



# Current Reinsurance Marketplace

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## Reinsurance Basics

- Reinsurance Defined:

“It is the practice of insurers transferring portions of risk portfolios to other parties by some form of agreement in order to reduce the likelihood of having to pay a large obligation resulting from an insurance claim. The intent of reinsurance is for an insurance company to reduce the risk associated with underwritten policies by spreading risks across alternative institutions”

-Investopedia



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## Reinsurance Basics

- Said another way...
  - Reinsurance is insurance for insurance companies
  - Reinsurance transfers risk to another party (the reinsurer)
  - Reinsurance is a form of capital
  - Reinsurance is the smoothing of results in exchange for a margin over time

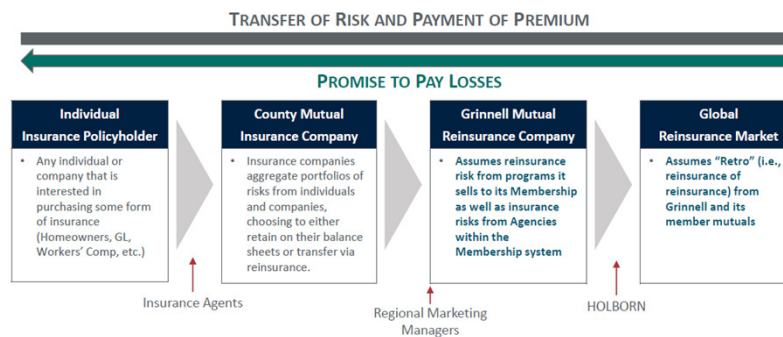


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## Insurance for Insurance Companies

Similar to homeowner transferring risk to a primary insurance company



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## Why Do Insurance Companies need Reinsurance?

- Regulatory requirements
- Results stabilization-capital management
- Protection against catastrophic loss
- Increase capacity
- Obtain professional advice on the marketplace, UW, Claims etc.....



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## Standard Reinsurance Program

- **PPR (Property Per Risk)**
- **CAT/Wind (Per Occurrence)**
- **Ag Excess (Aggregate)**
- **Additional Coverages: Multiline/Basket/Casualty**

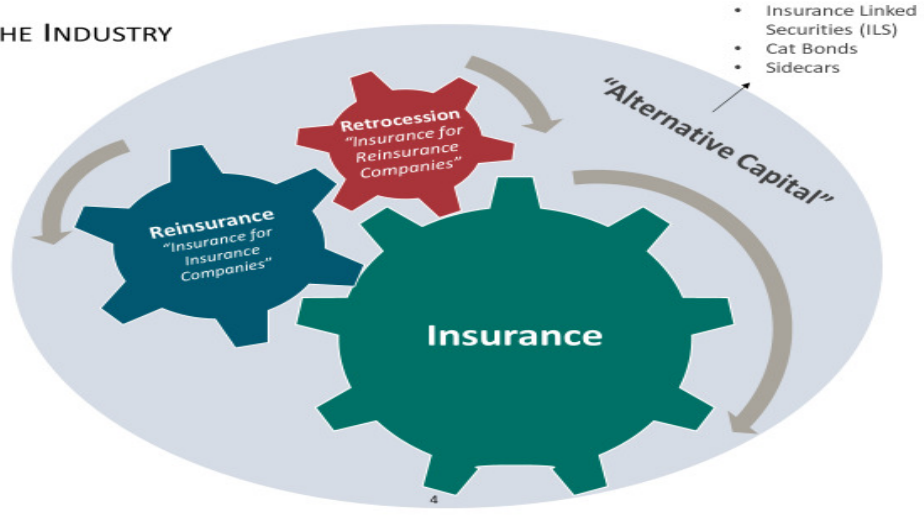


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# Retrocession Reinsurance

THE INDUSTRY



- Insurance Linked Securities (ILS)
- Cat Bonds
- Sidecars



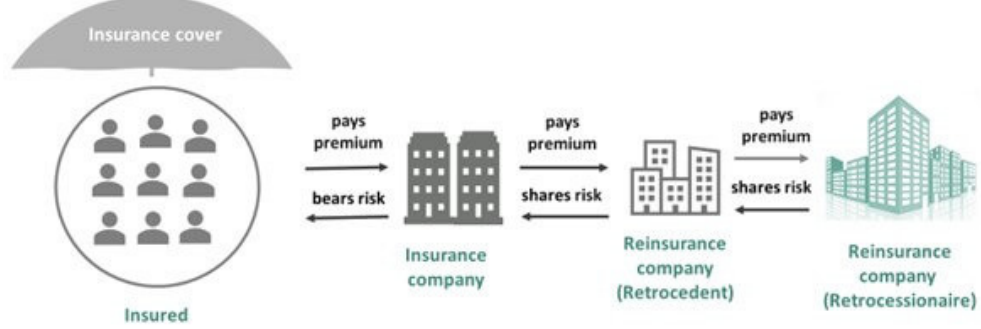
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# Retrocession Reinsurance

## Retrocession

Retrocession refers to the process by which a reinsurance company transfers its reinsurance risk partially or wholly to another reinsurance company.



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## Industry “Tug Of War”



- Five-year **frequency** of severity drove reinsurers to hold or reduce capacity.
- **Cat results**, globally remained challenged, with a focus on secondary perils, modeling firms starting to rethink the risk.
- **Property Per Risk** results have been poor.
- **Larger Workers' Comp** claims are impacting reinsurers.
- **Umbrella losses** continue to trend above the rate of inflation.
- **Social inflation (e.g., ECO)** increased significantly.

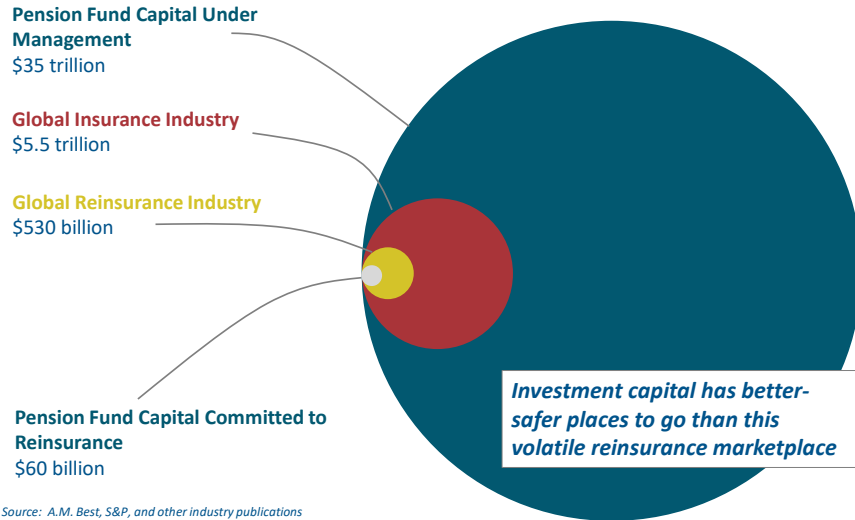


- **Reinsurance capital** is at an **all time high**.
- Reinsurance is still considered a **means of diversification** for the broader capital markets.
- The potential for **higher insurance and reinsurance rates** is a powerful lure.
- With **interest rates still near historical lows**, there is healthy appetite for reinsurance.
- ILS with Pension Fund support remains committed to reinsurance.

## Reinsurance 2023 and Beyond....



## Reinsurance Is Small Relative To Global Financial Markets



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## Supply vs Demand in the Reinsurance Market

- Why is Supply down?
  - Sharp rise in interest rates
  - Allocation of capital to less risky sectors-creating retro shortage
  - Strong US dollar
  - Years of underwriting losses deteriorated investor confidence
- Why is Demand up?
  - One Reason- INFLATION
    - Inflation is greater than Total Insured Values. If everything else is equal there is a need for more vertical reinsurance limit to provide the “equivalent” tail protection
- **January saw these pressures create the hardest reinsurance market in a generation**



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## Major Disruption Has Occurred

- Reinsurance Hard Market
- Weather Frequency and Severity Increasing
- Claim Cost Inflation
- Economic Uncertainty



### WHICH RESULTS IN:

Pressure on Profit margins and loss of surplus  
Mergers and Liquidations of Insurance Companies



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## Reinsurance Marketplace 2023

### What the heck just happened??



- **Pricing-MAJOR ADJUSTMENTS on JAN 1, 2023 Renewals & Similar Results in 2024**

- Property Cat: **+50% - 100% risk-adjusted, depending on loss experience**, with some deals approaching 200%
- Non-Cat / Multiple Line: **+20-50% risk-adjusted**
- Retro rate increases of 50% on average (following similar rises the past two years)



- **Retentions**

- Property Cat: **+25-100%**
- Non-Cat / Multiple Line: **+15-40% increases on average**
- Zero Appetite in the Market for Aggregate cover



- **Terms and Conditions Tightened**

- Reinsurers pushed to tighten coverage, and largely succeeded
- Exclusion of man-made perils e.g., Terrorism and Strike/Riot/Civil Commotion
- Reduction of “Hours Clauses” (the amount of time cedents are allowed to accumulate loss in a Cat event)
- Coverage reductions for ECO/XPL, Per Risk Occurrence Limits, Reinstatements



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# Financial Pressures Increasing

## Recent AM Best Rating Actions & Decisions to withdraw from markets

**Going Down....**  
AM Best Rating Actions for First-Half

	2023		2022		Change	
	Upgrades	Downgrades	Upgrades	Downgrades	Upgrades	Downgrades
Personal	8	21	9	10	-1	11
Commercial	13	10	10	7	3	3
Reinsurance	1	1	0	1	1	0
<b>Total</b>	<b>22</b>	<b>32</b>	<b>19</b>	<b>18</b>	<b>3</b>	<b>14</b>

Source: AM Best, Oct. 12, 2023, U.S. Property/Casualty Downgrades Outnumber Upgrades in First-Half 2023

[www.insurancejournal.com/news/national/2023/10/17/744500.htm](http://www.insurancejournal.com/news/national/2023/10/17/744500.htm)

Down,Down,Down....AM Best P/C Downgrades outpacing Upgrades

### Announcements of withdrawing from Personal Lines in Iowa



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# Major Factors

Loss Experience

Investment Loss

Interest Rates

Inflation

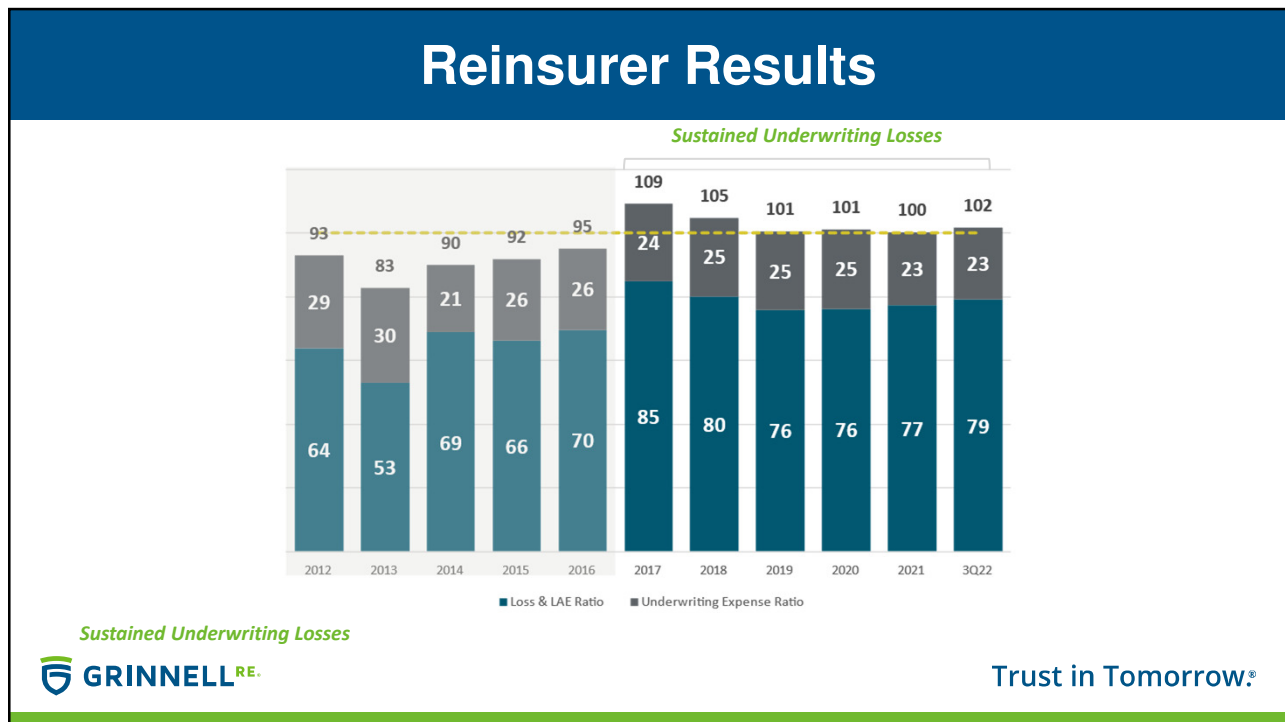


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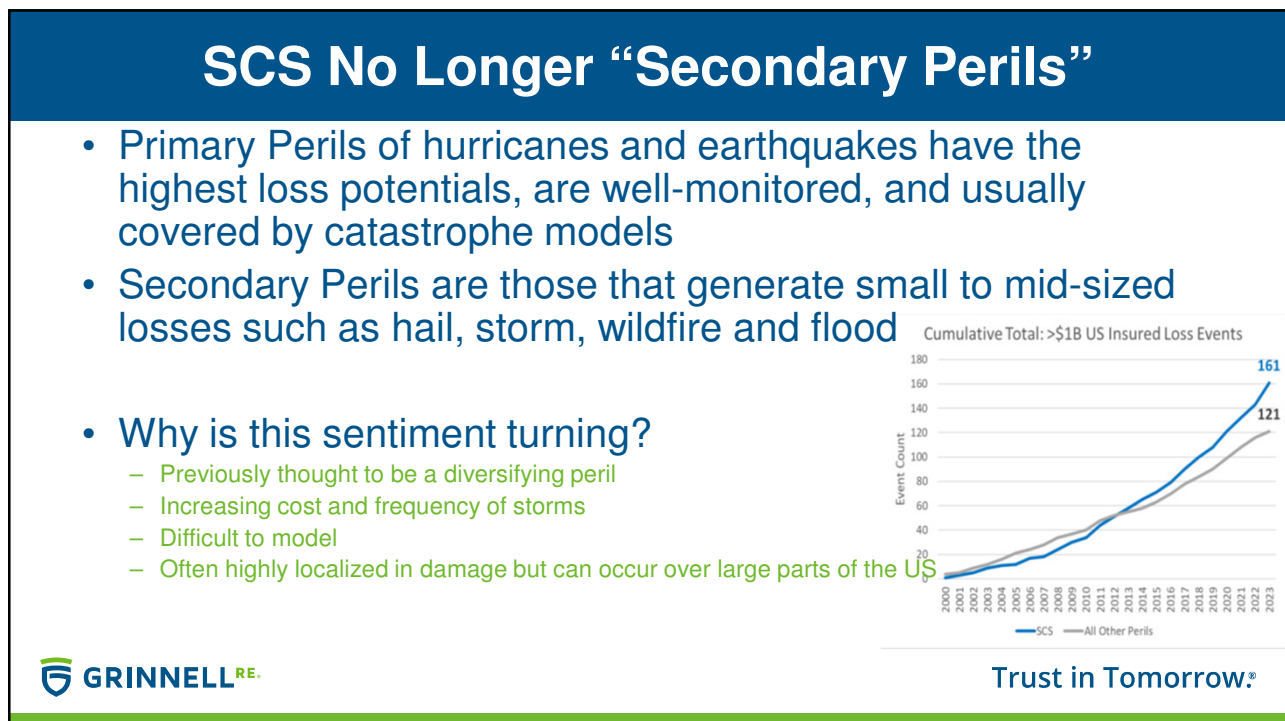
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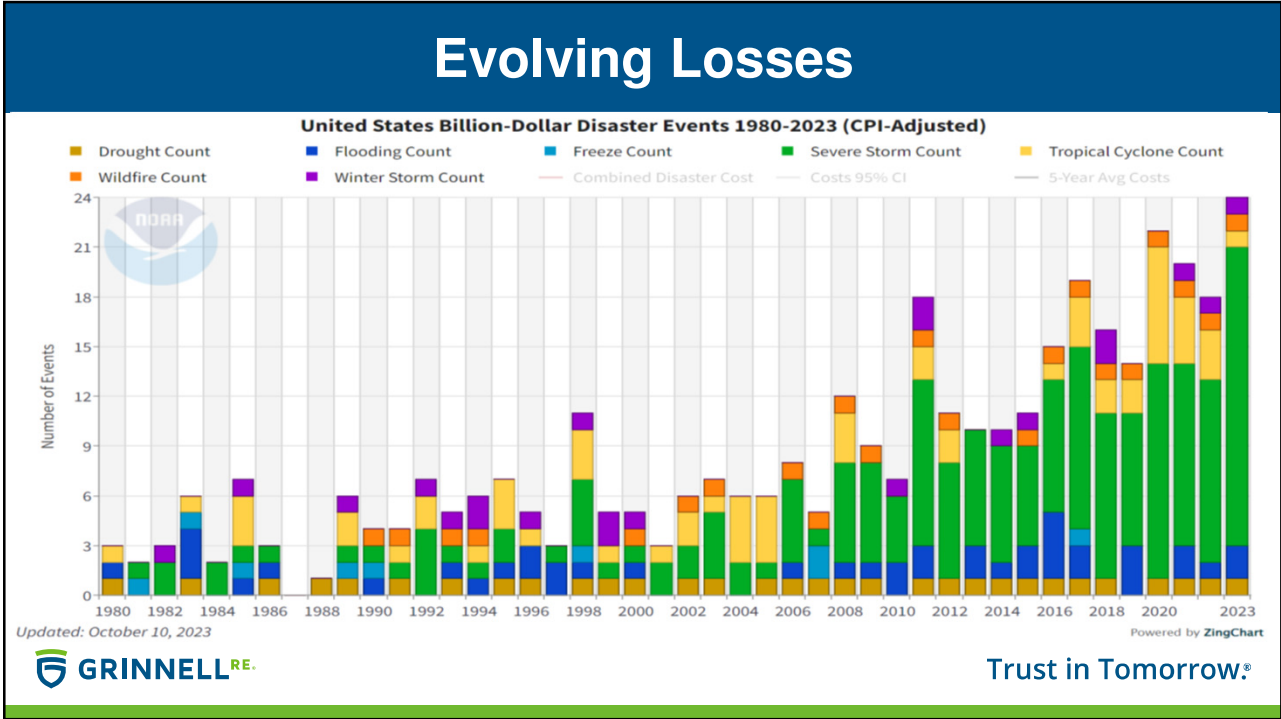




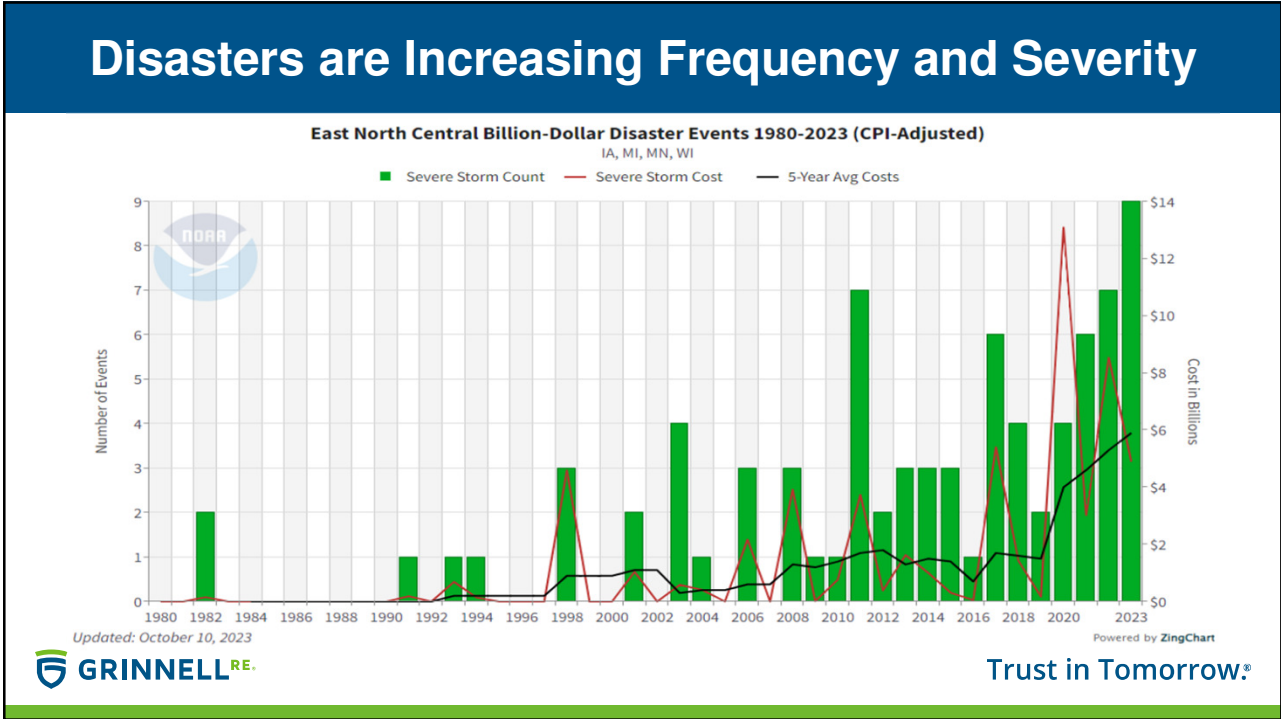
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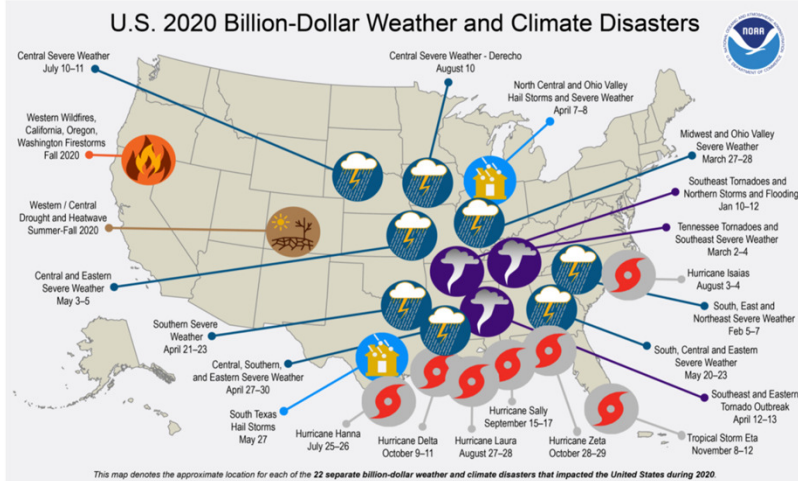
**“Insured losses from severe convective storms in the United States continued to increase due to relentless activity and surpassed the \$50 Billion dollar mark for the first time on record, accounting for roughly 60% of all the global insured losses”**

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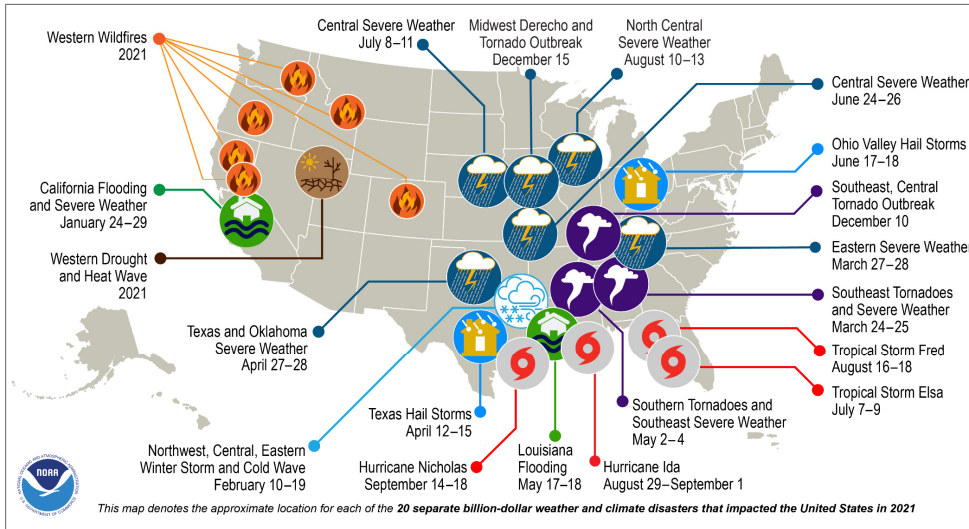
# 2020 U. S. Catastrophes >\$1 Billion



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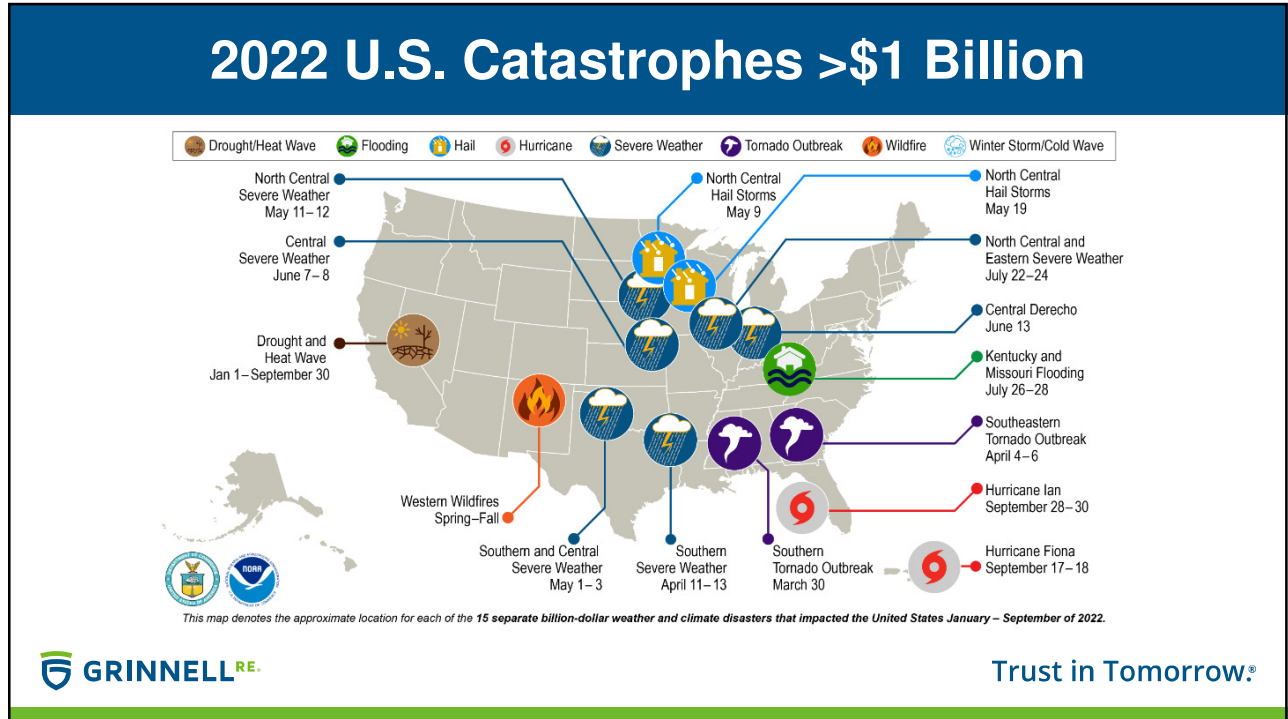
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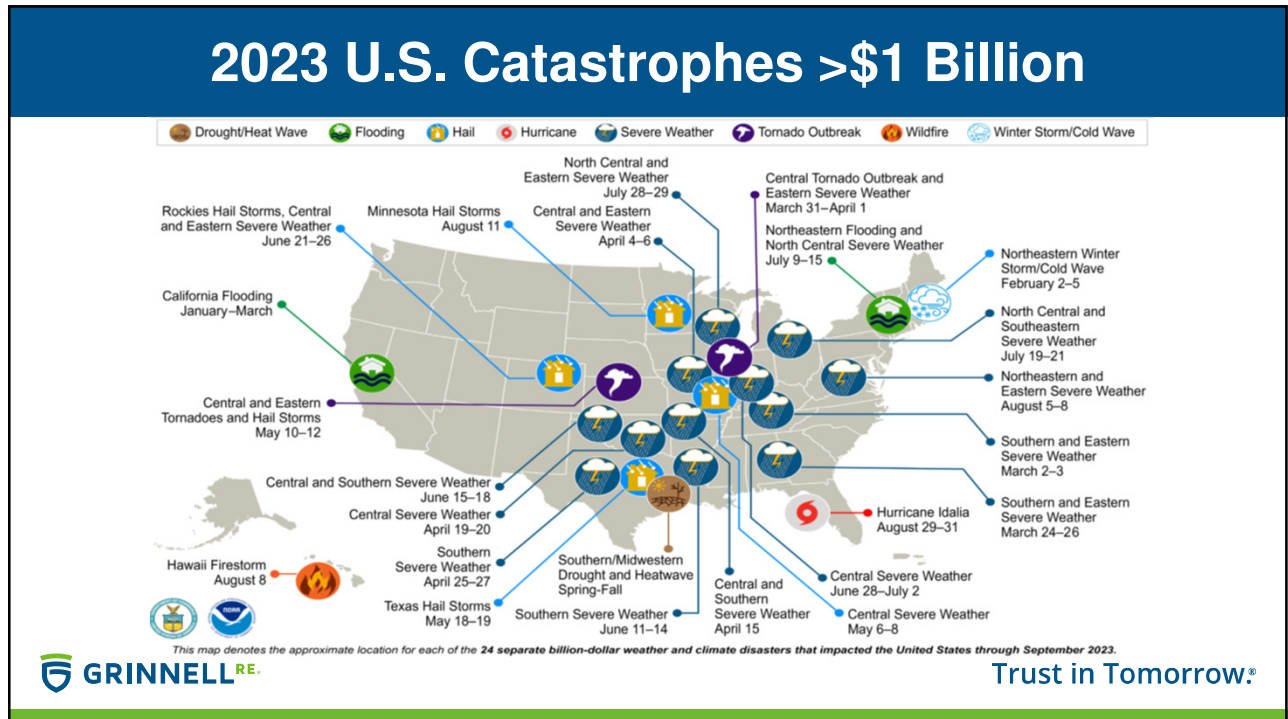


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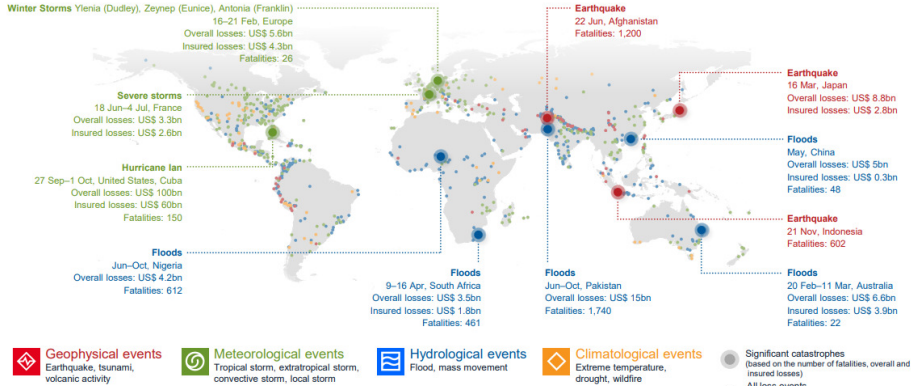


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# It's a Global Thing!

## Nat cat loss events 2022

Natural catastrophes caused overall losses of US\$ 270bn worldwide



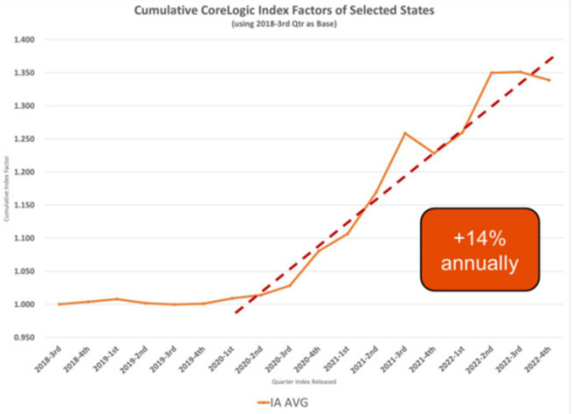
Source: Munich Re, NatCatSERVICE, 2023



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# What is the Root Cause?

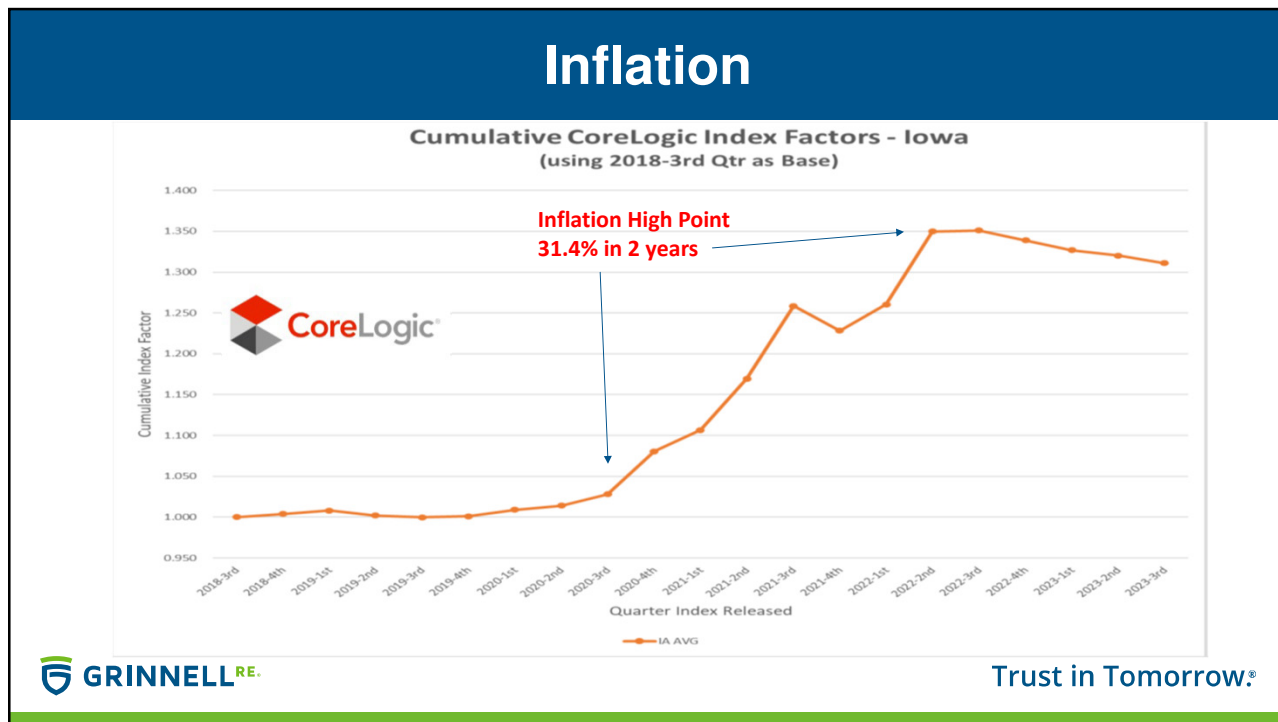


**Weather and Inflation were the catalyst to the hard market cycle triggering the sharp change in reinsurance**



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## Current Reality – Reinsurance Crisis

- WRC under a liquidation order from the OCI
- Farmers Mutual Hail no longer reinsuring companies in Iowa
- Guy Carpenter places moratorium on unlimited Aggregate cover
- Grinnell RE no new business and significant pricing and program changes
- More Reinsurers Exiting the property reinsurance marketplace

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# It's a Hard Reinsurance Market!

**Hard Market** \ ha:rd ma:r.kit \

(Technical definition) "...the upswing in a market cycle, when **premiums increase** and **capacity decreases** for most types of insurance."




### Tell tale Signs


- ✓ (Re)insurers exit and downsize  
*(e.g., AXA Syndicate, AXIS Re, Kiln, EMC Re, Berkshire, etc, etc, etc)*
- ✓ Shortfalls/incomplete programs, co-participations, more net risk
- ✓ Higher prices

### What Ends Them?

- New capital, attracted by outsized returns  
*e.g., prior year Bermuda start-up "classes" ... retrocessional vehicles post-Katrina (e.g., "sidecars"), etc.*
- Good Results at all points in the value chain  
*(insurance, reinsurance, retro)*



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# Recent Reinsurance Industry Headlines

**Hard market to persist into 2024, further rebalancing expected: RBC Capital Markets**  
20th October 2023 - Author: Saumya Jain

**'Hard But More Manageable' Jan. 1 Renewals; Little Relief on Retentions**  
September 20, 2023 by Suzanne Schabro




**Reinsurance pricing seen flat to slightly up at Jan 2024 renewals: JMP Securities**  
13TH OCTOBER 2023 - AUTHOR: STEVE EVANS




**U.S. Severe Convective Storms Drive Record \$50B Insured Losses in 2023**


**Hard but stable retro market expected at 1.1**  
Sent: Wednesday, September 13, 2023 3:17:57 AM



**Reinsurance still imbalanced, between capital supply and demand: Kopff, Munich Re**  
25TH OCTOBER 2023 - AUTHOR: STEVE EVANS



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## More Plateau than Peak

- The market may have reached a cyclical high point but even as capacity and competition return, an acceleration in price reduction from here will take time
- Even as retained earnings and new capital start entering the equation: inflation, increased loss activity, high cost of capital and latent demand will keep costs elevated for the foreseeable future

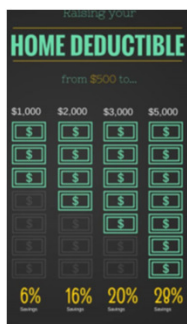


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## Need to Return to Strong Underwriting Discipline



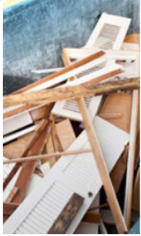
- Improving ITV to 100%
- Inspections
- Coverage restrictions and exclusions
- Non-renewals (De-Risking)
- Increased rates
- Tighten underwriting guidelines
- Slow new business growth
- Increase deductibles
  - Percentage deductibles
- Adopt new tools
- Reduce commissions

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# Unsettling Claims Trends



- More Storm Chasers and Public Adjusters
- Increase use of appraisals
- Neighboritis
- Maintenance Mentality
- Longer time to settle claims leads to higher ALE



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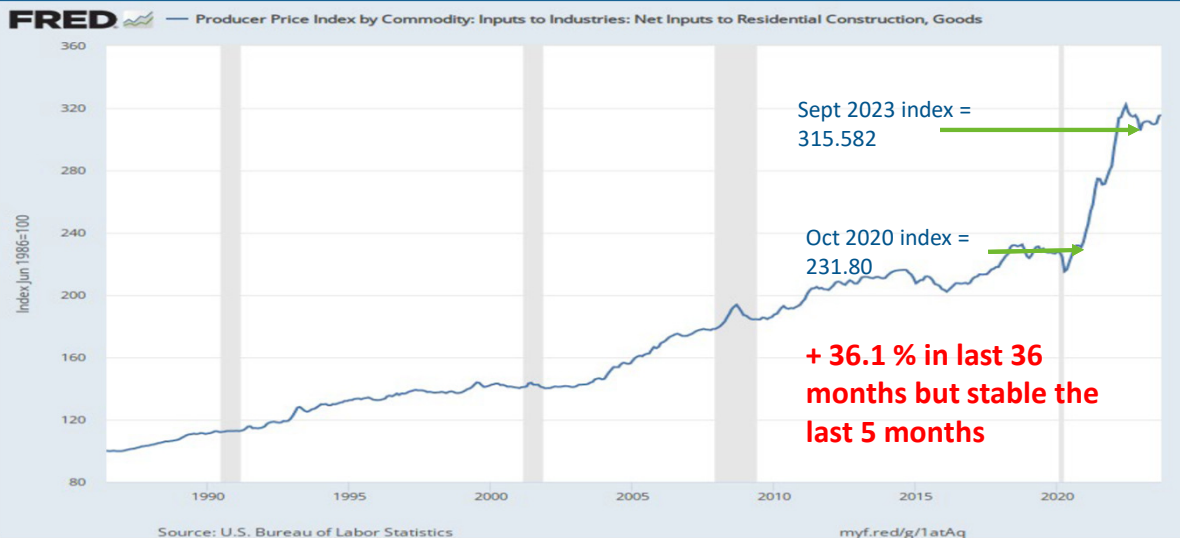
# Insurance to Value



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## Net Inputs to Residential Construction/Goods



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## Combating Inflation

- **Primary Rates:** personal and commercial renewals supporting the continued rate increases, and all carriers will need to respond to higher reinsurance rates
- **Deductibles:** changes including adding higher wind and hail deductibles, increasing deductibles all without reduction in rate charged
- **Coverages:** initiatives to review all areas of coverages including ACR, cosmetic, matching, blankets and replacement cost coverages
- **Insurance to Value:** Carriers are re-running value estimating software on their entire portfolio. Adjusting inflation guards upwards of 7-20% annually
- **Concentration Management:** increased monitoring and capping of regional concentrations to manage volatility and solvency risk due to the higher retentions
- **View of Risk:** deeper dives into understanding risk and defining tolerance (underwriting)

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# Critical Deductible Discussion



\$150,000 House  
\$1,500 Deductible is 1.0% of the Coverage A Value



\$550,000 House  
\$1,500 Deductible is .27% of the Coverage A Value



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# Coverage Restriction and Exclusions



**EXCLUSION**



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# The Shifting Landscape



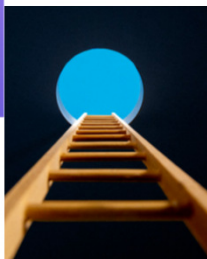
The overarching trend is a major risk cost sharing shift happening through the entire insurance chain. Companies who are slow to respond will get buried.



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# What about 2025 and Beyond???



**Weather Patterns and Inflation will dictate a lot!**

**Shifts from Risk Sharing Initiatives will be operational**

**Premium earnings from rate increases should begin to bolster the bottom line**

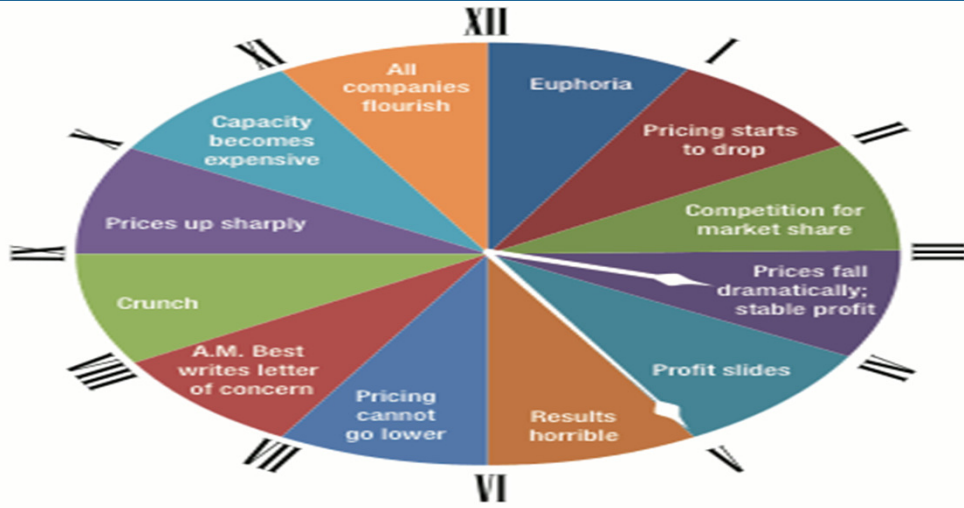
**Reinsurance capacity should begin to return as it becomes more of an attractive investment**



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# Paul Ingrey's Insurance Clock



Note: Paul Ingrey developed the "underwriting clock" in 1965 to illustrate the cyclical nature of the (re)insurance industry. This is a useful tool for determining the cycle's current stage.



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# Questions?



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