Insight and intelligence on the 2023 *Rendez-vous de Septembre*

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MONTE CARLO

Reinsurance's redemption arc will take more than a single year

Despite a successful upstreaming of cat risk to primary insurers, reinsurers still have multiple factors to worry about in the run-up to 1 January 2024

The boat shoe is on the other foot in this year's pre-renewal conversations that will open the Monte Carlo *Rendez-Vous*.

After five years of disappointing returns, reinsurers have benefitted from a decisive market turn in catastrophe risk – and the shift upwards in retentions that they enforced in 2023 renewals has left many insurers bearing the brunt of this year's cat loss activity.

Although market conditions are far calmer than the turmoil that erupted in Q4 2022 through to January, the reinsurance market equilibrium is still finely balanced – indeed vulnerable to any further shock.

As we explore, there are still a number of dynamics that will be troubling reinsurers, and which will give them impetus to push to prolong favourable cat market conditions into 2024.

Much of the hard work on attachment points and changes to terms and conditions has already been done, meaning this year may be more of a straight price battle over whether rates are boosted by incremental gains or come closer to flat.

Outside the cat market, the disquiet over casualty rate adequacy may begin to be more audible.

These factors include:

- Concern over long-tail lines due to the US tort environment
- Inflation still being an underlying pressure despite signs of easing
- High run-rate of minor-scale cat losses
- Demand still emerging for cat cover driven by inflation and model change

Altogether, the picture that reinsurers will be pushing is that it is too early for them to have secured payback. After years of negative returns or returns short of cost of capital, this year will not be enough to have made good prior-year losses in a higher return environment where investors are looking for strong absolute yields.

Some metrics suggest the industry is making partial progress on its redemption arc from these struggle years, with Bermudian returns on equity reaching 14%-23% for H1.

Others point in the other direction however, with the median price-to-book multiples on half a dozen major reinsurers falling from 1.9x at the start of the year to 1.6x in the midst of the hurricane season.

Everest Re and RenaissanceRe comfortably raised fresh equity earlier this year – but PE capital seems unconvinced that 2023 start-ups would be able to hit their roughly 20% return hurdles.

Supply-demand balance: Still strained but more in sync

Last year's Monte Carlo discussions revolved around ever-growing forecasts of the new demand – $10bn-$15bn or more of new limit – that would be coming into the market, driven by exposure inflation.

Those expectations were overturned by the hard market conditions at 1 January, although new bits and pieces of purchasing have been done as 2023 wore on.

Most recently, Chubb has been in the market for a $500mn top layer.

Guy Carpenter chairman David Priebe forecasts new demand will not be material but in the range of 5% growth – which he classified as more of a normalised uplift.

"It will correspond with growth of capital," he said, projecting balanced supply-demand forces.

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inside

COMMENT

Looking beyond the Monte Carlo fishbowl

Even before the (re)insurance industry gathered in Monte Carlo, it was clear that the sector is highly aware it is entering a new higher-stakes landscape.

As you will hear over the coming days from some of the large carriers we have interviewed, the recurring themes on the mind of CEOs are geopolitical risk, economic volatility and climate change.

Wars, high inflation and elevated commodity prices have changed the status quo.

Some technical mitigants to these issues are topics that are in scope to solve in Monte Carlo negotiations – such as shifting structures, pricing, terms and conditions to manage carrier's aggregation risks and projected returns.

But ultimately, everyone knows that more fundamental solutions to these big picture problems cannot be addressed in the fishbowl that is the coming few days of hectic conferencing. These broader perspectives will be borne in mind during conversations, but the industry must also turn to think about other audiences it needs to influence beyond the scope of their conference season diaries.

Indeed, some of the practical steps that reinsurers have already taken to manage these risks – such as sending a clear signal that cat risk has been inadequately priced – risk creating political fallout in turn and make it even more imperative to take the broader, outward-looking view.

Ideally, the industry needs to see primary carriers somehow navigating a path to increase rates without taking the market down a path that ultimately penalises the sector – such as nationalising large amounts of risk, or failing to invest in mitigation measures.

From what feels like a zero-sum game now, (re)insurers could attempt to work towards a win-win-win situation. Rewarding investment in risk mitigation by bringing down insurance costs is a simple idea that may be hard to execute but could show goodwill if firm commitments are offered.

Similar risks apply to the casualty sector where carriers face other exogenous risks, such as social inflation, that are beyond their control.

Carriers may feel at the mercy of a wave of investor capital financing lawsuits and anti-corporate juries, but however far off the prospect of tort reform may seem, it has happened before when it became obvious that (re)insurers could not be used as punching bags to hand on social costs indefinitely.

But for wholesale market participants who typically operate one step removed from media headlines, politicians and regulators, it may not come naturally to put themselves out there to the political realm. It may fall more obviously to the role of the brokers, but even for them, dealing with the political sphere (with its constant churn of stakeholders, mixed motives and attentions elsewhere) is a challenge far harder to solve than the question of how to entertain clients on a reasonable budget in Monte Carlo.

There is a positive lens to this new risk era in terms of the scope for growth and innovation.

However, reinsurers will also be aware that 2023 and 2024 are not years for them to make missteps. The Vesttoo saga has recently highlighted the risks of getting innovation and new structures wrong.

The market will be hoping for a clean Q4. But as last year and Hurricane Ian reminded us, Monte Carlo is just a passing moment in time to gather a snapshot in sentiment, after which anything could change the dynamics.

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On the new capital side, generally the sentiment in the market has been a questioning one, with sources noting few signs of major incoming interest and particular scepticism over fresh start-ups.

With that said, on the cat bond market, volumes have been growing. Aon noted total cat bond limit had expanded by 10%, or $3.6bn in the first half.

In terms of some of the factors driving demand, it is worth noting that, while discussion of inflation has become less frequent as upward pressure on prices eases, it is still expected to be both a driver of incremental purchasing and a focus for concern on loss costs.

Cat losses and the mix shift

Cat losses have not been a major problem for reinsurers to date in 2023, but the number of minor loss nicks will be adding up.

Generally, the spread of losses this year has been more heavily weighted to insurers – reflecting a trend that we have called the "upstreaming" of cat risk.

But even so, some of this year's international loss events will have been more well reinsured. On top of the Turkish quake and New Zealand cyclones, Hawaii fires will also have inflicted losses.

Aon figures put H1 losses at $53bn, well ahead of long-term averages, and with around $5bn of Hawaiian losses, $600mn from Hurricane Hilary, and perhaps $5bn from Hurricane Idalia in just two months, the tally could be well on the way to $65bn, with much of the hurricane season still to go.

> "Events such as the New Zealand and Turkey losses may prompt a rethinking of the true cost of non-peak major disasters"

This dynamic underscores part of the rationale for this year's cat reinsurance reset – that $100bn loss years are now the norm, not outliers.

However, the unique pattern of losses may highlight a couple of regional weak points in the (re)insurance risk system. Events such as the New Zealand and Turkey losses may prompt a rethinking of the true cost of non-peak major disasters (Istanbul or Wellington). This may in turn drive a returned focus on the "diworsification" critiques of low-margin international business that emerged in the early 2010s.

Within the US, the ongoing high convective storm losses are expected to compound issues for some of the small Midwest regional carriers, with less heft to handle higher reinsurance costs than their nationwide peers.

Could this keep nudging forward consolidation of the primary cedant base? The flight-to-quality theme is likely to leave reinsurers indifferent about this prospect, with many consolidating bets with the stronger insurers.

Casualty: A polarised market

In the US and international casualty excess-of-loss (XoL) treaty markets, the polarisation of views of risk seen at the mid-year renewals is set to continue.

As reported earlier this year, distinctly different takes on the real length of the tail in some casualty classes, reserving adequacy across the sector and whether or not reinsurers have truly accounted for inflation have created a disjointed marketplace.

Sources described two broad stances on casualty reinsurance.

Some carriers are bullish on the class, spurred on by the rate increases of the past two years and the prospect of more to come.

For the most part, bullish sources expect rate increases that comfortably exceed inflation on both US and international XoL casualty treaty business.

That said, it is important to note that even those with an optimistic outlook for casualty treaty are emphasising a commitment to underwriting discipline.

"We're pleased with [our growth in casualty treaty], but it's not as simple as property bad, casualty good," one source said.

On the other hand though, there are a number of bearish players in the market, concerned that even the recent run of rate-on-rate increases are not enough to counter emerging negative prior-year development.

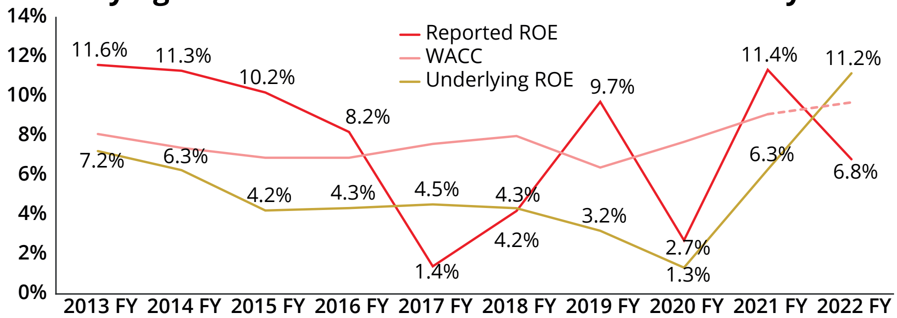
This cohort believes there is not as much margin in casualty reinsurance as evangelists for the sector like to think – and some are planning a mild retrenchment from casualty in 2024.

"We may be leaving the party a year early, but with the loss development trends we're seeing, we'd rather protect the profit that we've already made," a source said.

US casualty treaty sources pointed to a stronger signaling from reinsurers saying they are willing to walk away if the prices aren't right – a significant development compared to two years ago when a majority of carriers were bullish about casualty and wanted to grow in the space.

Another added that the recent spate of loss portfolio transfer purchases across the industry, effectively ridding some carriers of problematic back years, is "masking reserving holes" for 2015-2019 that were expected to emerge by now.

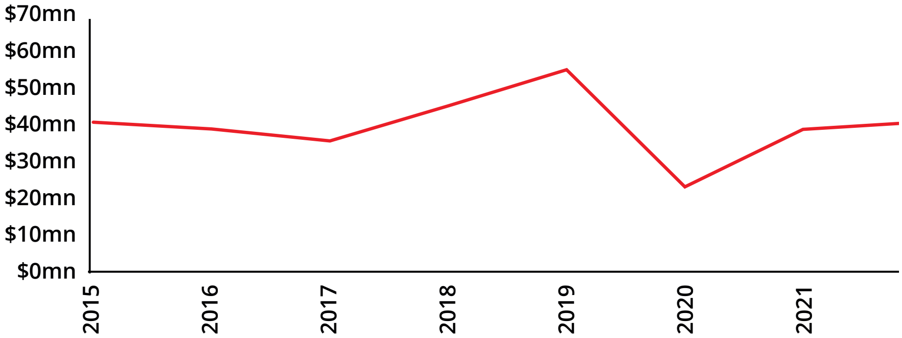
Underlying ROE exceeds WACC for the first time in 10 years



S&P estimated WACC (weighted average cost of capital) figures. Underlying ROE excludes investment gains/losses for 2018 FY onward. 2022 FY WACC is Gallagher Re estimated, by taking the S&P WACC for 2022 HY and adjusting it for the change in risk-free rates.
Source: Gallagher Re

LEAD

Median corporate nuclear verdict, 2015-20



Source: Marathon Strategies

There is particular concern around deterioration on financial lines business, in some cases concerning claims as far back as seven or eight years, which many had assumed would not worsen any further by this point.

"We're having conversations about how long the tail really is [on those lines]," a source said.

Inflation also remains a key topic, particularly in XoL business where inflation can push losses up into higher layers than originally assumed.

Several sources cited difficult conversations between cedants and reinsurers, in which reinsurers are still pressing for rate increases to counteract inflation but cedants – who renew policies on a constant, ongoing basis – feel they have already taken sufficient action to account for inflation in the underlying portfolios.

Social inflation in the US, as one source put it, "is not letting up" and remains a key factor in negotiations around US-based or exposed risk.

Sources said the backlog in the US cases created by the 2020 Covid-19 shutdown of the court system has not yet been cleared, and so cases that would normally have already been tried are still coming through.

This, along with the impact of economic and social inflation on jury awards, is making it even more difficult for reinsurers to take a view on prior-year loss trends.

There are also discussions around how to treat international portfolios that have exposure to US social inflation risk.

The 2021 collapse of the Champlain Towers South residential building in Florida is an oft-cited example in these negotiations. Although the disaster took place in the US, Stockholm-based security provider Securitas was found partly liable for the collapse by a Miami judge and the company paid out a $517mn settlement.

While some reinsurers are bullish on casualty in general, some lines are still a cause for concern, and here the majority of reinsurers plan to exercise caution.

In particular sources cited D&O, where rate reductions are rife in the primary market. Some reinsurers are refusing to write any standalone D&O reinsurance, preferring to bundle it into a treaty with other, more palatable lines.

Some Lloyd's syndicates have also experienced difficulty in negotiations so far this year around the inclusion of cyber exposure in broader casualty treaties, and this is set to continue.

In the proportional US casualty market, there are distinct signs that reinsurers' enthusiasm is waning.

In recent years, reinsurers have tolerated high ceding commission in exchange for a share of rising underlying rates.

In US primary casualty, for instance, rates have increased by at least 4% every quarter since Q1 2020, while in US financial and professional (FinPro) lines, rate increases between 20% and 30% were the norm throughout 2020-2021, according to the Marsh Global Insurance Market Index.

For the past four quarters, however, the primary rate outlook has been very different. On US casualty, rate increases have been limited to the low single digits, and on FinPro business rates are falling significantly.

In US general liability, reinsurers writing quota share business are displaying mixed sentiment. Rates remain in positive territory, but concerns abound that pricing will not keep pace with loss cost trends and inflation.

> "Financial lines such as D&O are a cause for concern as broader primary casualty rate gains slow"

These trends therefore make proportional casualty treaty a less enticing prospect for reinsurers at current ceding commission levels.

Specifically, there is growing contention around the overriders – the proportion of ceding commissions above cedants' costs – that some reinsurers believe have prevented them from fully benefitting from underlying rate increases.

At this stage, this dissatisfaction is manifesting in pressure to cut ceding commissions as they look to rebalance their fortunes with those of cedants.

Big picture challenges

More broadly speaking, 2023 can be seen as just the start of the reinsurance sector's redemption arc. After years of depressed returns that sparked commentary around the sector's limitations – its thrall to intermediaries, its limited size and captive market, etc – the community can now feel justly revived.

As we note above, RoEs are looking good. But there are still laggards who are being marked with more scepticism by the stock market. Also, the bar to outperform is high as rates have risen. Cat risk may have re-rated and gone some way to showing that reinsurers can manage $100bn loss years instead of underestimating climate risk, but the casualty discipline remains largely to be proven. The ILS market recovery is highly skewed and partial outside the cat bond segment.

Reinsurers cannot let their guard down if they want to truly regain the interest of the capital markets.

Arch Re: Leaning in, with a no-surprise policy

Arch Re CEO Maamoun Rajeh says renewals need to be more like performance reviews: telegraphed with no surprises, as there is no upside to late games of "chicken"

Many reinsurers talk about "leaning in" to the hard market, but Arch Re was one of the first ones to do so as the catastrophe segment became more distressed, picking up share in a notable way from the mid-2022 renewals onwards.

Now, as CEO Maamoun Rajeh says, the topic has become popularised on earnings calls. "[Leaning in is] aspirational, and everybody thinks that they're doing it."

Clearly, this is not the case for all reinsurers – as otherwise the market would not have turned. Some have been quite public about paring back cat exposure – or, in the case of Axis Re, exiting outright – over the past year.

Even so, there is an element to which "the high tide raises all", as Rajeh notes. You might expect this diffusion of gains would grate somewhat to a company that was early out of the gates, but he seems relaxed about it.

This attitude is perhaps reflective of a couple of points he raises. Firstly, the hope that cedants will remember and reward the reinsurers that were there when they needed them. Secondly, his optimism that the overall reinsurance sector is set for a phase of growth and prosperity after a challenging phase in which, for many hybrid carriers, reinsurance became a problem to manage.

What is the secret to having been able to truly lean into a rising cat market?

The reinsurance CEO identifies three key factors at work in laying the ground for Arch Re's expansion (the firm's top line is 5x that of five years ago).

"For me, it starts with a crystal-clear understanding of why you exist as a reinsurer… we recognise that we're in business solely to help our clients achieve their potential," Rajeh says.

Next and key is the ability to recognise and manage the market cycle and having excess capital "so it's there and ready when it needs to be deployed".

Why do those goals escape some carriers?

Rajeh blames the "heavily rearview-mirrored" navigating system on which reinsurers typically rely. "That sometimes traps people into a mindset and… strategies that are outdated and off cycle," he says. "In our world, we spend a lot of time trying to be forward-minded… just trying to figure out where our clients really need us."

> "There's no upside gain when we come in and have this game of chicken"

Cut the games

With that in mind, Rajeh is keen to push the importance of the industry's improving on delivering clear, forward-looking communications around renewal times.

He attributes the mayhem that accompanied the 1 January 2023 renewal not solely to hard-market distress, but also to an "ineffective and irresponsible" belief that delaying indicative pricing until late in a renewal will provide tactical gains.

In contrast, he believes the mid-year 2023 renewal was orderly – but, crucially, not soft – because "the voice of the underwriter was honoured… early".

"All it takes is more dialogue," he says, adding that the renewal outcomes should be like a performance review in that "there should be no surprises".

"There's no upside gain when we come in and have this game of chicken," he continues.

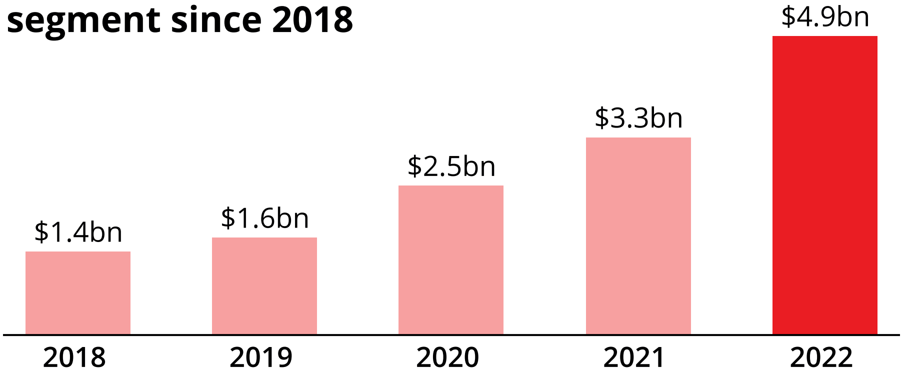
"My hope for 1.1 is that we become a lot more transparent with one another – clients, brokers and underwriters. No one should be surprised. Let's be locked and loaded well before 1.1."

Step change in capital costs

Part of Rajeh's rationale in calling for an end to these tactics is likely to stem from his confidence that the reinsurance segment is entering a different market phase, and one in which multiple underlying trends should support rates and yields in the coming years.

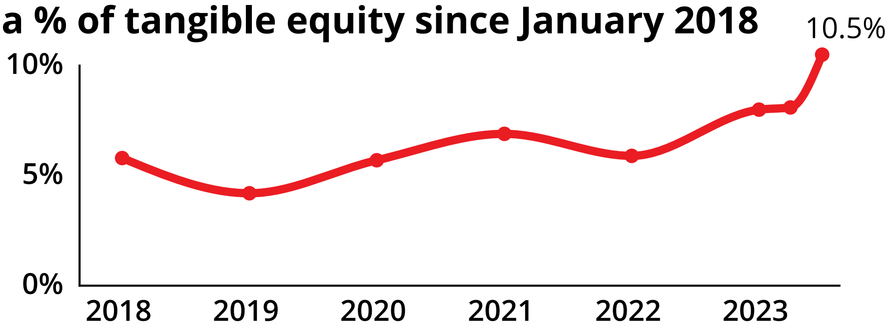
"It should be well understood that this is not an impulsive, quick payback on a specific loss type hard market," he says. "This has been a build-up

Net premiums written by Arch's Reinsurance segment since 2018



Source: S&P Capital IQ Pro

Change in Arch's peak-zone 1-in-250-year PML as a % of tangible equity since January 2018



Source: Company financial reports

and a recognition of heightened costs of capital… a revision of the cost of volatility.

"Those components are things that are a step change in my mind. This is a broad-based recalibration of risk and volatility."

The 2023 market has shown that the double-edged sword of capital convergence is that rates will react not just to insurer losses but to "anything that impacts capital", he argues.

"There isn't a ton of capital flowing into the business. And that's not a hard thing to wrap your head around. It's just people have a lot of other things to do – other alternatives [to pursue]."

The Arch Re leader believes inflation and climate change are two of the fundamentally altered risks, in addition to capital costs, that will support rates and market growth.

Even setting aside innovation, Rajeh believes existing key reinsurance products are set to expand to meet new, albeit postponed, demand.

Property rate increases at the primary market "give the fuel to our partners and our clients next year to really be able to purchase those limits that have been discussed and maybe hadn't pulled through", he adds.

Inflationary pressure on valuation adjustments will also necessitate higher reinsurance purchasing and strain capital leverage, he predicts.

"There's just an accumulation of drivers here that will keep [rates] sustainable," he says.

The complexity of these drivers – combined with what Rajeh sees as successively worse performance from each new class of reinsurers in the last mass-formation years of 1993, 2001, 2005 and 2020 – is one reason he believes new start-ups haven't got away in 2023.

"This environment we're in right now requires, in my mind, a lot more expertise, a lot more technical knowledge, a lot more data, and that favours incumbents."

Even without a new class of 2023, there remain multiple carriers with private-equity ownership that will be looking for a turnover in the near future.

Rajeh notes that, for many reinsurers right now, the organic track is delivering very positive top-line growth and momentum, while others have decided to acquire and add "stair step growth".

Whether to "focus energies" on organic growth or on acquisitions is a decision "everyone has to make on their own", Rajeh says.

However, he does see the move by some to jump onto the E&S bandwagon as a "moment in time" decision, which he believes fails to reflect the long-term benefit for hybrid carriers in having a reinsurance organisation.

Arch Re has been able to deliver profitable combined ratios in each of the past five years, with performance ranging from 92.2% in 2022 to 99.5% in 2020.

Future twists

As noted, Arch Re will enter this hard market as a larger and more meaningful competitor.

Will that, in turn, increase pressure to handle the next market downturn to safeguard excess capital, as it did heading into the 2022-23 phase? Will turning away clients or sizing back business be harder to achieve?

Despite his confidence around the current market drivers, Rajeh believes reinsurers will remain "an industry that's cursed by the cycle".

And when prices do inevitably soften from this peak, Rajeh accepts that Arch Re's larger "footprint and relevance" give it additional responsibility to "continue to be that market that adds value to our clients" and as a thought leader.

But Rajeh says a focus on consistency will get Arch through any cycle.

"In any cycle, we work really hard to solve problems," he says. "No one likes to not win. We're never less busy [in soft markets]… you're always grounded in your strategy and approach and values of the company."

ROUNDTABLE

MARKET CONDITIONS

Our virtual roundtable polled senior industry figures on the biggest questions facing the reinsurance industry. Today, we look ahead to the influences steering market conditions

What are your expectations for 1 January – will we see a continuation of hard-market conditions in property treaty?

Jean-Paul Conoscente, CEO, Scor Global P&C: Despite a more orderly set of renewals than in January 2023, reinsurance hard market pricing and conditions have been prolonged throughout the last 1 June/1 July renewals, and we anticipate this trend to continue into 2024.

Despite a gradual reduction in the supply deficit, we still expect a gap between supply and demand as the result of the confluence of environment uncertainties, the effects of climate change and remaining protection gaps. Therefore, attractive levels of pricing adequacy are expected to be long-lasting.

Lara Mowery, global head of distribution, Guy Carpenter: Current dynamics would indicate that the market will remain firm at 1 January, but after 12 months of material and verifiable corrections, more stable conditions should carry forward. The market evolution at mid-year indicates that, for upcoming property renewals, price adequacy and supportable structures should drive sufficient capacity levels.

It is likely that middle and upper layers which are adequately priced will continue to attract capacity, but the degree of support for lower attaching layers and aggregates will remain sensitive to attachment thresholds. Cedant differentiation is crucial with reinsurers seeking to support quality programmes.

Thomas Blunck, CEO of reinsurance, Munich Re: Munich Re assesses the renewals of each market and each client relationship individually and in a differentiated approach. Generally speaking, however, given that there continues to be a high number of severe natural catastrophes and strong inflationary trends around the globe, as well as an increase in the cost of equity, we expect the need for improvements in rates will continue to be in focus at the next 1 January renewals.

At the same time, the industry should not lose focus of the need for airtight contract language, removing ambiguity in coverage, where necessary.

Tim Ronda, president, Howden Tiger: It is important to remember that we are only about halfway through the hurricane season. As the recent catastrophes in Hawaii have reminded us, large losses can happen at any time.

This said, capital is re-entering the market – not at the same clip as it did after 9/11 or Katrina, but we anticipate that, by year end, assuming normalised loss levels and including ILS capital and collateralised deals, dedicated reinsurance capital will have recovered roughly to 2021 levels.

> "One of the positive things we have seen over the last year is a healthy rediscovery of the importance of wording"
> **Matt Paskin, group CUO reinsurance – chairman**

Urs Baertschi, CEO P&C reinsurance, Swiss Re: We expect hard market conditions in property reinsurance to remain for the foreseeable future. Risk profiles continue to evolve as demonstrated by the myriad of events across the entire world in 2023 already, and catastrophe underwriters will need to demonstrate a consistent track record of returns commensurate with the riskiness of the underlying business.

Demand for catastrophe reinsurance is also likely to remain high as exposures keep increasing and the main risk drivers are unchanged: extreme weather events, urbanisation, and higher values and inflation.

Simon Hedley, CEO, Acrisure Re: In general, yes [there will be a continuation of the hard market]. However, we did see more capacity in the market as the year progressed than we did at the beginning of the year, and that is overwhelmingly coming from existing reinsurers looking to deploy more capacity, QS and cat XoL, in an extremely strong insurance and reinsurance pricing environment.

There haven't been any substantial new entrants impacting capacity. The pricing levels we've reached are not being driven further up or down at this point, outside of special circumstances, and we expect them to stay around these levels at 1 January.

Matt Paskin, group CUO reinsurance – chairman: For the last six years, the property reinsurance market hasn't delivered appropriate returns. The class has been faced with loss cost inflation, model uncertainty, high volatility and climate change, compounded by a capacity supply/demand imbalance.

With little meaningful new capacity coming forward, this imbalance is unlikely to change and we therefore anticipate the current harder market conditions to prevail. One of the positive things we have seen over the last year is a healthy rediscovery of the importance of wordings and peril occurrence definitions.

Jim Williamson, group COO, head of reinsurance, Everest: As we look ahead to January renewals, we expect the market correction that took place in 2023 will continue and underwriting discipline for property reinsurance will also carry through. The industry will need to continue to push for rates in order to properly account for secondary perils globally as well as tackle the increased replacement costs caused by inflation and supply chain issues.

Steve Tebbutt, active underwriter, IQUW, Lloyd's Syndicate 1856: The last year has seen significant repositioning across both property and specialty, which has changed the view of the market – our view has even changed over the last few months.

This is because of a quicker-than-expected softening in areas such as D&O and cyber, which means, if 2023 is an 'as expected' year, we anticipate seeing businesses diversify away from property

> "The question is whether we are in a 'hard market' or a 'new normal'"
> **Paul Sandi, head of reinsurance, Apollo**

treaty, which will impact both specialty reinsurance and direct pricing.

Paul Sandi, head of reinsurance, Apollo: The current market dynamics include a contraction of capacity and exits by some carriers due to profitability issues, after several catastrophic weather-related events. This is further underscored by accelerated pricing and restructuring of programmes, emblematic of a hard market environment. However, the question is whether we are in a 'hard market' or a 'new normal', given the inclusion of secondary-peril loss costs in pricing, heightened inflation and what appears to be the end of readily available low-cost capital, at least for the time being.

Where in your view is the best home for cat risk in the value chain?

Paskin: The soft market tendency to disguise cat exposure in products that aren't priced to reflect the volatility of the risk has gratifyingly begun to disappear, and catastrophe exposure is becoming sensibly addressed and priced throughout the entirety of the value chain.

In many instances this dramatic increase in pricing has created affordability issues for original policyholders and primary insurers, which is only exacerbated by the current economic environment. At the same time the catastrophe risk-takers are yet to demonstrate conclusively that they are making returns on capital commensurate to the volatility of risk they are taking.

> "Under-priced cat risk retentions... do not fit well onto anyone's balance sheet"
> **Jean-Paul Conoscente, CEO, Scor Global P&C**

Conoscente: In our view, property insurance risk is still undervalued globally, as the lasting effects of climate change are not fully integrated into insurance pricing. This has driven cat providers to support XoL structures such as cat XoL treaties or cat bonds, where the pricing is de-correlated to the insurance pricing.

Therefore we have two market dynamics currently: well priced cat XoL risk, which fits well onto reinsurers' and third-party capital balance sheets, and under-priced cat risk retentions which do not fit well onto anyone's balance sheet. The only sustainable solution is to adjust the insurance price to the new environment, as we see for example in the US E&S market.

Mowery: The reinsurance/ILS market plays a critical role in the overall management of cat risk as it is beneficial and necessary to spread the impact of large events across multiple capital sources and geographies.

But reinsurance is only part of the solution with a level of participation required by insureds, insurers and government entities to support viable outcomes. Studies indicate that impacted areas with robust (re)insurance penetration are able to return to previous levels of economic growth much more quickly, where those without higher levels of support may never regain pre-disaster status.

Baertschi: Fundamentally, insurance companies are best suited to absorb attritional losses from frequency events while the reinsurance industry serves as a shock absorber for severity events. In the last few years, the reinsurance industry has suffered the most in the value chain by absorbing a disproportionate amount of losses from nat cat events, especially from more frequent secondary perils such as wildfires, drought, floods and hail.

Today, our industry pays much more attention to these events. The market has adjusted accordingly over the last 12-18 months with attachment points moving back up on a path towards structural sustainability in the value chain.

ROUNDTABLE

Hedley: What the current market requires and what we are seeing is more defined and targeted reinsurance transactions focused on client-critical cat management needs, and reinsurer appetite to maximise capacity at the best possible economics. All players in the cat (re)insurance value chain have a role to play, and that includes first and foremost the cedants that, by and large, are retaining more cat risk though increased retentions, and then designing reinsurance covers to maximise protection and price efficiency.

How is the ILS market's role in the cat space set to develop in the near term?

Sven Althoff, member of the executive board – P&C, Hannover Re: The ILS market has been a strong provider of cat capacity over the last years. Recently, catastrophe bonds were favoured over collateralised reinsurance by many investors due to better performance.

Nevertheless, of the estimated $100bn ILS market volume, the majority remains with collateralised reinsurance strategies. We expect the ILS market will continue to be a strong catastrophe capacity provider. Whether we will see more capital coming into the ILS market at year end will also depend on how the year 2023 will develop with respect to major losses.

Blunck: The role of ILS and alternative reinsurance capital in the cat space is an important one, especially in times when traditional reinsurance capacity is not readily available.

The recent uptick of cat bond issuances is something we closely monitor to understand how much capital is refinanced or actual new issuance. We see cat bonds as an additional tool and not a direct competition to traditional capacity. At the same time, cedants should entertain a balance between the various sources of risk financing, including traditional reinsurance capacity.

Conoscente: The ILS market has been resilient despite increased cat activity, but its performance and evolution have

> "The ILS market is already stepping up to provide capacity for property catastrophe risk as reinsurers adjust their appetite"
> **Lara Mowery, global head of distribution, Guy Carpenter**

followed that of traditional reinsurers.

Given the underperformance of property generally, except for high-attaching XoL structures, ILS (collateralised reinsurance and sidecars) showed challenging performance over the last five years, except for cat bonds which mirror cat XoL treaties.

In the current environment, significant inflows of new capital are conditional to sponsors' ability to demonstrate improved performance to investors. We also think the recent issues with LOCs as a form of capital will put more pressure on security due diligence, showing the value of a strongly rated balance sheet. This might slow down the development of the role of ILS in the near term.

Mowery: The ILS market is already stepping up to provide capacity for property catastrophe risk as reinsurers adjust their appetite. This year is on track to be a record issuance year for catastrophe bonds. We have seen more than 15 new sponsors access the cat bond market for the first time during the last 18 months – some of them for multiple issuances. Besides the volume of issuance and number of cedants, the geographic footprint of risk transfer is broadening. We expect this positive momentum to continue as investors increasingly embrace this alternative asset class.

We've seen dramatic price increases in property treaty, especially for peak risk, but not as much focus on casualty. Are reinsurers now ahead of loss deterioration and the impact of social inflation?

Althoff: US casualty has not seen the same price-increase momentum as US property business, neither from an original rate-environment perspective nor on the reinsurance side.

Still, on the primary side we have seen good risk and inflation-adjusted rate improvements with an emphasis on certain lines of business such as cyber, D&O and excess casualty, and on the reinsurance side as well.

On the reinsurance side, we would argue that risk selection in underwriting – i.e. who we do business with and in which lines of business – is even more key to success in addition to achieving the necessary and desired reinsurance transaction economics.

Tebbutt: Some of the US awards are huge and there's no way people can be on top of that. Claims activity has been quiet in D&O and that feeds a naivety in the upfront market, with people moving back into the middle part of that risk with larger lines. However, as soon as activity picks up, businesses will be under-reserved. Reserving has never got a true handle on it because the window is so long. I'm pretty sure that pricing in 2021 won't be right for when the claim is paid in 2029.

> "I'm pretty sure that pricing in 2021 won't be right for when the claim is paid in 2029"
> **Steve Tebbutt, active underwriter, IQUW, Lloyd's Syndicate 1856**

Williamson: Given that it's the hardest market in decades, we're at the top of the hill regarding pricing and are ahead on social inflation TIV adjustments and all other loadings, but social inflation and nuclear verdicts have not gone away.

Covid dampened the impact for a couple of years, but reinsurers will still need to be vigilant, work with pricing actuaries and cat modelers in a very collaborative manner and continue to account for loss trends.

Ronda: Casualty rates-on-line, even during times of crisis, are generally not as volatile as property catastrophe.

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SPONSORED

Climate change: Evolving risk and regulation

State of the climate
In 2023 we have seen record-breaking temperatures, updated projections on the alarming pace of climate change and a growing number of severe events. The July global surface temperature was 1.12°C (2.02°F) above the 20th-century average, making it the warmest July on record and likely the warmest month for the planet since 1850. With the forecasted strengthening of El Niño, multiple outlooks have suggested at least a 45% probability of 2023 becoming the warmest year on record.

Climate change has significant impacts beyond increasing global temperature, and its effect on natural catastrophe activity can manifest in extreme events for multiple perils:

- **Tropical Cyclone:** Since mid-March, North Atlantic sea-surface temperatures (SSTs) have exceeded daily records every day. North Atlantic SSTs eclipsed 25˚C for the first time on record, while global SSTs surpassed 21˚C for the first time. Warmer SSTs mean stronger and wetter tropical cyclones are possible. Even with a strengthening El Niño (which typically suppresses hurricane activity), the ongoing North Atlantic hurricane season is projected to be more active than usual.
- **Flood:** The North Island of New Zealand experienced widespread flood loss after Tropical Cyclone Gabrielle in February. In July, the remnants of Typhoon Doksuri brought extensive flooding in China. In the same month, flooding across numerous Vermont and New Hampshire towns made headlines. Warmer air holds more moisture, adding to the risk of storms bringing heavier precipitation.
- **Wildfire:** After experiencing its warmest May and June on record, Canada also had its warmest July, further boosting a record wildfire season. From 1 January to 31 July, accumulated carbon emissions from wildfires across Canada totalled 290 megatons, already more than double the previous record for an entire year. According to a recent study, climate change more than doubled the likelihood of extreme fire weather conditions in eastern Canada. In Europe, extreme heat contributed to extraordinary wildfire activity, particularly in Italy and Greece. Warmer, drier weather provides conditions conducive for larger, more-intense wildfires.

Industry loss estimates for H1 2023 remain well above the decadal average despite the comparatively smaller impact on reinsurers. A range of industry sources have suggested first-half insured losses from natural catastrophes were in the $50bn-$53bn range. The H1 2023 tally is also significantly above the $44bn decadal average for the 2013-2022 period, as well as the $38bn 21st-century average. Guy Carpenter has begun to estimate the potential impact of climate change on insured loss using the latest robust scientific projections and internal research. Collaborations with leading academic experts have provided insight on the relative influence of climate change on loss compared to other important factors, such as urbanisation and inflation.

Climate change disclosure
In the US, while the federal Securities and Exchange Commission's climate disclosure rules are finalised, the National Association of Insurance Commissioners has instituted a revised and more thorough climate change questionnaire, which is better aligned with the Task Force on Climate-Related Financial Disclosures. This survey has been adopted across 16 states, accounting for more than 80% of gross written premium in the US.

In July, the European Commission adopted the first set of European sustainability reporting standards, which will require insurers to report on sustainability-related impacts, opportunities and risks. The scope is such that foreign parents can be subject to these tougher reporting requirements, including certain US parent entities with operations in the EU.

At a global level, the International Organization of Securities Commissions recently endorsed the final disclosure standards published by the International Sustainability Standards Board, indicating a trend toward achieving climate regulatory convergence in the long run.

Challenges remain around availability of data, but increasing guidance, particularly around materiality assessments and scenario analysis, is an opportunity for the industry to develop the needed toolkit to incorporate climate change into risk management, pricing and capital decisions, and navigate the changing regulatory landscape.

How Guy Carpenter can help
Guy Carpenter has developed a full suite of climate change physical risk analytics and advisory products, ranging from underwriting and accumulation layers to adjustments to third-party catastrophe models and in-house risk scores developed for climate change. These tools use the latest climate science to assist our clients in responding to a growing number of regulatory requests and industry stress-testing and incorporating climate change into risk management, pricing and capital decisions.

By Kieran Bhatia, Global Peril Advisory, Guy Carpenter; Sam Phibbs, Global Peril Advisory, Guy Carpenter; and Katy Reyner, Global Peril Advisory, Guy Carpenter


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ROUNDTABLE

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What are your expectations for 1 January – will we see a continuation of hard-market conditions in property treaty?

Jean-Paul Conoscente, CEO, Scor Global P&C: Despite a more orderly set of renewals than in January 2023, reinsurance hard market pricing and conditions have been prolonged throughout the last 1 June/1 July renewals, and we anticipate this trend to continue into 2024.

Despite a gradual reduction in the supply deficit, we still expect a gap between supply and demand as the result of the confluence of environment uncertainties, the effects of climate change and remaining protection gaps. Therefore, attractive levels of pricing adequacy are expected to be long-lasting.

Lara Mowery, global head of distribution, Guy Carpenter: Current dynamics would indicate that the market will remain firm at 1 January, but after 12 months of material and verifiable corrections, more stable conditions should carry forward. The market evolution at mid-year indicates that, for upcoming property renewals, price adequacy and supportable structures should drive sufficient capacity levels.

It is likely that middle and upper layers which are adequately priced will continue to attract capacity, but the degree of support for lower attaching layers and aggregates will remain sensitive to attachment thresholds. Cedant differentiation is crucial with reinsurers seeking to support quality programmes.

Thomas Blunck, CEO of reinsurance, Munich Re: Munich Re assesses the renewals of each market and each client relationship individually and in a differentiated approach. Generally speaking, however, given that there continues to be a high number of severe natural catastrophes and strong inflationary trends around the globe, as well as an increase in the cost of equity, we expect the need for improvements in rates will continue to be in focus at the next 1 January renewals.

At the same time, the industry should not lose focus of the need for airtight contract language, removing ambiguity in coverage, where necessary.

Tim Ronda, president, Howden Tiger: It is important to remember that we are only about halfway through the hurricane season. As the recent catastrophes in Hawaii have reminded us, large losses can happen at any time.

This said, capital is re-entering the market – not at the same clip as it did after 9/11 or Katrina, but we anticipate that, by year end, assuming normalised loss levels and including ILS capital and collateralised deals, dedicated reinsurance capital will have recovered roughly to 2021 levels.

Urs Baertschi, CEO P&C reinsurance, Swiss Re: We expect hard market conditions in property reinsurance to remain for the foreseeable future. Risk profiles continue to evolve as demonstrated by the myriad of events across the entire world in 2023 already, and catastrophe underwriters will need to demonstrate a consistent track record of returns commensurate with the riskiness of the underlying business.

Demand for catastrophe reinsurance is also likely to remain high as exposures keep increasing and the main risk drivers are unchanged: extreme weather events, urbanisation, and higher values and inflation.

Simon Hedley, CEO, Acrisure Re: In general, yes [there will be a continuation of the hard market]. However, we did see more capacity in the market as the year progressed than we did at the beginning of the year, and that is overwhelmingly coming from existing reinsurers looking to deploy more capacity, QS and cat XoL, in an extremely strong insurance and reinsurance pricing environment.

There haven't been any substantial new entrants impacting capacity. The pricing levels we've reached are not being driven further up or down at this point, outside of special circumstances, and we expect them to stay around these levels at 1 January.

Matt Paskin, CUO, reinsurance; CEO, Bermuda, Convex: For the last six years, the property reinsurance market hasn't delivered appropriate returns. The class has been faced with loss cost inflation, model uncertainty, high volatility and climate change, compounded by a capacity supply/demand imbalance.

With little meaningful new capacity coming forward, this imbalance is unlikely to change and we therefore anticipate the current harder market conditions to prevail. One of the positive things we have seen over the last year is a healthy rediscovery of the importance of wordings and peril occurrence definitions.

Jean-Paul Conoscente, CEO, Scor Global P&C

Lara Mowery, Global head of distribution, Guy Carpenter

Thomas Blunck, CEO of reinsurance, Munich Re

Tim Ronda, president, Howden Tiger

Urs Baertschi, CEO P&C reinsurance, Swiss Re

Simon Hedley, CEO, Acrisure Re

Matt Paskin, group CUO reinsurance – chairman

Jim Williamson, group COO, head of reinsurance, Everest

Steve Tebbutt, active underwriter, IQUW, Lloyd's Syndicate 1856

Paul Sandi, head of reinsurance, Apollo

Sven Althoff, member of the executive board – P&C, Hannover Re


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Slovenia's Sava secures back-up reinsurance after EUR100mn loss

Slovenian carrier Sava has purchased a back-up reinsurance cover for part of its excess-of-loss (XoL) cat programme after sustaining extensive flood losses that drove around EUR65mn-EUR70mn ($70mn-$75mn) of claims to reinsurers, this publication can reveal.

Sava announced in late August that it had sustained around EUR100mn in gross claims from storms that struck Slovenia in July and August.

After reinsurance recoveries, these losses will have a EUR30mn-EUR35mn negative impact on Sava's 2023 full-year result, the company said.

Sources told this publication that the insurer had initially communicated a low expected loss figure to its reinsurers immediately after the early August flooding, which it increased by around 10 times a few weeks later.

Combined with ceded losses from the country's largest carrier, which could reach EUR110mn-EUR160mn, reinsurers are facing EUR200mn+ of losses from Slovenian events this year. The floods continue a trend for secondary perils to feature highly in this year's cat loss record.

The Slovenian government has estimated that the July-August floods have caused EUR4.7bn in economic damage, of which EUR350mn is insured. The flooding is the worst to strike Slovenia since it declared independence from Yugoslavia in 1991.

Sources said Sava buys an XoL cat programme with a vertical limit of around EUR100mn, with one pre-paid reinstatement.

The carrier disclosed in its most recent annual report that it bought a cat XoL programme for 2022 that attached at EUR5mn for losses on the group's primary business and at EUR3mn for losses on business written by its reinsurance arm, Sava Re.

Sava Re also reinsures a portion of the group's primary business.

It is common practice for cedants to return to the market for a backup cover in the event the reinstatement is called into play, to provide earnings protection.

Cedants typically offer participation on backups to reinsurers of the loss-affected segments of their programme, in a bid to offer some payback through the additional premium.

Sava is Slovenia's second-largest insurer and wrote EUR381.6mn in Slovenian non-life gross premium in 2022.

The country's largest insurer is Triglav, in which two state-owned investment funds hold a 62% stake.

Triglav has estimated that its losses from extreme weather events over the course of this year, which include the July and August floods, will hit EUR150mn-EUR200mn. After reinsurance recoveries, this will have a negative impact on its pre-tax profit of EUR40mn-EUR50mn, it said.

New RMS Atlantic model lifts view of risk after active Gulf cat years

The new version of RMS' Atlantic wind model will show an average 5%-10% uplift to aggregate industry modelled losses, the firm told this publication.

However, sources said the changes have resulted in as much as 20%-30% increases for certain portfolios.

The market is still in the early stages of running analysis through the new model, and there was no clear trend from sources on how they expected the impact of the release to play out. The average uplift is significant enough to suggest it could be a support to cat pricing at primary and reinsurance level in 2024 and to reinsurance purchasing demand.

However, some sources said they believed the model was catching up to a higher view of risk that was already being applied by some firms. In addition, the exposure component of RMS' changes may have already been accounted for, as carriers updated their models for inflationary trends.

It is understood that total industry modelled loss changes may be driven up to higher levels than the 5%-10% range, partly as RMS has also updated its exposure database at the same time as the risk-led components of the model.

RMS released its V23 North Atlantic hurricane model update in June.

Jeff Waters, product manager, North Atlantic hurricane models at RMS, said: "Industry exposure increases are more in the 5%-10% range, but carrier specific portfolios could see larger or smaller changes depending on geographic region and building characteristics. So it's very portfolio-specific."

Sources said portfolios that are seeing less change under the new model are those with Northeast/Mid-Atlantic exposure and residential biases, with more significant changes to the Florida/Gulf area and commercial exposures.

The Louisiana coastline was particularly affected by the string of post-2020 hurricanes, with hits from hurricanes Laura, Delta and Zeta in 2020 and Hurricane Ida in 2021.

Waters said the biggest drivers of change in the new model include an update to event frequencies, which resulted in a higher uplift across lower-return periods than for more remote events.

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Q&A: Aon's Mike Van Slooten

Mike Van Slooten, head of business intelligence at Aon's Reinsurance Solutions, discusses the factors impacting renewals, from climate change and inflation to reserving requirements

What does the reinsurance market look like at the moment?

Currently there is a mismatch between property reinsurance supply and demand, and that's really a result of the elevated losses from natural catastrophe activity that we've seen in the period since 2017 – the majority of which came from so-called secondary perils. US severe convective storm losses were at record levels in the first half of 2023 and our analysis of the industry's financial results suggests the bulk of those losses were retained by the primary insurers. That's an important proof point for investors, because it demonstrates that the 'reset' achieved through the 2023 reinsurance renewals has been effective in driving more sustainable earnings for reinsurers. Atlantic hurricane season will be another test obviously. The outcome will significantly influence renewals going forward, as we saw last year with Hurricane Ian.

What have been the other factors affecting the reinsurance renewals market in recent years?

Concerns around the impact of climate change and the outlook for inflation are top of the list for any investor currently considering participation in the reinsurance market, because these issues are creating uncertainty around future loss costs. Between 2020 and 2022, you could have added Covid-19 to the list. Investors look to reinsurers to address uncertainty through higher pricing, and that's certainly been one of the drivers behind the renewal outcomes we've seen in 2023. If reinsurers want to retain investor support, they need to produce better results after years of under-performance.

Can you talk in more detail about the impact of inflation/interest rates?

Quantitative easing after the 2007-2008 financial crisis resulted in a long period of low inflation and low interest rates. That meant investment returns were weak, reserves appeared redundant and capital was cheap. The situation now feels very different, and the change has been quick enough to stress the financial system, as we saw with the bank failures earlier in the year.

Inflation began to spike as we exited the pandemic and it was then exacerbated by the conflict in Ukraine. Central banks reacted by raising interest rates very quickly from historic lows. This caused significant reductions in the value of bonds and equities being held on (re)insurance company balance sheets, which impacted their investment returns and reported capital positions in 2022.

During 2023, headline consumer price inflation has reduced in the major markets, although perhaps more slowly than had been forecast. There has been a modest recovery of asset values, which is boosting capital positions, and the benefit of higher interest rates is now being seen in improved ordinary investment income, so it does feel like we've turned a corner to some extent.

How do you see insurers/reinsurers dealing with reserving requirements over the next 12 months?

The industry is carrying a lot of reserving risk relating to the pandemic, recent major losses and the conflict in Ukraine, and it has had to contend with an inflationary spike at the same time. Of course here we're talking about loss-cost inflation, which only correlates to some extent with consumer price inflation. The drivers are factors such as the cost of labour, building materials and medical care and all are being constantly reassessed.

Lingering inflationary pressures continue to create doubt around the adequacy of the reserves that have been established historically, and that is one of the reasons why we're currently seeing a lot of activity in the legacy market.

What do you think will be the key conversation points for delegates at Monte Carlo?

Last year it was inflation and that discussion will continue, particularly on the casualty side, where social inflation has re-emerged as a major industry topic. However, given the relentless severe convective storm losses in the US in 2023, I think much of the focus will be on mitigating the impact of secondary perils, such as flooding, hailstorms, wildfires and droughts. This type of loss is not very well modelled, which creates doubt around whether pricing is adequate.

How is Aon supporting its clients?

There is great value in having an insightful, data-driven advocate by your side in this type of environment, as it can drive better business decisions. It is our job to help clients navigate volatility, build operational resilience and present their business case to reinsurers in the best possible light – explaining, for example, how they view the risk in their portfolios and how they are managing inflation.

Communicating such bespoke characteristics is how insurers achieve differentiated outcomes, at a time when reinsurance capacity is somewhat constrained.

Wilson awarded Lifetime Achievement award at 2023 Insurance Insider Honours

Dominic Christian, Andrew Brooks and Sally Lake also took home some of the biggest awards on the night

Former Brit CEO Matthew Wilson took home the Lifetime Achievement Award at 2023's *Insurance Insider Honours*, recognising his achievements over a more than 20-year career in the London market.

Those achievements included his involvement in the turnaround of Brit and the launch of the original follow-only syndicate at Lloyd's, followed by the algorithmically driven follow vehicle Ki.

The award also sought to recognise his contributions to Lloyd's and the London market, and his dedication to improving culture and diversity.

Wilson was diagnosed with a rare form of blood cancer two years ago, which led to him stepping down as CEO of Brit. He has since launched the first-ever charity fund in the UK to fund research into the disease, the Matthew Wilson Multiple Myeloma Fund, which this year's *Honours* also chose as its charity partner.

"I am hugely honoured and grateful to receive this award this evening – most grateful for the fact I am not receiving it posthumously," Wilson said.

"I have been very lucky to work with some fantastic people in the industry. Run towards change. Change is going to happen whether you like it or not. When I started, we didn't even have computers."

This year's *Honours* saw around 600 (re)insurance market professionals descend on the Hilton on Park Lane, London, to celebrate the achievements of the market.

Dominic Christian, a lifelong broker and London market ambassador, won the Outstanding Contributor to Broking Award.

The award sought to recognise both his achievements and landmark transactions while at Aon Reinsurance Solutions, as well as his contribution to the London market, including his involvement in the launch of the Dive In Festival.

The Outstanding Contributor to Underwriting Award was given to Andrew Brooks. The award sought to recognise his career achievements as underwriter, business builder and market statesman during his time at Ascot – which included multiple rounds of M&A while maintaining top-quartile underwriting performance at Lloyd's. He has increasingly taken on a leadership role in the market in recent years, most recently as deputy chairman of the Lloyd's Council.

This year's CFO of the Year Award went to Sally Lake of Beazley. It recognised her contribution to Beazley's outperformance in Lloyd's and on the London stock market.

Beazley was also one of the first to raise fresh public equity to capitalise on hard-market opportunities after Hurricane Ian, with £350mn of new capital secured to keep it on a path of expansion. Lake has also been at the forefront of the insurer's diversity initiatives.

Congratulations to all this year's winners.

Catrin Shi
Editor-in-Chief,
Insurance Insider

2023 winners in full

Broker of the Year
Sponsored by Arch Insurance
Miller
Highly commended: Howden

Broking Innovation of the Year
Marsh McLennan – Community-based catastrophe insurance (CBCI)

Carrier of the Year
Sponsored by DLA Piper
Tokio Marine Kiln
Highly commended: Beazley

Claims Service Award
CFC
Highly commended: One80 Intermediaries – Hurricane Ian

Diversity & Inclusion Award
Lloyd's of London – Lloyd's LGBTQ+ Mentoring Programme (led by Adam Triggs)
Highly commended: Arch Insurance International

Employer of the Year
The Texel Group – People Strategy
Highly commended: LCP

ESG Initiative of the Year
Ninety Consulting – ARK – Ensuring humanity's future

InsurTech Product of the Year
Sponsored by Tokio Marine Kiln
Hyperexponential – hx Renew

M&A Transaction of the Year
Howden – Acquisition of TigerRisk Partners by Howden Group Holdings

HONOURS

MGA of the Year
Corvus Insurance
Highly commended: Kinetic Insurance

Operational Innovation of the Year
Lloyd's Market Association – LMG Data Council chaired by Sheila Cameron

Underwriting Innovation of the Year
Sponsored by NEAM
Arbol Inc and Centauri – dRe Lifecycle

Women in Insurance Award
The Insurance Breakfast Club

Young Broker of the Year
Nicholas Parker, property broker, WTW

Young Claims Professional of the Year
Sponsored by DOCOsoft
Hannah Smedley, Senior claims specialist, Liberty Specialty Markets
Highly commended: Glenn Scheideler, head of claims insights and analytics, Beazley

Young Underwriter of the Year
Sponsored by MS Amlin
Struan Todd, co-founder and managing director, Pandamatics UW
Highly commended: Ted Calligeros, EVP, Ocean Marine, Loadsure

CFO of the Year
Sponsored by Lloyds Bank
Sally Lake

Outstanding Contributor of the Year, Distribution
Sponsored by Allied World
Dominic Christian

Outstanding Contributor of the Year, Risk
Sponsored by EY
Andrew Brooks

Lifetime Achievement Award
Matthew Wilson

trusted **/trə-stid/** *adjective* Regarded as reliable or truthful.

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Stay nimble, keep focus on clients

There is a mood of cautious optimism surrounding the North American market as the renewal season discussions get underway, says Jill Beggs, head of North America at Everest.

This has been underpinned by strong growth of 20% in H1 2023, compared with just 5% in the whole of 2021-22. There have also been some significant shifts in the nature of conversations between reinsurers, cedants and their brokers, says Beggs: “The 1 January 2023 renewal discussions were still very dislocated but that has already started to change. For the April renewals it was a different sort of conversation, with clients a lot more realistic about what they can expect to achieve.”

There were some significant rate rises last year as the reality of sharply rising insured losses from nat cats hit home. From 2017 onward, the average annual insured losses from nat cat has been $110bn, more than double the average of $52bn over the previous five-year period.”

“The reasons for this big increase in losses were varied. Obviously, there has been an increased frequency. 2022 was the third-most-expensive hurricane season on record. We have seen major catastrophes moving beyond the obvious areas and hitting regions like California. There are also significantly elevated construction costs feeding into the losses.

“The need for the 1 January 2023 reset was very necessary, not just in the reinsurance market but in the primary market too.”

Everest’s response has been about much more than just increasing rates, says Beggs: “We have taken strategic actions to support the market. In particular, we have focused on building deeper client and broker relationships. At the heart of this is an emphasis on being transparent, fair and collaborative. Often this has led to us taking increased shares with existing clients.”

It is a two-way conversation, however, and when it doesn’t develop in the right way, Everest is not afraid to take difficult decisions. “We have cut back in Florida because we weren’t able to get the right terms and conditions to support what we thought was needed to build a viable programme,” says Beggs.

She expects this new mood of realism to create opportunities for reinsurers with the right approach, good capital and strong relationships with clients.

“There is a global flight to quality across the market and brokers and clients are looking for consistency, especially while wider market conditions and macro dynamics remain so volatile. Many cedants will be looking to broaden their panels to give them greater security. We have the additional capacity to deploy to support the right clients, especially those looking for new partners for property catastrophe risks.

“There is a lot going on and we need to stay nimble and be able to pivot quickly when disruptive events come along,” concludes Beggs.

Rebound in reinsurance capacity won't soften conditions: brokers

Top reinsurance brokers have noted a rebound of capacity in the market this year, albeit not to a significant enough degree to soften hard-market conditions for the upcoming January renewals.

Data from Gallagher Re, Guy Carpenter and Aon suggested a rise in reinsurance capacity this year. The most bullish estimate came from Gallagher Re, which projected global reinsurance dedicated capital at $709bn as of H2 2023, a 13% increase from year end 2022.

However, the influx is not enough to curb the hard-market conditions, as reinsurers will continue to maintain underwriting discipline, brokerage firm executives said during recent press conferences.

"We are starting to see some capital come in but not nearly at the quantum that I think will dilute the current situation," Guy Carpenter chairman David Priebe said.

Aon's Reinsurance Solutions CEO Andy Marcell said he doesn't expect a "huge expansion" of capacity in the property cat space, as the factors that led the market to where it is today are still in place: interest rates, inflation and the currency change on the euro versus the dollar.

Regardless, intermediaries expect more order in the reinsurance market next year, making renewals "more manageable" for cedants who underwent one of their toughest reinsurance seasons this January.

Aon wrote that it does not expect the pressure on catastrophe terms and conditions seen at the January 2023 renewals to be repeated in 2024.

In addition, the intermediary expects coverage for terrorism, strikes, riot, and civil commotion – which was widely excluded in treaty renewals earlier this year – to be more available at next year's January renewals as reinsurers look to achieve growth ambitions.

Cat appetite

Aon and Guy Carpenter mentioned a growing cat appetite among reinsurers, buoyed by improvement in pricing and terms and conditions in 2023.

Aon's global property head Tracy Hatlestad said she expects "potential downward pressure on pricing" in the upper layers of peril coverage. "Mid-year renewals, in particular in the US, are pretty attractive to a broader panel of reinsurers than what we even saw earlier in the year," the executive added.

According to Gallagher Re's latest Reinsurance Market Report, global reinsurance capital hit $7.09bn at the end of H1 2023, up 13% from the end of 2022.

On an underlying basis, the average combined ratio of the study's "subset" reinsurers was 95.4%, the strongest underwriting figure in the 10 years Gallagher has carried out its analysis.

In addition, the brokerage firm found that the average reinsurer underlying return on equity (RoE) during the first half of the year hit 13.4%, up 3.2 percentage points from the same period in 2022. This marked the second year in a row that reinsurers' RoEs during H1 comfortably surpassed their average cost of capital.

Climate risk

Catastrophe losses during H1 were well above the industry average, driven by secondary perils, most prominently severe convective storms in the US. However, most were retained events, as a result of reinsurers having significantly pushed up retentions in renewals earlier this year.

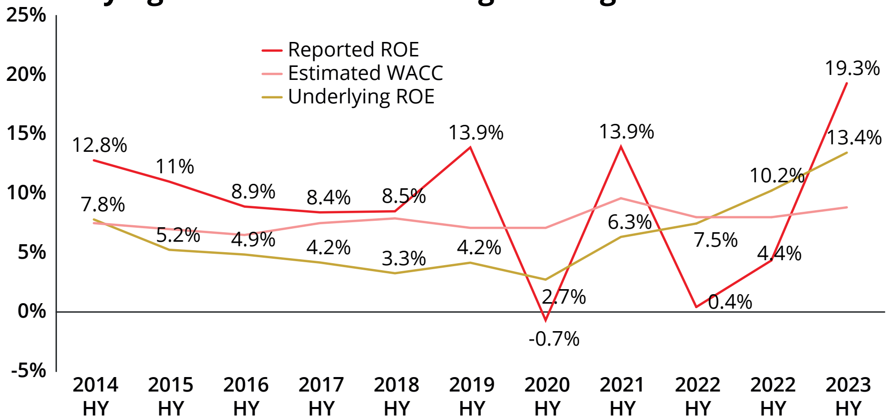
As such, reinsurers view the higher retentions achieved this year as better sized to the way current losses are occurring these days. "That is somewhat of a baseline for their expectations" for renewals into 2024, according to Dorothee Melis-Moutafis, Guy Carpenter's North America COO and interim Europe CEO.

However, the executive added that certain reinsurers are developing products and solutions for cedants' newly retained risk under those higher attachment points.

In its report, Aon stressed that the underlying earnings power of the reinsurance industry this year will place it in a "better position to absorb any potential earnings volatility", including natural catastrophe losses.

"Allowing for the [H1] 2023 exceptionally strong reported RoE of 19.3%, the industry would be able to absorb about 17 points of incremental natural catastrophe losses," the report read.

Underlying ROE now at a meaningful margin above the WACC



Source: AJ Gallagher

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Ratings agencies becoming positive on reinsurance

Ratings agencies were signalling a slightly more positive stance on the reinsurance sector in briefings released ahead of the annual Monte Carlo *Rendez-Vous*.

For instance, earlier this week Fitch Ratings revised its global reinsurance sector outlook to 'improving' from 'neutral' to reflect the sector's improved performance into 2024.

The ratings agency said the change was a result of "high pricing discipline driving a hard market, rising investment yields and a strong demand for reinsurance protection".

Meanwhile, rival rating agency S&P Global Ratings revised its view of the global reinsurance sector to stable from negative, citing rising rates and tighter terms and conditions leading to "the hardest market in decades".

The ratings agency said "much-needed structural changes that emerged in reinsurance writing" during 2023 changed the outlook of the global reinsurance sector, shifting pricing power back to reinsurers.

Earlier this week, Moody's maintained its stable outlook for reinsurers, citing improved profitability and continued rate rises.

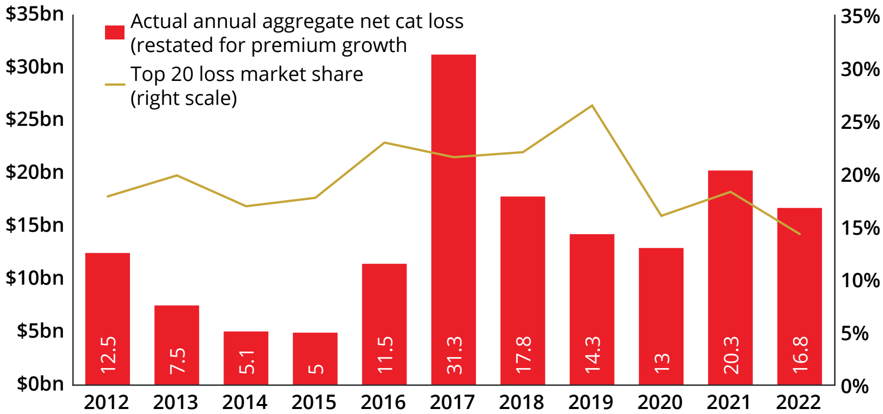
In its latest Global Reinsurance Outlook report, Moody's said reinsurers had improved the risk/return dynamics in property reinsurance by hiking rates, introducing higher attachment points and tightening other terms and conditions.

AM Best was less positive than its peers, pointing to the fact that reinsurers were facing "severe volatility" because of weather events and inflation, while rising interest rates have elevated the cost of debt.

However, AM Best said the hard market in reinsurance could help reinsurers meet the cost of capital over the medium term.

"The hardening market points to somewhat more sustainable pricing momentum, which could help reinsurers meet their cost of capital over the medium term," it said.

Natural catastrophe risk



Source: Swiss Re Sigma, S&P Global Ratings 2011-15 loss share is based on a comparable but different sample

Property

The ratings agencies pointed to property as one of the key drivers of growth for the reinsurance market.

S&P highlighted property catastrophe pricing as a key area of growth for reinsurers, noting that "2023 renewals rival those of 2006", which skyrocketed in the wake of hurricanes Katrina, Rita and Wilma.

The recent price increases "are more effective this time around because of the fundamental underwriting changes", it said. These include reinsurers tightening wordings and exclusions for certain risks such as cyber, war and terrorism, raising attachment points, lowering limits and less capacity being offered on lower layers.

"We expect recent structural changes to provide a long-lasting tailwind, [but] challenges such as elevated natural disasters, increasing cost of capital, financial market volatility, and inflation risk persist," S&P added.

Similarly, Fitch highlighted rising prices in property lines as a key area for reinsurers to focus on into 2024, noting that it expected increases next year to be more moderate than in 2023 as prices approach or surpass rate adequacy.

"Prices for casualty lines should be stable in 2024 due to an ample allocation of reinsurance capital and significant repricing by primary insurers in recent years to offset high levels of social inflation," Fitch said.

Alternative capital on the rise

The ratings agencies also pointed to the influx of alternative capital in the market.

In its report, Fitch said it expects the reinsurance sector to "maintain very strong capital in 2024".

"However, better underwriting margins could lead to greater capital repatriation if capital cannot be deployed to grow business at attractive margins," Fitch wrote.

"Renewed interest from institutional investors due to higher expected returns could lead to an influx of alternative capital to the sector, and Fitch expects the abundance of traditional and alternative capital to lead to a gradual softening of the reinsurance market from 2025."

Similarly, S&P wrote: "Despite the impairment in traditional reinsurance capital (which somewhat recovered in the first half of 2023) due to unrealised investment losses, alternative capital is

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charging ahead and providing additional capacity to the sector."

According to AM Best, traditional reinsurance capital declined precipitously in 2022 amid decreased appetite.

While mark-to-market investment losses made up most of the decline from $475bn to $411bn, offset in part by underwriting gains and higher investment income, the ratings agency highlighted capital deployment changes as "a potentially more notable" factor, with reinsurers eschewing volatile property cat lines in favour of primary and specialty insurance lines.

Natural catastrophe losses

Again, all three ratings agencies agreed that increased severity and frequency of natural catastrophes could spell trouble for the reinsurance market.

Over the last three years, reinsurers have begun to reduce their share of total industry catastrophe losses, previously having taken on about 20%.

S&P wrote: "Reinsurers have had to quickly adapt to evolving conditions amid more frequent and severe natural disasters and an abundance of unprecedented economic and geopolitical events. High inflation, Covid-19 and the Russia-Ukraine conflict have had untimely negative effects on an already overburdened sector."

> "The rapid evolution of underwriting risk in recent years creates a level of residual uncertainty about reinsurers' ability to achieve risk mitigation goals"

AM Best's capital analysis suggested a level of ongoing bearishness on cat risk, despite the harder market. "Despite efforts by some market participants to scale back their catastrophe exposures in 2022 and 2023, the rapid evolution of underwriting risk in recent years creates a level of residual uncertainty about their ability to achieve these risk mitigation goals," it argued.

Hurricane Idalia's recent brush with Florida highlights that a state once viewed as a peak profit zone for reinsurers had become highly costly. Almost a third of reinsurer premiums from their Florida clients were paid out in losses last year, according to data from AM Best.

Reinsurers' H1 results suggest the cat reinsurance reset of 2023 has had effect in tackling this perceived misallocation of losses. A greater burden of an active half for secondary-peril losses, including hailstorm events, has generally fallen on US primary insurers.

AM Best noted "economic and social inflation and the growing frequency and severity of weather events will worsen the uncertainty" within the reinsurance market.

Overall, Moody's, S&P, Fitch and AM Best agreed that, while the reinsurance market has some potential hurdles in its path, it is positioning itself in a way that will allow it to navigate those hurdles more effectively down the line.


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Cedants face up to renewal reset

Reinsurers are ready to deploy capacity – but only for business that ticks all their boxes, says Stuart McMurdo, Scor P&C's CEO of reinsurance

Barring any major insured catastrophe, the industry appears to be on track for an orderly renewal at 1 January 2024, according to Stuart McMurdo, CEO of reinsurance at Scor P&C. McMurdo, who took on his new role following the retirement of Michel Blanc at the end of last year, believes a reset of expectations around structures, wordings, terms and conditions has taken place over the last year.

"What people found difficult at the 1 January 2023 renewal – not just buyers and brokers but reinsurers as well – was the uncertainty around available capacity and how far prices would move," he says. "We have passed through that period, with the 1 April, 1 June and 1 July renewals becoming progressively smoother."

But it doesn't mean capacity is going to be readily available, McMurdo warns, partly because third-party capital is not as abundant. "There is capacity, but it is largely traditional rather than ILS. Capital market funds have realised that reinsurance is a difficult, volatile business. The more mature funds that have been doing reinsurance business for a number of years understand it and will remain in the market; less mature funds were attracted by the seemingly available yield without fully understanding the levels of risk associated with it.

"Meanwhile, traditional capacity will be available – but only for business that is at the right price, right structure, right terms and conditions and right wording – it's all four of those elements that are critical to the orderly renewal widely referred to for 1 January 2024."

Participants in Monte Carlo this year will be focused on obtaining more certainty from reinsurers on what they are willing to write and what they want to avoid, McMurdo believes.

"On property, we might see reinsurers getting a little more selective by market when it comes to proportional business and property per risk business. There are markets where these blocks of business are simply unattractive and they will struggle with [obtaining] capacity.

"On casualty, cedants were resistant to change this time last year; then came the realisation that they would have to give up some ceding commission to get programmes home. That theme has continued throughout the year and it should continue into 2024. There is still casualty capacity around, but conditions need to move further than what we have seen so far," McMurdo says.

Returning to the tacit capacity squeeze, McMurdo thinks the million-dollar question people are asking is: after a year of hardening market conditions, where is all the new capital? "The answer is: it is very limited. Third-party capital remains important but there is limited new capital, unlike what we saw post-9/11 or after KRW. Also, some carriers that have a double play [insurance and reinsurance] model seem to prefer the primary side of the business as opposed to reinsurance," he explains.

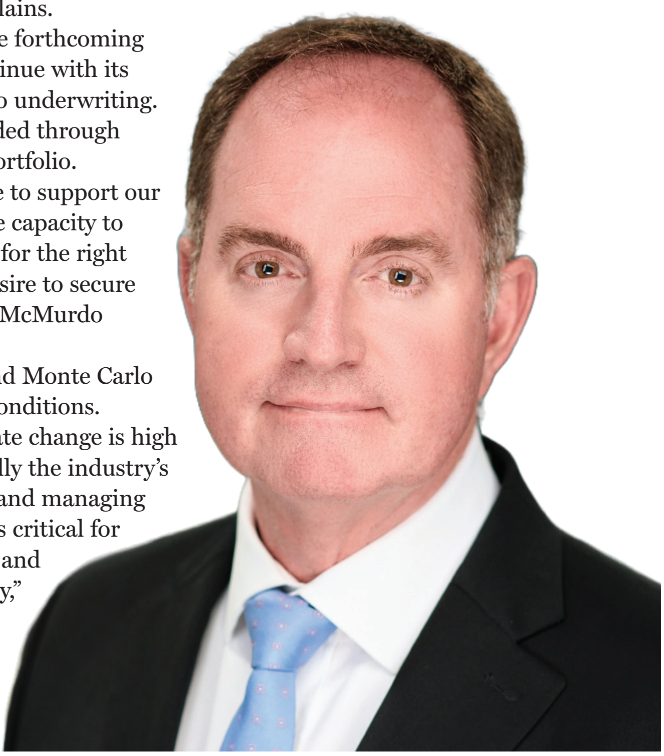
Scor's approach to the forthcoming renewal will be to continue with its disciplined approach to underwriting. "We did what was needed through 2023 to reshape our portfolio. Ultimately, we are here to support our clients and we have the capacity to do that – but it will be for the right business and with a desire to secure a sustainable margin," McMurdo stresses.

Not all the talk around Monte Carlo will be about market conditions. McMurdo thinks climate change is high on the agenda, especially the industry's role in understanding and managing carbon emissions: "It is critical for EU-based (re)insurers and we take it very seriously," he says. "But it is a journey. We need to work with clients and brokers around what they are doing in this area and how they can help us gather required information. We all need more data on the underlying business we are writing."

Climate change is a fast-moving trend, creating new risks and perils that are already being realised, such as flash droughts (as opposed to flash floods) that can result from heatwaves, he says. Meanwhile, the disaster in Hawaii shows how so-called secondary perils such as wildfire are now "front and centre of attention".

Talent is another big industry topic for the industry's C-suite executives, McMurdo says. "It's important for us to work out how we increase training of young people as well as figuring out how we make this industry an attractive first-choice option for young people coming out of university and school.

"We need to increase the bench strength across the entire industry with young people: it's an industry-wide challenge."



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