

# TALISMAN

Underwriting Plc

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## Report – January 2014

The 2013 calendar year saw an absence of major catastrophes and experienced one of the quietest hurricane seasons in the North Atlantic for over 20 years. Notwithstanding that, the world experienced many weather related events including flooding in Central Europe, and Alberta in Canada, tornadoes in Oklahoma City, hailstorms in Germany and super typhoon Haiyan causing devastation in the Philippines. We will not receive the first estimates for the 2013 year of account from managing agents until the end of May but on current data we anticipate the 2013 account closing with a profit of around 5%.

In our July 2013 report the 2011 underwriting year of account was forecast to have a mid-point profit of 4.97% and that has since increased to 5.46%. We expect the account to close with a profit in excess of that figure but it should be noted that the strength of Sterling relative to the US Dollar has a negative effect.

On a similar basis the previous midpoint forecast for the 2012 underwriting year of account was a mid-point profit of 4.10% and that has now increased to 5.49%. We would again expect the account to close in 12 month's time with an improved figure.

On 8 January 2014 Talisman completed the purchase of John Stevens LLP which has a capacity of £1,194,445 at a cost of £410,000. Consequent to this purchase Talisman's premium limit for 2014 is £20.4million. Business split and disaster scenarios are similar to 2013 which will be detailed in full in the July report.

Underwriting conditions are much as expected. The combination of excess capital and the absence of major loss activity has caused the anticipated reductions in rates for catastrophe reinsurance. It must be emphasised that such reductions should be considered in a historical context since US catastrophe rates were at or near peak levels a year ago.

In a market which is "softening" in some areas underwriting discipline will be tested. Talisman benefits from the oversight of the performance monitoring directive (PMD) at Lloyd's and the support it gives to syndicates with seasoned underwriters who have seen this all before.

US direct property business remains relatively attractive in terms of performance and rating levels. The combination of a benign loss experience coupled with a surplus of capital is now putting a downward pressure on rates. In the non-US markets pricing remains weak due to the oversupply of capacity.

There is a similar theme in the Marine market where excess capacity is preventing rate increases and in Aviation where the loss experience has been exceptionally low.

The 2014 year is going to be a more challenging with rates and terms and conditions under pressure for most lines of business, but most especially for reinsurance classes. While syndicate business plans anticipated the worsening of the rating environment this is partially offset by the ability to buy more effective reinsurance protection.

We will report in more detail in July once we have the closing figures for 2011, the first estimates for 2013 and a more comprehensive view of market conditions. As always challenges bring opportunities and we believe the syndicates Talisman supports will adapt to harness the best for the future.

**David Monksfield**