

# Catastrophe risk: lessons learned



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## **As the global property catastrophe reinsurance market tries to recover from the first three quarters of 2011, can it sustain another event or series of events?**

Yes, I believe the market can sustain another large event or series of events, but not without adjustments occurring at the next renewal cycle. Right now, the market is at its tipping point relative to increasing rates, although the magnitude of any increase is subject to debate. Given the changes that are now impacting US wind models and the financial impact of recent cat events, if additional losses are encountered the market will react quite significantly at renewal time, potentially creating a demand and supply imbalance resulting in rate increases and new clearing prices for cat limits.

Not all reinsurers are created equal, and in this climate insurers need to partner with a reinsurer that will work with them to ensure fair pricing relative to the risks covered – and not just at renewal season. At Endurance, we take the time to understand our clients' business and risk exposures, enabling us to provide solutions and pricing that best address the exposures in our cedants' portfolios.

## **How has underwriting changed in either insurance or reinsurance in reaction to the catastrophe events of the last year?**

Underwriters are now more cautious when considering their positions. The more successful underwriting teams will be those

who create portfolios which incorporate multiple strategies that contemplate the downside of taking risk locally, yet still create value on a broad scale and take advantage of opportunities when they arise. This is easier said than done and requires focused risk assessment and an organized approach to the deployment of capital to create a global portfolio.

## **As the market gains more clarity over the US wind model changes, what do you expect the impact to be on 1/1/2012 renewals?**

While no model is absolute, the growing consensus is that the recent model changes – both the RMS and AIR Hurricane Models – are based on logical and rational methodologies and more current loss information, giving them greater merit than first recognized. The new models, while initially disconcerting to the market, should be viewed as a positive measure that will help companies better anticipate their risk exposures and establish capital needs. One of the principal changes created by RMS v11 is that it updates the level of risk exposure and expected loss from hurricanes that move inland on the US Eastern Seaboard and Gulf Coast based on recent storm data.

As far as the 1/1/2012 renewals, I anticipate that the changes will have a significant effect with many insurers reassessing their business portfolios and the capital necessary to support them, most likely translating into greater costs for reinsurance. However, it will likely take several renewal cycles before the full effect of the model changes are realized.

Endurance is consistently seeking to provide companies with our perspective on how the models affect their portfolios as we believe these insights can be valuable to insurers as they strive to meet their business needs.

## **Given the current environment, what criteria would you suggest when selecting a reinsurer?**

I have always been an advocate of careful due diligence and believe that insurers should more carefully evaluate potential reinsurance partners. Many use the rating agencies or their brokers as knowledgeable resources who can provide insights on the relative risks of each company. However, there are certain key questions that I would ask a potential counterparty:

- How transparent is your reinsurer?
- What are the reinsurer's Property Catastrophe PMLs and how are they calculated?
- How stable have the reinsurer's portfolios been over time?
- What non-natural peril catastrophe business does the reinsurer write and how do they measure and monitor that exposure?
- What investment risk do the reinsurers have within their asset portfolio?

There are certainly many more questions, but it does not take much to determine whether a company is managing their business effectively. Especially in this environment, insurers should be probing to understand the underlying risks of a potential reinsurer until they are satisfied that they have the right partner.

## **Is there a single takeaway or lesson learned from the first half of 2011?**

Always keep your eye on the underlying risk regardless of the market cycle. It is the key to surviving in the short term and thriving in the long term. Our clients seek partners that endure during all cycles and events. As such, we keep a diligent eye on our business risk to consistently provide the benefits and security that they have come to expect.