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News release

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PwC: Reinsurers face accelerating forces that challenge the responsiveness of their models

- ***The ability to innovate, differentiate and build enduring customer relationships viewed as key to market leadership***
- ***70% of CEOs concerned about slow or negative growth in developed markets***
- ***< 3% insurance penetration in emerging markets which offer huge potential but not in the near term for reinsurers***
- ***47% of CEOs view winning increased share as the main opportunity to grow business in 2014***
- ***86% of CEOs see technological advances as the main transformational trend over the next 5 years***

Hamilton, Bermuda – New research from **PwC** has revealed that 70% of reinsurance and insurance CEOs are concerned about slow or negative growth in developed markets and 47% view increasing market share as the main opportunity for growth in 2014.

PwC's 17th Annual Global CEO Survey, launched last month, set out to uncover how chief executives across industries are searching for growth in a still-challenging environment. Among the CEOs surveyed were 74 reinsurance and insurance business leaders in 39 countries in the last quarter of 2013. Further in-depth interviews were conducted with chief executives.

"Global economic recovery remains fragile but CEOs are more positive about the state of the global economy than they were last year," said **Arthur Wightman, Insurance Leader, PwC Bermuda.** "Reinsurance CEOs are concerned about how or whether this recovery will trickle down into better prospects for their own companies. In fact, those CEOs are looking past the anticipated margin contraction in 2014 to three bigger trends that they think will transform their business in the next five years: technological advances, demographic changes and shifts in global economic power."

The search for growth is becoming more complicated as these factors have increasing importance on strategies and operating models and searching for a foothold in ever shifting sands is increasingly difficult.

Responding in the near term

Looking forward, global reinsurance premium growth is expected in 2014 and 2015 in the low single-digits with emerging markets growth driving much of the growth. The global catastrophe reinsurance market is weathering a tougher point in the pricing cycle with over capacity putting pressure on pricing.

Alternative capacity is having an impact on the market but is limited to two specific areas and represents about 11% of the global catastrophe reinsurance. The two areas where competition is fierce is in the short-tail, data-rich and highly modelled environments of US wind and earthquake, and also collateralised reinsurance with the biggest recent growth coming from the latter. For certain lines of business a number of reinsurers have reported that January 1 pricing is below acceptable return hurdles. The innovative, multifaceted reinsurers that offer a solution-oriented and long-term partnership model for their customers will prevail in spite of the over-capacity.

44% of CEOs think that the global economy will grow over the next 12 months, however it will take some time before investment performance can meaningfully contribute to reinsurer ROI. Margin pressure in 2014 presents a material enough challenge, however CEOs are looking beyond current market forces to what they need to do to build enduring businesses in the years to come.

"The importance of innovation, differentiation and customer relationships will increase in a marketplace that is facing as much change over the next five years as the last fifty," **Mr. Wightman** continued. Reinsurers that are already embracing this will stand to weather competitive challenges on a nearer term basis."

Looking out five years

86% of CEOs viewed **technology advances** as being a global trend would transform their business over the next five years. There is already evidence of 'risk partnerships' forming between customer and risk taker where technological and analytical capabilities are being shared as a means to strengthen collaboration and relationships. For many reinsurance CEOs the survey points to innovation and investment in technology as being critical for survival.

On the flip-side, 60% of CEOs see the speed of technological change as a potential threat to their organisations. As analytical tools and data become more accessible, for example RMS One, areas of the market inevitably will become more commoditised as the capital requirements and sophistication of participants represent lower hurdles.

73% of CEOs viewed **demographic shifts** as being a transformative trend. For example, two-step growth between developed and emerging economies is causing significant redistribution in the world's workforce. This further compounds the growth differentials and results in a need to better anticipate the reinsurance requirements of a changing customer base.

Thirdly, the **shift in global economic power** was viewed as a transformative trend by 55% of re/insurance CEOs. Reinsurance penetration has been challenging in emerging economies with insurance penetration representing less than 3% of GDP.

Making money has been difficult in for Western reinsurers in markets where competition is mounting, foreign ownership may be restricted, and limited data can make risks difficult to price and manage. After all, profitability is possible only if there is sufficient risk data to ensure pricing accuracy and adequacy.

New ways of assessing and pricing risks will be necessary to contend with often limited risk data; different legal systems, regulatory frameworks, and business practices; and the potential for political instability. For commercial risks, rather than trying to capture the risks within an entire market, it might be more manageable and effective to concentrate on particular industries.

So how can reinsurers capitalise on these transformational trends and move out into the front of a rapidly changing marketplace?

- ***Starting with the customer***

A key, if not the key, defining feature of a successful organisation is its ability to connect with customers in an intuitive, proactive and trusted way; working 'outside-in' to create the right solutions.

- ***Insight to foresight***

Big data, and other new analytical techniques can help reinsurers to develop a better understanding of customer behavior, needs, and risks, thereby enabling them to provide more responsive products and more competitive rates while still sustaining margins.

- ***Speed to market***

From a systems perspective, the biggest single problem is that upgrading a complex 'industrialized' infrastructure could take several years to complete, by which time the market will have moved on. One way of achieving digital competitiveness is to establish start-ups that run alongside existing capabilities.

- ***Adapting to new regulation***

86% of CEOs believe over-regulation is an organizational threat. Significant regulatory change is likely to remain a fact of life for some years to come. Therefore, one of the most important competitive differentiators is going to be how effectively reinsurers anticipate, adapt and, where possible, take advantage of these changes.

- ***Targeted acquisition***

M&A is seen by industry CEOs as one of the least important areas in capitalising on transformational trends. This is surprising given that the economy is picking up and it may be the best way to acquire new skills and catalyse change.

- ***Re-asserting the value insurers create***

While nearly 60% of CEOs see lack of trust in the business as a potential business threat, the survey also highlights the industry's determination to re-engage with customers, governments and society as a whole.

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