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REINSURANCE RATE DECLINE CONTINUES AT JAN. 1 RENEWALS

By Sarah Veysey

Reinsurance rates continued to fall at this year's Jan. 1, renewal, and further rate decreases are likely at the upcoming April 1 renewal, according to reports by reinsurance brokerages.

And a recent spate of merger and acquisition activity in the reinsurance sector likely will continue this year, they said.

Willis Re, the reinsurance brokerage arm of London-based Willis Group Holdings P.L.C., now Willis Towers Watson P.L.C., said in a report published Monday that reinsurance buyers achieved rate decreases in most classes of business at the recent reinsurance renewal.

Those decreases came, for the most part, against a backdrop of falling rates for primary insurance in many classes, the brokerage said.

“Despite signs of price stabilization in peak property catastrophe zones during the June/July 2015 renewals, the hopeful forecasts for a “softening in the softening” at the January 2016 renewal season have proved illusory in all but a few cases,” said John Cavanagh, global CEO of Willis Re, in the brokerage's 1st View report.

“Buyers have yet again looked to their reinsurer partners for support in terms of reduced prices and broader coverage to help manage their portfolios as original rates have fallen across most markets and classes,” he said.

But while reinsurance rates fell in many cases at the recent renewal, the pace of rate decreases was slower for U.S. property catastrophe excess-of-loss business, Willis Re said.

This was caused, in part, by the discipline exercised by insurance-linked securities markets, which have less flexibility in their business models to diversify into different lines of business than do traditional reinsurers, Willis Re said.

This led to greater rate discipline for U.S. property catastrophe excess-of-loss coverages, notably on higher layers, Willis Re said, while outside of the United States, where ILS penetration is less marked, rates fell at a faster pace.

Aon Benfield Group Ltd., the reinsurance brokerage arm of London-based Aon P.L.C., said that at the April 1 renewals, reinsurance buyers are likely to see improvements in pricing and terms and conditions similar to those seen at Jan. 1.

In its Reinsurance Market Outlook, published last week, Aon Benfield said that the recent spate of merger and acquisition activity seen in the reinsurance sector likely will continue.

Aon Benfield said the increase in M&A had been driven, in part, by the challenges in achieving organic growth and acquirers' desire to expand geographically or diversify into new business lines, or acquirers' need to achieve greater scale, among other factors.

The trend is likely to continue, Aon Benfield said.

It noted that there were various drivers for M&A in 2016, including the fact that insurer and reinsurer stock price performance and valuation multiples continue to be positive; continued pressure on organic profit; investors' acceptance of deals that offer strategic value; and increased interest from overseas, notably Asia, in the insurance and reinsurance markets driven in part by a desire to diversify.

“Asian-sourced capital is helping to drive valuations as are buyers looking to buy scale and market relevance as deals drive yet more deals,” Willis Re said in its report.

“The current high valuations are increasing the inherent risk in M&A transactions,” it added.

“This should give potential acquirers without very clear strategic targets and strong nerves even more reason to proceed carefully, but many remain confident,” Willis Re said.