

Baden-Baden Symposium: Demand for alternative solutions must be met

The (re)insurance sector must make better use of ILS/non-traditional capital and alternative reinsurance structures to meet the changing needs of clients or face losing relevance at a time of heightened risk and demand, industry leaders warned at the Guy Carpenter Baden-Baden Reinsurance Symposium yesterday.

Addressing a packed-out auditorium at the Kongresshaus in Baden-Baden, Scor CEO Thierry Léger highlighted a mismatch between the

structured reinsurance solutions being demanded by clients and the industry's current offering.

"Where demand and offer are not aligned, clients will look elsewhere," he said. "It is clear that structured solutions will be in higher demand because they are able to respond better to the needs that are out there," he said.

Léger said the development of alternative structures is becoming a

"core component" of Scor's approach, with the reinsurer looking to double its premium income from structured solutions and its partnerships with third-party capital.

Panellists addressing the 600+ industry executives at the event, hosted in partnership with *The Insurer*, agreed that the upward trajectory in pricing is creating opportunities for the development of alternative structures to meet

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European MGA-reinsurance frontier Accredited finally sold to Onex Partners

Pivate equity interest in the MGA-reinsurer fronting sector continued with news late on Friday that European-US hybrid carrier Accredited is to be sold to Onex Partners.

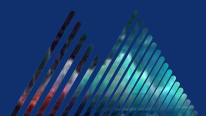
Malta-headquartered Accredited Insurance (Europe) will be spun out of the London-listed R&Q together with its US counterpart, provided the \$465mn transaction is approved by the group's hard-pressed shareholders.

Accredited is one of a number of rated fronting carriers to emerge in the past five years to capitalise on the rise of the \$100bn+ MGA market on both sides of the Atlantic. Its European arm wrote £595.67mn (\$723.8mn) of GWP in 2022 (2021: £387.01mn) on behalf of MGAs on the continent, providing its rated capacity to sit in between the MGAs and their ultimate reinsurance capital.

However, R&Q's business-critical A- AM Best rating was again put on negative outlook earlier this year after the debt-laden group posted yet more losses and adverse development from its separate-but-interconnected legacy business. This forced the group to put Accredited up for sale in a long-winded process that finally came to resolution late last week.

But the deal

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The Insurer Comment

The key to managing systemic risks...

Thirty years ago this month, UK mutual Pool Re was established as a partnership between British property insurers and Downing Street to address the issue of limited insurance availability for terrorism cover.

This was in response to a specific geographic risk posed by Irish Republican terrorists. A decade on, however, and the West was confronting a new global threat: terrorism motivated by Islamic ideology.

After 9/11, global property insurers threatened to withdraw terrorism cover for the very simple reason that they did not have the capital to underwrite a systemic risk threat so difficult to model. A flurry of new public-private initiatives swiftly emerged including TRIA (US), GAREAT (France) and ARPC (Australia).

All had different structures, but the common thread was facility for governments and (re)insurers to work swiftly to devise a solution in the face of real and immediate threat.

Sadly, in the 20 years hence, the world has clearly become an even riskier place. In the Middle East, the atrocities in Israel and Palestine have again turned the region into a febrile tinderbox, while there is little sign of resolution from Russia's brutal invasion of Ukraine. Despotism states such as Iran and North Korea appear emboldened, while the Chinese dragon continues to menace Taiwan. It is a depressing state of affairs.

Technology, digitalisation and innovation have brought prosperity to many – but they have also brought the threat of cyber attacks damaging companies, infrastructure and even national economies at a time of geopolitical unrest. Covid-19 was also a visible reminder of the impact pandemics can have on both society and the global economy. Likewise, no one in the (re)insurance sector is immune from the impact of climate change on natural catastrophes.

(Re)insurers are in the risk business

– but the above all pose systemic threats to the global economy which the industry cannot tackle on its own. To give a topical example – global cyber premiums are around \$10bn, yet recent research by Lloyd's estimates a major attack on a financial services platform could generate



Professor Jarzabkowski's new book "Disaster Insurance Reimagined" examines the vital role of new PGEs

Lloyd's estimates a major attack on a financial services platform could generate economic losses of \$3.5trn

economic losses of \$3.5trn. That is not so much a protection gap as a chasm.

Industry academic Professor Paula Jarzabkowski coined a useful term for these reinsurance public-private partnerships: PGEs (protection gap entities). Unfortunately, there has been more talk than action in the 20 years since the flurry of post-9/11 terrorism PGEs. Is this a failure on behalf of the industry?

The Insurer doesn't believe so. After all, one has only to look at the tremendous work Marsh McLennan, sponsor of Professor Jarzabowski's book, and others have undertaken with governments – including in Ukraine – to examine options around both the eventual rebuild of the Ukrainian economy and the

provision of insurance for the export of grain.

However, it is a shame that there has not been more progress in tackling all of these threats with governments through the development of more PGEs. After all, (re)insurers may not have the collective balance sheet to cover all of these potential threats, but they still have a lot to offer in providing some risk financing, as well as modelling, risk mitigation/adaptation and loss prevention, among other services.

One of the themes of Jarzabkowski's recent book – *Disaster Insurance Reimagined*, published last week by Oxford University Press – is that there is no such thing as the perfect PGE, but a key component is to introduce flexibility. This enables PGEs to evolve, just as threats and our understanding of them continue to evolve. Pool Re is a good example of this – it is a much-changed entity over 30 years, having established a £7bn (\$8.5bn) reserve, buying £2.5bn of reinsurance limit from the private market while judiciously expanding coverage capabilities. It has done this by sponsoring invaluable research into the terror threat, enabling the private sector to expand while also paying the UK government for its backstop in the event of a catastrophic loss.

So, as the European industry gathers in Baden-Baden today for the start of the annual conference, the focus among cedants, underwriters and intermediaries will naturally be on the 1.1 renewals. But back at the head offices, we would urge the industry's leaders to continue talking to governments and international

organisations about developing new PGEs to tackle the world's most pressing threats. By doing so, the industry remains not just relevant, but also an essential partner for policymakers and their clients in navigating these risky times...



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Flandro: Current property cat opportunity comes along once a decade



Reinsurers have a once-in-a-decade property cat underwriting opportunity, with risk-adjusted rates on line now at their highest level for 30 years, according to Howden Tiger's David Flandro.

Speaking at the Catastrophe, Climate and Capital event hosted by Inigo in London, Flandro – who serves as head of industry analytics and strategic advisory at the reinsurance broker – outlined the case for writing more property cat reinsurance amid current market conditions.

“If I were a reinsurer and I was writing property cat for your business, given the tailwinds in the sector right now, I would think very seriously about underwriting more,” he said.

“The first reason really is very simple. It's called economic value add, it's the projected return on invested capital for reinsurers minus the weighted average cost of capital.

“If you look at the estimates for what reinsurers can earn in this environment, for the first time in about 15 years it looks like reinsurers, particularly the cat market, are going to exceed their cost of capital.”

Flandro also highlighted net present value as another motivation to increase property cat underwriting.

“This type of market opportunity really comes along once every decade.

If you underwrite now, you'll have a better chance of earning profit now, and a lower discount rate increases the valuation of your company.”

He added that inflation has

compounded the net risk and expected losses borne by cedants. A regression study run by Howden Tiger estimated that between 2001 and 2022, cedants retained around 54 percent of all nat cat losses.

At the renewal on 1.1.23, running the same numbers over the time period would have seen cedants retain 64 percent.

Cedants have also retained the “overwhelming majority” of this year's catastrophe losses following increases in attachment points.

In practical terms, this means that risk-adjusted rates on line are at their highest level in more than 30 years since the advent of cat modelling, according to calculations by the reinsurance broker.

Flandro flagged that the rate on line calculation (the ratio of premium paid to loss recoverable in reinsurance contracts) is unique as the numerator is affected by inflation to premium, while the denominator is around exposure rather than limit.

“We do this a little differently than some of the other compilers and indices. In the denominator, we're actually trying to make a calculation around exposure, rather than just using limit,” he explained.

“If you just use limit, it looks like the rates after Hurricane Andrew were a lot more in relative terms. But in our view, especially in Florida, we think the property cat rates are as high as they've ever been.”

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Ariel Re lines up capital to support 25% 2024 premium growth target



Ariel Re has had its business plan approved by Lloyd's to grow premium by around 25 percent in 2024 and is understood to be securing backing from new and existing investors to support the expansion as it targets attractive opportunities at 1 January, especially in cat reinsurance, *The Insurer* can reveal.

The Bermuda-Lloyd's carrier is understood to be lining up capital to increase Funds at Lloyd's after fundraising over the last couple of months, working with Howden Tiger Capital Markets & Advisory.

The identity of all of the backers has not been confirmed but last year Ariel Re secured \$270mn of new capital from five new institutional and family office investors, with \$170mn raised through Lloyd's London Bridge 2 PCC transformer vehicle.

Existing backers Pelican Ventures and JC Flowers also "meaningfully" increased their underwriting capital commitment to support the reinsurer's growth plans.

Although he didn't provide a specific stamp capacity number for 2024, the company's CEO Ryan Mather confirmed to this publication that the plan to grow premium written by around 25 percent next year had been approved by Lloyd's.

"We have a lot of interest from new and existing capital providers and we're comfortable we'll get all our capital in place. Back at Monte Carlo we felt reasonably confident that it was going to be hard yards but we would get there in the end,

and we've made good progress in the intervening time," said the executive.

Ariel underwrites at Lloyd's via Syndicate 1910 and the smaller cat-sidecar Syndicate 6117. The two syndicates had starting stamp capacity of £380.8mn and £62.7mn for 2023. Details for Syndicate 1910 2024 capacity has not been published but Syndicate 6117 has been approved for a ~40+ percent increase to £88mn.

He said the capital-raising process had begun earlier this year than in 2022, when there was also a major loss in the form of Hurricane Ian to factor in.

Market opportunity

Mather said that Ariel Re remains bullish on the market opportunity, especially in cat.

"I think the market has found a new level, a step-change level. Different markets have different [levels of increase] but the peak zone cat is probably in the order of 40 to 50 percent up. We don't see that going away.



Different markets have different [levels of increase] but the peak zone cat is probably in the order of 40 to 50 percent up. We don't see that going away

Ariel Re CEO Ryan Mather



"Will prices go up a bit and down a bit depending on what they are? Of course they will, but overall I think the new level has been found," he commented.

The executive said that in property cat he expects to see some additional risk appetite from incumbent

Key Points

- Ariel Re approved to grow premium around 25% next year
- Targeting attractive reinsurance opportunities at 1.1, especially in cat
- Capital to support increased FAL raised from unnamed new and existing investors
- Existing investors include Pelican Ventures and JC Flowers
- Worked with Howden Tiger Capital Markets on raise
- Underwrites at Lloyd's via Syndicates 1910 and 6117

reinsurers rather than meaningful new capital coming in, with middle to top layers likely to see more supply as bottom layers continue to be more challenging for brokers to place.

But he also said he expects severe convective storm (SCS) to be a "huge theme" at 1.1, after record activity in 2023.

"I think that's going to be the theme of 1.1 this year. Convective storm is an insurable peril, obviously, but a lot of the burden of that remained with the insurance companies rather than the reinsurance companies this year.

"Will that persist? What do the regional companies who are SCS exposed do about that because they're all really struggling," he continued.

Mather highlighted the challenges for SCS-exposed carriers, especially those writing on an admitted basis where filing the rate increases quickly enough to counter rising loss trends is difficult, at the same time as facing fast-rising reinsurance costs.

Outside of cat, the Ariel Re CEO identified marine and specialty areas as attractive for potential growth, as well as cyber, where the carrier is pushing its so-called "Cyber Shock" product, which provides catastrophe excess of loss coverage.

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CCR Re puts emphasis on partnerships as it looks to deploy greater capacity at 1.1



Cedants are increasingly seeking long-term partnerships after many were left with mixed feelings following the shift in reinsurer appetite at renewal, according to CCR Re's Laurent Montador, who highlighted the critical role that building and maintaining relationships with insurer and broker partners will play in the company's future success.

Speaking at the annual industry gathering in Baden-Baden, CCR Re's deputy CEO said there was a recognition that many cedants had been left "hurting" in the wake of 2023 renewal as the market reacted strongly after years of losses and continuously decreasing rates.

"Reinsurance plays a key for cedants in executing their business plans and in allowing them room to grow but this growth as well as inflation were not anticipated," Montador explained.

"In the run-up to 1.1 we're seeing that cedants really want to have long-term partnerships with their reinsurers – they want to know that their reinsurers are willing to support their strategies, continuing to offer

capacity in the medium to long term and will not react too heavily."

Montador said that CCR Re – which has benefited since 2020 from a stable A rating from AM Best and S&P – is focused on being a "partner of choice" and is in a position to provide capacity with aligned partners in a flexible way.

"Reinsurers recognise the importance of maintaining that long-term partnership spirit with their clients – for us, that is front and centre. We truly value those relationships and want to be a partner of choice for our clients," Montador continued, stressing that a client-centric approach and greater flexibility does not mean under-pricing.

"There needs to be an appreciation that flexibility on the behalf of reinsurers does not mean undervaluing our offering or failing to meet our return on capital. Cedants have to understand that we need to be profitable in order to continue being the partners that they want us to be and to provide capacity in the long term."

Montador added that insurers are increasingly valuing speed of response from reinsurers. He said cedants are now more than ever searching for a combination of efficiency and responsiveness, with an emphasis placed on an ability to find "entrepreneurial solutions" at renewal.

The executive was speaking shortly

after the completion of CCR Re's acquisition by a mutual consortium consisting of SMABTP and MACSF. The deal, which formally closed in early July, valued the previously state-owned firm at close to €1bn (\$1.06bn).

Under the transaction, the mutual insurers also completed a capital injection of €200mn into the reinsurer, fully financed by the consortium. The deputy CEO noted that the new capital will be deployed widely at renewal giving priority to established partners.

Montador said that CCR Re – which last month reported a first-half undiscounted combined ratio of 94.6 percent – remains on track to achieve its €2bn GWP target, but stressed that maintaining and building partnerships will remain a core part of its growth strategy.

"We want to maintain the strategy that we have successfully pursued in previous cycles. We will continue to prioritise prudent underwriting and to write business that we understand and that we feel we can make a real impact in.

"The ambition of being the partner of choice means listening to the needs of cedants and working with them closely to find new ways of being more relevant. We will continue this across the European market, and are increasing our efforts in our chosen growth regions of Asia, Africa and Latin America."

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Baden-Baden Symposium: Demand for alternative solutions must be met

capacity needs and facilitate the inflow of new capital. Also speaking on the panel, PGGM senior investment manager Eveline Takken-Somers said alternative capital has become "structurally embedded" into the reinsurance industry, but stressed that work is needed to enhance the accessibility of the market to the investment community.

"Firstly, there needs to be sufficient alignment with traditional capital so that investors are not having to take on risks that the industry is not willing to take on. Secondly, alternative capital needs to achieve sustainable returns. In recent years, like traditional capital, return objectives for alternative capital have not been met," she said.

Lloyd's CFO Burkhard Keese pointed

to London Bridge PCC, the UK protected cell company launched in 2021 to offer various ways to deploy funds at Lloyd's, as a real-world example of how new structures can attract third-party capital. Guy Carpenter's CEO for EMEA and global capital solutions Laurent Rousseau also highlighted the potential for alternative capital to help the industry meet future challenges.

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Swiss Re's Lohbeck: Aviation market needs to “fundamentally change” to be sustainable



Swiss Re's Anne Lohbeck has warned of the need for a fundamental rethink in the way liability limits are applied within the aviation market in the wake of the issues that emerged following the Russia-Ukraine conflict.

In an interview with *The Insurer TV*, the Swiss Re specialty CUO said the market was facing “scary scenarios” given the size of the aviation premium pool relative to the large limits provided.

“I think if you look at the global premium pool in aviation, and just compare that with the largest limits of liability that we give on single clients, the multiple between those two is really small,” she said.

“That market needs to fundamentally change in order to be sustainable in the long term,” she added.

“It's a question of starting to find ways to limit covers differently to the way we do today,” Lohbeck continued. “If you compare the liability covers that we give within aviation to the

liability covers that we give in other more difficult segments, such as pharma, for example, we need to get closer to the way we manage exposures there compared to how we still do it today in aviation.”

Insuring the transition

During the interview, Lohbeck highlighted that the war in Ukraine had also placed constraints on those working to insure the energy transition as governments moved to address concerns over energy security.

“The first thing to recognise is that this is a very, very dynamic landscape. And while we're all racing towards net zero, geopolitics, energy security and considerations around that have just thrown us all a huge curveball on a societal level.”

She said continued geopolitical uncertainty could contribute to supply chain challenges, which could further push up claims costs in the renewables sector.

These challenges could arise from, for example, the availability of repair vessels for offshore wind facilities, as well as the availability and cost of labour.

“Everything that we need around the insurance value chain is a space that we actively need to continue watching,” she said.

However, Lohbeck said the healthy flow of investment in the energy transition space should make us optimistic as a society on progress.

Cautious on cyber opportunity

Lohbeck said it was important to approach cyber in a prudent way, “moving forward one step at a time” while working to limit accumulations.

“With all of the devices that we use across society now, cyber as a peril is something we need to insure and reinsure.

“The demand is there, the necessity is there – the relevance of cyber will only ever increase. We as an industry need to find ways to address the structural, wording and aggregation issues that we still have.”

She likened the current level of understanding around cyber to other perils in their infancy, such as natural catastrophes in previous decades.

“We've managed to wrap our heads around issues in other lines, and I have no doubt we, as an industry, will be able to do the same with cyber. But it will take time,” she said.

Scan here to watch the video interview with Anne Lohbeck. This – and all *The Insurer TV* interviews – can be viewed at theinsurertv.com



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European MGA-reinsurance fronter Accredited finally sold to Onex Partners

leaves shareholders – who were offered a buy-out of 175 pence a share 18 months ago – nursing heavy paper losses (the shares closed at 53 pence on Friday).

However, it should now mean Accredited will eventually be in a position to trade forward with an A- rating affirmed and on a stable outlook. As part of the proposed deal, 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.

Led by Colin Johnson, Accredited Europe had 30 programs under management at year-end 2022 and more have signed this year despite the group difficulties.

Accredited is relatively unique in providing rated fronting capacity in

both the US and Europe, with most other fronting companies focusing specifically on the US. However, new competition has emerged recently in the form of carriers such as Bridgehaven Europe Ltd.

Onex Partners' decision to invest in the Accredited spin-off also shows private equity's interest in the sector remains undimmed despite the Vesttoo-inflicted travails endured by Clear Blue.



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S7 talks reignite insurer hopes of fresh settlements over seized aircraft

Russia's S7 Airlines is nearing a deal with aviation lessors to settle disputes over jets detained in the country following the invasion of Ukraine, in a move which could further reduce the (re)insurance industry's overall loss.

Aviation market sources said S7, Russia's largest private airline and the second-largest overall, has approached a number of international lessors to reach a sanctions-compliant deal which could see the airline's domestic insurers – thought to include Ingosstrakh and NSK – pay out for stranded aircraft.

The talks have been described as being at an "advanced stage". Lessors involved are understood to include Ireland-based AerCap and SMBC Aviation Capital – both of which have recently penned multi-million dollar settlements with Russian flag carrier Aeroflot and its subsidiaries over seized aviation assets.

Publicly available data reveals that S7 had more than 40 aircraft leased from AerCap worth in excess of \$740mn at the time of the invasion in February 2022.

Talks between S7 and its lessors are noteworthy as a number of legal claims filed by lessors against aviation (re)insurers in both London and Dublin concern aircraft on lease to JSC Siberia Airlines, the legal holding company behind S7.

These include separate High Court claims brought by Carlyle Aviation Management and Falcon 2018,



Talking points

- Russia's largest private airline in settlement talks with lessors
- Follows Aeroflot settlements with lessors AerCap, SMBC and CDB
- \$10bn+ of disputed claims currently; majority in London

an entity managed by Dubai Aerospace Enterprise, against insurers including AIG, Allianz Global Corporate & Specialty, Axa XL, Lloyd's Insurance Company and Munich Re-backed MGA Global Aerospace.

It comes shortly after *The Insurer* reported that a number of lessors – including US-headquartered Air Lease Corporation – had notified their international (re)insurers that they were pursuing settlement talks with Russian airlines.

However, discussions are at an early stage and significant uncertainty remains, with issues over sanctions and aircraft value still requiring clarity, sources said.

Last month, AerCap agreed to settle an insurance claim over 17 jets and five engines leased to Aeroflot and its subsidiary Rossiya, part of a wider dispute involving more than 400

Western-owned planes.

The \$645mn commercial settlement – which



Talks between S7 and its lessors are noteworthy as a number of legal claims filed by lessors against aviation (re)insurers in both London and Dublin concern aircraft on lease to JSC Siberia Airlines, the legal holding company behind S7



The 10 largest UK lessor claims by value

Lessor	Settlement	Notes
AerCap Ireland	\$2.75bn	AIG Europe, Lloyd's Insurance Company, Fidelis, Swiss Re & Chubb
Dubai Aerospace Enterprise & others	\$875mn	Lloyd's Insurance Company, HDI, Chubb, Fidelis & 7 others
Deep Sky Leasing & others	\$688mn	Fidelis, Global Aerospace, AGCS, Munich Re & 7 others
Celestial Aviation Trading 10, ILFC Aircraft & others	\$671mn	Global Aerospace, AGCS, Fidelis & 4 others
Peregrine Aviation Foxtrot, Celestial Aviation Trading, AerCap & others	\$553mn	Fidelis, Lancashire, Munich Re & 20 others
Voyager Aviation Holdings & Aetios Aviation & others	\$325mn	AGCS & Cathedral Capital (1998)
Wwtai AirOpCo II DAC & others	\$219mn	Global Aerospace & Tokio Marine Underwriting
Aircraft MSN 35233, Constitution Aircraft Leasing & others	\$107mn	AGCS & Cathedral Capital (1998)
Carlyle Aviation Management, Sasof III, Aergen Aircraft & others	\$97.5mn	AGCS & Liberty Corporate Capital
Eos Aviation 2 Ireland, UMB Bank	\$94.6mn	AIG UK & Axa XL

Source: *The Insurer*

was approved by US and Russian authorities – is expected to be a model and framework that AerCap will try to replicate with other Russian airlines and operators.

It noted that settlement discussions were ongoing with respect to claims under the insurance policies of several other Russian airlines, but stressed that it remained uncertain as to whether these discussions would result in any insurance settlement.

Crucially, it set a structure for other settlements to follow which – if agreed – would see the current ~\$10bn of disputed claims shrink to \$2bn-\$2.5bn and which could then be subject to further negotiated settlement between insurers and the lessor companies.

The landmark deal – which saw the aircraft become the property of Russian state-owned insurer NSK – has been followed by two further settlements between lessors and Aeroflot worth a combined \$904mn.

News of the S7 talks comes less than a week after

Dublin-based CDB Aviation – the lessor owned by China Development Bank – reached an insurance settlement of \$194mn covering four aircraft previously on lease to Aeroflot.


China Development Bank Financial Leasing Co said in a Hong Kong stock market filing that the payment was made by NSK in “full compliance with all applicable laws, sanctions and regulations”.

This followed news that lessor SMBC Aviation Capital had penned an insurance settlement of \$710mn for a number of aircraft previously leased to Aeroflot.

Japan's Sumitomo Mitsui Financial Group, SMBC's parent company, said in a 2 October stock exchange filing that it had received the cash settlement from NSK with respect to 16 aircraft and their engines.

Despite the settlements, all three lessors – AerCap, CDB and SMBC – and their parent companies said they continue to actively pursue litigation in London and Irish courts under insurance policies with other insurers relating to losses with Russian airlines.

Lessor settlements in brief:

Lessor	Settlement	Notes
 AERCAP	\$645mn	The world's largest aircraft lessor agreed to settle an insurance claim over Russia's refusal to return 17 jets leased to airline Aeroflot. The settlement was paid by Russian insurer NSK
 SMBC AVIATION CAPITAL	\$710mn	Dublin-headquartered SMBC secured a settlement of \$710mn regarding 16 aircraft and engines leased to Aeroflot. Claim paid by NSK
 CDB AVIATION	\$194mn	CDB Aviation reached a settlement for four aircraft previously leased to Aeroflot. Claim paid by NSK

Source: *The Insurer*

Climate change – Evolving risk and regulation

Guy Carpenter's Sam Phibbs, Katy Reyner and Sandra Hansen on the need to navigate the changing regulatory landscape related to climate change

In 2023, we have seen record-breaking temperatures, updated projections on the accelerating pace of climate change and a growing number of severe events. The September global surface temperature was 1.68°C above the 20th century average, making it the warmest September on record by a wide margin.

With the forecasted strengthening of El Niño, multiple outlooks have suggested over a 90 percent probability of 2023 becoming the warmest year on record and a 50 percent chance of meeting or beating the 1.5°C above pre-industrial temperatures threshold.

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

- **Tropical cyclone:** Since mid-March, sea surface temperatures (SSTs) in the North Atlantic have exceeded daily records every day. North Atlantic SSTs eclipsed 25°C for the first time on record, while global SSTs surpassed 21°C for the first time. Warmer SSTs mean stronger and wetter tropical cyclones are possible. Even with a strengthening El Niño (which typically suppresses hurricane activity), the ongoing North Atlantic hurricane season has so far been above average in terms of accumulated cyclone energy.
- **Flood:** Heavy rainfall in May led to widespread flooding in the Emilia-Romagna region of Italy. Additional flooding occurred in Slovenia in August and in Greece, Turkey, Bulgaria, Spain and Libya in September. Warmer air holds more moisture, adding to the risk of extreme precipitation.
- **Severe convective storm:** In July, heat waves along with low-pressure systems bringing warm humid air from the Mediterranean resulted in extreme hail in central Europe, particularly in Italy. The Mediterranean reached its highest ever recorded temperature of over 28°C. The conditions persisted for a week and resulted in some of the largest hail on record. Warmer surface temperatures with increasing atmospheric moisture and instability increase the risk of extreme hail events.
- **Wildfire:** In Europe, extreme heat contributed to extraordinary wildfire activity, particularly in

Italy and Greece. Warmer, drier weather provides conditions conducive for larger, more-intense wildfires.

Industry loss estimates for the first half of 2023 remain well above the decadal average despite the comparatively smaller impact on reinsurers. A range of industry sources have estimated that first-half insured losses from natural catastrophes were in the \$50bn to \$53bn range. The first-half 2023 tally is also significantly above the \$44bn decadal average for the 2013-2022 period as well as the \$38bn 21st century average. Guy Carpenter has begun to estimate the potential impact of climate change on insured loss using the latest robust scientific projections and internal research.

Climate change disclosure

Europe continues to push ahead with a variety of sustainable finance regulations, and preparing for the Corporate Sustainability Reporting Directive and extended EU Taxonomy disclosures remains a priority for many in the industry.

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

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

How Guy Carpenter can help

Guy Carpenter has developed a full suite of climate change physical risk analytics and advisory products, ranging from underwriting and accumulation layers to adjustments to third-party catastrophe models and in-house risk scores developed for climate change.



Sam Phibbs, Katy Reyner and Sandra Hansen are members of the Global Peril Advisory team at Guy Carpenter

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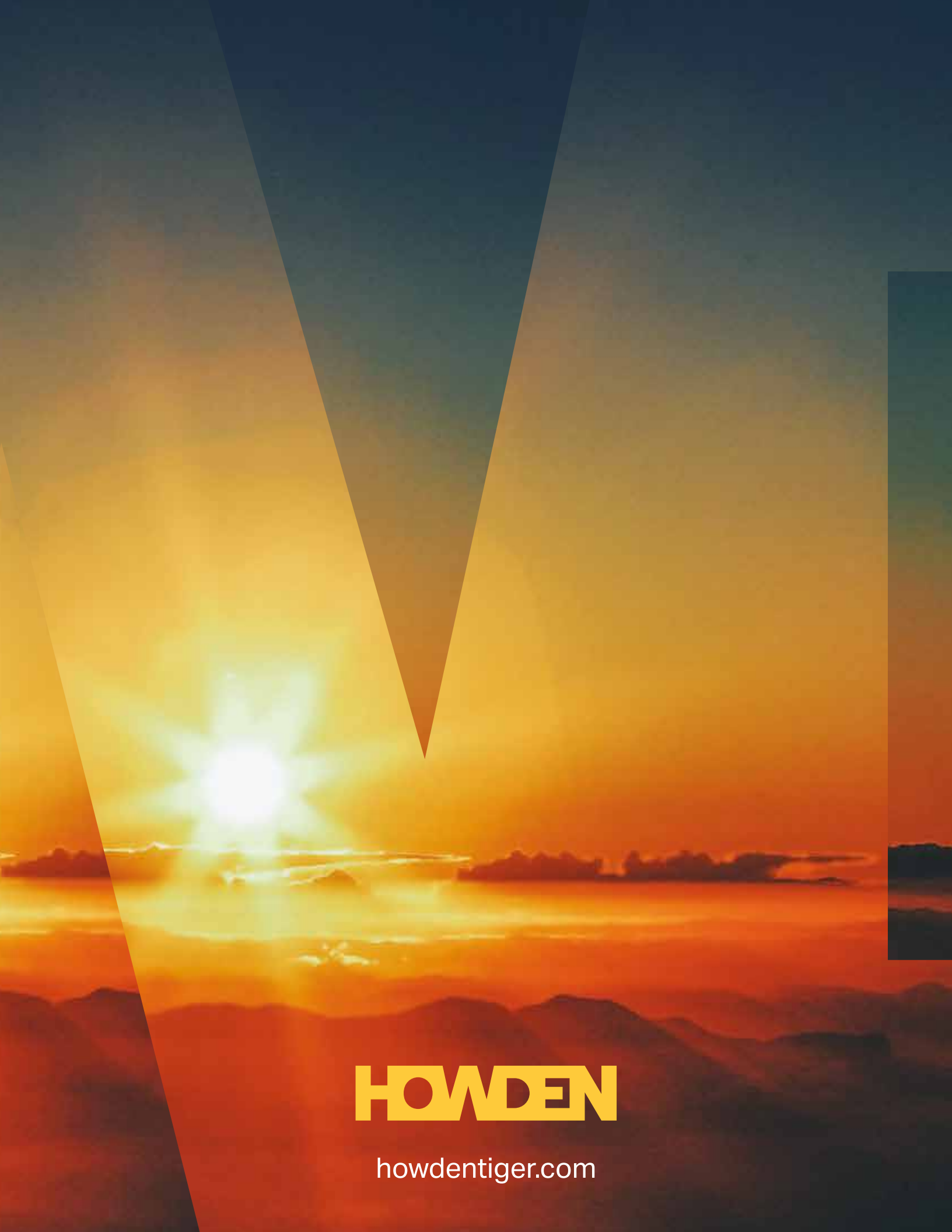
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The background of the entire page is a photograph of a sunset or sunrise over a mountain range. The sky is a mix of deep blue, orange, and yellow. Large, semi-transparent geometric shapes, including a large circle on the left and several triangles, are overlaid on the image. The text is centered in the upper half of the image.

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Aon's Marcell: Stable 1.1 cat market expected amid increasing competition

Absent any major cat events between now and 1 January, Aon's newly appointed CEO of Risk Capital Andy Marcell expects a significantly more orderly renewal as he suggested increased competition among reinsurers to deploy capacity could put downwards pressure on pricing for some buyers.

In a wide-ranging interview with *The Insurer*, the executive also talked about addressing the coverage crisis in places like California; harnessing capabilities to meet the evolving and complex needs of corporate insureds; the retro market; intellectual property opportunities and the talent war.

Summarising his outlook for the 1 January renewal, Marcell said: "Following a period of market challenges, there are currently no factors placing significant upwards pressure on reinsurance rates. But at the same time, capital is not entering in large volumes and greater limits will be sought by insurers, so there won't be a huge softening.

"When we look at Aon's cat portfolio we see rate adequacy – the internal rate of return on capital for reinsurers at 1-in-250 for example looks pretty strong."

Marcell, who also remains CEO of Aon's Reinsurance Solutions division pending the appointment of a successor, noted that while the rate hardening may have made the headlines, it was the structural change to cat programs that was most significant, along with sourcing capacity for secondary perils.

He added that after a challenging and at times chaotic 1 January renewal, a much more orderly market has emerged with a flight to quality in the minds of reinsurers towards the insurers they deem to be preferred partners.

"Given the talk of a flight to quality, there was still plenty of capacity – it was more than adequate to satisfy the needs of most



Talking points

- More orderly cat renewal expected than at 1 January 2023
- Competition for "preferred partners" could lead to some downwards pressure on pricing
- Demand for cat limit from European and US insurers expected to rise 5-10% on average
- Return to strong supply of ILS capacity for cat bonds has benefited buyers
- US casualty market is "robust", but reinsurers expected to push for lower cedes
- Casualty market expected to be stable outside D&O
- Advanced data and analytics key to attracting capital to risk in areas where carriers have been retrenching, such as California
- Marcell's new Risk Capital leadership role oversees Aon's commercial risk and reinsurance arms, and creates a unified risk analytics team

of our clients, and some of those buying protection at 1 January bought additional coverage through the year.

"Reinsurers will now be competing to reinsure a preferred partner, and this may result in some downwards pressure on rates," Marcell suggested.

He predicted that mitigating any downward pressure will be increased limit purchasing of between 5 percent and 10 percent on average for the US and Europe, as well as private transactions that allow some cedants to "optimise" capital lower down to counter the impact of higher retentions on core cat programs.

While there may be some further incremental traditional capital entering the cat space, it will not be sufficient to dramatically change supply and demand dynamics, Marcell suggested.

He also said he does not expect a

significant expansion of the retro market, noting that some big users of the product such as Lloyd's syndicates had demonstrated they can operate with significantly less retro than previously purchased with the help of portfolio management technology and tools alongside better-structured cat programs.

But the impact on buyers of a hard traditional reinsurance market has been partially offset by a return to strong supply of ILS capacity for cat bond transactions, with the market on course for record issuance levels this year.

That represents a dramatic shift from late last year, when placing cat bonds of a relatively modest \$250mn size was challenging.

"ILS pricing has decreased to pre-Ian levels due to cat bonds proving themselves as a mechanism that can deal with tail risk, and performing in line with cedant and investor expectations.

"We have helped many clients to navigate potential volatility and find efficiency in buying major limit through incorporating alternative capital into their risk transfer strategies. This has the effect of reducing the stress on their cat programs and transferring risk at stabilised prices, and I think it will continue," said the executive.

Robust US casualty market

Another feature of 2023 has been downward movement on cede commissions on casualty quota shares.

But outside D&O, Marcell said he expects the casualty market to be relatively stable at the upcoming renewals, as he pointed to the health of the underlying business.

"If you look at US casualty, the market is quite robust. Not everyone shares that view, but from my perspective it seems to me that it's a relatively good time to be an insurance company in the US. If you're a reinsurer and a lot of your transactions are proportional – which they are in casualty – there are a lot of tailwinds driving performance," he commented.

The executive said he expects reinsurers to push for lower cedes, with their case built around reserve development, potential frequency and severity, the performance of old years and whether there is pricing adequacy, saying they need to assume the risk at lower acquisition costs for them.

"I am not sure that any reinsurer concerns have been evidenced in the financial performance of

insurance companies over the past eight months. So I would expect the market to be reasonably stable, aside from D&O coverage, which is a much more challenging marketplace because of the precipitous drop in rates," Marcell suggested.



The California issue

A further trend this year has been the retrenchment of a number of large US insurers from some cat-exposed states, most notably California's admitted personal lines market.

In his new role, Marcell is overseeing Aon's commercial risk and reinsurance businesses, as well as the creation of a unified risk analytics team in the Risk Capital division to help create new capacity for risks like climate and cyber.

The aim is to increase collaboration and coordination across the firm to bring capabilities to clients in a way that serves the needs of each individual client.

"Aon is striving to deliver agnostic access to capital for its insurer and corporate clients. This creates greater efficiency in the marketplace and helps clients to maintain business resilience when faced with operational headwinds. It also provides clients with more strategic options, ultimately driving better business decisions," Marcell explained.

“**To attract capital to risk requires advanced data and analytics. How else can we quantify the cumulative probability of various outcomes and then segment that analysis into return periods which allow insurers and reinsurers to allocate a certain amount of capital to that risk?**

Aon's CEO of Risk Capital
Andy Marcell

Waging the talent war

According to Marcell, attracting and retaining talent is a core theme for the firm. And he suggested that being able to articulate the culture of the company and what its future will be is key to delivering on that theme.

"If you're a reinsurance broker then compensation and benefits are of course important. However, working in a firm whose culture allows you to serve your clients with superior tools and capabilities – and therefore be more relevant to those clients – means that you will have a more interesting career and a more diversified life in terms of what you can learn and the journey you can take," said the executive.

Marcell also highlighted the advantages in the more "unified" approach Aon is looking to bring with its new management structure to deliver solutions to clients.

"As clients have been forced to take more retentions, it is incredibly important for them to have access to a team of people who have capital models, and pricing and reserving solutions in the same ecosystem, that can be off-the-shelf or bespoke to suit the client. By leveraging those solutions, the Aon team can analyse each client's unique mix of business through strategic consulting and then develop a strategy for those clients as to how they can adjust the mix of business to achieve the desired returns, and provide feedback to stakeholders," he continued.

Commenting on Aon's potential role in bringing solutions and capacity to places like California where carriers are retrenching, the executive suggested the key is to provide a better understanding of the risk.

"To attract capital to risk requires advanced data and analytics. How else can we quantify the cumulative probability of various outcomes and then segment that analysis into return periods which allow insurers and reinsurers to allocate a certain amount of capital to that risk?" he added.

Marcell highlighted the firm's in-house Impact Forecasting modelling capabilities, which have been obtaining licences in peak cat zone states, as well as the use of vendor models.

With Aon developing its own models, it can provide a sustainable view of risk to help clients create their own view of risk, empowering them to make decisions about risk and return when

deploying capital – whether that is an insurance company, private equity firm or large corporation.

"That can also be extended to California," he suggested, noting the "deeply distressed" state of the personal lines segment in the Golden State.

"Our role is to use advanced data and analytics to help our clients understand potential outcomes and how the wide range of risks with which they are

engaging can be measured," the executive further commented.

Keeping it private

Asked about the trend towards the non-admitted or E&S market as admitted carriers have retrenched, Marcell suggested it represented a "permanent shift", given the desire among insurers for flexibility of rate and form to try to get a better return.

"The irony of regulation in this particular case is that the more the states seek to control the admitted rates, the more carriers want to become non-

admitted. What we don't want to happen is for the public market to take an even bigger share of the private market.

"The private market needs to be able to provide solutions to solve coverage issues. In order to do that, it needs to understand

the risk and have the flexibility to change rates to adjust for the ever-changing reality of climate change," he commented.

Climate change is just one area Aon is looking to address with its new structure, which also sees its health, wealth and talent businesses come together under a Human Capital unit led by Lambros Lambrou.

"We made the structural change in recognition of the complexity of the sectors in which we operate – whether that be, among other areas, cyber, critical cat, rising insurance rates, or the focus of large corporates on their capital positions and the value of the insurance they're purchasing," said Marcell.

Bringing together its nearly 1,000-strong reinsurance analytics division with the hundreds in its commercial risk team on a single platform called Aon Advanced Analytics will allow the firm to help clients better understand risk, quality, what they buy and how they buy, with a view to unlocking capital, he explained.

"You can't fully achieve those objectives when you're running a series of separate P&Ls – you have to think holistically about that progression, with Human Capital and Risk Capital," the executive added.

Global reinsurer capital (\$bn)



Sources: Company financial statements / Aon's Reinsurance Solutions / Aon Securities Inc.

IP demand continues to grow

Intellectual property (IP) has been identified as an area of significant growth potential by Aon in the last couple of years, with the firm acting as one of the market-makers.

Marcell said that despite the recent issues involving a limited number of transactions related to Vesttoo, the demand for the IP product being spearheaded by Aon has not been affected, noting that the beleaguered insurtech was just one source of capital in the nascent marketplace.

"This mechanism is efficient relative to diluting an equity stake, so the thesis holds and demand has actually increased over the past six months, rather than diminished," he continued.

"When there is a distraction, there's a slowdown, but it's not going to be meaningful on the market going forward," the executive said, adding that the firm has also had interest on the supply side from carriers looking to enter the space.



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Axis Re's Haugh: Shift towards monoline cyber cover to continue as market expands



Cyber has evolved into a monoline product over the past year, with cover stripped out of multi-peril liability policies, according to Axis Re CEO Ann Haugh.

Haugh told *The Insurer TV* this trend would likely continue as technological advances drive increased complexity.

But she remained bullish about Axis Re's continued expansion into the sector.

"For us it's very much about risk selection and geographic diversification," she said.

"We've seen very significant growth – albeit off a very small base – this year, and you will continue to see us advancing our expertise and advancing our position on the cyber side for reinsurance."

She said primary rates had flattened for cyber business, but added that pricing was "holding a bit more strongly" on the reinsurance side.

"We still believe rates on the reinsurance side are price adequate," she said.

Haugh attributed the discrepancy between reinsurance and insurance rates to the relative youth of the market, with understanding of cyber risks still developing.

She added that reinsurance had an important role to play in helping shape the cyber risk management ecosystem and in addressing the "longer-tail systemic risk" associated with the class.

Casualty caution

Having exited property treaty reinsurance business last year, Haugh said advancing the company's position as a specialist reinsurer was a key component of the Axis strategy.

"We've made meaningful reductions in our cat exposures through this decision and we are pleased

with how that has flowed through our results so far," she said.

Haugh added that the carrier's build-out of its credit, accident and health, marine, agriculture and casualty lines had demonstrated its strong and deep relationships in those classes.

But she expressed some caution on casualty markets, highlighting headwinds such as social and economic inflation. Haugh said her biggest concerns were around two areas of the casualty market – commercial auto and public D&O.

"I think the casualty market is improving, but we still remain cautious. It's not a one-size-fits-all. Casualty encompasses a number of lines including workers' comp, cyber professional liability and general liability.

"We've seen some improvements in ceding commissions on the GL and PL side. We think that momentum will continue. The rate and terms and condition environment has improved, but would need to hold or continue to improve to make that market attractive."

"I think the market is in a better place – but one year of market correction doesn't make up for five years of losses where reinsurers weren't covering the cost of capital"

Outlook for 1.1

Despite these challenges, Haugh said she was cautiously optimistic on casualty for the upcoming 1.1 renewals, with several specialty lines – including agriculture, mortgage and credit surety – looking favourable for growth.

She said the reinsurance market as a whole was in a more sustainable position than 12 months ago.

"I think the market is in a better place – but one year of market correction doesn't make up for five years of losses where reinsurers weren't covering the cost of capital," she said.

"I consider 2023 a transition year where, as well as the rates needing to hold or continue to improve, improvements in terms and conditions and structures also need to hold.

"Coming out of Monte Carlo, I'm optimistic on reinsurers' sentiment that we need to continue to hold firm and set the new normal."

Scan here to watch the video interview with Axis Re's Ann Haugh. This – and all *The Insurer TV* interviews – can be viewed at theinsurerTV.com





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Built differently



Freddie Porritt, London market reinsurance and retro broker at BMS Re, explains how the firm's reinsurance offering is designed to be different

What are the challenges and opportunities within property and specialty reinsurance?

The challenges vary depending on where you look. In specialty, there is a lack of alignment around terms and conditions. This will be a focus of renewal discussions this year.

There were well-documented challenges on the property reinsurance and retro side, but the market seems to have a more consistent message in the build-up to this renewal season.

Retentions and coverage were the focus of last year's discussions. With retentions moving up this has meant that losses from non-modelled perils such as severe convective storms have been retained net, which has been a challenge for some.

Fortunately, we've had success turning challenges into opportunities. Our unique way of sourcing capital means we have been able to showcase our added value and support to our clients during this hard cycle. This is important to help us stand out in such a competitive market.

Given BMS Re is growing so quickly, how important is culture to the group?

It is a very exciting time to be part of BMS Re. We are growing rapidly, and the investment from Eurazeo is key to our plans to build the specialty broker of choice.

When I joined the business in 2021, there were 400 people – today there are more than 1,200. Such growth is fantastic, but it is vital we preserve our culture. Culture is first and foremost to the business.

We are all shareholders in the business, which means we are aligned with our clients. Success for our client means success for the business. We are all pushing in the same direction which is very powerful.

How does BMS approach reinsurance and how is this different from your peers?

We built our reinsurance team differently. We are not pigeonholed to a single class of business. Clearly, we all have our specialities which we gravitate towards, but this approach enables us to have very open conversations with clients that are not confined to one specific area of risk.

Furthermore, our capital advisory team sits within the reinsurance division, allowing us to find the best solutions for our clients whether that's reinsurance, or capital.

Collaboration runs throughout the business and means we aren't held back by bureaucracy or arbitrary structures. We are all contributing to the same P&L, which means we are aligned in helping our clients meet their own goals.

What are hoping to get out of the Baden-Baden Reinsurance Meeting?

Baden-Baden falls towards the end of hurricane season and give us a great opportunity to discuss the fast-approaching renewals with our clients and reinsurers. It's a good time to get into the weeds of programs and offers an opportunity for us to differentiate our clients to their reinsurers.

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Strong partnerships in a challenging environment



Artur Klinger, head of international reinsurance at Everest, explains how the Bermuda-based firm is targeting growth amid uncertain market conditions

What is Everest's international reinsurance growth strategy?

We created our international business two years ago, and one of its strongest drivers has been the level of diversification in the portfolio after merging five business units that have been operating for 50 years. Currently, our business is split 50/50 between property and casualty lines, so we are not concentrated in one area. And we have built it out by working closely with some of the best insurers in each region.

Our aim is to be a trusted partner and one of the top reinsurers. To achieve that, we have invested in specialty know-how in areas such as strategic reinsurance and credit and surety. This is helping us to build deeper partnerships with clients across several lines of business. Geographically, we have been expanding in the Asia Pacific region, and we expect that growth to continue.

What do you anticipate being the key topics as we head into renewal season?

We expect fewer discussions about reinsurance structures, as brokers have done a good job preparing clients for increased retentions, and a move away from aggregate and surplus-type structures. But we are still having discussions about risk-taking, and how reinsurance adds value to clients by taking out the big uncertainties that have increased over the past year.

How is Everest helping clients and cedants navigate these market conditions?

One of the biggest factors in our success has been that we are an underwriting organisation. Regardless of the market, our approach doesn't change. We're consistent, transparent, collaborative and fair in how we conduct business, and we work closely with clients to get the right terms and conditions at the right price.

We do not have complex underwriting committees or processes, and every local entity is empowered

to make decisions. We are creative problem solvers who put relationships first and are committed to long-term partnerships and growing with our clients. In today's uncertain risk environment, it is important to have a partner like Everest that you can rely on.

How will Everest support clients during the upcoming renewal cycle?

As one of the world's largest P&C reinsurers, we at Everest are predictive and transparent, and we do not play games. We set clear, consistent expectations with our clients and brokers and are constantly enhancing our offering. We have recently invested in highly talented people for our specialty lines including cyber, financial risk, and engineering and our structured reinsurance business.

Why do clients choose to work with Everest?

Clients value our transparency, quick response times, fair pricing and structures, and a first-class level of service. We have also been bolstered by \$1.5bn in additional capital, which we raised earlier this year. We do not rely on the retrocession market, which gives us additional flexibility to address our clients' needs.

As a top-tier reinsurer, we will be around to pay valid claims for the long term. This is becoming more important as development patterns have slowed and risks are increasing.

Heading into 2024, what opportunities do you see?

I am confident that we will have positive, targeted discussions going forward. In the hardening market, global demand for quality capacity will continue. Reinsurance is one of the best products that you can have in uncertain times, which is why our role in providing the world with protection is more vital than ever.

Heading into 2024, we believe there will be many opportunities for P&C reinsurance overall, as well as in specialty lines. We have positioned our portfolio to meet this moment in reinsurance, and our volatility reduction strategy enables us to allocate capital effectively in the current hard market and beyond.



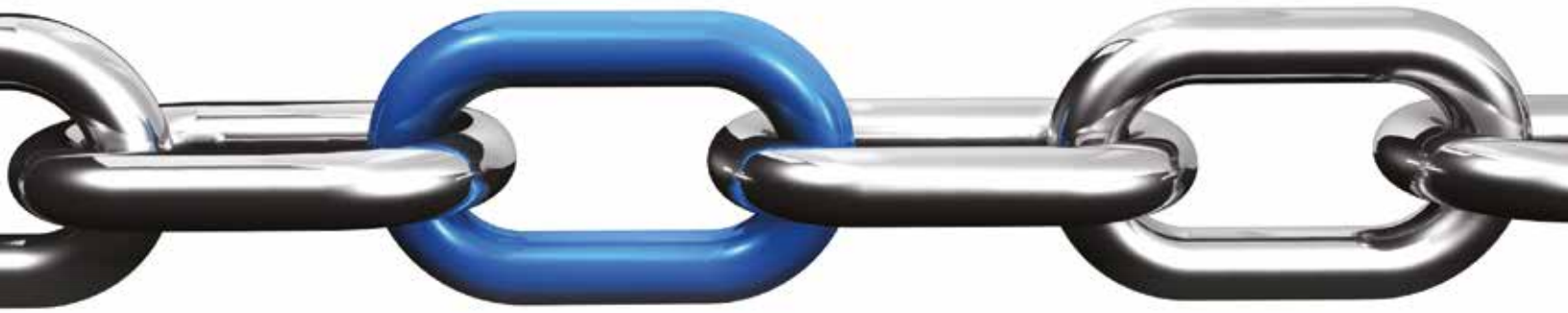
Artur Klinger, head of international reinsurance at Everest

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doesn't work
on a renewal
cycle.**

**And
neither
do we.**

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We don't just meet our clients in Baden-Baden. Our conversations are year-round, tailoring renewal solutions that are as unique as our clients. Because for us, it's not just a way to work – it's the only way to work.



The power of an intermediary

Anke Salm-Reifferscheidt, managing director of DACH for Howden Tiger, discusses why the role of the reinsurance intermediary has never been more important

Why has the role of the reinsurance intermediary been so important in 2023?

The role of the reinsurance intermediary was crucial in 2023 and will be in 2024 due to the significant transformation occurring in the industry. In turbulent times, with natural disasters, geopolitical uncertainties and economic headwinds, the skills of an intermediary are invaluable. This was particularly the case last year because inflation had a real impact on capital availability. After catastrophe losses, we did not see that 'refill' of capital as expected, because people were investing elsewhere. Therefore, it was crucial for intermediaries to step in and play a role in renewals. I had never faced so many complex negotiations before.

As conditions have improved, some carriers have found themselves in favourable positions. Why does an intermediary remain a vital connection to have despite this improvement?

Intermediaries are more vital than ever to help clients protect their interests. After such a long soft market, reinsurers tried to get their costs under control and reduced their teams, meaning they had fewer underwriters to go out into the market. This is where we stepped in because we have more client-facing contacts due to our large distribution capacity. Our economies of scale give us great perspective to identify trends, recognise opportunities and select the right market partners. This is vital as markets remain volatile and unexpected events can occur at any time.

Furthermore, a lot of service functions fall to intermediaries like us that facilitate efficient market penetration and access to various markets worldwide, which would often be a time-consuming task for insurers. Sometimes there are also difficult messages to communicate around renewals and it is up to us – as a buffer – to pass this along in a sensitive

and diplomatic way, helping protect relationships between parties and avoid them being destroyed.

Looking ahead, what are the expectations and priorities ahead of renewal?

It will be like last year. Inflation is stubborn, and a new political crisis has already started in the Middle East with significant geopolitical impacts, which sometimes drive the reinsurance market more than actual catastrophe losses because they are more predictable.

The situation has not changed and the pricing expectations from reinsurers are valid. Looking ahead, there are several expectations and priorities for the renewal process. First is the need to ensure long-term stability and profitability. This requires a careful review of contract terms and pricing to ensure they align with current market realities. Finally, the ability to adapt to changing market conditions and offer innovative solutions is a key success factor.

How does Howden support reinsurers as an intermediary? How is this different from others in the space?

At Howden, we support insurance companies with comprehensive market knowledge, tailored solutions and a strong customer focus. This includes identifying market trends, risk analysis and negotiating competitive contract terms. With a single P&L, that means team collaboration is incredibly strong. Our truly diverse team goes beyond mere talk of diversification, and we specifically select teams tailored to our clients' needs, with analytical teams integrated into their operations. This combination of expertise, global reach and innovation capability makes Howden a standout intermediary in the reinsurance industry.

“ Intermediaries are more vital than ever to help clients protect their interests ”



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Reinsurance in Europe – the 2023 view

TransRe's new president of EMEA, Julien Mollinier, joins European chief business development officer Rüdiger Skaletz to discuss the state of reinsurance in the region

What are the key messages that TransRe is delivering to its clients this year?

Rüdiger Skaletz (RS): We always say we are a reinsurance company, and we focus exclusively on the needs of our clients. Last renewal season, we were focused on adequate pricing, and today we are still focused on that. We are ready to deploy capacity at the right price. It is just a question of the right price.

Julien Mollinier (JM): Cycle management is another area of focus for us because we think it has not been well done in the past by the market. Cycle management is necessary because the response from the market in Europe has been sporadic, so it is vital we remain disciplined. There are also some areas where terms and structures have improved substantially, but there are others where it has remained challenging. Therefore, it is important to be selective and disciplined.

What are the major reinsurance trends you are seeing in Europe?

JM: Uncertainty remains. We need to see better prices and structures – this is important across all lines of business. Secondary perils remain topical for the industry. There have been significant losses in Europe as a result of this. Markets are adjusting, but slowly and sporadically. There will be an increase in catastrophe capacity but it must be at the right price. We will not be deploying capacity at any price, as it is important we get decent risk-adjusted increases.

RS: We still have Covid-19 losses in the background, adding to the catastrophe losses because most pandemic claims were made against cat programs, but were never priced in.

“
We need to see better prices and structures – this is important across all lines of business
”

What factors are driving the property market?

RS: The market still has some way to go to get to sustainable levels. Rates have stayed too low for too long. In the current environment it is clear these prices must go up, or capacity will leave the market. New capacity is coming in but not much, and not enough to meet increased demand caused by inflation and recalculations around secondary perils.

What factors are driving the casualty market?

JM: Casualty prices must also adjust here, given social inflation among other factors. We expect significant adjustments going forward, including increases in casualty loss trends. There has been increased appetite for casualty and specialty business, and casualty attracted some capacity because people wanted to manage volatility on the catastrophe side. That is no longer the situation.

What makes TransRe special?

JM: It has been an exciting time at TransRe and we get a lot of questions about the Berkshire Hathaway deal. This was great publicity for the business, but it has been pretty much business as usual. There has been no reason to change anything. I joined the company a few weeks ago but I have been impressed by the culture here. We have great underwriting talent, multiple underwriting platforms (Munich, Paris and Zurich) close to our core trading partners, and superior financial security – all the ingredients needed to be a reinsurer of choice in continental Europe.

RS: TransRe started business in 1977 as a casualty company and you can see that casualty DNA running through the business ever since then. We are extremely well positioned in the current market environment. We have an AA+ rating, strong balance sheet and can take advantage of market opportunities that may appear going forward.



Julien Mollinier is president of EMEA at TransRe



Rüdiger Skaletz is chief business development officer Europe at TransRe

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Working smarter and harder

Dr Mike Palmer, head of research and analytics at Hiscox Re & ILS, explains why it is vital for reinsurers to understand just how much the world of risk is changing



This year has seen some carriers pull out of areas of cat reinsurance, such as wildfire cover, due to climate change. Do you see this trend continuing, and how will it impact those still writing cover in this space?

Over the past few years, natural catastrophe losses have been increasing in severity and frequency. It is not really a surprise that reinsurers are re-evaluating their exposure, with some carriers deciding this area of risk is not for them. Hiscox Re & ILS is at the opposite end of this trend. We have navigated the tough rating environment of prior years with disciplined underwriting, and all along have been investing heavily in research and in improving our understanding of natural catastrophe risk. This has given us the confidence to underwrite as the environment changes.

As a result, rather than exiting the space, we are looking to grow our portfolio. The trend of carriers exiting will likely continue in the short term, but I'm sure that those who invest in understanding what is changing, and why, will continue to underwrite with confidence.

Climate change is just one element of overall risk. What other things does Hiscox Re & ILS look at when considering changing risk levels?

While climate change is critical, there are other risks that reinsurers must consider. A notable topic of late has been inflation – both social and economic.

At Hiscox, we have focused on understanding the trends in these areas as well as the data we receive, ensuring that rapidly changing insured values and changing claims practices are represented in our pricing and portfolio management decisions. Our industry uses catastrophe models as key tools to assess and price risk, but understanding and calibrating them to ensure that they are a faithful

representation of actual claims received is vital. At Hiscox, we benefit from a talented team of actuaries who provide additional valuable input to aid our decisions.

Together these aspects constitute the 'Hiscox View of Risk', which is surrounded by robust governance to ensure proper and consistent application across the group.

How does Hiscox Re & ILS translate the results of this research into effective portfolio management and underwriting?

It has become a prerequisite for successful (re)insurers to have smart and focused research teams to help them understand how risks are changing. However, unless you can put that valuable research into the hands of underwriting teams in a timely fashion, all the good work is wasted.

At Hiscox we continue to invest in slick workflows, so all of our good analysis is available at our underwriters' fingertips, helping them make smart, informed underwriting decisions.

Going into 2024, what do you see as the main challenges and opportunities presented by climate change and its impact on risk?

One challenge the market faces is keeping up to date with all the research on climate change. The science is evolving rapidly. It is periodically summarised by the Intergovernmental Panel on Climate Change into Assessment Reports, which are a tremendous resource. However, new research is published all the time and it is vital that we stay abreast of new findings. We also need to evaluate which developments should be included in our views of risk, to keep them as up to date as possible. This is a challenge, but one that we have embraced and are committed to.



Dr Mike Palmer is head of research and analytics at Hiscox Re & ILS



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Innovation is a mindset



In the reinsurance market, adoption of new ideas will be the marker of innovation, according to QBE Re's Ibi El Moghraby and Piet Haers

The world is changing every day, and (re)insurers must keep up – so it's important to keep changing and to keep improving.

Innovation can be seen on all levels of operations, from product development to the distribution models of reinsurance products.

The pandemic has helped change our collective mindset and showed us that alternative approaches are possible – that other ways of working are effective; that other operating models do work; and that these new methods can be quicker than initially thought.

Pre-pandemic, few of the players in the Lloyd's market would have considered operating and surviving without their physical marketplace – but it is possible.

How much product innovation is happening in the reinsurance market?

In reinsurance, innovation is focused predominantly on electronic data exchange solutions. Back in 1987, the reinsurance market started programmes to set up an electronic data exchange between insurers and reinsurers. Driving initiatives at that time were RINET in Europe and LIMNET in the London market – and 36 years ago, innovation was the right word.

Years later, blockchain is presented as a more refined solution – but to move the market forward now, we believe it's less about the technology available and more about our collective mindset.

We must define innovation as an open mind and a willingness to adopt new practices, rather than equating it with new technology. In the reinsurance market, adoption will be the innovation.

Where are the opportunities to adopt and innovate with data?

There are significant development opportunities to integrate our data systems with brokers' data systems in the reinsurance space. When we integrate, the data exchange is much clearer, with improved operational efficiency. The benefit to us

is a richness of data that gives much greater risk insight, and this intimacy with the data helps us refine our underwriting perspective.

The increasing availability of aggregation platforms for geodetic and climate data has allowed the surfacing and open discussion of climate-driven risk, and appropriate pricing.

QBE has made several investments in this space: Jupiter Intelligence is a world-leading climate risk model, and Tensorflight allows the mass feature-extraction of commercial and residential buildings to ensure total insured values are accurate.

A lot of fascinating work is being done with these platforms to better utilise the huge amount of data available. For example, Tensorflight, through the application of AI, generates interesting measures on risks (such as number of floors, type of façade, type of roof, type of construction, etc.) without the need to be on site. Accumulating big data (and developing the ability to do something meaningful with it) will make a significant difference in the years to come.

At the same time, the ethical side of big data – specifically regarding machine learning and AI – is starting to surface. As we drive innovation forward, there need to be safeguards in place to ensure that data is used appropriately, and that machine learning and trained models are transparent and operated appropriately.

It's often thought that innovation means new technology, but it's our belief that we can innovate with a lot of things that were invented years ago. We don't have to wait until the new blockchain arrives. The reinsurance market can learn a lot from pre-existing data – data that is sometimes overlooked throughout the chain from the customer to their insurer, and then the reinsurer. But it's all there if we want to use it.

QBE Re is renowned for strong technical underwriting, market expertise and flexibility. It's why our business has grown so well in recent years. The world is changing and so are we, which is why every team member is encouraged to think innovatively.

If we achieve an open mindset at all levels, adoption of new ideas and tools comes more easily – and this is where innovation can build a better product for our customers.



Ibi El Moghraby is chief operating officer at QBE Re. Piet Haers is general manager, Europe at QBE Re



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Forward-looking analysis

Russell Group's Suki Basi on the importance of forward-looking analysis in delivering outcome-based solutions

In my article yesterday, I discussed how the complexity of today's events is making it extremely difficult for organisations to understand their true exposures. Also, at the end of the article, I touched on what we call forward-looking analysis, which I will explore in greater detail today.

So, what does forward-looking analysis look like in practice?

Forward-looking statements are typically used in many organisations to predict future business conditions, and tend to be quantitative. For example, an organisation may predict their future earnings based on past earnings along with other metrics.

Russell's definition of forward-looking analysis is both quantitative and qualitative. It is placing that single organisation and its subsidiaries into a landscape along with its peers and trading partners and using this as the basis on which to run a set of scenarios. From this scenario analysis, we can glean and understand the potential outcomes that could impact an organisation and its (re)insurers.

The benefits of such an approach are numerous and can feed into boardroom decisions regarding not just current but also future investment plans.

Speaking at a Russell-hosted panel on connected risk this summer, one panellist said such an approach can help insurers play a more strategic and tactical role in supporting an organisation. Rather than focusing on premiums and deductibles, insurers through forward-looking analysis can contribute to maintaining the financial viability of an organisation.

Outcome-based solutions

Forward-looking analysis also feeds into another big talking point among corporates and insurers, which is outcome-based solutions.

The messaging from previous Russell events and meetings with corporates and (re)insurers is that there is a disconnect between both sides over "perils" and "outcomes". Corporates want their outcomes from an event covered, as this is what ultimately impacts them. For example, the reputational damage arising from a cyber attack.

This, they say, is not offered by insurers, which are focused on "perils". Consequently, many corporates are actively looking at alternative risk transfer options such as captives.

On the other hand, insurers will say that corporates do not give them enough data and information from which they can gain a holistic view of an organisation's true exposure.

For insurers, such an approach is highly beneficial, particularly at a time when reinsurance costs have risen. Having a better understanding of forward-looking exposure, along

with peak accumulations and the effects of capital allocation, will steer reinsurers to achieving a more stable net position.

Ultimately, it is our belief that there is a desire among underwriters, including in marine hull and cargo, to leverage data analytics to develop more sophisticated analysis of their portfolios.

By doing this, they will be able to achieve forward-looking analysis, and in doing so take a step forward to providing outcome-based covers in the future.

“ Having a better understanding of forward-looking exposure, along with peak accumulations and the effects of capital allocation, will steer reinsurers to achieving a more stable net position ”



Suki Basi,
managing
director at
Russell Group



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Tackling a challenging risk landscape: is a new modelling approach required?

Moody's RMS' Chloe Garrish on why high definition represents the future of modelling

Making sense of rising global risks based on outdated catastrophe model approaches without the benefit of scientific and technological advancements is like using a dial-up modem to surf the web in an age of fibre optics.

Compared to 20 or even 10 years ago, the computer power needed to accurately model high-hazard gradient perils such as floods, severe convective storms or wildfires, which all require a high level of granularity, is much more readily available. But leveraging new technology and computing power is just one part of the story.

To take full advantage of all the recent technological and scientific advances requires a paradigm shift in modelling that goes beyond what has gone before. You need to combine powerful, native cloud-based computing together with, for instance, an advanced temporal simulation modelling framework that can accommodate tens of thousands of years of simulated events, to evolve probabilistic risk modelling and deliver a more realistic representation of loss.

Offering granular, accurate model insights all delivered many times faster than traditional modelling approaches, Moody's RMS' suite of high-definition models opens a world of risk management possibilities. All HD models are available on the cloud-native Moody's RMS Intelligent Risk Platform via applications including Risk Modeler and UnderwriteIQ.

Better informed, more accurate and confident decision-making, using the most current and sophisticated tools that guide insurers, also helps build an increased level of trust within the industry when making crucial choices about capital needs, pricing, and reinsurance coverage.

But how does HD modelling represent the evolution of risk modelling? We have identified three key reasons:

Improved spatial and temporal coverage

Using an HD model framework backed by a robust simulation engine offers a nuanced time-based evolution of each event over authentic multiannual

perils. This is important when capturing seasonality, antecedent conditions and windstorm clustering with precision.

Simultaneously, introducing significantly larger event sets heightens spatial coverage, especially for high-frequency events. Together, these enhancements allow for a more accurate expression of risk across pricing, accumulation and reinsurance, grounded in highly realistic loss distributions.

Higher granularity of hazard and damage calculations

Using a uniform resolution grid instead of a variable resolution grid gives HD models the promise of unmatched spatial fidelity, ensuring a consistent, high-resolution view of hazards, eliminating the need for aggregating hazard layers, and allowing for detailed exposure disaggregation.

By leveraging ground-up simulations, the damage is assessed at the coverage level for each specific location, making use of the enhanced high-resolution hazard data.

An advanced financial model applies policy conditions at every level – from location to treaty – facilitating straightforward aggregation to any desired financial perspective, and combined, these advancements help improve the accuracy of risk assessments and strategic decision-making.

Enhanced model transparency

A clear understanding of how financial contracts are applied and how losses flow through them from all loss perspectives allows HD model users to set their own benchmarks for determining when losses have adequately converged.

Previously unseen in traditional catastrophe models, this grants a level of control and confidence in the reliability and stability of their output. Stakeholders are not merely dealing with data, but with insights that are both clear and adaptable to individual needs.

New risk modelling approaches are required to understand a more challenging risk landscape and the business environment. HD models are built to help clients capitalise on the potential of science and technology, and deliver the new required risk insights.

“ Getting a clearer, more realistic picture of risk can generate deep insights into uncertainty, with the potential to revolutionise risk management practices and business decision-making ”



Chloe Garrish,
senior product
marketing
manager,
Moody's RMS

We connect the dots, so you don't have to

One loss event can draw multiple insureds in an event and clash multiple times within a single portfolio.

That is the power of Connected Risk.

At Russell, we work with our clients to join up the dots to get a deeper understanding of exposure through scenario analysis.

This enables clients to optimise their net portfolio exposure after (re)insurance and/or risk financing.

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