

● PROPERTY CAT OUTLOOK ● FLORIDA IN FOCUS ● #REINSURANCEMONTH THEMES ● BROKERS ON RATES

Reinsurers look to hold the cat line to consolidate '23 gains

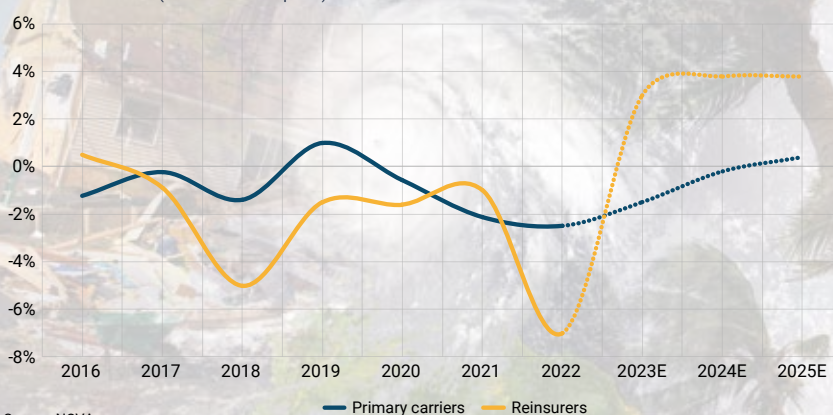
As early renewal positioning begins in Monte Carlo today, reinsurers are looking to consolidate the significant gains made this year in property cat pricing, T&Cs and structure, with rates adjusted for risk and inflation expected to be relatively stable in the absence of major industry losses in the coming months.

The signs are that demand for additional limit will be met with sufficient capacity – largely without price concessions – as a significant number of reinsurers lean into an environment where margins are visibly

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

Economic value added (RoIC less WACC spread)



Hess: No firm decision on Willis Re II – but more likely than not



WTW CEO Carl Hess has arrived at the Monte Carlo *Rendez-Vous* saying that while no firm decision has been made on re-entering reinsurance treaty next year, it is more “likely than

not” that the industry’s third-largest global broker may do so at some point in 2024.

WTW’s treaty lock-out following the \$3.25bn+ Willis Re sale in 2021 expires on 31 December 2023, which means the company may once again provide reinsurance treaty advice and placement next year.

The broker has been tight-lipped on its plans, but speaking in Monte Carlo, Hess acknowledged it was something he and his leadership colleagues were seriously considering.

“Of course, it is a serious consideration,” he explained, adding that the firm was being “methodical and strategic in whether to proceed and, if so, how”.

“Ultimately, the question we have to answer is whether a return would be a value-add to our clients, prospective clients and markets. If we decide yes – and there are certainly reasons why we might – then we have to elect how to do so, and when.”

On the how, Hess acknowledged three options:

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The title 'A NEW HOPE' in large, bold, yellow-outlined letters, centered over a background of a sunset over the ocean.

A NEW HOPE

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CyberAcuView unveils loss index as Perils expands into the US for the first time

CyberAcuView and Perils have today unveiled a potentially major new cyber reinsurance initiative with the launch of a US cyber industry loss index that could ultimately attract more risk capital to the class and see reinsurers and capital markets investors trade cyber risk.

The launch comes after *The Insurer* revealed last month that the planned index was close to being unveiled.

The two entities today confirmed the initiative, which will report affirmative cyber market losses for \$500mn+ events resulting from systemic cyber incidents which affect more than one insurer and more than one policyholder.

Loss estimates will be released at the latest six months after the event end date and will be updated quarterly for up to a maximum of three years.

The loss data, which will be collected from US cyber insurers, will then be available for licensing for risk transfer products such as ILS and industry loss

warranty (ILW) contracts.

CyberAcuView was founded in 2021 by a consortium of leading US cyber insurers including AIG, Axis, Beazley, Chubb and Liberty Mutual and is led by former AIG European cyber head Mark Camillo.

Camillo told *The Insurer* the new index has the ultimate goal of attracting more capacity into the cyber market. While it will initially focus on the US market, over time he said the initiative will look to expand into other regions.

"This is an important initiative that will help increase the flow of capital into the cyber insurance market, and help insurers provide cyber coverage to a growing number of policyholders," he said.

Camillo predicts the creation of the loss index will also accelerate the growth of cyber ILS and ILW markets.

The loss index will initially capture data from around 40 to 50 percent of the US cyber market.

Perils CEO Luzi Hitz commented: "I see many parallels to the property cat market. Modelling cyber is a huge challenge, with limited history to build reliable models. I believe we are at a similar stage [with cyber] to where we were with property cat following Hurricane Andrew in the 1990s."

The initiative will also see Zurich-based Perils expand into the US for the first time. It provides an independent loss aggregation service similar to US rival PCS.

The latter has been reporting on US catastrophes since 1949 and is now publicly listed through parent company Verisk. PCS launched a cyber index in 2017 although it is unclear how much traction it gained.



Perils CEO Luzi Hitz



Mark Camillo, CEO at CyberAcuView

FINSAC to test investor appetite with ambitious £1bn new Lloyd's vehicle LIU

Financials Acquisition Corp (FAC), the London-listed SPAC that recently handed most of its funds back to its investors, is now working with Aon, Argenta and various banks to create an ambitious £1bn multi-syndicate investment vehicle.

FAC – sponsored by FINSAC, a limited liability partnership founded by William Allen and Andy Rear in the first quarter of 2022 – said in a stock exchange filing that it has established London Innovation Underwriters (LIU) as part of its long-sought-after business combination.

LIU has been separately established to implement FAC's strategy of

becoming a listed operating company deploying funds into the Lloyd's market. FAC said it has received significant "conditional capacity commitments from Lloyd's syndicates".

FAC's strategy will be implemented through a business combination with LIU, which will seek to raise a "significant sum" of equity capital through the latter's listing on the London Stock Exchange.

"The company believes that through its combination with LIU, it can create an efficient vehicle for investors to access attractive returns in the Lloyd's insurance market without paying significant goodwill or adding

further fee structures," detailed the announcement.

FAC has engaged UBS and HSBC as joint global coordinators and joint bookrunners, and TGS, Panmure and KBW as co-bookrunners for the proposed capital raise.

The Insurer Comment:

This will be a litmus test of investor appetite for the P&C/Lloyd's market. 20+ years ago of course, investment trusts were all the rage on Lime Street before consolidating with underwriters. Helios is an exception. Will it soon have a peer or will this prove too ambitious?

THE INSURER

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Reinsurance: the value proposition

Reinsurers arrive in Monte Carlo for this year's *Rendez-Vous* buoyed by a renewed sense of optimism, following a strong performance for the year to date.

With investment recoveries having steadied capital levels, top-line earnings were boosted by further pricing improvements as hard market conditions continued through 2023 renewals.

The impact of Hurricane Ian shortly after last year's *Rendez-Vous* had strengthened reinsurer resolve heading into this year's 1.1 renewals, and that sentiment has been maintained throughout subsequent renewals this year.

While pricing movements have driven top-line growth for reinsurers, it has been changes to terms and conditions that have had the most significant bearing on profitability.

Most notably, the upward shift in attachment points – coupled with a continued withdrawal from aggregate covers – has enabled reinsurers to miss the majority of the catastrophe losses which have hit the industry in 2023.

While H1 catastrophes are generally considered to have totalled around \$50bn, the lion's share of this was driven by what are typically considered “secondary perils” – particularly severe convective storms in the US – where individual events are not typically large enough to attach to reinsurance programs.

The result has meant international reinsurers have been largely spared from impacts. But for many primary carriers, particularly in the US where the majority of 2023's catastrophe losses have occurred, the picture is very different.

Several US carriers have pulled cover in certain states as they contend with the new reinsurance environment – a challenge compounded by current inflationary trends. The US personal lines coverage crisis is now attracting significant media attention, raising potential for increased political interference.

All of this raises questions about the value proposition of reinsurance. Reinsurers may argue their role is to protect balance sheets – not earnings – but the upward shift in attachment points clearly diminishes the value proposition of reinsurance for those insurers that are now retaining that volatility.

“
This is an unusual hard market because it is driven more by inadequate returns rather than deficient capital
”

As we look ahead to this week's talks in Monte Carlo and beyond, the question is: what happens now? Will reinsurers continue to push hard on rate, and terms and conditions? In today's edition, Aspen's Mark Cloutier has become one of the first reinsurance CEOs to publicly commit to doing so, but others will follow over the coming days.

This raises the questions as to whether the sector has reached “peak hardness” and also its longevity. Scor, for example, is clearly of the view it has legs. Its new three-year plan has established a goal of sub 87% P&C combined ratios for 2024-26. Even last year that would have been regarded as widely optimistic.

It will also be interesting to see whether this “new normal” (for now, at least) fuels greater interest in other forms of reinsurance. Parametric products, for example, have already grown in popularity in recent years.

Are cedants willing to take more basis risk when indemnity cover is high? One would assume so. Should a further push for rate by reinsurers lead to more withdrawals by personal lines carriers, the value proposition of both reinsurers and insurers will be under increased scrutiny. The prospect of political interventions will be an unwelcome one for the industry, but it may become inevitable if the trend continues.

As reinsurers absorb less of the industry's loss bill, the question of the sector's relevance again rears its head. The reinsurance sector's retreat from natural catastrophe risk comes at a time when questions are being asked about its willingness to provide cover for perils such as systemic cyber and pandemic.

To maintain its value proposition, reinsurance must at least be part of the solution. Should it retreat completely, the answer will likely come from elsewhere.

However, the counter-argument is compelling. Reinsurers must charge a rate appropriate to the business they are assuming – indeed, this is an unusual hard market because it is driven more by inadequate returns rather than deficient capital.

The stage, in other words, is set for another intriguing round of renewal negotiations...



Scott Vincent,
managing
news editor

Vesttoo an “industry embarrassment” as revelations continue

Leading executives gathered at *The Insurer's Pre-Monte Carlo Forum* predicted the Vesttoo scandal will be a key discussion point at this week's *Rendez-Vous*, together with more traditional themes such as rates, capacity, inflation and tech/AI.

Ms Reinsurance CUO Charles Goldie described the Vesttoo saga as “an embarrassment to the industry”.

“We are a risk-taking industry that looks to avoid big losses. At every stage, you are supposed to have taken precautions, even if someone else is responsible. This is where the industry has fallen down,” he said.

“I can't tell you who's responsible but I can tell you it's ugly and I can say it's a fraud because I know a little bit about public companies that are taking massive write-downs on losses. So the losses are real. There was a fraud. Who did it, I don't know. But we should have caught it.”

Founders accused of fraud

In extraordinary developments at the end of last week, Vesttoo accused former CEO Yaniv Bertele and ex-chief financial engineer Alon Lifshitz of collaborating with banks to fake documents, including letters of credit (LOCs).

The disclosure, which came out after panellists discussed Vesttoo earlier in the week, stated that a Kroll investigation had found that two other employees – Udi Ginati and Josh Rurka – had also been “directly involved in creating fake documents and forging identities”.

It continued: “A number of third parties were also involved in this

scheme, including bank employees of China Construction Bank and other banks and individuals associated with the company's largest investor, a company known as Yu Po Finance Ltd.”

It added that this misconduct was “shielded from the majority of Vesttoo's employees, the board of directors and the insurance markets”.

Bertele has previously slammed the Vesttoo investigation, alleging that the company he formerly led is engaged



Vesttoo's ousted founding CEO Yaniv Bertele

in “falsehoods” which have “routinely and systemically” been spread both internally and through leaks to the media.

The document was filed in its First Interim Report in the US Bankruptcy Court for the District of Delaware, with the insurtech saying its investigation is now “substantially complete”.

Vesttoo interim CEO Ami Barlev put out a statement after the revelations saying:

“While we obviously remain very troubled by the misconduct of those that the company and markets placed great trust in, we are pleased that the investigation has confirmed that this scheme was confined to a small subset of the Vesttoo leadership team.”

Regulators and rating agency fallout

Insurance Advisory Partners managing partner and co-founder Tony Ursano predicted that there's likely to be more oversight from regulators and rating agencies as a result.

“Their question will be is there anything else not working out there in the ILS world?” he said.

Despite the concerns over fraudulent LOCs, Ursano believes they'll continue to be used, albeit with more scrutiny over the LOC providers.

“I think people are going to be careful about where LOCs come from. How strong is the counterparty, and do they have a relationship where they know everything about the investor?”

Looking at other themes on the agenda this week, Luca Albertini, CEO at Leadenhall Capital Partners, highlighted the need for the market to deliver an appropriate return over the long term, noting that “capital can come out as fast as it came in.”

AI and algorithm-based underwriting was another topic flagged by the panel, with Goldie noting that while AI presents huge opportunities for personal lines, he had concerns over its ability to deal with tail risks.

He added a cautious note about the specialty market becoming over-reliant on algorithmic underwriting:

“Investors get excited about data and what it can do for reinsurance and I have to remind them that we're covering the things that our clients don't understand. If they had the data, they wouldn't buy.”



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GC: Reinsurance demand and reinsurers' willingness to deploy capital set to grow at 1.1

Reinsurers will look to deploy more capital in 2024 in an environment of improved rate adequacy while demand for reinsurance increases, Guy Carpenter executives have predicted.

David Priebe, chairman of Guy Carpenter, said "a new cadence" has emerged in the reinsurance market.

"Heading into January 2024 renewals, we believe demand for reinsurance will grow with reinsurers' willingness to deploy capital also increasing

– although underwriting discipline will not subside," Priebe said during a virtual media briefing, addressing market conditions ahead of the 1 January reinsurance renewals.

"Thorough preparation and thoughtful differentiation will enable cedants to adjust their own approach

and leverage a range of solutions to transform risk into profitable returns."

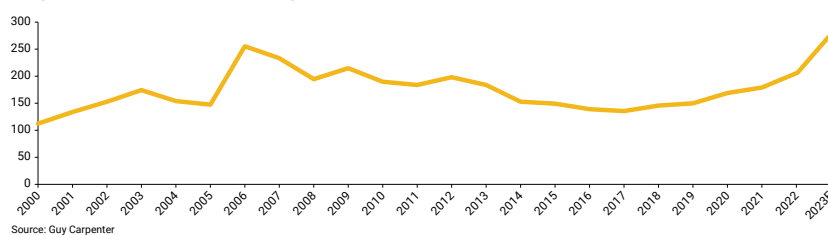
He added: "Reinsurance industry veterans know this significant level of uncertainty is where our sector shines."

Dorothee Mélis-Moutafis, newly

property catastrophe rate on line index increased 35 percent year on year, while the Asia Pacific rate on line index increased 16 percent, including mid-year adjustments.

Incorporating these shifts in key geographies with other regions remaining largely stable from 1 January, Guy Carpenter's global property catastrophe rate on line index increased to 29.3 percent for 2023, from the 1 January figure of

Guy Carpenter US property catastrophe rate on line index – 2000 to 2023



appointed North American broking executive and recently interim CEO of Europe, said that while the market is expected to remain firm in 2024, negotiations have steadied and order and confidence have largely returned to the sector.

Mélis-Moutafis noted that the US

27.2 percent.

"Extensive and verifiable corrections over the past year are likely to equate to hard, but more manageable renewals for cedants at January 1 as reinsurer appetite is slowly growing in response to price adequacy and supportable structures," said Mélis-Moutafis.

Continued from page 1

Hess: No firm decision on Willis Re II – but more likely than not

"Organic, acquisition or a combination of the two. "As a company, WTW is very much in hiring mode – a point we emphasised during our second quarter results. For example, we are delighted that in 2024 Lucy [Clarke, formerly president of Marsh Specialty] will be joining Adam [Garrard] as president, risk and broking. We are rebuilding our existing fac reinsurance business and have made over 40 hires in the past 12 months."

Hess also acknowledged the limitations of an entirely organic re-entry. Restrictive UK employment laws, for example, make it difficult for hires to come on stream with long notice periods and non-competes (which often run consecutively).

"If WTW does conclude it will return [to reinsurance treaty] then we would expect to do it meaningfully rather

than in a piecemeal fashion," he noted.

"WTW has much to offer – our modelling, data and use of technology are second to none, as evidenced by our Insurance Consulting and Technology business. We have deep relations with clients and markets, a legacy reinsurance brand that goes back more than a hundred years, and capabilities in all areas of corporate and complex risk," Hess explained.

"Ultimately, it will be the market that decides whether it wants more choice and, if so, in what form that might be."

Asked whether this might result in a very different Willis Re from the one that was sold to Arthur J Gallagher following the Aon-WTW merger breakdown, he acknowledged that "clients and markets clearly value choice".

But he added: "The market will be ill-served if it is simply offered more

choice doing the same thing. The questions we are asking is: to what extent can WTW offer clients a better product and service, accessing risk capital more efficiently and using our leadership in data, technology and analytics to drive real innovation?"

"A big message at WTW – and this goes much more widely than reinsurance – is simplifying the value chain. Clients are often mystified by the complicated distribution model, and are intelligent enough to work out that this results in inefficiencies and higher administrative costs. We are constantly looking at ways to more efficiently align risk with capital. If Willis Re returns next year – or even in 2025 – then you can be certain we will have answered those questions in conjunction with potential clients and markets."

Aon: Competition for higher layers could create downward pricing pressure

Increased competition at the top end of programs that emerged at mid-year will likely continue at 2024 renewals, bringing potential for downward pricing pressure for these risks, according to broker Aon.

Aon's CEO of Risk Capital Andy

Marcell told a market briefing the majority of losses that have occurred this year have been at the lower end of programs, with insurers retaining a bigger share.

"We expect and we'll be pushing for a reduction in rates in most places

where we see competition, and where we see there's

more than adequate pricing. At the top end of programs there is a lot of competition for that risk," he said.

Marcell said Aon expects a 5 to 10 percent increase in global demand for property cat limit at 2024 renewals,

that will be met by adequate supply from reinsurers in an orderly renewal.

He said some global insurers were likely to seek private placements to help manage the volatility lower

volatility that is now sitting on their balance sheets is at a place that is challenging for them.

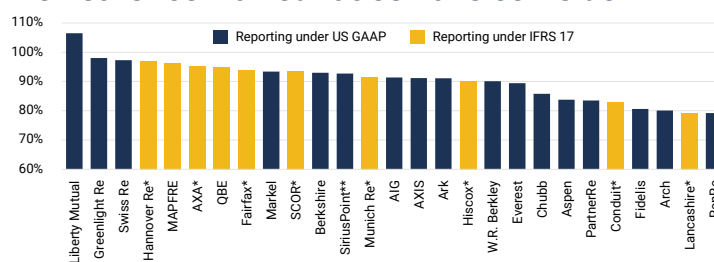
"So they will be looking to find ways to get more frequency cover to the extent possible at affordable prices,

and I expect that to be an ongoing discussion through 2024," the executive continued.

Marcell said he did not expect a repeat of the tension seen at 1 January 2023 when a lack of clarity or transparency around quoting and appetite led to a late and chaotic cat renewal.

"I think that the clients are looking for stability, with closer reinsurance relationships as we walk into 2024, and to rebuild a stable relationship in terms of capital management from their reinsurance partners," he said.

Reinsurer combined ratios have come down



Notes: *Undiscounted **Core business, excluding impact of loss portfolio transfer
Source: Company financial statements

down in programs.

"However, I would point out that in the global insurance market there are many different types of insurance companies – regionals, mutuals and nationals – and the amount of

Hess would not be drawn on whether WTW has explored any potential acquisitions that would provide at least a re-entry platform – although the rapid consolidation that has taken place over the past five years limits the number of options.

One potential candidate could be a business it knows well: Miller. WTW had a controlling stake in the business before it was sold to private equity firm Cinven in partnership with Singapore sovereign wealth fund GIC in 2021. Miller – which acquired the small London reinsurance broker Alston Gayler in 2018 – has made reinsurance growth a strategic priority, although its progress so far is unclear.

Other potential candidates could be the employee-owned Holborn in the US, Warburg Pincus-backed McGill and Partners, BMS or even Ardonagh Group's reinsurance arm, Inver Re.

None are for sale, although market

speculation has linked Cinven with contemplating a process next year. The reinsurance revenues of all of these firms are a fraction, however, of the \$800mn+ Willis Re machine that was spun out from the group two years ago.

Hess did confirm that the firm has had discussions with potential leadership talent: "We've been inundated with enquiries, as you might imagine." He also reiterated that WTW had not mandated an executive recruitment firm to assist in the process.

"The reality is that we haven't categorically decided either way, so it would be premature to do so. The position right now is that we are seriously considering the options and we are doing the right thing by discussing both internally and with clients and markets on how we can best assist them if we do so," he concluded.

The Insurer Comment:

Hess is attending the *Rendez-Vous* for the first time since becoming WTW's CEO – a clear signal that the group is serious about reinsurance. This is hardly a surprise. Reinsurance broking's 40+ percent margins make it attractive for any firm that has the resources to compete with the established big four of Aon, Guy Carpenter, Gallagher Re and, now, Howden Tiger.

WTW is in the unique position of having these capabilities married to a vast global retail engine and a strong reinsurance pedigree. There are challenges: leadership and the dilemma between organic or buy-and-build. Re the latter, another potential challenge is valuations. There is a paucity of options, and this is one reason why reinsurance-focused brokers are typically valued at 15-18x earnings.

Despite these headwinds, *The Insurer* will be surprised if Willis Re II is not back at the *Rendez-Vous* in some form in the next year or two...

Industry cat loss bill for 2023 rises to ~\$74bn

Insured losses for the year to date have now risen to around \$74bn, according to analysis by *The Insurer*.

Following an estimated \$50bn of losses during the first half of the year, the third quarter to date has seen the industry's loss bill rise by approximately 50 percent on the back of both Q3 loss events and deterioration on H1 claims.

Claims related to US severe convective storms (SCS) – the biggest driver of H1 loss activity – account for around half of the Q3 losses incurred to date.

Steve Bowen, chief science officer at Gallagher Re, told *The Insurer* that insured US SCS losses had risen to around \$46bn by the end of August, compared with a tally of \$34bn at the end of June.

Bowen said this \$12bn increase was due to both additional events and a deterioration in claims related to H1 events.

"We've seen some of the most expensive events increase by 20-50 percent from initial estimates," Bowen said. "While loss development is quite standard, the expectation is that complementary factors such as inflation and still-elevated

record to average more than \$1bn per outbreak.

The third quarter has also seen losses from Hurricane Idalia – estimated at between \$2.2bn and \$5bn by the major modelling firms – as well as an expected \$4bn to \$6bn loss from the Hawaii wildfires.

Losses related to flooding from Typhoon Doksuri in China are expected to add another \$1bn+ to the industry loss bill, while losses from Tropical Storm Hilary are expected to cost the industry around \$600mn, according to Karen Clark & Company.

As with first-half events, the bulk of losses from Q3 cat activity to date is

expected to be retained by primary carriers, with limited reinsurance impacts following widespread moves to increase attachment points and reduce exposure to more attritional losses over the past 18 months.

2023 cat losses already ~\$74bn...

(estimated global insured losses as of August-end)

Gallagher / Aon H1 insured loss estimate (\$52bn-\$53bn)

+ Typhoon Doksuri (\$1bn+)

+ Hawaii wildfires (\$4bn-\$6bn)

+ Tropical Storm Hilary† (\$0.6bn)

+ Hurricane Idalia† (\$2.2bn-\$4bn)

+ July-August US SCS ** (\$12bn)

= Insured losses through August-end (= \$74.2bn)

\$52bn-\$53bn

\$74.2bn

Note: † corresponds to KCC estimate for Hilary and KCC and Verisk for Idalia.

** H2 severe convective storm loss estimate includes both H2 events and claims development from H1 events.

Source: *The Insurer* based on KCC, Verisk, Aon, Gallagher and others

construction and labour costs are adding further pressure on these revisions."

Bowen said the average cost of a US SCS outbreak this year now sits at \$1.11bn – only the second year on

Swiss Re: \$100bn nat cat loss years are the "new normal"



Swiss Re's Urs Baertschi has warned the industry that annual cat losses of \$100bn per year should be considered the "new normal" following an estimated \$50bn of market-wide losses during H1.

Baertschi, who serves as CEO for P&C reinsurance, told *The Insurer TV* he remains comfortable with Swiss Re's nat cat risk appetite, but acknowledged there had been a shift in market dynamics over the past 18 months.

"There has been a rebalancing of how risk is shared between insurers and reinsurers, and price adequacy has moved up as well. We expect those trends to continue," he said.

Baertschi played down concerns that this has diminished the relevance of the reinsurance sector.

"The reinsurance sector continues to be highly relevant to the insurance value chain overall, and the primary role of reinsurers is as a shock absorber.

"If you look at the earthquake in Turkey earlier this year, reinsurers were there to support their clients in helping societies to rebuild after that tragedy. That is the role of a reinsurer, whereas insurers are really better suited to pick[ing] up attritional losses."

Baertschi said around half of all nat cat losses over the past 30 years have been derived from so-called secondary perils.

"They are called secondary because they tend to be smaller and more localised, but in the aggregate they are a very meaningful part of the natural catastrophe experience for our industry," he said.

Baertschi said the frequency of these secondary events meant they were more attritional in nature rather than being about volatility protection.

"Volatility is what the reinsurance industry can pick up if it's a one-off every once in a while, but it happens all the time, it's attritional, and those losses are best suited for the [primary] insurance industry to deal with."



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Scor targets marine, intl casualty and engineering reinsurance as its cuts back agriculture and commits to cat

Scor has provided a bullish outlook for a continuation of the hard market through the three-year period covered by its new strategic plan, with the Paris-based reinsurer planning to maintain its treaty cat XL position as it looks to take advantage of the hardening conditions.

Newly arrived CEO Thierry Léger hailed the “best market conditions over the last two decades” as he unveiled the group’s Forward 2026 strategy ahead of this year’s *Rendez-Vous*.

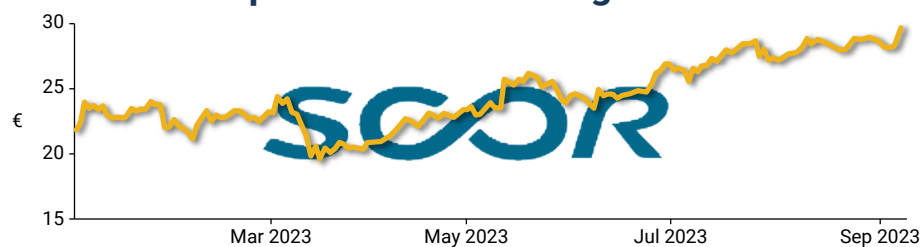
The strategy and investor day – which was well-received by insurance analysts – targets P&C insurance revenue compound annual growth of 4-6 percent during the 2024 to 2026 period, while maintaining its nat cat ratio at 10 percent of net insurance revenue.

Scor also said it was targeting a net combined ratio of below 87 percent over the three-year period – a ratio that few would have thought achievable a few years ago.

In its presentation, the reinsurer highlighted the recent emergence of a \$65bn supply/demand imbalance for property cat, with excess demand outstripping supply for the first time in the current underwriting cycle.

The strategy will also see continued portfolio diversification in reinsurance, while maintaining a “prudent approach” on business exposed to

Scor shares up 35% YTD after tough 2022



climate change, primarily agriculture (where Scor has experienced recent heavy losses in locations such as Brazil) and property cat.

Part of this approach has seen it undertake a significant portfolio remediation for property cat, with its current balance being one it intends to maintain.

“Following the significant portfolio remediation done over the past two years, we are today underweight in property cat compared to our peers, with a good balance between US and non-US exposures,” said Jean-Paul Conoscente, CEO of Scor P&C.

However, Léger underlined that climate change and nat cat are not entirely synonymous.

He noted that lower layer claims, often associated with heat, rain and flooding, are affected by climate change and have been avoided. Higher layer claims, such as hurricanes and earthquakes, were not dramatically

impacted by climate change, with demographics a more important factor.

Another area where Scor capped its capital allocation was US casualty, largely a result of what it saw as a “volatile litigious environment in the US”.

Conoscente said it would achieve its actions across property cat and US casualty through its third-party capital-supported risk partnership platform, which it plans to expand during its strategic plan.

Scor also plans to expand across four main segments: engineering, marine, international casualty and inherent defects insurance.

“In total, we want to increase the premium on these four lines of business by roughly 8 percent per year over the plan while maintaining stable capacities,” Conoscente added.

The group also revealed plans to grow diversifying lines in specialty reinsurance, as well as leveraging its strong position in construction and energy to meet the world’s infrastructure and transition needs.

Scor’s share price closed up last week following the investor day and is now up 35 percent year to date and trading at around 1.1x book. 2022 saw its share price dive on heavy losses and unexpected back year reserving.

KBW analyst Darius Satkauskas commented: “We came away from the investor day feeling that Scor has turned the corner”.

Scor to enhance portfolio diversification through attractive treaty lines

Engineering

Growth opportunities in a market that remains technically disciplined
Portfolio currently underweight in regional accounts in the US and in emerging markets

Marine

Portfolio currently underweight in the Americas (US and LatAm), where we aim to seize new business opportunities

IDI

Continued global expansion of compulsory insurance schemes (China, MEA, LatAm)
Our expertise enables us to support clients globally with the development of their new IDI product

International Casualty

Leverage our franchise in Europe to increase our shares on attractive non-US exposed SME business
Develop APAC fast growth markets, LatAm and MEA markets, mostly financial lines

EGPI growth p.a.
(2023E – 2026E)

»» Total **8%**

with maximum
gross per risk
capacity expected to
remain constant
over the plan period

Source: Scor



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Cloutier: Aspen Re commits to “pushing” for further rate during MC renewal talks



Aspen CEO Mark Cloutier has become one of the first reinsurance leaders attending the Monte Carlo *Rendez-Vous* to publicly insist on “pushing” for further rate ahead of the 1.1 renewals.

Cloutier – attending his first *Rendez-Vous* since 2019 – predicted that loss activity this year will ensure other reinsurers hold the line, despite cat pricing nearing record highs after the spike in rates seen at 1.1.23.

“The first half of the year on cat is going to provide enough impetus for a continued push [on rate]. We’re certainly going to be holding the line and pushing for additional rate and terms and conditions,” Cloutier explained.

H1 insured loss estimates coalesced around the \$50bn

level and since then (re)insurers are counting the cost of the Hawaii wildfires (\$4bn-\$6bn: Guy Carpenter), Hurricane Idalia (<\$10bn: various) and Hurricane Hilary (\$600mn: Karen Clark & Co).

The industry veteran – who was parachuted into Aspen in 2019 following the Bermudian’s acquisition by Apollo Global Management – said as a seller of reinsurance, his firm has been very clear in adopting a cautious stance on the impact of climate change.

Noting that Aspen Re posted an H1 2023 combined ratio of 80.7 percent, its lowest since the \$2.6bn Apollo buy-out, he explained: “Until we understand what the impact of climate change is going to be on our portfolios and figure

out how to price for it, we’re going to continue to try to risk manage it.”

Asked what this meant in practice after Aspen’s high-profile “de-risking” campaigns between 2019 and 2022, Cloutier pointed to the decision not to renew the vast majority of its 2023 cat aggregate covers as an example of Aspen Re’s continuing caution.

The focus on reducing exposures was also reflected in cat losses across both its insurance and reinsurance arms reducing from \$93mn in H1 2022 to \$53mn this year.

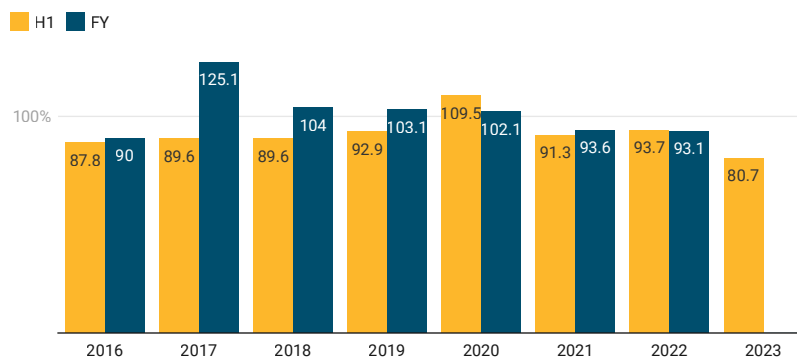
Aspen is also a notable buyer of reinsurance in the open market. How will the firm approach renewal discussions at Monte Carlo and during the run-up to 1.1? Cloutier emphasised

the importance of cedant relationships, smiling as he said: “I’m looking forward to some of the conversations.”

He added: “Our casualty program is really well liked by the industry – you might imagine that we speak to those two things when we’re talking to our reinsurers as part of the persuasion that we try to put upon them as buyers to work with us.”

Aspen Re combined ratio since 2016...

(reported combined ratio for reinsurance segment, in %)



Source: *The Insurer* based on company's earnings releases

Gallagher Re’s Wakefield: Reinsurers have successfully insulated themselves from mid-sized losses in 2023

Reinsurers’ strong H1 earnings have served as a “proof of concept” for the widespread move to raise attachment points, according to Gallagher Re CEO Tom Wakefield.

Wakefield told *The Insurer* TV that reinsurers had succeeded in moving themselves away from mid-level losses, but that the shift in terms means insurers are now absorbing these losses within their earnings.

He said this is “continuing to put

pressure on underlying insurance rates.”

For attachment points to return to lower levels, Wakefield said a first step for clients seeking earnings-based cover would be to more clearly define the peril.

Wakefield cited “flourishing” index products and cat bonds that, as a result of their single trigger, have proved more

straightforward to underwrite.

In the short term, Wakefield said he expected “no surprises” from reinsurers on rate increases at 1.1.2024.

If reinsurers see value increases within the underlying exposure then price increases will likely follow – however, Wakefield noted that on a risk-adjusted basis prices will “look more like flat.”



Tom Wakefield,
Gallagher Re
CEO



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Gallagher Re

Industry should expect average annual cat losses of \$133bn: Verisk

Growing exposure values and rising replacement costs mean the industry should now expect average annual losses of \$133bn, according to modelling firm Verisk Extreme Event Solutions.

The firm produces its average annual loss (AAL) figure every year by running all of its models with the latest exposure updates.

This year's update represents an increase of around 7 percent on the 2022 estimate of \$124bn, which itself was up 16 percent from the \$106bn AAL published in 2021.

Milan Simic, managing director for EMEA, APAC and strategy at Verisk Extreme Event Solutions, told *The Insurer*: "For the five-year period between 2012 and 2016, the industry saw relatively low average losses of around \$50bn.

"Between 2017 and 2022, annual losses averaged more than \$100bn, with 2017 being the largest year. But

what we have seen in the past five years is by no means exceptional – this is what should be expected.

"The analysis shows the industry should expect a \$238bn loss year every 20 years – or, to put it another way, there is a 5 percent chance next year could see a loss of \$238bn or more. It is quite a sobering thought.

"There is a 1 percent chance next year will see aggregate losses in excess of \$372bn. We as an industry need to be prepared for those sort of events," Simic said.

The \$133bn AAL figure remains dominated by North America at \$85bn, with Asia and Europe at around \$20bn each followed by Latin America and Oceania.

Since Verisk began the survey 11 years ago (under its previous guise as AIR Worldwide), the AAL figure has more than doubled from an initial \$60bn.

Verisk AAL for all regions and perils

Year	AAL (\$bn)
2012	59.3
2013	67.4
2014	72.6
2015	74.4
2016	80
2017	78.7
2018	85.7
2019	91.8
2020	99.6
2021	106.3
2022	123.3
2023	133

Source: Verisk

Cat bonds lift muted ILS market: AM Best

Cat bond and collateralised reinsurance markets look set to benefit from pent-up demand for reinsurance cover at year end, with a report from AM Best suggesting issuance will reach a new record high in 2023.

The rating agency said it was likely the ILS market will remain hard if heightened cedant demand for capacity is met by overall reinsurance capital levels.

Overall ILS capacity is estimated to have reached \$99bn by mid-year, including \$38.6bn of cat bond capacity, a 12 percent increase from the end of 2022.

The remaining \$60.4bn is composed of collateralised

reinsurance, sidecars and industry loss warranties.

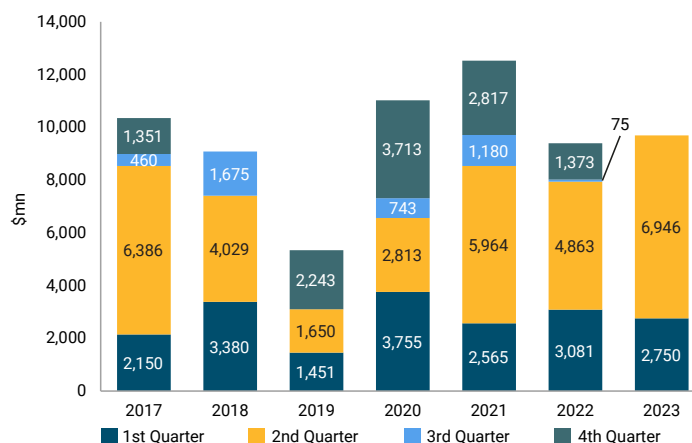
An unknown amount of capital remains trapped due to hurricanes Ian and Ida. However, ILS managers

expect Ian losses to be much lower than the initial estimates of \$50bn to \$60bn, meaning some trapped capital will be released and recycled back into the reinsurance market.

AM Best said it expects additional capital to flow into cat bonds but said a lack of meaningful capital inflows into the private collateralised reinsurance market may persist into 2024.

The substantial price increases associated with the hardening of the market has boosted ILS investor returns to new heights. The Swiss Re Global Cat Bond Index posted first-half returns of 10.34 percent, its highest ever, while the Eureka hedge ILS Advisors index returned 6.99 percent.

ILS – cat bond issuance by quarter



Source: AM Best

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Acrisure Re secures additional mid-year limit for strategically aligned SE clients

Acrisure Re was able to place additional cat limit to support the growth of a quartet of Florida and Southeast clients at renewals from April to June, navigating a shift in reinsurer appetite that required a range of structures and solutions, according to executives from the firm.

As previously reported, the rapidly expanding reinsurance intermediary and capital advisory firm has been executing what it sees as a differentiated strategy targeting the property critical catastrophe space.

Spearheaded by Craig Darling – executive vice president and head of Acrisure Re’s critical cat centre of excellence – the approach has seen the firm strategically align itself with carriers and MGAs in the space.

This year it has won the Allied Trust account formerly placed by Aon and SafePoint from Gallagher Re. It also counts among its clients recently converted full-stack carrier Orion180, and start-up Cajun Underwriters Reciprocal Exchange.

Speaking to this publication, Acrisure Re CEO Simon Hedley noted the concerted effort the firm has made over the last two years to build a “meaningful presence” in the critical cat market, including building out capabilities with the creation of its corporate advisory and solutions arm.

“I think we had the right proposition in place when we ran into this market. We’ve got various areas of strength within our business. We’re not trying to be everything to everyone, but critical cat was something that we wanted to grow significantly, and we’re doing it,” he said.

Darling laid out some of the dynamics the reinsurance broker had seen across April, May and June renewals.

Although he wouldn’t comment

on the specific details of client placements, he noted that Acrisure Re advised one of the carriers it was working with to go to market with two towers, one for its Florida exposures and the other ex-Florida, including Gulf of Mexico exposures.

As previously reported, there was strong appetite from a number of reinsurers such as Berkshire Hathaway, Arch, Everest, Managing Agency Partners, Ariel Re and DE Shaw for Florida homeowners risk, with the renewal going much more smoothly than expected, albeit with meaningful rate increases.

In contrast, capacity was harder to find for Gulf exposures, especially Louisiana, which has had a tough run of losses in recent years. Louisiana Citizens was competing with the private market not on price and form but for Gulf capacity, making capacity more challenging to unlock.

“We thought it was going to be the other way around after Florida hurricanes last year, yet we had more challenges on the ex-Florida placement and other Gulf placements. The legislative changes in Florida made a big difference, with some reinsurers wanting to lean in as confidence returned,” he observed.

The number of early private placements in the Sunshine State also contributed to a surfeit of capacity late in the

renewal. Separating towers for carriers with Florida and ex-Florida portfolios allowed for closer alignment with reinsurer appetites, especially where some markets were only looking to write Sunshine State risks.

Other structural options under consideration included the bifurcation of commercial and personal lines placements, while Acrisure Re also placed

quota shares as part of programs.

As well as structural strategies to navigate shifting reinsurer appetites, Acrisure Re utilised a broad suite of products and solutions to piece together coverage for clients.

These included the use of solutions such as county- or state-weighted industry loss products, industry loss warranties, and collateralised reinsurance where there was opportunistic appetite for lower layers.

Capital and debt market solutions such as surplus notes have also been in the mix as part of its holistic approach to optimising capital stacks for crucial cat clients.

“All of these clients bought more limit, so we were able to secure more capacity for them in what was a very capacity restricted market,” said Darling. “This will allow all four of them to grow significantly next year as they target opportunities from the continued dislocation in their markets.”



“We’re not trying to be everything to everyone, but critical cat was something that we wanted to grow significantly, and we’re doing it”
Acrisure Re CEO Simon Hedley



Craig Darling, head of Acrisure Re’s critical cat centre of excellence

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SCOR's Strategic Plan for 2024-2026

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TOP 12

THEMES FOR

#ReinsuranceMonth

Over the coming weeks *The Insurer* will examine the key dynamics likely to shape discussions ahead of the 1.1 renewals. Below we highlight 12 themes that will run through our #ReinsuranceMonth coverage and beyond as the industry prepares for another challenging renewal period

1. Hard market longevity



Hurricane Ian's arrival shortly after the 2022 Monte Carlo *Rendez-Vous* ensured a level of dislocation at 1.1 not experienced for many years. For property catastrophe renewals, these hard market

conditions have been sustained through 2023's other major renewals, with substantial price increases coupled with more favourable terms for reinsurers, notably the lifting of attachment points. As we look ahead to 2023, there are no signs of this trend ending, but questions remain as to whether the reinsurance value proposition has been diluted by the changes to terms and conditions.

2. Investor appetite/capital

This is a market fuelled more by inadequate returns rather than scarce capital, but it is noticeable that the lack of a "Class of 2023" of start-ups shows continuing investor caution.

There are signs this is dissipating – especially in ILS/retro (see more below). Expect chatter in Monte Carlo this week regarding some new capital inflows. Might it have a marginal impact on the higher layers at 1.1?

3. Vesttoo fallout

The collateral fraud allegations facing ILS-focused Israeli insurtech **Vesttoo** over recent months sent shockwaves through the industry, impacting fronting carriers, MGAs, transformers, other counterparties and intermediaries. The allegations

have left Vesttoo fighting for its survival, with a significantly diminished executive team and around a quarter of its workforce remaining. The fallout from the Vesttoo scandal will continue to drive news headlines during #ReinsuranceMonth and beyond. While MGAs have scrambled to find alternative capacity (and, in most cases, have successfully done so), there are still many questions that remain unanswered including the enthusiasm of certain intermediaries, the lack of scrutiny on collateral adequacy and whether regulators/rating agencies will take a tougher stance on letters of credit.

4. Casualty concerns



While property catastrophe renewals have remained hard, the casualty position is less certain, and has begun to cause concern among some reinsurers. **Swiss Re**, for example, saw its combined ratio in the class

rise to 110 percent during Q2 after further liability and motor reserve strengthening. Swiss Re has reduced its casualty premium base in 2023. **Munich Re** has also cut its proportional casualty book this year. Given these casualty concerns – in particular around US liability – the question remains as to how this will play out at 2024 renewals.

5. Inflationary pressures

Inflationary pressures are continuing to impact both casualty and property classes. In the case of the former, inflation has been one of the drivers

of increased reserving among reinsurers. For property, inflation continues to impact the cost of claims with materials and labour costs still at highly elevated levels compared with the pre-Covid era. While reinsurers have been pricing in these elevated costs during recent renewal periods, further pricing action may be needed in 2024 to reflect this ongoing trend.

6. Modelling changes



Another factor set to play a prominent role in renewal discussions is the launch of Version 23 of RMS' North America hurricane model.

The latest version points to increases of up to 20 percent in expected losses

in Texas, the Gulf, Florida and southeastern states. Launched in June, it is likely to play a significant role in thinking ahead of 2024 renewals.

S&P is also considering model changes that could significantly increase capital loads for more remote nat cat risk. Both should add steel to underwriters' convictions...

7. ILS/retro

A lack of retro capacity was one of the major drivers of hard market conditions at this year's 1.1 renewals, and the extent to which retro capacity opens up will potentially play a significant role in how the January 2024 renewals play out. There is unlikely to be any return of aggregate protection following the widespread contraction at recent renewals. Last year Hurricane Ian dispelled any notion that investor fatigue in the retro market would come to an end. The extent to which ILS investors come back in will also determine the extent to which the hard market sustains in 2024.

8. Secondary perils

Major loss activity during 2023 has largely been characterised by "surprise events". A record European earthquake loss in Turkey, record losses in New Zealand from flooding/Cyclone Gabrielle and the Hawaii wildfires are all examples of billion-dollar events which sit outside the typical drivers of large losses for the sector, but are nonetheless impacting earnings.

This shift in loss patterns will provide another discussion point over the coming months and highlight the need for the industry to better prepare for an evolving risk landscape which requires a more proactive approach.

9. Reinsurance broking – the war for talent

Among reinsurance brokers, the last 12 months have seen an escalation in the battle for talent with the newly combined **Howden Tiger** pulling off several audacious swoops to bring in highly respected and experienced team members from larger rivals.

This has in turn triggered further recruitment by the big three reinsurance brokers as they look to replace those taken by rivals, sparking litigation among the competing firms. These tensions show no sign of relenting...

10. Will WTW return to treaty reinsurance?

The competition for talent could yet increase if **WTW** decides to return to treaty reinsurance. The broker's lock-out following the sale of the previous **Willis Re** business to **Gallagher** expires in December 2023.

Given the current opportunity in the reinsurance space, a return would make strategic sense for the broker – the question is how and when it might execute it.

11. New markets, new products and systemic risks

The (re)insurance industry has to stay relevant by providing answers to the major risks facing society, businesses and the global economy which narrow the "protection gap". But many of these challenges – cyber, pandemic and climate change, for example – can only be tackled with innovative thinking and collaborations with the capital markets and governments. There are many discussions taking place, but currently more words than action. The industry's standing – and future growth prospects – will be enhanced if it is able to turn some of these ideas into pilot schemes in 2024...

12. Generative AI



The power of generative AI (GenAI) has already been illustrated by the widespread adoption of technologies such as ChatGPT. An underlying theme during the *Rendez-Vous* and beyond will be how GenAI can be

deployed across the (re)insurance sector.

GenAI can play an important role in improving underwriting and actuarial processes, enhancing analytical and risk assessment work. It will also require strong governance and controls. But in the right hands, these tools could be a key differentiator for the sector's leading players...

Continued from page 1

Reinsurers look to hold the cat line to consolidate '23 gains

improving because of higher rates and attachment points that have moved them away from attritional losses.

That points to average rate increases that are largely expected to be in line with the view of inflation in the property cat market.

As is inevitable for the early shots that are usually fired at Monte Carlo, some reinsurers will likely communicate that there is need for further rate and brokers will suggest that some moderation is in order after the dramatic shift seen this year, with increased competition potentially putting downward pressure on pricing.

Indeed, Aspen CEO Mark Cloutier is one of those on the reinsurer side that has already come out and said his company is committed to “pushing” for further rate, as we report in our second lead article.

Others on both sides have privately told this

publication they would be happy holding the line on rate, terms and attachment points.

Either way, the consensus from multiple conversations with senior reinsurer and broker executives in the last couple of weeks suggests that the challenging and chaotic lead-up to the 1 January 2023 renewal will not be repeated this year.

The turbulence late last year that strained some relationships between sellers and buyers gave way to calmer negotiations at the other major property treaty renewals of 1 April, 1 June and 1 July.

Of course, rate increases have been significant across 2023 cat renewals, as 1 January set the tone with hikes of as much as 60 percent in Europe, and up to 50 percent for loss-free accounts or as much as 100 percent for loss-hit accounts in the US, according to Gallagher Re's renewal report.

But sources on both sides of the table have said that the key to the step change that occurred at 1 January was not so much headline rate increases as the structural shift in cat programs that imposed significantly higher retentions on insurance companies in Europe, the US and other regions.

Those retentions had remained largely unchanged for a number of years, but the more recent surge in inflation meant that the effective attachment points for reinsurers had been dropping meaningfully lower.

That in turn left them more exposed to the greater frequency of severity around secondary perils such as wildfire and severe convective storm (SCS), in addition to more major loss events in the US and internationally.

By right-sizing retentions, reinsurers have managed within one renewal cycle to effectively reposition themselves from providers of earnings protection to what many believe should be their true role by acting as an alternative form of capital to give balance sheet protection to cedants.

For buyers, the shift has been painful. Effectively it has resulted in insurers ceding more premium for less reinsurance coverage.

Combined with very limited availability of aggregate cover – at least at an economically viable price – the higher retentions have left them carrying the weight of H1 2023 attritional cat losses that have run to around \$50bn, driven by a heavy burden from SCS events in the US.

That has been reflected in earnings so far this year, with carriers that have a heavy reinsurance leaning – including the big four Europeans – reporting sub-90 percent combined ratios across their P&C operations, and in some cases significantly lower than that for their property cat reinsurance business.



Talking points

- Reinsurers to hold the line on rates, terms and attachment points in property cat
- Additional demand anticipated as buyers continue inflation/PML catch-up and potentially factor in RMS 23 in the US
- Predictions that limit demand could be up 5-10% on average in Europe and US
- Supply bolstered by increased appetite as a number of reinsurers lean in, but no major capital inflow expected (and reinsurer appetite based on current pricing)
- Greater competition for “preferred partners” could put some downward pressure on rates
- Higher retentions/attachment points mean cat reinsurers have moved from providing earnings to balance sheet protection
- That has been demonstrated in the burden insurers have faced in a year so far characterised by frequency of secondary peril/ smaller cat losses with an H1 tally of over \$50bn
- In contrast, reinsurers have been benefiting in earnings as rate hardening and higher attachment points improve margin
- No major divergence expected between dynamics in Europe and the US
- Reinsurers at least expect pricing to rise with their view of inflation
- Buyers may increasingly turn to reinvigorated cat bond market to secure limit higher up programs
- Retro market expected to be stable at 1 January 2024

In contrast, insurers have seen elevated combined ratios for their property portfolios, especially in personal lines.

The pattern of retained losses has continued into H2, with secondary peril events such as the tragic Maui wildfire and the leftfield Californian Tropical Storm Hilary, along with another Tampa near miss with Hurricane Idalia which is also unlikely to trouble reinsurers.

As Jefferies analyst Philip Kett noted last month: “Lifting the attachment point means that a smaller volume of catastrophe claims are covered by reinsurance programs and those that do are materially less costly.”

Arguably the biggest theme of the year to date has been the flight by some major US insurers from writing admitted personal lines in certain cat-exposed states – most notably California.

Among the reasons cited are climate concerns and elevated reinsurance costs. But the crux of the issue is their inability to fully adjust underlying pricing to reflect those factors because of the restrictions around rate and form in operating as an admitted insurer.

Any hope of near-term relief from reinsurers is likely to be forlorn, however.

Stable adjusted rates?

Speaking to this publication in the lead-up to Monte Carlo, Aon’s CEO of Risk Capital Andy Marcell said that following a period of market challenges he doesn’t see anything at this time placing significant upwards pressure on reinsurance rates.

Indeed, he suggested there could be some downward pressure on pricing where reinsurers are competing for what they see as preferred partners (look out for the full interview in tomorrow’s issue).

“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,” the executive predicted.

He did suggest that additional demand will likely equate to limit increases somewhere between 5

percent and 10 percent on average for the US and Europe. Reinsurer sources have also talked about a stabilisation of the market in 2023 following the dislocation in the lead-up to 1 January.

Sompo International’s global reinsurance CEO Chris Donelan said some form of market equilibrium has been reached, but warned that any attempt to push pricing down would likely be given short shrift by reinsurers.

“I believe we mostly cleared the price for participation [at 2023 renewals], but I think if people test the clearance price, they’ll find capacity to be not increasing in fact it could decrease,” he said.

Meanwhile, TransRe CEO Ken Brandt said he expects demand for additional limit to materialise in response to inflation that for the industry post event is likely to be higher than the consumer price index.

“I think the supply is there, on the reinsurance side, to meet that demand – it’s just going to get down to the economics [of] whether the ceding companies can afford it,” the executive suggested.

And there is optimism among the European reinsurance giants that

momentum will continue in the sector.

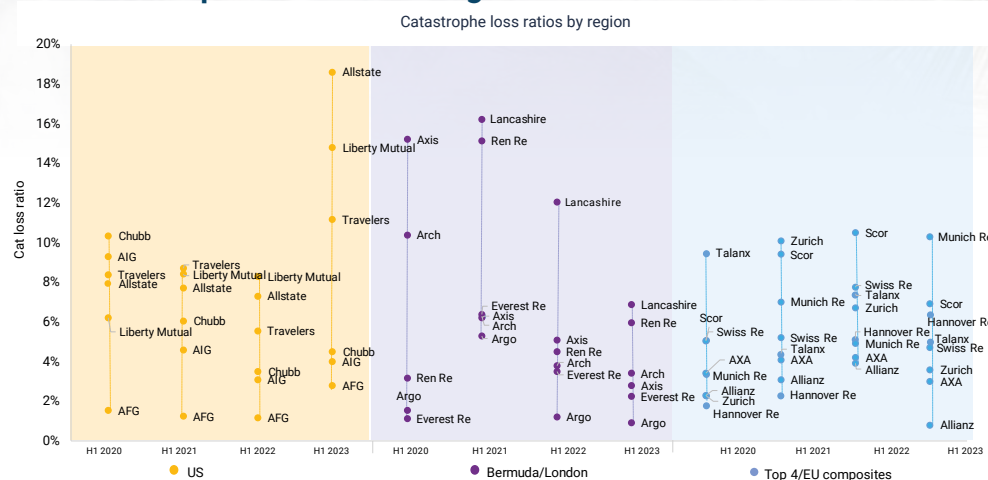
Munich Re CEO Joachim Wenning said on the reinsurer’s recent Q2 earnings call that he expects hard market conditions to extend through 2024 and even into 2025 based on high levels of uncertainty in the market, with much “catching up” to be done and particular concern over the general decline in margins.

There is also confidence that there will be no meaningful divergence between the overall direction of travel in Europe and the US.

The 1 January 2023 renewal was notable in that it saw markets on both sides of the Atlantic moving in lockstep, as European cedants – especially those in loss-affected areas such as France and Germany – paid significant increases in addition to retentions going up.

This year those countries have not seen the same level of activity – although others such as Turkey and Nordic countries have seen loss events – but there is no expectation that the balance will shift back towards

The spread of cat loss ratios widened for US insurers in 1H-23 compared with other regions



buyers any time soon. In the US, another area of discussion will be potential additional limit being sought as insurers implement the new RMS Version 23 Atlantic hurricane model, which increases expected losses for Florida as well as Gulf of Mexico and other Southeast states.

Leaning into cat

What some have termed generational hard market conditions in property cat treaty business have seen a shift in appetite from a significant number of reinsurers as pricing and higher attachments points have increased confidence in being able to write profitable business.

If the question last year was as much about who was out of cat as who was in, this year the focus has been more on the growing number of markets looking to lean into the business.

Arguably the biggest headline grabber has been Berkshire Hathaway, which was not significantly active at 1 January but has since been a major provider of capacity, including high-profile plays such as taking a \$1bn line on Florida's Citizens.

Others known to have been more significant players at the 1 June Florida renewal include



“I think the supply is there, on the reinsurance side, to meet that demand – it's just going to get down to the economics [of] whether the ceding companies can afford it”

TransRe CEO Ken Brandt on availability of supply at the right price

Arch, Ariel Re and DE Shaw. Away from Florida, RenaissanceRe CEO Kevin O'Donnell said the reinsurer “leaned heavily” into the property cat reinsurance market at mid-year, taking advantage of rates for US business that went up by 30-50 percent on average, with the company confident the higher pricing “will persist”.

The Bermudian was among those that offered private deals on non-concurrent terms with core customers early in the renewal process. O'Donnell said that RenRe now believes the property cat business is “broadly rate-adequate”.

Another major mover this year in cat was Everest, which raised \$1.5bn in the second quarter to support its growth ambitions and said it had begun deploying some of the funds raised on private placements, describing current property cat pricing as having surpassed that seen in the wake of Hurricane Andrew.

Others have leaned into cat not by raising money on their balance sheets, but through third-party capital vehicles.

They include Ark with its Outrigger Re sidecar, Vantage with its \$1bn raise from third-party investors for its Chris McKeown-led AdVantage platform, and PartnerRe raising funds in its managed vehicles.

Cat bonds meeting some additional limit demand

After the talk at Monte Carlo last year centred around \$20bn+ of additional limit demand from US insurers to cover the impact of inflation and rising exposure bases, much of that did not materialise at 1 January, amid stretched budgets and surging rates.

There have been attempts – some successful – to buy meaningful amounts of new cover through the year, however.

Those that have been made public include Travelers, which added a new personal insurance hurricane catastrophe excess-of-loss treaty at 1 July covering coastal states outside Florida.

The US giant also increased coverage under its existing Northeast cat treaty, which places at 1 July, after its 1 January corporate cat XoL.

Chubb is understood to be currently out in the market looking to secure an additional \$500mn layer at the top of its cat program for Northeast exposures. Sources said the carrier has tested the water at a 5 percent rate on line in the traditional reinsurance market.

Others have instead turned to the ILS market to find additional limit out on the tail of their cat programs.

Travelers has been a consistent user of cat bond capacity and issued Long Point Re IV in May with \$575mn aggregate principal to cover storms and quakes from Virginia to Maine.

The transaction contributed to a first-half issuance across the sector for property cat bonds of \$9.7bn, on course for a record full-year total, according to Aon data.

“This year we've seen that completely turn around and pricing move down to even pre-Ian levels. That's not about naïve capital, but simply that the cat bonds themselves as a structure have dealt with tail risk and the product has performed in line with expectations,” Aon's Marcell told this publication.

“We have helped many clients find efficiency in buying major limit by taking the top end and converting that into a cat bond to reduce the stress on the cat program and find a much more efficient way to transfer risk at stabilising prices, and I think that will continue,” said the executive.



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Florida homeowners market: back from the abyss?

After several brutal years of mounting losses, corporate failures, soaring reinsurance costs and rampant litigation, the once bleak outlook for the Florida homeowners market looks brighter following game-changing legislative reforms that have spurred what looks to be a return of reinsurer appetite.

There are signs that capital is beginning to return to the sector with a number of domestic admitted start-up carriers and E&S players either already live or in the works, in contrast to the backdrop of broader retrenchment by larger insurance companies from cat-exposed homeowners business in the US.

That retrenchment has, of course, included further pullbacks by nationwide carriers such as Farmers, which said it will no longer offer own-branded auto, home and umbrella policies in the state.

But another US personal lines giant, State Farm, said it sees more opportunity in Florida thanks to the recent insurance reforms.

And after the policy count of state-backed Citizens Property Insurance Corporation returned to near-record levels this year at around 1.3 million – a sure indicator of the recent challenges facing the private market as it sheds business – depopulation activity is finally picking up, with takeouts sought by start-ups and incumbents among the group of domestic Florida carriers.

Last month, the Florida Office of Insurance Regulation (FLOIR) approved Texas-based carrier Mainsail Insurance Company as an authorised P&C domestic insurer in the Sunshine State.

It then also approved a duo of carriers from recently converted full-stack insurer Orion180.

The Hippo-owned company and Orion180 carriers are the second, third and fourth to be approved by the regulator since the passage of the key HB 837 tort reform legislation this March, which followed sweeping property insurance reform in December last year.

That legislation repealed one-way attorney fees for property insurance claims and eliminated the controversial practice of assignment of benefits, which had been the scourge of the sector in recent years.

The first start-up domestic approved following HB 837 was HCI Group's Tailrow, which was given the green light in April.



Talking points

- Florida renewal was surprisingly smooth as reinsurer appetite returned
- Significant rate increases drew in capacity from Berkshire, Arch, Ariel Re, DE Shaw and others
- Rate increases were in the 30-40% range
- Shifting dynamics are starting to attract more start-ups, including those targeting Citizens takeouts
- After 2022 Demotech saga, the Florida HO market was relatively stable this year
- Big driver was game-changing legislative reforms tackling runaway litigation, with several carriers already reporting a tangible impact

And Paresh Patel, CEO of HCI Group – for some time an outperformer even during the recent Florida market woes – was among public company leaders giving an increasingly bullish view on the Sunshine State's homeowners market during the Q2 earnings season.

He told investors that the carrier is now back in growth mode in Florida as it sees evidence of the legislative reforms taking effect.

The company's consolidated gross loss ratio dropped to 34 percent in the second quarter from 47.9 percent in Q2 2022, which CFO James Harmworth said was down to lower claim frequency, flattening claim severity, lower litigation frequency and higher average premium per policy.

"The profitability of the business has improved considerably ... we now have a healthy stable business. We can now look to the future and the obvious thing to do is to expand and grow the business, especially in Florida, and that is exactly what we plan to do," said CEO Patel.

There are a number of other start-ups understood to be in the pipeline, including the Village Protection Insurance vehicle linked with former Guy Carpenter executive Kevin Stokes that is expected to pursue Citizens takeouts following a successful launch.

Recent start-up reciprocal Loggerhead has been active in depopulation this year and momentum appears to be gathering for takeouts, with the FLOIR having greenlit 280,000 policies to be taken out of Citizens through to October 2023.

Mid-year unexpectedly orderly

With the exception of 2022 entrants Slide and Vyrd, start-ups had been largely waiting on the sidelines

as capital was reluctant to enter amid concerns over the availability of reinsurance.

But those dynamics now appear to have changed.

HCI Group's Patel said the shift in the reinsurance market seen at the mid-year renewal had been a factor in his company successfully getting its placement home.

"The uncertainty around the availability and affordability of reinsurance is now behind us with the placement of our 2023 reinsurance program," he said.

The executive noted that at the start of the year there was uncertainty in the market about the availability and affordability of reinsurance.

As previously reported, the concerns were based on the major shift in reinsurer behaviour more broadly seen at 1 January as the market dramatically hardened, and Florida-specific factors with Hurricane Ian also fresh in the memory.

Fast forward a few months and it is all change, however.

"I think the anxiety level amongst reinsurers – at least in Florida – seems to have abated ... I think lots of reinsurance availability is now starting to normalise," he suggested.

HCI Group was not alone among Florida's slimmed-down trio of New York-listed homeowners writers in describing a smoother renewal experience.

Universal Insurance CEO Stephen Donaghy said his company was able to secure consistent terms, conditions and coverage as last year, but was also able to reduce its consolidated retention and ceded premium ratio.

Elsewhere, a raft of other Florida carriers such





as relatively recent arrivals Vyr and Slide along with more seasoned companies such as Security First and Tower Hill (albeit with its new reciprocal vehicle) reported successful renewals in many cases completed ahead of time.

Among them was Security First, whose chairman and CEO Locke Burt told this publication: "The legislative changes were

transformational and we had a number of reinsurers who recognised that."

After the trauma of the 2022 Florida renewal – disrupted by a special session of the Florida legislature and the Demotech downgrade warning saga – reinsurance brokers were able to enjoy a relatively relaxed placement process this year.

October approved takeouts from Citizens

Company	Total approved	Note
 Slide	100,000	98,000 personal residential from PLA; 2,000 multi-peril from coastal account
 SafePoint Insurance	30,000	19,000 personal residential from PLA; 8,000 multi-peril and 5,000 wind-only from coastal account
 Southern Oak Insurance Group <small>Our Family. Promoting Yours.</small>	25,000	17,500 personal residential from PLA; 2,500 multi-peril and 5,000 wind-only from coastal account
 monarch	10,000	Almost all personal residential from PLA

Source: FLOIR consent note

Select recent and proposed Florida HO start-ups

Name	FLOIR approved	Takeouts	Note
Vyr	Yes	Yes	Launched in late 2021 by David Howard and has been active in Citizens takeouts
Slide Ins Co	Yes	Yes	Bruce Lucas-led start-up gained critical mass with assumption of St Johns book last year
Loggerhead	Yes	Yes	Reciprocal exchange launched by former The Auto Club execs Todd Dixon and Jim Santo
Tailrow Ins Co	Yes	Yes	Formed by established Florida carrier HCI Group as it looks to grow in the Sunshine State
Mainsail Ins Co	Yes	Unknown	Hippo-owned start-up is A- rated by AM Best and was set up to write on an admitted basis
Orion180 Select Ins Co	Yes	Unknown	Carrier recently launched as homeowners MGA transitioned to full stack
Orion180 Ins Co	Yes	Unknown	Carrier recently launched as homeowners MGA transitioned to full stack
Orange Insurance Exchange	Yes	Considering	Led by former Tower Hill president Don Matz and Cabrillo's Michael McNitt
Village Protection	No	Planned	Reportedly management team includes former GC exec Kevin Stokes

Source: *The Insurer*, company announcements

Property rate movements

Territory	Pro rata commission	Risk loss free % change	Risk loss hit % change	Catastrophe loss free % change	Catastrophe loss hit % change
US – Florida	n/a	n/a	n/a	n/a	+30% to +40%
US – Nationwide	-6% to 0%	+20% to +40%	+35% to +75%	+10% to +35%	+30% to +50%

Note: Movements are risk-adjusted. Source: Gallagher Re

Reinsurer appetite returns

A big factor in the more orderly market that ensued was the strong appetite shown by a number of reinsurers, including Berkshire Hathaway, DE Shaw, Arch and Ariel Re, as fears of a capacity crunch that had been very real only a few months earlier dissipated.

Their interest was drawn by sky-high rates on line available on layers below the Florida Hurricane Catastrophe Fund and significant increases higher up towers.

A number of reinsurers are understood to have come in and deployed capacity, providing cornerstone capacity to Florida buyers on several deals that put them in a much stronger position to fill out the rest of their placements.

Dynamics eased to such an extent that there was even anecdotal evidence that one of the largest buyers of Florida cat capacity pulled its firm order terms late on and repriced them 10 percent lower because of the high level of capacity seeking participation.

Pricing was so good on low-attaching layers – in some cases with rates on line in excess of 100 percent on a prepaid reinstatement basis – that reinsurers are in a position where they can't lose money unless there is a second hurricane.

As well as increased supply for XoL placements, there is also evidence of more capacity than expected targeting quota shares of better-quality Florida homeowners insurers, with Berkshire Hathaway and DE Shaw both mentioned in

dispatches for their appetite to participate.

This renewed interest from reinsurers came at a price, however. This publication put a consensus number out in the 30 to 40 percent up range just ahead of 1 June – a range that was in line with that subsequently published by Gallagher Re.

Some, of course, fell outside that range. Citizens, which was able to secure a \$1bn line from Berkshire Hathaway and a 68 percent increase in Nephila's participation, said it paid a risk-adjusted price increase of around 25 percent for 2023 placed limit across its coastal and personal lines accounts.

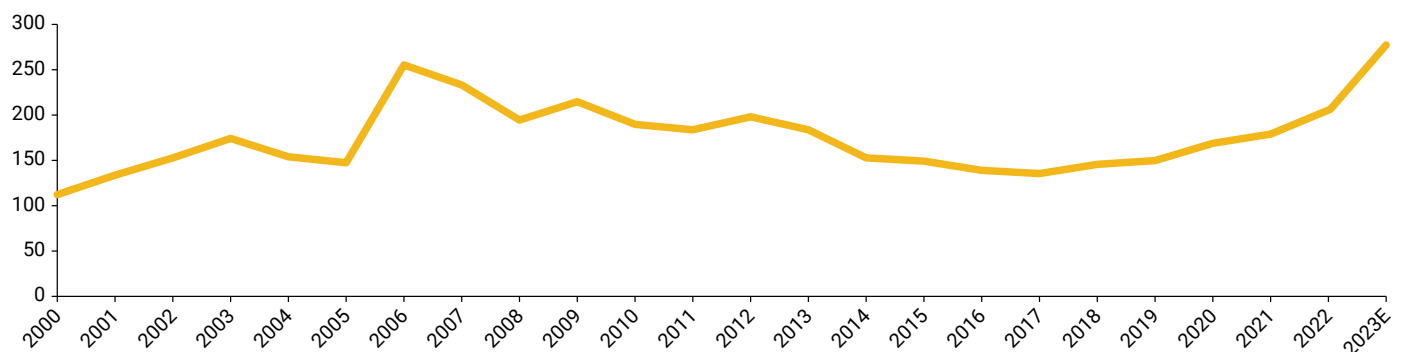
Another factor in the renewal was the readily available supply of cat bond capacity that was utilised by several Florida domestic carriers in their structures.

Commenting on her experience of the renewal, Security First president Melissa Burt DeVriese told this publication that behaviourally there were three groups of reinsurers at the renewal.

"You have some reinsurers that see it as a market opportunity and have been looking to grow; then you have opportunistic reinsurers that are charging high prices – often with terms and conditions that in the past would not have been considered; and then there are some large players that have really pulled back," she said.

If positive momentum continues in the Florida homeowners insurance market, incumbent domestic carriers and start-ups will be increasingly confident that opportunistic reinsurance supply will evolve to a stable and sustainable buying environment.

Guy Carpenter US property catastrophe rate on line index – 2000 to 2023



Source: Guy Carpenter

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on a renewal
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neither
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A war-risk pool for Ukraine's reconstruction: What Marsh McLennan proposed and why

Enabling Ukraine's recovery and reconstruction will require ambition and innovation from industry and governments alike. Julian Enoizi, Guy Carpenter's CEO of Europe, and Andrew Bailey, of Oliver Wyman's public sector team, explain how Marsh McLennan is bringing to bear the power of the whole firm in support of Ukraine...

Despite the ongoing war in Ukraine, attention is turning to how to rebuild the country – learning from historical precedents that warn of the risk of winning the war, only to lose the peace that follows. Estimates suggest over \$1trn of investment will be required, much of it expected to come from the private sector. Yet this massive investment will not be feasible if investors cannot adequately protect themselves from war risk.

Currently, there is virtually no war-risk insurance available to provide cover for investments or property in Ukraine. The insurance industry – in Ukraine or elsewhere – has never habitually covered war risks at anything approaching the scale required. Even once the current “hot” phase of war has ended or diminished significantly, an elevated degree of risk will remain in the eyes of private insurance markets for a number of years.

A war-risk pool unprecedented in nature

In the run-up to the Ukraine Recovery Conference in London in June 2023, Marsh McLennan assisted the UK and Ukrainian governments in assessing requirements and options for war-risk insurance to support the reconstruction and recovery of Ukraine. The firm approached the issue by applying the strategic advisory expertise of Oliver Wyman along with the risk transfer expertise of Marsh and Guy Carpenter.

Our work highlighted the role of a war-risk pool in creating the conditions for the functioning of the conventional property insurance market, which itself would enable investment to flow at the scale required. Importantly, this would depend on the provision of a government backstop that would likely need to be provided by G7+ governments. This would be analogous to the types of public-private

partnerships developed by a number of G7 countries for various perils, including terror risk – although on a larger scale, against a different peril, and on a novel, multilateral basis.

Establishing such a scheme would require the commitment of international governments and industry. We do not believe that government appetite yet exists for the development of such a scheme.

The responsibility of our firm and the wider industry

Marsh McLennan is providing pro bono support to the government of Ukraine across a range of topics. This includes the development of a war-risk data platform, to make available to authorised underwriters and investors the information required to enable actuarial analysis and assessment of war risks in Ukraine. This will be a crucial step in enabling insurance, rebuilding market confidence and unlocking capital that otherwise would not flow to support recovery. Colleagues across Marsh McLennan have also been working closely with the government of Ukraine to develop alternative insurance arrangements to enable the flow of grain through the Black Sea, which is vital both for Ukraine's economy and to avert global humanitarian crises associated with food shortages.

We see it as the responsibility of Marsh McLennan – and the wider industry – to innovate in support of governments in addressing hard-to-manage risks that threaten the prosperity and security of our societies. Our work in the context of Ukraine is just one example of the power of Marsh McLennan's businesses to support the public and private sector to address critical global risks through industry-leading strategic advisory and risk transfer expertise.



Julian Enoizi is CEO of Europe at Guy Carpenter. Andrew Bailey is principal, public sector and policy at Oliver Wyman





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Reinsurers waiting to see RMS 23 impact on already elevated US cat demand

The property cat market is still waiting to see how US insurers implement the new North Atlantic hurricane model from RMS into their underwriting, with the update pointing to increases of up to 30 percent in expected losses in Texas, the Gulf, Florida and Southeast states, which could drive incremental demand for limit.

As previously reported, RMS Version 23 – officially released in June – did not impact mid-year renewals, but is expected to factor into modelled output to drive probable maximum losses and deployment of aggregate in 2024.

In the US property cat insurance market, broker sources have said they are still waiting for primary insurers to enact the updated version into their underwriting and pricing, in a business line which is already rock hard after an acceleration in the past year.

That rehardening was partly in response to soaring reinsurance costs and structural changes to excess-

of-loss cat programs that have left primary carriers retaining more risk in a year that has already seen record severe convective storm losses.

At Monte Carlo last year demand for additional cat reinsurance limit from US cedants was estimated at \$20bn or more, but not much of that translated to actual buying at 1 January 2023.

Through the year there have been some moves by carriers such as Chubb and Travelers to place additional cat layers or covers. The expectation is that inflation-driven demand for additional limit will again feature in renewal discussions in the coming weeks and months.

What is not yet clear is the extent to which insurers will adjust their view of hurricane risk based on the new RMS release.

Senior reinsurance market sources have given conflicting views of the impact on supply and demand dynamics.

RMS V23 IED-based impacts on diversified nationwide/regional books (AAL* change)

	All mainland US hurricane states***	TX, Gulf, FL, Southeast	Mid-Atlantic/Northeast
When medium-term rates are used**	Up to 20% increases	Up to 30% increases	Between 10% up and 10% down
When long-term rates are used**	Up to 10% increases	Up to 20% increases	Up to 10% reductions
Updates to residential lines	NA	Up to 20% increases	Up to 20% reductions
Updates to commercial lines (1-in-50 and higher)	Up to 30% increases	Up to 30% increases	Up to 30% increases
Updates to commercial lines (less than 1-in-50)	Increases greater than 30%	Increases greater than 30%	Increases greater than 30%

*Gross Annual Average Loss **AAL changes across all lines and all model components

***Overall changes for all mainland US hurricane states as one region

Source: Moody's RMS executive briefing

On the demand side, there is an expectation from reinsurers that there will be incremental demand from some buyers, depending on their approach to modelling and their existing view of risk.

However, one reinsurance broking executive downplayed the potential impact on demand, as well as supply, saying: “Of course it has an impact, but perhaps not as much as it had historically. Most reinsurers, most buyers and all brokers take a blended view of risk.”

They added that the headline numbers for expected losses provided by RMS are a generic overview.

“When you get down to somebody’s individual portfolio it may not look like that at all. In the old days it was RMS or nothing, and it isn’t anymore. But it would be wrong to say there won’t be some impact,” they continued.

Significant changes

The modelling firm – now part of Moody’s – told

clients in pre-release communications that Version 23 reflects “significant changes” in the built environment in coastal regions to feed into how the hazard is represented today compared to five or 10 years ago.

It also incorporates the current understanding of factors impacting claims from recent loss events, such as water intrusion, which has led to increased vulnerabilities in particular in relation to homeowners associations.

And the new version factors in the changed view of risk around current understanding of climate change conditions, creating an additional uplift when looking at the medium term.

The RMS bulletin said that event rate updates – both long-term and medium-term – have the greatest impact in the Gulf, and both hazard and PLA updates have the largest impacts in Florida.

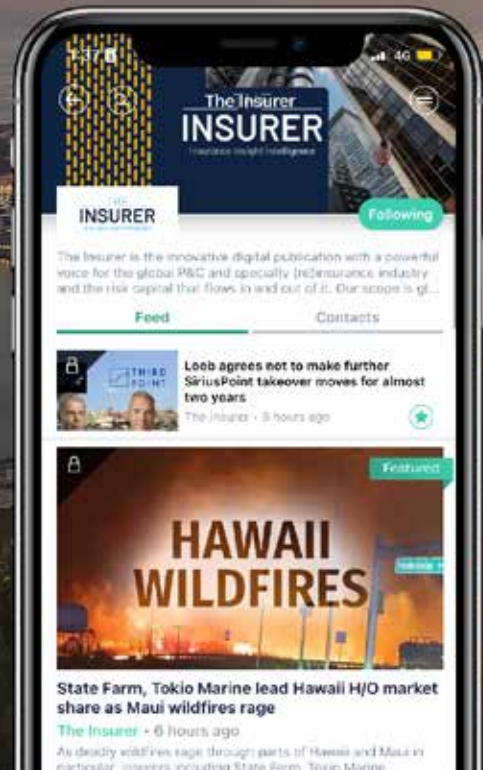
The changes are based on diversified nationwide or region-wide client portfolios using the firm’s 2021 industry exposure database relative to Version 21.

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Scor: Nat cat and other lines hold promise, but T&Cs and P&C portfolio balance remain key

While industry concerns mount over the increased frequency and severity of natural catastrophe events, Scor says that property catastrophe and other business lines continue to hold promise so long as the right conditions are met, and an appropriate balance can be struck across its entire P&C portfolio.

Speaking to this publication in the lead-up to this year's *Rendez-Vous de Septembre*, Jean-Paul Conoscente, who serves as CEO of Scor P&C, said the Paris-headquartered reinsurer "remains a large property reinsurer, and we intend to continue to provide significant capacities to our clients on a XoL basis".

As Conoscente explained, heading towards the 1 January 2024 renewals, Scor's appetite for catastrophe-exposed proportional and aggregate covers "will remain limited".

Currently, the executive said Scor's property catastrophe portfolio "is today well balanced between US and non-US exposures".

Speaking at a press conference to discuss Scor's Q2 results in July, the reinsurer's newly appointed CEO Thierry Léger said the company had reduced its property cat capacity "quite significantly" in the period leading up to and including 1 January, especially in climate change-exposed regions, along with lower layers, frequency layers and aggregate covers.

At the earnings discussion, Conoscente said the company sees property catastrophe business "as being attractive".

And speaking to *The Insurer*, Conoscente said that if pricing, along with terms and conditions, continue to improve in the US, then Scor "will look at potentially growing our appetite on cat XoL business above the 1-in-10 return period".

Further property improvements needed

While it remains to be seen whether those improvements are forthcoming, Conoscente is adamant further correction is required, despite the rate rises and tightening of terms and conditions that have recently been imposed.

"We believe that despite the successive waves of price increases, property insurance remains underpriced in the US and elsewhere because climate change claims inflation has been growing faster than price increases," said Conoscente.

Some exceptions to that can be found within the excess and surplus lines space, although even within that fast-growing industry segment, the instances where pricing is sufficient are "limited".

"Due to a combination of increased exposures stemming from construction and population expansion in risk-exposed areas, and increased frequency and severity of climate-related events resulting from the new climate regime we have witnessed for the past seven years, [we believe that] cat claims will continue to rapidly increase, requiring both a review of the limits deployed in some areas, as well as continued significant pricing improvements.

"The first half of 2023 was a good illustration of this," Conoscente declared.

The need for further price rises and strengthening of terms and conditions is not limited to just the US either, the executive said, with other regions of the world also in need of improvements.

"The significant increase in climate-related cat claims is not just a US problem," said Conoscente.

"It is indeed a global problem. As we see, significant flooding, wildfires and tornado/hail events are now commonplace around the world.

All property prices need to reflect this new reality," he said.



Casualty also under pressure

It is not only in property where there is need for improvement. The casualty reinsurance sector's profitability is also under pressure as it battles the impact of inflation – both economic and claims-based – while the price rises that have been prevalent in many of the primary business lines that support quota shares have slowed or, in some sectors, reversed with rate reductions now being applied.

“On the US casualty side, we believe the segment profitability is still challenged overall as claims inflation continues to grow significantly year on year, whereas primary price increases have slowed down or stopped,” Conoscente said.

“For reinsurers, the issue is exacerbated by high commission levels, which are no longer sustainable,” the executive stated.

Looking ahead to 2024, Conoscente forecast that US casualty quota share commissions “will be a very contentious area” during renewal discussions because, the executive said, “reinsurers’ margins are insufficient to absorb the type of claims volatility we have witnessed on US casualty and auto losses”.

“To be sustainable, primary rates need to increase much further; and reinsurance commissions need to get back to mid-20s level,” he stated.

Eyes cyber growth

While Scor has adjusted its portfolio in some segments, with property catastrophe being a notable example, the reinsurer has been building out its book of cyber business.

Scor currently writes just over €200mn in cyber, and generally targets high single-digit/low double-digit shares across reinsurance programs.

Conoscente said cyber remains an area of growth for the entire industry, as well as for Scor. However, he said the segment remains under stress given that demand outstrips supply, while pricing has started to flatten or even move downwards following several years of significant increases.

At the same time, while ransomware claims are once again on the rise, the (re)insurance industry is yet to face a truly catastrophic, systemic cyber event.

“As a result, all actors including reinsurance take a prudent stance on cyber accumulations,” Conoscente said.

“Scor will continue to do so whilst accompanying our current clients on their portfolio expansion.”

Engineering and marine growth

Cyber is just one of the global lines and specialty

segments where Scor is looking to potentially grow its book, with engineering and marine both offering attractive returns to reinsurers, Conoscente said.

“Given our underweight presence in these segments, we believe them to be attractive areas of growth potential for Scor,” he noted.

Some areas where Scor is taking a more cautious approach include credit and surety, along with financial lines and D&O. Conoscente said those sectors “are very sensitive to economic cycles, and the future landscape remains very stochastic”.

Elsewhere, Conoscente pinpointed agriculture-related lines of reinsurance as another area exposed to climate change, causing Scor to remain cautious.

“We have also seen agricultural lines of business suffering from the effects of climate change in a similar fashion to property lines of business,” he said.

“Whilst we want to remain a major reinsurer in

this area, we need to better manage our global balance and plan to grow slightly in countries where we are currently underweight; and restrict our growth in our peak countries.”

Aside from business line-specific coverages, Conoscente predicted Scor's structured solutions team will attract greater interest from clients who are grappling with increased capital constraints, after they were hit with increased reinsurance retentions and continued portfolio volatility.

“We already have a well-established alternative solutions team in Europe and plan to expand it globally, whilst significantly upscaling our current portfolio,” highlighted Conoscente.

Scor ended 2023's second quarter with a P&C combined ratio of 88.5 percent, a major improvement on the 113.1 percent the reinsurer posted for the prior-year period.

For the first half of this year, Scor's P&C combined ratio was 86.9 percent. That result is in line with Scor's full-year assumption of 87 percent, although CEO Léger expressed dissatisfaction at the high attritional loss ratio contained within the figure.

Conoscente said Scor is continuing to focus on the pricing adequacy across its entire P&C portfolio as it looks to reduce its attritional loss ratio.

“This means incorporating all new claims trends in our pricing, and allocating capital to lines of business providing the best returns,” the executive stated.

“We believe our 2023 portfolio largely achieves this and we will continue to push for improved terms and conditions with the same determination and resolve,” Conoscente added.

“**We believe that despite the successive waves of price increases, property insurance remains underpriced in the US and elsewhere because climate change claims inflation has been growing faster than price increases**”



RENEWALS

Sompo International's Donelan: Cat capacity will come out of market if buyers challenge clearance price

The upcoming 1 January renewal currently looks set to be relatively flat for cat reinsurance after adjusting for inflation and exposure, with any buyers attempting to push pricing down likely to meet with caution from reinsurers around their use of capacity, according to Sompo International's global reinsurance CEO Chris Donelan.

In an interview with *The Insurer* as part of our #ReinsuranceMonth series, the executive described the build-up to this year's 1 January renewal that began at Monte Carlo last year as a transition period.



Talking points

- 1.1 expected to be relatively flat for cat (after inflation and exposure changes)
- Donelan says if buyers test clearance price they could see capacity decrease
- Sompo International would deploy more capital if pricing improved further
- Carrier's reinsurance arm has leaned in on per risk QS as well as cat
- Underlying pricing environment and reduction in cat makes deals attractive
- Maintenance of short limits in casualty by insurers has stabilised that market

"There was a lot of disbelief about whether reinsurers were serious – about whether those that said they wanted out of cat were really out, and about whether those that said they needed a price point to clear," he commented.

"I believe we mostly cleared the price for participation [at 2023 renewals], but I think if people test the clearance price, they'll find capacity to be not increasing, in fact it could decrease," Donelan added.

Despite the significant rate increases that have been seen at property cat renewals this year, the Sompo International reinsurance chief said that he doesn't view market conditions as hard, instead describing it as a "fair market" where capacity is available for the right price. "What last year highlighted, is the fact we weren't pricing anywhere near where what was needed in prior years," Donelan noted.

"We're not positioning to say we're going to charge more; it just means this is a market where we won't deploy more capital at this price. If the pricing is better, we'd deploy more capital," he explained.

"Overall, it's going to be about client behaviour. I think reinsurers have declared what they think their price point is subject to what their PMLs will allow them to write. There's no new capital, and the RMS

models are changing, so some will potentially have to buy more,” Donelan observed.

At the Monte Carlo *Rendez-Vous* last year, one of the major themes was significant new demand for cat limit that was expected to come from cedants to adjust for the impact of inflation at a time when reinsurers were also meaningfully pushing up retentions.

But the majority of the \$20bn+ incremental purchase that had been expected from US insurers did not materialise, as buyers faced steep rate increases that drove up the cost of replacing existing cover, even with higher attachment points.

A number of insurers have subsequently come back to the market during the year to attempt to buy additional limit, and Donelan said he expects others that delayed the purchase at 1 January 2023 to seek to add to towers at the upcoming renewal.

Leaning in

The reinsurer continued its cautious stance around Florida homeowners business at the mid-year renewal this year – after retrenching from supporting the Sunshine State’s domestic carriers a couple of years ago because it did not see the cost of capital being a good trade for the risk.

But elsewhere Sompo International has leaned into property cat reinsurance along with property per risk quota shares in 2023.

Donelan said that on the per risk quota share deals, occurrence limits have come down, which has had the effect of removing a significant portion of the cat risk from that product.

“There’s less projected return than you would achieve in cat, but it’s a fairer trade now than in years past,” he revealed.

The executive highlighted the attractive underlying pricing environment on the deals – especially in property E&S – while attritional loss ratios are being positively impacted by the change to occurrence limits.

“We have grown that year on year and we plan on growing it again if the PML and the price entry makes sense,” he said.

Reducing cat exposures in per risk quota shares has shifted that risk back to the excess-of-loss cat market – where it should be.

Carrier retrenchment bad for industry

This year so far has been characterised by heavy “attritional” hits for insurers in the US, as record

severe convective storm insured losses as well as other secondary perils have resulted in meaningful retained losses below higher-attaching cat covers.

It has also been dominated by news of carrier retrenchment, with several of the largest US insurers pulling back or exiting certain territories, especially in admitted personal lines.

“It’s not good when companies get to the point of exiting a line of business in a particular state. That means we failed at providing a product. We need to

find ways to solve these challenges. I’m not being critical of anyone, as that’s their choice, but I don’t think it’s a good sign,” said Donelan.

He suggested that in property cat the insurance and reinsurance industry has a long way to go to catch up to trend, given the increase in the exposure base and impact of inflation, along with other factors that have driven up claims costs in some jurisdictions, such as litigation.

“You don’t really know what the true cost of a storm is until you start seeing the claims come in. But it’s never a good day when an insurance company has to withdraw from a part of the world

because they say it’s not insurable.”

He noted recent reports that some homeowners are making the decision to go uninsured in the face of increasingly unaffordable premiums.

“We should be in that space. They’re self-insuring without a balance sheet. That’s not the optimal way of doing this,” Donelan concluded.



“**It’s not good when companies get to the point of exiting a line of business in a particular state. That means we failed at providing a product** Donelan says retrenchment by some carriers in cat-prone states is not good for the industry”

Casualty market is “mature”

Donelan said that apart from concerns about public D&O and some other areas of management liability, the broader casualty market is a “pretty stable place”.

“I think the casualty reinsurance market is a mature market. It’s shown over the last six or seven years the ability to raise prices and lower prices when needed, and clients have been very mature about accepting that,” he commented.

“A big part of that stability is that we have now enjoyed a relatively stable market since 2019, but still have issues to address on prior years.

“In casualty insurance there are shorter limits than in the past, good pricing and better underwriting than we’ve had before, which will keep the market in a pretty good place,” Donelan said.

“Casualty can put companies out of business, so there’s no fooling around here and you have to be very careful ... [but] people are being careful in making sure it’s sustainable. It’s a bit of an art versus a science, but as long as the limits are relatively short and pricing is keeping above loss trends then I think casualty is fine,” he added. In management liability, the executive warned that there is little room for any further rate decreases, however, noting the sharp drop-off in public D&O pricing.

A shift in the market

Aon's Tracy Hatlestad outlines the main topics of discussion for property reinsurance ahead of the 2023 *Rendez-Vous*

Which topics will be driving conversations at the 2023 *Rendez-Vous*?

This year we expect discussions to focus largely on several specific topics. First and foremost, we expect a more orderly renewal season at 1 January, barring any significant ceded events throughout the next few months. Insurers will be aiming to balance consistency in coverage with collaborative relationships that endured the 2023 renewal season. We believe broader consistency is important for everyone in the market.

Secondly, we expect many discussions will centre around frequency and/or secondary perils. The restructuring of the occurrence product through increased retentions shifted coverage to the tail, and you can observe this in the results of insurers, which have retained more catastrophe loss net in 2023 – especially for secondary perils. With pricing today at a level that supports stronger returns for reinsurers, the ability to offer additional frequency protection is going to be a topic for many insurers. It is important to note that this does not mean a reinstatement of aggregate as we saw in the past; there are alternative features to the product available for 2024, which can bridge some of the gap between supply and demand.

Last year the discussion was all about capacity, how has that evolved this year?

We have seen a shift in the market since this time last year. Additional reinsurance supply started to return globally late in the first quarter, evidenced by top-up purchases by insurers. In the US, where insurers place around half the limit in the region in Q2, we saw reinsurers authorising additional capacity during the June and July renewals. As is often the case, that initial additional supply was based on a flight to quality, a dynamic that was seen often during those renewals.

While we have not seen any new companies forming, additional capacity is entering the space

through existing players. Additionally, the breadth of supply has widened beyond the early growth play reinsurers, to a broader market bringing additional capacity. Overall, pricing and portfolio returns continue to be aligned to investors' expectations and demands.

As we look to 1 January, we expect sub-10 percent demand increases globally for traditional property catastrophe reinsurance, as many insurers that typically renew in January were able to secure additional limit throughout the year, which will offset some of the demand we might have seen. This outcome is also partially driven by the increased capacity provided through the ILS market, where catastrophe bond issuances are likely to reach a new high in 2023.

That said, individual markets and cedant demands will still vary, as some have seen more heightened loss activity than in prior years.

How important are relationships given the current market dynamics?


We think strengthening and rebuilding relationships will be a key factor at the January renewals, especially for reinsurers seeking growth. For those reinsurers, it comes through aligning priorities to insurers' requirements – again, such as for aggregate cover – and also being transparent about pricing and capacity throughout the renewal. With the amount of data now collected on quotes and authorisations, insurers can better understand the strategies of individual markets and can discern collaborative patterns through the data. Our sector has not had this level of robust data in prior harder market periods.

We assist insurers with providing quality data to reinsurers so they can properly evaluate the risks concentrating on areas such as inflation and insurance to value, demonstration of superior claims handling, and a strong view of portfolio risk.

The volume of buyers and sellers has increased, and as the renewal evolves we expect this will be displayed in the range of unique capacity solutions that become available, both on an individual and portfolio level basis. Those solutions will help insurers navigate potential volatility.



Tracy Hatlestad is executive managing director and global property segment leader at Aon

A person is sitting inside a circular, metallic-looking pod that is part of a larger, abstract structure made of dark, curved beams. The person is seen from behind, looking at a laptop screen. The background shows a cityscape under a blue sky with some clouds. The overall tone is futuristic and innovative.

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Building a better
working world

TransRe's Brandt: Falling casualty and PL cede commissions not yet near floor

Increasing loss ratio projections on casualty and professional liability (PL) business mean reinsurers will continue to push further than the 2 to 4.5 percentage point falls in quota share ceding commissions seen so far, while the sharp softening in D&O is "irrational", according to TransRe CEO Ken Brandt.

Among other topics in a wide-ranging interview with *The Insurer TV*, the executive talked about the Berkshire Hathaway-owned reinsurer regrowing aggregate in the property cat hard market as well as demand and the need for reinsurers to hold the line in Europe and not just the US.

Brandt welcomed the ceding commission reductions that reinsurers have achieved on casualty and PL quota shares as dynamics in that segment have shifted in favour of sellers after the mid-30s cedes of the soft market.

He noted that for well-capitalised insurance company buyers, there is a "natural floor" to how low cede commissions can go before they will instead retain more of the business net by cutting

their cessions.

"I don't think we're near that floor, so I think we're in store for another year of ceding commission reductions," the executive predicted.

And he suggested that rather than just looking at taking points off cede commissions in isolation, the focus should be on what's happening to loss ratios in casualty and PL, as pricing begins to soften along with adverse development.

"You may get a 3 or 4 point reduction in the ceding commission, but if your loss ratio projection has gone up 10 or 15 points, you're really running up a down escalator," he commented.

Brandt said that a challenge in the market this year has been quota share programs coming up for renewal where it turned out that actual underlying rates on the expiring deals had come in well below the projections that the quota shares had been priced at.

"It turns out they didn't – unsurprisingly – get as much price as they thought they would over the past 12 months, and then they project

forward for 12 months and project a lot less price, maybe sometimes even negative price.

"And then on top of that a lot of these portfolios have a lot of adverse development from the 2013 to 2018 accident years – development beyond expectations. So that's a pretty toxic cocktail ... that's a tough renewal season and that's the season we're in right now. So it's going to certainly take more ceding commission reductions," said the TransRe CEO.

Irrational D&O market

While there has been moderation of underlying insurance rate increases in many areas of casualty and PL – and some softening apparent – the clear outlier has been public D&O, where pricing has fallen sharply.

Some market commentators have sought to put



You may get a 3 or 4 point reduction in the ceding commission, but if your loss ratio projection has gone up 10 or 15 points, you're really running up a down escalator
TransRe CEO Ken Brandt on casualty and professional liability quota shares



Talking points

- Casualty/PL ceding commissions down 2 to 4.5 points, but further to go
- TransRe CEO Brandt says underlying rate increases fell short of projections that QS deals were priced on
- Said there is a "natural floor" for commissions below which large carriers will retain more net
- "Irrational" and "unsustainable" D&O market as underlying rates slide
- In property cat TransRe has regrown its book at attractive rates and terms after slashing aggregate last year
- Higher attachment points have returned reinsurers to role of protecting balance sheets against volatility rather than earnings
- Cat demand expected to be strong while Europeans shouldn't expect reinsurers to ease off on pricing or terms

the sharp falls in the context of the drop-off in the SPAC and IPO market, which had been one of the drivers of dramatic price increases previously.

But Brandt was sceptical of that reasoning to explain rate decreases in the 20-50 percent range in some instances.

“The public D&O space, it’s hard to describe the rate increases going on there ... and it’s completely unsustainable and, you know, frankly it’s a bit insane,” he said.

“If you look at a risk they wrote last year, and they write the same risk this year at 25 percent less, it’s hard to rationalise that, given loss trends. It’s like the D&O underwriting community took a collective suicide pact. I don’t know what it’s doing, and it’s very concerning to us.

“Now they will say, ‘Well, we had tremendous price increases over the last couple of years, and limits reduction and all the rest of it’, and all of that is true. But the prior six years to that we had a soft market, so I don’t have an answer for it,” the executive continued.

Leaning in on property

Speaking to this publication at last year’s Monte Carlo *Rendez-Vous*, Brandt said that after significantly cutting back aggregate in property cat – including slashing 40-50 percent of its aggregate in 2022 – TransRe was open to regrowing the book if pricing and terms sufficiently improve.

The cat treaty market has since seen a significant shift in balance towards reinsurers with meaningful rate increases in most territories and a sector-wide hike in retentions to move away from attritional losses.

“[Last year] I mentioned that there was nothing financially ... nor even philosophically, holding us back from re-expanding our aggregate if the market improved sufficiently, and the market improved sufficiently.

“It’s really a generational hard market in property cat, so we re-expanded our aggregate all around the globe,” he confirmed.

Brandt noted the progress reinsurers have made in shifting away from writing low-attaching cat programs and aggregate programs, and the impact that is having on exposure to secondary perils.

“Property cat underwriters were providing earnings protection to ceding companies and those days are largely over. Not completely – but the attachment points have risen significantly and aggregate programs are pretty rare these days.

“So the property cat community has gone back to their traditional role of providing volatility protection for capital, not necessarily for earnings,” he observed.

Casualty rate movements – mid-year 2023

Territory	Pro rata commission	XoL – no loss emergence % change	XoL – with loss emergence % change
China	n/a	+7.5% to +20%	n/a
International – liability and professional lines	0%	+3% to +5%	+5% to +12.5%
United States – healthcare liability	-2.5% to 0%	-2.5% to 0%	+2.5% to 10%
United States – general third party liability	-1% to 0%	0% to +5%	+5% to +15%
United States – professional liability	-3.0% to 0%	0% to +10%	+5% to +15%
United States – workers’ compensation	n/a	+12.7%	+12.7%

Note: Movements are risk-adjusted

Source: Gallagher Re

Cat demand and European exposures

TransRe’s Brandt said he expects continued strong demand from buyers for additional limit, even after the expected amount of incremental purchasing flagged in the build-up to the last 1 January renewal didn’t materialise.

He highlighted continued inflation, which is considered to run higher for the property insurance industry post loss event than the consumer price index or other broader economic measures because of continued labour and building materials shortages.

“So I think the demand is still there. I think the supply is there, on the reinsurance side, to meet that demand. It’s just going to get down to the economics whether the ceding companies can afford it,” said Brandt.

The TransRe CEO – who assumed the role in 2021 following Mike Sapnar’s exit – also said he expects the European market and US market will remain in lockstep on cat, even in the absence of major events in Europe this year.

“I don’t think the rate and term changes that Europe faced in 2023 happened to bring them into line with what was happening in the US. They happened because Europe has shown itself to be just as exposed to loss and secondary peril losses as any other territory in the world, including the US.

“You think about the German floods and the French hailstorms and the Italian floods and even Covid-19 losses, which obviously found their way into the property cat covers – and Europe is not immune to inflation ... in fact, it’s arguably more severe there than in the US.

“So, whether the reinsurance market tightens further in Europe, is similar to the US or not, is probably a coincidence ... they will be priced based upon the real exposures that exist in Europe,” he concluded.



Calling in the SWAT team

When the catastrophe market was heading towards a capacity crunch last year, Howden Tiger innovated to find the capital its clients desperately needed. Jarad Madea explains how its specially formed cat SWAT team overcame the crisis

When Hurricane Ian made landfall in the US as a Category 4 storm on 28 September last year, with sustained winds of 150 mph, it caused an estimated \$113bn of economic damage. Even for an area as familiar with hurricanes as the Caribbean and US south coast, this was a significant disaster and it quickly became clear this was the tipping point in a growing supply/demand imbalance in the global cat reinsurance market.

By mid-2022, increasing numbers of reinsurers and investors were pulling away from the property cat space. The sector had become too volatile, with the unpredictability of inflation, interest rates and – yes – climate change compounding risk. Simultaneously, growing demand was worsening this imbalance and this was even before the \$113bn Hurricane Ian hit.

As many reinsurers were shying away from their primary purpose – to absorb volatility shocks for primary carriers – we knew we had to do something.

We knew we had to form our own cat capacity SWAT team.

Calling in back-up

Standing for Special Weapons and Tactics, SWAT teams are best-of-the-best agents that support law enforcement in extraordinary situations. Our clients were severely concerned about capacity availability for the first time in decades, and a special problem calls for a special response.

This unit gathered expertise from throughout the organisation, and across many geographies, with the simple goal of finding much-needed capital. We enthusiastically searched for new capital, leveraging our relationships with institutional investors, while helping our insurance clients to optimise their portfolios and minimise the amount of reinsurance coverage they needed.

Everyone at Howden Tiger was thinking creatively about how to generate new sources of supply while

mitigating the demand as best possible.

This led us to come up with innovative solutions. A good example of this was assisting Ariel Re in raising \$270mn of new capital to support the underwriting of its Lloyd's platform, Syndicate 1910. This transaction was completed through Lloyd's London Bridge 2 platform, which acts as a transformer vehicle to allow ILS and third-party investors to back syndicates. In addition, we assisted Ark Insurance Holdings Limited in raising \$250mn of capital through its Outrigger Re Ltd special purpose insurer. In addition to these two specific transactions, our SWAT team explored and assisted clients with numerous other alternative structures, including

raising capital for fronting carriers, reciprocal exchanges, cat bonds, captives, additional sidecars and more.

“While the suppliers of capital always have plenty of alternative opportunities to invest in, our discussions with investors have been more positive this year than last

Standing guard

Though we have seen the market stabilise somewhat and the capacity gap become nuanced, uncertainty is still very much around us. While the suppliers of capital always have plenty of alternative opportunities to invest in, our discussions with investors have been more positive this year than last,

and we believe that for the right sponsor along with the right opportunity and structure, capital is available in this space. Some investors are still not convinced of the market dynamics and will need to wait and see how the next six to 12 months play out before re-entering the space. However, prices appear to be stable at new higher levels offering attractive returns, which gives comfort to investors.

Our SWAT team has found hundreds of millions of dollars of new capacity through various structures to support our clients. The capacity crunch is still lingering and we remain in the midst of the 2023 hurricane season so we will continue to provide the back-up, effort and creativity our clients need.



Jarad Madea
is CEO of
Howden
Tiger Capital
Markets &
Advisory



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Maintaining discipline in a loss environment

Jason Busti, president, North America at Axis Re, explains some of the key trends in the North American reinsurance market

What have been the biggest reinsurance trends in North America over 2023? Have there been any notable differences between Canada and the US?

The reinsurance market in North America is complex, and while we expect firming conditions to continue, we should not become complacent or consider the loss trends fully addressed. Whether focusing on climate risk, social inflation, or other specific loss influencers, the ability to predict outcomes has never been more challenging. Given this elevated uncertainty, the ongoing trend of rate increases, structure changes and reduced ceding commissions will have to continue. While this has been most pronounced on property as of late, we expect this will continue across other lines of business, particularly in the long-tail space.

In terms of comparing Canada and the US, the legal systems are entirely different – as are loss dynamics. This market is also experiencing an impact from social inflation. For example, Canadian insureds with auto fleets are being impacted by US-type losses when they are crossing the border between the two countries. This is one of several factors that need to be addressed and will result in coverage and pricing actions.

What are the biggest challenges and opportunities in North American reinsurance?

The current market is dynamic, and different product lines are evolving differently. Given this environment, we are observing diverging strategies between companies, and opportunities very much depend on each approach. At Axis, our strategy is to be a focused specialist reinsurer. Our focused appetite enables us to differentiate by line of business and work with our partners to find intersections for mutually profitable growth.

The biggest challenge is loss trends and, related to that, ensuring the right pricing and terms are achieved. While a meaningful rate has come into the

market in recent years, the loss side of the equation remains complex and unpredictable. Headwinds include social inflation, increased medical costs and emerging treatments like cell and gene therapies. Further, there are lines in the primary insurance market that are already showing signs of softening. Financial lines, especially public D&O, is one example. As a result, this business should be under elevated pressure in the reinsurance market.

What is your outlook in North America for the coming renewal season?

The expectation is that reinsurers will continue to be disciplined and apply further pressure on terms. As we go into 2024, we anticipate an increased focus on the profitability of all lines and increases in rates and reductions on ceding commissions – especially where underlying rates are not covering the trend. There is no reason to chase premium at the expense of profitability given the challenging loss environment that exists.

What developments are happening in this space on the diversity, equity and inclusion (DEI) side?

There are many exciting DEI developments across the industry. At Axis, our approach to DEI aims to strengthen a sense of inclusion and drive employee engagement – ultimately fostering a culture to retain and recruit top talent.

While the momentum around DEI is exciting, there is a significant talent gap in the North American market. This is especially pronounced in Canada, which has a smaller pool to begin with. As industry experts continue to reach retirement age, the talent pipeline to replace outgoing thought leadership is limited. Further, the expansion of many broker firms and the establishment of start-ups and MGAs have put further stress on the remaining talent.

We need to continue to work as an industry to increase diverse senior leadership representation by focusing more on internal mobility and career development and creating a foundation for the future through recruitment and expanding diverse pools of talent.



Jason Busti,
president,
North America
at Axis Re



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RenRe's Marra: Validus acquisition will accelerate access to opportunities at 1.1

RenaissanceRe's pending acquisition of Validus Re is perfectly timed for the combined business to bring expertise and potentially bigger line sizes – supported by the Bermudian's Capital Partners platform – to meet client needs at 1.1, according to group CUO David Marra.

In May it was announced that RenRe had agreed a deal to buy Validus Re from AIG for around \$3bn, with the transaction – which includes ILS manager AlphaCat – slated to close during the fourth quarter.

Talking to *The Insurer TV*, Marra said RenRe is “really optimistic” about the opportunities it expects to see at the end of the year, after what has been a step-change for reinsurers in 2023 characterised by a hard market in property cat and significant improvements in casualty and specialty classes too.

“And that’s part of why the Validus acquisition has such great timing – we’re able to accelerate our access to that business. It will be in property cat, it will be in non-property cat and we are well-positioned to tackle those in the new year,” he commented.

The combined RenRe and Validus business will amount to over \$12bn of assumed premium, but Marra said the scale and number five ranking doesn’t tell the full story.

He suggested that in areas where the expanded reinsurer will focus – such as property cat excess of loss, casualty, specialty and credit classes – it will often be among the top three.

“But it isn’t really just about whether it’s number one, number five or number 10 ... it’s about what we do with it, and that’s where we’re really excited,” Marra commented.

The executive said that RenRe and Validus represent two of the best underwriting shops in the market.

“The amount of expertise in the combined companies will be extremely valuable, that will help us develop bespoke solutions, solve our clients’ biggest problems, and just bring more expertise to the market.

“That will help us take bigger line sizes [that will be] up there with some of the biggest in the market,” he continued.

Marra said that as well as the larger balance sheet created by the combination, the availability of bigger line sizes will be facilitated by the joint ventures and other managed capital vehicles that the Bermudian will continue to grow.

RenRe Capital Partners includes a series of joint ventures and other vehicles such as Top Layer Re, DaVinci Re, Vermeer and Fontana, as well as retro fund Upsilon and cat bond-focused Medici.

“Overall, it culminates in what I think will be a very big differentiator [with] our ability to construct portfolios ... with these tools and this expertise we will be able to tailor those portfolios to what a client needs.

“So, for example, if a monoline cat client needs a big cat line, we’ll find the efficient capital for that; if a monoline credit company needs a big credit line and some bespoke coverage we’ll be able to provide that product; or maybe a multinational corporation or insurer needs multiclass coverage and a lot of support and expertise as to how those different businesses are running, we’ll be able to approach that too,” said the executive.

Marra said that with previous acquisitions by RenRe there had been some classes that were not within the Bermudian’s appetite.

But the RenRe and Validus underwriting cultures are a “very good fit”, with the acquired company providing more options and abilities to deploy.

“Every class that Validus writes is within our risk appetite,” he explained, adding that after the deal closes the combined business will operate as a single team.

The RenRe group CUO also suggested that the company will be able to more efficiently operate AlphaCat as part of its Capital Partners business because of its capital structure compared to that of AIG.

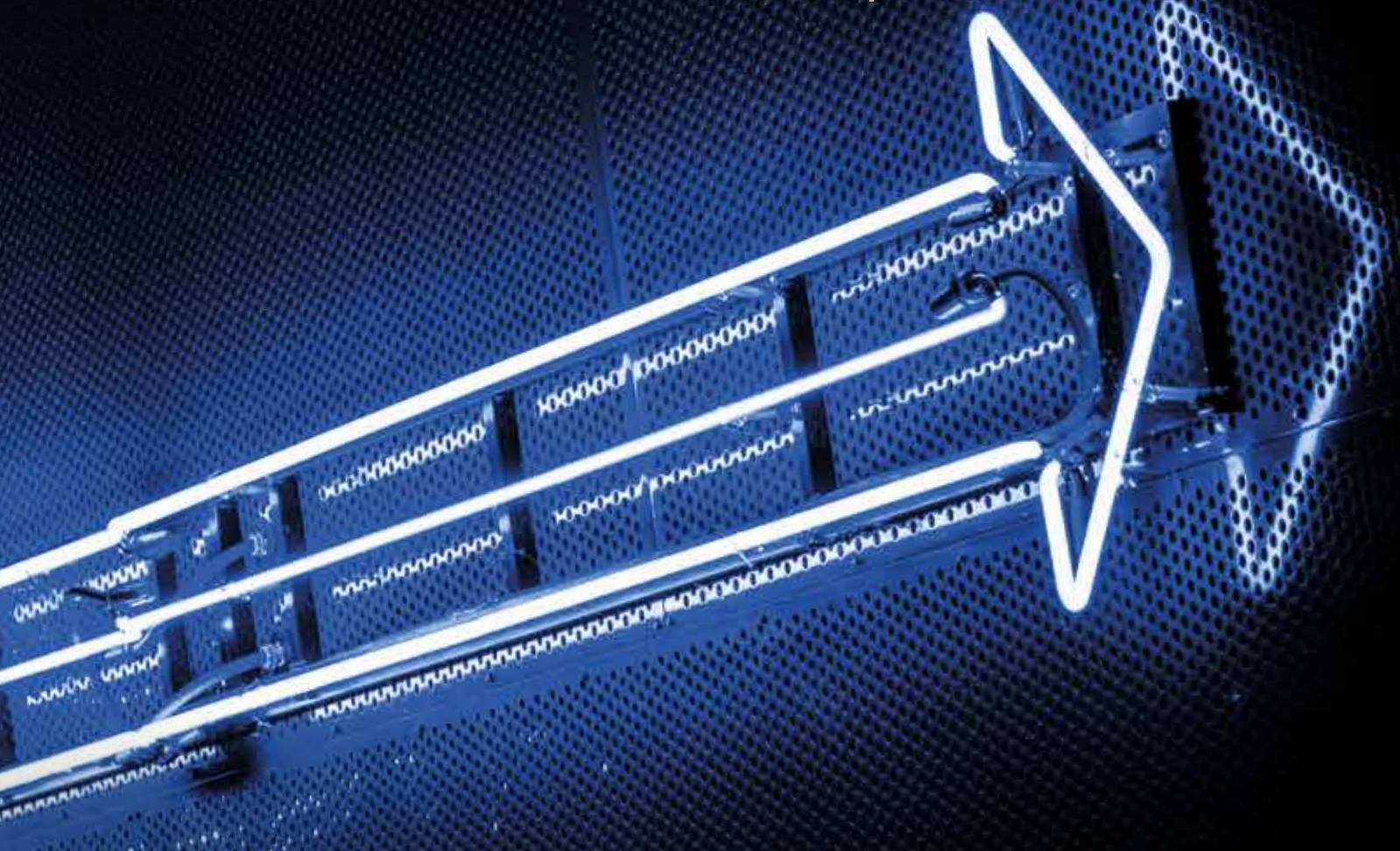


RenRe group
CUO David
Marra



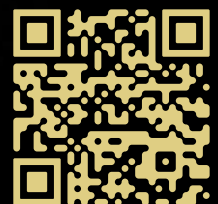
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Navigating reinsurance renewals: Adaptability is a must

BMS Re's Andrew Wheeler highlights the dynamics that will shape upcoming renewals

As we swiftly approach another reinsurance renewal cycle, a tapestry of challenges and opportunities will emerge, prompting the industry to take stock and shape a clear path forward.

This year, with a positive and incisive approach, it's possible for nimble reinsurers to seize the moment and help clients in ways they haven't before.

Turbulent times

One of the reinsurance sector's most pressing concerns remains effectively managing catastrophe exposures while attempting to comprehend the repercussions of climate change. Sustained economic and social inflation, compounded by the post-Covid trading environment, will also demand flexibility and resilience. History tells us that complex and evolving risks necessitate innovative underwriting approaches. We should expect a continuation of that trend this year.

The industry's adaptability will be challenged by persistent volatility stemming from geopolitical tensions like the war in Ukraine, as well as natural disasters such as the Hawaii wildfires and torrential California rains. Moreover, after Covid, the legal landscape has become more complex.

This includes issues such as court backlogs and delays, plus attempts to hinder tort law reform by some plaintiff attorneys. Additionally, ongoing changes in how reinsurers assess risks will also add to this challenging period.

With finite capacity, reinsurers are now focusing on selecting better risks, indicating a move towards prioritising quality.

In other words, the soft market era is over, making way for tighter terms and conditions which will continue to impact the industry landscape.

“
The focus needs to shift to supporting clients to realise strategic objectives, be they capital acquisitions, territorial expansion or ESG targets
 ”



Andrew Wheeler is president at BMS Re

The era of data and diversification

Amidst these challenges lies a realm of opportunities for growth and transformation. The reinsurance sector can solidify its position as a strategic partner to clients by providing tailored products that cater to their evolving needs. And increasingly, these products and services will sit beyond what longstanding *Rendez-Vous* attendees might consider to be 'reinsurance'.

Data will remain the currency of the reinsurance world, informing risk management, strategic planning and beyond. Indeed, BMS's own data and analytics platform, Pathlight Analytics, is built around addressing client needs, specifically by providing actionable insights to clients rather than generic data outputs. Having the Pathlight platform as a core component of our offering has unlocked a myriad of opportunities for our clients.

Utilising data technology to help predict the world around us is one thing; having the right people and entrepreneurial culture to help clients truly understand, and act on, their needs is just as important. Collectively, our varied and talented teams allow us to be agnostic in the capital solutions we offer clients.

Standing ready for change

This renewal period, every reinsurance professional must prioritise understanding clients' needs. Transcending transactional interactions, the focus needs to shift to supporting clients to realise strategic objectives, be they capital acquisitions, territorial expansion or ESG targets.

The breakdown of industry silos to forge hybrid solutions will become instrumental for success. Our global reinsurance team is made up of talent working from North and South America, Europe and Asia – we are set to relish the upcoming challenge.

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**Rising rates, shrinking
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Time to broaden your catastrophe risk landscape thinking

Moody's RMS' Robert Muir-Wood highlights plausible catastrophe scenarios that are worthy of further analysis

When analysing catastrophes, there can be a tendency towards a recency bias, over-influenced by actual events of the past 10 or 20 years, their locations, impacts and consequences.

But we know from stochastic modelling that each actual event is a sample from a wide range of possible events, all of which may be equally likely. Contemplating whether some recent catastrophe could have been more, or less, impactful through small variations in its trace, source, or severity is helpful for avoiding the belief that any actual event is somehow 'iconic', to be employed for special portfolio analysis or used as a key benchmark.

Selecting new potential catastrophic scenarios, or even adjusting the parameters of events that have happened, can help to highlight catastrophe potential and how an event could impact portfolios.

To encourage an appropriately balanced perspective on catastrophe risk, Moody's RMS has selected a set of seven less familiar potential catastrophes, without recent examples, that could each bring significant losses to the (re)insurance market.

We endeavoured to identify credible events which are not simply replicas of recent catastrophes. For instance, these may be events with the potential to be particularly devastating because they are not being prepared for.

If you visit <https://www.rms.com/blog> you can find out more about six new catastrophe scenarios with significant loss potential, ranging from a

New England hurricane and European convective storms to flooding in major industrial parks across Southeast Asia, and more.

As a taster, let's look in more detail at a Category 3 or 4 New England Cape Cod hurricane, which also hits the city of Boston.

The last hurricane to affect Boston was Hurricane Bob, which first made landfall on Rhode Island on 19 August 1991 at Category 2 strength. Starting life as an area of low pressure in the Bahamas three days earlier, it intensified as it tracked the East Coast. The only landfalling hurricane in the contiguous US in 1991, it caused \$1.5bn in damages.

Our proposed scenario is an intense, fast-moving Category 3/4 borderline storm, comparable to the Category 5 Great New England Hurricane of 1938 with its northerly track, only landfalling further to the east on Cape Cod. The track continues to the east of Boston bringing Category 2 winds over the city, accompanied by a storm surge, bringing storm flooding to the city. Also directly hit are Newport, Rhode Island and Long Island resorts – with the Hamptons to the left of the track.

The southern parts of Boston are at the highest risk of flooding, including the seaport area, and many areas in surrounding towns to the north of the city that border the Mystic and Chelsea Rivers.

This region has regular tropical storms making landfall, with two events in 2021. Check out our list of plausible events that we think are worthy of further analysis as part of an effective broadening of risk assessment practices.

“We know from stochastic modelling that each actual event is a sample from a wide range of possible events, all of which may be equally likely”



Robert Muir-Wood is chief research officer at Moody's RMS



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Triggering a rise in cat capacity

Perils' Darryl Pidcock discusses the importance of industry loss triggers in supporting the sustainability of the cat market

Industry loss triggers are playing an increasingly important role in international retrocession markets as protection buyers become more sophisticated in managing their cat risk.

The ILS market has experienced a record year with over \$10bn in new transactions and over \$40bn in risk limits outstanding. This has been driven largely by US primary insurer cat issuances. Most of the US primary sponsored issuances have used indemnity-based or ultimate net loss triggers, which theoretically have zero basis risk.

For retrocession buyers, i.e. reinsurers or ILS funds buying reinsurance, the need to disclose proprietary portfolio information, which is often highly complex and constantly moving, can present challenges. Moreover, the analysis of such complex reinsurance portfolio data presents significant uncertainties in terms of risk assessment and the determination of the expected loss costs.

Industry loss triggers, in particular structured triggers, require much less disclosure for the protection buyer while the risk assessment is more straightforward and transparent. Protection buyers can structure the industry loss trigger with different weights per geographical area (e.g., countries, Cresta zones) or line of business (e.g., personal lines, commercial lines) which reduces the basis risk of the transaction through better alignment with the buyer's underlying portfolio. This can be attractive to both protection sellers and buyers as the risk assessment is well understood, disclosure requirements are manageable, and basis risk is acceptable.

For 144A ILS transactions, there is the added benefit in secondary trading whereby transactions using industry loss triggers have demonstrated higher liquidity compared to other trigger types. Investors are often attracted to issuances with simpler and more transparent loss triggers.

Where Perils acts as the reporting agent, 80 percent of the cat capacity transacted as a proportion of total limits has used structured industry loss triggers, which helps to significantly reduce basis risk for protection buyers.

Structured vs non-structured industry loss triggers

Structured industry loss triggers use different weights per geographical area or line of business, providing an efficient means to lower the basis risk in industry loss-based risk transfer. Based upon Perils-based limits at risk as per 1 August 2023, 82 percent of the capacity uses structured industry loss triggers.

While a lot of alternative capital is focused on US primary cat exposures, at Perils we are seeing increasing use of industry loss triggers for retrocession purposes for other peak cat markets such as Europe and Japan.

We have also observed recent interest from retrocession buyers in non-peak cat markets in using industry loss triggers, likely because indemnity-based structures are less attractive to investors because of the aforementioned challenges with portfolio data and risk assessment.

Underlying this trend is the fact that industry loss triggers are to date the most widely used non-indemnity trigger in the alternative risk transfer market.

Many market forecasts expect the supply of traditional reinsurance and retrocession capital to remain restricted for the foreseeable future. The use of industry loss triggers becomes increasingly important as risk protection demand exceeds supply of capital. Such triggers can help protection buyers to access retrocession capacity, reduce basis risk and offer efficiencies by simplifying the risk assessment process, while also offering greater transparency to the protection seller. We believe such structures can benefit protection buyers and sellers in creating a more sustainable cat market.

We have also observed recent interest from retrocession buyers in non-peak cat markets in using industry loss triggers



Darryl Pidcock is head of Perils Asia-Pacific

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OdysseyRe's Overy: Further corrections are needed at 1.1

OdysseyRe's Carl Overy discusses his first six months as CEO and his outlook for the 1.1 renewals

Carl Overy was appointed global CEO of Odyssey Reinsurance Company in April 2023. He most recently served as CEO of Odyssey Group's London market division for the past 15 years, which encompasses both OdysseyRe's London branch and Newline Group, the international insurance arm of Odyssey Group.

How would you describe the first six months in your new role?

As OdysseyRe's global CEO, I manage the company's reinsurance portfolio and underwriting platform operating through five regions: North America, Latin America, EMEA, Asia Pacific and London. In these first six months, I made it a priority to visit as many of our offices as possible, making connections with our local underwriting teams and understanding their portfolios of business. What was immediately apparent is the strength and depth of talent within each of our regions. This, combined with the stability of leadership over the years, has greatly eased my transition. OdysseyRe has truly been built to stand the test of time, and our longevity, underwriting discipline and quality service is a testament to our dedicated, hard-working employees around the world.

It's a very exciting time for OdysseyRe at the moment. Over the first two quarters of 2023, gross premiums written were just under \$2bn, up 13 percent from last year, with growth across all reinsurance divisions. We're seeing rate increases and improvements across almost all major classes of business, which is much needed given how poorly the reinsurance market has performed in recent years.

Looking ahead to 1.1, what will drive the market and what do you expect to see?

The market has evolved compared to the 1 January 2023 renewal period, and I would say has been relatively orderly since then with greater balance between insurer and reinsurer expectations when it comes to price. The property cat market remains firm, and reinsurers are now being more

appropriately compensated for the risk they are assuming, particularly in the US, so any rating action at 1.1 is likely to be far less material than what we have seen recently. Outside the US, further change is necessary, as we often see significant capacity being deployed with very little reward for reinsurers. This, against the backdrop of a number of recent catastrophes, particularly in Europe, suggests that more correction is required at 1.1.

Looking at casualty, we are seeing further deterioration across back years such as 2014-2019. Primary market rates are flattening and reducing materially in areas such as cyber and D&O, and inflation remains relatively high, which will serve to compress underwriting margins despite improvements in terms witnessed this year. Again, this suggests that further corrections are needed at 1.1.

Whether or not this happens will clearly be dependent on cat activity between now and year-end, the influx of any new capacity and the hunger of existing capacity providers.

“
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”

What more can you tell us about Odyssey?

From my perspective, Odyssey's culture is one of a kind and stems from our people, many of whom have worked for us for decades, and from our parent company, Fairfax Financial Holdings Limited. We have a clear understanding of our risk appetite and the importance of great customer service both internally and externally. We operate with honesty and integrity, and in a collaborative manner with all our business partners.

Diversity has also been an important aspect of our success, and we embrace opportunities to bring in young, diverse and talented individuals to work for us. In fact, we have several educational programmes that provide internships, work-study arrangements and mentoring, all in an effort to present (re)insurance as an incredibly worthy, stable and enjoyable career.

Finally, it's also important we give back when profits are made, and charitable giving is at the heart of Odyssey. Our philanthropic endeavours, including employee-directed campaigns, have enabled us to contribute over \$70mn to more than 450 charitable organisations around the world.



Carl Overy is global CEO of Odyssey Reinsurance Company

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Communicating change: Managing broker and client relationships in an evolving market

Liberty Mutual Re's Dieter Winkel on the need to adapt to a shifting market landscape

The world of reinsurance is undergoing a significant transformation, ushering in a new paradigm.

As we navigate these changes, effective communication is paramount. In a landscape of uncertainty and change, the importance of maintaining transparent and robust lines of communication with our valued clients and brokers cannot be overstated.

In an era when the reinsurance market is experiencing profound shifts and unexpected challenges, the role of clear and honest communication emerges as a cornerstone for success.

As we approach the renewal season, I am reminded of this yet again. Timely discussions about our expectations and objectives are essential to identify and seize opportunities effectively.

Reflecting on the aftermath of the previous renewal cycle, a level of disorganisation and last-minute decision-making in the market resulted in heightened uncertainty, benefiting no one.

Prominent reinsurance conferences like the *Monte Carlo Rendez-Vous de Septembre* present an ideal platform for engaging in focused conversations with individual clients. These discussions revolve around upcoming renewal needs, capacity availability, trends and the evolution of strategies. While flexibility is key, our commitment as a dependable partner remains unwavering.

Given the historical backdrop of subpar returns in the reinsurance market and the mounting uncertainties within the risk landscape, the call for sustainable reinsurance structures and terms and conditions is now more resonant than ever before.

In the past and in years without significant market events, the topics at these conferences were limited to specific client needs and maybe some general posturing about price movements. Structures and wordings have been less of a focus. However, the discussions have now firmly and rightly shifted to encompass changing structuring, higher retention levels and the refinement of terms and conditions.

The market is shifting – it's time to shape it together

As the market landscape continues to shift, tough decisions are inevitable and will continue to have to be made. Retention levels, pricing adequacy and coverage will remain in focus. Further increases and tightening will be required in some areas. Communicating these shifts in risk appetite and product line strategies to our clients with transparency is paramount.

The evolving reinsurance landscape also means that we need new and better data points to evaluate risk. Aside from communicating on risk appetite,

the reinsurance market also needs to continue clearly laying out its requirements for more and better data points, and to ensure seamless information flow across all stakeholders.

“
As the market landscape continues to shift, tough decisions are inevitable and will continue to have to be made. Retention levels, pricing adequacy and coverage will remain in focus

Climate change – an example of collaboration towards a future risk model

How the market is handling climate change is a positive example of what can be achieved through collaboration and effective dialogue. By acknowledging the emergence of non-modelled losses stemming from climate-related events,

the industry has incorporated a broader perspective into the reinsurance conversation.

The communication challenge of the future reinsurance paradigm

The future reinsurance paradigm calls for all parties to align their understanding of coverage, risk appetite and objectives through clear and timely communication, supported by a robust, data-driven information exchange. In an environment where adaptability and creativity are pivotal, client and broker relationships should be anchored in transparency, reliability and trust.

At LM Re, our experience equips us to guide partners through a range of challenges across various product lines and markets. We are well positioned to navigate the transition with the agility to act quickly and the expertise to develop solutions for our clients.



Dieter Winkel is president of Liberty Mutual Reinsurance



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New storm surge scenarios deliver greater certainty over UK flood risk impact

Gallagher Re's Iain Willis presents new research on UK storm surge risk

Exactly 70 years on from the devastating 1953 North Sea floods, new joint research by the Gallagher Research Centre (GRC) and HR Wallingford highlights that 60,000 households may be at risk from a UK storm surge event, with climate change-driven sea-level rise exposing a further 17,000 properties by 2050.

These new realistic disaster scenarios will support UK insurers in stress testing their exposure to coastal flood risk, while helping explore the impacts of potential UK flood defence breaches and how this risk will increase with climate change.

Two extreme but plausible UK storm surge scenarios were developed separately for the country's east and west coasts. The choice of scenario regions was based on a combination of historic surge activity and potential insurance impact. An additional analysis of the same events estimated the impact of climate change on these events in 2050 through a Representative Concentration Pathway (RCP) 4.5 emissions scenario.

The performance of coastal flood defences is critical to mitigating storm surge risk – particularly here in the UK. This is the first study where we've really explored in any detail what the realistic parameters of property exposure and insurance loss could look like for different UK coastal communities if defences

are breached. More than that, it provides a glimpse into how climate change-driven sea level rise will steadily increase the loss potential of these UK surges in the future.

Historical losses

The UK has experienced several notable coastal floods over the past century. As Table 1 shows, the most devastating of these were the North Sea floods of 1953, which resulted in 307 fatalities and damage to 24,000 properties. It was the single biggest loss of life from flooding in the UK and Europe in the 20th century and caused levels of damage that today would cost more than £1bn.

Though UK surge events in recent years have been mitigated by effective flood protection, the 2013/2014 UK winter season resulted in £500mn of damage. Fifty flood defence breaches occurred and 2,800 properties were flooded.

Origin of UK storm surges

In the northern hemisphere's winter months, it is common for low pressure synoptic weather systems to track across the North Atlantic to Europe. The combination of a low centre of pressure, diurnal tidal ranges and wind-driven waves can lead to large masses of water being pushed against UK coastlines. The phenomenon is commonly

Table 1: Notable North Sea floods

Year	Storm name/cause	Result
1953	North Sea Flood	2m high storm surge, 307 people dead, 24,000 homes damaged and 1,000km ² of land flooded. Caused the building of the Thames Barrier, protecting London from a 1 in 1,000 year storm surge
1978	Greenland low pressure system	1,400 homes flooded, one death, 22 children evacuated from hospital, multiple defences breached. In some areas storm surge was higher than in 1953
1990	Storm Vivian	One of the most severe coastal floods in the UK. 3,000 properties flooded, up to 50 deaths linked to flood. 50% of houses uninsured. £1.4bn insured loss
2005	Storm Gero + Icelandic low pressure system	Storm surge between 0.5–1.5m. Five deaths, 1,800 properties flooded and 60,000 power affected, £600mn insured loss
2013	Storm Xaver	2,800 properties flooded, £314mn insured loss, around 50 defence breaches

Source: The Ivan D. Haigh database

known as storm surge, and can result in flooding as water levels far exceed expected tidal ranges.

The North Sea is particularly susceptible to large tidal surges as wind, atmospheric pressure and tidal actions can combine at the same time along the length of the east coast.

Exposure dataset

A geospatial residential and commercial property database was used to locate properties at risk. Insured values were then disaggregated from a Gallagher Re UK market portfolio to assign residential and commercial insured values within the property portfolio. Low-lying areas of the UK coastline are particularly at risk of storm surge. By aggregating the exposure database within areas that have an elevation ranging between 0 metres and 8 metres above sea level, it showed that 13 percent of households in the UK may be at risk of coastal flooding, with a significant concentration along the east and west coasts.

Hazard simulation

Scenarios were chosen from a catalogue of extreme surge events, focusing on the severity and potential impact they could have on heavily exposed coastlines. The next step was to take the initial sea-state (i.e. surge) of the events selected and simulate their interaction with the coastal regions using 2D hydrodynamic modelling. This was undertaken by HR Wallingford using high-resolution Lidar data.

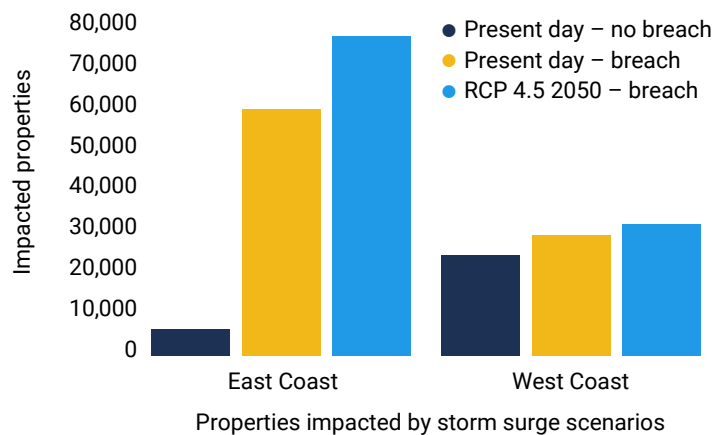
Flood breaching was based upon flood defence reliability analysis comprised within a national set of fragility curves created by HR Wallingford's flood defence model. The analysis was implemented across a number of known flood defence locations with alternative widths and sections breaching in different model simulations.

To account for climate change, the UK climate projections were used to assign the projected RCP4.5 sea level rise estimates for 2050. This scenario was selected as it most closely matches the CBES regulatory requirements of climate stress test scenarios for the UK.

The simulated flood footprints were then compared to Gallagher Re's insured market portfolio and UK coastal flood vulnerability curves, producing estimates for the number of impacted properties in each scenario, as shown in Figure 1.

The worst-case scenario of breaching for the east coast of the UK was shown to result in a tenfold

Figure 1: Properties impacted by the east and west coast storm surge scenarios



Source: Gallagher Re

increase in the number of flooded properties. The west coast event shows a similar trend but as defences are lower on the west coast of the UK, the impact of breaching of defences is less pronounced.

Impacted areas of the west coast scenario include Blackpool (Lancashire) and Bristol, while the east coast event impacts Hull (Yorkshire), Skegness (Lincolnshire), King's Lynn (Norfolk), Southend (Essex) and Sandwich (Kent).

Climate change

The storm surge scenarios also provide a valuable tool for simulating the effects of climate change on UK coastal flood risk for insurers. The research shows how anticipated sea level rise by 2050 will only increase loss potential from UK storm surges. Based on the RCP4.5 2050 climate scenario, an additional 16,000 insured properties could be impacted on the east coast. Climate change

significantly increases the flood footprint across towns such as Great Yarmouth and Hull.

It is important to note that climate change has two impacts: it impacts the number of properties flooded, but also the depth of flooding experienced by properties already at risk – further exacerbating losses. It is estimated that an additional 24 percent and 6 percent of the exposure will be flooded with a depth that exceeds 0.5 metres and 1 metre, respectively.

The above is an excerpt from the Gallagher Research Centre's paper 'New Realistic Storm Surge Scenarios for UK Insurers', published by Gallagher Re on 9 August, 2023.

“ **For our insurer clients and the wider UK insurance industry, the partnership between the GRC and HR Wallingford has delivered valuable insight into the realistic ramifications of storm surge and defence breach around our shores**

**Ian Kerton, UK CEO,
Gallagher Re**



Ian Willis
is research
director,
Gallagher
Research
Centre at
Gallagher Re

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 answer our client's 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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Unleashing growth by modernising an age-old industry

EY's Simon Burtwell and Sophia Yen on steps the industry can take to unleash growth

Climate risks, geopolitical risks and macroeconomic uncertainties are all continuing to drive up reinsurance rates. There is a continued tightening of capacity for catastrophe risks with a flow of \$70bn in premiums into the captive market. The net effect is a further widening of the protection gap, which leaves many businesses and communities either underinsured or uninsured.

So how can the industry unleash growth at the same time as it helps shrink the protection gap? We believe insurers that embrace a few powerful forces can fundamentally change the future of the reinsurance marketplace – and for the better.

1) Generating insights from data, data everywhere

With unprecedented data volumes and varieties at their disposal, too many incumbent insurers are stuck with archaic processes and manual methods, which limits their ability to produce high-value insights. At the same time, new entrants leverage the power of advanced technology to launch new services, enrich their value propositions and become customers' choice for risk protection.

If data is the new oil (as the saying goes), then the question to ask is whether your company has the right refinery. How reinsurers use advanced analytics and their massive data sets to optimise reinsurance strategies and portfolio management will determine the health of their balance sheets in the future.

2) Innovating risk protection with risk mitigation

Because risks have never been more threatening, it's tempting for insurers to simply withdraw from the most volatile perils. But now's the time to add risk mitigation to traditional risk protection. Consider how sensors and connected devices can help mitigate total insured losses even after a loss trigger. Innovative loss

control measures enable reinsurers to stay engaged – and profitable – in tougher market conditions.

Demand is also increasing for tailored, flexible and alternative offerings (e.g., parametric-based ILS coverage). Such solutions are critical to addressing ever-intensifying climate risks. Future success starts with the development of robust, data-driven risk prevention services customised for each industry segment and region's needs and risk profiles. Indeed, many of the highest-impact recent reinsurance innovations reflect the reality that customers value risk prevention as much as protection.

3) Harnessing the power of partnerships

Reinsurers are uniquely positioned to lead the way in closing the protection gap. Public-private partnerships are one critical factor. We know that uninsured and underinsured risks cost governments multiples of original loss amounts. Reinsurers have the expertise to contribute to the design of technology-led risk prevention solutions that will help prepare individual policyholders and entire communities for floods, severe storms and other potentially catastrophic events.

These partnerships may also include traditional carriers, industry associations, insurtechs and other new players. That's true because the risks we face today – especially from climate change – are too complex and the protection gap too large for any single company or industry to address on their own.

What's true of the current insurance landscape is also true of the reinsurance industry: past success doesn't guarantee future market leadership. The demand for innovative solutions and enhanced value propositions is so large and urgent that someone will fill it. Whether that someone is a traditional firm or a new player remains to be seen.

“ The risks we face today – especially from climate change – are too complex and the protection gap too large for any single company or industry to address on their own ”



Simon Burtwell is EY EMEA and UK financial services consulting insurance leader. Sophia Yen is EY Americas insurance strategy and innovation leader

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Rebalance is critical



QBE Re's Chris Killourhy on the need to prioritise long-term, sustainable growth through finding a balance of risk

We can't be all things to all people at QBE Re, but I think we can be all things to some people.

We're often asked about our core strategy as a reinsurer, and first and foremost our focus is on long-term partnerships, deploying capacity in a way which deliberately complements the broader QBE Group.

It is important that we are seen as relevant and over time this may mean redeploying capacity within programs and between cedants. We typically prefer to provide more capacity to a targeted number of cedants where we can ensure a solid understanding of the risk we are underwriting, rather than spreading our capacity and capability too thin.

At QBE Re we often talk about sourcing risk through two key pillars. The first is where we play in the same markets as our insurance colleagues, but writing higher up programs to build a buffer between a difficult year for insurance and reinsurance. We are fortunate to benefit from a strong A+ rated balance sheet, geographic presence in Bermuda, Europe (Brussels, Dublin and London) and North America, and an impressive mix of products.

The second is where we play a role in accessing diversifying risk pools where our insurance franchise carries less exposure. If we join these attributes together in our broker and client proposition, I feel we can be an attractive market.

Growth and balance

Last year Andrew Horton, QBE Group CEO, stated that we were in reinsurance growth mode, but also looking to reduce volatility, with a step back from property cat and retro.

Our priority has been the re-positioning of our book and a focus on ensuring our program entry points are set at appropriate levels. While cat premium rates are now getting to attractive levels,

we don't want to be growing cat positions only to have to cut back if the cycle were to turn.

We are committed to managing volatility, but this doesn't equate to taking less risk. Portfolio optimisation is everything within reinsurance and our focus is on taking risk in a deliberate way, ensuring diversification by product, geography, industry and client to help reduce the risk of an outsize loss from any single event.

Rebalance is critical; property remains a key part of our proposition but, through careful growth of non-correlating portfolios, we have reduced property to less than a third of our book. We recognise the value of our property capacity but we're deliberate in how we deploy it.

For our casualty program, portfolio management is front of mind again. Our focus has been on finding cedants that have a great track record for cycle management, well-diversified portfolios, are not reliant on a single income stream, and who are happy to share high-quality exposure data.

We want to feel comfortable supporting them across the cycle and like everyone else, we are carefully monitoring D&O rates and would be prepared to withdraw capacity if we don't feel cedants are doing the right thing.

Looking forward

As the global insurance market increasingly digitises and automates, it's becoming possible for us to gain a real-time view on our exposures. It's essential that we fully leverage this capability so that we can continue to make well-informed decisions at major renewal periods.

This is also key to our retro partners. We see our retro supporters as genuine partners and I want us to increase the pace with which we can share our exposures with them so that they too can optimise their own portfolios.

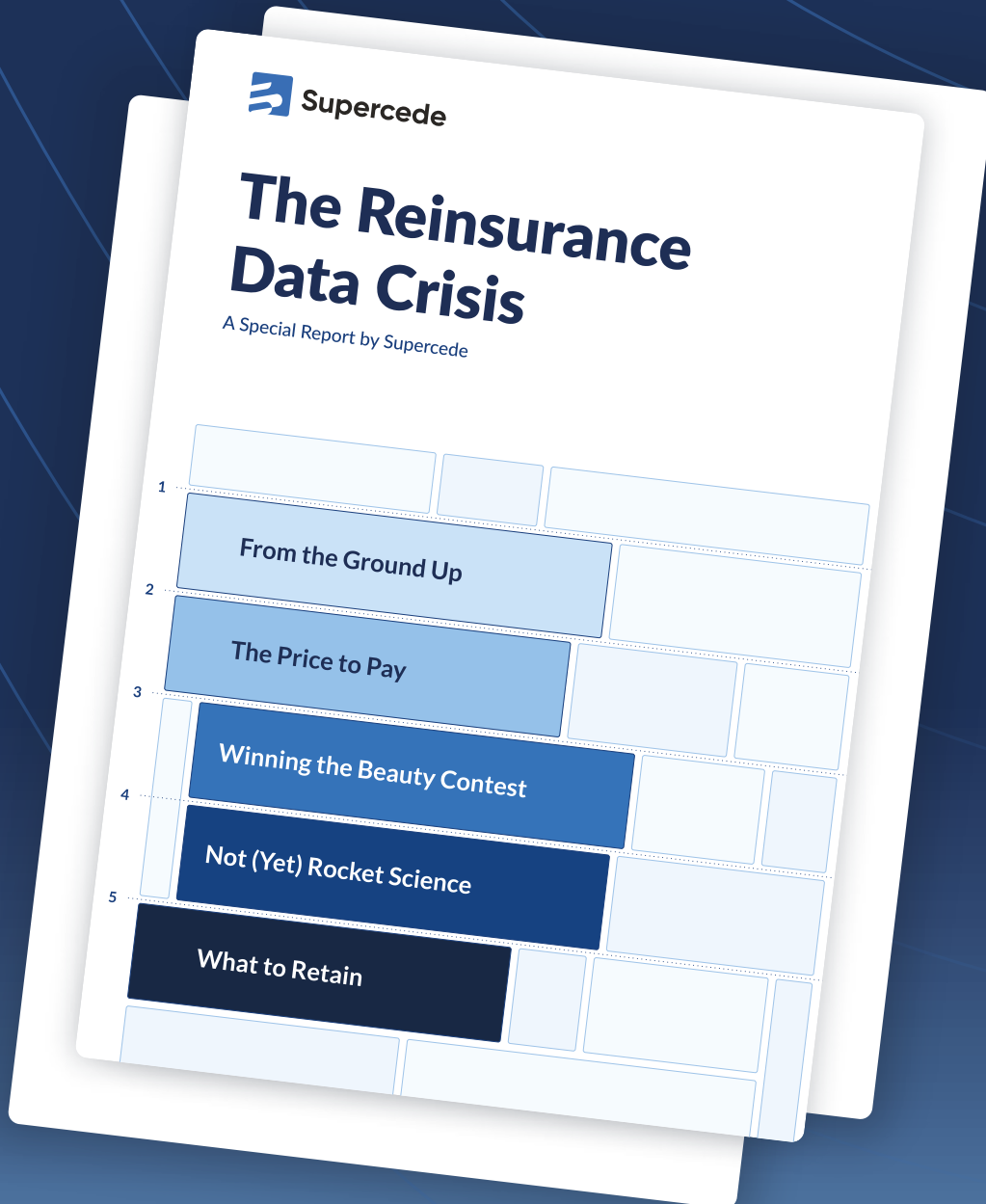
We are already seeing cedants increasingly leverage technology, including drones, to get a better handle on loss estimates post events and I feel we can also increase the sophistication with which we land early estimates on losses.



Chris Killourhy is managing director at QBE Re

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A new model army must combat connected risk

Russell Group's Suki Basi examines how tackling connected risks requires connected solutions

Data science technology is shaping economic forecasting, pricing and risk scenario modelling, and is now considered to be an integral part of any (re)insurer's or organisation's decision-making process.

However, the output generated from this technology is applied to high-level topics such as trade and investment or specific risk silos like cyber or credit. This current approach can result in a disjointed view of a portfolio or businesses, hindering rather than aiding their decision-making, as the decision-maker will not have a holistic understanding of all the potential risks to their organisation.

Scenario factory

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

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

A major difference between Russell's approach and current models out there is that our solution is forward-looking. It seeks to analyse and understand an economic loss or connected loss for an insurer or reinsurer before the event, not after. The benefit of this approach will mean that an organisation can

pre-empt any potential hits to their business, helping them to become resilient in the long term.

Proactive risk management

(Re)insurance clients and members of our corporate working group, which now numbers 30 risk managers, are telling us that trade disruption, geopolitical tensions, sanctions, higher commodity prices, rising costs, war, climate change and skill shortages are their main threats.

The lessons we have learnt are that the natural order of business has been disrupted and economic exposure has been driven up by higher costs, claims inflation and cost of capital.

Business is now prone to more complex scenarios. The resilience and sustainability drive requires companies to adopt a more proactive risk management strategy.

Developing plausible scenarios

Contingent business interruption, cyber and geopolitical events are just a few of the threats of concern to underwriters and exposure managers. Russell has responded to this concern with a new initiative that brings together all the company's in-work data processing and development scenarios, into what we call the Russell Scenario Factory.

This now forms the basis of a new connected risk project with a Lloyd's managing agent client to quantify intangible risks within plausible scenarios such as a China-Taiwan conflict.

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The resilience and sustainability drive requires companies to adopt a more proactive risk management strategy
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Suki Basi,
managing
director at
Russell Group

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From modest beginnings to a dynamic story

Waleed Jabsheh, CEO of IGI, explains what has fuelled the company's rise from modest beginnings to become one of the market's most dynamic insurers

What are IGI's plans for growth over the next five years?

IGI started from modest beginnings 21 years ago, with just a handful of employees and one office in Amman, Jordan. Since then, we have grown into a truly global company with eight offices worldwide, writing business across more than 20 classes and sub-classes of insurance. In 2022, we wrote just under \$600mn in gross premiums and are well on our way to hitting the \$1bn mark in the next few years.

At IGI, we have and always will be focused on the bottom line and are driven by the profitability of the business we write and not the amount of premium. We gravitate quickly towards attractive growth opportunities when they emerge. Fortunately, with the marked dislocation across most areas of the market over the last few years, we have had plenty of opportunities, enabling us to more than double in size since 2018.

The next five years will reflect more of the same. We are very confident in our business approach, which has clearly generated healthy results. We have a strong network of offices that keeps us close to our targeted markets and client base. Maximising the opportunities this network can yield will be a big focus for IGI.

What is the secret to IGI's underwriting success?

There is no magic formula. We focus on the business lines we understand and choose opportunities matching our expertise and capabilities. Our consistently low combined ratio speaks to our underwriting discipline particularly and our overall discipline across all areas of our business generally.

Patience and making the right moves at the right times are also important. By and large, we have been efficient in taking the right approach in the right markets at opportune times – shifting our appetite as and when needed, including when to take our foot off the gas. For example, we entered new markets such as

marine cargo in 2020 and contingency in 2021 at times of severe dislocation with limited and diminishing market appetite.

What is IGI's E&S strategy?

IGI entered the E&S space on 1 April 2020, having considered making the move for several years – as usual, taking a cautious and methodical approach to our involvement.

We held off until 2020 because we felt the conditions were right in the E&S space then. Now the E&S market is seeing the healthiest rating environment in a long time. We focus on short-tail lines and last year, across all our business lines in the US, we wrote around \$65mn in gross premiums, representing slightly over 10 percent of our book.

How has IGI differentiated itself from its competitors?

IGI was founded in 2001 and it has become one of the strongest reinsurers in the MENA region. The company has built its success on a clear strategic path of patient growth and a philosophy of underwriting for profit and not volume. Since then, IGI has expanded beyond the MENA region and has a strong global network of offices writing business all over the world.

Which key achievements are you particularly proud of?

I have had the privilege of being part of IGI since day one and have seen the company evolve from a small business with a handful of people to one with almost 400 employees, with strong ratings and a listing on Nasdaq. While IGI has hit many milestones over its 21-year history, there is no one single achievement that can be pinpointed to our success. It has been a series of collective efforts and accomplishments made with the support and dedication of our teams.

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The E&S space is seeing the healthiest rating environment in a long time
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Waleed Jabsheh, CEO of IGI

A woman with dark curly hair, wearing a bright yellow sweater, is sitting at a desk and looking at a laptop. She is holding a blue pen to her chin, appearing to be in deep thought or focused on her work. The background shows a modern office interior with large windows.

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Stand by me

Acrisure Re's Ben Canagaretna explains how he and his team provide small and medium-sized carriers and MGAs with a holistic service they will not get elsewhere

It's an unfortunate fact that many at the smaller end of the MGA and carrier market miss out, as the biggest corporate advisory names often prefer to target 'bigger ticket' clients. As a consequence, this market segment is underserved – but it is also where we see the greatest potential to make an impact and where a lot of the businesses of the future are created.

SMEs still demand, and deserve, the best possible service. We strive to do things differently than many of our peers and dedicate time and resources to this segment, developing deep relationships that can deliver real success. Many of us at Acrisure Re have been executives on the carrier side. We have been in our clients' shoes and we understand their ambitions. This empathy runs through our value proposition and is part of the reason we become such good friends with many of our clients. It's important to establish these relationships.

A holistic approach

Large carriers often have the resources to insource a lot of functions. While they still require selected advisory services, our SME clients turn to us for a whole lot more. Our range of services covers all areas they need, and we have built them around four pillars: legacy solutions, M&A, capital services and strategic advisory. The last one is akin to us being management consultants, but at a fraction of the cost. Our approach is not about revenue generation and selling a set product; we aim to develop relationships. Requirements differ among SMEs, but service commonalities will include looking at their P&L, examining business plans and essentially making tailored recommendations on where we see improvements for their businesses to help achieve their goals.

The talent within the team includes ex-CEOs of carriers, ex-CEOs of broker-dealers, ex-founders of businesses and ex-members of pension fund

investment committees, all of which gives us a unique perspective. We are continually growing our teams with great hires in both London and New York. Our people are hardworking, down-to-earth and extremely well-connected and help with all areas of capital raising and corporate finance structuring. We also know the intricacies of the Lloyd's market well and have a strong track record there.

Building something real

We give advice that will genuinely help our clients, rather than just generate revenue for our business. In fact, our advice may even recommend that a

client does nothing but stay the course, which can mean us losing business in the short term but will likely be the right decision in the end. It is also not uncommon for us to turn down business, and we'll be honest with a prospect if we are not the organisation for them.

We believe in quality not quantity – we look for four key components when selecting which clients to support: quality of management teams; previous track record; alignment of

interests; and, importantly, whether they are good people – we want to have fun too! Having fewer clients allows us to establish deeper, more trusting relationships where we do everything and not just provide a simple service. We can be more impactful in this regard, accompanying our client on their journey, sharing their highs and standing by them in the lows.

Other advisors may adopt more of a sales-based approach, jumping at anything for short-term revenue. We are much more about building a brand and reputation for the long term. We believe financial success is a consequence of achieving this, not the other way around.

We are much more about building a brand and reputation for the long term. We believe financial success is a consequence of achieving this, not the other way around



Ben Canagaretna is managing director, corporate advisory and solutions, at Acrisure Re



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SOMPO INTERNATIONAL

As we gather for this year's *Rendez-Vous*, *The Insurer* looks back at some of the industry titans we have lost over the past 12 months. We begin with a familiar face in Monte Carlo...

Denis Kessler

The loss of Denis Kessler, who died in June at the age of 71, will be profoundly felt in Monte Carlo this week.

Kessler was a strong advocate of the *Rendez-Vous*, having become president of the *Rendez-Vous de Septembre* (RVS) Association as recently as the start of this year after serving on the RVS board since 2010.

Since 2009, the company he rescued and transformed, Scor, has hosted the “Scor Lounge” on the terraces of the Monte Carlo Casino.

Kessler led Scor for two decades, taking the helm as chairman and CEO in November 2002.

An economist by training, Kessler started his career in academia before moving into the business world.

In his early years at Scor he rescued the company from the legacy and World Trade Center losses.

Once he had restored stability to the company, he set about transforming it into a tier-one (re)insurer through a combination of organic growth and acquisitions – not the least of which was Converium, the former Zurich Re business.

Speaking to *The Insurer* in May 2021, the executive spoke of the challenges he faced in turning the company around, which included persuading sceptical investors to recapitalise the business following WTC and casualty losses.

His persuasive talents and charm were also necessary to convince clients and brokers (not least Benfield, which continued to support the firm) to approve Scor security in the face of damaging financial downgrades from S&P and AM Best.

He said turning Scor around from the brink of bankruptcy was his “proudest achievement”.

Kessler stepped aside as CEO in 2021, but remained with the group as non-executive chairman.

Towards the end of his tenure at Scor he became a target for shareholder activists, following a controversial M&A approach from its largest shareholder Covéa, which he fiercely resisted.

Paying tribute to the executive following his death, Scor said that as an economist and an iconic figure of the (re)insurance industry, and more widely of the French business world, Kessler devoted his entire

life to business. “With his cutting-edge vision, his outstanding commitment and his leadership, Denis Kessler turned the group around in spectacular fashion over a period of more than two decades, enabling it to become a leading global reinsurer,” the company said.

Thierry Léger, who joined Scor as CEO earlier this year, added: “Over the past two decades, Denis Kessler has been the architect behind Scor’s success and reputation throughout the world. His passion for reinsurance was unparalleled, and his ambition to make Scor an industry leader never left him.

“It has been the driving force behind all his actions at the head of the group over the past 21

years. I am privileged to have had the opportunity to work alongside Denis. He leaves us an extraordinary legacy. It is now up to us to carry on his work. The strong foundations on which he rebuilt the group enable us to look to the future with total confidence.”

Several other senior industry figures paid tribute, including former Axis president and CEO Albert Benchimol, who described Kessler as a “great man ... a brilliant strategist, an eloquent speaker who enjoyed vigorous debate, and renaissance man of arts and philosophy”.

Benchimol continued: “Importantly, he was a warm human being and a good friend, dedicated in his support for his colleagues and the broader (re)insurance industry.”

Kessler’s compatriot Thomas Buberl, CEO of Axa, described him as a “great leader of our sector” and an “emblematic figure of French capitalism”.

In its own tribute, the RVS Association said: “Denis Kessler was an economist and an emblematic figure in the world of insurance and reinsurance, and beyond, in the world of business in France.

“He devoted his entire life to business, first within employers’ and professional organisations, then at Scor. The members of the *Rendez-Vous de Septembre* Association and the organising committee share the grief of his family and friends, and offer them their condolences.”



“**With his cutting-edge vision, his outstanding commitment and his leadership, Denis Kessler turned Scor around in spectacular fashion over a period of more than two decades**”

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