Willis Towers Watson

Reinsurer capacity remains stable despite 2017 catastrophe loss activity and stress on underlying performance: Willis Re

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LONDON, April 23, 2018 (GLOBE NEWSWIRE) -- Shareholders' equity in 34 reinsurance companies tracked in the Willis Reinsurance Index [1] was up 7.8% to USD 371 billion at year-end 2017. The increase occurred despite catastrophe losses, which led to a weighted combined ratio for the tracked reinsurers of 104.8%, up 10.4 percentage points from the previous year. Alternative capital also increased to USD 88 billion (year-end 2016: USD 75 billion), despite the draw-down of some catastrophe bonds and collateralized reinsurance and retrocession layers in the wake of the 2017 Atlantic hurricanes.

These are the findings of the latest Reinsurance Market Report from Willis Re, the reinsurance business of leading global advisory, broking and solutions company Willis Towers Watson (NASDAQ:WLTW).

The rise in equity was driven by unrealized investment gains of USD 34.7 billion. However, when National Indemnity is excluded from the group, the total shareholders' equity was roughly stable, at USD 343.7 billion.

The Index delivered return on equity of 3.4%, down from 8.0% in 2016, after aggregate net income fell to USD 12.0 billion (2016: USD 26.6 billion). Profitability was also heavily reliant on significant realised investment gains of USD 9.7 billion, up 38.6%, driven largely by a USD 2.7 billion investment gain realized by Fairfax following the sale of two subsidiaries and equity gains. Underwriting losses were again partly offset by high prior-year reserve releases. Notably, capital of USD 15.6 billion was returned by reinsurers through dividends (USD 11.2 billion) and share buybacks (USD 4.4 billion) far exceeding the aggregate net income of USD 12.0 billion.

In a new combined ratio analysis, Willis Re compared 2017 with the severe catastrophe-affected years of 2005 and 2011. The analysis of a subset[2] of reinsurers shows that the reported combined ratio for 2017 was 107.4% compared with 108.2% in 2011 and 112.8% in 2005. The impact of natural catastrophe losses in 2017 was 18.1% lower than 2011 (24.8%) and 2005 (25.8%). Notably, excluding natural catastrophe losses and prior year reserve releases, the Ex-Cat Accident Year combined ratio deteriorated further to 94.6% in 2017, from 90.2% in 2011 and 89.2% in 2005.

James Kent, Global CEO, Willis Re, said: "2017 was one of the worst years on record for insured natural catastrophe losses. However, today the global reinsurance market is able to deploy more capital than at the same time last year. When a few exceptional transactions are considered, total reinsurance capacity is roughly stable, despite the hurricanes, earthquakes, wildfires, and other events which brought misery to millions of people in 2017. That's a significant achievement for the reinsurance market, and a testament to its strength."

He continued: "Comparing the 2017 natural catastrophe experience with 2005 and 2011 shows that a number of large global property catastrophe reinsurance accounts were not impacted by the events of 2017. The primary market retained more of the losses from the year's numerous catastrophe events under higher retentions. The Ex-Cat Accident Year comparison of only a 5pt increase from 2005 may be viewed as surprising given the years of rate reductions in the past decade. The 2017 result was supported by the aforementioned reserve releases and investment gains which remains a concern and is why many reinsurers continue to try to push pricing on under-performing lines.

"The pressure on traditional reinsurers from alternative capital suppliers is stronger than ever, as many participants in this market cleared their first true major test. This increase in alternative capital, as well as the global reinsurance market having more capital to deploy, is continuing to dampen price increases in the mid-year renewals."

Download the full report: The Willis Re Reinsurance Market Report is a biannual publication providing in-depth analysis of the size and performance of the reinsurance market. Analysis is based on the Willis Reinsurance Index group of companies. In 2017 The Index includes 34 companies from across the globe.

About Willis Towers Watson

Willis Towers Watson (NASDAQ:WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has over 40,000 employees serving more than 140 countries. We design and deliver solutions that manage risk, optimize benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas – the dynamic formula that drives business performance. Together, we unlock potential. Learn more at willistowerswatson.com

About Willis Re

One of the world's leading reinsurance brokers, Willis Re is known for its world-class analytics capabilities, which it combines with its reinsurance expertise in a seamless, integrated offering that can help clients increase the value of their businesses. Willis Re serves the risk management and risk transfer needs of a diverse, global client base that includes all of the world's top insurance and reinsurance carriers as well as national catastrophe schemes in many countries around the world. The broker's global team of experts offers services and advice that can help clients make better reinsurance decisions and negotiate optimum terms. For more information, visit willisre.com.

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[1] The Index relates to those companies listed within Appendix 1 of the report.

[2] The Subset is defined as those companies that make the relevant disclosure in relation to catastrophe losses and prior year reserve releases. All constituents of the Subset are publicly listed groups that comprise 49% of the aggregate capital Index

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Source: Willis Towers Watson Public Limited Company