The global reinsurance market in the midst of consolidation

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The global reinsurance industry is undergoing dramatic structural change as evidenced in particular by the spectacular mergers of the past few years. Swiss Re's latest *sigma* study provides a comprehensive survey of the structure of the global reinsurance market and analyses the most important trends from the point of view of supply and demand.

Reinsurance: a market worth USD 124 billion

In 1997 direct insurers ceded business worth USD 124 billion to reinsurers world-wide. This business broke down into 83% for non-life insurance and 17% for life and health insurance. Ceded premiums in relation to direct insurance volume were 14% in non-life and 1.5% in life and health.

Around 75% of ceded business is generated in the mature insurance markets of North America and Western Europe, reflecting these regions' importance as a source of direct insurance revenue. Only 4% of ceded business comes from Japan, which can be explained by the high concentration in the Japanese market where the 4 biggest reinsurers account for just under 50% of premiums. By contrast, the emerging markets tend to show stronger demand for reinsurance due to the lower capitalisation of insurers in many cases and a greater amount of industrial risks in their portfolios.

Growing importance of emerging markets

In the period 1990-1997, cessions in non-life insurance rose from USD 69 billion to almost USD 103 billion. This rise was fuelled mainly by above-average demand from North American insurers in response to the replacement of pools by reinsurance treaties. The importance of emerging markets also grew thanks to a more dynamic rate of growth in direct insurance. These two factors resulted in global cessions posting a slightly bigger increase than direct insurance volumes, which was in contrast to the lower volume of cessions that had been observed.

The ceded premiums of the life and health insurance market rose from USD 15 billion to USD 22 billion. This growth rate was on a par with non-life cessions, but significantly lagged behind the explosive growth enjoyed by the direct insurance business.

Consolidation as a result of the "flight to quality"

The crisis in US liability insurance in the mid-eighties and the accumulation of natural catastrophe losses at the start of the nineties prompted dramatic changes in the reinsurance market. The subsequent shortage this created in reinsurance capacity was seized by many new providers as a market entry opportunity, which gave rise to Bermuda establishing itself as a new location for specialised reinsurance products. Direct insurers distributed their business over fewer but larger reinsurance companies with a stronger capital base ("flight to quality"). At the same time the shortage in capacity encouraged the development of a new generation of products.

As a result of this market consolidation, the large professional reinsurers in particular were able to greatly expand their market share through take-overs and mergers. In the period 1990-1996, the four largest providers increased their market share from 22% to 29%. The percentage is now as high as 34% following the latest spate of acquisitions. The winners include the Bermuda-based reinsurers, who raised their global market share from 0% to 5%, while Lloyd's saw its market share heavily eroded, from 5% to 3%.

The results of the top reinsurance companies have continued to improve significantly in recent years, despite falling prices and more fierce competition. The positive results in the direct insurance business had a positive impact on reinsurance results, and in the 1995-1997 period reinsurers also benefited more than normal from the very low claims burden in the area of natural catastrophes.

For further information please contact:

Thomas Holzheu, tel. +1 212 317 5190
Roman Lechner, tel. +41 1 285 2344

sigma can be obtained from:

Swiss Re, Economic Research & Consulting in:

Zurich: tel. +41 1 285 5443, fax +41 1 285 4749
New York: tel. +1 212 317 5135, fax +1 212 317 5 55
Hong Kong: tel. +852 25 82 5691, fax +852 25 11 6603

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