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Insight and Intelligence on the London and International Insurance Markets June 2011

Florida cat reinsurance rates up 10-15%

Late renewal brings differential pricing and demand for more limit as RMS 11 impacts buyers and sellers

Cat underwriters were broadly satisfied at the Florida-dominated 1 June reinsurance renewals, with average risk adjusted rate rises calculated to be in the 10-15 percent range.

Florida is a crucial peak zone for the industry, providing some $3.5bn in premium income out of a global property cat market usually estimated to be around $16bn-$18bn in size. This means the annual 1 June renewals are eagerly watched as a bellwether for the direction of the reinsurance markets.

In a late renewal only around 35 percent of programmes had actually signed ahead of the Memorial weekend in the US, as brokers were forced to return to reinsurers with re-priced firm order terms (FOTs) to fill out programmes.

But from the last minute rush a number of clear trends have emerged, with RMS Version 11 proving a prominent player in changing the dynamics between buyers and sellers.

A wide range of pricing across the 50 or so Florida accounts that renew at 1 June included outliers where rates were down on a risk-adjusted basis and those where the cost of their programme rose by more than 20 percent.

There was also a significant range of pricing evident between different layers on programmes.

Bottom layers typically saw flat-to-moderate single digit price increases, while higher layers benefitted from much more material increases, including some at over 20 percent.

According to one senior underwriting source, lower layers on Florida business – the most richly priced reinsurance capacity in the world – are already paying relatively high rate on line (RoL), and significant increases are not achievable "because the RoLs would be ridiculous".

Meanwhile, demand has shifted further up programmes as insurers have looked to restructure cover by increasing retentions to pay for higher limits at the top. This follows the release of the new version of RMS' wind model, which has increased probable maximum losses (PML) for Florida underwriters. ...continued on page 2

Florida key points

- Circa 50 "Florida" accounts renew at 1 June
- Average up 10-15% (risk adjusted)
- Low layers 0-10% up
- Some high layers up >20%
- But comparisons clouded by RMS 11
- Retentions up to pay for higher limits
- Some buyers replace LAC layer for private cover
- Repriced FOTs on many programmes
- Differential pricing/shortfall covers

Aon appoints Ryan and AmWINS as exclusive US wholesalers

Aon has followed up its anti-wholesaler action in the London market last year by paring back its approved US wholesalers to just Ryan Specialty Group and AmWINS, *The Insurance Insider* can reveal.

Sources have suggested that last year up to $1bn of Aon-advised premium income was channelled through independent US wholesalers.

Cooper Gay Swett & Crawford (CGSC) – Aon's fromer wholesale arm – is likely to be the biggest loser. The two companies have strong links and in 2009 Standard & Poors estimated that Aon generated 15 percent of Swett's revenues – equivalent to roughly $30mn.

This is understood to have fallen to around $18mn, or 5 percent of consolidated group revenues. Other players – including top-three wholesaler Crump – have also been left out in the cold by Aon's move.

In recent months Aon has demonstrated a renewed determination to hold onto all the brokerage attached to the cover it places

In July 2010, *The Insurance Insider* revealed that Aon had launched a major clamp-down on the placement of business into the London market via independent wholesalers. Aon Risk Solutions CEO Steve McGill explained to staff in an internal memo they will no longer be able to channel business through independent London wholesalers unless he signed it off.

It is understood that Aon was hoping to cut in two the $700mn of premium that it currently places into London via independents. It is thought that the changes to its arrangements for placing US wholesale business are motivated by a similar desire.

Aon's decision to withdraw its sizeable book of retail business is likely to come as a blow to CGSC as it enters its second year in existence. But group CEO Toby Esser told *The Insurance Insider* that the post-merger company had anticipated a reduction in revenue from this source. "When we did the deal we weren't expecting a long relationship with Aon," he said.

He added that Aon would be unable to withdraw 100 percent of the business that it currently transacted with Swett because some was in facilities and other parts of the portfolio are under the close direction of risk managers.

An Aon spokesman said: "We believe our clients will be best served through a deeper relationship with a smaller group of US wholesalers who are able to handle the full scope of coverages sought by our clients."

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