



Talisman Report January 2017

Whilst there were some surprises in 2016 with the Brexit vote and the Trump win, the lack of any major catastrophes has meant that premium rates have continued to decline although there are signs that the bottom of the cycle is approaching. Whilst low interest rates continue across the globe, capital remains attracted to the returns produced by the insurance sector.

In our July report it was forecast that the 2014 underwriting year of account which closed at 31 December 2016 would have a profit on capacity in the range of 3.9% to 10.3% with a midpoint of 7.2%. As at 30 September 2016, those numbers had improved with the revised midpoint being 10.5%. We expect the final result to be a further improvement. The forecast for the 2015 underwriting year of account remains flat with the midpoint profit having moved from 5.2% to 5.3% only. The final result will be dependent upon the amount of reserves being made redundant during 2017 and the dollar to sterling conversion rate at the year end.

The most notable events in 2016 were the two earthquakes in Kumamoto, Japan in April which caused losses estimated at US\$31billion of which 81% was uninsured. In May there was the start of the two month long wildfire near the town of Fort McMurray which is the costliest ever insurance loss in the Canadian market at US\$4billion. In October hurricane Matthew devastated the Caribbean and brushed the south east coast of the USA estimated to cost US\$10.2billion. It was the first Atlantic hurricane for almost 10 years to reach the highest category 5 status. In November there was the earthquake at Kaikoura in New Zealand estimated to cost US\$3.8billion.

We do not receive the first official forecast for 2016 until the end of May 2017 but currently a profit should be anticipated. It must not be forgotten, however, that many policies remain on risk until well into the year.

The market commentary has changed very little during the last 12 months with the profits being produced due to a lack of claims assisted by a strengthening US dollar. With trading results remaining profitable there were inevitably rate reductions for 1 January reinsurance renewals but these were at a reduced level compared to 12 months ago.

Talisman's overall premium limit for 2017 has increased from £22.2million to £23.0million. This growth is in the main due to the strengthening of the US dollar relative to sterling rather than any growth in business. The overall mix will be detailed in our July report but there are no meaningful changes year on year.

At this point in the underwriting cycle, syndicate selection is paramount with almost 90% of the syndicates supported by Talisman being rated "A" or "B" by Argenta Private Capital Limited. The balance is either on motor, where we see a recovery position, or on those newer syndicates that we believe will flourish when trading conditions improve. As ever, our exposure to property reinsurance business remains below the market average.

The core of syndicates we support has served us well and we believe that with their skilled management and competent underwriters they will continue to do so. More detailed information on the market and the points raised above will be given in our July report.