

European reinsurers in a global industry

Laurent Rousseau, CEO, EMEA and global capital solutions at Guy Carpenter, examines how European reinsurers fit within the global market

AM Best data shows European reinsurers have maintained or increased their position in both the European economy and the global reinsurance industry.

They have shown resilience within the European economy – with premium growth of 4.2 percent per year between 2002 and 2022, compared to European GDP growth of 3.7 percent – in large part because of their global footprint and the robustness of the European regulatory framework in which they operate.

While domiciled in Europe, the region's reinsurers have grown by reaching outside the domestic economy, from Asia Pacific to the Americas. This growth has been supported by the European-specific regulatory framework, which has proven solid since Solvency II came into effect in 2016. That framework has anchored European reinsurers and prompted them to become considerably more sophisticated in the way they look at available economic capital, required capital and their ability to quantify risk appetites.

Most players took Solvency II as an opportunity to not only comply with regulation, but to also advance their own approach to risk assessments. This has been a driver for financial strength and adequate risk-taking, emphasising a risk-based approach and recognising diversification benefits.

Maintaining strong market share

As European reinsurers have proven sturdy on the continent, they have also maintained their relative market share of the global reinsurance industry (36 percent), growing premiums from \$53.5bn to \$122.1bn, representing annual growth of 4.2 percent, according to data from AM Best.

Rather than diving into wholesale markets, European reinsurers have put forth another advantage to maintain their market share: boots on the ground and a deeper retail network. As national economies progress, many markets have tried to retain premiums. This deliberate growth of a proper retail, local presence across countries has been a major strength of the continental European reinsurers.

This strategy, while a differentiator, has come at a cost. In particular, higher expenses and greater regulatory complexity (because they must comply with each regulation without having the umbrella of a wholesale market).

Opportunities for innovation

To continue growing market share in the face of myriad emerging risks, the European reinsurance sector is innovating around the need for greater cooperation on social and geopolitical risks, at the crossroads of public-private partnerships, and relating to the coverage of large-scale natural perils such as earthquakes and floods.

Historically, Europe has seen forceful state intervention. But European reinsurers have tried to raise awareness of the protection gap, effectively promoting the need to fill that gap, particularly regarding natural perils.

Looking ahead

Financial strength has been a hallmark of the European reinsurance industry. For the past 15 years, European reinsurers have remained financially strong, with no failures and no significant tests of the strength of these players. Today, European reinsurers look to build on that financial strength with increased diversification.

Additionally, European reinsurers continue to lean into diversification in terms of geography and business lines, including life reinsurance. Already more diversified than many global competitors, European reinsurers have played diversification benefits to the maximum, and the rigorous and transparent nature of the regulatory framework suggests this strategy of increased diversification will be more successful than past attempts, which have often led to venturing into unprofitable growth.

Finally, if reinsurers are to continue leveraging their European identity to thrive and fulfil their role as buffers to major shocks, there will need to be an effective European dialogue encompassing pressing technical, social and political challenges.

Further, European regulators will need to maintain a balanced approach that encourages responsible risk-taking in respect of both the liability and asset sides of their balance sheets.

European dialogue will then provide reinsurers with answers to questions around the insurability of extreme risks and a basis for the necessary collaboration with the public sector.

In an ever-fragmenting world where political power is taking over economic interests, the ability to keep building such an in-depth presence in so many regulated markets and avoid regulatory complexity taking over European reinsurers' strategy will be key challenges.

