

# Reinsurance responds to 1Q catastrophe losses

The human impact of recent catastrophes is paralyzing, but the (re)insurance market is in a robust position to ensure that relief efforts can continue apace, says **Mr Greg Case**, President and CEO, **Aon Corp.** In an exclusive interview, he also explains how the largest impact on (re)insurers is likely to be from contingent business interruption losses, which will evolve for the foreseeable future.

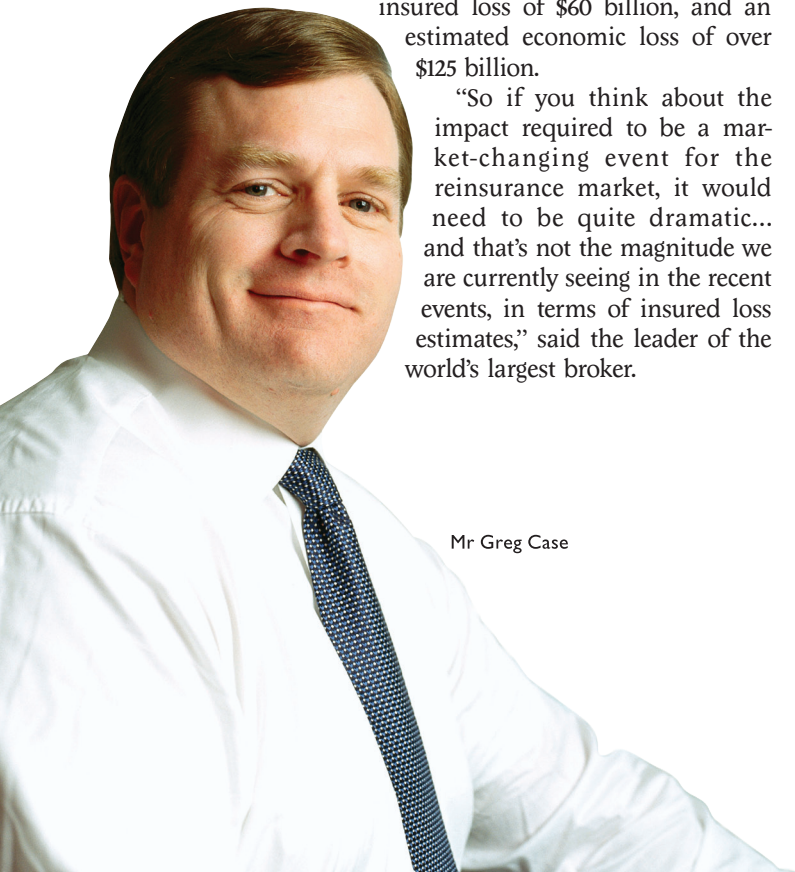
By **Min Yong**

The first quarter of 2011 was a devastating period for many regions across the world, with Japan, New Zealand and Australia suffering some of the worst catastrophe events in their respective histories. It was also a period that put the reinsurance product to the test, given that the losses were so severe that they quickly impacted the reinsurance layers on many insurers' catastrophe programmes.

However, despite the losses, there is still around US\$70-80 billion excess capital in the reinsurance market today, according to Aon Benfield, the reinsurance intermediary of Aon Corporation. This has meant that subsequent local rate increases in the reinsurance market have been of a lower order than might have been expected, and it would still take a significant reduction of this excess capital to bring about a shift in global reinsurance pricing, said Mr Greg Case, while on his whirlwind tour around Asia recently.

Putting recent events into context, Mr Case said that the most significant catastrophe event for the (re)insurance industry were the hurricanes that hit the Gulf of Mexico in 2005, whereby Hurricane Katrina alone resulted in an insured loss of \$60 billion, and an estimated economic loss of over \$125 billion.

"So if you think about the impact required to be a market-changing event for the reinsurance market, it would need to be quite dramatic... and that's not the magnitude we are currently seeing in the recent events, in terms of insured loss estimates," said the leader of the world's largest broker.



Mr Greg Case

## Impact of large losses

For the first quarter of 2011, there were \$53 billion of insured losses, compared to \$16 billion in the corresponding quarter last year. The Japanese earthquake, and subsequent tsunami, is now the largest single loss since 2005 with current market estimates of \$30 billion. The second costliest event is the combination of the Australian floods and New Zealand earthquake which totalled \$20 billion in losses.

"While it's far too early to put a final figure on the magnitude of losses from the Japanese earthquake, intuitively, if we look at the Kobe earthquake of 1995, we would not expect that the losses would reach the kind of numbers that we think will have a market-changing impact. However, it certainly puts the marketplace to the test at an operational, analytical and pricing level," Mr Case said, acknowledging that there had been little movement in general pricing during the 1 April renewals that took place largely in Japan, Korea and India.

For loss affected areas in Japan, there were significant rate increases for earthquake covers, some by as much as 30%. "For other perils, the market took a very mature approach and separated these from earthquake covers," he said, while non-CAT rates remained largely flat.

## BI costs to rock market

While Japan's losses and recovery are still evolving, he indicated that the ultimate impact on the marketplace will be from the unknown costs related to business interruptions on the global supply chain. "That's the one we're being very mindful of in the context of our clients," Mr Case said.

"We're spending a great deal of time helping our clients assess their damages and what the business interruption costs might be, and how it manifests itself," he added. Mr Case expects that the true costs will not be fully determined for at least a year as the impact of contingent business interruption is not only on Japan and the region but also globally where Japan is a major supplier of automotive and electronic goods.

## Dedicated response to the crisis

Throughout Japan's significant aftershocks, the Aon Benfield team remained in Tokyo and continued to serve their clients, focusing on clients' wellbeing, not only from a financial but also from an operational and personnel standpoint.

The team assessed the impact of the event, developed recovery plans and assisted clients to access the global (re) insurance marketplace, said Mr Case who, as Aon's CEO directs the efforts of the firm's 59,000 colleagues, who are based in over 500 offices and more than 120 countries.

"The true test of mantle for a firm like ours is in times of need, like the present. This is the time that I, as a CEO, am most proud of our global firm," he said. **A**