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Willis Re Reinsurance Market Report April 2020: Results for year-end 2019

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Total capital dedicated to the global reinsurance industry measured USD 605 billion at year-end 2019, reflecting robust 15% year-on-year growth. This was primarily driven by 2019's strong investment market performance and was achieved despite a 3% contraction in alternative capital, according to the latest Reinsurance Market Report from Willis Re.

Welcome to the 11th semi-annual publication of Willis Re's Reinsurance market report which tracks the capital and profitability of the global reinsurance industry.

Global reinsurance dedicated capital totalled USD 605B as of the end of 2019. This is a robust 15% increase from a re-stated USD 526B at year-end 2018[1]. As seen at the half-year stage, strong investment markets were the main driver of the industry's capital growth. Alternative capital remained fairly stable, contracting only 3%.

Over the past five years, and not counting the impact of our 2018 restatement, we calculate that the industry's capital base has grown at an average annual pace of 4%.

Year-to-date 2020 much of this expansion will have unwound, due to the steep sell-off in equity and corporate bond markets. During March and April 2020 there have so far been significant swings in the investment markets, resulting in impacts to the global reinsurance capital base ranging from -5% to as much as -20%.

Focusing on the **INDEX**[2] companies, which contribute the largest component of the industry's capital:

- INDEX companies' capital grew 19% to USD 496B (FY 2018 re-stated: USD 416B), which was entirely attributable to unrealised investment appreciation plus investment gains recognised within net earnings.
- The appreciation of National Indemnity's large equity investment portfolio accounted for fully 60% of this growth. Excluding that, INDEX growth was 8%.
  Drilling further into profitability, for the **SUBSET**[2] of companies within the INDEX that provide the relevant disclosure:
  - The reported combined ratio for the SUBSET increased in 2019, from 99.2% to 100.6%.
  - The support to combined ratios and earnings from reserve releases continues to reduce. In 2019, the benefit to the SUBSET combined ratio reduced from 4.6% to 2.3%.
  - On an underlying basis (normalising nat cats and stripping out reserve releases), the underlying combined ratio was 103.1%. This metric has been gently increasing every year going back to 2013, including a small deterioration versus 102.3% in 2018.
  - Given low and often negative interest rates, reinsurers need to be earning a combined ratio well below 100% to achieve an adequate RoE. Price increases began to accelerate in a number of market segments in 2019, but a 103% starting point shows the large gap the industry needs to close in order to restore profitability.
  - On the other hand, investment yields in 2019 were substantially augmented by investment gains. The running investment yield (ie bond coupons, equity dividends, etc.) held roughly stable at 2.9%, but gains added a further 1.5% to take the all-