

# 50 Predictions: Reinsurance

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Making predictions about the future of the insurance market is not for the faint-hearted. Our experts have boldly looked ahead at the challenges you may face over the next year and produced 50 focused predictions.

## Concentration of risks in mega cities could create a perfect storm

With the rise of mega cities, reinsurers need to monitor and manage any high concentration of risk. Exposures include natural hazards, in particular earthquake, flood and windstorm, technology and infrastructure failures, financial risks from systemically important markets or entities, and social and political risks such as terrorism, war and epidemics. McKinsey recently predicted that by 2025 China will have 221 cities with over one million inhabitants and an urban population of one billion. With western insurance markets saturated and soft markets being the new normal, insurers are seeking greater penetration into emerging markets, including China. Reinsurers need to be wary that they may be heading for a perfect storm.

## Reinsurers to challenge whether settlements are proper and business-like

The scope and meaning of follow the settlements provisions and all their variants will continue to cause uncertainty for reinsurers. The market had been hoping the appeal in *Tokio Marine Europe Insurance Ltd v Novae Corporate Underwriting Ltd* - the Thai floods cases involving substantial losses for Tesco's local operations - would clarify these controversial clauses. However, the parties reached a compromise leaving the original decision to stand. This said that the reinsured need only show that a loss was 'arguably' covered to trigger the follow the settlements clause. The argument that it had to be demonstrated on the more onerous balance of probabilities test was rejected. Reinsurers will still be able to argue that the settlement is not proper and business-like - the further requirement under a follow the settlements clause. However, such challenges are only ever likely to succeed if it can be shown that a materially better settlement could have been achieved had different steps been taken to determine the settled claim.

## Life reinsurance approaches will cross over into non-life markets

Reinsurance carriers will need to devise complex structures aimed at risk management and balance sheet protection. This will see increasing crossover from the life reinsurance market where using reinsurance as a means of recouping payment of acquisition expenses secured against a flow of premiums is now an established tool. Wide-ranging opportunities are likely to present themselves, from re-engineering existing treaties and reviewing aggregate excess of loss contracts with substantial values to incorporating novel approaches to risk management. Restructuring mechanisms, such as transfers of blocks of business made under Part VII of the Financial Services and Markets Act 2000, are also likely to feature more frequently.

## Key developments in 2014/15

- [Insurance Act 2015](#)
- [Riot Compensation Bill](#)
- [Tokio Marine Europe Insurance Ltd v Novae Corporate Underwriting Ltd](#)
- [Zurich Insurance Plc UK Branch v International Energy Group Ltd](#)

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