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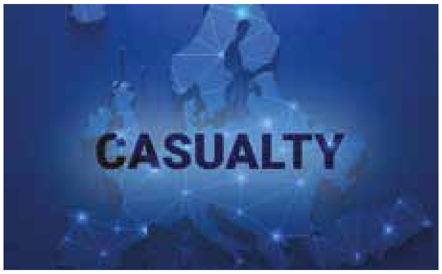
Europe not immune from US casualty drivers but more stable 1.1 expected



A number of reinsurers at Baden-Baden have begun taking a position on European casualty treaty as they highlight social inflation concerns, but the consensus so far is that the 1.1 renewal on the Continent will be far more stable than the shift expected in a hardening US liability market.

US casualty was one of the dominant themes during last month's Monte Carlo *Rendez-Vous* and the US conferences that followed.

Conversations have focused on concerns around deteriorating underwriting results from the years leading up to the start of the hard insurance market that went into overdrive in 2020, framed by the pervasive impact of social inflation.

The large limits that were put down before the dramatic shortening led by AIG, Lloyd's and others are heavily exposed to an environment where losses are escalating, with full limits targeted for settlement by a plaintiff bar benefiting from litigation financing.

That has led to a very vocal response from reinsurers about the need to push rates up – both cede commissions on quota shares and pricing on excess of loss covers – and tighten terms and conditions.

The message appears to be that property cat has received full attention until now, and it has become an imperative to exert similar pressure on US casualty.

There is also a growing consensus that higher Continued on page 3

Pickel warns German storms to add rate pressure at 1.1 as E+S Rück nears large loss limit

E+S Rück CEO Michael Pickel has warned that European reinsurers are set to respond to this year's run of storm activity with a mixture of rate increases and adjustments to carrier retentions.

Speaking at E+S Rück's press conference at this year's Baden-Baden meeting, Pickel said German summer storms Lambert and Kay along with other storm activity across Europe had strengthened reinsurer resolve ahead of the 1.1 renewals.

Pickel noted that the Hannover Re subsidiary was close to exhausting its large loss budget following the recent losses.

"We have seen predominantly a frequency of these storms. This has had bad effects on our book because retrocession does not kick in until a certain event," explained Pickel.

"If you have a mega loss that kicks in at, say, €500mn, then you have retrocession recovery, but the smaller-sized losses mean you do not have as much protection. This leads to what you have seen this year with our large loss budget, which is already at the limit," he said.

In addition to the reinsurer's home market in Germany, Pickel also highlighted the need for adjustments to retentions in Italy, which has seen a series of notable loss events during 2023. These include a late July hail event in Continued on page 4

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Europe not immune from US casualty drivers but more stable 1.1 expected

reinsurance costs will compound concerns on the underlying book to drive a rehardening in certain areas of US casualty insurance – notably excess umbrella business.

Exporting to Europe

The question is whether there is any direct or indirect contagion for the European casualty treaty renewals at 1.1 – which tend to be more heavily weighted to XoL placements and dynamics than the quota share-driven US market.

At the Guy Carpenter Baden-Baden Reinsurance Symposium on Sunday, a lot of the focus remained on the property renewal in Europe.

But there was commentary from at least one reinsurer that supported the suggestion that there is already a greater focus on the European casualty market and the potential for some of the issues in the US to be exported across the Atlantic.

Scor CEO Thierry Léger said: "We have started to build credibility in nat cat. The next port of call is social inflation and casualty. Social inflation is not just US, it is certainly in Europe and will lead into Asia.

"The impact of casualty is coming back to our lines of business. We have to show that we can deal with social inflation and that we have the level of preparedness for this type of risk to come and with this trust can be built for years."

Speaking elsewhere at the Baden-Baden reinsurance event, executives from Hannover Re's German subsidiary E&S Rück also highlighted concerns about the direction of travel on European casualty treaty business, especially in relation to social inflation and the health of reserves.

Jonas Krotzek, managing director for Germany, Austria, Switzerland and Italy, said that the company is seeing more of a need to increase rates because of loss inflation in its industrial and commercial business.

And E&S Rück CEO Michael Pickel said it was unclear at this stage what level of capacity clients will look to buy in relation to casualty limits.

"But certainly it will be our task to see how social inflation goes into the claims history and there has been recently some deterioration of loss situations, and this will certainly have an impact on our quotes for the continental European business," he suggested.

Other reinsurers have been less vocal on a need to push for improvement on European casualty treaties, however.

Consistent capacity

Speaking to *The Insurer TV*, Swiss Re managing director and head of Northern, Central and Eastern Europe Thorsten Steinmann said the group was also looking to maintain "consistent capacity" to European casualty clients, where he also expected demand to increase.

"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. We're a committed player in casualty. This is a stable line of business which deserves stable reinsurance capacity, and we aim to provide consistent capacity to our clients."

Speaking as the Baden-Baden meeting got underway in Germany, a senior reinsurance broking executive downplayed the suggestion that the European and broader international casualty treaty renewal could be impacted by the shift in conditions in the US.

"There are no issues on international casualty at all. It's still a property conversation. There's nothing there," they suggested.

The commentary as the market gears up for 1 January 2024 comes after what was a largely stable market at this year's key 1.1 renewal.

In its post-mortem in the days following the renewal, Gallagher Re described a casualty treaty market generally that was "calmer and more rational than other parts of the business", with renewals completed at terms seen as "tough but fair by most buyers".

Meanwhile, Aon in its post-renewals report said of international casualty: "While the general insurance dynamic was the same as for US casualty, treaty outcomes were slightly more favorable for buyers. Quota share commissions renewed flat or slightly up, while excess of loss rates were broadly ranging from single-digit risk-adjusted rate change down to single-digit increase."

The broker said that the exceptions to the rule were poorly performing portfolios or non-standard reinsurance structures.

European/international casualty rate movements at 1.1 2023

Territory	Pro rata commission	Excess of Loss – no loss emergence % change	Excess of Loss – with loss emergence % change
France – General Third-Party Liability	n/a	0% to +5%	+10% to +30%
France – Motor Liability	n/a	+15%	+15% to +30%
International Casualty	n/a	0% to +10%	+5% to +30%
International – Motor Liability	n/a	+7.5% to +12.5%	+10% to +15%
Italy – General Liability and Motor Liability	n/a	+5% to +10%	+5% to +20%

Source: Gallagher Re

Keese: Lloyd's London Bridge 2 has ~$1bn in pipeline

Lloyd's pioneering transformer vehicle London Bridge 2 has a full pipeline and could secure an additional "$500mn to $1bn" of capital for entry into the Lloyd's market by the end the year, according to the Corporation's CFO Burkhard Keese.

Speaking at the Guy Carpenter Reinsurance Symposium in Baden-Baden, Keese outlined the continued demand for the Lloyd's ILS platform and highlighted its success in enhancing the accessibility of the market to the investment community.

Launched in early 2021, the PCC operates under the UK risk transformation regulations and provides an access point for both UK and international investors, including ILS investors, to deploy funds into the Lloyd's market in a tax-transparent way.

The first London Bridge transformer achieved a number of early wins, including securing Ontario Teachers' as its debut investor in a move which saw the pension fund provide reinsurance cover to CFC Syndicate 1988, Beazley's Syndicate 5623 and Beat's Syndicate 1416.

Now in its second iteration, Keese said the current London Bridge 2 structure has a capital pipeline of $500mn to $1bn, and predicted that a third transformer would be launched to meet demand.

In addition to the capital pipeline, the CFO – who joined Lloyd's in April 2019 after 14 years at Allianz Group – told the conference that the platform was also poised to achieve a number of significant firsts.

This included the launch of a listed vehicle as well as the launch of the first catastrophe bond via the London Bridge ILS structure.

"We will hopefully see the first London-listed vehicle which will put capital into the market. We will also see the first cat bond into the market," said Keese.

Keese also told the symposium that the London Bridge platform is working on its first reinsurance-to-close transaction and its first stop-loss treaty placement, a series of moves he said represents "good news" both for investors looking to enter the market and for risk carriers seeking alternative capacity.

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Pickel warns German storms to add rate pressure at 1.1 as E+S Rück nears large loss limit

northern Italy that it is estimated could cost insurers $2bn – a record severe convective storm loss for the country. Italy also saw losses in the second quarter as a result of devastating floods in the Emilia-Romagna region.

"There will certainly be a discussion in the Italian market where retentions were relatively small. I think it will be absolutely uneconomic to buy at the same retention levels going forward with the covers. Therefore, I foresee a sharp increase in order to finance the spend of reinsurance," said Pickel.

He also highlighted challenges around inflation, including in the motor market where claims have surged in 2023.

"Sharply above-average increases in the costs of spare parts and repairs as well as higher claims frequencies are causing massive losses and remain a heavy drag on motor insurers' profitability," said Pickel.

Munich Re raises FY guidance as lower large losses boost Q3 profit to €1.2bn

Below-average large losses in Munich Re's P&C reinsurance segment have helped the group deliver a €1.2bn ($1.3bn) net profit for the third quarter.

The German reinsurer released the preliminary figures yesterday, alongside a €500mn increase in its full-year profit guidance, which has risen to €4.5bn.

The preliminary Q3 result is ahead of consensus expectations of €1.13bn, KBW's Darius Satkauskas said.

While the market was already expecting Munich Re to beat its targets, Satkauskas said the continued outperformance should be positive for sentiment and continues the reinsurer's track record of beating its own guidance.

Munich Re said the Q3 result had been achieved through "consistently good" operational performance in all business segments.

The group reported that major losses in P&C reinsurance were "slightly below" the expected average during the quarter. In life and health reinsurance, the total technical result once again exceeded pro rata guidance, it said.

Elsewhere, the group's German P&C insurer Ergo reported "consistently excellent" business performance, but yielded a result that was slightly below the level seen in the two previous quarters, due in part to higher losses from natural catastrophes.

The reinsurer said its Q3 P&C large losses would come in below its ~14 percent cat budget. It had reported claims roughly in line with budget during the first half of 2023.

Munich Re's Q3 results last year were impacted by a €1.6bn claims bill from Hurricane Ian, which pushed the P&C reinsurance unit to a loss of €343mn for the quarter.

The trading update added that for the first nine months of 2023, the result stood at €3.6bn.

Munich Re – which will provide finalised Q3 results on 8 November – did not provide preliminary combined ratio figures for the third quarter or nine-month period.

Shares in the German reinsurance giant were trading marginally higher at €369.70 apiece shortly before 2:00pm CET on Monday. Its shares are currently trading more than 21.6 percent higher in the year to date.

R&Q share price slumps 52% following Accredited sale news

London-listed R&Q's share price collapsed by 52.05 percent at yesterday's close to below 24.00 pence following the news late on Friday that the group will likely have to cease trading if shareholders do not approve the sale of its profitable Accredited business.

R&Q had opened trading yesterday morning at 50.2 pence. The group's share price has now declined 67.8 percent in the year to date and is a fraction of the 175 pence per share buyout offer 18 months ago that was withdrawn at the expense of R&Q.

As one of a number of rated fronting carriers that emerged in the past five years to capitalise on the booming MGA market, Accredited provides rated capacity to sit in between MGAs and ultimate reinsurance capital.

But R&Q's A- AM Best rating was once again put on negative outlook earlier this year after the group posted further losses and adverse development from its legacy business.

This forced the group to put Accredited up for sale in a lengthy process that came to resolution late last week, with the Onex deal valuing Accredited at an enterprise value of $465mn.

Under the deal, Malta-headquartered Accredited Insurance (Europe) will be spun out of London-listed R&Q together with its US counterpart, provided the transaction is approved by shareholders.

If this occurs, it is expected that Accredited will eventually find itself in a position to trade forward with an A- rating affirmed and on a stable outlook.

But as shown in our analysis this morning, the net cash proceeds available to R&Q after the deal closes may cover as little as half of the beleaguered parent's $333.3mn debt (in addition to $55mn preferred equity and various LOC/collateral guarantees).

As part of the proposed transaction, R&Q debt of $28mn will be repaid to Accredited with a further $80mn retained as collateral to support R&Q legacy liabilities written by Accredited companies. A further $50mn will also be retained as working capital.

To add to shareholder woes, in announcing the deal on Friday R&Q warned of the consequences for the parent company should shareholders fail to back the deal, emphasising the importance of the transaction in ensuring that Accredited retains its AM Best A- rating.


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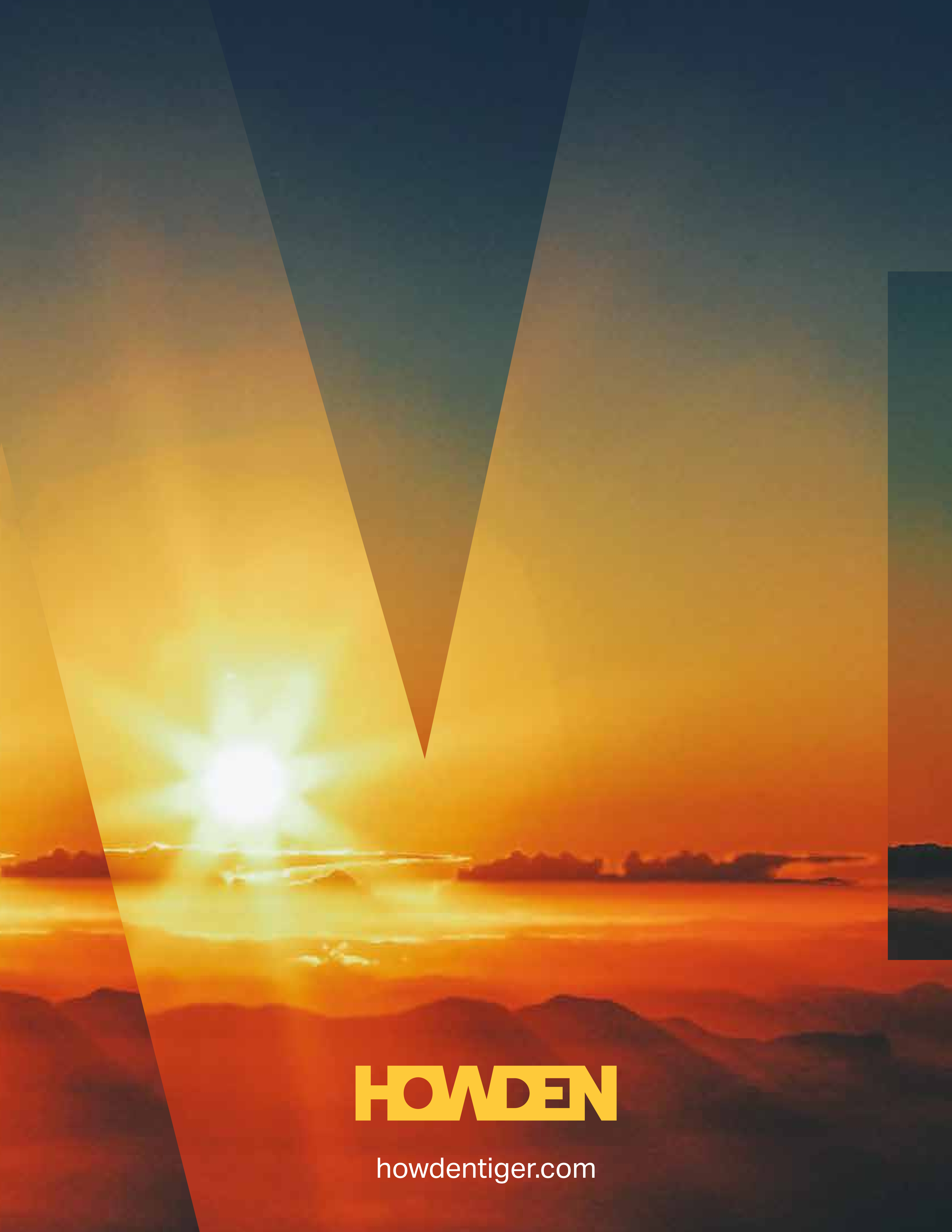
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Allianz and Axa retain leading spots in Europe as mid-tier carriers battle for GWP

Europe's 10 largest insurers by gross written premium (GWP) remained unchanged last year but there was fierce competition among the rest of the top 30, with Beazley, Sampo and Vienna Insurance Group among the largest movers.

AM Best's newly published market segment report found that overall GWP increased by 11 percent across the 30 largest European insurers, with the top 10 collectively growing at a faster pace than smaller peers.

France and Germany had six companies each in the top 30, followed by the UK with four, and Switzerland and Spain with three apiece

Allianz, Axa, Lloyd's, Chubb and Zurich maintained their dominance in the top five spots, with all but Axa reporting average premium growth in the low to mid-teens for the year.

Outside the top 10, notable moves included Vienna Insurance Group rising three places to 14th with premium growth of 17 percent, while Sampo dropped down two spots to 17th.

AM Best noted that Sampo's premium growth of 6 percent was down from 22.5 percent in 2021, with the prior year figure mainly owing to the acquisition of Hastings in the UK.

There were significant changes in the lower third of the table, which saw Beazley climb four places to 23rd, reflective of 21 percent GWP growth in euro terms, particularly driven by cyber and marine, accident and political lines.

In addition, Grupo Catalana Occidente went up three spots to 26th, with premium growth of 10.99 percent primarily driven by an increase in credit insurance business.

RSA Insurance Group dropped one place from 2021 to 24th, as the only insurer that saw a decline in GWP.

Elsewhere, AIG Europe re-entered the table in 2022 at 28th with premium growth of 12.5 percent.

"AM Best notes that the difference in GWP between the bottom eight groups is very small. This means that a company's position in the ranking can be subject to change due to relatively small movements," said the report.

Total profit after tax fell for the top 30

The two largest companies by GWP, Allianz and Axa, also topped the rankings by profit after tax. Outside the top two, AM Best highlighted that the rankings diverged considerably.

Top 10 largest European non-life insurers

Ranking				Gross written premium			Profit after tax	
2022	2021	Company	Domicile	2022	2021	Chg (%)	2022	2021
1	1	Allianz SE	Germany	67,716	60,273	12.3	7,182	7,105
2	2	AXA S.A.	France	55,580	53,029	4.8	6,856	7,507
3	3	Lloyd's	United Kingdom	52,763	46,720	12.9	-869	2,713
4	4	Chubb Ltd	Switzerland	45,312	39,123	15.8	4,977	7,541
5	5	Zurich Insurance Group Ltd	Switzerland	40,595	35,432	14.6	4,612	4,791
6	6	HDI V.a.G.	Germany	40,277	32,480	24	2,502	1,742
7	7	Assicurazioni Generali S.p.A.	Italy	28,622	24,120	18.7	3,189	3,195
8	8	Achmea B.V.	Netherlands	20,179	19,088	5.7	105	468
9	9	MAPFRE S.A.	Spain	19,342	17,267	12	1,084	1,036
10	10	Société de Groupe d'Assurance Mut Covéa	France	16,318	13,493	20.9	674	927

Source: AM Best

Only 11 of the 30 recorded year-on-year growth in profit after tax, including all three Spanish companies.

Overall profit after tax was "materially lower" in 2022 as most of the groups reported worse results than the prior year.

"In AM Best's view, the main driver for this was a negative impact on investment results from the movement in the market values of investment portfolios that were, in turn, driven by rapidly rising interest rates during the year," said the report.

"By contrast, the improved overall result in 2021 was driven by the absence of adverse developments from Covid-19-related claims, which had negatively impacted the 2020 results for many of the players."

Claims inflation was identified as another major contributor to lower profit after tax figures, particularly in motor and property insurance.

AM Best noted that while some European insurers took action on premium rates over the year to help mitigate these factors, the impact of pricing changes lagged the effects of inflation on claims costs.

"Of the groups in AM Best's ranking, the most material decline in terms of year-on-year percentage change in profit after tax was experienced by Aviva, Lloyd's and R+V (all of which reported losses after tax for the year)," said the report.

"It is noted that these losses were driven by negative investment results, with all three reporting technical profits for 2022."

Despite the aggregate decline in profit, one-third of the groups in the top 30 still reported an improvement, although this was driven by company-specific factors.

In its outlook, AM Best outlined that although France, Germany, Italy, Spain and the UK are the leading markets by GWP, economic conditions within each country impact insurance demand.

AM Best currently has negative outlooks for the non-life segments in each of these countries, reflective of the economic uncertainty and underwriting challenges in the current environment of rising interest rates, investment volatility, inflationary pressures and higher nat cat costs.

Finding a new price equilibrium

Swiss Re's Tamara Soyka says European cat reinsurance is on the right track, but warns there is still a long way to go to achieve sustainable structures and a new price equilibrium

Swiss Re has said it will continue to push for rate adequacy and structural change at upcoming European property cat renewals, with the reinsurer warning the market still has a long way to go to reach a sustainable equilibrium.

Speaking to *The Insurer* ahead of this year's Baden-Baden meeting, Tamara Soyka, Swiss Re's head of cat perils for EMEA, said the market correction which took place ahead of the 1 January 2023 renewals was a step in the right direction, but more progress was needed at the upcoming 1.1 renewals.

"We've seen the market move away from aggregates – especially in France where they were very common – and we've seen retentions moving in the right direction, namely upwards," she said.

"From a European perspective we are on track but we are not there yet. I'm expecting there to be an increased demand for reinsurance at upcoming renewals, and we are here to support our clients."

Soyka, who said reinsurance supply will likely remain disciplined at 1.1, added that it was vital to remain focused on sustainable rate adequacy.

"We've seen the market move but we are a long way from reaching a new equilibrium. We have an appetite for property business in EMEA but we are prioritising the right structures and achieving adequate returns."

While she said Swiss Re's risk appetite remains unchanged, Soyka cautioned that price and structures must be adequate. She also defended the stance taken by reinsurers around increasing retentions amid a rise in attritional losses, particularly given recent inflationary pressures and rising exposures.

"Insurance companies are best suited to absorb the attritional losses from frequency events that we are seeing more and more of, and the reinsurance function is there to serve as a shock absorber for severe events," she said.

"At the last 1.1 renewals there were moves towards more sustainable structures and a new price equilibrium. We expect to continue on this path for the foreseeable future – more progress is needed to achieve that."

Rising cat losses

Soyka was speaking following another period of elevated cat losses, which totalled around $50bn in the first half of 2023.

"That is slightly above the $48bn we saw in the first half of 2022, and represents the second-highest first-half total since 2011," she said.

"In Europe, the main driver of loss was the Turkey earthquake, which was the costliest earthquake on record in Europe in terms of economic and insured value. There have also been several other events in Europe, including the Emilia-Romagna floods and more recently hail losses in Italy.

Soyka said the Turkey earthquakes in February 2023 provided an immediate test for Swiss Re's updated model, released in September 2022. The reinsurer operates a suite of close to 200 nat cat risk models across the world capturing close to 90 percent of global insured exposures.

"The model performed well both in terms of seismological aspects – location, size and return period for such an event – as well as in terms of the loss estimate," she said.

"We partnered with Global Earthquake Model to develop a state-of-the-art model for the Middle East, which includes Turkey and Israel. We are hopeful that the latest science will make its way into the commercial vendor models on the back of this catastrophe."

Soyka said by developing its own models, Swiss Re is able to quickly react to changes in the rapidly evolving risk landscape.

"In contrast to most competitors, we heavily invest into our proprietary research and modelling of nat cat, and this allows us to be highly bespoke in underwriting and risk taking."

Soyka said secondary peril losses, especially from severe convective storms, continue to be a prominent driver of losses both in Europe and globally.

"The 2022 annual hail loss in France was the largest on record, and the average loss over the previous 10 years – the 2012 to 2021 period – was already much higher than the decade before."

Soyka said those events had further underscored the shift in risk which had occurred and prompted the market to respond last year with a long-overdue correction in terms of price and structure.

She described the European cat reinsurance market as being "on the right track", but not yet in a sustainable place.

"We must continue on that track. And we must be realistic that natural catastrophe exposures are growing. Insured losses in excess of $100bn are to be expected and are here to stay," she said.

Deep market insights empower cyber strategy

Erica Davis and Jess Fung on empowering cyber underwriters to make informed decisions

For cyber insurers, getting real-time, relevant market insights has been a long-standing challenge.

Operating in a rapidly expanding risk segment that deals with an ever-evolving threat environment means it is crucial for cyber underwriters and exposure management teams to have access to credible industry intelligence. Global context of how the market shifts over time – and how competitors are responding to these macro changes – will empower cyber writers to make informed decisions more confidently.

However, unlike traditional property and casualty lines of business, where industry information is available through data aggregators such as PCS and the National Council on Compensation Insurance in the US, cyber insurers do not have the luxury of widely available market intelligence. The lack of clarity and visibility into what the true cyber industry looks like is becoming an increasingly bigger hurdle for insurance companies as they seek to create and refine their business strategy around writing cyber risk.

Cyber writers often ask questions such as:

- Is my portfolio different from the broader market?
- What is my potential for outsized accumulation in certain segments?
- Where do I stand out?
- Where should I focus my growth?
- How should I compete with my peers?

Thriving in the cyber market requires deep understanding of portfolios, strategic assessment of opportunities and creating a competitive edge through peer analytics.

Through Guy Carpenter's market position as the leading cyber reinsurance intermediary, our cyber centre of excellence has created the GC CyberExplorer℠ DataLake, which aggregates a robust and detailed client dataset on a global scale. Marrying that with cutting-edge data visualisation technology and other data sources, we are able to offer cyber writers a solution to the challenge of accessing sound industry information: GC CyberExplorer℠ Gateway, a client-facing interactive benchmarking dashboard for dynamic decision-making.

One key feature of our benchmarking dashboard is the customised peer group analysis, which allows companies to tailor an industry dataset in order to establish the most appropriate benchmark for meaningful comparison. Companies can utilise this dashboard to steer important aspects of their cyber strategy and portfolio, such as pricing adequacy, limit and attachment management, and identification of underserved segments for growth opportunities. Equally importantly, since the dashboard is client-accessible, clients can have this information available real time, whenever they need it.

Cyber writers can filter the industry data using multiple dimensions, including policy limits and attachments, insureds' revenue size, industry sector, and region of domicile. They can further contrast their portfolio based on areas of concentration and drill down into coverage-level details. By accessing this market intelligence on a regular basis, cyber writers can track areas of aggregation and whether their portfolio is evolving in sync with or different from the rest of the industry.

Erica Davis is global co-head of cyber at Guy Carpenter

Jess Fung is North American cyber analytics lead at Guy Carpenter

How Guy Carpenter can help

GC CyberExplorer℠ Gateway serves as an access point for cyber insurers to collaborate with the Guy Carpenter team for other bespoke benchmarking analyses. A natural next step after exposure and portfolio composition benchmarking is to compare one's own modelled risk, actual loss performance and underwriting position net of reinsurance against peers. This requires proprietary claims experience data and more nuanced interpretation of results. We work with our clients in understanding their cyber risk objectives and concerns, in order to create a tailored reinsurance solution to meet each client's unique needs.

IFRS 17: where are we now?

Howden Tiger's Charlie Beeching on the implications of the IFRS 17 regime

The implementation of IFRS 17 on 1 January this year has caused significant upheaval for the insurance industry. Its purpose was to bring carrier financial reporting under an internationally unified framework, replacing the diverse applications pursued under the previous IFRS 4 regime.

A key issue faced by IFRS 4 which IFRS 17 was intended to tackle was a lack of a reserve discounting framework. This drove a significant dispersion of reserving methodologies, including a prudency buffer under IFRS 4. Additionally, (re)insurers were prone to large swings in IFRS equity under the previous standard, rendering comparability of price-to-book valuations challenging.

The IFRS 17 standard aims to bring assets and liabilities closer to a market-consistent basis, making the accounting standard more closely aligned with the Solvency II framework. Insurance liabilities under IFRS 17 are on a best-estimate basis, discounted using a similar methodology to that under Solvency II, namely at risk-free, plus a spread to account for an assumed illiquidity premium on backing assets. Prudency margins under IFRS 4 are replaced with a risk adjustment to allow for non-hedgeable risks, again similar to the concept of the risk margin under Solvency II.

> **"The distinguishing new feature introduced under IFRS 17 is the concept of the contractual service margin"**

The distinguishing new feature introduced under IFRS 17 is the concept of the contractual service margin (CSM). This represents the stock of future profits under insurance contracts which are released over the coverage period. These are calculated under the general measurement model and variable fee approach, applicable to life insurance policies and others with coverage periods of over one year.

This is a step-change for insurance accounting, as it mitigates the ability to recognise profits before the insurance service is delivered, bringing the insurance sector in line with other industry standards. This is particularly relevant for life insurers, where the release of CSM is now ~80-90[1] percent of life operating profits. For non-life, including reinsurance, earnings look more similar to IFRS 4, where underwriting profit is now the 'insurance service result' – including the impact of discounted claims reserves, while the 'insurance finance income and expenses' line item now includes investment income, net the unwinding of the liability discounting benefit. For most non-life policies, providing coverage for a one-year period or less, the premium allocation approach (PAA) may be implemented, which does not require the calculation of a CSM.

Complications arise for reinsurance contracts, where the previous practice of 'netting down' has become impermissible under the new methodology as contracts must be valued and accounted for separately, rather than grouped together. Additionally, cedants may be unable to treat risk-attaching reinsurance under the PAA, if the coverage period is over one year.

Another specific area of issue is in the treatment of adverse development cover (ADC), where the cost of purchasing reinsurance relating to past events must be recognised immediately by the cedant, while the reinsurer must recognise profits as claims develop. The potential mismatch of cost and profit recognition, for cedant and reinsurer respectively, may alter the value of existing ADCs under IFRS 17, and may increase pricing over time.

It is important to note that cash flows are unaffected by IFRS 17; with product economics remaining the same regardless of accounting regime. The binding constraint for insurers' capital allocation and dividend decisions should remain the Solvency II regime, or equivalent. Where complexities arise for (re)insurers under the new standard, Howden Tiger's international strategic advisory team can help assess impacts and propose a range of solutions with comparative analyses of their effects on earnings, capital, rating and valuation.

Charlie Beeching
Divisional Director, Howden Tiger Strategic Advisory

[1] *Source: Morgan Stanley*

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Praedicat's Reville: PFAS tops list of industry casualty risks

Per- and polyfluoroalkyl substances (PFAS) are the number one risk facing the casualty sector, according to Praedicat's CEO and co-founder Bob Reville, who expressed concerns that the industry is not doing enough to look out for emerging liability risks.

Speaking to *The Insurer TV*, Reville pointed to several large and high-profile settlements that the industry should view as a warning of the potential impacts of PFAS-related litigation.

"In the last year, you've seen the $10bn to $12bn settlement from 3M, which got a lot of insurers' attention as they were seeing something that was able to produce that size of a loss. It's likely that not all of that's going to go to insurance, it's unclear how much of it will be covered by insurance," he said.

> **What I'm finding with PFAS is a lot more innovative approaches to risk selection and managing the risk**

"But in addition, you saw some large settlements from DuPont and Chemours, and you've also seen a big increase in attorneys general cases, which starts to make it look not just like a bodily injury and water contamination litigation, but also a public nuisance litigation, like you had on opioids," he explained.

While discussing the industry's level of preparedness for the incoming PFAS storm, Reville was forthright in his view that the sector was not ready. "Well enough prepared? I'd say no," he said.

But Reville acknowledged the majority of PFAS-related exposure resides in prior years. "I think that there are a lot of accumulations, there's a lot of legacy, a lot of which will surprise the industry, and I think that has the potential to go poorly for some companies," he added.

Reville added that he "would like to see the industry in general preparing farther in advance for emerging risks", but praised the innovation he is beginning to see around how the industry manages and views PFAS risk. "What I'm finding with PFAS is a lot more innovative approaches to risk selection and managing the risk. I think they are doing a better job of managing this risk now than they would have done five years ago. And they're much smarter about it, and it gives me a lot of optimism about future emerging risks as well," he said.

However, he cautioned against a total exclusionary approach as the way forward for the industry.

"I know of one insurer where the company wanted to put in place a broad exclusion for PFAS. And the chief underwriting officer's perspective on it was that it was just going to be rejected by the market, and that they were going to lose a lot of business," he explained.

The way forward, according to Reville, is a greater focus on "data and modelling and aggregation management", which in his view differentiated the PFAS issue from that of asbestos as casualty exposure modelling is now "available".

Reville highlighted Preadicat's latest model, the Nekomodel, explaining that it brings the detail of "catastrophe modelling to casualty", approaching "large-scale correlated" casualty risks like PFAS as if they were a "hurricane or an earthquake on property".

Preadicat's Nekomodel tracks over 250 emerging casualty risks, including climate change, which Reville said is presenting a number of litigation challenges.

Reville predicted that casualty climate risk will manifest in litigation related to "historic greenhouse gas emissions", citing Multnomah County, Oregon's $1.55bn suit against fossil fuel industry defendants for having caused heat waves.

Praedicat revealed in June that it had broadened its strategic collaboration with Aon. "A lot of our early work with [Aon] now is about helping to inform reinsurance buying decisions with the best emerging risk information, and being able to have a sense of how much limit you should buy," Reville said. "On top of that, though, we're engaging in a bunch of collaborations around climate, and then we're launching a collaboration in November around legacy and run-off."

Scan here to watch the 9-minute video interview with Praedicat's Bob Reville

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How is technology enhancing insurers' strategic approach?

Sherif Zakhary and Morena Dell'Aglio from Aon's Strategy and Technology Group (STG) highlight how emerging technologies are transforming the industry

How is technology enhancing insurers' strategic approach?

Morena Dell'Aglio (MD): New technologies such as AI, machine learning and predictive analytics are underpinning the evolution of the (re)insurance market. We are seeing insurers investing in these technologies to move to a digital insurance business and operational model, and moving away from siloed separate systems, to enterprise solutions where data quality, integration, workflows, automation, analytics, reporting and digital distribution are key.

The ability to stream data and analytics across all areas the business has improved operational efficiencies, and drives new business insights and decision intelligence. This is particularly important where certain skills – such as actuarial – are in demand, and there is now a concerted effort to make sure that their roles move away from processing data to focusing on making better and faster business decisions, while improving efficiency and speed to market.

> **New technologies such as AI, machine learning and predictive analytics are underpinning the evolution of the (re)insurance market**

Are there any particular areas where this transformation is taking place?

MD: I would say there are three key areas. Firstly, in data analytics and predictive modelling, where big data and advanced analytics allow insurers to analyse huge volumes of data to identify patterns, trends, and risks.

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This allows them to better and more accurately price their products, understand their client base, and predict future losses. Predictive modelling can help in identifying potential fraud, customers segmentation, and customise insurance products to individual needs.

Secondly, in digitalisation and automation. Digital platforms and automation tools help to streamline many of the traditional insurance processes – such as pricing, claims automation, and data cleansing. Automation is reducing both manual interventions and human errors, allowing for faster client service and reduced operational costs. If properly implemented digitalisation embeds insurers' products into a single integrated distribution channel, and provides a better user-client experience.

Finally, AI and machine learning have become more and more important in various insurance processes; chatbots, for example, can handle customer queries. ML algorithms are helping in claims processing or insurance pricing by assessing historical data or clients' needs based on the collected information and their behaviour. AI and ML are making processes more efficient, reducing the risk of human error, and also enhancing the user experience.

> **"Digitalisation is a big challenge for insurers in terms of identifying and hiring appropriate talent, and this now extends to artificial intelligence – which may be one of the most transformative technologies we have ever experienced"**

Where are you making ongoing investments?

Sherif Zakhary (SZ): Financial software and platforms represent a significant investment. For instance, we launched a new pricing platform in June that offers insurers a tool to better optimise pricing, and aims to give them a competitive advantage through enabling better risk selection and analytics.

Our other big investment is in talent. We hire people who have high levels of client empathy – they understand clients' pain points, their issues and concerns, as well as their opportunities. When you have this empathy with clients, you can build them a strategic plan; you can help them to develop milestones, and to identify and be purposeful about where they are going. This process is both driven and supported by global data and insights. Each client needs their own direction of travel, and we help to distinguish them from the average, always remembering that enduring success isn't achieved by accident.

Sherif Zakhary is CEO of Aon's Strategy and Technology Group. Morena Dell'Aglio is global technology sales leader of Aon's Strategy and Technology Group

How are EMEA insurers specifically utilising STG technology solutions?

MD: STG's mission is to support our clients to make better business decisions through strategy advice and technology, which are underpinned by Aon's unparalleled market data. Our technology continues to deliver new capabilities in advanced analytics, automation and workflows, cloud and AI. Our suite of products is used for capital modelling, pricing and reserving across EMEA, enabling insurers to manage their portfolio risk. Insurers use our software to make business decisions with regard to their overall capital, profitability and risk.

Key areas include assessing the capital impact of purchasing a new entity – changing portfolio mix or altering the outwards reinsurance programme; identifying trends in loss patterns to address under-performance swiftly; and updating the underwriting guidelines when moving close to risk appetite.

STG is the only provider offering a suite of technology solutions built on a single platform, so that our clients benefit from integration and automation of their workflows.

How important is talent, given current industry dynamics?

SZ: We are advising insurance leaders on how to adapt their talent pool in what is an evolving business environment. They need to attract people who have technical skill, the ability to collaborate, and who can understand and respond to emergent risk. Digitalisation is a big challenge for insurers in terms of identifying and hiring appropriate talent, and this now extends to artificial intelligence – which may be one of the most transformative technologies we have ever experienced.

So we need talent entering the sector from a wide range of backgrounds – not just those with risk, finance, operations, compliance, and HR expertise, but also with climate, cyber, and geo-political experience. We help our clients to build this new talent pool, in order that they can navigate future volatility and maintain operational resilience.

With all these capabilities, does Aon STG have a specific mission?

SZ: The Strategy and Technology Group was built for times of volatility and complexity, and by taking a fact-based, data-driven approach, we help our clients to understand the nature of risk and, just as importantly, opportunity. Our mission has always been to be holistic, relevant, and executable, as this allows us to serve clients in a way that adds measurable value to their businesses.

Cyber insurance: Overcoming the risk barriers and moving forward with growth

Moody's RMS' Damini Mago explores the evolution of cyber modelling

Cyber represents a sizeable insurance market, with current global cyber premiums valued at $11.9bn. As businesses grow increasingly reliant on digital infrastructure and cyber threats become ever more sophisticated, by 2027, the market is set to reach $29.2bn.

But last year's hardened market highlighted insufficient levels of cyber capacity, as insurers remain unsure about systemic aggregation risks. Vital risk diversification for cyber is difficult using traditional parameters such as industry, company revenue and country, with a minimal effect in certain cyber scenarios, as attacks may exploit vulnerabilities in common operating systems or cross-platform software.

With traditional nat cat risk differentiation found wanting, the constantly evolving nature of cyber threats means that to accommodate growth, cyber insurers need new, dynamic approaches, and to develop coverages that adapt and mirror this ever-changing cybersecurity threat landscape.

When navigating this complexity, insurers turn to two fundamental pillars of cyber risk management: risk selection and risk modelling.

First, risk selection. An essential cyber underwriting step, it typically involves a thorough examination of a client's IT network using questionnaires and external data sources, including 'outside-in' scans that detect network vulnerabilities, such as open ports that could expose a client to cyber threats like ransomware.

Scans and questions can reveal a client's current risk management practices, but fail to predict future vulnerabilities or how a client might tackle them. Using retrospective views can lead to oversimplified models that overlook or misrepresent the continually evolving nature of cyber risk, from the volume and types of attacks to the shifting targets.

Second, cyber risk modelling, akin to natural catastrophe risk modelling, aims to apply robust methodologies to quantify risk for technical pricing and the understanding of portfolio and catastrophe risk.

Applying catastrophe modelling principles to cyber risk is challenging due to the vast complexity and variability of cyber risk scenarios. Reflecting the countless software interactions and varying responses to disclosed vulnerabilities across companies, a cyber model would potentially require billions of unique scenarios to accurately characterise the risk.

Avoiding overly prescriptive event definitions for broader definitions that encompass the risk, Moody's RMS' approach adheres to the law of large numbers, exploring the physics and dynamics of the cyber ecosystem, allowing for more effective cyber risk modelling by smoothing over individual uncertainties and accounting for the 'unknown unknowns'.

The risk landscape has seen considerable evolution in the past year, especially in the realm of attrition risk which is in constant flux. Additionally, the IT industry's ongoing updates and evolutions in exclusionary language mean insurers need to use tools with the flexibility needed to experiment with insurance wordings and exclusions, thereby enabling them to explore a range of possible outcomes.

> **"Applying catastrophe modelling principles to cyber risk is challenging due to the vast complexity and variability of cyber risk scenarios"**

Viewed through a lens of system physics and broader data now allows modellers to capture the existing cyber risk landscape more effectively, with refreshed threat actor and vulnerability data in the model framework.

It is now also possible to delve deeper into individual nodes within modelling frameworks, using technographic data for account-level differentiation. This includes important factors like patching cadence – examining how often an organisation reviews systems, networks, and applications for updates that remediate security vulnerabilities.

Patching cadence is now a secondary technographic modifier in our contagious malware/ ransomware model to assess the variations in patching speed within a vulnerable population.

Selecting risk characteristics such as patching cadence allows users to shape the view of risk more accurately and present an objective measure of sensitivity to a catastrophe event, allowing better preparation and response.

Evolving cyber risk modelling to more effectively capture the risk landscape will help insurers to explore and gain confidence with cyber risk, and open up new opportunities.

Damini Mago, senior product manager, Moody's RMS

Connected strategy to deliver insight, analysis, action

Russell Group's Suki Basi on the need for a connected strategy to address connected risk

Russell Group is undergoing a strategic transformation to provide its (re)insurance clients and corporate working group with forward-looking data and analysis that build a holistic view of risk. We are building our connected risk proposition of deeper insights and analytics at a time of rapid transformation and uncertainty.

For example, the Russell team works with 15 data supplier partners to ensure that the latest data is available, cleansed, name matched and connected to provide the insights that clients require to visualise their exposures.

Pricing business risks – data science approaches

Our commitment to deliver robust data science approaches for pricing business risks is rooted in our adoption of advanced analytics, allowing clients to navigate the pathways of risk in various domains – aviation, marine, energy and casualty.

By employing sophisticated algorithms and predictive models, our analysis is underpinned by data insights from myriad sources, synthesising information to grow an actionable risk profile. Our models are adaptive to the volatile nature of the market and various global influences, ensuring that risk pricing is reflective of the current landscape.

Real-time data and connected insights

By correlating interconnected data points and deploying machine learning algorithms, we seek to formulate a predictive analysis that is deeply rooted in the reality of interconnected business environments, ensuring a seamless flow of insights across various risk classes.

The resulting analysis not only delivers a clear viewpoint of current risk but also proactively signals possible future shifts and vulnerabilities. As a result, (re)insurers and corporates not only perceive risks but are also able to strategically position themselves in a way that optimises resilience and sustainability amidst the numerous challenges posed by the current global economic scenario.

Scenario factory

In today's environment, where events involve a more connected risk, it is vital that an organisation can know and mitigate any potential exposures to their business. At Russell Group, we believe that tackling connected risk requires a connected solution.

"In today's environment, where events involve a more connected risk, it is vital that an organisation can know and mitigate any potential exposures to their business"

The Russell Scenario Factory helps an organisation to quantify threats and scenarios from an economic loss perspective, while Russell ALPS quantifies the insurance and reinsurance exposure from such threats and scenarios.

A major difference between Russell's approach and current models out there is that our solution is forward-looking. It seeks to analyse and understand an economic loss or connected loss for a (re)insurer before the event, not after. The benefit of this approach is that an organisation can pre-empt any potential hits to their business, helping them to become resilient in the long term.

Suki Basi, managing director at Russell Group

The hard market – how long will it last?

Oxbow Partners' Paul De'Ath and Greg Brown examine the supply and demand factors driving the current market cycle to assess how long it might last

It is a good time to be a corporate and specialty insurer. The market has been hard for several years and there are no signs that the market is going to turn any time soon. Market rate movements ultimately come down to the balance of demand and supply and it is clear that demand currently outstrips supply in the corporate and specialty market.

But how long can the good times last? Sadly we all know it cannot be forever. Noting that the specialty market is not a single, homogeneous whole but a collection of classes of business which all perform to their own micro-cycles, we believe that there are another 12-24 months to run. Property cat is likely to be towards the longer end of the scale (and maybe beyond that depending on hurricane activity), whereas smaller specialty lines such as cyber are likely to be softening by renewal in 2024.

Some carriers will think that 12-24 months is a comfortable buffer. However, carriers need to think carefully about their level of preparedness for the inevitable downturn. Industry executives need to be confident they have in place a soft market 'playbook'. For many the playbook will likely highlight gaps in operational or technological capability. Given often lengthy change and transformation cycles, 12-24 months starts to look like a very short window.

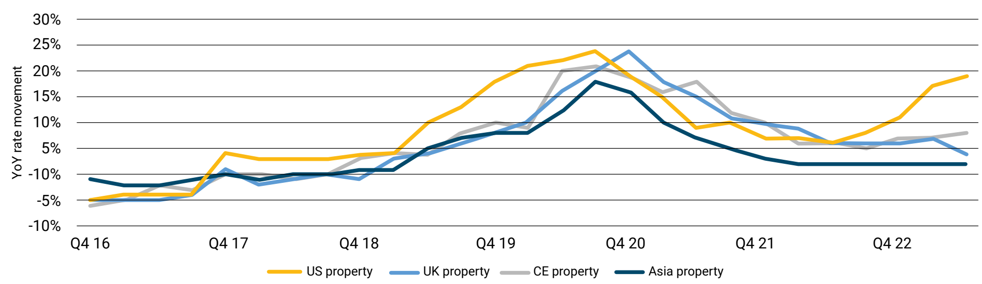
In this article we look at the supply and demand factors driving the current market cycle and make predictions for how long the market will last.

Overview of the current market

The market has been hard since 2018/2019, rising strongly until the end of 2020 when in some classes the rate movements began declining. Looking a little closer at the different parts of the global P&C insurance market, it is primarily property that is driving the hard market.

Over the last 12 months, US property rates, driven by high catastrophe losses, have seen another sustained period of hardening not seen in the other major geographies. US property rate movements have pushed up by around 20 percent year on year in Q2 2023. Property cat, a major class of business for the London market, is currently seeing strong positive pricing momentum, with rates on line up 30 percent year on year.

US property rates have hardened significantly in the last 12 months



Source: Marsh

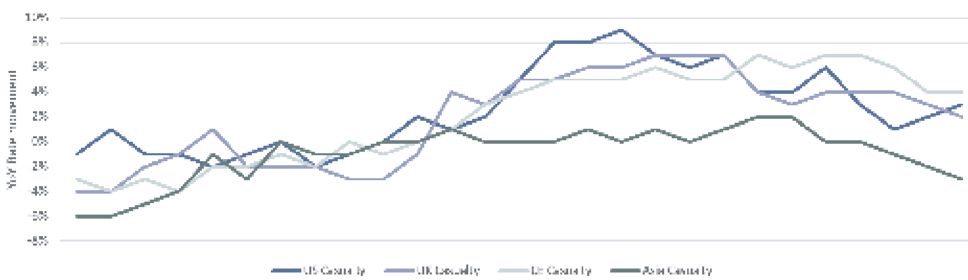
This is largely driven by the market continuing to reassess the impact of ever-increasing insured losses from major events, while also reacting to inflation and high interest rates. Given climate change and global economic factors we would expect this to continue into the foreseeable future.

In contrast, casualty rate movements peaked at 9 percent year on year (US casualty) at the end of

2020. The key markets of the US, UK and Continental Europe are all still seeing positive rate movements in casualty, though these have reduced to 2-4 percent, arguably lower than would be required to cover inflation. In Asia casualty rates are already softening.

Market rate movements ultimately come down to the balance of supply and demand and it is clear that demand currently outstrips supply in the specialty market. Taking reinsurance capital as a proxy for specialty risk appetite due to public data constraints, it is evident how supply has become constrained in the last year. In the chart below we use global GDP growth as a proxy for the growth in reinsurance exposure.

Casualty rates remain slightly positive in key markets



Source: Marsh

Macro trends such as climate change and inflation would point to a continuation of the hard market. However, there are many forces that combine to define the market 'clearing price' and our overall view is that the market will begin to soften in 12-24 months.

Below we consider these drivers individually.

Demand

1a. In-year losses – Significant recent losses have increased demand for insurance

Despite price rises, the last few years have been tough for several players. This has obviously been true in property cat given recent named storms such as Ian in 2022 and Ida in 2021.

In-year losses are a driver of short-term changes in market demand. If we have another year of elevated large loss activity in 2023, this will further increase the demand for coverage in 2024 and beyond. Conversely, a relatively benign year for losses could rapidly reduce the demand for insurance.

So far 2023 looks set to be another $100bn loss year despite relatively benign impacts from named storms in the Atlantic. According to Moody's RMS, the recent Hurricane Idalia is estimated to have generated around $5bn of insured losses, significantly lower than the $60bn of insured losses resulting from Hurricane Ian in 2022. Having said that, 2023 is not over yet so there is scope for further large losses to come.

We have already seen the speed at which pricing can turn in other specialty markets. Initially there was a short-term increase in demand in the D&O liability and cyber insurance segments after rising loss ratios. Later, as the loss ratios normalised, the two segments entered a downward cycle within a year.

Expected impact: Given that we have already had $50bn+ of losses in H1 2023, it would be reasonable to expect that 2023 is going to be another year of $100bn+ global losses. As a result, we expect market demand to be an upwards force for market strength in the next 12-24 months.

1b. Increased exposure – Major risks have been trending upwards causing a step change in demand

There has been a fundamental review of the underlying risk in some lines of business. In property cat reinsurance, the combination of climate change (more large events) and greater urbanisation of at-risk areas (such as Florida) has significantly increased risk exposure to large catastrophe events.

Overall, insured losses have been increasing steadily over time with the average annual cost now standing at $105bn.

Looking just at the US, populations in high-risk areas are growing disproportionately compared to other areas. For example, the population living within the Hurricane Ian landfall area has grown 620 percent since 1970 compared with a 65 percent increase for the whole population of the US.

Other classes have also seen increasing exposure, for example casualty where the number of nuclear verdicts (as Munich Re referred to them in its recent Monte Carlo press conference) is increasing.

These verdicts generate adverse development of claims and increase the expected exposure to future claims, effectively driving up the demand on casualty business.

Expected impact: There is unlikely to be any let-up in demand for insurance coverage over the medium to long term. Global losses across property and casualty are trending higher and these trends are set to continue in our view. This will maintain upward pressure on rates, even in the event of a low loss year in 2024.

1c. Inflation – Global increase in inflation has significantly increased the value at risk

Global inflation, in part triggered by the war in Ukraine, has amplified demand within the market as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clients and insurers are acutely aware of rising costs and the need for more coverage. While this could be a temporary phenomenon it is unlikely to dissipate any time soon and so continues to drive insurance prices higher.

Expected impact: Market expectations are that inflation should normalise over the next 12-18 months. While this could ease pressure on insurance rates over the long term, there will still be a heightened inflationary environment in the near term, which will continue to drive up demand for insurance coverage and put upward pressure on rates.

1d. Flight to quality – Customers are willing to pay more for better-rated counterparties

The final boost to demand is an ongoing flight to quality from insurers and insureds. Incidents such as the Vesttoo letter of credit (LOC) allegations will have increased cedants' desire to work with only the highest quality counterparties, such as those in the London market. There is also weakening sentiment around the use of LOCs as a financial backstop to fulfil obligations.

Primary insurers are competing to secure high-quality capacity in the market, contributing to the rate increases during the renewal season. The growing lack of confidence in alternative forms of capital is leading insurers and clients to be more willing to pay premium rates for the best capacity.

Expected impact: The market has had a few shocks and has been looking for high-quality sources of capital that come at a premium price. This is likely to continue over the near term and will increase upward pressure on rates. Longer term, we expect that alternative forms of capital will come back into favour, particularly as some insureds are priced out of using their preferred level of counterparties – though we are not there yet.

Supply

2a. In-year losses – Significant recent losses have decreased insurance capital

Traditional insurers and reinsurers have borne the brunt of losses in recent years. Losses in excess of expectations will have an impact on available capital, reducing the potential supply from traditional players. Indeed, a number of primary insurers in the US have stopped offering cover in some of the most catastrophe-prone areas such as Florida. The ILS market, which attracted investors due to high attachment points, has been significantly impacted by the recent slew of nat cat events such as Hurricane Ian in 2022. Consequently, this has dampened the capital influx from new ILS investors.

Looking again at reinsurance capital as an example, in 2022 the losses from Hurricane Ian, coupled with higher interest rates, reduced the available reinsurance capital by 17 percent. This restriction in supply put upward pressure on rates.

Despite a hard market in many areas, there are some lines of business, like cyber insurance, that have already started softening. This is due to the influx of new players entering the cyber liability market, bringing more capital and competition (increased supply). The market has also experienced lower claims than previous years emboldening players to offer more capacity (increased supply) while customers are negotiating harder (reduced demand).

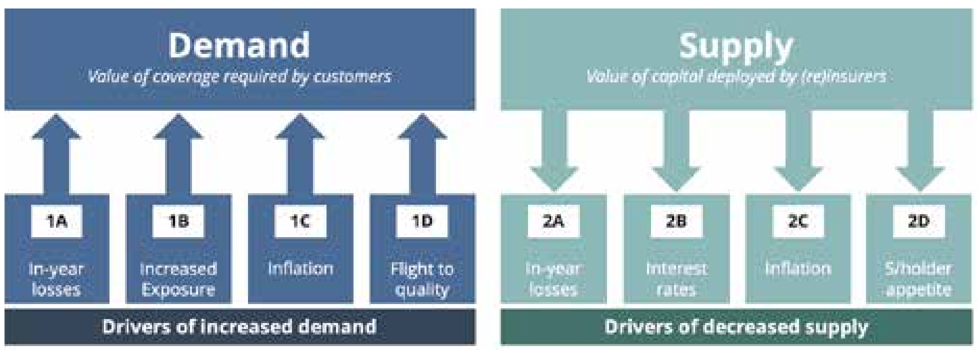
Expected impact: From a supply point of view, we expect another year of $100bn+ losses has already been built into property cat pricing and therefore even a significant year of losses in 2023 is unlikely to restrict supply dramatically. In specialty lines the outcome is less clear. In cyber and D&O there has been an influx of capital at lower rates, so a major loss event could cause a sharp turn in pricing in our view.

2b. Interest rates – Increase in interest rates shifting investment away from insurance

The rise in interest rates has created new attractive investment opportunities, reducing the relative attractiveness of insurance for investors, including ILS. It also increases the cost of capital for traditional insurers, which will increase rates to offset the costs.

The sharp rise in interest rates has also led to unrealised losses to traditional (re)insurers' bond-heavy portfolios. This is one of the main drivers of the lower level of reinsurance capacity in 2022 shown above. If interest rates stabilise over the coming years,

Factors driving the supply-demand equation



Source: Oxbow Partners Analysis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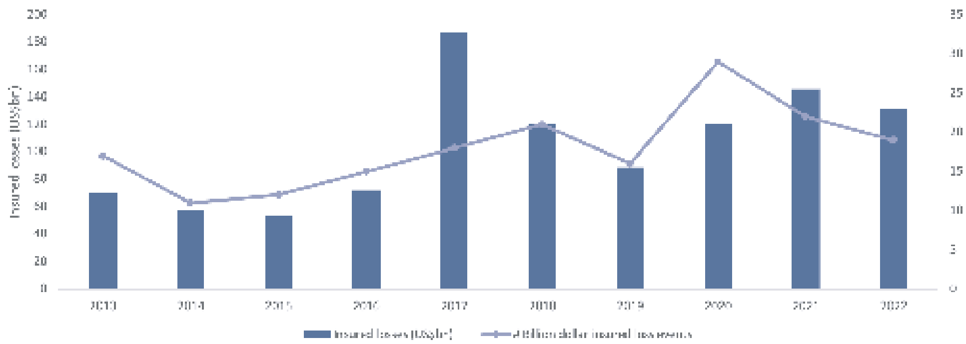
capacity should come back as the bonds mature and are reinvested.

Expected impact: We expect interest rates to remain elevated for the next 12-24 months (exceeding circa 5 percent), though the number of increases should reduce assuming inflation comes under control. Higher, stable investment returns will increase insurance capacity for traditional players, but could also reduce the attractiveness of alternative capacity options for outside investors. We expect the net impact to be neutral in terms of rates.

Average insured loss over the last decade has been c.$105bna



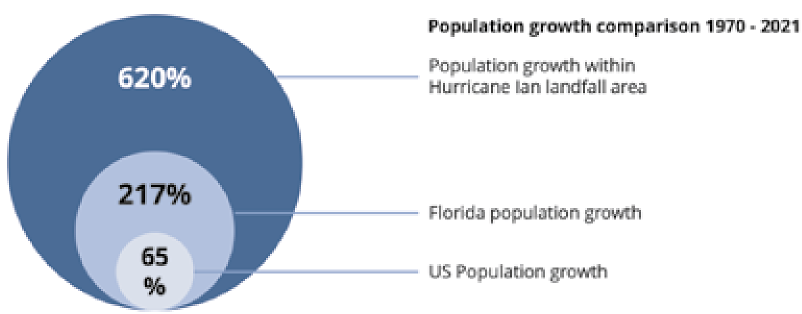
Source: Aon

2c. Inflation – Uncertainty over claims reduces capacity

A high inflation environment brings additional uncertainty to underwriting as the actual cost of claims is harder to predict at the outset. As such, (re) insurers will build greater margin into their pricing and implicitly reduce the absolute amount of business they are willing to write.

Expected impact: As noted above, we believe that over the next 12 months inflation will start declining but will remain elevated compared to pre-2019 levels. This could reduce appetite for long-tail business such as casualty insurance, which should drive up rates.

There is an increase in population in regions susceptible to natural hazards



Source: Swiss Re

2d. Shareholder appetite – Shareholders are focused on returns

Shareholders have taken the current market environment as an opportunity to push for better returns and rate adequacy rather than top-line growth. The flight to quality described earlier in 1d has also made it possible for quality participants to focus on underwriting performance when deploying capital.

Alternative capital (comprising cat bonds, sidecars and collateralised reinsurance and others) has plateaued over the last five years, despite rising demand for insurance. While there has been a significant increase in the cat bond market (so far in 2023 new issues are in line with the whole of 2022 at circa $10bn), collateralised reinsurance capital has been declining since 2019.

Expected impact: Overall, we expect increased shareholder appetite for insurance in response to the hard market, which should put some downward pressure on rates, though not enough to outweigh the other drivers listed above.

Expected impact on rates – 1-2 year view

Momentum in property cat pricing has largely been driven by the market continuing to reassess the impact of ever-increasing insured losses from major events, while also reacting to inflation and high interest rates. Given climate change and global economic factors we would expect this to continue into the foreseeable future.

If you look beyond property, other markets do seem to have already ridden the market cycle. For example, cyber rates are already softening. After a brief period of strong increases in 2020/21, rate movements have tailed off quickly in 2022 and 2023. If this trend continues, we expect that there will be rate reductions within the next six months. Casualty, D&O and marine are equally not seeing the same level of hardening as some of the property lines.

Stepping back and considering the market as a whole, it appears that the demand versus supply equation will continue to be weighted towards over-demand. This clearly means a continued hard market in the near term. Over the medium term we expect that the inflation and climate-related risks can be priced in. As the market becomes more stable and profitable it will attract further capital from new and existing players, driving up the supply and causing rates to soften.