The knowledge
Corporate risks
THE BIG STORY

Numbers just don't add up

Rates have stayed stubbornly low in corporate lines despite a spate of natural catastrophes and volatile financial markets. Insurers' underlying balance sheet strength is a big factor driving their appetites.

Shore Capital analyst Eamonn Flanagan says: "Insurers are not being given enough credit for squaring up their balance sheets after the early 1990s wobble. There was a divestment out of equity into bonds when insurers found themselves too exposed. There is resilience in balance sheets after a squirrelling away of money."

Miller corporate specialist Trevor Young says: "Pure UK capacity is still significant. If you add all the growth targets and look at the whole corporate market, someone is going to be unhappy. It doesn't add up."

Rates have rolled down for at least seven years, despite short-term spikes after such events as 9/11.

Opportunistic new but short-term capacity is a problem, says Miller head of corporate Ken MacDonald. "After an event like 9/11, new capacity can put on 20%. But, as soon as prices taper off, they walk away. Existing markets suffer."

He adds: "Anyone can walk along a risk and get a reduction. We like to focus on challenging risks where we can differentiate with our skills."

RSA this year took the unusual step of withdrawing capacity "where we are unable to meet our target returns", reporting a 13% decline in mid-market GWP to £228m in the first half. It even drove up rates in some commercial lines, with liability up 4%, property up 6% and motor up 13%.

Of RSA chief executive Andy Haste's decision to quit, Flanagan says: "He's more of a doctor; not necessarily the right person to do a caretaking role."

How capacity has depressed rates

DOWNWARD PRESSURE ON RATES

EARLY 1990S

The recession revealed that UK life insurance companies' equity portfolios were too risky. A period of divestment began out of equity and into bonds, including corporate bonds and commercial property. General insurance went through a similar process. By the time the liquidity crunch hit in 2007, insurers' balance sheets were in good shape. They have remained well capitalised and attractive to investors, fuelling huge market capacity.

WHO'S PILING IN …

ACE Launched a product last spring under director of corporate risks Pat Drinan targeted professional, retail, hotel groups and machinery manufacturers.

Aspen Managing director Kevin Pallet (formerly of Fusion) is developing the managing general agent model in regional markets through Aspen Risk Management offices in Birmingham, Bristol and Glasgow.

Aviva Aims to target clients with £100m-plus revenue, typically FTSE 350 companies, and annual premiums of £100,000. Senior team includes David Hall and Dipak Warren.

AXA Head of mid-corporate Martin Eyres is said to be intending to double the size of the company's corporate book.

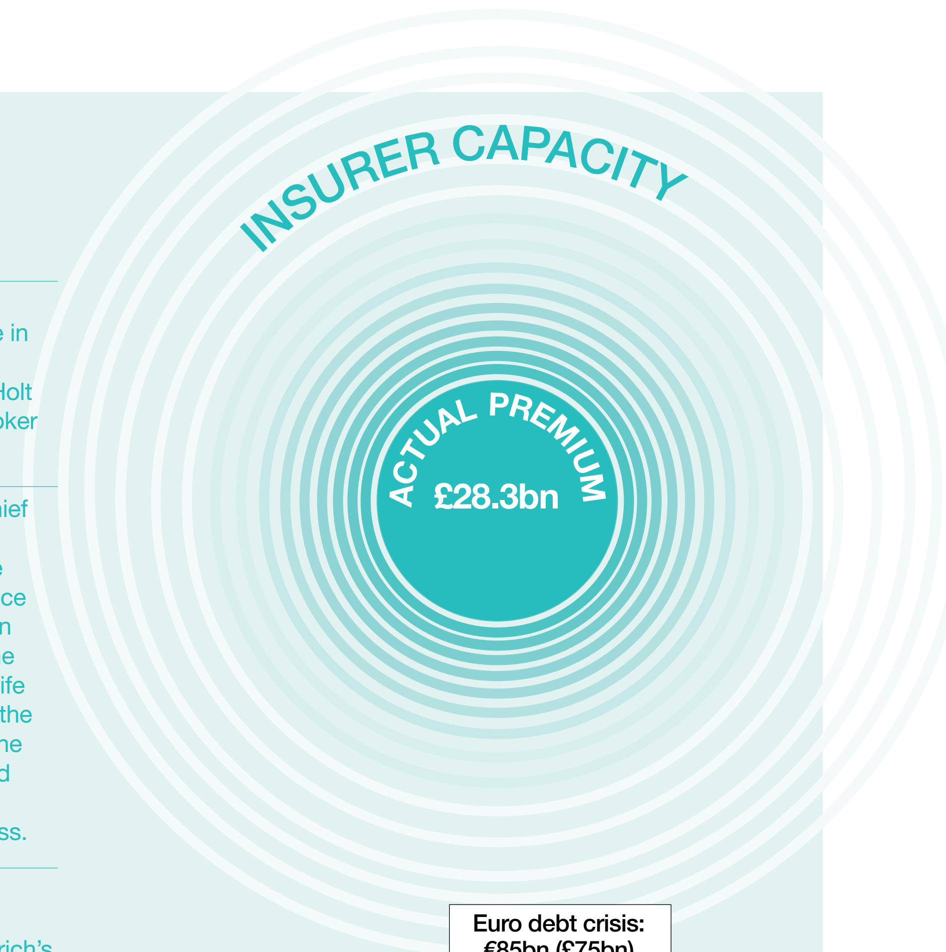
Catlin Targeting expansion beyond traditional London markets business with a bigger UK regional footprint to grab retail commercial premium.

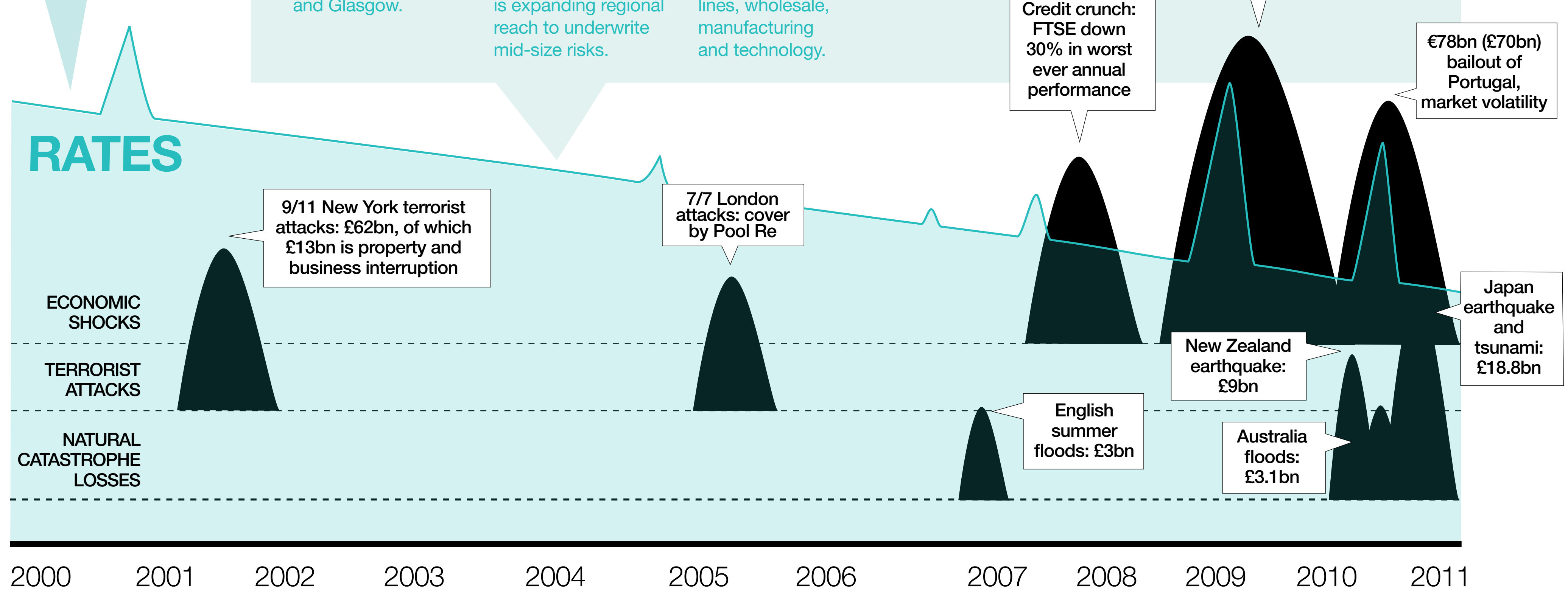
Liberty Chief executive Sean Rocks is expanding regional reach to underwrite mid-size risks.

QBE Insurer is building presence in regional markets, promoting Judy Holt to head of UK broker development.

RSA Outgoing chief Andy Haste has reconstructed the balance sheet since his appointment in 2003 by selling the capital-intensive life business, exiting the USA, de-risking the balance sheet and divesting the Australian business.

Zurich Head of corporate Steve Green has led Zurich's move to revise commercial policies, including professional and business lines, wholesale, manufacturing and technology.





UPWARD PRESSURE ON RATES