

Hurricane Matthew Won't Reverse Falling Rates for Reinsurance

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October 24, 2016 — 10:07 AM EDT

<http://www.bloomberg.com/news/articles/2016-10-24/hurricane-matthew-won-t-reverse-falling-rates-for-reinsurance>

Hurricane Matthew will have a limited impact on the years-long decline in rates for reinsurance, according to industry representatives, who predict primary insurers will push back against price increases at the start of 2017.

“I expect a strong likelihood for resistance to further price cuts,” Ludger Arnoldussen, a member of Munich Re’s management board, said at a conference in Baden Baden, Germany, on Monday. “It all doesn’t look very promising if you want to be a player in the reinsurance field.”

As 2016 draws to a close, some reinsurers are rejecting further price reductions in January, when many annual property and casualty contracts come up for renewal. Michael Pickel, Hannover Re’s management board member responsible for Germany, said the company won’t accept renewals at less than stable or slightly higher rates.

Rates have fallen for four straight years because of oversupply and a lower incidence of major natural disasters since Japan’s 2011 tsunami. That means buyers are under less pressure to increase coverage, while reinsurers are sitting on capital buffers big enough to warrant price concessions.

“Reinsurance capital is still very high and the claims bill from natural disasters is still below average,” said Jan-Oliver Thofern, head of AonBenfield, Aon Plc’s reinsurance brokerage in Germany. “Improvements in prices and conditions are a real possibility for primary insurers next year.”

Matthew may cost insurers and the reinsurers who help them backstop claims as much as \$8.8 billion, according to AIR Worldwide estimates of the storm that battered the U.S. East Coast this month after devastating parts of the Caribbean. Earlier worst-case estimates pushed the figure as high as \$50 billion.

Travelers Cos., the lone property insurer in the Dow Jones Industrial Average, said last week that Matthew will probably cost the company between \$75 million and \$150 million.

“For 2017 a good client without a significantly increased exposures can probably expect to gain some sort of benefit from his reinsurer,” Nick Frankland, European head of Guy Carpenter, a unit of insurance broker Marsh & McLennan Cos., said in an interview in Baden-Baden on Sunday. “That can either mean more coverage at the same rate or modest price reduction.”