

Cautious consolidation

Katherine Blacker talks to Hugo Crawley, chairman of BMS, about underwriting returns, broker consolidation and the industry's prospects for 2010.

What have the poor investment returns of several reinsurers done to pricing?

We have seen an interesting journey on pricing this year. With negative returns on investment portfolios, reinsurers expected an uphill struggle to reload balance sheets, which led to much talk of a hardening market at the start of the year. In reality, the reduction in capital was more minor and short-lived than anticipated, largely compensated by strong underwriting results. Other factors contributing to the broadly stable rate position have been the inability of direct markets to pass on rate increases and a reluctance to absorb higher reinsurance costs.

Together, these conditions have meant that the anticipated market-wide price hike failed to materialise. There were increases in many sectors but only an optimist would describe them as reflective of the potential 'new' cost of capital.

What is your prediction for the rest of 2009 for rates?

Should the hurricane season continue on its current benign form, there is some likelihood that cat rates in the less capacity-sensitive areas of the Mid-West US will start to soften through to 2010, though hotspots such as Florida and Texas will see prices continue to edge up because of capacity shortage. In the liability arena, workers' compensation, medical malpractice and general liability remain pretty competitive, with few signs of hardening except to a small extent in financial lines. The directors' and officers' and errors and omissions markets have been expecting an increase in claim frequency for a while but this has yet to happen. This means that markets could best be described as nervous and so they are very much holding the line.

Results for the second quarter were more positive than we saw at the start of the year.

Do you think this is the beginning of a recovery for reinsurers?

The outlook for reinsurers, as for every sector, is certainly more positive than six months ago. Rising stock markets and capital market stabilisation have eased the pressure on balance sheets. The combination of: large recoverables; weak premium growth; continuing economic



uncertainty; and the possibility of widespread inflation all mean that caution remains the watchword, though.

The prime beneficiary of this more cautious attitude is the subscription market, the structure of which offers a simple and efficient way to diversify the risk profile. The Lloyd's Market and its syndicates offer the benefits of mutualisation and a very strong brand. This trend towards greater syndication has also been good for the corporate market, which is seeing more business placed with a larger number of carriers. What is unlikely is that we will ever see the market return to the point where one reinsurance policy would have 100 lines of 1%, but there is an increase in the number of underwriters used.

What is the biggest challenge faced by BMS?

We believe that the sector is at a tipping point where continuing consolidation is causing dissatisfaction among markets, clients and broking teams, all of which want more choice and autonomy. Our biggest challenge is to capitalise effectively on the opportunities that dissatisfaction has created, particularly in our core areas – namely the North American treaty

and London direct markets.

Our ambition is to restore choice and high service levels to mid-tier businesses – the firms that have suffered from staffing discontinuity and reduced attention and responsiveness levels as a result of consolidation and commoditisation of brokers. We want to become the broker of choice for businesses looking for close personal service, specialist expertise and a team with the insight, creativity and tenacity to get the right result.

Our challenge, if we are to satisfy our ambitions, is to grow our business through the addition of individuals and teams looking for a company that gives them scope to operate in the way that makes best sense for their business and their clients. We want to attract people that combine consistent client focus with energy, ambition and leading technical skills. We have already chalked up several recruitment successes and continue to search for senior individuals, those motivated by the opportunity to share in the profits generated by their own book of business and that want to participate in the equity of BMS.

What has been the effect of consolidation among major reinsurance brokers?

There has been more dissatisfaction than we could have hoped for: many clients don't like it, markets don't like it and some of the brokers themselves don't like it. That means that we are now dealing with a fluid situation in which broker relationships across the board are under stress. It is a situation that creates significant opportunities for BMS both in terms of winning new business and attracting new teams.

Do you think we will see further consolidation among reinsurers and brokers?

Further consolidation seems likely among reinsurers wanting to expand but that are unable to make it through underwriting alone. For those with capital strength, merger and acquisition activity is certainly one answer to the question of releasing value.

Among brokers, there is probably little scope at the top end because there is already little choice for clients. However, at the medium and lower end of the scale, we believe that there are still opportunities as companies look to enhance the economics of their businesses. 