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## Cooper Gay: Premiums Rise as Reinsurers Recover

February 26, 2009

Reinsurers have begun 2009 determined to wrest back the initiative from a period of softening rates and savagely declining investment returns. As a consequence, underwriters are increasingly being governed by the financiers dictating a return on capital and forcing through rate increases in many classes and areas.

This is according to Cooper Gay's 2009 Reinsurance Market Review, which also says the softening trend for reinsurance rates over recent years has reversed and the market has seen a marked tightening of terms and conditions.

"2008 was the third costliest year ever in terms of insured losses which, when combined with the turmoil on the world's financial markets and the growing cost of capital, has reversed the softening trend for reinsurance rates over recent years," the report said.

As forecast in Cooper Gay's Review last year, the economic downturn has also triggered an increase in property losses as businesses go into debt. Despite the Katrina induced determination for the world to no longer pay for American disasters, the international reinsurance community has again been stung by the U.S., the report said.

"This time, however, it's the man-made financial consequences of the sub-prime fallout and the Madoff scandal."

The Review notes that on its own, Madoff is expected to cost upwards of \$3 billion in third party claims, with more than 150 companies so far identified as victims and angry shareholders looking for somewhere to lay the blame and claim the compensation. However it is understood there is not likely to be much more than \$1 billion of coverage to claim from.

In the developing markets, China has also not been immune to the worldwide impact of the downturn and is finding that reinsurers are less willing to see reinsureds' losses transferred to their own balance sheets without the potential to make profit in the long term.

Seymour Matthews, chairman of the Reinsurance Division at Cooper Gay, commented: "2008 was a tumultuous year in every respect. As the third costliest year ever in terms of insured losses from natural catastrophes, man's propensity to try and out do mother nature was no less startling.

"The impact on the reinsurance industry has been profound and we are seeing a real determination from reinsurers to dictate terms to cedants. A desire for reinsurers to be the 'tail that wags the dog' is likely to be the dominant theme over the next few years and primary insurers may have to take notice when setting their own pricing," Matthews said.

The Japanese renewals in April and the mid-year US windstorm renewals will provide the next key barometers when it comes to pricing, Matthew noted. "I'd be surprised to see anything other than both paying more for their catastrophe coverage as underwriters increasingly play second fiddle to the financiers looking for a greater potential return on capital," he added.

The 2009 Reinsurance Market Review also concludes that despite an unfavorable financial climate for mergers and acquisitions, further consolidation in the London broker market is also expected in 2009 following last year's acquisition of Benfield by Aon and Cooper Gay's acquisition of Heath Lambert's wholesale divisions.

Source: Cooper Gay,  
[www.coopergay.com](http://www.coopergay.com)

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