European reinsurers marked by resilience in a global industry

Laurent Rousseau, CEO, EMEA and global capital solutions at Guy Carpenter, looks at the opportunities for a European reinsurance sector that has proven resilient in recent years

Data from rating agency AM Best shows European reinsurers have maintained or increased their position in both the European economy and the global reinsurance industry, with premium growth outpacing European GDP growth over the last 20 years.

The resilience of these reinsurers is built on a combination of the quality and strength of the European regulatory framework in which they operate and a well-balanced strategy for international diversification.

European reinsurers have grown, in part, by reaching beyond the domestic economy, ranging from Asia Pacific to the Americas. This growth has been supported by Europe's robust regulatory framework, which has proved solid since Solvency II came into effect in 2016.

Solvency II has prompted European reinsurers to look more closely at capital and their ability to quantify risk appetites. It has also presented reinsurers with an opportunity to advance their approach to risk assessments, bolstering financial strength and prompting adequate risk-taking, greater emphasis on a risk-based approach and increased recognition of the benefits of diversification.

Market share holds strong

As European reinsurers have proven sturdy, they have 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 AM Best.

European reinsurers maintain their market share through a deeper retail network. This deliberate growth of a local retail presence across countries has been a major strength and differentiator of the continental European reinsurers. Yet it has come at the cost of higher expenses and greater regulatory complexity (because they must comply with each regulation without having the umbrella of a wholesale market).

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Opportunities for innovation

Amid a myriad of emerging risks, European reinsurance innovates 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, carefully pursuing continued market share growth.

European reinsurers have tried to raise awareness of the protection gap, effectively promoting the need to fill that gap, particularly regarding natural perils.

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 in terms of geography and business lines, including life reinsurance, an industry in which there are significant opportunities in the medium and long term for the reinsurance of biometric risks.

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.

To continue leveraging their European identity to thrive and fulfil their role as buffers to major shocks, reinsurers will need to engage in 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, European reinsurers must overcome key challenges of building such an in-depth presence in so many regulated markets and avoiding regulatory complexity taking over their strategy.