

Reinsurance in an ‘Encouraging Market’



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Interview with Sampo International’s Christopher Donelan

Being a reinsurer in today’s market means a long-term commitment, keen understanding of underwriting cycles, and the willingness to innovate and evolve with the times. Uncertainty remains a common theme in any insurance cycle but Christopher Donelan, CPCU, ARe, chief executive officer of Sampo International’s global reinsurance arm, feels optimistic about the firm’s position in today’s market.



“It’s the age-old question--reinsurance is about supply and demand. At 1/1, more supply was available than expected, however, we were able to achieve decent rate increases,” said Donelan.

Reinsurers expected rate gains to be “a little bit better” during the 1/1 renewal season, and cedants may have been surprised by some terms and conditions. The industry did respond well on some of the challenges with COVID-19, he added, and Sampo International found good communication and clear wording eased the process.

However, after a potential \$100 billion to \$120 billion loss year in 2020, reinsurers and insurers “certainly have some holes to climb out of,” Donelan said.

“There’s more runway left and more movement on the rate environment in both reinsurance and the primary market,” he explained. The market took a measured approach on rate while waiting to see the ultimate impact of the COVID-19 pandemic on the insurance industry, but pricing trends continue to push the true rate up.

“All the characteristics going into 1/1 are still in place. We still have social inflation on the table, hundreds of millions of dollars in riot claims, uncertainty over

COVID-19, and a low-interest rate environment. There has also been a heightened recent time period of high catastrophe losses. There’s a lot of losses that have yet to play out,” he said.

According to Donelan, what the industry now refers to as “social inflation” helped trigger the end of a prolonged soft market but, ultimately, poor underwriting over the years prompted the primary insurance market to get disciplined. The result is always the same: losses outpacing premiums will eventually cause a change in the market.

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“Underwriting is about following the cycle and making sure you’re reading the indicators,” said Donelan. “When limits rise and price goes down, that’s never a good formula for success. There will never be enough premium to charge for a limit loss. The market sometimes gets lost in limit management and it always leads to the same outcome.

Successful insurers react to outsized verdicts and losses with appropriate adjustments, exclusions (when a risk is not insurable), and rate. These actions impact results and stability in a market.

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professional companies do, and that’s how we pick our partners,” said Donelan.

The better relationships, he said, are the ones with a mutual understanding of the challenges each side faces and the respect for each other when they don’t agree.

“Most of our clients are fine with us making a margin,” said Donelan.

During the most recent renewal cycle, reinsurers took a not-unexpected stance on communicable disease exclusions. Donelan said primary insurers understood the risk is “not an exposure that you could ever underwrite to.”

“Without it, the market wouldn’t have continued. There likely wouldn’t have been enough capacity,” he said.

Despite rate increases on reinsurance at 1/1 and more expected throughout the year, Donelan said he wouldn’t characterize this as a hard market. The capacity is there, and a true hard market would see insurers exiting more lines or going insolvent without significant replacement capital.

“I’d call it an encouraging market,” he said. “I hope it has some more legs in it because it needs it. Underwriting cycles shift gradually in my experience –9/11, for example. The market showed signs of hardening six months prior to the tragedy in a lot of lines, rather than immediately –some of the same characteristics are present today.”

The industry is showing discipline now, but remains conscious of market share, according to Donelan.

“And this could change quickly. One unmodeled event in 2021, on top of the 2020 events and we are in a very different place,” he said. “That said, the practice of risk management has matured significantly, and I do think we have a much better understanding of risk. The industry’s resilience and growth in these areas rarely get enough attention.”

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One silver lining of the pandemic has been a renewed focus on insurance education and modernizing the industry to compete in the future.

“Insurance is like learning a complicated language,” he said. “It takes a while to truly understand what you are doing in your trade. Gone are the days of just on-the-job learning. You have to supplement that. You can’t know everything.”

An added boost to Donelan’s enthusiasm for the industry has been the support and vision for the future

at Sampo International. The insurer has provided a positive environment, growing in people, clients, thought leadership, and premium, he said, and “it’s a great group of people” in an exciting business.

“If I was a young person coming into it, there’s so much to do,” Donelan said. “It’s an amazing story and one that people should be proud of.” ■