

Reinsurers see greater catastrophe exposures and a renewed emphasis on insurance to value in the future, causing them to wonder how much further primary insurance rates will continue to spiral in the meantime

As this year's third-quarter financial results start to roll in, it's clear 2007 isn't going to be as sunny as the relatively catastrophe-free year of 2006. And yet, many in the reinsurance sector agree there remains enough capital swishing around in the market to sustain an ongoing softening market in Canada's primary insurance sector for at least a little while longer. The question now, however, is how soft that market might be, and to what extent such a market will tempt primary insurers away from the necessity of maintaining market discipline.

As primary insurers begin to leverage their capital for the purpose of gaining market share, reinsurers are bracing for downward pressure on reinsurance rates. This will be happening at a time, reinsurers note, when climate-change-related catastrophe risks seem higher than ever and insurance to value is something to be refined. Market discipline, more than ever, is something to be practised as we approach the 2008 renewal season, according to nine reinsurance company CEOs who have given us their insights into what they believe are the top issues facing Canadian reinsurers going forward into next year. Their responses follow in alphabetical order by last name.



Francis Blumberg,
Head of Canadian Operations,
PartnerRe

At a time when Canadian insurers are still playing catch-up with respect to insurance-to-value in both the residential and commercial property segments, some insurance companies prefer to focus on the total "premium pool" rather than trying to ascertain whether insured values and the premium rate are adequate when considered separately.

Whether or not this is an appropriate approach for an insurance company is not for us to say, but it is certainly essential for reinsurers to have appropriate value-at-risk information: it is the foundation upon which we ultimately rely for our cat analyses.

In the event of a catastrophe, the impact of inadequate insurance values becomes more visible. We saw examples of this with the surprisingly expensive finished basements in the Ontario storms of Aug. 19, 2005 and the expensive pool enclosures during hurricane Wilma in the United States.

The issue of insurance-to-value is particularly relevant in Canada, where housing prices have increased at tremendous speed, post-loss inflation (a sub-set of the insurance-to-value debate) is especially acute and where construction or contracting labour costs have become expensive even under normal circumstances.

One side-effect of not having up-to-date insured values, when combined with the phenomenon of widespread guaranteed replacement cost coverage, is the possibility of strongly underestimating the insured loss potential in the event of a major catastrophe.

causing numerous total losses. Existing estimates of damage losses due to a big earthquake in British Columbia or in Quebec — to name only two scenarios — should be looked at with extreme caution.

Although most insurers have been tackling this issue in recent years by enhancing their recourse to inspection, spreading the use of updated calculators and implementing systematic inflation factors, most companies seem willing to concede there remains room for improvement in this area going forward.