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## **Press Release**

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### **PwC Bermuda: Reinsurers need to differentiate themselves or risk consolidation**

#### ***'Six business models that offer foundations for success in the new market landscape'***

**Monte Carlo** – The reinsurance sector could be set for a renewed wave of cost-cutting and consolidation, with reinsurers with undifferentiated strategies particularly vulnerable, according to PwC's new report **Reinsurance 2020: Taking control of your destiny**.

PwC analysis suggests that nearly 40% of the reinsurance market by capacity could fall into this bracket as customers demand more specialised and targeted solutions from their reinsurers.

Attending the annual Reinsurance Rendezvous in Monte Carlo, **Arthur Wightman, PwC Bermuda managing director and insurance leader**, said: "Reinsurers are experiencing unprecedented pressure on the viability of their business models. As more efficient capital continues to absorb a greater proportion of risk, reinsurers need to ensure they remain relevant through a clear focus on cost, risk insight and innovation."

Mr Wightman continued: "The rewards for the reinsurers that get this right are potentially huge, especially if we expect the global commercial insurance market to be worth north of \$2 trillion by 2025. Failure to do so will increasingly result in organisations bypassing the industry all together and placing their risks directly with willing capital market risk takers."

The combination of the low interest rate environment, limited growth in the traditional insurance markets, declining margins, the influx of insurance linked securities (ILS), low investment returns and soft market conditions, mean that reinsurers are working harder than ever before to attract new business.

**Matthew Britten, PwC Bermuda managing director, insurance team**, said: "Many reinsurers need a radical re-think of where and how to compete. With prices low and direct competition from ILS, clients can afford to gravitate to a select panel of higher rated, often larger, reinsurers. This is leaving some of the smaller and less well rated counterparts in the margins."

He added: "Unless the undifferentiated generalists change tack, it's only a matter of time before they're absorbed or squeezed out of the market altogether."

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PwC predicts that mid-sized generalists could find it particularly hard to sustain investment and competitive relevance in this new environment.

Instead, reinsurers will need to have a clear strategy on the following questions: where am I going to compete, what is our distinct proposition, what are we in business to do and what does our resulting operating model look like? The report outlines six models that PwC believes will be successful in the new market landscape (see final paragraph).

The report also suggests that competition now goes beyond price and even underwriting expertise as clients look for scale, specialist expertise, deep territorial knowledge and advanced analytics. Many are now prepared to pay a premium for more innovative solutions for their less well understood or newer types of risks. Those without these capabilities are forming an increasingly squeezed middle that is vulnerable to consolidation or take-over, according to PwC.

PwC sets out six business models that it believes offer the foundations for success in the new market landscape:

- **Superior scale:** Big and knowledgeable on either a global or regional level
- **Nimble innovators:** Using analytics and specialist expertise to punch above their weight
- **Lloyd's:** Combining depth and breadth with smaller company agility and expertise
- **Float accumulators:** Delivering superior investment returns
- **Risk transformers:** Specialist capital market funds
- **Go direct:** Partnering with clients to provide targeted capital market protection

## ENDS

- For PwC's Reinsurance 2020: Taking control of your destiny report please visit [www.pwc.com/insurance/reinsurance2020](http://www.pwc.com/insurance/reinsurance2020)

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