November 1, 2013

European Insurers Well Placed To Sustain Windstorm Losses

Regional German companies may sustain underwriting losses.

Non-life insurers in the United Kingdom and Western Europe remain on course to post strong overall performances in 2013, despite the windstorm of Oct. 28. However, smaller, regionally focused German companies may incur underwriting losses for the year from an accumulation of natural catastrophes.

For A.M. Best-rated companies, losses from the windstorm – known as St. Jude in the United Kingdom and Christian, Carmen or Simone in Europe – are expected to be well within most insurers' catastrophe budgets. The windstorm hit countries including the United Kingdom, France, Belgium, Luxembourg, Germany, the Netherlands, Sweden, Denmark, Finland and the Baltic States of Latvia and Estonia, resulting in at least 15 deaths.

As the situation is still developing, the final economic and insured losses remain unclear. A.M. Best notes that early estimates have placed claims in the United Kingdom at as much as GBP 500 million, which would be the biggest loss since windstorm Kyrill in 2007. Claims are expected to be largely related to residential damage from felled trees, flooding and power cuts. Insurers are also likely to face losses for motor, damage to transport networks, delays and cancellations of flights and shipping, and some commercial property damage and business interruption.

U.K. Non-Life – Top 10 Household & Domestic All-Risks Insurers

Ranked by gross premiums written.

2012 Rank	Company Name	Ultimate Parent	Gross Premiums Written (GBP Millions)	Market Share (%)	Combined Ratio (%)	Loss Ratio (%)
1	UK Insurance Ltd.	Direct Line Insurance Group plc	GBP 937.7	14.1	105.8	58.8
2	Royal & Sun Alliance Insurance plc	RSA Insurance Group plc	709.1	10.7	93.5	49.8
3	Aviva Insurance Ltd.	AVIVA plc	644.3	9.7	89.5	47.9
4	AXA Insurance UK plc	AXA SA	524.5	7.9	106.9	65.6
5	Lloyds TSB General Insurance Ltd.	Lloyds Banking Group plc	493.6	7.4	75.5	41.0
6	St Andrews Insurance plc	Lloyds Banking Group plc	410.6	6.2	66.0	36.2
7	Legal & General Insurance Ltd.	Legal & General Group plc	327.0	4.9	96.3	56.7
8	Ageas Insurance Ltd.	Ageas SA/NV	275.5	4.1	97.6	59.4
9	Gresham Insurance Co. Ltd.	AVIVA plc	228.9	3.4	68.8	41.8
10	ACE European Group Ltd.	ACE Limited	214.1	3.2	96.9	43.5

Figures are based on year-end 2012 FSA returns for household and domestic all-risks insurance business lines.
Source: BESTLINK – Best's Statement File – U.K.

Impact on U.K. Insurers

A.M. Best expects that claims will be manageable for U.K. insurers. Rural areas south of London sustained some of the worst damage, although this is unlikely to result in insured losses of a magnitude that would be problematic for domestic insurers. Claims are likely to be mainly for residential property and motor, with few commercial losses.

Furthermore, the storm system passed through southern England quickly, rather than dwelling over an area for a prolonged period, which tends to cause more extensive

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damage and higher losses. Consequently, A.M. Best expects claims to be of relatively low value, with limited total losses for residential property.

Comparisons have been drawn between the October windstorm and those that occurred in the United Kingdom in 1987 and 1990. However, more advanced modelling and weather forecasting enabled meteorological institutes throughout Europe to issue high wind and flood warnings days in advance, which helped limit damage.

A.M. Best also notes that rated insurers in the United Kingdom have, to date, faced a benign year for large weather-related losses, resulting in competitive market conditions and declining premiums for property and motor in 2013. If current loss estimates prove accurate, this recent windstorm is unlikely to provide grounds for across-the-board rate increases.

Impact on European Insurers

A.M. Best is continuing to hold discussions with rated entities to determine their exposure in Continental Europe. Based on the information received to date, the windstorm is not expected to result in changes to ratings or outlooks. Insurers set annual budgets for catastrophe losses and structure their pricing and books of business accordingly to generate technical profits. For rated entities with catastrophe exposures, based on experience in the current year, aggregated catastrophe losses for this storm and other weather-related events remain well below 2013 budgets.

The first five months of 2013 were largely benign for European natural catastrophes and large losses. In June, heavy rain and subsequent flooding throughout the Czech Republic, Germany, Austria, Poland, Hungary, Slovakia and Switzerland resulted in an estimated EUR 18 billion of economic damage and EUR 4 billion in insured losses. While this was considered to be a 1:100 year event similar in magnitude to the 2002 European floods, for A.M. Best's rated entities, it is expected to be an earnings event rather than a hit to capital.

Despite the flooding in June and the recent windstorm, the large, diversified European insurers remain on course for a profitable year. In terms of risk-based capital, October's windstorm remains well within A.M. Best's stress test, whereby capital is evaluated against two severe events defined as the greater of a 100-year windstorm or 250-year earthquake on a probable maximum loss basis.

For the large European insurers, the recent windstorm losses will be within their retention levels. There may be reinsurance relief for some localised, smaller companies, and given this is clearly a single event, primary insurers could benefit if they reach their per-event limit.

The recent windstorm is unlikely to affect the European catastrophe bond market as, in contrast to the United States, there is less demand for bonds to cover European perils. October's windstorm is unlikely to trigger what bonds do exist, as it was not severe enough to reach attachment points.

Impact on Domestic German Insurers

While A.M. Best expects companies with diverse books of business in the United Kingdom, Continental Europe and the United States to remain well positioned to report a good year for underwriting earnings, this scenario may not apply to domestic German insurers.

In addition to the recent windstorm and June's flooding, hailstorms hit Western and Southern Germany in July and August. This resulted in property and motor damage, with estimated losses of EUR 2.7 billion.

For German insurers that write the majority of their business locally, with a concentration in property lines, these accumulated losses may cause companies to exceed their catastrophe budgets significantly. Depending on their level of reinsurance protection, these companies may post large underwriting losses for the year and could experience erosion in equity capital.

Considering the extent to which the German property and motor classes have been hit this year, A.M. Best would expect local insurers to attempt to recoup some of these losses through rate increases in 2014.

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SR-2013-B-490