rate decreases of 5 percent on average and as much as 10 percent on loss-free accounts for those willing to abandon existing reinsurer relationships—all this despite another two costly hurricanes hitting the mainland US during the current hurricane season.

“The market is still driven by an oversupply of capacity and that is ultimately driven by the insurance-linked securities (ILS) markets as they look to deploy pre-committed capital,” he said. “That said, much depends on the retro market and whether reinsurers’ overall cost of capital also continues to come down, driven by ILS money in that space, or whether the brakes are applied there.”

While the consensus is that ILS capacity responded well to the 2017 losses and is now seen as committed to the market for the long term as a result, questions have been raised over whether investors were overpromised in the run up to the last renewals when potential rate hikes were overhyped. In addition, many funds’ initial claims estimates from the 2017 losses have proved woefully inadequate.

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Being pragmatic

Manus admitted that some ILS investors may have “lost their sense of humour” especially as those claims estimates continue to rise, but this has had little impact on the overall dynamic in the market, which remains defined by overcapacity.

But, he said, many of Holborn’s clients are taking a reasonable approach when it comes to negotiations as they want to maintain long-standing relationships.

“The reality is that, if they were to shop around and use alternative capacity, they could further cut their reinsurance costs. However, many prefer to stick with these relationships instead of using capacity that could be short-term in its view. They are being realistic,” he said.

He added that this is also driven by the fact that many insurers have forged much closer relationships with their reinsurers in recent years and have a much more partnership-based approach.

“They have helped them solve problems and launch new products; these relationships are far deeper and less transactional than they once might have been.”

In terms of where clients are seeing growth—and thus seeking more coverage—Manus said the commercial cyber market is maturing quickly in the US, leading to more complex coverages being sought in this space, while flood risk represents an interesting opportunity for insurers.

“We are starting to see the private market play more in the flood space although I am not sure all reinsurers are comfortable taking on this risk in large amounts just yet. They still need to get comfortable with models that serve the sector,” he said.

In terms of other talking points at PCI, Manus noted that insurtech remains a hot topic as insurers and reinsurers alike attempt to make sense of what is available in the market and how they can use it to help their businesses. While some are actively investing and attempting to lead from the front, others are sitting back and waiting to see what pans out.

Consolidation will also be a big talking point, he said.

“It’s not just our industry—global mergers and acquisitions activity is booming. I do feel we are reaching a mature part of the cycle now where deal sizes and valuations are peaking.

“People will be discussing how this changes the landscape for the industry and what opportunities might be generated as a result.” ●

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