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The Top Global Reinsurers Are Breaking Away From The Pack

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For the past several years, the global reinsurance sector has weathered unfavorable and continuously changing business conditions. The challenges have included a prolonged soft reinsurance pricing cycle, heightened competition, limited organic growth opportunities, a record influx of alternative capital, low interest rates, mergers and acquisitions (M&A), and large catastrophe losses. Against this backdrop, reinsurers are trying to pull whatever levers they can to not only remain relevant but sustain profitability.

Weak market conditions have driven reinsurers to rethink their short- and long-term strategies. This has led many to pursue M&A, divest nonperforming businesses, diversify into less-commoditized lines of business, and embrace third-party capital. They've also adjusted risk exposures while shifting their underwriting appetite to primary and proportional reinsurance and away from nonproportional reinsurance, and they're actively managing their capital structures through share buybacks, special dividends, and refinancing their maturing securities with more cost-effective ones.

S&P Global Ratings is maintaining its stable outlook on the global reinsurance sector and on the majority of the reinsurers it rates (see Charts 1 and 2). This is mostly because of reinsurers' still-robust capital adequacy and because underwriting has remained relatively disciplined, at least so far, supported by overall strong enterprise risk management (ERM). At the same time, we continue to believe the global reinsurance sector is facing weak business conditions because the fundamental challenges of the sector have not abated, even after 2017's heavy natural catastrophe losses.

Key Takeaways

- Robust capitalization, strong ERM, and still-rational underwriting have continued to support our stable outlook on the global reinsurance sector.
- The sector is facing weak business conditions, as the influx of alternative capital continues to challenge reinsurers' business models.
- The top five global reinsurers have defended their leading positions well in the past decade, and we believe they are well-placed to retain the top ranks by separating themselves from the pack through steps such as more involved client relationship management.
- Property/casualty (P/C) reinsurance prices modestly increased during the 2018 renewals in reaction to 2017 catastrophe losses, but any favorable momentum is fizzling out heading into 2019.
- We've revised our 2018-2019 earnings forecast slightly upward following modest reinsurance price increases, with an expected combined ratio of 96%-99% and a return on equity (ROE) of 7%-9%.
- We could revise our outlook on the global reinsurance sector to negative if reinsurers' return on capital falls sustainably below their cost of capital. We believe their returns will only barely exceed their cost of capital in 2018 and 2019.

The cost of capital has consistently fallen in recent years but appears to have reached a floor at year-end 2016, increasing through 2017 due to rising interest rates and the volatility stemming from heavy catastrophe losses. Operating conditions for global reinsurance remain difficult despite modest 2018 renewal rate increases. We believe reinsurers' returns will be close to their cost of capital in 2018 and 2019. If the industry's return on capital declines sustainably below its costs, which causes market growth prospects to suffer, we could reassess our view of the sector.

Robust Capitalization And Strong ERM Keep Reinsurers In Good Stead

Global reinsurers continue to enjoy robust capitalization despite severe catastrophes, which racked up more than $138 billion in insured losses globally in 2017. These catastrophe losses wiped out 2017 earnings for a number of reinsurers and became a capital event for a few outliers. The sector demonstrated its resilience, managing the record catastrophe year with just a relatively small net loss, though the specific impact varied widely by reinsurer. This reflects the sector's diversification benefits from writing other noncatastrophe-exposed lines of business--such as casualty and primary insurance--as well as life reinsurance. In addition, it reflects the sector's sound ERM capabilities, which help them maintain catastrophe losses generally in line with risk appetites and leverage the retrocession market through alternative capital while ceding some of the tail risks.

Therefore, the 2017 hit to capital was not severe enough to cause industrywide panic or major declines in risk-adjusted capitalization. But in addition, the losses were not severe enough to lead to sustained industrywide price hardening. When overall industry capitalization deteriorated, we viewed it as manageable, with most of the affected companies positioned to replenish their lost capital with a year or two of normalized earnings. As a result, the 2017 catastrophe losses resulted in only a handful of negative rating actions.

Three-quarters of our financial strength ratings on the top 40 rated global reinsurers are in the 'A' category, while the remaining quarter is in the 'AA' category. In addition, 80% of reinsurers have stable outlooks, with the rest evenly split between positive and negative outlooks (see Charts 1 and 2).

Chart 1

Rating Distribution Of S&P Global Ratings' Top 40 Global Reinsurers

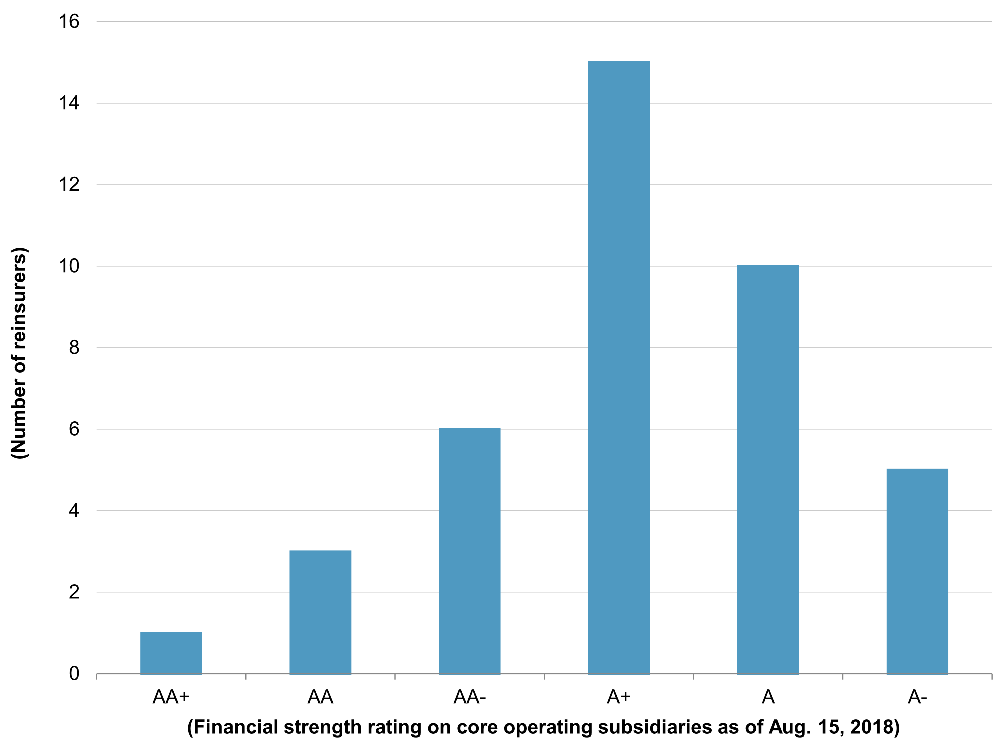
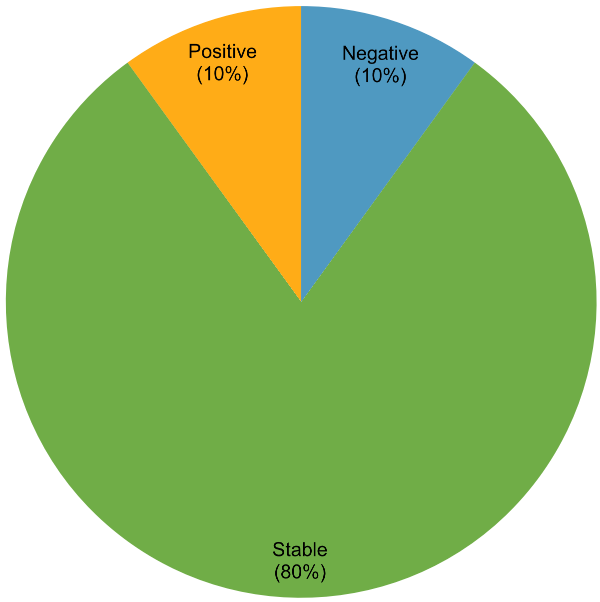


Chart 2

Outlook Distribution Of S&P Global Ratings' Top 40 Global Reinsurers*



*As Of Aug. 15, 2018.

Table 1

Credit Conditions For Global Reinsurers 2018-2019

	Business conditions (current)	Business outlook (12 months)	Sector outlook (12 months)
Global reinsurers	Weak	Somewhat stronger	Stable

Table 2

Drivers Of Business Conditions For Global Reinsurers

Potential driver	Trend for 2018 -2019	Observations
Pricing	Neutral to positive	Reinsurance pricing declines have modestly reversed in 2018, with average price increases of 0%-5% expected for 2018 but with wide variations among lines and regions. However, momentum is fading heading into 2019.
Loosening of terms and conditions	Neutral to negative	Large reinsurers appear to have been able to push back on cedents demanding wider terms and conditions. They didn't slip further, while ceding commissions slightly improved (200 bps-300 bps) but remained high.
Organic growth	Neutral to negative	Opportunities for organic growth (outside large/tailored transactions for a select few reinsurers) are limited. There are pockets of growth, but companies pursue them quickly.

Table 2

Drivers Of Business Conditions For Global Reinsurers (cont.)

Potential driver	Trend for 2018 -2019	Observations
Cedent demand	Neutral to positive	There is some evidence of greater arbitrage (cheaper to front business then reinsure it on the back-end) as rates continue to remain low, together with large/tailored one-off transactions.
M&A activity	Neutral	After a brief lull following a hectic 2015, M&A within the sector has resumed in 2018. We do not expect transactions to have a material impact on industry capital. Future deals will be partially inhibited because of high market valuations.
Alternative capital	Neutral to negative	The influx of alternative capital continued in 2017 and through the first quarter of 2018 despite the temporary uncertainties caused by 2017 hurricanes, limiting reinsurance price increases.
Low investment returns	Neutral to negative	Investment returns remain low, but it seems that we have seen the bottom in 2017. As interest rates are rising--at least in the U.S.--we expect slight improvements in net investment returns as new money is invested in higher-yielding securities. However, reinsurers' total returns could be affected by unrealized capital losses.
Reserves	Neutral	Overall, the reinsurance sector's reserves have been stable averaging 6.3% of favorable development impact on the combined ratios during the past five years. In addition, 2017 was the 12th consecutive year in which the U.S. primary property/casualty industry generated favorable reserve developments. However, in 2017, the re/insurance industry incurred unfavorable developments in U.K. motor. Furthermore, the following U.S. lines of business continue to be challenging: commercial auto liability, other liability-occurrence, excess casualty, and private passenger auto liability. Lastly, if inflation unexpectedly increases materially, reserve adequacy would be adversely affected.

Capitalization Remains A Strength, Supported By A Slight Expected Improvement In Earnings

Global reinsurers' robust capitalization remains a pillar of the industry. Indeed, S&P Global Ratings continues to view the reinsurance sector's capital adequacy as a strength. The top 20 global reinsurers' capital adequacy has remained robust and redundant: 7% at the 'AA' confidence level in 2017 relative to 15% in 2016. In 2017, this group of global reinsurers lost its capital redundancy at the 'AAA' confidence level for the first time since the 2008 financial crisis, with a deficiency of 5% compared with a redundancy of 2% in 2016. We believe if the industry experiences an average catastrophe year in 2018, it is reasonable to assume that the top 20 global reinsurers could recover their 'AAA' capitalization (see "Capitalization Remains A Pillar Of Strength For Global Reinsurers," Aug. 15, 2018).

The global reinsurance sector's operating performance has deteriorated during the past five years, mainly reflecting the soft global P/C reinsurance pricing. As a result, the top 20 global reinsurers' ROE declined to 9.5% in 2016 from 13.9% in 2013 (see Table 3). During this period, benign natural catastrophe losses hampered the combined ratio by only 2 to 5 percentage points (ppts), which is below the budgeted catastrophe load, and strong reserve releases improved it by 6 ppts-8 ppts. In 2017, the industry had a wake-up call, as it suffered significant catastrophe losses that hurt its combined ratio by 21.5 ppts. These losses wiped out slightly more than a full year of earnings, resulting in an ROE of negative 1%.

Equally important to the 2017 losses has been the trend in underlying underwriting performance. When we strip out the effects of catastrophe losses and reserve releases, accident-year combined ratios have worsened during the past five years, reflecting pricing pressure. The 2018 renewals brought modest reinsurance price increases, though the momentum seems to be fading into 2019. We forecast a slight improvement in profitability in 2018-2019, with an estimated combined ratio of 96%-99% and an ROE of 7%-9% (see Table 3). As interest rates are rising, at least in the U.S., we expect slight improvements in net investment returns as new money is invested in higher-yielding securities. In addition, reinsurers writing life reinsurance should benefit from higher margins, as this line of business is expected to generate an ROE of just above 10% in 2018-2019.

Although we are slightly increasing our projected earnings for the sector, the increase is lower than that following similar large losses (such as in 2005). The industry benefited from the hardening market after such events, which hasn't been the case to the same extent this time, indicating that pricing cycles are becoming less pronounced. Therefore, we don't expect material price increases to persist into 2019. Similarly, we don't foresee a significant positive long-term shift in the sector's operating performance.

Table 3

Top 20 Global Reinsurers' Combined Ratio And ROE Performance (%)

	2013	2014	2015	2016	2017	2018f	2019f
Combined ratio	84.6	84.6	87.5	91.9	111.8	96-99	96-99
(Favorable)/unfavorable reserve releases	(5.7)	(6.8)	(7.5)	(7.1)	(4.4)	(5.0)	(5.0)
Natural catastrophe losses	4.4	2.5	2.3	5.2	21.5	8.0	8.0
Accident-year combined ratio excluding catastrophe losses and reserve releases	86.0	88.8	92.7	93.9	94.7	93-96	93-96
ROE	13.9	13.4	11.0	9.5	(1.0)	7-9	7-9

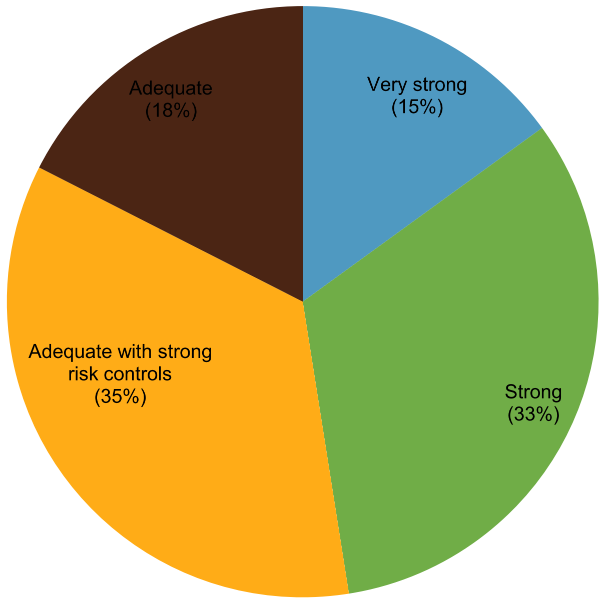
The Top 20 global reinsurers are Allied World, Arch, Aspen, AXIS, Everest Re, Hannover Re, Hiscox, Lancashire, Lloyd's, MS Amlin, Munich Re, PartnerRe, Qatar, RenRe, SCOR, Sirius, Swiss Re, TransRe, Validus, and XL. f--Forecast.

Reinsurers' ERM Is A Differentiating Factor

More than 80% of the top 40 global rated reinsurers carry an ERM score higher than adequate (see Chart 3), highlighting the industry's increased focus on ERM. Once again, the 2017 natural catastrophe losses tested reinsurers' ERM programs. Given the strength of their ERM practices, the losses were typically contained within their risk limits, with only a few outliers. Overall, 2017 catastrophe loss reserves have been stable so far and mostly contained within the booked reserves. However, Everest Re Group Ltd. experienced unfavorable reserve developments in the first and second quarters of 2018 from the 2017 catastrophe events, which could call into question the conservatism built into its original loss estimate. So far, these adverse developments have been largely unique to Everest, but we will continue to monitor how losses play out for the rest of the industry.

Chart 3

ERM Assessment Distribution Of S&P Global Ratings' Top 40 Global Reinsurers*



*As Of Aug. 15, 2018.

The Leaders In The Reinsurance Race Are Looking To Separate Themselves From The Pack

The top 10 global reinsurers (see Table 4) based on net reinsurance premiums written (NRPW) continued to write the lion's share of business. Their market share increased by 140 basis points (bps) to 73.7% of NRPW in 2017 from 72.3% in 2008. However, within the same timeframe their NRPW jumped a whopping 60% to $171.1 billion from $106.8 billion.

The top five global reinsurers continue to lead the reinsurance sector and have defended their competitive positons well in the past decade. In our view, their client relationship management differentiates them from the rest of the pack. Cedents' expectations have evolved: They now look for not only capacity providers but also for risk partners. Reinsurers that can provide a plethora of value-added services, assist in evaluating risk, provide customized solutions, and implement risk and capital management solutions are reaping the benefits. Moreover, cedents--especially large multinational insurers--have been consolidating their reinsurance panels. Multinational insurers prefer dealing with fewer reinsurers that are well-capitalized with strong financial strength, good product expertise, and broad product offerings. These cedents want to trade with global reinsurers in all lines of business--both at the subsidiary and corporate levels. As a result, we assume the leaders are well-placed to defend their positions and will continue to gain market share in a consolidating market.

Table 4

Top 10 Global Reinsurers: 2017 Versus 2008

	--2017--				--2008--		
Rank	Rating*	Reinsurer	Net reinsurance premiums written (Bil. $)	Rank	Rating **	Reinsurer	Net reinsurance premiums written (Bil. $)
1	AA-	Munich Re	36.45	1	AA-	Munich Re	29.08
2	AA-	Swiss Re	32.32	2	A+	Swiss Re	24.30
3	AA+	Berkshire Hathaway Re	24.21	3	AAA	Berkshire Hathaway Re	12.12
4	AA-	Hannover Re	19.32	4	AA-	Hannover Re	10.20
5	AA-	SCOR	16.16	5	A	SCOR	7.50
6	A+	Lloyd's	10.75	6	A+	Lloyd's	6.70
7	A	China Re	9.97	7	AA-	Reinsurance Group of America	5.35
8	AA-	Reinsurance Group of America	9.84	8	A+	TransRe	4.11
9	A+	Everest Re	6.24	9	AA-	PartnerRe	3.99
10	Not rated	General Ins. Corp. of India (GIC Re)	5.80	10	A+	Everest Re	3.51
Top10			171.07	Top 10			106.85
Top 40			231.98	Top 40			147.71

*Financial strength rating on core operating subsidiaries as of Aug. 15, 2018.

**Financial strength rating on core operating subsidiaries as of Aug. 15, 2009.

In 2017, two new entrants--China Re (seventh) and India-based GIC Re (10th)--joined the top 10 relative to 2008, reflecting the growing demand for reinsurance in Asia. China Re continues to be predominately focused on its domestic market, generating less than 10% of its 2017 gross premiums written overseas. On the other hand, although GIC Re wrote less than 25% of its gross premiums internationally in 2017, it plans to increase its overseas business significantly. We expect both China Re and GIC Re to grow at healthy rates given their domestic markets' forecasted strong GDP growth and increasing insurance penetration. Furthermore, many global reinsurers have recently established their presence in China and India to capitalize on the growth. However, these markets' risk profiles are volatile due to increasing catastrophe exposures, dwindling underwriting margins, soft pricing, aggressive competition, insufficient underwriting expertise and experience, and rising regulatory costs.

We believe that the top five global reinsurers will likely continue defending their dominant market position given their strong relationships with cedents and access to business. However, we believe the rest of the pack can also score some wins and narrow the gap by focusing on cedents' needs, becoming more like risk partners, and proposing innovative solutions rather than just providing reinsurance capacity that can easily and less expensively be replicated through the capital markets.

Table 5

Real GDP Growth Of Select Countries And The Eurozone

		--Real GDP growth (%)--					
Country or region	**Sovereign foreign-currency rating as of Aug. 15, 2018**	**2016**	**2017**	**2018f**	**2019f**	**2020f**	**2021f**
U.S.	AA+/Stable/A-1+	1.5	2.3	3.0	2.5	1.8	2.3
China	A+/Stable/A-1	6.7	6.9	6.5	6.3	6.1	6.0
India	BBB-/Stable/A-3	7.1	6.6	7.5	7.8	7.9	8.1
eurozone	N.A.	1.8	2.6	2.1	1.7	1.6	1.4
Germany	AAA/Stable/A-1+	1.9	2.5	2.0	1.8	1.5	1.3
France	AA/Stable/A-1+	1.1	2.3	1.7	1.6	1.7	1.6
U.K.	AA/Negative/A-1+	1.9	1.8	1.2	1.4	1.6	1.3

f--Forecast. N/A--Not Applicable. Source: S&P Global Ratings.

The Cost Of Capital--A Marathon Not A Sprint

When it comes to analyzing the reinsurance sector's profitability, we consider this to be more akin to an endurance race than a 100-meter sprint. We focus on the longer-term view of profitability relative to cost of capital rather than a snapshot at a single point in time. This is consistent with our view last year, when we stated that "if reinsurers' profitability falls sustainably below their cost of capital, we will likely revise our outlook on the sector to negative". The key word there is "sustainably." In this context, we believe the weighted average cost of capital (WACC) will remain at 7%-8% for the foreseeable future (2018 and 2019).

While reinsurers clearly tripped up in 2017 when thinking about their profitability relative to their cost of capital, the longer-term track record has been stronger. The sector's profitability has, on average, exceeded its cost of capital by approximately 100 bps annually over the past five years, despite the negative spread in 2017. However, the performance gap has been narrowing. We expect the sector's profitability to be about the same as the cost of capital over the next two years. For this reason, we are not revising our outlook on the sector to negative. However, we would likely do so if the sector's profitability remains below its cost of capital.

Alternative Capital Is Still An Achilles Heel, But Reinsurers Are Learning To Live With The Pain

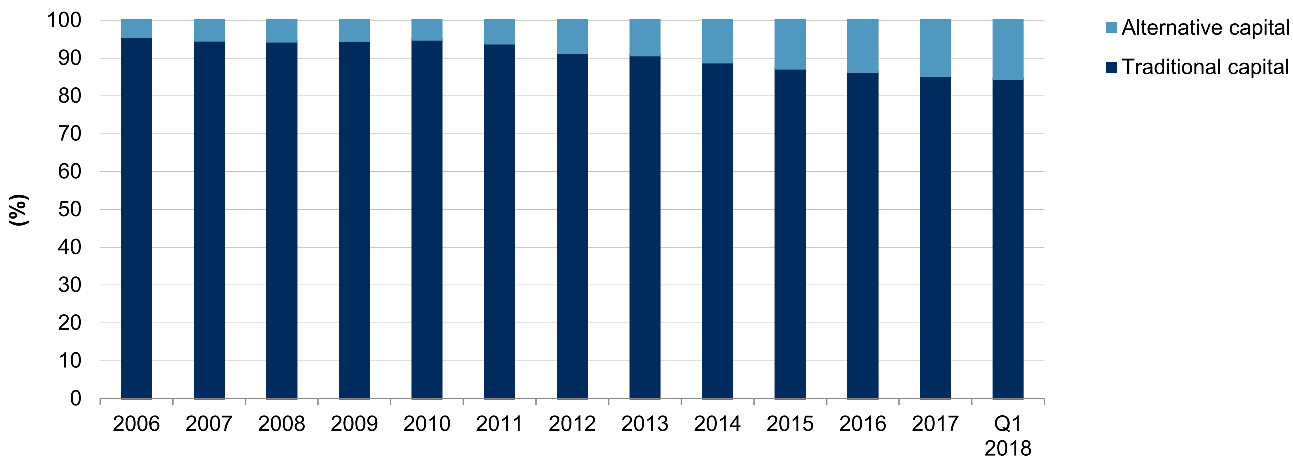
Alternative capital continues to erode traditional reinsurers' margins and is constituting a growing portion of global reinsurance capacity. Indeed, it accounted for about 16% of the $610 billion global reinsurance capital as of the end of first-quarter 2018, according to Aon (see Chart 5). Nevertheless, reinsurers have embraced third-party capital through instruments like sidecars, collateralized reinsurance, and catastrophe bonds. Increasingly, the retrocession market depends on this convergence capital.

The convergence markets' response to the 2017 events should dispel any remaining questions over the permanence of its capital. Some had argued that because investors had yet to see major losses on their investments, their reaction to a loss from a peak peril that affected numerous investments simultaneously could lead to unexpected flight of capital. However, the 2017 hurricanes demonstrated that despite the reported negative investment returns, investors stood firm.

For many years, alternative capital has been viewed as something of an Achilles heel for the reinsurance sector--a source of vulnerability for reinsurers given the near-constant supply of new capital into the sector. This has exacerbated the softening market conditions, particularly within property catastrophe lines. More recently, however, reinsurers have been dealing with alternative capital in much the same way athletes train at altitude. For an athlete, altitude training hurts, but come race day, all those oxygen-deprived training sessions lead to better performance. Similarly, while reinsurers have suffered from the presence of alternative capital in terms of pricing, by increasingly using alternative capital for retrocession purposes (and competing against it on the inwards reinsurance side), sophisticated traditional reinsurers' business models are becoming more efficient.

Chart 4

Global Reinsurance Capital: Breakdown Between Traditional And Alternative Capital



Sources: Company financial statements, Aon Benfield Analytics, and Aon Securities Inc.

Reinsurance Pricing Momentum Is Running Out Of Steam

What are a few large natural catastrophes to a sector beset with pricing malaise? Not much, apparently, as the rate of price increases, which peaked earlier this year during Jan. 1 renewals, is fading. With that, any hope for a permanent reset of rates has largely vanished. Reinsurers are particularly chafing from the experience during mid-year renewals, which is dominated by Florida renewals. Reinsurers had already tempered their expectations, but considering the hit from Hurricane Irma in September 2017, there was still an expectation for reasonable price hikes that would sufficiently compensate for the loss. That wasn't the case, and pricing at mid-year renewals was nothing to write home about.

Global reinsurance pricing was up slightly (0%-5%, in aggregate) during the year-to-date renewals. Specific increases varied by line of business, region, and whether reinsurance contracts had experienced any losses. Caribbean business--including Puerto Rico--had double-digit rate increases (10%-40%). During the Florida June 1 renewals, the largest property catastrophe market in the world, reinsurance rates increased by low single digits on average but were below industry expectations. Loss-affected layers had risk-adjusted rate increases in the mid to high single digits, and nonloss-affected layers of loss-affected accounts had flat to low-single-digit increases. Pricing in nonloss-affected accounts was largely flat. If this was the experience in a region that just suffered heavy catastrophe losses, it seems likely that the next rate cycle won't be any better.

Reinsurance pricing pressures--while varying--exist across business lines a result of abundant reinsurance capacity and U.S. property catastrophe business subsidizing other lines and other regions to a certain extent in recent benign years. Nevertheless, the sector has had a bit of relief. Property catastrophe pricing is up, if only slightly. And with the margins from property catastrophe business under constant pressure, reinsurers have been reluctant to give much ground on other lines of business.

Casualty reinsurance achieved some modest rate increases, and pricing is somewhat more stable than in recent years. More importantly, terms and conditions didn't slip further, while ceding commissions slightly improved. In addition, reinsurers will get a pick-up in rates from proportional business, as they have shifted their underwriting appetite to this type of business. As a result, they're benefiting from some of the rate increases on the primary insurance side in reaction to the 2017 catastrophe losses and the recent heightened loss experience in certain lines. Furthermore, there could be some gains in renewing portions of multi-year deals for loss-affected accounts.

The situation, though not ideal, is providing opportunities for reinsurers to optimize their portfolio and increase their participation on better-performing deals. Nevertheless, underlying market forces remain at work and competition is high, which could result in pricing momentum losing its steam heading into 2019.

M&A Could Position Some Reinsurers To Be More Competitive In The Longer Term

Growth opportunities are somewhat limited, and returns are barely meeting cost of capital. Some players that might have been patiently waiting for a better market environment and improved pricing conditions are probably questioning their ability to continue as independent reinsurers and compete effectively. Furthermore, cedents' expectations have changed as they look for risk partners rather than just capacity providers. Evolving market expectations and tough operating conditions are increasingly challenging current business models and forcing reinsurers to review their relevance in the long run. Reinsurers are looking to bulk-up, as those that have scale, a broad product suite, and strong underwriting capabilities and that can add value to the reinsurer/cedent relationship are the ones that will thrive.

Therefore, we anticipate M&A activity to continue over next few years, leading to sector consolidation that will increasingly differentiate larger, more diversified, stronger players from others. We also expect a continuation of trends of attaining economies of scale, broadening of product suites, and convergence of primary insurance and reinsurance. There is some potential for large deals, but we foresee more activity in small bolt-on transactions, especially considering the current valuations. Small-to-midsize specialty carriers that have good underwriting track record and profitable books of business remain appealing targets.

We maintain an overall neutral view on M&A, with a slight negative bias because of the industry's mediocre track record. While M&A is not a panacea for weak market conditions, a well-executed strategic deal that has a sound rationale can improve prospects for the combined entity through a stronger competitive position. This could help maintain--or potentially even strengthen--the consolidated entity's creditworthiness.

Sector Issues Are At The Top Of Reinsurers' Minds

In a recent survey on the sector's key opportunities and challenges over next two to three years, unsurprisingly the more than 20 global reinsurers that responded identified the same key issues facing the sector that we did (see Chart 5).

From reinsurers' perspective, reinsurance pricing adequacy and the longer-term impact of alternative capital continue to dominate the agenda. These two topics go hand in hand. With the pricing sentiment changing, reinsurers are trying not to let the recent gains slip. Although excess reinsurance capacity will continue to make life difficult, the sector is actively looking at ways to adjust to the new normal of a heightened presence of alternative capital. Discussions aren't just centered around the property catastrophe business but also on how alternative capital can find its way into other business lines and how best to leverage it. In addition, reinsurers are keeping a close watch on the economic environment, which has gained steam in recent years but is facing increased risk of higher trade tariffs and geopolitical concerns. Depending on how far these risks escalate, it can start to put drag on the global economy, give rise to inflation, and perhaps even disrupt business--all with potential negative implications for global reinsurers. Furthermore, the regulatory compliance burden from managing multiple regulatory regimes and evolving requirements remains a key concern.

In response to key challenges, reinsurers have been pursuing strategies to address both top and bottom lines, which was evident from the top two opportunities identified: growth/diversification and technology investments. To help find growth and offset the margin pressures, reinsurers are pursuing various initiatives to diversify into new products and markets. For example, reinsurers have growing interest in finding protection gaps in business lines such as cyber, flood, mortgage, and life reinsurance, though those lines come with their own risks. Moreover, investments in technology to update legacy systems can help achieve expense efficiencies, which will be key in today's pricing environment, but that is just one aspect. Reinsurers are increasingly investing in opportunities that are afforded by Big Data and machine learning, and they're looking for ways to tap into technologies like block-chain, which--if achieved--can provide a competitive advantage. Reinsurers are also optimistic about interest yields and the resultant gains that would come through as the portfolio turns. With that, at least one driver of operating income will move up and offset to a certain extent the pressure on underwriting income. Furthermore, it seems there is a greater optimism about gains from M&A--both for reinsurers that are involved in one and for the broader sector--hoping for less competition and greater underwriting discipline as the sector consolidates.

Overall, the survey response highlights a sector hard at work to shape-up and find its stride for a long road ahead.

Chart 5

Top Challenges And Opportunities

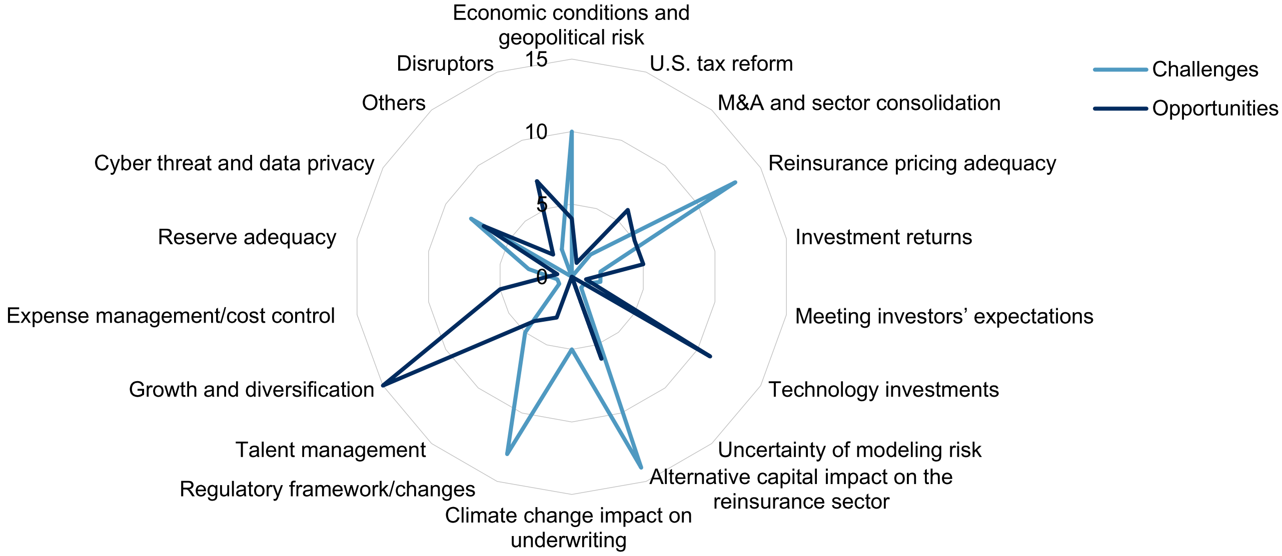


Chart is based on reinsurers' responses to S&P Global Ratings' survey.

Crossing The Finish Line

Reinsurers are not oblivious to a market that is fundamentally changing in terms of the permanence of alternative capital, increasing commoditization of business lines, and evolving cedent expectations along with the increasing specter of new technologies driving market disruption. With business models under stress, reinsurers are in various phases of self-discovery, trying to adapt their strategies to remain relevant. Short-term tactical moves might help but are not a lasting solution. Rather, we believe most reinsurers will need transformational changes to survive over time. Similar to long-distance marathoners, sound strategy, discipline, preparation, and grit are necessary ingredients if reinsurers are to succeed. Indeed, the competitive landscape could look very different a couple of years from now. We are already observing greater differentiation among players, and this will only expand over time. The market has shifted slightly, boosting the power of brokers, the capital markets, and large cedents. If the sector can coalesce around some large players, it could regain its balance.

GRH2018

This report does not constitute a rating action.