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(Re)insurance | Insight | Intelligence

Ian impact on ILS funds threatens retro availability at 1.1

Escalating early industry loss estimates for Hurricane Ian are leading to concerns about another major collateral lock-up for ILS funds that had been facing a dim fundraising environment even before the storm struck, raising serious questions over the availability of retro capacity from the sector at 1 January.

That outcome would potentially lead to further contraction in property cat reinsurance capacity, leaving those reinsurers reliant on retro protection restricted in their ability to address the now fast-hardening property treaty market.

Although some fundraising efforts by ILS funds writing cat reinsurance and retro had begun pre-Ian, multiple sources at the Monte Carlo *Rendez-Vous* last month suggested the realistic best outcome for most at that point would have been to use retained earnings as a source of growth. "If nothing happens for the rest of the year, investors are not going to flood back in. Four of the last five years they've had losses across the industry. And if there's a big event between now and the end of the year, there'll be a crisis and capital will flee.

"They're not going to the investment committee for the fourth year in a row saying, hey, we sucked last year, but next year is going to be awesome," one ILS manager told this publication.

This year was already expected to be a challenging fundraising environment even when property cat was running relatively clean, because of the turmoil in the financial markets that has put pressure on other areas of institutional investors' portfolios and concerns about the impact of surging inflation in cat.

Those new dynamics for 2022 add to existing investor concerns about climate change and Continued on page 14

Core Specialty working on renewal rights deal for Hallmark specialty business

Core Specialty is closing in on a renewal rights deal relating to Hallmark Financial's specialty book, in the latest move by the Jeff Consolino- and Ed Noonan-led insurer to rapidly scale up its portfolio, *The Insurer* can reveal.

Although it is not certain a deal will be struck, further details regarding the transaction are expected to be announced sometime this month.

It wasn't immediately clear which lines of business would be included in the deal, but it is highly likely it would include Hallmark's E&S casualty portfolio, after the insurer recently extended its 1 October whole account casualty quota share by two weeks.

Sources said that a renewal rights transaction would be the most logical means for Core Specialty to acquire the business, given significant uncertainty that has surrounded Hallmark's balance sheet. Hallmark reported a nearly $36mn reserve charge with its second quarter results in August.

The Texas-based insurer said at the time that the adverse development largely came from its contract binding business – which it exited – and that the bulk of the reserve charge was as a result of the company exceeding the aggregate limit of the loss portfolio transfer agreement it entered into in fiscal year 2020.

Hallmark had said in April of last year that it had planned to list a non-controlling ownership stake in its core specialty commercial business segment, as a separate company called Hallmark Specialty Group.

Specialty commercial is the largest Continued on page 3

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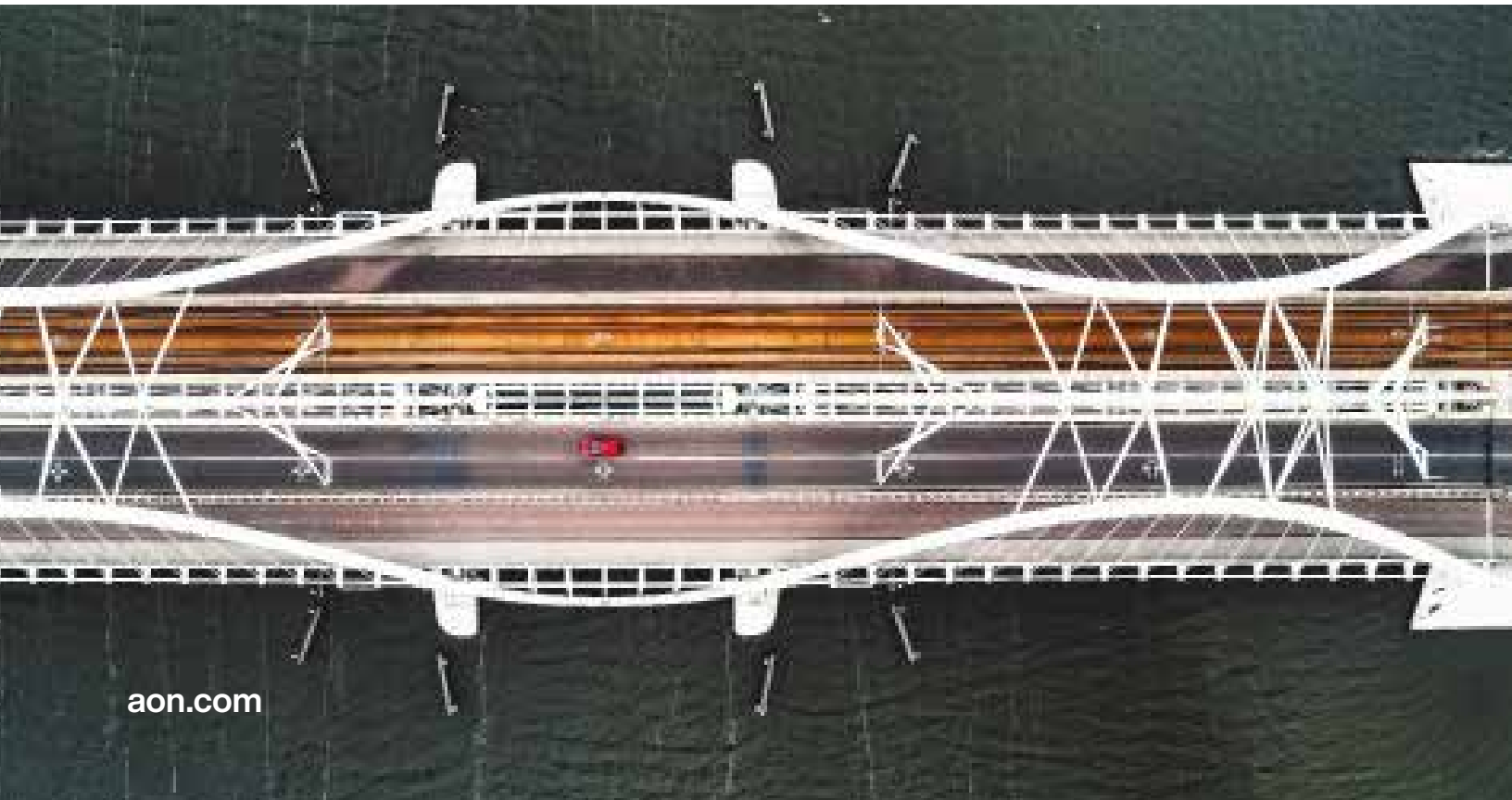

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NEWS horts

Axa XL Re to cease casualty BDA underwriting

Axa XL Re has withdrawn from the casualty treaty market in Bermuda as it shifts its underwriting appetite for the class to London and the US, *The Insurer* revealed.

The carrier is understood to have communicated the move to brokers in recent days.

In a statement to this publication confirming the move, Axa XL Re said the decision had been made to "simplify" its portfolio and that its appetite for the class remains "strong and streamlined".

NFIP authorisation extended to mid-December

US president Joe Biden has signed a continuing resolution to fund the government until mid-December, with the bill including an extension of the National Flood Insurance Program (NFIP).

The president signed the measure hours before the NFIP authorisation was due to expire at the end of September. The NFIP is expected to take a heavy hit from Hurricane Ian, with its private reinsurance layer potentially coming into play.

Fox Joyns Zurich NA as E&S underwriting head

Gabe Fox has joined Zurich North America's wholesale arm as head of underwriting for excess and surplus lines, leaving his role as the head of underwriting for SME-focused insurtech Joyn.

Ian coverage caveat

With Hurricane Ian a fast-changing live cat event in the last week, we wanted to remind readers that some of the interviews with industry executives and feature contributions featuring in our APCIA Dailies were conducted and written before the storm emerged as a threat. Consequently, comments on market conditions come with that caveat.

For full, up-to-date coverage of the fallout from Hurricane Ian please visit theinsurer.com and look out for our breaking news alerts.

Continued from page 1: Core Specialty working on renewal rights deal for Hallmark specialty business

of Hallmark's three business segments, with standard commercial and personal lines the other two. In 2021, the specialty commercial division accounted for 73 percent of Hallmark's annual gross premiums written of $743.3mn.

Excluding binding auto, the specialty commercial division last year generated a combined ratio of 91.1 percent.

The unit includes commercial auto, E&S casualty, E&S contract binding, E&S property, financial lines, healthcare professional liability and specialty aviation.

Each of Hallmark's three operating segments currently operates under a unique business model, utilises its own distribution channels and has a different return profile.

The business that was originally planned to be publicly-listed was not intended to include business produced by the company's aerospace and programs business unit or the exited binding primary auto offering

It then scrapped those plans last December, with a statement from the company saying it was "well positioned" to capitalize on favourable market conditions.

The company also said at the time that it would continue to evaluate all actions that may enhance shareholder returns.

Core Specialty continues to move to scale

The potential deal is the latest significant strategic action taken by Core Specialty to scale its business.

Last year the firm acquired commercial auto-specialist Lancer Insurance Company, which has come alongside a recruitment drive the company has been on and the roll out of numerous programs deals.

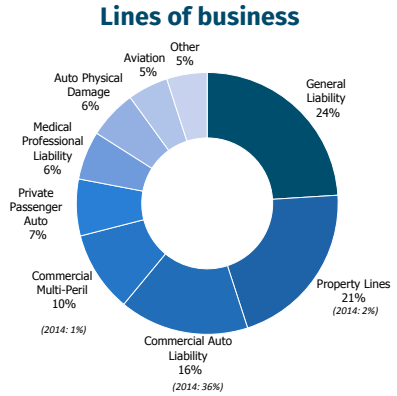
Consolino and Noonan have spoken openly about the company's ambition to at some point list in the public markets.

The company was launched in November 2020 following a $950mn recapitalization and rebranding of StarStone US Holdings.

Consolino told *The Insurer* in an interview this past March that his firm was targeting 20 percent premium growth in 2022, after surpassing $2bn written in 2021.

Hallmark and Core Specialty have been approached for comment.

Hallmark Financial has a diversified portfolio with a balanced risk profile and a growing national footprint



We are a casualty focused company and continue to diversify beyond Commercial and Personal Auto

*Charts based on Gross Premiums Written for FY 2021

Source: Hallmark

Hallmark's specialty commercial portfolio

Commercial auto	E&S casualty	E&S contract binding	E&S property	Pro – financial lines	Pro – healthcare	Specialty aviation	Discontinued lines
Trucking (targeting specialty classes)	GL for SME risks with a focus on Construction, Light Mfg., Products & Premises Liability	Small E&S Accounts (GL & Commercial Package)	Shared & Layered Property Risks	D&O and E&O for SME risks	Medical Professional Liability for Medical Facilities and Physicians	Personal & Small Aircraft; Airport Liability	Binding Primary Auto; Hospitals; Business produced by MGAs
Wholesale	Wholesale	Wholesale	Wholesale	Wholesale	Wholesale	Retail Agents	N/A
Admitted & E&S	E&S	E&S	E&S	E&S	E&S	Admitted	Admitted & E&S

Source: Hallmark Financial

THE INSURER

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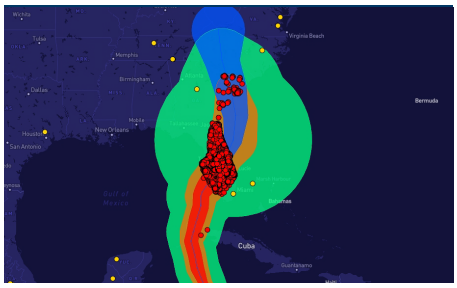

Goodbye retro?

In recent years a schism occurred in the interconnected property (re)insurance value chain.

In previous cycles it was the behavior of reinsurers that dictated sharp shifts in pricing dynamics for the underlying business.

In other words, hard markets in primary property insurance were driven by post-loss availability of reinsurance capacity. If that dried up, or suddenly became a lot more expensive, so too did the primary insurance market.

And that vertical linkage also usually held for the relationship between the reinsurance and retro markets. Plentiful retro availability – particularly of aggregate capacity – lowered the cost of capital for reinsurers more reliant on the product, allowing them to be more competitive in their pricing for insurers, and vice versa when the retro market tightened.

But in the current phase of the hard property cat insurance market, the reinsurance sector has – until now – been notable for its lack of connectivity to the behavior of its cedants.

Property insurance – largely in the commercial space – has been in a sustained period of hardening of its own volition, driven by years of poor performance and growing concern over frequency and severity of losses and the issue of climate change.

Carriers have de-risked, cut back limits and re-underwritten portfolios, without a major increase in reinsurance costs as a trigger.

The retro market has also been in hard market territory for at least the last couple of years, with the near disappearance of aggregate protection after writers of the product were decimated by the frequency of losses from primary and secondary perils.

The reinsurance market did not follow suit, however, leading to the phrase "U-shaped market" being coined as far back as 2019 when primary and retro rates surged and treaty lagged behind.

Renewed relationship

But now the relationship between retro and reinsurance – and reinsurance with insurance – has become much more symbiotic again.

As we report in the lead article in our final APCIA 2022 Daily edition, fast-escalating industry loss estimates for Hurricane Ian are leading to serious fears that the retro market could seize up altogether for the crucial 1 January renewal, and later renewal seasons including at mid-year for US wind.

David Bull, North American Editor

Pre-Ian, ILS funds – a dominant force in retro – had been in an extremely challenging fundraising environment after several years of losses and trapped collateral issues that had led to widespread investor fatigue with retrenchment from property cat risk as an asset class.

This meant the retro global cat agg market shrank significantly at the last 1.1 renewals – perhaps from $6bn to as little as $1.5bn in limit. At the Monte Carlo *Rendez-Vous* last month there was a sense of (false) hope that 2023 could be a clean year which would enable funds to restore investor faith in the proposition.

Now Hurricane Ian has almost certainly wiped out earnings and likely some capital too, creating a whole new round of trapped collateral pain for beleaguered investors – particularly given the potential development tail for Florida hurricanes.

> "At the Monte Carlo *Rendez-Vous* last month there was a sense of (false) hope that 2023 could be a clean year which would enable funds to restore investor faith"

And the growing fear among reinsurers is that there will now be even less retro capacity available at this 1.1 – even for per risk let alone agg.

The trickle-down effect means the possibility of a further reduction in capacity available from reinsurers that rely on retro as part of their capital structures, which will make the job of reinsurance brokers even harder as they scramble to find enough limit to complete cat towers for their clients.

"Even with the rate change [in property cat reinsurance] people won't be able to clear the limits, so people will have to drop their first layers. There may not be any retro," warned one senior broker yesterday.

While a property reinsurer echoed these concerns:

"So what does that look like? How much can we take on our balance sheet? It's a massive ripple effect," they remarked at the APCIA event.

The unknown, at this stage, is what level of hardening in the retro market would be needed to convince investors to set aside their concerns and take a bet on cat risk again.

There is anecdotal evidence from some ILS market sources that investors who had been in during the early days of the asset class (around 2006) and then exited a few years later, avoiding the run of loss-making years, are showing interest in coming back in.

And there are even murmurings that individuals with pedigree in the sector such as former RenRe and Aeolus executive Dave Eklund might view the current trajectory of the market as moving into attractive territory.

But there is no real indication that a sufficient level of capital is looking to enter that would calm the ripples and ease concerns of a retro no-show come 1 January.

Munich Re's Hamm calls for further Florida insurance reform in Ian's wake

The bipartisan property insurance reform package that Florida governor Ron DeSantis signed off on in May did not go far enough, with further changes needed if the legal system abuses prevalent in the Sunshine State are to be stemmed, Munich Re US' executive vice president Kerri Hamm believes.

As *The Insurer* reported back in May, Governor DeSantis signed a set of bills designed to limit surging property loss costs that had left many Florida domestic insurers struggling to complete significant portions of their reinsurance programs ahead of the crucial 1 June renewal.

Some of the provisions within Senate Bills 2D and 4D were aimed at reforming Florida's litigation rules, as well as addressing the crisis around soaring roof claims.

Speaking during a panel discussion at the American Property Casualty Insurance Association (APCIA)'s annual conference in Dallas, Hamm, who serves Munich Re US as an executive vice president and head of business development, said further legislative reform is needed in the Sunshine State.

"I don't think the legislative changes went far enough in Florida," Hamm told conference delegates.

"[My view] today [is the same] as it was before [Hurricane Ian] – I don't think they went far enough. We still have assignment of benefits. Even though, for example, they moved the roof reporting from five years to three, that still leaves a three year tail. From an underwriting perspective, that's too much uncertainty.

"I would like to see Florida go even further to clean up the legal system abuse issues that we see in that state," Hamm added.

When asked by the panel moderator whether Florida's government understands the scale of the problems in the state's insurance market, Hamm answered "yes", but noted it is a "touchy" issue because of 2022 being "a political year".

The president of Guy Carpenter's North America Centers of Excellence, Will Garland, said he thinks that Florida's government understands the extent of the issues within the state's insurance market, but added "it's always a balancing act" for those in charge.

> We had some reinsurers pulling back capacity in Florida and elsewhere prior [to Hurricane Ian], and maintaining as much capacity as we can in that market and trying to bring in additional capacity will be key to making sure that we have a Florida insurance market going forward
>
> **Aon's US property growth leader Paul Anderson**

"I think they knew something needed to be done by June 1 to make sure as many companies as possible could get their reinsurance program put in place and have protection and move forward," Aon's property growth leader Paul Anderson added. As Anderson explained, insurers in heavy catastrophe-exposed states need to make money in the years where few cat events take place so they can pay for the bigger losses when they occur.

> I would like to see Florida go even further to clean up the legal system abuse issues that we see in that state
>
> **Munich Re US' executive vice president Kerri Hamm**

But as Anderson noted, "there's a little bit of an imbalance happening right now".

"That's why there's hope that some of these more recent Florida legislative changes and expected insurance reforms will have some benefit," he said.

"We will see firsthand with Ian how some of these play out," he added.

But Anderson was in little doubt that Hurricane Ian will add further strain to carriers within Florida's already-strained market. "The June 1 renewals and July 1 renewals for the Florida market were very challenging," said Anderson.

"A couple of companies did not make it through that renewal season, and there are other companies who have more challenged financials right now, but we had been in a kind of a quiet cat period, and with some of the Florida legislative changes, there was hope that we might be getting to the other side – we just needed to get through this year," he said.

Hurricane Ian has dashed those hopes however.

"[Hurricane Ian] will put some additional strain on some of those insurance companies in the state that now have additional cat retention [following the midyear renewals]," Anderson said, who also highlighted concerns about the potential impact a second storm making landfall in Florida would have on the Sunshine State's insurance market. "The property market in Florida will continue to be challenged," said Anderson.

"We had some reinsurers pulling back capacity in Florida and elsewhere prior [to Hurricane Ian], and maintaining as much capacity as we can in that market and trying to bring in additional capacity will be key to making sure that we have a Florida insurance market going forward," the Aon executive added.

Hannover Re's Freiboth: casualty to follow property as 1.1 momentum builds

The strong market hardening momentum being seen in property cat will gradually build in casualty lines too, driven by surging inflation and climbing post-pandemic loss ratios, according to Hannover Re's Axel Freiboth.

In an interview, Freiboth, who is managing director of the German reinsurer's North America division, told *The Insurer* that despite all the focus on the property cat segment, there is no "free run" on casualty.

"All the momentum we see on the property side will gradually also go into casualty lines, just not as immediate. Even if we saw tapering off on the inflation rate in a year or two it's tapering off a higher level. That means that whatever we are pricing now will be on that elevated level," he commented.

"There's a lot of focus on property right now, but we have our eyes wide open on casualty as well, and there is tremendous pressure, because [the industry has] been running loss ratios artificially low through Covid, and that's all bouncing back right now," the executive continued.

Freiboth highlighted the impact of more miles driven in auto, workers' compensation claims as a result of the return to work and medical inflation, among other factors, before taking into account social inflation.

As previously reported, despite the focus on property cat in the early stages of 2023 renewal discussions, there are also signs that pressure will mount from reinsurers to push for lower cede commission on casualty and especially professional liability quota shares. Hannover Re's Freiboth noted that on the reinsurer's portfolio it has a significant amount of business where terms and conditions will adjust with the performance of those programs, such as swing rates, sliding scale commissions and loss caps.

But he added: "The expenses of many insurance products are way too high, so we need to look for the efficiencies within the system. Therefore, there will need to be pressure on commissions as well, which will then also translate into ceding commission reductions on reinsurance programs. The high expense ratios currently carried are not sustainable long-term."

One interesting dynamic that emerged around the recent Monte Carlo *Rendez-Vous* event was the relationship between dynamics in the property and casualty treaty business.

Reinsurers that have actively retrenched or even fully exited from cat have said they are confident they will be able to maintain or grow positions in other lines of business including casualty.

But those reinsurers that have committed to sustain their capacity or grow it in cat have spoken about the advantage that gives them in being able to lever their position to enhance portfolios in those other areas.

Freiboth agreed with the latter argument, suggesting that the need for property capacity is likely to favor those that can offer both. "Writing or expanding the casualty business to make up for the income they give up on the property side, I don't quite see that, unless they have a really unique offering," he said.

> "There's a lot of focus on property right now, but we have our eyes wide open on casualty as well, and there is tremendous pressure, because [the industry has] been running loss ratios artificially low through Covid, and that's all bouncing back right now
>
> **Hannover Re's Axel Freiboth says momentum currently seen in property cat will gradually build in casualty lines too**

And the executive added that property and casualty will have to stand on their own two feet.

"You cannot subsidize the casualty performance with your property writings or vice versa," he added.

Inflation and cat

Before the recent surge in inflation Hannover Re had already been putting a strong emphasis on insurance to value in its discussions with clients – a focus that has now been heightened as it assesses how insurers are adjusting rates and TIVs for the impact of rapidly escalating repair costs and durations.

"For those that have been lagging, it may appear painful as we go into the renewal, because they have to catch up. For other clients that have already taken measures to address insurance to value, the impact is going to be less.

"It will be meaningful because of the rate of inflation, but it will also be manageable for many clients," he said.

One way of managing increased need for limit at the top of programs to reflect inflation will be for insurers to increase retentions on their cat programs, mirroring the slow increase seen in deductibles on the underlying portfolios.

"We think now is a good time for companies to address it and increase their attachment points, because a lot of reinsurers don't want to dollar trade down low. Insurers can increase retentions and use the savings on the bottom of the program to buy additional limit at the top," said Freiboth.

Sompo International targets new business in "dynamic" 1.1 renewal

Ahead of the APCIA conference in Dallas, Sompo International's president of North America reinsurance Steven Hanke shared his thoughts on the state of the market and what opportunities lie ahead for both his business and the broader industry.

What is Sompo International Reinsurance's appetite for cat business and how much of an opportunity do you see at 1.1?

We don't write cat business in our US operations – that is done out of Bermuda. Overall, Sompo International is financially strong. We're in a solid position to entertain risk and, as a group, we're looking for opportunities with brokers and clients.

Over the last couple of years, the property cat line of business has not met its return on its cost of capital. When you add the current inflationary environment, it presents the market with additional challenges. The question is always going to be the price and terms – they need to be adequate from a return standpoint.

It was already going to be a dynamic market going into 1.1 from a supply and demand view, even before inflation hit, and now it's going to get even more interesting.

> "It was already going to be a dynamic market going into 1.1 from a supply and demand view, even before inflation hit, and now it's going to get even more interesting"

Do you expect to see structural changes in property cat programs? Is this market an opportunity to improve T&Cs?

There are three forces in play – supply versus demand, inflation, and clients needing more protection, so yes, I do think there'll be some structural changes to property cat programs. Whether, for example, that's through higher retentions or different structures, it will ultimately be determined by an alignment of risks going forward. In the end, there needs to be more of a partnership within the structures themselves.

Our approach towards opportunities – new and existing – is to be talking with our brokers and clients early, like now, to ensure we are being as transparent and as clear as possible around T&Cs and risk transfer solutions. As a marketplace, what we don't want is to wait until the last week of the year when all parties are stressed and making eleventh hour decisions, which comes with additional challenges and risks.

What are your expectations for the upcoming casualty treaty renewals at 1.1? Will we see downward momentum on cedes?

There has been a strong rate environment within the last few years in casualty, where both clients and reinsures have benefited. Additionally, there's been better portfolio management in terms of limits in large casualty, environmental, D&O and excess casualty offerings. In most of those portfolios, we have seen a significant decrease in terms of limits deployed. We will continue to seek to optimize the deployment of our capital.

What impact are economic and social inflation having on the underlying casualty business?

I think social inflation is more impactful on the traditional casualty lines like standard GL, umbrella and auto. We are seeing higher demands and higher verdicts. Just as a broad example, for an auto or umbrella claim a couple of years ago, we could have a $1mn demand based on the key participants involved, but the demand is now $5mn or $10mn.

Sometimes that's driven by the egregiousness of the act or the facts of the incident, but because of social inflation there has been a search for higher limits. There's a fair amount of litigation financing going on and the lawyers know what they're doing and they know what the insurance towers are.

For professional liability, the focus is less on social inflation but more on the fact that D&O policies have become event covers. For example, if a plane crashes or wildfire happens or cyber event occurs, there is usually a class action lawsuit against the directors that follows.

What areas besides P&C do you see as attractive to grow in or trouble spots?

If you think of the really prevalent issues going on today, there's climate change, cyber exposures, pandemics, property cat and supply chain issues. I think as an industry, we need to collectively figure out how we're going to navigate these going forward.

In addition, ESG is also top of mind and we need to find the balance between our fiduciary duties and good corporate/world citizenship. The opportunity is in how to manage these risks as we look to the future.

A longer version of this interview can be viewed on theinsurer.com

Munich Re's Winter: flight to quality among reinsurance buyers and sellers

Munich Re will not further reduce its property cat capacity next year but will take a selective approach to cedants across its P&C portfolio, in an environment where there is a "flight to quality" from buyers and sellers, according to Marcus Winter, president and CEO for US reinsurance.

The giant reinsurer's appetite for property risk has shifted in certain segments, including its decision to walk away from a large part of its proportional personal lines portfolio with coastal exposures in the South and Southeast of the US over the last 12 months.

The capacity has been redeployed towards non-proportional business including commercial property.

Speaking to *The Insurer* on the sidelines of the Monte Carlo *Rendez-Vous* event last month, Winter noted that Munich Re is among the few reinsurers that do not rely on retro markets or alternative capital to support underwriting.

"Our risk appetite is not defined by the capacity that we can buy on the retro side, and that helps in this market environment... Fortunately, our balance sheet is still extremely strong and we will not reduce our capacity for next year," he commented.

But the executive added that the reinsurer would not meet all of the significant additional demand from buyers driven by inflation.

Winter described a property cat market that is rapidly changing in the lead up to the key 1 January renewal.

"Inflation is the big topic and in reinsurance this has led to a completely revised landscape on the property cat side.

"It's not just inflation but the bad experience of the last few years and recalibration of the risk appetite of many reinsurers including ourselves that has fundamentally shifted capacity away from certain buckets in the market," he observed.

Discussions with insurers have so far indicated that all will need 5 to 10 percent or more in additional capacity, a level of demand that the reinsurance market will currently struggle to meet. Despite the disequilibrium, Winter said that – with the exception of distressed segments like Florida and the Southeast – he doesn't expect to see a major dislocation at the overall market level.

"The rates will go up significantly, but it's not going to be a huge disruption for the market," he suggested.

> "Our risk appetite is not defined by the capacity that we can buy on the retro side, and that helps in this market environment... Fortunately, our balance sheet is still extremely strong and we will not reduce our capacity for next year"
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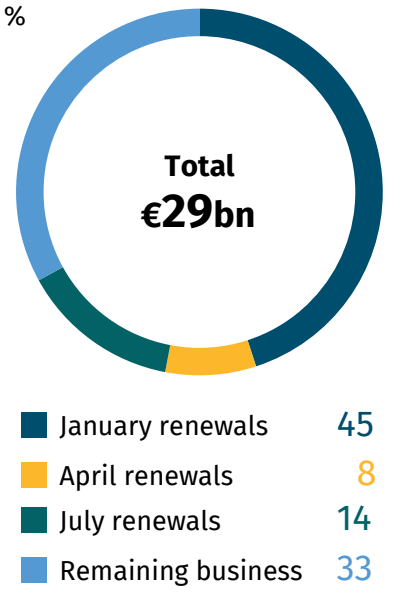
> **Munich Re's Marcus Winter on the reinsurer's cat appetite**

Distribution of Munich Re P&C renewals[1]



1 Gross written premiums as at 31.12.2021.
Economic view – not fully comparable with IFRS figures

Source: Munich Re

Selective approach

Winter said that after several years where the US reinsurance market has struggled for profitability, Munich Re's focus is on growing the bottom line across its portfolio.

Rate increases will drive top line growth of cat premium, and the reinsurer will also look to grow in other lines where the terms and conditions justify it.

Overall it expects to see top line growth at the upcoming renewal, because insurance companies are increasingly open to linking casualty and property discussions with their reinsurance partners as they search for the capacity they need in cat.

That could be to the advantage of large reinsurers such as Munich Re, where there is also a commitment to maintain the level of cat capacity, as a possible lever in other areas of its portfolio.

But Winter said the reinsurer is taking a more selective approach to cedants it looks to support in property and casualty.

"We focus a lot on the structural quality of the portfolio. We see again and again that the claims handling quality, underwriting quality, risk assessment and selection... all these factors around the insurance companies are key to who makes a profit and who we want to partner with," he explained.

An example would be carriers that have successfully de-risked their underlying books of business by effective limit management and cutting line-sizes.

"And we see a flight to quality on both sides. The reinsurers with solid balance sheets and a good value proposition are sought after, and the insurance companies with good underwriting and good quality portfolios are the ones that those reinsurers want to partner with," the executive suggested.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the recent performance of the ILS asset class in the collateralized reinsurance and retro space, including the issue of trapped capital.

"You've got this confluence of loss fatigue – not just in ILS but also commercial reinsurers wondering if they're getting paid adequately.

"People were just addressing climate change, trapped capital issues and pricing fraud in Florida and now you've got inflation," said another ILS fund source.

They added that the question with inflation is whether it is being properly priced for along with the line of sight and transparency an ILS fund has into the way the cedant is adjusting for it.

The other challenge for those looking to grow their assets under management is that investors are facing volatility and losses in other areas of their portfolios, including the sell-off in the equities market this year.

This means that some may now be overweight ILS in their portfolios and unwilling to allocate more even in a hardening rate environment.

There is an expectation, however, that some ILS managers will also face further redemptions, while the impact of cat losses – including Hurricane Ian – in the latter months of 2022 will lead to further significant issues around trapped capital.

One senior source warned that the ILS market could "seize up" completely in relation to collateralized reinsurance and retro after a major loss event such as Ian.

"I think it would be massively problematic. We really needed a clear wind season this year," they said.

Others noted that seasoned investors who had been in the space supporting ILS funds for a long time will likely see an attractive opportunity.

"But if you're new and you took horrible losses over the last few years, it's going to be very hard to sell to anyone that they should be taking the bet," said a senior retro figure at an ILS fund.

And another ILS fund executive said that a big loss from Ian or another cat event in the lead-up to 1 January would likely attract some money into the space.

"But it's not going to be apparent where it would come from," they added.

Talking Points

- **Even pre-Ian a hard retro market was expected at 1.1 and through 2023**
- **Tough fundraising conditions for ILS funds means supply constraints**
- **Poor multi-year performance, trapped capital issues and climate change fears have dulled investor interest**
- **Mid-year retro capacity from ILS funds dropped 17%; shift from agg to occurrence continued**

Constrained retro capacity

Speaking on a roundtable hosted by this publication at Monte Carlo before Hurricane Ian struck Florida, Guy Carpenter chairman David Priebe said the amount of available capacity in the retro market will also continue to be constrained, presenting a challenge in putting together aggregate protection for reinsurers.

He added that the per occurrence market will be "available and strong" as he pointed to continued appetite from investors for cat bonds (see page XX).

But he said that while there had been discussions about capacity coming in to support sidecars or newly formed collateralized reinsurance vehicles, "as yet nothing has materialized".

"I hope that we can encourage investors to step in more to back reinsurers on a sidecar basis, but that may take more time."

Acrisure Re CEO Simon Hedley noted that ILS capital was now generally fatigued.

"It is not there to come in in a meaningful way as it has done before," he said.

In its latest report on the sector, Guy Carpenter said that the hardening pressures in the property retro market seen at 1 January have been sustained through 2022, with capacity for aggregate and low-attaching occurrence layers remaining tight in contrast to less supply constraints for layers further up the tower.

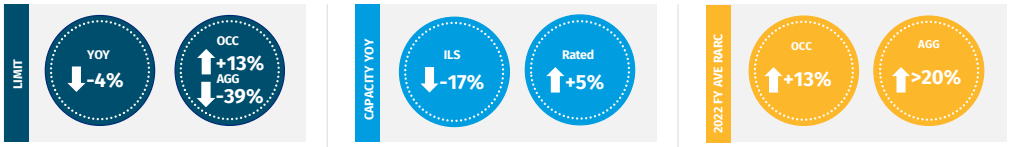
Rival Aon added that the retro market "continued to retrench" in 2022, with increased pricing and higher retentions, leading reinsurers to turn to the cat bond market as a source of alternative retro protection.

In its report, Guy Carpenter highlighted some of the dynamics driving the retrenchment from the traditional retro product, including the sustained period of cat losses since 2017, growing climate-related concerns, inflation and modeling challenges.

The firm noted that at mid-year occurrence purchasing increased by 13 percent, but aggregate purchasing was down 39 percent amid limited availability of the product.

Guy Carpenter reported that ILS capacity supporting retro was down 17 percent overall, with retractions differentiated by fund. At the same time, rated capacity actually increased overall by 5 percent.

Progressive property retro hardening led to retraction in mid-year buying appetite



Demand
Shift in purchasing away from aggregate

Supply
Insurance-linked securities (ILS) retractions differentiated by fund

Pricing
Increased as the year progressed

Source: Guy Carpenter

Further cat bond issuance growth expected despite price hardening

Cat bond pricing hardened in the first half of 2022 as investors required higher compensation for the capital they provided to sponsors, but observers say demand should remain strong given the reduced traditional reinsurance capacity.

In its latest report Aon said it expects cat bond market momentum to continue through H2 this year to match the record issuance levels of 2021.

Aon Securities chairman and CEO Paul Schultz referred to this momentum as an "an impressive feat given the headwinds experienced in the space at times throughout the first half of 2022".

Cat bond issuance reached near-record issuance levels of $12bn from 1 July last year to 30 June this year. The record level of $13bn was reached in the prior year.

"We expect an orderly market to continue and momentum to carry into 2023," Schultz added.

Geopolitical factors such as the Russia-Ukraine conflict, a spike in global inflation, rising interest rates and currency volatility were all headwinds in the first half of 2022, as spreads increased for cat bonds.

Cedant demand for the product "remained robust", however, Aon noted.

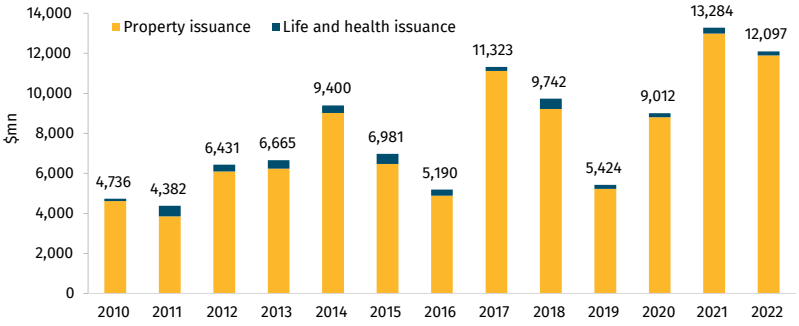
"Whilst the cat bond market has observed rate hardening, it continues to diversify and attract both new and repeat sponsors, with relatively larger increases in traditional (re)insurance pricing placing the ILS market in a more competitive position year on year," it said.

Separately, Moody's said reinsurers are increasingly dependent on cat bonds and sidecars for retro protection as collateralized aggregate capacity contracted last year with the re-emergence of trapped capital. According to the rating agency, reinsurers have sponsored 15 cat bonds since June 2021 to access retro capacity, providing $2.85bn of limit.

And Swiss Re Capital Markets noted that the ILS market gave sponsors an alternative source of risk transfer capacity in a hardening reinsurance market.

"Some reinsurers have reduced capacity in peak zones or closed their natural catastrophe portfolios entirely, which has led to increased opportunities in the ILS market," the report said. "Given the need for more overall reinsurance capacity, we expect the trend of increased new issuance volume to continue and result in further growth."

Catastrophe bond issuance by year, 2010 to 2022 (years ending 30 June)



Source: Aon Securities LLC

The "quest" for more capacity

On the supply side of the equation, investors have turned to cat bonds as a type of ILS product that offers diversification to their portfolio. This asset class has been offering relatively attractive conditions, given the modest catastrophe frequency and severity.

Richard Pennay, CEO ILS at Aon Securities, noted that "the quest for more capacity from ILS markets is well under way" for products like proportional-based sidecars or non-proportional reinsurance via cat bonds or collateralized reinsurance.

"We are now in a market where the demand for ILS capacity exceeds supply of ILS capital, and whilst this results in higher prices and tighter terms and conditions, regular sponsors of ILS products are increasingly grateful for this alternative source of capital, forging strong relationships with the capital markets in the process," Pennay added.

Upsized cat bonds

In its latest update on the ILS market, AM Best reported that overall property casualty cat bond issuance in the first half of this year totaled $8.1bn from 35 transactions, compared with $8.5bn from 29 transactions in the first half of 2021.

However, the report said that 23 – or 66 percent – of the 35 144A cat bond transactions in the first half were upsized from their initial guidance levels, for a total $1.6bn upsized amount and an average increase of 36 percent.

The report also noted that 23 cat bonds were priced above the midpoint of initial pricing guidance, while 13 were priced above the upper bound of initial guidance.

The rating agency suggested ILS managers are employing different strategies to improve results – "some are emphasizing pricing increases, while others are focused on optimizing deal structures as well as terms and conditions", including a focus on named perils.

Aon aims to bring partnership feel through new Strategy and Technology Group

Aon formally launched its Strategy and Technology Group (STG) ahead of September's Monte Carlo *Rendez-Vous*, representing a milestone in the broker's drive to increase its capabilities in this space. This week at APCIA, the firm will be showcasing STG's growing resources.

Seasoned insurance consulting executive Colin Forrest joined Aon earlier this year to lead the STG team, stating that formation of STG was driven by a desire to "elevate client experience to the next level".

"We have taken various teams from across Aon and put them together in one integrated technology and strategic consulting suite," said Forrest.

"By bringing these people together we have created a culture that will develop new solutions that simply did not exist before, helping to address underserved markets and augment existing areas of focus."

STG has been gathering momentum since the *Rendez-Vous*, and will be out in force during APCIA, with Dustin Duncan, senior managing director and Tyche Americas practice leader, demonstrating the Tyche technology suite STG acquired in March.

"Tyche was an early driving force in the build-out of STG," said Duncan. "The platform is highly complementary to Aon's proven financial software suite, ReMetrica, and has allowed STG to augment the existing capabilities and offer (re)insurers a single technology platform with the ability to seamlessly integrate capital modeling, pricing and reserving.

"This is particularly important in the current, volatile macroeconomic climate, and will help clients to navigate this volatility, rethink their access to, and management of capital, and enable better decision-making across both P&C and life business."

Echoing Duncan's comments, Forrest added that the launch of STG had happened amid "the most challenging environment any of us have ever seen".

For many companies, adapting to current macro and market conditions has prompted a need to refocus their activities and seek assistance to navigate volatility.

"STG has formed at the right time to work in partnership with our clients, rather than simply taking a suite of products to sell them.

"The market wants that partnership feel – we need to be in the tent with them – and in doing so we believe we can help take clients to the next level and help them to make better business decisions."

> "The market wants that partnership feel – we need to be in the tent with them – and in doing so we believe we can help take clients to the next level and help them to make better business decisions"
>
> **Colin Forrest, CEO, Strategy and Technology Group, Aon**

Forrest said the group was already working with clients around how to deploy capital in the most effective manner, as well as around challenges such as claims volatility and climate change, which will ultimately help them to build business resilience.

"There is an increased focus on the role we can play in making society a better place. The rise of ESG has refocused the C-suite of companies around purpose and raised the question as to how to do good while running a commercial enterprise.

"We have a lot of capacity within the components of STG to generate more innovative solutions and underpin that with a technology offering," Forrest added.

He said this could be achieved by "unleashing the creative capacity of our people and giving them space to think differently around client problems".

Dustin Duncan, Senior Managing Director & Americas Practice Leader, Tyche, Strategy and Technology Group, Aon

"The wide range of components we have at Aon is a differentiator – no one else can compete with that. We are focused on bringing the full power of our resources to our clients in a joined up, collaborative way.

"Having our consulting and technology arms integrated together and absolutely focused on the client experience – I also see that as a differentiator. I don't see any other firm working in partnership in the way we want to work with clients."

"We are operating as a truly global enterprise with a growing presence in the Americas, Europe and the Asia Pacific region," Forrest said.

Ramp-up in ILS activity presents new alternative for casualty reinsurance buyers

The flow of capital to support relatively new ILS vehicles such as Vesttoo, Longtail Re, MultiStrat and Ledger Investing has been welcomed by reinsurance buyers and their brokers looking for alternatives in the casualty space.

As previously reported, the platforms – which provide a conduit for ILS and other alternative forms of capital to access predominantly casualty risk – have been increasingly active, targeting the MGA and programs space as well as traditional carriers.

Our sister publication Program Manager recently revealed two notable partnerships.

Vesttoo committed $1bn in collateralized capacity to fronting carrier Clear Blue's P&C portfolio, and MultiStrat acted as a transformer to bring $115mn of ILS capacity to MGU Venture Underwriters' primary contractors' general liability program.

Speaking at a roundtable hosted by this publication in Monte Carlo last month, Aon's Reinsurance Solutions CEO Andy Marcell said heightened alternative capital activity in casualty is a welcome addition. "We have partnered with some of those players on reinsurance as well as insurance with our commercial risk colleagues, where we're trying to build new limits for new products.

"I hope more of them come to market to help solve the challenges we face. To have new capital come in with different ways of thinking about risk is great," said Marcell. However, he suggested that at least in the short term these types of funds will not have a marked impact on the way casualty reinsurance is purchased.

"Hurdles like developing more nuanced products and building cedant relationships can be overcome over time. But in the end it requires commitment to a long-tail casualty product, to transfer risk on a permanent basis, and that is something those companies will struggle with," the executive said.

"That doesn't mean they don't have a place in the solution set though."

Transformation

Speaking to this publication, Acrisure Re CEO Simon Hedley said there had been a transformation in the role of alternative capital in the casualty space over the last 12 months.

"They've got bigger capacity and they've got sophisticated platforms in terms of technology, and importantly they've brought in senior experienced personnel. It really has started to unfold in a meaningful way," he commented.

> It's about having alternatives and options. At certain times in the cycle that's going to add some competitive pressure in terms of how much you have to buy in the traditional market, and that's not necessarily a bad thing if you're a buyer
>
> **Acrisure Re CEO Simon Hedley on greater optionality for reinsurance buyers**

But he said – for now at least – their offerings would be treated by most as a supplement to what they currently place in the traditional market.

Over time, sophisticated buyers of reinsurance building relationships with these increasingly sophisticated sellers could be highly beneficial, however.

"It's about having alternatives and options. At certain times in the cycle that's going to add some competitive pressure in terms of how much you have to buy in the traditional market, and that's not necessarily a bad thing if you're a buyer.

"And at other times you might just be thankful the additional alternative capital is there when the trading environment is more difficult," Hedley suggested.

The executive noted there are two main areas where alternative capacity is entering the casualty market.

One is the MGA fronted end of the spectrum, where fronting carriers have been quick to get to grips with the requirements of collateralization.

"Then at the other end of the spectrum you have the large, multinational, sophisticated buyer saying they want to explore these more long-term strategic-type conversations," said Hedley.

Most structures deployed so far resemble traditional quota shares, but typically include more downside protection for the reinsurer entity, such as loss ratio limitations and commutation at certain long-dated points in time.

There is strong ambition among some of the new players to develop structures that can attract a much broader investor base to the sector.

Speaking to this publication, Vesttoo CEO Yaniv Bertele said: "We want to go beyond the current players and increase access to the asset class to include significantly more sustainable capacity that allows banks, hedge funds and asset managers to participate, where they pledge their investment grade assets and enhance their yields with uncorrelated returns … and also diversify their portfolios."

And Ledger Investing has previously made clear its aims include growing significantly in the traditional insurance company space as well as its initial focus to expand ILS in the MGA fronted market.

Adapt Ready: Ian's supply chain impact includes potential mining exposure

An Adapt Ready analysis of Hurricane Ian's potential effect on global supply chains shows 34,866 facilities in the estimated impact zone, with the risk intelligence provider expressing surprise that the most affected companies include those from the mining industry.

The analysis showed a total of $60bn of revenue at risk, including 2,800 manufacturing companies and 7,000 healthcare producers affected.

Adapt Ready said the most affected companies are "concentrated in aerospace (Lockheed Martin, Blue Origin Rocket Factory) and manufacturing (Safran, Volvo) and, surprisingly, mining".

Phosphate mining is quite intensive across the area in the path Ian took after landfall, Adapt Ready said, with $1.48bn of direct contribution to GDP from mining companies in the state potentially impacted by the storm.

Florida represents about 25 percent of the global supply of phosphate and 75 percent of demand in the US. Part of the Ian-impacted area includes the largest concentration of phosphate mines in America and second only to Morocco in the world.

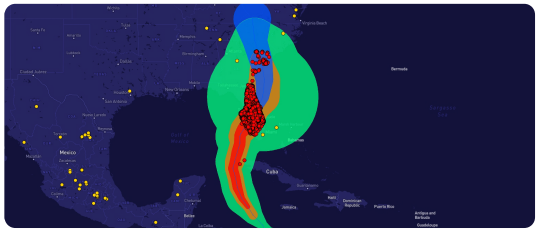
Adapt Ready commented that "though these mines are unlikely to experience substantial and prolonged disruption there is a real concern with the possible pollution that emanates from these mines during a storm".

It added: "Normally it's likely there are large stockpiles of primary commodities like phosphate and short-term price disruptions are mitigated by hedging instruments for commodity buyers. However, this remains another example of how information about supply chain concentrations and bottlenecks can improve risk management in the face of natural disasters."

According to Adapt Ready, the mining exposure includes six fields and manufacturing plants of Mosaic being impacted. Some $5.1mn of potential revenue is also potentially impacted due to closure of mining companies in Florida.

In addition, the impact report stated that a billion tons of "slightly radioactive waste" contained in enormous ponds in Florida's mining field could potentially overflow.

Hurricane and its impacts



250 km/h	34,866	251
Maximum Wind Speed	Facilities in Impact Zone	Potential Supply Chain Impacts

Top Companies Affected

Facility Name	Products Manufactured
Lokheed Martin, US	Sensor fire control systems
	Missile systems
Blue Origin Rocket Factory	"New Glen" orbital rocket
Safran	Bi-Stable Electrical Valve (EVB8)
	Engine Electro-valve box (BEVM)
	ETID Purge Valve (PV)
INEOS Composites Bartow	Unsaturated Polyester Resins
	Epoxy Vinyl Ester Resins
Volvo	XC90 sport utility vehicle
Ashland Inc	Gelcoats, Low Profile Additives

Source: Adapt Ready

Adapt Ready suggested, however, that the phosphate industry "may not suffer tremendously from damage by hurricanes", but suggested "the fact of extreme specialization and concentration in certain supply chains could have long lasting impacts in other sectors".

3,352 facilities exposed to storm surge

In addition to assessing the companies affected in the hurricane impact zone, Adapt Ready analysed the companies in the smaller storm surge zone.

It said 3,352 facilities were in the storm surge impact zone, with affected companies including Creative Carbide, Pall Aeropower, Smyrna Ready Mix, Cemex Construction, Arthrex Manufacturing, Bris Construction and Preferred Materials.

Adapt Ready commented that it is often surprising how interconnected companies are, which gets highlighted when a disaster strikes a densely packed zone of development.

The company noted that supply chain disruptions do not only impact the primary inputs.

The analysis listed several suppliers impacted by their customers' disruptions. These included Michelin Tires being impacted by Volvo and Mercedes manufacturing plants. In South Carolina, Dow Chemical is impacted by disruption to Mahle Behr in Charleston, which specialises in auto cooling and air conditioning.

Adapt Ready also noted Tampa has the largest port in Florida "and disruptions to its operations could exacerbate direct damage to the sectors noted above and cause further congestion to other transportation facilities as goods are redirected".

The Adapt Ready analysis provides a snapshot of the total values of supply chain risk exposed to Ian.

Risk modelers have also been releasing their first estimate of the actual insured losses from the hurricane.

Verisk Extreme Event Solutions (formerly AIR Worldwide) yesterday estimated onshore property losses from Hurricane Ian will total between $42bn and $57bn.

That followed Karen Clark & Company on Friday issuing a flash estimate of private market losses in the US and Caribbean of $63bn.

Cyber risk evolution

Guy Carpenter's Anthony Cordonnier and Erica Davis examine the rapid evolution of the cyber market

Cyber risk is evolving at an explosive rate, creating one of the most dynamic perils in the industry. In turn, (re)insurers are now presented with a breadth of opportunities, challenges and threats.

How we got here

As the economy continues to digitize, the door to the possibility of ransomware attacks opens further, emboldening existing threat-actor groups and attracting new ones. The strong uptick in ransomware attacks from 2019 onward resulted in a surge in product demand. Meanwhile, the threat landscape has shifted from the monetization of private information to ransom demands and the disruption of critical infrastructure. Concurrently, penalties for non-compliance of privacy regulations are becoming more costly.

Where are we now

Guy Carpenter estimates 2021 year-end cyber/blended (errors and omissions cyber) premium at $10bn globally, with an expectation that it will reach $20bn by 2025. Cyber risk provides new avenues for insurers looking to explore alternative growth strategies, and this has led to a significant influx of new market entrants.

A maturing market

The industry has acknowledged the need for increased sophistication in underwriting practices. This includes a heightened technical acumen and controls-based approach, as well as reducing limit profiles to help manage overall exposures, and year-round policyholder engagements.

Pricing strategies have also shifted, with Marsh US reporting a full-year 2021 rate increase of 79.2 percent. Pricing in the international cyber insurance market has also continued to be challenging. The UK cyber rate of increase reached 68 percent in the second quarter of 2022, significantly moderated compared to 102 percent in the first quarter of 2022, while Continental Europe cyber insurance pricing spiked by 50 percent in Q1 compared to 80 percent for the prior period.

Anthony Cordonnier, Global co-head of cyber, London, Guy Carpenter
Erica Davis, global co-head of cyber, New York, Guy Carpenter

Reinsurance perspective

Over the last seven years, the cyber insurance market has averaged 30 percent year-on-year growth, with approximately 40 percent of the premium flowing to reinsurers. This increased demand has led to a heightened reliance on existing cyber reinsurance writers and created the need for new capacity, which is driving interest in alternative sources of capital. This dynamic also intensified the use of cyber analytics in reinsurance structure design, as well as igniting the need for alternative risk transfer methods such as cyber industry loss warranties, catastrophe bonds and event covers.

There are a number of actions cedants can take to secure capacity in this competitive environment:

- Invest in underwriting technology and cybersecurity offerings;
- Develop a risk tolerance strategy that is in line with changing loss vectors;
- Implement clear strategies with conviction in data, market landscape forecasts and underwriting acumen;
- Optimize available capital by partnering with a specialized cyber reinsurance broker.

Where Guy Carpenter can take you

Guy Carpenter's global cyber practice provides our clients with industry-leading cyber risk insights, peer benchmarking and superior reinsurance execution. By leveraging our development and implementation of unique proprietary tools, a cross-functional analytics team embedded within the broader Marsh McLennan organization and our dedicated global cyber broking team, we are able to balance structural innovation with minimized basis risk. This supports our clients in growing their profitability in this emerging risk arena.

(Almost) everything in moderation

Insurance executives are in agreement that US P&C rate increases are moderating, in contrast to the increasing loss cost assumptions revealed by some carriers, but there is confidence discipline will be maintained.

A common theme on second quarter earnings calls was that US commercial rate increases are moderating but remain above loss cost trends.

For example, Axis Capital president and CEO Albert Benchimol's summary was typical: "Market conditions are still favorable and while, as expected, the rate of increase is declining, we continue to achieve meaningful increases across nearly every line we write and remain, on the whole, ahead of loss cost trends."

Benchimol said that Axis achieved Q2 rate increases in its insurance book of close to 10 percent – the 19th consecutive quarter of rate increases, which now in aggregate exceed 50 percent since the beginning of 2017.

By class of business, Benchimol said professional lines once again saw the strongest pricing actions with average rate increases of more than 16 percent. However, this included some interesting divergence in pricing trends, with cyber up 62 percent but public D&O falling 15 percent while the rest of the professional lines book was up almost 7 percent.

Axis's casualty lines averaged increases of over 7 percent, as did property, while the other specialty lines book experienced single-digit rate increases.

On Arch Capital's second quarter earnings call, CEO Marc Grandisson highlighted that "P&C rate hardening continues in many lines". And he stressed the importance of keeping in mind that "we've been able to achieve compounded rate increases meaningfully above loss cost trends for the last two or three annual renewals and, as such, healthy margins of safety have been created".

> "The market is rational to me at this time, even though it's becoming more competitive"
>
> **Evan Greenberg, chairman and CEO of Chubb**

Grandisson added: "We believe this attractive level of expected returns should remain in place for the next few years."

On another Bermudian (re)insurer's earnings call, Everest Re president and CEO Juan Andrade revealed that his company in Q2 achieved insurance rate increases of 7.3 percent excluding workers' compensation – down from 9 percent in Q1 2022 – with high single-digit increases in property, professional lines, umbrella and commercial auto.

"These rates remain well above pre-pandemic levels," Andrade said. "It's also important to note that in addition to renewal rate change, there are other levers we deploy to ensure that margins continue to expand, such as coverage, terms and conditions, limits management and attachment points, risk selection,

new business pricing – which continues to be higher than renewal pricing – and the benefit of additional premium from inflation-sensitive exposure basis."

Andrade noted Everest has seen strong growth in its US casualty, specialty lines and in its international business, and continues to see significant opportunity in the E&S space.

Loss cost assumptions revised

Evan Greenberg, chairman and CEO of Chubb, said market conditions in Q2 "remained favorable overall, while the level of rate increases is moderating".

Chubb's North America commercial lines rates increased by 7 percent (compared to 8.7 percent in Q1 2022 and 10.5 percent in Q4 2021), while total pricing, which includes rate and exposure, increased over 10.5 percent.

"The rate environment is naturally becoming a bit more competitive, particularly in certain casualty-related classes as more carriers seek to now grow," Greenberg added. "The market is reasonably disciplined, and I expect it will remain so given not only the spectre of loss cost inflation, but the presence of other risk exposures such as climate change, the war in Ukraine, the litigation environment, cyber and the overall cost of reinsurance."

He added: "There are plenty of reminders to managements to get paid for the exposure underwritten."

However, while price increases moderated in the quarter, loss cost trends were increasing. Greenberg said additional rate is required primarily to keep pace with loss costs, "which are hardly benign".

In anticipation of rising costs, Chubb increased its loss cost trends in North America from 6.0 percent in Q1 to 6.5 percent, a figure that Greenberg said should be compared to the 10.5 percent increase in total pricing in Q2.

Chubb is trending loss costs for short-tail classes of close to 7 percent, up from 6.5 percent in Q1.

Greenberg said the market is on one hand becoming more competitive as companies want to grow in what is an adequately rated environment, while on the other hand insurers are also having to react to loss cost trends and inflation.

"The market is rational to me at this time, even though it's becoming more competitive," Greenberg said. However, he added: "On the margin, there are people doing dumb things."

Chubb was not alone in increasing loss cost assumptions.

Mark Lyons, global chief actuary and head of portfolio management for AIG, said the insurance giant's North America commercial aggregate loss trend was up to 6 percent in Q2 compared to 5.5 percent in Q1 2022.

Lyons said AIG is seeing commercial property line loss cost trends of roughly 10 percent while for specialty-oriented property lines it is closer to 15 percent, driven by inflationary trends in construction materials, replacement costs, labor and transportation.

"Our view of casualty, bodily injury and the medical side of work comp, though, is unchanged from last quarter," he added.

AIG's global commercial rate increases were 7 percent in Q2. North America commercial achieved 7 percent rate increases with some areas achieving double-digit increases led by Lexington.

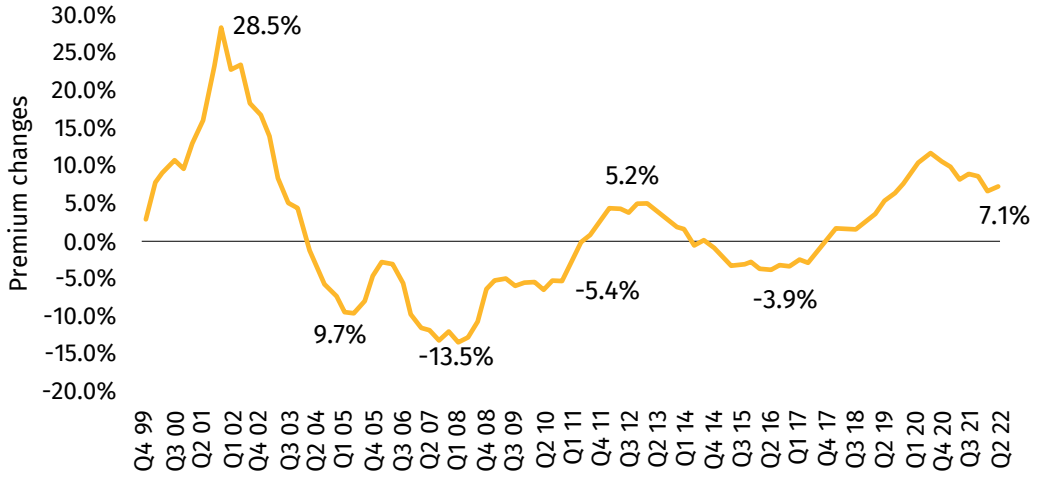
"In the aggregate, rate continued to exceed loss cost trends," said AIG chairman and CEO Peter Zaffino. "This is the fourth consecutive year in which we're achieving rate above loss cost trends and where we are successfully driving margin expansion," he said.

Loss costs trends won't always be covered

CNA chairman and CEO Dino Robusto warned on his company's earnings call that "we don't assume we will cover our long-run loss cost trends every year going forward".

"In periods when loss cost trends have been increasing, essentially doubling to about 6 percent in the last four years in our portfolio, the pace at which

Average premium changes, 1999 - Q2 2022



Source: The Council of Insurance Agents & Brokers

the rate adequacy target moves is also changing," Robusto said. "So we view this period in the cycle as a time to opportunistically continue pushing very hard for rate and balancing the rate retention dynamic in ways that will grow our P&C profit dollars."

The executive pointed to CNA's commercial rate increases remaining steady at 5 percent in the second quarter when compared to the first quarter of this year, and down only 1 point from the third and fourth quarters of 2021.

"So pricing dynamics, by and large, continue to reflect rationality in the marketplace," he said.

Robusto added: "We think that rates have been moderating in a measured way, and we expect to see some up and down movements across the various lines, influenced by how loss cost inflation, cat exposure and overall economic conditions continue to play out."

The Hartford chairman and CEO Christopher Swift noted on his company's earnings call "there has been much commentary about written renewal rates versus loss cost trends and the impact of inflation".

The Hartford's loss pick assumptions reflect trends in the aggregate of approximately 5 percent excluding workers' compensation, which has remained steady in the past few quarters. Swift said the loss trends reflect The Hartford's overall business mix, which skews towards small business and middle market risk.

The insurer's Q2 pricing increase excluding workers' compensation was 6.1 percent, which was about 1 point lower than in the first quarter. "Therefore, we have approximately 100 basis points of spread between written renewal pricing and loss trends," Swift said.

The Hartford's workers' compensation price changes remained positive in Q2 but declined slightly.

Some evidence of price increase acceleration

The feedback about moderating price increases is backed up pricing indices maintained by brokers and others.

MarketScout's US commercial property casualty barometer showed a 5.9 percent increase in Q2, down slightly from 6.0 percent, while Marsh's Global Insurance Market Index showed price increases for the US of 10 percent in Q2, down 2 points from Q1.

In contrast, the Council of Insurance Agents and Brokers' market survey showed price increases ticking up again in Q2 to 7.1 percent, from 6.6 percent in the first quarter.

Travelers chairman and CEO Alan Schnitzer described a "rational and stable pricing market", as signalled by his company's 86 percent Q2 retention rate.

Travelers also reported its quarterly business insurance renewal rate changes were up sequentially in Q2 for ex-national accounts, select accounts and

Chubb's rate increases moderate in most lines in Q1

	Q4 2021	Q1 2022	Q2 2022
North America commercial P&C overall	10.5%	8.7%	7.0%
North America major accounts overall	10.5%	9.3%	8.0%
North America major accounts primary casualty	Over 4	3.7%	4.0%
North America major accounts general casualty	Over 16	15.5%	13.0%
North America major accounts property	9.7%	9.1%	9.0%
North America major accounts financial lines	Over 17	13.9%	7.5%
E&S wholesale overall	14.5%	Over 11	10.0%
E&S property	12.5%	13.3%	13.0%
E&S casualty	Almost 17	10.0%	8.5%
E&S financial lines	18.5%	15.4%	9.5%
Middle market overall (ex comp)	About 9	7.7 (9.5 excluding workers' comp)	7.0%
Middle market property	9.0%	8.0%	5.0%
Middle market casualty excluding workers' comp	Nearly 9	8.5%	7.0%
Middle market workers' comp	-1.5%	-1.5%	-4.3%
Middle market financial lines	About 19	17.0%	10.0%
International retail overall	13.0%	10.0%	9.5%
London wholesale	NA	9.0%	NA
London wholesale property	8.0%	NA	NA
London wholesale financial lines	24.0%	NA	NA
London wholesale marine	5.0%	NA	NA

Source: Company disclosures, *The Insurer*

middle market. For example, middle market business was up 10.2 percent, compared with 8.8 percent in Q1 2022 and 9.3 percent in Q2 2021.

Some executives believe loss cost trends should serve to maintain discipline in the market.

Markel co-CEO Richie Whitt said that exceptions to the rate moderation include cat-exposed property and lines such as aviation, terrorism, war and political violence, which have been impacted by the Russia-Ukraine war and other recent large events.

The executive continued that going into 2022 Markel had already baked more inflation into its pricing and loss reserving.

"As we enter the second half of the year with continued signs of inflation, we have adopted an even more cautious approach," he said. "Most of our products' pricing basis is impacted by inflation, and this helps to some extent to offset claims trend."

Whitt continued: "However, we are not prepared to rely on this to maintain rate adequacy. We are going to continue to push for what we believe are must-have rate increases. We believe we are going to have success pushing for these rate increases as all responsible and disciplined insurance market participants must pursue rate increases to stay ahead of claims inflation."

Whitt said he now believes the favorable market conditions will continue through the second half of the year and in 2023. "But we have entered without a question, a more nuanced phase of the current market cycle," he said.

This nuance means that pricing in some lines may moderate while others accelerate.

WR Berkley president and CEO Rob Berkley said that he saw nothing in pricing trends that will derail the opportunity to grow the business, especially in specialty and E&S.

"We need to remember that product lines are not marching in lockstep these days," he said. "So for example, it is our view that over the next 12 to 24 months, you are going to see the workers' comp market likely bottoming out and beginning to firm. That's one of the, if not the largest, components of the commercial lines marketplace."

Berkley said that property cat is one of the product lines that is getting the most robust amount of rate, adding that it has been most underpriced for an extended period of time.

> We've already seen some lines reaccelerating in light of new data and conditions, and I believe that this reflects the discipline we expect to see in this market
>
> **Albert Benchimol, president and CEO at Axis Capital**

On the Axis call, Benchimol had commented that his company feels "the vast majority of lines are adequately priced at this moment".

"However, we also know that our industry is experiencing an all-in loss trend in the high single digits when all factors are considered," he said.

The executive noted the uncertain environment resulting from economic instability, the Russia-Ukraine war and lingering impacts of Covid-19 and social inflation.

"It's therefore imperative that our industry keeps pricing in line with these loss trends to protect our margin," Benchimol said. "On the positive side, our industry has a comforting historical record of adjusting to inflation and pricing to reflect those loss cost trends. For these reasons, we expect that, on average, our industry should sustain pricing at above loss cost trends through 2023."

He added: "We've already seen some lines reaccelerating in light of new data and conditions, and I believe that this reflects the discipline we expect to see in this market."

Broker and other feedback on US commercial pricing

	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022
CIAB	9.3%	10.8%	11.7%	10.7%	10.0%	8.3%	8.9%	8.7%	6.6%	7.1%
MarketScout Market Barometer	5.0%	4.8%	6.3%	7.1%	7.0%	5.9%	6.8%	5.8%	6.0%	5.9%
Marsh US composite insurance pricing change	14%	18%	18%	17%	14%	12%	14%	14%	12%	10%
Willis Towers Watson CLIPS Survey	Over 6%	Just below 10%	Just below 10%	Above 10%	Just below 8%	Just below 8%	Just above 7%	Just above 7%	6%	NA

Source: *The Insurer*

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