

GC's Rousseau: Buyers looking to alternative solutions in bid to smooth volatility



An increasing number of buyers are showing interest in alternative reinsurance structures amid current market dynamics, according to Guy Carpenter's Laurent Rousseau.

In his first interview since joining the reinsurance broker last month, Rousseau told *The Insurer* the reinsurance market remains at a "delicate phase" in its transition, with reinsurers determined to

achieve adequate returns.

"Prices have increased considerably and while we are seeing clear evidence of price stabilisation, there is always a critical balance between price and value of cover that must be achieved. By pushing prices too strongly, reinsurers risk questioning the value they bring to their clients," he said.

Against this backdrop, Rousseau said there was now considerable interest in the adoption of alternative reinsurance structures as a longer-term mechanism to smooth P&L volatility, as well as the introduction of alternative structures to provide balance sheet protection and to release capital locked-in by volatile technical reserves.

"We are also seeing continued growth in the alternative sources of capital entering the market. These include pension funds, sovereign funds and other long-term capital providers. However, to facilitate greater inflows and elevate the role of the capital markets, investors are keen to see an increase in potential returns," he said.

Rousseau is one of the speakers at this year's Guy Carpenter Baden-Baden Reinsurance Symposium, which takes place today at Kongresshaus Baden-Baden.

Look out for coverage of the event in tomorrow's Baden-Baden daily edition from *The Insurer*.

[Page 14: Laurent Rousseau Interview](#)

Industry on alert for Baden-Baden climate protests



The annual reinsurance meeting in Baden-Baden is on high alert as it looks to avoid joining the list of high-profile industry events disrupted by climate change protesters this year.

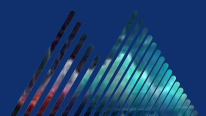
The event has previously drawn the ire of climate activists, with protesters from Extinction Rebellion blocking access to the Kongresshaus last year and calling on the sector to stop underwriting coal, oil and gas production and instead support the transition to renewable energy.

In a statement issued shortly before the start of the conference on Sunday, activist groups Urgewald and Insure Our Future renewed their call on reinsurers to end their support of the fossil fuel industry.

The groups – which last month disrupted the annual *Rendez-Vous* in Monte Carlo – noted that reinsurers have already faced "huge and rising costs" from natural catastrophes due to climate change, which cost the \$120bn sector in 2022.

"In light of the worsening climate crisis and the urgent calls for action made by the Intergovernmental Panel on Climate Change, the world's foremost authority on climate change, Urgewald and Insure Our Future repeat their

[Continued on page 10](#)



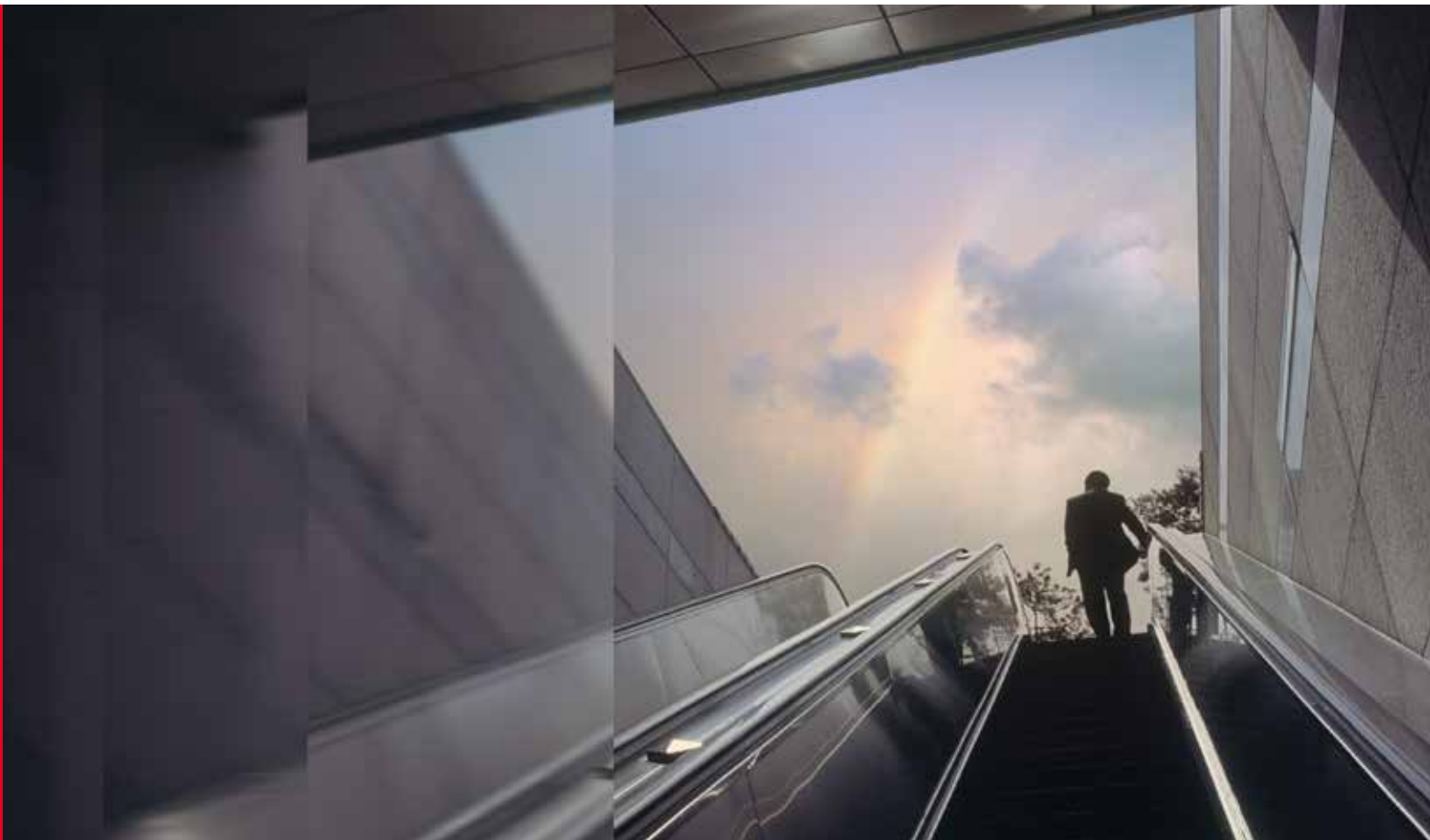


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Welcome

Welcome to Baden-Baden

As we begin this year's Baden-Baden discussions, much of the focus will again be on the mounting catastrophe bill facing the industry, with 2023 set to be another \$100bn cat year.

This shouldn't come as too much of a surprise to those who have been closely following trends over the past few years. As Gallagher Re has noted, the average nat cat insured loss total over the past decade stands at \$112bn, demonstrating that \$100bn+ loss years have now become a "new normal" for insurers.

What is surprising is that this year the \$100bn threshold looks set to be reached without a major "primary" event, with US hurricane losses notably making only a small contribution to this year's loss bill, despite an active season.

Instead, the losses have been accumulated through a series of "secondary" peril events, most notably severe convective storm losses in the US, which Gallagher Re estimates have cost a record \$54bn in the first nine months of this year.

This accumulation of losses has not been limited to the US – as Munich Re highlighted in its media briefing in the run-up to this week's Baden-Baden meeting, Europe has seen at least seven events with insured losses over €1bn (\$1.06bn) since the start of the year.

These include the costliest industry catastrophe of the first nine months of 2023 – the 6 February earthquakes in Turkey, which are expected to result in losses of \$5bn to \$6bn.

It is notable that the \$100bn loss threshold is likely to be breached without the aid of a double-digit billion dollar hurricane or earthquake event. Given the scale of this year's attritional

losses, questions will continue to be asked as to whether now is the time to retire the term "secondary perils" from the industry's lexicon.

Addressing volatility

Questions also remain around reinsurance structures and how the sector can meet the needs of its clients in addressing this volatility. The widespread push by reinsurers to increase attachment points has left primary carriers absorbing a higher



Upcoming European property cat renewals are expected to be largely flat following rate increases at last year's renewals. The exception is likely to be Italy, which saw flood losses in Q2 compounded by a record hail loss in July

proportion of this year's losses than has traditionally been the case – a factor demonstrated again by the early reporters in the Q3 earnings season.

Both Munich Re and Swiss Re have publicly stated that they retain an appetite for nat cat risk ahead of this week's meeting, but it is clear that reinsurers are not about to give up the gains achieved at recent renewals, particularly around attachment points and coverage

terms. Upcoming European property cat renewals are expected to be largely flat following rate increases at last year's renewals. The exception is likely to be Italy, which saw flood losses in Q2 compounded by a record hail loss in July.

As a more localised market, Italy has to date avoided the rate increases seen across other European countries. This will likely change at 1.1.

Casualty concerns

While property cat continues to dominate many headlines, casualty concerns remain, highlighted by the fact Swiss Re may have to bolster its back-year reserves by \$2bn this year.

Swiss Re was among several reinsurers to note concerns around casualty during the recent *Rendez-Vous* in Monte Carlo, amid significant deterioration in loss ratios on underlying business.

Lloyd's chief of markets Patrick Tiernan echoed these concerns during his Q3 market message, highlighting how the casualty market now has an "eerily familiar" feel when compared with the property market of 12 months ago.

While reinsurers' focus for this year's property renewals will largely be around maintaining the ground achieved at recent renewals, from a

casualty perspective there will likely be a big push both on rate and terms in order to stem the recent deterioration.

The Insurer will bring you full coverage of how these discussions evolve as they continue over the coming days and in the run-up to 1.1.



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Swiss Re poised to further cut US casualty exposure



Swiss Re is willing to further reduce its US casualty exposure amid continued concern over loss trends in the class, according to head of P&C reinsurance for Northern, Central and Eastern Europe Thorsten Steinmann.

The reinsurer posted a combined ratio of 118.8 percent and an underwriting loss of \$953mn for the class in the first half of the year, after strengthening reserves for its US liability, commercial motor bodily injury and professional lines books of business.

Speaking to *The Insurer TV*, Steinmann said the US casualty environment remains “highly uncertain” with challenges around economic and social inflation, as well as the evolving legal environment.

“Our analysis has shown that between 2014 and 2021, the number of large verdicts with rewards over \$5mn has increased by more than 50 percent,” he said.

“We have been reducing our US casualty exposure since 2019. That trend may continue, especially for large corporate risks,” he said.

He said the reinsurer was also being selective in where it looks to grow European treaties and international programs, some of which contain US exposures.

“But there are a lot of casualty lines, especially in EMEA, where we do have appetite, particularly general liability treaties. We also like well-priced motor business. Not everything is doom and gloom – we are a committed player in casualty. This is a

stable line of business which deserves stable reinsurance capacity.”

PFAS challenges

Per- and polyfluoroalkyl substances (PFAS) represent the most significant emerging risk within casualty, with a number of claims recently filed against major manufacturers.

Claims to date have predominantly been filed in the US, but Steinmann said settlements were also taking place internationally. He said clients were responding with a broad range of actions, from exposure analysis to sub-limits and full exclusions for PFAS.

“This is a topic of all of the conversations we have with clients. I feel the industry is taking this issue seriously, but the accumulation potential is very substantial. We have to protect our balance sheet against this type of exposure.”

Property cat opportunity

Steinmann said Swiss Re retains an appetite for property cat business, where he anticipates insured losses from natural catastrophe events will grow by 5-7 percent every year.

Like others, he highlighted the impact of secondary peril events. In Northern, Central and Eastern Europe, recent events include flooding in Slovenia, Storm Hans in Norway and hail storms in Germany and Austria.

“We continue to believe property cat rates will continue to go up,” he said, citing the impacts of inflation and continued loss trends.

“Motor combined ratios in most markets in EMEA are well above 100 percent, so we expect rates to go up and ceding commissions to come down on the motor side.”

Scan here to watch the 14-minute video interview with Thorsten Steinmann



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Munich Re: More orderly 1.1 ahead despite increasing nat cat losses and cyber accumulation potential

The upcoming reinsurance renewals on 1 January 2024 will be more orderly than the prior year, as the market now has a greater understanding of loss burdens owing to weather-related events and inflationary impacts, according to Munich Re's Clarisse Kopff.

Speaking at a Munich Re briefing ahead of the Baden-Baden meeting this weekend, Kopff – who serves as a member of the German reinsurer's board of management – underlined that despite a continued imbalance in supply and demand dynamics, the market is more prepared than last year going into renewal discussions.

"The market and clients are very aware of the situation when it comes to inflation and increasing loss burdens in weather-related events.

They are expecting that we will be discussing these points," said Kopff.

"The renewal season is not just a one-month event, it's not just a few days in Baden-Baden. These topics are discussed extensively with our clients many months ahead; they know that we will need to position ourselves, and ensure the balance between insurers and reinsurers when it

comes to the burden of the loss."

Kopff continued that expectations around discussions on pricing and wordings differ significantly from those around 1.1.23 renewals, which saw a significant dislocation of the market amid skewed supply and demand dynamics.

"[Clients] will expect a more orderly renewal than last year, because there was a lot of tension in the system last year and a massive readjustment was needed on all dimensions of structure, wordings and prices. This will be more orderly this year because clients have been very well prepared to know what's coming up."

€1bn nat cat losses becoming more common

Discussions at the upcoming renewals will be particularly focused around escalating nat cat losses, which this year have seen an unprecedented number of individual events exceeding the €1bn mark.

Analysis by Munich Re identified seven such events in the first three quarters of 2023, compared to five in 2022 overall and four in 2021.

This includes the Kahramanmaraş earthquake sequence in Turkey and Syria, flooding in northeast Italy and adjacent countries and Storms Kai and Lambert in Germany, as well as Storm Unai in northern Italy, Slovenia and Croatia and the subsequent flooding, and Storm Hans in northern Europe.

In response to these weather-related events, Kopff outlined that Munich Re adjusted its reinsurance structures, prices and wordings.

In addition, Munich Re is expanding its cat models towards non-peak perils – such as flooding, wildfires and storms – as these account for the bulk of insured losses in the year to date.

"We still have appetite provided that we get proper prices for this. We trust our models – hence we have confidence to put more capacity out again," said Kopff.

"In this industry, big is beautiful. It's all about the potential of absorption of any big loss or a series of individual losses with no dependence on retro – that's why we are comfortable writing more business at the right price."

Generali to significantly exceed FY cat budget as 9M bill reaches €840mn

Generali is set to report a nine-month catastrophe bill of €840mn (\$888mn) when it unveils its quarterly results on 17 November, the latest indicator of elevated European weather losses during the period.

The loss estimate is substantially above Generali's full-year cat budget of ~€635mn.

Generali had previously indicated that it had already exhausted 85 percent of its annual cat budget as of the end of August.

According to KBW, the additional losses are driven by further



reporting from previous events as well as continued poor weather in Italy, Germany and Austria during September.

Europe has seen a series of billion-

dollar loss events during the third quarter of 2023, including a late July hail event in northern Italy which Aon has estimated could cost insurers \$2bn – a record severe convective storm loss for the country.

Generali reported a 91.6 percent combined ratio for the first half of 2023, an improvement of 5.4 percentage points year on year.

Natural catastrophes accounted for 1.2 percentage points of the H1 combined ratio, driven by the carrier's exposure to the second quarter Italian floods.

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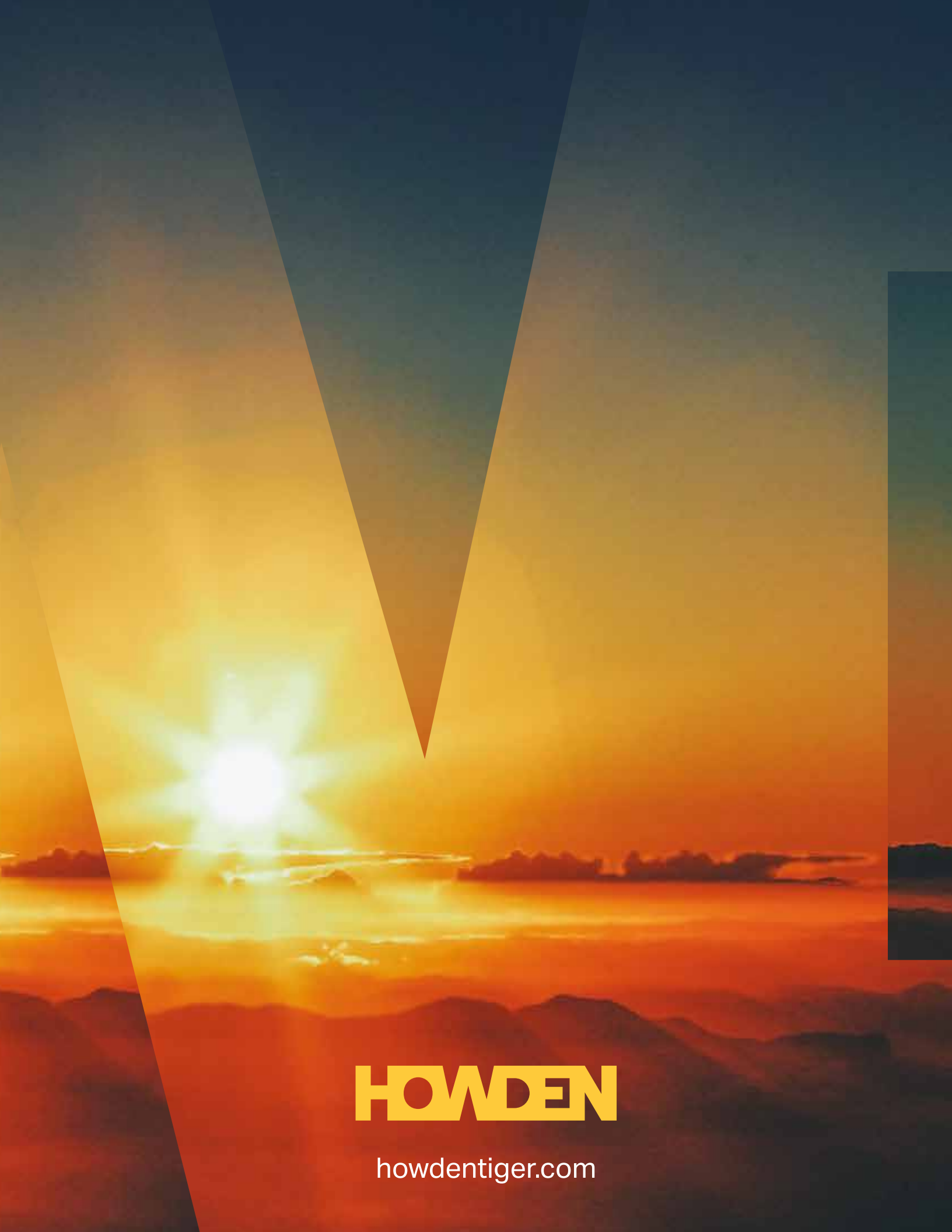


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ILS fund Leadenhall pens APAC distribution agreement with Bennelong



Leadenhall Capital Partners has penned an ILS fund distribution agreement with investment manager Bennelong Funds Management, in a deal which further highlights the increase in investor appetite for the asset class.

The agreement will allow Bennelong to distribute Leadenhall's ILS strategies to institutional investors in Australia and New Zealand.

Bennelong noted that there is currently a lack of access to ILS assets in the Australian market, and highlighted that the alternative risk transfer segment currently offers "attractive spreads" for investors relative to long-term averages.

"ILS have a historically low correlation to traditional investment markets and related economic conditions, offering an opportunity to assist in diversifying risk and

managing portfolio risk/return outcomes," Bennelong said.

London-headquartered Leadenhall was established in 2008. The business is majority owned by Japanese big three insurer MS&AD and has assets under management spread across a variety of life and non-life funds.

The agreement represents an opportunity for the investment manager to partner with a global brand and bring a unique, in-demand product to the Australian institutional market, said John Burke, CEO of Bennelong.

"Insurance-linked securities are in a sweet spot, with attractive spreads and strong potential growth, and can be an excellent diversifier for portfolios," he said.

"Leadenhall has an experienced team and a strong reputation in this asset class, and we're looking forward to working together to bring this in-demand product to more of the Australian and New Zealand market."

The agreement comes at a time when investors are displaying a renewed enthusiasm for cat risk, driven by the stronger expected returns on offer from the rapidly improved market

conditions together with improving investment yields.

Leadenhall CEO and founding partner Luca Albertini told this publication earlier this year that a "perfect combination" of heightened interest from investors, attractive returns and demand from buyers had led to some of the best conditions for growth in the ILS market heading into the second half of 2023.

In an H1 update with *The Insurer TV*, Albertini also highlighted interest from new investors seeking diversification as a factor driving the ILS market's growth.

The current ILS market is estimated at close to \$100bn in size, with the cat bond market accounting for ~\$40bn. Market sources have indicated that there has been over \$10bn in issuance this year, with the market poised for a record year.

The agreement is the latest in a series of expansionary moves by Leadenhall, which last year backed a new AM Best A rated Bermudian reinsurer called Nectaris Re that provides clients with an alternative rated platform that reduces the structural problems associated with trapped collateral.

Continued from page 1

Industry on alert for climate change protests at Baden-Baden

demand for all reinsurers attending the Baden-Baden congress to immediately stop all insurance and investments in fossil fuel expansion," the statement read.

"In addition, reinsurers must immediately provide a concrete 1.5°C-aligned phase-out plan for all remaining fossil fuel projects and companies."

Insure Our Future noted that some reinsurers have exited or significantly reduced their capacity in the natural catastrophe market, while others have raised their prices significantly, with these costs ultimately passed on to consumers.

At the same time, some primary insurers have stopped providing cover to households and businesses most impacted by climate change, or raised the premiums in these regions to unaffordable levels.

"By any measure, this is not a sustainable business model," it said.

Lindsay Keenan, European coordinator of Insure Our Future, said: "The chief executives of (re)insurers, including Peter Zaffino of AIG and John Neal of Lloyd's of London, should be ashamed. They continue to insure and invest in fossil fuel companies with little or no restriction and are accomplices in climate crimes.

"Continuing to (re)insure fossil fuels is a toxic recipe for disaster for the whole world. CEOs like Joachim Wenning of Munich Re and Christian Mumenthaler of Swiss Re can take some pride in the restrictions they have placed on reinsuring some fossil fuels, but we remind them that real climate leaders also do not insure new fossil gas infrastructure (or US coal mines)."

It comes after environmental activist groups – led by Extinction Rebellion – staged protests outside nine carriers' offices in the City of London last week, calling for an end to the industry's alleged involvement in fossil fuel pipelines and mining projects.

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Lufthansa to sell insurer Delvag and in-house broker Albatros



Lufthansa has put both its third-party insurer Delvag Versicherungs-AG and in-house insurance broker Albatros up for sale at the same time as the German airline group tests the competitive aviation market for its November renewal, *The Insurer* can reveal.

Lufthansa – which is being advised by Deloitte – has approached potential buyers, although the process may be complicated if a single buyer is required for both operations.

Albatros placed ~€300mn (\$317.28mn) in GWP in 2022, according to Delvag's annual report. It specialises in a number of different markets including aviation hull and liability and war, non-aviation liability, D&O, employment practices liability, property/business interruption and cyber.

Delvag writes a number of different classes including employee benefits, aviation, marine and transport, including motor and cargo.

Following a strategic realignment in 2020, its reinsurance arm Delvag

Re was repositioned as the in-house captive writing Lufthansa Group risks only.

Delvag has an A- rating from AM Best with a stable outlook. Its full-year 2022 figures showed net earned premiums of €52.8mn, with underwriting reserves of €94.2mn.

The insurer undertook a loss portfolio transfer with Accredited Insurance (Europe) in 2021 for Delvag Re's third-party reinsurance portfolio back years, which had ~€22mn of reserves.

The Cologne-based insurer can trace its roots back to 1924. It employs around 140 staff (300 including Albatros) and is led by senior director and CUO Tobias Winkler.

Also part of the senior leadership team is head of finance and accounting Martin Schmatz while Martin Gary is managing director of Albatros.

The prospective sale comes as part of Lufthansa's strategy to spin off non-core parts of the group. This included the sale of the European arm of its catering business LSG Group to Swiss company Gategroup for €1.1bn in 2019 and the remainder to private equity firm Aurelius for an undisclosed fee earlier this year.

There have been a number of notable transactions involving German intermediaries this year,

including private equity firm Castik Capital's buy-in to Global Gruppe, Helvetia's acquisition of Mobile Garantie Deutschland and Nordic Capital Evolution's investment in commercial broker Helmsauer Group. Expansive UK broker Howden has also made six acquisitions across Germany and Switzerland this year.

Lufthansa renewal

The sale process coincides with the renewal of Lufthansa's annual all risks and aviation war policies. Regarded as one of the largest airline accounts, the Lufthansa renewal includes the German airline together with over 30 different operators including subsidiaries Eurowings and Austrian Airlines together with affiliated airlines such as Turkish Airlines.

The airline account is thought to be worth at least \$100mn in annual premiums and is led by Allianz (hull) and Lloyd's insurer Atrium (war). Gallagher is the lead broker working alongside Albatros.

The fourth quarter is the busiest period for airline renewals with around 70 percent of the global fleet renewing. Hull/all risks pricing is expected to be ultra-competitive amid plentiful capacity, but increased pricing is expected for war, AV52 and aviation treaty.

Lufthansa, Delvag and Deloitte declined to comment.

GC-Howden: Marsh McLennan reveals \$70mn settlement

Marsh McLennan has reported that it settled a claim with an unnamed competitor earlier this month for \$70mn related to the "unlawful recruiting" of a number of its employees in Europe, less than two weeks after this publication revealed Guy Carpenter and Howden had reached agreement in a high-profile dispute.

The statement in the Guy Carpenter parent's third quarter financials said: "In October 2023, the company

settled a claim with a competitor related to the unlawful recruiting of a limited number of the company's employees in Europe for \$70mn, including reimbursement of legal expenses."

On 10 October, this publication reported that Guy Carpenter and Howden Group had settled a London legal dispute over the defection of 38 Europe-based former Marsh McLennan employees to the UK

broking group.

The out-of-court settlement came to light only hours before a multi-week trial was due to begin in London's High Court.

That avoided the prospect of senior executives from both organisations being cross-examined over the recruitment of former Guy Carpenter employees from across the continent earlier this year, including regional CEO Massimo Reina.




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GC's Rousseau: Hard market may be “stickier” amid macroeconomic uncertainty



In his first interview since joining Guy Carpenter as CEO for EMEA and global capital solutions, Laurent Rousseau outlines market dynamics as we head into this year's Baden-Baden meeting

The arrival of Laurent Rousseau at Guy Carpenter last month has come during what many consider to be a generational hard market.

Following a lengthy tenure at Scor, including 18 months as CEO, Rousseau has entered reinsurance broking in what he described as “a delicate phase” in the reinsurance market's transition.

“The significant price increases that we witnessed at 1 January 2023 were what I would refer to as ‘risk-adjusted plus’ pricing,” he said.

“Rate adjustments were factoring in multiple different market developments, such as changes in the risk environment, the ongoing impact of inflation, the geopolitical environment, and rising loss costs. These contributed to a sharp rise in pricing in a short period, as reinsurers sought to generate stronger returns.”

Rousseau said this “risk-adjusted plus” phase of pricing was now stabilising across many business lines,

but predicted continued discipline at upcoming renewals.

“We expect to see a greater willingness on the part of reinsurers to deploy capital, although underwriting discipline will not subside,” he said.

With cedants having now had time to adapt to market adjustments implemented at 1 January 2023, Rousseau said upcoming placement negotiations may play out in a number of ways.

“For example, growing insurance premiums and insurers' strong results could serve to fund an increase in reinsurance purchasing. Alternatively, we could see insurers capitalise on their intensive efforts to manage portfolio aggregation more effectively, leading to strong solvency, by choosing to reduce the amount of reinsurance purchased and retain more of the frequency-type risks on their balance sheet,” he said.

“It is our view that there will be

a greater alignment between the respective needs of insurers and reinsurers at 1 January 2024. What we are seeing is in many ways a return to the core roles of the two markets. As is often the case in a soft market, we saw perhaps a blurring of the boundaries, as reinsurers began providing cover for higher-frequency risks and providing increasing amounts of cover at the lower end of programs.

“Reinsurers are now much more focused on providing cover for higher-severity, lower-frequency risks and are looking to reduce their aggregate exposure and avoid higher-frequency perils.”

He said the unique dynamics of the current market environment meant this hard phase will likely be “stickier” than previous instances.

“The level of uncertainty that we see in the macroeconomic environment and in the risk universe could serve to prolong these current conditions,” he said.

“It is also important to recognise that rather than being capacity-led, the current market inflection has been capital remuneration-led. Capacity has been available across most business lines, but at a price. The focus on achieving greater returns for capital allocated was the trigger, as was the case in the insurance market in 2017.

“For today's reinsurance market, while reinsurers are in a position to deploy capacity, they are only willing to do so where they can achieve a return acceptable to their shareholders.”

Rousseau said this demand for higher returns is also evident in the stance of capital market providers, who are assessing where to allocate capital very carefully.

“Should traditional reinsurers deliver a strong result for 2023, we would expect capital markets to follow on a larger scale in 2024,” he said.



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2023 on track to become another \$100bn loss year as record SCS bill continues to grow

Insured losses from natural catastrophes are expected to again top \$100bn during 2023, despite the lack of large losses from this year's Atlantic hurricane season.

Preliminary estimates from brokers Aon and Gallagher Re have suggested insured losses of \$88bn and \$93bn respectively as of the end of Q3.

Severe convective storms (SCS) have again been the main driver of loss, continuing the trend of recent years.

Gallagher Re has estimated US SCS losses at \$54bn for the nine-month period, with Aon reporting industry losses of \$50bn+ for the peril.

According to Aon's ranking, eight of the 10 costliest loss events of 2023 to date have been from US SCS.

Gallagher Re said 2023 marks the fifth consecutive year with insured US SCS losses exceeding \$20bn. Hail, which typically accounts for 50-80 percent of SCS claims, has again been the largest driver of loss from the peril.

The broker said 2023 ranks second for the largest number of reports of large hail reaching two inches or more. Expanding urban footprints in hail-prone regions in tandem with the increasing cost and size of homes has further exacerbated the cost of hail-related claims.

The impact of the SCS peril has not been confined to the US. European SCS losses have now topped \$4.5bn for the third consecutive year, Gallagher Re said.

Notably, hail losses in Italy throughout July are expected to have cost insurers around \$2bn, and will likely have ramifications for the country's carriers during upcoming renewal discussions.

As Munich Re has noted, Europe has seen seven billion-euro insured loss events this year, including four in the third quarter. These include the Italian

hailstorms noted above, as well as Storm Hans in Norway, flooding in Slovenia, Austria and Croatia, and another hail event in Germany in late August.

Secondary perils

While SCS has dominated this year's loss activity, Gallagher Re's chief science officer Steve Bowen said it is important to also consider the impact of other so-called secondary perils.

"Hawaii, for example, is not an area where we would expect to see a multi-billion dollar fire loss event. Many of the areas that previously identified as being higher risk based on changes to the hazard are now starting to translate into higher losses," he said.

Another notable Q3 event was the flooding which followed Typhoon Doksuri in China.

"Any billion-dollar industry loss event in China is notable," Bowen explained. "China is an example of an area where we are seeing more insurance take-up."

"The remnants of Doksuri combined with additional monsoon rainfall brought significant flooding to the Greater Beijing region – it resulted in a \$1.3bn loss, which is a big number for the

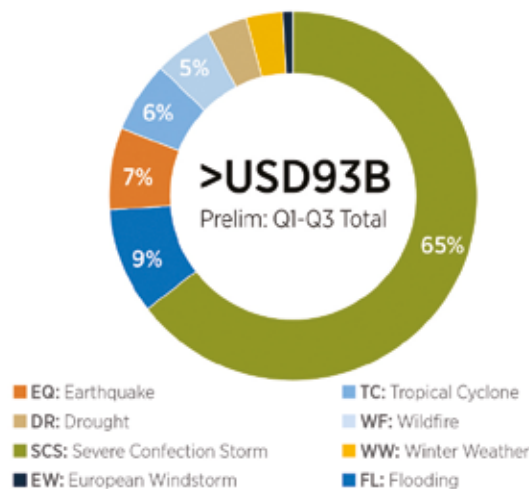
country.

"Economic losses for that event were around \$20bn, highlighting that there is still a significant protection gap. But China is an example of an area where we are seeing more insurance take-up."

The deadliest events during the third quarter were the catastrophic flash flooding in Libya and the Morocco earthquake, both of which occurred in early September.

"We are looking at a ~\$500mn industry event for Morocco, which is a sizeable event for that country. The overall economic loss from the event

Insured loss by peril



Source: Gallagher Re

Top 10 costliest insured loss events in Q1-Q3 2023

Date	Event	Location	Deaths	Insured loss (\$bn)
02/06	Turkey & Syria earthquakes	Turkey & Syria	59,259	5.7
03/01-03/03	Severe convective storm	US	13	5.0
03/31-04/01	Severe convective storm	US	37	4.4
06/21-06/26	Severe convective storm	US	7	4.0
06/10-06/15	Severe convective storm	US	3	3.1
06/15-06/20	Severe convective storm	US	5	3.0
08/08-08/17	Hawaii wildfires	US	97	3.0
05/09-05/14	Severe convective storm	US	1	2.9
04/18-04/22	Severe convective storm	US	3	2.3
03/23-03/28	Severe convective storm	US	5	2.3

Source: Aon

was around \$6bn, again highlighting the significant protection gaps that exist.”

Bowen said the cover provided by the EV CAT natural catastrophe pool in Morocco – backed by excess of loss cover placed by Gallagher Re – demonstrated the importance from a risk mitigation standpoint of ensuring some level of insurance framework is in place.

“This also highlights the importance of parametrics to enable coverage in areas where there is not much traditional insurance in place. There is a real need for more of these non-traditional products and we are seeing the benefits of these emerging in areas such as Africa, Latin America and parts of Southeast Asia, where there is still the need to build more protection for government entities that allow the money to trickle down to the end-user,” he said.

Limited hurricane activity

In contrast, this year’s Atlantic hurricane season has delivered limited losses, with Hurricane Idalia being the only notable event. Damage estimates for Idalia have fallen since early projections of a potential loss in the \$5bn range were issued – Gallagher Re’s latest estimate for the event indicates an insured loss of just \$1.25bn.

“The good news has been from Hurricane Idalia – there was concern it had potential to become a much

more expensive event,” Bowen said. “But if you were going to play a landfalling Category 3 storm in Florida, you couldn’t have found a better place from an industry perspective.

“While it will be another billion-dollar event – we have the loss estimated at \$1.25bn – it impacted an area of very low population density. Around 200 miles to the south and it would have been an entirely different type of loss.”

The lack of industry losses from US hurricanes is despite a busy Atlantic season, which at the time of going to press has seen 20 named storms.

“It was a very active period for Atlantic hurricane activity in Q3 but that didn’t translate to loss. That’s an important point – there is a lot of emphasis on frequency, but that doesn’t always translate into loss,” Bowen said.

“You can also have the opposite effect where there are fewer storms, but one is a big event that hits a highly populated area and completely changes the narrative for the industry.

“The fact that right now we are facing another \$100bn loss year for the industry, but we haven’t seen a significant landfalling Atlantic hurricane, once again reinforces the primary versus secondary debate, and whether we should be placing more weight on secondary events. 2023 is set to be the year where we have those conversations about whether we need to do away with framing of primary/secondary perils.”

“The fact that right now we are facing another \$100bn loss year for the industry, but we haven’t seen a significant landfalling Atlantic hurricane, once again reinforces the primary versus secondary debate, and whether we should be placing more weight on secondary events

Trade credit, bond and political risk: A state of the market summary

Guy Carpenter's David Edwards examines the state of play in the credit and political risk market and looks ahead to January's renewals

Against a backdrop of growing economic and political risks in recent years, loss ratios in the trade credit, bond and political risk business have remained exceptionally low across the market, with marginal upticks in some instances, but no widespread major increases as of yet.

While other reinsurance classes have hardened, the prevailing sentiment in this segment has been a sense of realism about rate developments, with insurers more focused on favourable conditions and capacity than price. Insurers value long-term relationships with reinsurers over pushing for marginal rate movements, especially in times when they are hard to achieve.

Overall, despite a general over-supply of reinsurance capacity for credit risks, there has been under-deployment by reinsurers, which remain more cautious than insurers about the risk environment.

Inflation more of a concern than major events

While a recession was widely anticipated in 2019/2020, no one expected it to be instigated by a global pandemic. The post-Covid-19 restructure was very challenging for the market, but losses due to the pandemic did not come through instantly, owing largely to widespread government support given to businesses, which led to a low default rate among companies. At the same time, insurers had already rewritten their portfolios in anticipation of possible defaults.

Meanwhile, the effect of inflation has been to drive premium volume up, as risk limits and insured turnover grows. This leads to capacity challenges for many of the established reinsurers, with some small to mid-sized reinsurance players seeing this as an opportunity to step in. At the same time, inflation is contributing to increasing loss severity.

Loss deterioration a challenge for surety

There are some growing challenges to political risk carriers in terms of loss deterioration on emerging market/sovereign type-exposures. This is caused largely by energy and raw materials costs associated with the Russia-Ukraine conflict.

However, the surety market also faces a significant challenge in this regard, due to the impact of fixed-price contracts, supply-chain issues and rising interest rates, with the US, UK, Scandinavia and Australia some of the worst-affected markets to date.

While there is some clear evidence of an uptick in claims activity, the overall impact remains limited. Some sub-products, regions and insurers are being affected more than others by loss developments. Overall, we expect the current upward claims trend to continue, but to remain within cycle norms other than for certain localised instances, where severity will be the driver.

Rating dynamics will change year on year

Renewals at 1 January 2024 are likely to begin from a narrower base compared with 2023, with the most likely scenario being stability on average for the market. But the range between the high and low is expected to spread for a variety of factors, in particular the performance of individual cedants.

Overall, there is a shared appetite from insurers and reinsurers to grow in specialty lines to dilute volatility in other classes, which should improve market dynamics for trade credit, bond and political risk. Strong new business opportunities should drive continuing improvements in average portfolio quality for the market as a whole, helping to reduce the overall market volatility further.

Preparing for January renewals

In the current risk environment for trade credit, bond and political risk, the ability of insurers to demonstrate a strong risk management focus will be critical.

While it might appear axiomatic to say that data is central to successful reinsurance buying, there is no doubt that quality data is more valuable than ever. There will be even greater onus on cedants to provide the maximum possible data, particularly for specific distressed exposures, with detailed quality data provided early being indispensable for generating the best outcomes. Guy Carpenter helps clients anticipate and navigate an ever-changing marketplace.



David Edwards is co-head of the credit, bond and political risk division at Guy Carpenter

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Cyber catastrophe events: Seeking solutions for unknown unknowns

Business and insurance sector leaders are rightly concerned about the prospect of a catastrophic cyber event – but, with a truly systemic cyber disaster yet to occur, how can the industry model and cover the risk? Simon Heather explores the issues.

Cyber insurance is a fast-evolving, rapidly growing market, but it has never had to deal with a truly systemic catastrophe. In contrast to the natural catastrophe market, where disasters such as hurricanes, wildfires, tornadoes and floods are a regular occurrence, this makes a cyber cat event inherently more difficult to model and price.

In short, the industry is hampered by a lack of tangible scenario data points, inconsistent or non-existent cyber catastrophe claims coding frameworks and an overarching high level of uncertainty.

Cyber status quo

In reality, cyber modelling remains in relative infancy, and there is substantial variance in the modelling of larger scenarios – something which does not inspire confidence among capital providers. The (re)insurance sector has responded to this by working hard to manage its exposures through appetite, pricing, tighter wordings and exclusions.

Meanwhile, demand for cyber insurance continues to grow and, following triple-digit rate rises in the past three years, insurers can have more confidence that they are pricing the risk correctly. But while the supply of capital is increasing in parts of the market, there remains a reluctance from capital providers

to offer cost-effective and systemic solutions that address carriers' fear of the unknown.

Cat characteristics

The biggest problem for the industry is that it has never really experienced a truly systemic cyber disaster. This means that there is no universally accepted definition for what might cause one, or what form it might take. This ultimately means that there is no industry consensus on modelling the risks.

This makes for a stark contrast with natural catastrophes, such as hurricanes or earthquakes, where risks are much better known and modelled. And it creates a particular challenge for insurers in securing reinsurance capacity, as capital providers in that market are grappling with the same uncertainty.

A shared understanding of what a cyber catastrophe could look like would be a useful starting point. And this, in turn, needs to be translated into consistent claims reporting frameworks. Gallagher Re's own development of in-house 'Cyber Cat' wordings to cover the two broad types of aggregating language has had success in attracting and retaining capacity in both the traditional and alternative markets.

Causes and consequences

Rather than nation-state or organised criminal perpetrators, the most likely origin of a systemic cyber event is an accident, an unintended

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”

consequence of a smaller event, or a combination of two apparently unconnected events. These might include a piece of malware that proliferates out of control or the failure of a widely used free data service, which has unexpected knock-on effects.

This makes these events truly unanticipated and inherently hard to model – again contrasting with weather-related risks such as hurricanes. A cyber cat could be something the industry has never seen before – challenging the assumptions of actuaries, modellers and cybersecurity teams alike.

But while the origin story of a cyber catastrophe event remains vague and hypothetical, there's greater agreement on what could turn a known and manageable problem into a catastrophe.

For an event to threaten the system, it either has to knock out one of the internet's crucial pieces of centralised infrastructure or go uncontrollably viral. For example, a mass prolonged cloud outage rendering huge swathes of the business world inoperable or a new virulent strain of malware with unexpected vulnerabilities in widely used software a related risk.

Cyber modelling challenges

The divergence of existing cyber model output and thus wide range of uncertainty in this peril is but one area of difficulty when it comes to quantifying cyber cat exposure. The other lies in key differences to the progenitor of cyber cat modelling – natural catastrophe modelling.

Nat cat models have the distinct advantage that their perils follow defined scientific laws with standardised scales of magnitude and intensity. Everyone can agree what a Category 5 hurricane looks like and can gather plenty of empirical data about characteristics such as peak wind speeds, pressure, tracks and genesis. The same isn't true of a cyber event.

We've no classification of event magnitude that is independent of loss impact, no real agreement on what a cat event looks like and there are no standard features of all cyber events.

This means that each model vendor must rely on their own event classification, which often leads to broad differences in model frameworks and outputs.

While we will likely see some convergence in cyber modelling, or at least a reduction in divergence, this is not a given – and one of the reasons we can't guarantee convergence is the

'unknown unknowns'. Every time a new piece of software comes out there are new unknown unknowns. It's an irreducible uncertainty. There is much less of this type of uncertainty in nat cats, which allows for more model convergence.

The way forward

In a young market with less loss experience to draw upon, greater disclosure and transparency among the cyber community would be welcomed by the (re)insurance industry. The current regulatory environment tends to compel organisations to disclose only when they have fallen victim to a data breach. However, the focus for disclosure should not solely be on successful attacks – there is real value in being open about near misses as well.

With greater disclosure and sharing of data, more effective models and a larger body of data residing outside the models will come. More granular data

may also help the insurance industry better characterise the different cyber cat risks facing different parts of the market, diversifying modelling on the basis of policyholder size for example.

Cyber demands a new approach not wholly based on established practices, an approach that dislocates cyber from the familiarity of natural catastrophe model frameworks. Consider the key differences: the duration of a cyber cat may be much longer and its behaviour much less predictable. Cyber is also a class in which the policyholder's

behaviour has a far greater impact on the nature of their risk. Faced with a hurricane, a property owner cannot move the property out of the path of the storm. But a chief information security officer can effectively isolate their business from an emerging threat.

Ultimately, while model providers are investing in improving their capabilities, the (re)insurance industry will require more and better data from insured clients on their cyber vulnerabilities and loss experience to improve both models and, in turn, pricing. This may enable more granular coverage.

For example, by differentiating between large corporations and smaller companies, with the former vulnerable to targeted attacks while the latter want to insure their exposure to a longer-tail, system-wide event.

“ **Cyber demands a new approach not wholly based on established practices, an approach that dislocates cyber from the familiarity of natural catastrophe model frameworks** ”



Simon Heather is head of cyber catastrophe modelling at Gallagher Re

The above is an excerpt from Gallagher Re's recent paper 'The Risk of a Cyber Catastrophe' – the third in its 'Gray Rhino' series, designed to raise awareness of various insurance industry challenges before a major event occurs, which was originally published on 10 October 2023.



Baden-Baden: next stop on the road to reinsurance renewals

AM Best's Carlos Wong-Fupuy reflects on how *Rendez-Vous de Septembre* discussions reinforced cautious optimism ahead of 1 January

Each year, AM Best meets with reinsurance industry participants in Monte Carlo to discuss top-of-mind issues facing the market and share our own perspectives. In that regard, it was business as usual, and with a theme of cautious optimism amid the hard market, albeit offset by greater-than-usual uncertainty from macroeconomic and structural headwinds. That came as no surprise – this market cycle is very different from previous ones.

Price discovery has taken longer than expected. Claims patterns, as well as inflation and interest rate trends, have caught market participants on their heels. After several years of disappointing financial results, reinsurers have become much more cautious about deploying their capital.

That said, it is important to recognize the difference between “available” and “deployed” capital is critical. Available capital is not under pressure – the largest, well-established global reinsurers either still hold plenty of “dry powder” or are very well-positioned to raise capital without much difficulty.

At the same time, these well-capitalized players have become much more selective allocating their

capital, which pressures the deployment of capacity. Incumbents with a proven track record are in the best position to raise capital if there were to be a need, while potential start-ups face scepticism from investors in a segment where risk premium is elevated, given the volatile results from recent years.

In previous cycles, following a large event that would deplete significant amounts of capital, we would expect to see a new influx enter in the shape of company formations that are particularly specialized with a clear remit. In actuality, what is happening is that a number of large players have moved toward achieving a very diversified business portfolio, with the best-performing companies in the market turning away from reinsuring pure catastrophe risk.

Instead, they've been trying to take advantage of the better margins seen in the primary sector; for example, tapping into specialty excess and surplus lines business. From an investor's point of view, this model gives them the opportunity to play with several levers, depending on how market conditions change. This model is much more flexible to adjust in these market conditions.

The rise of ILS

Another trend to note that has become more solidified over time includes the rise of the insurance-

linked securities (ILS) sector as an integral part of the market. Working with traditional players as a partner, third-party capital has been accepted as a key component of most major reinsurers' strategies, instead of being viewed as the competition.

In turn, the market has set itself up to be able to achieve a reasonable rate of return to satisfy the investors that would be willing to continue to support the market on a go-forward basis.

To do so, the reinsurance segment in many respects has curtailed providing the kind of income-statement protection primary insurance companies have been used to. Attachment points have gone up; retentions and co-participations on the primary side have gone up.

With the additional frequency and severity of large-scale and secondary peril events, reinsurers are stepping away from that protection or moving up to higher layers to achieve a reasonable return. For the primary sector, what that means is increased volatility.

The difficulty is that reinsurance is meant to act as a partner for their primary companies, and some primary companies that don't have the financial flexibility or diversification to handle localized events have come under strain from a ratings standpoint.

MGA-placed risks

As part of that flight to diversification, reinsurers also have increasingly provided capacity for MGA-placed risks as a means to get closer to the original primary-like risks.

MGAs have become a critical distribution source, but the longevity of private capital investments is a concern for reinsurers.

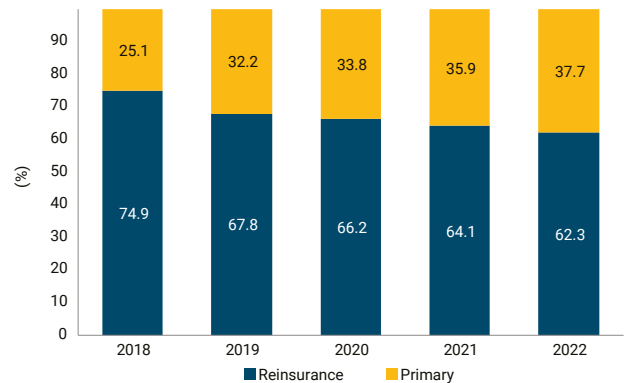
There's the adage that "risk is opportunity," yet the potential is there for a misalignment between private equity and insurer concerns with regard to risk appetite and who is ultimately on the hook for the risk exposures.

That aspect is one of the reasons why AM Best feels its performance assessment on delegated underwriting authority enterprises, such as MGAs and other similar entities, is so important to the insurance industry.

Still, reinsurers remain well-capitalized. The strong pricing and tightened terms and conditions is driving an improvement in underwriting results. We expect that to continue in the future. Highlighting their flexibility, the much harder market conditions since the start of 2023 have renewed interest in property catastrophe risks, again, under much tighter terms and conditions.

Reinsurers continue to evolve in response to emerging risks and more complex risk scenarios.

Global reinsurance – primary insurance vs. reinsurance NPE allocations



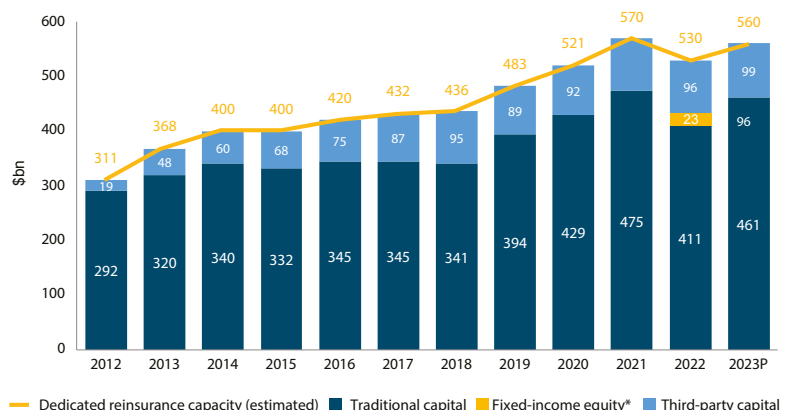
Source: AM Best data and research

They no longer solely serve as a financial safety net for their clients; they're enabling business, blurring the line between insurer and reinsurer.

As the industry closes the book on another successful *Rendez-Vous de Septembre*, it turns its attention to the next important event on the reinsurance calendar – Baden-Baden, where reinsurers, cedants and brokers dive deeper into their discussions on the renewal and structure of reinsurance contracts.

The specifics on how macroeconomic and market dynamics, as well as the optimization of capital, will manifest themselves in renewal agreements will become more apparent in coming months, but reinsurers by and large have realigned their risk profiles and now are in a strong position to generate the underwriting profits that had been elusive for a number of years.

Global reinsurance – estimated dedicated reinsurance capital



P=Projected

* For reinsurers that have ample cash liquidity to support potential shock losses, the fixed-income equity adjustment captures the amount of capital that AM Best anticipates will be recovered as bonds mature over time.

Source: AM Best data and research, Guy Carpenter

The market is in a healthier place

Nick Orton, head of international at Hiscox Re & ILS, gives his view on the state of the international property reinsurance market in 2023

As we come out of the third quarter, what have been your main takeaways so far from the international property reinsurance market in 2023?

Firstly, the market is in a healthier place than it has been for quite some time. We are coming out of an extended period of imbalance during which rates were simply not adequate for the risks reinsurers were underwriting. That is beginning to change now.

Secondly, reinsurance remains a relationship-driven business. We recognise that this hard market has not been easy for our clients. In this industry, people often talk about the importance of relationships. We saw 2023 as an opportunity to 'walk the walk'. It's good to be there when things are going well, but we are proud to be a long-term partner, supporting our clients through challenging times.

Finally, we see no change in the factors that drove the creation of this market cycle. Notably, climate change, heightened catastrophe activity, inflation and geopolitical uncertainty. Also, we haven't yet seen any great wall of capital ready to step in. So, we expect the hard market to continue into 2024.

Are you seeing signs that hard market conditions are alleviating in some areas – to what extent is this happening in the international property reinsurance market?

We have not really seen it alleviating. It is the first time in my career that I've seen all classes of business moving upwards simultaneously. The primary change we have seen recently however, has been a market consensus on terms and conditions. That is a sign of the market sorting itself out, resulting in smoother renewals as we moved through 2023.



Nick Orton
is head of
international
at Hiscox Re
& ILS

“ Climate change is here and now. It's the biggest challenge we all face ”

This year has seen a significant amount of extreme weather events impact parts of the property cat market, with some carriers even exiting the space. To what extent are you and your team having to change the way you work?

The market is having to adapt. There is no denying climate change is having an impact on the frequency and severity of catastrophes. Just look at the recent European wildfires, one of 11 billion-dollar-plus

losses the market has had to date this year. It's something we need to continue studying in partnership with our research and analytics team as we work to stay ahead of changes in the underlying risk environment.

For us, it's about combining technical underwriting and cutting-edge research to meet evolving risks. We have been doing this for a long time now, and responding to emerging risks is part of our DNA. Hiscox is an established brand founded in 1901, and we have been writing reinsurance for 50 years now. We plan to be writing reinsurance for another 50 years, which means building sustainable partnerships with clients and understanding what the risk environment will look like over that time.

For the rest of 2023 and into 2024, what do you see as the biggest challenges and opportunities in the international property reinsurance market?

Climate change is here and now. It's the biggest challenge we all face. And it is not just the increasing natural hazards, but also the compounding impact of populations expanding, both increasing values and moving values into higher-risk areas such as floodplains and near forests.

The opportunity comes from partnerships – we look forward to continuing to build our partnerships in 2024 and beyond.

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QBE Re's Chris Killourhy: Attachment point is "more important" than rate



Increases in attachment points have been more important than rate rises amid a "change in philosophy" for reinsurers at recent renewals, according to QBE Re managing director Chris Killourhy.

Killourhy told *The Insurer TV* a continuation of these trends could be expected at upcoming renewals.

"We've got to maintain our discipline so that we don't start getting back down to the weeds and playing in areas that we just don't feel are the right way for us to deploy capacity," he said.

The executive added that attachment point was something "we understand, can model, can diversify and build portfolios around".

Casualty inflation concerns

On casualty, the executive warned of the continuing peril of inflation.

"We're looking at risk now with a lot more focus on to what extent inflation is impacting those primary losses.

"I think it [inflation] is making the reinsurance industry a little bit more thoughtful on how it's managing its casualty portfolio," he added.

One area of concern has been the D&O market – particularly public D&O – and this is something that is also under the microscope at QBE Re, as well as in other parts of the market.

Killourhy echoed concerns voiced by Lloyd's chief of markets Patrick Tiernan around the need for more discipline in D&O.

"Public D&O rates are back close to where they were in 2019, which means that all the correction and strengthening that has been done over the years has been unwound within 12 months. That would be like us going back to the property rates of a couple of

years ago, so it's a real concern," he added.

Killourhy affirmed QBE Re's commitment to support its partners in the long term, even against this backdrop.

He explained that his aim is to be more meaningful to a smaller number of cedants rather than focusing purely on specific lines.

"We're seeing evidence [from cedants] that they're looking at the rates, they're seeing the same concerns that we are, and we're just getting off the business when it doesn't make sense," he said.

"The cedants that have got real balance in their portfolio can afford to come off some business, because they've got enough income elsewhere. But what we're seeing on public D&O rates, I think, as a reinsurer, you've got to be really concerned to see that level of fall-down."

Specialty overlap

Turning the discussion to specialty business, he said it was a "fascinating area".

"There's actually a bit of overlap between specialty and property. With property, one of the concerns that I saw was more than just 'are we getting the premium right'. Do we actually know what we're covering? Do we know what perils are exposed to? Do we really understand our accumulation?"

"And I think that was, in some ways, where we were on the specialty side as an industry as well, with more and more covers being cobbled together.

"We were discovering we're on risk for things that we didn't really intend to be or we hadn't charged for. So, I think, clearly as markets left last year, it created an opportunity for rates to move."

However, he added that "we didn't run into the market", but that the departure of certain reinsurers had created an opportunity to support cedants in the specialty market.

"More important than the rate was the decoupling of some of the covers, getting real clarity on what we're protecting," Killourhy added. "I think that bit of discipline will remain."

"We've got to maintain our discipline so that we don't start getting back down to the weeds and playing in areas that we just don't feel are the right way for us to deploy capacity"

Scan here to watch the 9-minute video interview with QBE Re's Chris Killourhy.





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A generational market

Howden Tiger's David Flandro examines market conditions as this year's Baden-Baden meeting begins

The reinsurance sector remains in its most acute phase in a generation. Property catastrophe rates on line spiked by 37 percent at 1 January 2023, with cumulative increases exceeding 50 percent over the past 18 months.

Even more significantly, retentions and attachment points have risen to the point where cedants now retain 10 percentage points more in expected losses than they have done, on average, since 2000. As the renewal season moves into full swing, the durability of this hard market is front of mind both for buyers and sellers of reinsurance.

Strong for how long?

Reinsurers' collective outlook this year at Monte Carlo was bullish, with consensus expectations of a persistent hard market. These expectations are driven by heightened natural catastrophe losses, interest rate-driven asset impairment, lower initial capital re-entry compared to previous cycles, along with regional conflicts in Ukraine and Israel that are threatening to spiral into a broader, global conflict. All of this is combining to increase global risk premia to levels unseen for a decade or more - a stark contrast to how the world looked just a few years ago.

In spite of this riskier landscape, the pricing pendulum rarely remains fixed for long if events do not materialise to sustain it. Rates should remain elevated at the 1 January 2024 renewal, but there are already early signs of movement. For example, dedicated reinsurance capital, which dipped by 17 percent in 2022, is now recovering due to the highly anticipated 'pulling to par' of bond portfolios along with new capital raising, now potentially approaching \$20bn since Hurricane Ian.

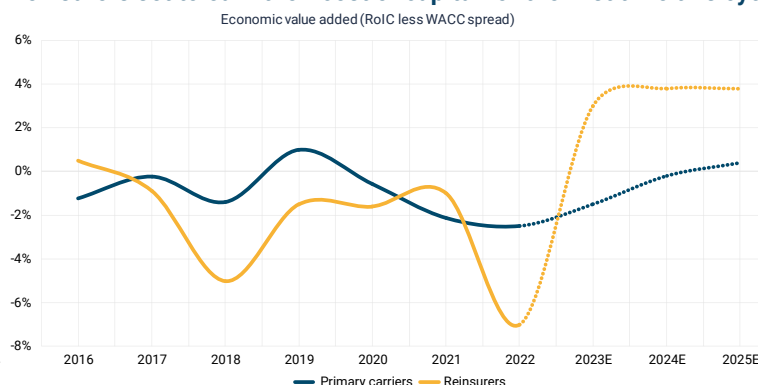
This capital is entering through its usual channels - the ILS and collateralised markets, secondary issuances by existing players and new start-up activity - but also, increasingly, through asset-light structures, particularly in areas where new capacity

can be attracted through innovation.

Another mitigating factor to further upwards momentum may be a relatively quiet 2023 hurricane season - at least in terms of reinsured losses. While the 2017-2022 six-year average of total insured cat losses was \$111bn, this year's losses have only totalled about \$80bn so far, and have been overwhelmingly retained by cedants. This may

have been helped by the transition to El Niño in June 2023, which has historically eased hurricane frequency in the Atlantic as high westerly winds disrupt storm activity. While conditions could change with the occurrence of a major event before the end of the year, this looks increasingly unlikely.

Reinsurers set to earn their cost of capital for the first time this cycle



From challenge to opportunity: creating economic value added

While the current environment is challenging, it is nevertheless typically during periods of elevated pricing, low retentions and relatively tight capitalisation that excess returns become possible, even probable, creating a sizeable opportunity for those who can navigate the evolving risk landscape.

Assuming a 'normal' remainder of the year (admittedly, a large assumption), reinsurers stand to see their returns on invested capital outpace their weighted average cost of capital, the first time in years that positive economic value can be achieved.

Looking ahead

The industry is at a turning point. Key signals such as record high pricing and strong demand for capacity are indicative of a riskier global landscape.

Questions remain, especially around exposure and volatility given heightened recent natural catastrophe activity. Reinsurers have the chance to increase value - including valuations - if they adapt to the changing market conditions.

Much now depends on underwriting decisions and effective portfolio management as the reinsurance sector undergoes this pivotal shift. Embracing the modernising market, including the various new underwriting structures now coming into their own, will be key.

Reinsurers' collective outlook this year at Monte Carlo was bullish, with consensus expectations of a persistent hard market



David Flandro is head of industry analysis and strategic advisory at Howden Tiger

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The growing line of agriculture reinsurance

Michael Leahey, global head of agriculture at Axis Re, explains how farmers have a greater awareness of climate change and what this means for (re)insurers

Various commentators have predicted agriculture reinsurance will grow in 2024. How do you see this manifesting next year?

We have seen this line of business grow year on year, and we anticipate that it will continue to grow in 2024. There are numerous factors driving this. First, we are seeing an increase in government support and agriculture is an industry that benefits from a lot of subsidies. Second, farmers are also continually becoming more aware of insurance and its benefits. Third, demand is driven by the impacts of climate change and the price volatility this causes. And finally, recent geopolitical events, such as the Russia-Ukraine conflict, have highlighted the crucial issue of food security for many nations.

To what extent are changing weather patterns and climate change impacting agriculture reinsurance? And how are policies being designed?

Climate change is undeniably changing agriculture. However, how it influences insurers is not straightforward. At the ground level, farmers today have a better understanding of the negative impacts of climate change, but these are to some extent offset by improvements in farm risk management, genetics, crop selection, irrigation, better use of fertilisers, etc.

From a carrier's perspective, we have seen changes in products and coverage – which risks are covered, and which ones aren't. One notable reaction is an increase in the use of index-based insurance products. This is not a move away from standard indemnity-based insurance products, but rather complements the traditional method with the advantage of having a simplified claims process and providing a risk transfer mechanism in regions where actual historical yield data isn't available.

For insurance and reinsurance providers, it is extremely important to have strong technical

agriculture knowledge to navigate these dynamics and select and price risks profitably.

To what extent do global population growth and food supply concerns impact agriculture reinsurance?

We are seeing a general increase in demand for agricultural products, not just because of the increasing population but also due to a shift in diets, the rise in the use of biofuels and increased stockpiling of food because of geopolitical uncertainties. At the same time, agriculture is getting more efficient through the widespread use of technology, enabling food supply growth.

This increase in output means crop values are growing, so farmers have a bigger need for insurance.

The big question for farmers is around the affordability of adequate insurance coverage and its proper management so they can trust it. Again, this is where governments play a key role in supporting affordable risk transfer solutions through premium subsidies, along with making data available for risk pricing, rate management and scheme oversight. Hence, governments are critical in supporting the food supply chain, oftentimes through public-private partnerships, which Axis Re very much supports.

What do you see as the biggest opportunities and challenges for agriculture reinsurers next year?

The challenges in this industry include a lot of uncertainty around geopolitics. Government policy can also change quite quickly. For example, if a new government or agriculture minister decides to pay less in subsidies to farmers, that could have knock-on effects for the agriculture (re)insurance industry. Further, volatility of commodity prices and input costs is also a factor, with the latter particularly impacted by inflation.

With regards to opportunities in this market, agriculture is constantly growing. Farmers have an increasing awareness of climate change. They take it seriously and realise the need for greater financial security. As a specialist reinsurer, Axis Re is well equipped to meet the demands of our customers by providing specialist underwriting expertise and tailored solutions relevant to this dynamic market.



Michael Leahey is global head of agriculture at Axis Re



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Maintaining discipline and momentum – at Baden-Baden and beyond

Liberty Mutual Re's Chantal Rodriguez, Dominique Laure and Hans van Oort discuss the need for a sustained focus on underwriting discipline

2023 marked a significant shift for the reinsurance market. After several years of above-average loss experience and below-average returns, reinsurers took the required actions to reposition themselves as resilient industry leaders, adapting strategies for long-term sustainability and returning to their core role of providing capital protection.

As one of the outcomes, insurers now often carry a larger part of the 'smaller' nat cat losses, whereas reinsurers have shifted towards the higher end of the tail risks.

Beyond one-time measures

Many of the external factors which precipitated the reinsurance market shift in 2023 have yet to disappear or reverse. While reinsurers are now in a better position to deal with these trends and have shown themselves to be increasingly adept at adjusting to a changing risk landscape, it is important to remain focused and disciplined.

Climate trends

Climate change remains at the forefront of today's evolving risk landscape and the industry needs to continue to advance its capability to analyse this risk. We need to stay focused on exposure management and rigorous portfolio stress-testing, while adequately reflecting climate and volatility trends in pricing and terms and conditions.

Several events this year reminded us to expect the unexpected, with a series of extreme weather events in Europe, including floods, hails and droughts. Earlier this year, for example, we saw heavy floods in Slovenia, and Italy's worst hailstorm in decades.

The term 'secondary' does not reflect the often devastating financial impact of these perils.

Geopolitical uncertainty

The heightened geopolitical uncertainties have also not subsided. Strike, riot and civil commotion risk is ever present and evolving in an age of social media, as highlighted by French riots.

In addition, we must not only grapple with the

direct consequences of geopolitical tensions but also anticipate the far-reaching implications that they may have on macroeconomic conditions. We therefore need continued discipline to assess these risks through holistic approaches, taking a forward-looking view. As is the case for climate, the social challenges which communities face today and tomorrow can only partially be explained by yesterday's experiences.

Many of the external factors which precipitated the reinsurance market shift in 2023 have yet to disappear or reverse

Inflation and interest rate trends

While certain inflation trends at the macro level have moderated compared to a year ago – e.g. headline inflation – continued elevated loss trends, and the evolving dynamics between inflation and interest rates, remain pivotal risks that need our continued attention.

The discipline that the industry has built, focused on maintaining up-to-date exposure and valuation data, as well as conducting continual pricing

assumption reviews, needs to be upheld.

The current interest rate environment is, of course, also elevating the cost of capital, which will require sustained focus on rate momentum.

Casualty lines in focus

Against a backdrop of increasing natural catastrophe losses and the wars in Ukraine and Israel, the hardening of the reinsurance market was particularly pronounced for property catastrophe, political violence and war-exposed treaties during the last 1.1 renewal season.

While not entirely 'new news', the continued adverse developments on pre-pandemic years for casualty lines, coupled with uncertainties around forward-looking views on loss trends and emerging liability risks, such as PFAS, for example, hold these lines sharply in focus for the upcoming renewals.

Maintaining discipline going forward

As highlighted in these examples, we are operating in a fast-changing world with evolving risks and uncertainty. Therefore, as we look forward to the upcoming renewal season, it is important that momentum and discipline are maintained, and that risk is assessed on a forward-looking basis, with both insurers and reinsurers remaining focused on long-term sustainability.



Chantal Rodriguez is CUO of Liberty Mutual Re. Dominique Laure is head of Southern Europe and Hans van Oort is head of Northern Europe at Liberty Mutual Re



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Smoother European renewals expected but dislocations still exist

MS Reinsurance's Jörg Bruniecki examines the outlook for the EMEA region

How would you describe current market conditions?

The recent CIAB Insurance Leadership Forum highlighted that US casualty is a major theme. Looking back to the last renewal, the casualty line of business was often seen as a desirable diversifying class. However, this has now changed, and commissions on proportional treaties should come down significantly in the US. International casualty also needs remedial work.

We are especially concerned about the trends we see in the D&O and financial lines arena, where the falling original rates do not reflect the trends we see in loss cost development. Social inflation, economic inflation and fundamental changes in societal behaviour are

the reasons behind this. Furthermore, the balance between supply and demand continues to be a prominent topic and we note that the balance has not and will not shift meaningfully before year-end. Very limited capital has entered the industry and some of reported capital is still trapped by prior year losses.

2023 continues to be a very active year for nat cat losses, and the pressure to get to risk-adequate prices therefore remains unchanged.

“ 2023 continues to be a very active year for nat cat losses, and the pressure to get to risk-adequate prices therefore remains unchanged ”

What measures have reinsurers taken to mitigate current uncertainty and risk?

In the US, cat prices are considered to be closer to risk-adequate levels; however, the expectation is that they will continue to go up on a risk-

adjusted basis.

In Europe, the need for correction is much higher – while there was a correction last year, the atmospheric perils continue to show their

increasing impact and earthquake risk has shown what it can do in Turkey and Morocco.

In addition to increasing the accuracy of pricing for secondary perils, inflation remains a constant feature, although supply shock-driven disruptions are exacerbated by wage/price-driven inflation kicking in.

These changes in the underlying drivers mean we'll see impacts spread to all lines of business. Casualty lines will be especially affected by wage-driven inflation.

Ultimately, this serves as a reminder for reinsurers to price in a risk-adequate way and that retention levels need to continue to move up in-line with inflation.

What are reinsurers' expectations in the lead-up to 2023 year-end renewals and what are reinsurers hoping for the new year 2024 renewals?

While the run up to the 2023 year-end renewal should be smoother than last year, dislocations still exist in the market.

Last year's dislocation has normalised somewhat as (re)insurers have made required changes to programme structures, and risk adequate pricing becomes better understood by all parties.

It's true that many relationships have been tested this year, and clients will remember how they were treated by their reinsurance partners.

However, we have seen things become clearer and more orderly in subsequent renewal periods as people come to understand what is happening in the market.

We must remember that in EMEA, despite experiencing the sharpest upturn in pricing last year, this was after exiting a 20-year soft market.

These varied factors point to buyers seeking more options when determining which reinsurers they will work with, buyers will likely factor in the behaviour of their reinsurers at the last renewal as they consider individual relationships on a go-forward basis, which in turn may lead towards larger scale changes in panels.

“ We must remember that in EMEA, despite experiencing the sharpest upturn in pricing last year, this was after exiting a 20-year soft market ”



MS Reinsurance's Jörg Bruniecki examines the outlook for the EMEA region

What is MS Reinsurance's growth strategy in EMEA?

We're looking to grow our broad-based relationships with clients, allowing us access to diversified business built around clients' needs. To do this, we have 'group clients', which are the most complex, and they tend to buy centrally as part of a consistent strategy for all facets of their business.

We also look at mature markets where there are companies large enough to build broad relationships and work with using a client segmented approach. Finally, we have emerging market-esque clients – often sub-scale firms that we primarily tackle with a market underwriting approach.

Why do clients choose MS Reinsurance?

Reinsurance is about doing the basics brilliantly, and we bring it down to three core areas.

Firstly, we work in close partnership with our clients, investing time into understanding their needs and formulating our value proposition accordingly.

Secondly, we make it easy for clients to deal with us by staying nimble thanks to our short decision-making processes.

Thirdly, we have invested a lot into our IT platform, making it state-of-the-art, and enabling competitive pricing from a low-cost base.

In isolation, each of these virtues would not make a winning concept, but having all three at MS Reinsurance makes us stand out.

What opportunities as a business do you see heading into 2024?

Strong relationships are at the very core of our business. In this way, the opportunities we see going into 2024 remain people focused.

Our ability to have early conversations with our clients and come to firm commitments, from both sides, as to how to take the relationship forward is a clear opportunity for us.

We've had a strong year of making our strategy clearer to clients and, in turn, we have a greater understanding of what they want.

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New hazard data is key to improving the response to increasing flood risk across Europe

ICEYE's Anke Sielker and Mirka Vahtera on the importance of data in providing a more complete flood picture

The impact of climate change is becoming increasingly evident. However, there is still a level of reluctance to recognise that extreme temperatures are becoming a 'new normal' driving increased flood risk.

Across Europe, flood events are increasing in both frequency and severity, with losses often occurring in territories considered at low risk of flooding. This year, insurers have faced several catastrophic floods, as extreme summer temperatures and heat waves in Southern Europe acted as a catalyst for these events.

For the insurance industry, the challenge is to improve its ability to respond to the increased occurrence of such losses. Further, there is greater requirement for public-private sector cooperation on mitigation and response measures for increasingly flood-prone areas.

At the heart of this challenge is the need for more detailed and extensive flood hazard data.

The need for a better response

ICEYE's research has revealed a steady increase in flood events in recent years, with the European floods of July 2021 some of the worst ever seen, impacting several countries simultaneously and causing over 240 deaths.

The severity, if not the level of fatalities, of European floods was repeated this summer with significant events in Italy, Spain, Greece and Slovenia. Mediterranean countries are particularly susceptible to floods with the increase in extreme temperatures creating more maritime precipitation, while drier ground conditions result in more intense run-off.

Although adaptations for riverine flooding have accelerated – particularly for cities along the Danube – European countries have struggled to keep pace with flash floods and storm surge risk.

Insurers' response mechanisms have also proved ineffective in some cases. Limited access to comprehensive data post event and scarcity of loss adjusters affects insurers' ability to deploy experts quickly, impacting costs and extending settlement times – a trend expected to worsen across Europe.

However, access to near-real-time flood hazard datasets based on Earth observation satellite data combined with ground-level information can help reduce claims costs and response times – as well as make coverage more affordable for insureds. Further, the development of loss trend insights can also enable more efficient flood underwriting processes, increasing insurance penetration and supporting product innovation.

A more complete flood picture

A more complete picture of flood extent and depth estimates enables the development of point-in-time insights that both insurers and government agencies can leverage. Rapid access to such data helps pinpoint losses; measure the scale of destruction; allocate resources for flood relief; determine the level of access to affected areas for relief efforts and loss adjustment; and locate shelter for evacuees.

Improved data will also drive advances in early warning systems. This will enable insurers and their clients to implement proactive protection measures and, where possible, move high-value assets out of reach of flood waters pre-event.

Facilitating public-private collaboration

Several European governments already collaborate with the private sector on flood adaptation schemes and risk-pooling structures. We see further opportunities for public-private partnerships that leverage more granular flood hazard data.

With low levels of flood insurance penetration across Europe, there is growing potential for government and community-led insurance programs using high-resolution flood extent and depth data as a trigger.

The pioneering New York City parametric flood insurance pilot provides a good example. The multi-agency initiative enhances the financial resilience of low- and moderate-income households exposed to flood risk in the region and funds rapid cash payments post flood, with ICEYE's hazard data used to establish when the payment threshold has been met.

Improved flood hazard information will enable new types of risk transfer transactions, including parametric structures, which, alongside commercial indemnity products, will reduce the risk of floods becoming uninsurable or coverage unaffordable.



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Standing apart from the crowd

Having rejoined Aon in 2023, Nick Fraccalvieri, Reinsurance Solutions' leader of EMEA facultative, explains how the firm is enhancing its competitive advantage in the region to help shape better business decisions

Demand is growing for facultative reinsurance. How challenging is it to stand out in such an increasingly competitive market?

Competition can be positive when it inspires creativity, and this is evident in the innovation that happens every day at Aon. We have an internal collaborative environment driven by our Aon United ethos, which is essential in delivering the best the organisation can offer to all our clients. If the client has bespoke or complex needs – say in property, casualty, marine or any other specialist area – we unite the best talent in the region, or even globally, to address their challenges. There are no internal issues or competition barriers to hinder us.

Across EMEA, what do you see as the biggest opportunities for facultative reinsurance?

There are three major opportunities for facultative reinsurance in the region; first, in financial and professional lines, where Aon has the best team in the market with extremely strong operational support. This combination means strong analytical capabilities can be used to complement transactions, positioning us at the forefront of this class of business. The market is getting softer in this area, and cedants are looking to buy more facultative reinsurance to protect their books. Second, there is a strong demand for capital from corporates. Aon is very determined to present reinsurance capacity to our clients, which is in itself a very big opportunity. And finally, we are quite simply the largest broker in the region on the treaty side, as well as the market leader for facultative reinsurance. This means we

“
Facultative reinsurance is now seen as an integral part of protecting balance sheets
”

are in a great position to help our clients at such an exciting time, leveraging a strong brand identity and a vast network that will inevitably bring about new opportunities for growth.

What trends are you seeing, in terms of coverage needs, from facultative clients who are turning away from the currently challenging treaty market?

The reality is, whether it's because retentions are increasing or in some cases rates are decreasing, facultative reinsurance is now seen as an integral part of protecting balance sheets. I can see it being used in a much more structured and thoughtful way than in the past. That is the way the market is moving.

You recently rejoined Aon, what are your priorities and what plans do you have for the rest of the year?

The immediate priority has been to understand this organisation, how it is growing and developing. I have had to become quickly accustomed to the differences in how the firm drives client value compared to other organisations in our sector – especially how we can utilise the Aon network to deliver a huge range of solutions and capabilities to our clients. In this regard, I have been busy getting to know the wider team and the opportunities this organisation can offer.

Looking ahead, we are planning to grow and make the best use of the talent we have. There are also opportunities to deliver even more efficiency from our processes, in order to help support our clients and enhance the services they already receive.



Nick Fraccalvieri, EMEA facultative leader at Aon's Reinsurance Solutions

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Earnings perils: Redefining the risks that matter

Moody's RMS' Rob Stevenson on why the term 'secondary perils' is overdue a rethink

The insurance industry, with good reason, has historically focused on what it regards as primary perils, namely tropical cyclones and earthquakes. Catastrophic events such as the Tohoku quake and hurricanes Andrew, Katrina and Ian have generated significant market losses and even threatened insurers' survival.

But the cumulative impact of small to mid-sized loss events, or losses from perils that follow on as a secondary effect of a primary peril – such as flooding, wildfires, tornadoes, hailstorms and tsunamis – can lead to increasing and alarming levels of loss for many (re) insurers.

According to a Gallagher Re report, during 2022, “secondary perils were again the most expensive on an economic basis and exceeded those on the insured loss side”.

The frequency of these so-called secondary peril events typically outpaces that of primary perils and they are often more unpredictable and localised. They are also vulnerable to both climate change and external economic factors such as increases in property exposure, inflation and supply chain issues.

Whereas primary perils typically produce industry-wide losses impacting large swathes of the market, for secondary perils, any uptick in severe weather events and an increased volume and magnitude of claims can chew away at earnings, with C-suite executives asking why earnings performance lags their peers.

Small, frequent secondary peril events can cause a year-over-year erosion of earnings – contributing to

earnings risk which is inherently tied to loss volatility. So, is it time to drop this ‘secondary’ label and reflect the true scope of their potential impact – as earnings perils?

The volatility of (re)insurance earnings can be examined at a portfolio level and is often measured as a 1-in-10-year annual exceedance probability normalised to the premium.

Measuring earnings perils poses a challenge that requires the use of risk models with a high level of detail, the ability to aggregate and measure correlation across multiple perils within the same event, and the capability to financially model complex policy terms and outwards reinsurance policies.

These capabilities provide underwriters with a more informed understanding of the frequency and severity of modelled perils.

Growing computing power through the cloud, together with technological advances over recent years, is helping deliver the required level of granularity to more accurately model high-gradient perils like floods, wildfires and severe convective storms, bringing secondary perils into clearer focus.

It is worth noting that the decision to classify a peril as an earnings peril or a primary peril will depend on a (re)insurer's portfolio, given that a portfolio might have limited earthquake exposure but significant flood exposure.

Regardless, introducing the term ‘earnings perils’ underscores the significance of these risks and their potential impact on the profitability of a (re)insurer.

“
Is it time to drop this
‘secondary’ label and reflect
the true scope of their
potential impact – as
earnings perils?
”



Rob Stevenson
is senior client
director at
Moody's RMS

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Simplifying complexity

Russell Group's Suki Basi on why the complexity of events impacting specialty classes is changing decision-making

During a session at the International Union of Marine Insurance conference, held in Edinburgh this year, I delivered a presentation on applying the lessons learnt from other classes to marine hull.

The presentation drew on conversations I've had with both our (re)insurance clients and members of the Russell Working Group over various risks to their business, which range from geopolitical tensions to climate change and skill shortages.

Given the time constraints of my presentation, I wanted to delve more deeply into what I believe is the underlying issue that cuts across all specialty classes, which is the complexity of events. Also, it is my belief that to unlock the complexity of these events requires forward-looking analysis.

Over the course of this article, I will explain why the complexity of events is changing decision-making, before outlining why forward-looking analysis can support (re)insurers and corporates, before applying this to the specialty classes.

Cocktail of complexity

It is my belief that today's events, whether they be Covid-19 or the Ukraine conflict, have become extremely complex and difficult in nature. It is because of this that many organisations have been blindsided by unforeseen outcomes arising from these events.

A clear example of this was in the car manufacturing industry during Covid-19. Many leading manufacturers, including Mercedes and BMW, cut their production due to a fall in demand.

However, when they restarted production,

they had to delay the arrival of new cars as they required semiconductors. Yet the semiconductor manufacturers had prioritised the booming smartphone and electronic device industry that had taken off during the pandemic, as businesses and individuals relied on them to work and communicate during the coronavirus crisis.

The frequency and severity of events has clearly increased over the last few years, and this has been driven by connected risk. Because of this, it has become difficult for an organisation to know their actual exposure from a single event.

Defining systemic risk

These events are not just impacting organisations

but also definitions, most notably systemic risk. During a panel event on connected risk that Russell hosted in the summer, one speaker said that previous definitions of systemic risk need to be recalibrated to account for today's world.

The success of this will no doubt lie in collaboration between (re)insurers and corporates in understanding what risks can develop into new systemic ones.

Therefore, the key to any organisation's resilience and sustainability, and indeed market viability, is more proactive decision-making and risk management. Going back to the car manufacturing example I alluded to earlier, an example of proactive decision-making would be for the companies to diversify their supply of semiconductors from more than one supplier.

In other words, what corporates and their (re)insurers require is what we call forward-looking analysis.

In tomorrow's article, I will expand on what I mean by forward-looking analysis and how this can help drive better outcome-based solutions for corporates and their (re)insurers.

“ **The frequency and severity of events has clearly increased over the last few years, and this has been driven by connected risk** ”



Suki Basi,
managing
director at
Russell Group



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