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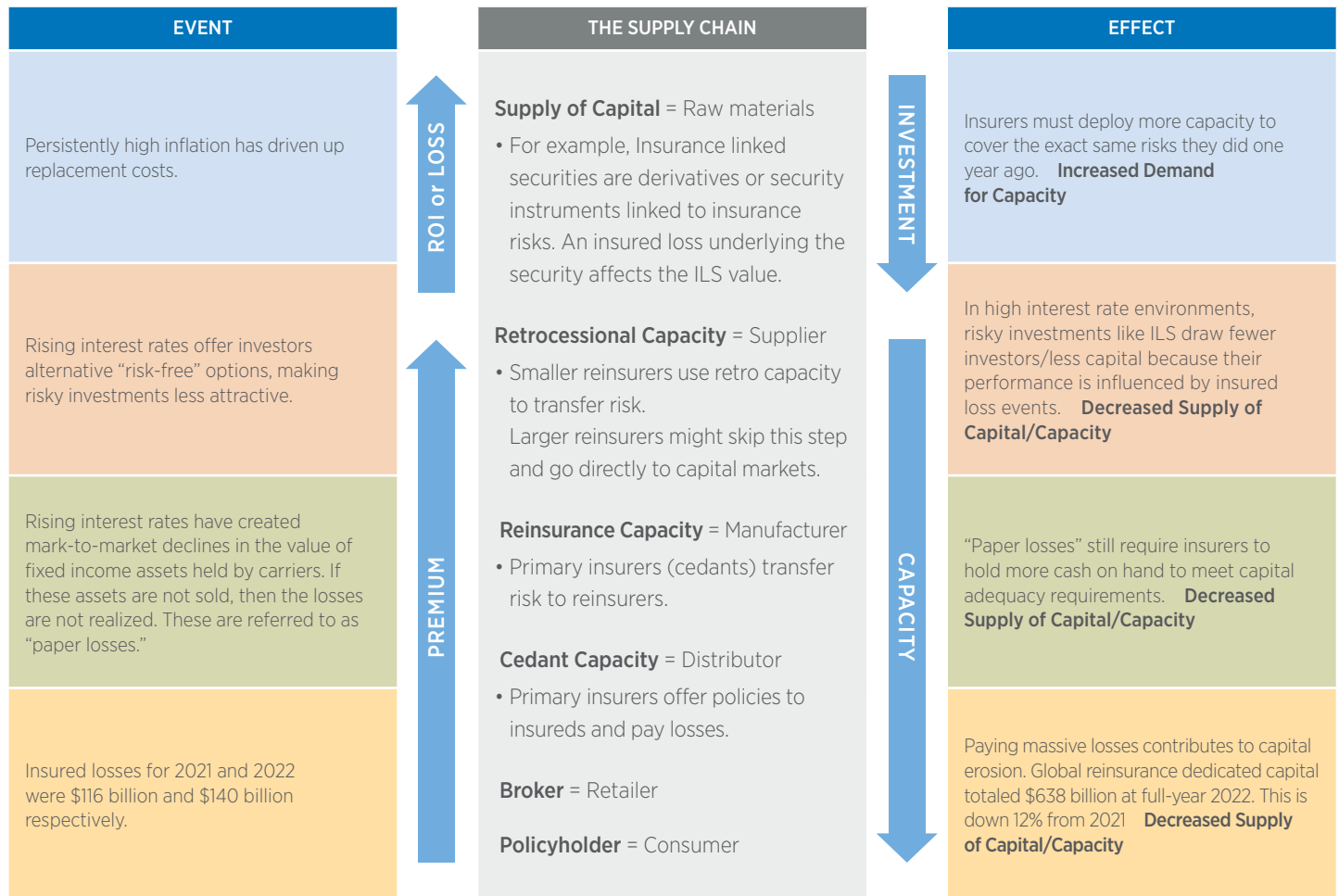
Real Estate & Hospitality

The Insurance Supply Chain

Most policyholders don't realize that by the time they receive quotes or a policy, the capital covering their risk has already made its way through many different stakeholders who influence the policyholder's premium, deductibles, limits, and terms and conditions (T&C). A better understanding of the insurance supply chain will allow insureds to untangle the complicated web of factors that impact the pricing and coverage they receive.

Investors at the top of the insurance supply chain are demanding more reasonable returns on investment. In recent years, reinsurers have struggled to achieve returns above their cost of capital. Compounded by increased loss costs from climate change, social inflation and economic inflation, the difficult conditions upstream in the insurance supply chain are being passed downstream to policyholders.

The following graphic is a simplified analogy used to illustrate this process.



Cost of capital

When reinsurers are able to source capital from both outside investors and premiums paid, the supply of capital increases, making it easier for reinsurers to meet capacity demands. When less capital flows in at the top of the supply chain, supply decreases and reinsurers must change how they meet demand. The burden for the supply of capital shifts heavily to premiums paid instead of being shared with invested capital. The policyholder will eventually feel the changes that reinsurers make.

Implications for insureds

Reinsurers responded to the increased cost of capital by increasing rates, deductibles and attachment points at which reinsurance coverage kicks in and reducing the amount of capacity they are offering to primary insurers. These trends are passed down to policyholders who can expect increased premiums/rates, decreased capacity, increased deductibles, and tighter terms and conditions.

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