

## MONTE CARLO RENDEZ-VOUS

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## CEO roundtable: Interest grows in structured solutions to address increased retentions and capacity deployment



**A** major theme at this year's *Rendez-Vous* has been the impact of record severe convective storms and other attritional losses on insurers that have been forced to increase retentions, with no sign of any relief from reinsurers determined not to cede hard-won ground on attachment points.

And in response, insurers are

showing increased interest in structured reinsurance and other solutions such as net quota shares, as well as aggregate covers modified to better align between cedants and reinsurers, according to senior industry executives in Monte Carlo.

Speaking on the Deloitte CEO Roundtable moderated by *The Insurer* on Tuesday morning, Guy Carpenter's chairman of global capital solutions, international Vicky Carter noted that many buyers were required to carry higher retentions this year, while aggregate covers were very difficult to purchase.

"In addition, capacity was targeting higher program levels, which

resulted in shortfalls at the lower end of programs. Looking ahead, we will see some buyers increase retention levels and buy less reinsurance, as they look to achieve the most efficient use of capital; and you'll see others who look to purchase more vertical cover," said the executive.

As previously reported, higher retentions came as reinsurers pushed hard on pricing, terms and conditions, and structure at renewals.

That left insurers more exposed to frequency losses in 2023 – a position which coincided with a high level of severe thunderstorm activity in the US, among other losses.

Carter said

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## MS Amlin "out of the pickle jar" as it looks to 1.1 with confidence: Carrier



**M**S Amlin CEO Andrew Carrier has claimed the Lloyd's (re)insurer is finally "out of the pickle jar" and poised to enter the 2024 renewal period with a renewed risk and growth appetite.

Speaking to *The Insurer* at the *Rendez-Vous*, Carrier said the Lloyd's (re)insurer – which underwrites principally through Syndicate 2001 – was in "a state of remediation for a long time" after heavy losses between 2017-21.

He added: "Every company has its day in the pickle jar and perhaps for MS Amlin ours was somewhat protracted and the remediation probably took longer than you would ordinarily expect.

"But we're now starting to come

out of that period, we're seeing lots of green shoots come through and it's starting to flow through into our financial statements and that is what really matters," he explained, noting that Syndicate 2001 delivered a 98 percent combined ratio last year.

"2024 marks a real opportunity for us, because irrespective of where the market conditions are, finally, our house is in order and we can start underwriting in the manner in which we'd like to."

The veteran

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The words 'A NEW HOPE' in a large, bold, yellow-outlined font, centered over a background of a sunset over the ocean. The sun is a bright yellow circle on the horizon, and the sky transitions from orange near the horizon to a deep blue at the top. The ocean surface is visible at the bottom, reflecting the sunset colors.

# A NEW HOPE

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# Hampden also mulls new Lloyd's investment fund as Peel Hunt tests appetite



**H**ampden Private Capital (HPC) has joined the flurry of investment managers exploring the creation of a Lloyd's fund that would back a variety of syndicates trading in the market, *The Insurer* can reveal.

HPC – part of the privately owned Hampden Group, which operates both a Lloyd's members' agent and a syndicate – has engaged UK stockbroker Peel Hunt to gauge investor interest for the “Project Leo” initiative, which if it proceeds could see a new Lloyd's fund listed on the London Stock Exchange.

HPC would provide risk selection for syndicates to support on both a whole account and specific lines basis, according to sources familiar

with the initiative. It would likely use the London Bridge mechanism as the platform to apply the risk capital.

Although sources close to the company are keen to stress it is only at an exploratory stage, they acknowledge presentations have been made to potential investors.

It is the latest in an extraordinary flurry of new Lloyd's investment vehicle proposals designed to capitalise on the market's improving performance. On an aggregate basis, syndicates trading at Lloyd's posted an 85.2 percent combined ratio for H1 2023 – the best performance since 2007.

Yesterday, this publication revealed London-listed Lloyd's investment manager Helios was also in talks with investors about backing a new 2024 sidecar that could propel its capacity from £310mn GWP to circa £600mn.

Meanwhile, last week saw the news that London-listed Financials Acquisitions Corp (FAC) is fundraising to create London Innovation Underwriters Ltd (LIU), a new fund that would have capacity of up to

£1bn to invest in a “broad array of syndicates”.

Like Hampden, LIU proposes using the London Bridge 2 platform – the increasingly popular third-party protected cell risk transformation vehicle which allows easier access for institutional capital into the Lloyd's market.

While Hampden and Helios already have experience in Lloyd's risk selection, LIU and its sponsor have engaged members' agent Argenta to advise on its portfolio.

Hampden declined to comment.

## ***The Insurer Comment:***

A reminder of the old adage that you wait ages for one bus to come and then three appear at once.

In reality, it is unlikely that all three similar propositions will succeed. However, it is good to see innovation at work and they also suggest investors may be increasingly keen to access the Lloyd's market in a passive/follow way. If Lloyd's is to continue growing to, say, £70bn-£80bn annual GWP then structures like this could prove important...

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## MS Amlin “out of the pickle jar” as it looks to 1.1 with confidence: Carrier

underwriter was named CEO of MS Amlin in October 2022 when he replaced Johan Slabbert, who relocated within the MS&AD business to lead its onshore US (re)insurance arm, MSIG Holdings (USA). Slabbert was a key figure in overhauling MS Amlin's underwriting and structures following the heavy losses which saw the Tokyo head office – and Lloyd's – demand major changes. These legacy failings also resulted in a £9.7mn fine from the PRA, which was understandably received badly by Japan's largest insurance group – which bought the Lloyd's (re)insurer in good faith in 2016 for £3.5bn. Carrier added that the firm was particularly attracted to the

“buoyancy” in the property cat market and would look to increase its share at renewal, predicting firmer pricing conditions would remain for some time.

“Historically property cat has been a shop-window product for us and we still have a long-term intent in that market – it's a certain component of what we do as a whole organisation.

“It will never be a very significant line for us, but it's a line in which we have long-term intent and room to be a part of. The buoyancy in that market is something which we are attracted to and feel like we can participate in.”

But the “unprecedented” US severe convective storm activity this year

means “material movements” are still required in frequency/cat aggregate products despite the recent rate improvements, Carrier added.

“We've definitely seen both frequency and severity increase exponentially in terms of nat cat perils and particularly on the frequency side, one could make the argument that the low-down aggregate product still needs some work.

“Attachment points addressing the frequency risk of natural perils still have some way to go. I think it is clear that nat cat peril severity has been accommodated more in recent years than the frequency product and that needs to change.”



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# Reinsurers warned of need to build reserve buffer for longer-tail classes



**S**enior industry executives at this year's *Rendez-Vous* have voiced concerns over potential reserve deficiencies for specialty and longer-tail classes amid continued social inflation.

The issue was highlighted in a joint interview for *The Insurer TV* with Guy Carpenter's chairman of global capital solutions, international Vicky Carter and Arch Re chairman and CEO Maamoun Rajeh.

Rajeh warned that adverse development on long-tail lines was not yet being reflected in earnings, with this dynamic set to play out over the next year or so.

"We are in a place of heightened uncertainty and volatility, and I'm not sure that we've built enough of a buffer in the ecosystem to handle it," he said.

"The thing people need to keep in

mind is that just to stay stable, you've got to bake in a trend that's moving up.

Amid these concerns, Guy Carpenter's Carter said efforts by some firms to manage their portfolios to address these risks could prove to be a major differentiator over the coming years.

"The big concern we have as an industry is that while we're in a fascinating market now – it's exciting, this huge opportunity – at some stage, and it could be two or three years' time, the market is going to come off.

"Then it's going to be about how companies manage the cycle when rates start to deteriorate again."

Carter said the market remains in a "state of flux", with some longer-tail classes still facing downward rating pressure.

"You've got certain classes of business where people would say we're in a very hard market," she explained. "You've got other areas of business – such as D&O and other professional lines – where markets, cyber in particular, are challenging. Potentially, rates are going down on certain casualty lines."



## Talking points

- The reinsurance industry has not built a reserve buffer to compensate for the heightened uncertainty and volatility in the market
- Segments such as D&O and cyber do not fit into the trend for hard markets, which characterise other classes of business
- The heightened risk environment has made early price discovery even more important

Carter said the challenge for (re) insurers was how they go about continually re-underwriting and optimising their portfolios against the backdrop of heightened uncertainty and volatility.

"It's probably the most interesting market I have ever been in in my 43-year career," she said.

"There will be a great opportunity, where people can make a genuine return on capital and equity. That could potentially open up new capital to come into the market, after some very, very challenging years."

## Howden Tiger's Fox: New solutions critical as demand for reinsurance rises



**H**owden Tiger executive chairman Rod Fox has warned of the critical need to develop products that provide solutions for buyers, following a tightening of terms and conditions that has left many primary carriers retaining large losses in 2023.

Speaking to *The Insurer TV* at this year's *Rendez-Vous*, Fox said conversations in Monte Carlo have

highlighted the underlying demand following a year in which insurers have taken on much more loss than has been the case in the past.

"We've got to have products that will work for them and help them in the future," Fox said.

"In a hard market, the reinsurance sector goes back to a single, basic product. But we are saying no – we are going to be bespoke and create solutions that work for clients. Every case is different, so we are taking a creative approach to each one.

Fox highlighted the importance for buyers of having a broking partner advocate on their behalf in some of

the toughest markets to place business, such as Florida and California.

"They really need somebody – the market is going to sell you a one-size-fits-all product and say there is no solution. But we've got some of the best talent in those marketplaces to deliver the capacity that the clients need."

In a joint interview with Fox, Howden Group CEO David Howden said he now believed the group was "number one for talent" among its broking peers.

"Talent wants to join us, and that's what we want. We want to be number one for our clients. We want the clients to think they can come to us, and that we can offer something refreshing."

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## CEO roundtable: Interest grows in structured solutions to address increased retentions and capacity deployment

that the market will need more creative solutions.

“We’ve seen in 2023 a number of losses around the world, many of which were retained losses. I think you will see a lot more interest in developing innovative solutions at the lower end of programs, whether that comes in the form of structured reinsurance or spread loss covers.

“There will be a need for more holistic strategies as we move towards 1.1, designed to achieve enhanced capital efficiency and improved capital optimisation,” she continued.

The Guy Carpenter executive added that a lot of companies will look to optimise their balance sheets and explore options such as loss portfolio transfers in the context of their reserving strategies.

“I think that there will be a greater focus on balancing the balance sheet. We have seen a lot more markets come back into the structured space, and as a result there’s a lot more capacity available now for these types of solutions,” she concluded.

Sources at the *Rendez-Vous* over the last couple of days have highlighted a number of solutions that are being discussed, depending on the needs of the cedant and the pressure they face.

They include net quota shares, variants of drop-down coverage that can lower the retention during the year, and a range of aggregate solutions structured to better align the interests between buyer and seller than has been seen in recent years on sideways covers.

Discussions are also focusing on other ways of optimising balance sheets, including freeing up capital through reserve transactions such as loss portfolio transfers.

Meanwhile, reinsurer appetite has been growing for structured reinsurance – an area where Hannover

Re has been a major player in recent years.

Also speaking on the roundtable discussion, the German reinsurer’s member of the executive board for P&C Michael Pickel said: “I think there is no one size fits all. But I think now with the capital needs and the increased retentions, we have lots of opportunities to optimise balance sheets with structured reinsurance products.”

And the Hannover Re executive added that the company has seen “many more requests” in the last year, and even at Monte Carlo there have been preliminary talks on the subject.

“In essence, when we increased retentions there’s much more demand to come, and in order to tackle the frequency because the traditional aggregates contracts are going out of fashion,” he said.

Providing an insurer’s perspective, Swiss Re Corporate Solutions CEO Andreas Berger, highlighted portfolio management as a tool to address volatility.

He said that it was key for an insurer to be disciplined and informed about where they play and the shape of current portfolios and target liability portfolios.

“There are different patterns – if you have a long-tail book you behave differently. We have a pretty short-tail book, we’re not in the US casualty large corporate space anymore, so for us it’s important to address volatility.

“It’s a whole different story if you have a different portfolio mix. We try to understand how our portfolio will behave if the market softens in the next few years. We use scenario planning and analysis and then we say, okay, what do we have to add as lines of business and exposures that are decorrelated,” said Berger.

Meanwhile, Guru Johal, Deloitte

Vice Chairman and global speciality and reinsurance leader, noted that increased retention of risks is something corporates have had to deal with as well as insurers, given available capacity.

“In addition to this, you may have more retention necessitated due to insurance risk coverage being unavailable or perceived to be too expensive, e.g., heavy energy resource industries and ESG requirements or increased cyber risks.

“The increased self-insurance and primary retentions across the end-to-end value chain of risk transfer creates an interesting dynamic for capital deployment and the risk tolerance of this capital. This will create increased demand for more creative alternative solutions,” he predicted.

### Relationships and renewal dynamics

The executives on the roundtable discussed a number of other themes, including the impact on relationships from a tumultuous 1 January 2023 renewal, and likely demand and supply dynamics at 1.1 for cat.

Aspen’s executive chairman and CEO Mark Cloutier said that as a buyer and seller of reinsurance, 1.1 this year had been a bit “schizophrenic”.

“What we experienced was pretty interesting, and it really underscored how powerful and important the relationships that we build in this sector are.

“Relationships were really, really tested last year, and some of them I think were injured a little bit, but some of them really pulled through. In some of the more challenging moments we really ended up just sitting down around the table and working our way through it because of the longer-term trading relationship that we’ve had with people.”

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# Lord Mayor renews City of London ties with (re)insurance market



**Lord Mayor Nicholas Lyons has called for closer ties between the London (re)insurance market and the City of London Corporation, with the veteran investment banker and insurance executive noting the centuries-old institution is perfectly placed to help the sector meet its growth and competitiveness objectives.**

Speaking to *The Insurer* on the sidelines of the *Rendez-Vous* in Monte Carlo, Lyons, a current board member of London-Bermuda carrier Convex and chair of Phoenix Group, acknowledged that the London P&C market has always gotten “rather short shrift” from the City of London Corporation.

And while he acknowledged that the

lack of engagement was not a conscious decision by any mayor or member of the (re)insurance market, Lyons said steps were now being taken to ensure the mayoralty and the Corporation have the industry’s needs front and centre.

“Coming to the *Rendez-Vous* in Monte Carlo is a really good way of demonstrating the support of the City of London for the sector,” Lyons said, noting that he is already using his role as a global ambassador for UK plc to extol the role the London market can play in protecting businesses, governments and communities across the globe.

“London has a pre-eminent reputation as a leading financial centre and the reputation that Lloyd’s has as a bespoke market is absolutely symbolic of that. We have a reputation for finding solutions in London, that’s what we do best, and that’s what the world needs us to do.”

He added: “That’s why it’s such an opportunity for us and that’s why this is a really topical time for me to come

and bang the drum for the insurance and reinsurance industry, and to be able to demonstrate that this market is a critical part of the ecosystem of our financial sector.”

Despite representing a major component of London’s financial economy, the UK insurance industry has long been woefully under-represented when it comes to residents of Mansion House, and Lyons’ presence in Monte Carlo marks the first visit by a sitting Lord Mayor to the annual industry conclave since the City of London’s formation in 1189.

Lyons – London’s 694th Lord Mayor – said the timing is significant and should be seen as the start of a renewed partnership at a time when Britain’s government and regulators are looking to bolster the UK’s economic ties.

“I believe very strongly that the UK financial services sector and London as a global financial centre is about to have a renaissance. And this is not a result of Brexit. This is because the City of London is reinvigorated to try and be as competitive as possible,” he said.

## Hannover Re’s Freiboth urges mid- to high single digit US property rate rises in 2024

**US property reinsurance rates need to increase at a minimum in the mid- to high single digits beyond any risk-adjusted price rises to reflect inflation in certain specific segments of the economy, Hannover Re’s Axel Freiboth has told *The Insurer*.**

Following the major property price increases seen at 1 January and at mid-year in the US, Freiboth, who serves as managing director – North America, said another round of rises will be needed in 2024.

“[Pricing is] probably going to go further up, however, likely not quite as

steep as we saw at 1.1.2023 and for the 7.1 renewals, but we still expect mid- to upper single digit increases because we still need to catch up,” Freiboth said.

While general inflation in the US has slowed, Freiboth noted that labour costs, building materials, repair items and original equipment manufactured items, or OEMs, “are still at a quite elevated level, and that needs to be always taken into account”.

“We’re not talking general inflation. Our concern is a little different and a little more specific. We still have a

little bit of supply chain issues, and it’s still hard to get some materials, some repair spare parts, and that just continues adding to the ongoing issues,” Freiboth noted.

Given the natural catastrophe-related challenges faced across the US, from tornadoes and severe convective storms in the Midwest, to wildfires in Hawaii and on the country’s west coast, along with hurricanes on the Atlantic seaboard, Freiboth said rates need to rise nationwide.

“It does have to go up everywhere,” Freiboth stated.

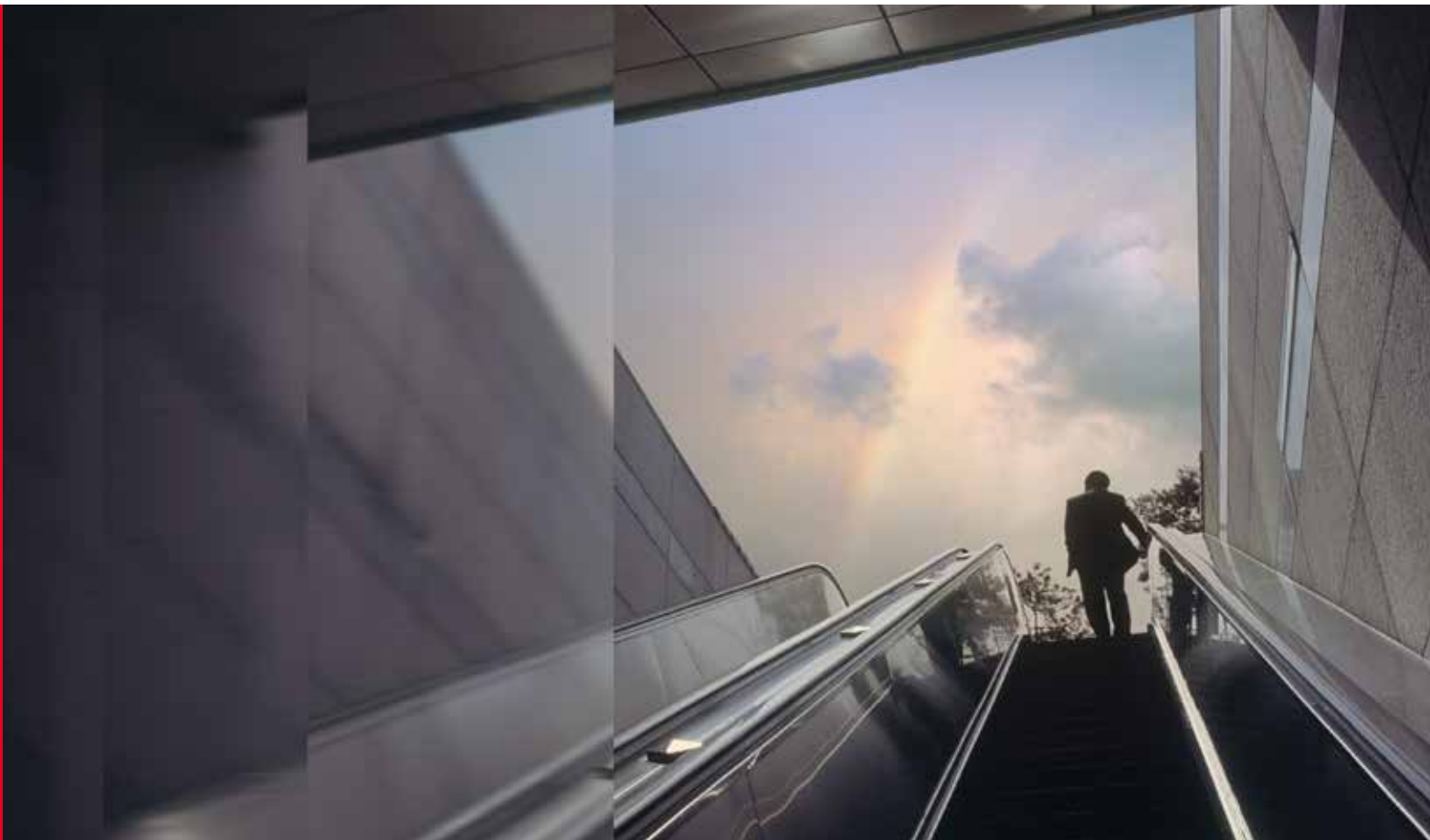


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# BMS Re's Watkins: Shifts in attachment points don't devalue reinsurers' proposition



**The upward shift in attachment points that has become a mainstay of recent reinsurance renewal discussions won't detract from the bigger value proposition reinsurers can offer, according to BMS Re managing director Hannah Watkins.**

Speaking to *The Insurer TV* in Monte Carlo, Watkins said there was a "large disconnect" between the market and clients' expectations during last year's renewal season.

The situation was further complicated by the "carte blanche approach" taken by some markets, including with long-standing clients.

"Insurers have been buying reinsurance for an awfully long time, raising deductibles and the cost of everything continues to increase, inflation continues to increase, and therefore, over a period of time, naturally, your market's attachment point will rise," she said.

"But I do feel that there was quite a large disconnect between the market and the clients' expectations at renewal last year," Watkins added.

"And it's tricky, because there was

a carte blanche approach by some markets, even with long-term clients. And I think that was difficult for some of those clients to swallow. So I think there will be some communication and discussions around that, whilst we're here in Monte Carlo."

While Watkins felt the term "damaged" was perhaps a bit too strong when discussing client relationships, she said that dynamics are not "nice and neat" anymore, and that this has been the end of a "one size fits all" approach.

"This is where brokers come into their own," she said. "This is where we prove our worth and demonstrate our craft, and we're meant to be an intermediary, that's what we're here for."

She added that brokers will also be able to provide solutions around the main program.

## Alternative solutions

In this new cycle for brokers, Watkins noted that BMS Re has been providing clients with alternative solutions when traditional reinsurance is not available.

"You want to provide your client with a choice, you don't want to sit there and go, there is nothing else out there. We are very much working across traditional and non-traditional spaces," she explained.

She added that BMS Re's recent

expansion into Bermuda has emphasised the importance of looking beyond the traditional reinsurance sector.

As such, BMS Re is now offering solutions to clients across D&F, treaty, retro and the ILS markets. "You have to make sure that your clients understand the different triggers compared to traditional reinsurance, that's hugely important," she explained.

"We definitely haven't stood still," she said. "And I think neither should we. We're constantly evolving, we constantly want to improve, we constantly want to enhance what we're offering our clients."

The conversation also turned to market conditions. Away from the property cat market, Watkins spoke of the changes the specialty market went through in 2022 and predicted further adjustments in the future.

"It will be on the terms and conditions," she said. "There was a lot of disparity and there was no consistency in clauses last year, so people will want some more clarity on that."

She added: "There are unknowns in that space and the market wants more clarity around their aggregation insert for certain events, be it in cyber or terrorism or PV. We need to try and help them understand our clients' portfolios more to determine actually what that risk is."

## Greg van der Made becomes latest to depart QBE Re

**QBE Re Bermuda's Greg van der Made has become the latest senior departure from the reinsurance arm of Australian carrier QBE, with the former lead treaty underwriter joining rival RenaissanceRe.**

Van der Made left his role earlier in August, having served as assistant vice president, lead treaty reinsurance underwriter. He resurfaced later in the

month as vice president, ceded re at RenaissanceRe.

The Canadian has been in the Bermudian reinsurance market since 2006, with prior roles at SiriusPoint and Validus Re.

The departure adds to a growing list of exits from the Australian carrier's reinsurance operations.

In June, CUO Peter Wilkins

"unexpectedly" left the business after 23 years. Then in July, vice president and treaty underwriter Hart Moede left to join MS Reinsurance.

The Sydney-listed group has also seen senior changes within other units.

Last month North America chief executive Todd Jones left the carrier, replaced on an interim basis by global distribution head Julie Wood.



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# Axa XL's Gunter: Sale of reinsurance business "not on my radar"



**A**xa XL CEO Scott Gunter has sought to end any lasting speculation over the future ownership of the company's reinsurance business by saying that a sale of the platform "is not on my radar".

A report from Reuters earlier this summer suggested Axa was considering offloading Axa XL Reinsurance, with the newswire at the time detailing that the French insurer was discussing strategic options for the platform, including a private sale or potential stock market listing.

Such speculation over Axa XL Re's future is nothing new, with Axa understood to have sounded out potential buyers of the platform – a list that included Scor – shortly before it completed its acquisition of XL Group in 2018.

And in 2020, this publication reported that French mutual Covéa had expressed an interest in acquiring Axa XL Re.

Talking to *The Insurer*, Gunter was adamant that the reinsurance business has an important role to play for Axa

XL going forward.

"We've put a lot of time and effort in the last, at least two, if not three years, to define a strategy, figure out the appetite [around] how best to have assumed reinsurance as part of the broader Axa portfolio, and that was a lot of work for everybody," he said.

As Gunter noted, last year Axa XL Re "significantly" reduced its catastrophe exposure, with the executive describing its previous involvement in the space as "overweight".

"We redefined our relationship with clients, and said, 'Okay, we want to have a multi-line engagement, not just a single product', and we changed the dynamic," Gunter said.

"We put all this time and effort into [the reinsurance business], so our position is now's the time we're reaping the rewards of that effort," he stated.

"Our plan right now is to come off the last couple of years, have meetings, find new clients who are engaged and who believe in that multi-line approach relationship, and enhance the ones we already have. So [a sale of Axa XL Re is] not on my radar," he declared.

The fruits of the reinsurance unit's remediation efforts were made clear in Axa XL Re's H1 2023 results, with the division posting a combined ratio of 80.8 percent for the six-month stretch, an improvement of 6 percentage points year on year.

And while Axa XL Re's revenues fell to €1.12bn (\$1.2bn) during the first half, down from the prior-year period's €1.45bn, the reinsurance unit's underlying earnings almost doubled to €297mn from H1 2022's €151mn.

"It's a low 80s [combined ratio] business, and we've done all the work, and the request from [Axa CEO Thomas Buberl] is, and the plan is, we want to grow it," said Gunter.

Despite the significant improvements within the property catastrophe market over the past year, the reinsurance business's growth will be outside of that space.

Having reduced its cat writings, Gunter said Axa XL Re is now in a better position to support clients with its other offerings.

"[In] reinsurance, we were overweight on cat, to the point where it was consuming the conversation beyond the other services and products we were delivering to clients," said Gunter.

"And the problem with that is cat can become the topic of conversation every meeting, everyone talks about it, and all the other [coverages] you're working on just don't get the attention and focus.

"So the upside by reducing the cat is it has actually allowed us to focus on the specialty business and all the other products that we sell," he added.

## Griffin Highline Capital backing Matz-McNitt Florida start-up Orange

**F**ormer RenaissanceRe executive Michael Doak's private equity firm Griffin Highline Capital is backing Florida residential insurance start-up Orange Insurance Exchange as it prepares for a December launch, *The Insurer* revealed this week.

As previously reported, the new reciprocal exchange from former Tower Hill president Don Matz and Michael McNitt of Cabrillo Coastal

General Insurance Agency has been approved by the Florida Office of Insurance Regulation to become the latest entrant to the Sunshine State.

Sources said that Griffin Highline is the lead investor in a group backing the launch of the reciprocal exchange, which will initially be capitalised by surplus notes that will be paid down over time by the subscriber contributions of policyholder members.

The start-up has been working with Howden Tiger on its launch.

The move by Griffin Highline represents its second notable investment in the space after it supported the launch of Craig Landi's financial lines-focused MGA Falcon Risk Holdings two years ago with HDI Global Specialty. Doak left RenRe in September 2020 to launch the insurance-focused private investment firm.



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# Munich Re, Scor and Hannover Re join Swiss Re in raising SRCC concerns

**T**he increasingly volatile global risk environment has been a major topic of discussions during this year's *Rendez-Vous* in Monte Carlo, with concerns over losses from strikes, riots and civil commotion (SRCC) a consistent theme identified across the big four European reinsurers' briefings.

The public comments from reinsurers come after Swiss Re's Nikhil da Victoria Lobo, voiced concerns over SRCC in an interview with *The Insurer TV*.

At the *Rendez-Vous*, Munich Re underlined that a sharp increase in the number of SRCC events has transformed it from an area of small, easily digestible losses into one where there are growing concerns over accumulation potential.

"First of all, of course, we need to think about whether we in the insurance and reinsurance industry are adequately pricing for these types of exposures, and for the increasing trend," explained Munich Re management board member Stefan Golling.

"But even if you get the pricing and the rates for such exposure right, we also need to think about the future – will these stay as local events?"

Golling said SRCC events have shown they can shift to a regional or global scale, creating potential for aggregation risks.

"We need to pay better attention to whether we may see surprise losses or some ambiguity with event wording – not only in the original policy wordings, but also how reinsurance structures would respond and how the aggregation would be allowed on the reinsurance structures," said Golling.

This logic was reiterated in Monte Carlo by Swiss Re P&C Re CUO Gianfranco Lot.

"What is important for us is to be able to properly estimate and assess the aggregation issue around SRCC. Under the property cat policies or under the property policies, this is covered. But for reinsurance there is aggregation potential across a lot of policies that would aggregate into the cat treaties," he explained.

Lot emphasised that the reinsurer spent "an awful lot of time" assessing this potential, particularly in understanding how to confine its

Scor P&C CEO Jean-Paul Conoscente added: "An area of focus we intend to bring up in these renewals is SRCC. Civil unrest, like in France earlier this year, we expect to be more and more frequent globally."

The reinsurer's CEO Thierry Léger agreed, affirming that greater polarisation internationally, and in many countries domestically, will likely result in a rise in civil unrest.

Property treaty coverage for SRCC losses has tightened up notably in

the past year, but remains available. However, multiple restrictions that should limit loss transfer have been implemented, for example, changes to hours clauses and rates.

Recent research from Howden indicated that SRCC events have caused more than \$10bn of (re)insurance losses since 2015, causing an 80 percent spike in premiums since 2018.

But these developments have clearly not gone far enough to calm the concerns of significant market players.

In June, Lloyd's chief of markets Patrick Tiernan suggested that Lloyd's syndicates have seen

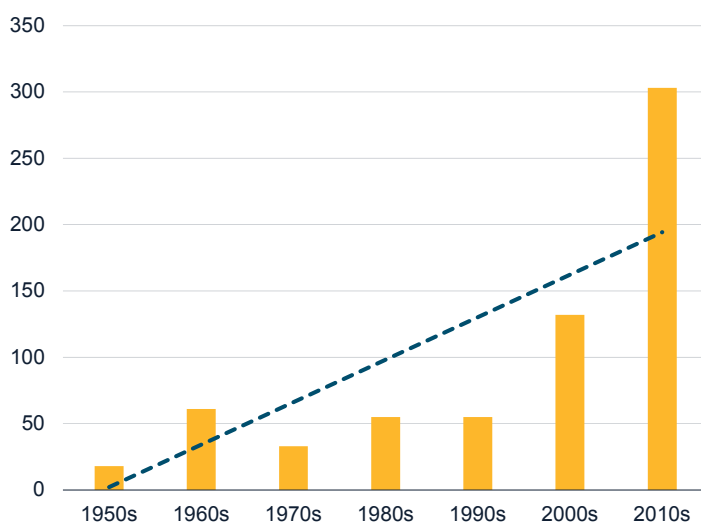
minimal improvement in rate adequacy for political risk exposures, while on the primary side not enough has been done to tighten reinsurance T&Cs.

One product that may help provide greater clarity is Verisk's newly released SRCC data model. The model provides 12-month forecasts for 50,000 countries and districts globally on the potential damage from civil unrest events.

But its launch also came with a warning that the trend for costly civil unrest events across the world will likely continue, with political violence insurers potentially facing greater exposures.

## Number of riots per decade worldwide

1950s to 2010s



Source: Munich Re

potential temporal and geographical spread.

Both Scor and Hannover Re also voiced concerns around the threat of SRCC and social unrest.

Sven Althoff, member of Hannover Re's executive board with responsibility for P&C reinsurance, revealed the French riots constituted the "most prominent loss" the reinsurer had observed this year.

He said these losses added to the mounting pressure on the SRCC market and felt it was inevitable the sector would continue to see hardening of terms and conditions.



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# GC in talks with potential investors ahead of first climate resilience bond pilot



**G**uy Carpenter has begun testing the concept of its proposed Climate Resilient Development Bond (CRD Bond) structure with potential investors as it focuses on developing the first pilot for the initiative, *The Insurer* can reveal.

The broker's European CEO Julian Enoizi, who currently also serves as global head of public sector, has confirmed the proposal has seen engagement from multiple stakeholders – including insurers, reinsurers, service providers, the NGO community, the World Bank and other development banks – since being unveiled in June.

Developed by the reinsurance intermediary alongside Dr Franziska

Arnold-Dwyer from Queen Mary University of London, the CRD Bond proposal combines community-based insurance with stacked investment and advanced funding for loss-prevention measures.

The community-based coverage provided through the concept incorporates a project fund account for a pre-defined project designed to reduce exposure to future losses from the insured event.

The program is then reinsured via an insurance special purpose vehicle, which passes the risk to the capital markets through bonds or notes.

Investors will be either commercial, ESG or philanthropic. Depending on the type of investor, the principal paid will either be purely risk-based, or will support the project fund component of the structure.

“The rationale behind concepts such as this is to provide risk financing solutions which include both payment of losses as well as an adaptation/

mitigation component.

“Unless we adapt to a changing climate and mitigate the increasing frequency and severity of weather-related risks resulting from it, we are never going to win this race,” Enoizi explained.

The former Pool Re CEO said the focus now was on developing a pilot which can provide a “proof of concept” for the first resilience bond.

“We’ve been approached by a number of vulnerable communities who are attracted by the concept because they urgently need to find different ways of managing risk, including both financing it as well as adapting to climate change and mitigating the risks that phenomenon brings,” he said.

“We have also started to test the concept with aligned investors, looking at who is likely to invest, what type of returns are expected, and how long they will be prepared to put capital at risk.”

## Aon: (Re)insurers should increase focus on SCS exposure management

**M**ore than 80 percent of the rise in severe convective storm (SCS) losses is attributable to exposure growth, according to a new study by Aon released in Monte Carlo.

The research examined SCS loss activity between 1990 and 2022, a period which saw insured losses from the peril rise at an annual rate of 8.9 percent.

The study found four exposure-related drivers of this increase. Firstly, real gross domestic product, which accounts for assets in the economy, rose at an annual rate of 2.3 percent.

Fixed reproducible tangible wealth, which accounts for how much the assets are worth, grew at an annual rate of 2.1 percent.

Property cost inflation, measured

by the producer price index for all construction and providing an estimate of how construction costs change over

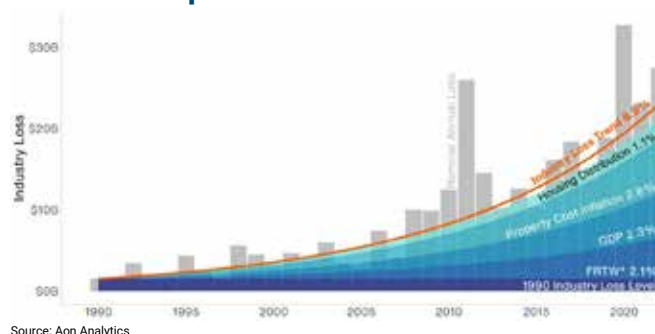
Aon said the remaining 20 percent of the rise could be attributable to “small changes in climate that are not discernible in the weather ingredients that drive severe convective storms, other exposure factors or random chance”.

John Jacobi, managing director within the US actuarial team at Aon's Reinsurance Solutions, said there is little evidence that the climatic factors that drive SCS are changing.

“(Re)insurers instead must

manage growing exposures in high hazard areas, which can be mitigated by traditional risk management techniques such as accumulation management, enhanced claims handling, and appropriate deductible, limit and premium levels.

### SCS loss/exposure trends 1990-2022



time, grew the fastest at 2.8 percent.

And population distribution, measured by a housing distribution index based on changes in housing units in high hazard states like Texas and other Sun Belt states in the US, saw a 1.1 percent growth rate.



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# RETRO

## Hard but stable retro market expected at 1.1

**F**ollowing significant dislocation in the property retro market over the last couple of years, a degree of stability has returned to pricing, albeit with overall available capacity at reduced levels and no sign of capital entering the sector at any scale that will meaningfully alter dynamics for buyers at the upcoming 1.1 renewal.

Sources have pointed to some increased retro appetite from traditional reinsurers such as Everest and Sampo International on the ultimate net loss (UNL) side, while Securis is understood to be allocating a portion of its recent committed capital raise of up to \$1bn to low rate on line retro.

Other ILS funds spoken to by this publication have suggested they may show an increased appetite for retro UNL and potentially even quota share – where capacity has been hard to find – depending on the relative attractiveness of cat reinsurance as they make allocation decisions.

And brokers have been suggesting that some degree of competition is beginning to emerge at the top of programs – albeit with limited availability low down.

In the build-up to the last 1 January renewal, there were no signs of the hard property retro space – which had formed one prong of the so-called “U-shaped” market in recent years – easing to relieve pressure on a property reinsurance segment that was finally catching up.

The pattern of retro purchasing continued to shift away from aggregate to occurrence, while the overall volume of UNL capacity had shrunk dramatically from an estimated \$20bn of global limit to what at the time was estimated to be in the range of \$12bn to \$14bn.

Some sources have suggested it fell even lower to as little as \$11bn.

This year – in line with the more orderly property cat reinsurance market that has emerged following the turmoil at 1.1 – the retro market is widely viewed as having returned to a more stable place.

“I think retro is stable. A lot of people shed some risks and took bigger retentions and buyers had to



### Talking points

- Relative stability in the property retro market after 1.1
- Some signs of excess capacity at the top of programs, but very constrained at the bottom
- Quota share capacity remains in short supply, and aggregate capacity very scarce
- Indications of growing appetite from some traditional reinsurers and ILS funds
- Some movement seen in minimum rate on line in favour of buyers at mid-year

adjust [to the reduction in capacity],” said one writer of reinsurance and retro on the sidelines at the Monte Carlo *Rendez-Vous*.

Sources said the expectation for 1.1 is for a significant moderation in the rate increases on retro UNL placements that will likely be similar in magnitude to those on the underlying reinsurance business.

Market commentary from brokers has also pointed to more of an equilibrium being found in retro after 1 January 2023.

On Monday at the flagship reinsurance event, Guy Carpenter’s CEO of global specialties James Boyce noted that the non-marine retro market has experienced a period of “significant rate hardening” in recent years.

“However, greater price stability was witnessed between 1 January 2023 and the mid-year renewals. The mid-year placements also saw movement on minimum rate on line levels and greater reinsurer willingness to deploy capacity at lower rates,” he commented.

The executive suggested that the focus of negotiations since 1.1 has shifted from one of capacity “to a more pragmatic and considered discussion centred on price, attachment levels and coverage”.

“Many retro providers have made clear their

stance around minimum attachment levels that often exclude potential exposure to higher frequency perils and attritional losses,” he added.

His colleague Richard Morgan, head of non-marine specialties at Guy Carpenter, said the buyers looking to optimise retro strategies in 2024 will need to navigate the widest potential pool of capacity or capital providers.

“Current hard market dynamics, when expected margins look positive, create the right time for buyers to develop extensive relationships across both the traditional and alternative markets in order to create competitive tension not just for the 1 January 2024 negotiations, but through the wider market cycle,” he commented.

### Easing of capacity constraints

Rival Aon also suggested that buying conditions in retro are beginning to become less challenging.

In a report released ahead of Monte Carlo the firm said that in the absence of further disruption to the retro

market, some easing of current capacity constraints can be expected at upcoming renewals.

“But concerns around the impact of secondary perils will likely maintain discipline at the lower end of programs for the foreseeable future,” Aon commented.

It reported that through 2023 the property retro market has found “a new equilibrium”, with stabilised supply-demand dynamics through post-1.1 renewals.

Commenting during a webinar briefing discussing the report last week, Andy Marcell, CEO of Risk Capital at Aon, noted that the Lloyd’s market tends to be more reliant on retro because of its capital construct, suggesting there would not be significant

capital inflows to that segment.

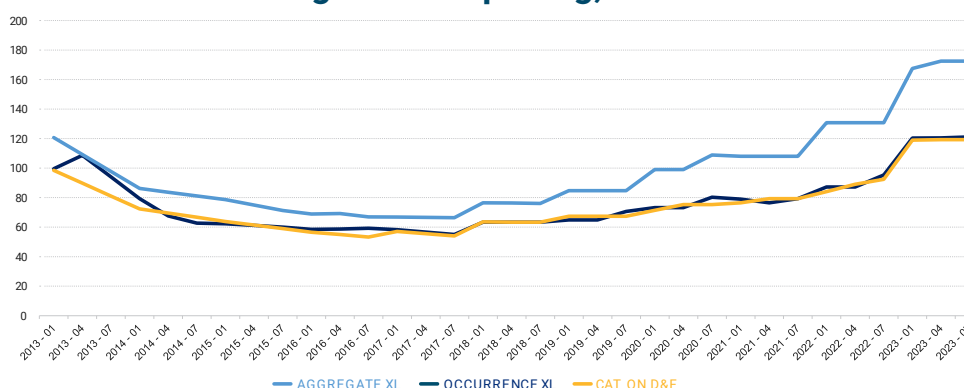
But he suggested that occurrence limit has begun to increase again, and that there could be greater quota share availability this year.

“That doesn’t mean there’s a fundamental shift. I think what’s different this time versus last year is that those reinsurers that were essentially arbitraging the tail with retro and also in the frequency lower down with aggregate covers – a lot of that capacity in the retro market doesn’t exist today.

“However, Bermudian reinsurers, European reinsurers and US reinsurers have learned to live with that reality and the structural change in the reinsurance market – in particular the retention change. So the product they’re selling is more around severe cat than around frequency than previously,”

Marcell continued.

**Guy Carpenter Retro ROL index showing historical movement in average market pricing, 2013 = 100**



Source: Guy Carpenter

### More orderly at mid-year

In its recent renewals report, Gallagher Re said that mid-year retro renewals were more orderly compared to the dislocation seen at 1 January.

“Greater clarity on business

plans and inwards rating environment, coupled with a clearer understanding of market requirements, meant buyers were more prepared for the challenges, and geared their purchases around prevailing market dynamics,” said the report.

The firm said that mid-year pricing remained broadly in line with 1 January (see table), with underwriters remaining disciplined around coverage and attachment points.

Gallagher Re also observed that UNL market capacity was less constrained than at 1.1, but that supply was concentrated to the middle and upper-end of programs.

“Sufficient capacity for buyers’ core layers provided coverage and pricing hurdles were met. [There was] over-supply of capacity for tail protections, particularly for single peril region coverages, but [the] market remains under supplied for bottom-end and true frequency level covers,” it continued.

The intermediary added that quota share capacity remains constrained on a traditional basis, but the improving first tier rating environment is attracting new capital into investors’ quota share strategies.

## Non-marine retro rate movements

Pro rata commission	Risk loss free % change	Risk loss hit % change	Catastrophe loss free % change	Catastrophe loss hit % change
-2.5% to 0%	+10% to +20%	+25% tp +35%	+30% to +50%	+50% to +60%

Notes: Movements are risk-adjusted  
Source: Gallagher Re



# Opportunity realised with strategic management of global volatility

Guy Carpenter's Dean Klisura addresses the macroeconomic challenges and opportunities facing (re)insurers

**T**oday, insurers are facing unprecedented challenges as they navigate a volatile and ever-evolving (re)insurance landscape. The challenges include macroeconomic and financial market instability, the growing complexity and interconnectedness of risk and a shifting geopolitical landscape. While these factors create strategic business challenges, they also represent opportunities for companies to grow and become more resilient.

One of the chief macroeconomic factors is inflation. While global inflation levels are declining, partially owing to monetary tightening, they persist at levels above central bank targets. Multiple supply and demand-side inflation factors remain, including geopolitical uncertainty and tight labour markets. In Europe, the ongoing conflict in Ukraine has heightened volatility stemming from new economic, financial and trade sanctions. The financial effects of the conflict extend beyond Europe, reflected in rising prices for various commodities and products such as food and oil.

The current inflationary environment is pressuring insurers in multiple areas, including pricing, insured valuations, underwriting margins, reserves and asset values. For example, inflationary effects on materials, supplies and construction costs are increasing property claims settlement expenses. Consequently, if claims reserves were set during lower inflationary periods, insurers may now need to raise the reserve levels, impacting overall profitability.

One way to combat increased inflation is by central banks raising interest rates, which generally leads to slower economic growth. A reduced rate of economic output typically leads to businesses cutting back, which in turn may put downward pressure on insurance rates, slowing premium growth for carriers. This effect adds just one more element of volatility to the (re)insurance market.

## Turning risk into return

Insurers can take several actions to manage volatility resulting from inflation and slowing

economic growth. Proactive management of insured valuations, adjusting pricing for inflation based on granular data, and modelling risk scenarios and forecasts all help manage balance sheet impacts. Insurance reserving, critical to managing the balance sheet, requires analyses and scenario testing that lead to informed decisions regarding future underwriting and reinsurance buying. Reserve modelling tools provide insights that enable companies to more effectively allocate capital and set strategy.

Companies can enhance capital efficiency by reducing excess, trapped or underperforming capital through customised, structured reinsurance transactions that enable carriers to redeploy capital supporting prior years' underwriting. Another approach is for companies to evaluate risk and

reward across their balance sheets and potentially rebalance asset allocation to address increased net retained volatility.

The (re)insurance industry has a history of pivoting to solutions as global economic factors stress the system. The impact of the Ukraine conflict is one example, presenting an opportunity to innovate new approaches to public-private

partnerships. Guy Carpenter has worked across all of Marsh McLennan's businesses to propose the creation of a war-risk pool designed to insure the reconstruction work required to rebuild Ukraine's infrastructure and economy. This solution would include the development of a war-risk data platform, to make available 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.

While we are experiencing unprecedented change related to new and increasingly complex risks, this environment presents opportunities for insurance companies that take a strategic approach. The (re)insurance sector is well-versed at navigating volatility, and while past market-defining events may have resulted in a short-term loss of capital and reduced capacity, the market has historically responded through innovation to overcome these challenges.

“  
The (re)insurance industry has a history of pivoting to solutions as global economic factors stress the system  
”



Dean Klisura is president and CEO at Guy Carpenter

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# At a turning point

David Flandro, head of industry analysis and strategic advisory at Howden Tiger, examines the drivers behind transformation in the reinsurance sector

## Navigating a sea change: The evolving reinsurance landscape

Reinsurance is in its most transformative phase since the aftermath of Hurricane Katrina and the global financial crisis. A mixture of rising catastrophe losses, escalating interest rates, inflation and global conflict has accelerated the pace of change.

Five years ago at the Monte Carlo *Rendez-Vous*, experts speculated about the possible obsolescence of the reinsurance cycle. Such conjecture often signals the opportunity to make a bet on an impending cycle shift, and that is exactly what happened.

## From prolonged soft market to volatile territory

Until 2017, the reinsurance sector experienced an extended soft market, marked by price declines, lower premium growth and a capital glut. The tide began to turn with a string of natural catastrophes, including Hurricane Irma in 2017. In the six years since, an 'average' insured catastrophe loss year has amounted to a staggering \$111bn in real terms, almost double the previous six-year average.

Secondary perils, especially wildfires, gained prominence as near-peak risks. Add a global pandemic, geopolitical conflict, claims inflation and asset-side impairment due to surging interest rates and, with hindsight, a 17 percent decline in dedicated reinsurance capital in 2022 was not surprising.

The result has been dramatic: risk-adjusted property catastrophe rates spiked by 37 percent at 1 January, with compounded increases exceeding 50 percent over the 2022-23 mid-year renewals. A dearth of capacity at the end of 2022 drove attachment points

and retentions higher in an environment of tightening terms and conditions, with some shortfalls.

Post-event capital formation lagged historical cycles. For example, the post-Katrina \$30bn real-terms injection was about double post-Ian capital raising to date. The reinsurance sector's premiums-to-surplus ratio now hovers at around 100 percent, a level not seen since the global financial crisis, signalling a tight balance between capital and risk.

“  
There is a sizeable opportunity for those who can navigate the evolving risk landscape  
”

## Unpredictable climate

Frequent natural catastrophes have added to uncertainty. North Atlantic hurricane activity has been above average in 2023, contrary to expectations usually associated with El Niño. Elevated Atlantic surface temperatures may be partially offsetting expected cooler conditions normally associated with El Niño in the southeastern US.

Primary insurers, reeling from some of the worst US personal lines losses in decades, have pulled out of high-exposure, high-volatility states like Florida and California, creating a further dearth of capacity in the direct market, and are demanding better solutions from reinsurers.

## From challenge to opportunity: Adding economic value

It is typically during challenging periods such as these when excess returns become possible. After a slow start, ILS funds are seeing renewed inflows, and net new issuance may potentially exceed \$5bn by year-end. 'Asset-light structures' are adding new channels for alternative capital – although collateral needs careful scrutiny. Capital flowing into vehicles



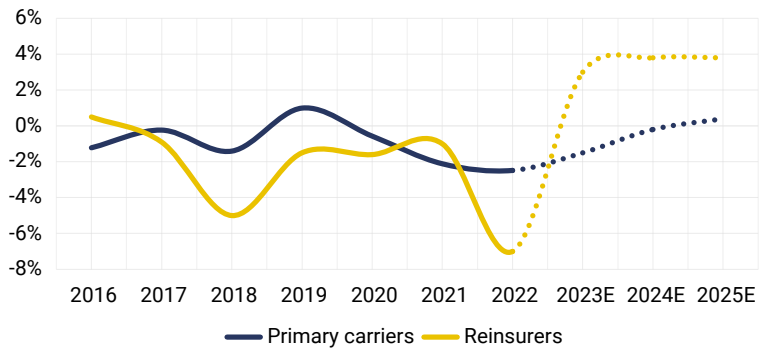
backing MGAs, fronting arrangements and consortia represents a potential revolution, altering the mechanics of risk transfer.

There is a sizeable opportunity for those who can navigate the evolving risk landscape. Assuming a 'normal' remainder of the year, given pricing levels and more favourable programme structures, reinsurers stand to see returns on invested capital (RoIC) outpace their weighted average cost of capital (WACC), marking the first time in years that positive economic value can be achieved.

### Looking ahead

The industry is at a turning point. Key signals, such as record high pricing and strong demand for capacity, are positive indicators. Questions remain, especially around exposure and volatility given heightened natural catastrophe activity. Reinsurers that can navigate this have the chance to increase value and valuations if they adapt to the changing

### Reinsurers set to earn their cost of capital for the first time this cycle – economic value added (RoIC less WACC spread)



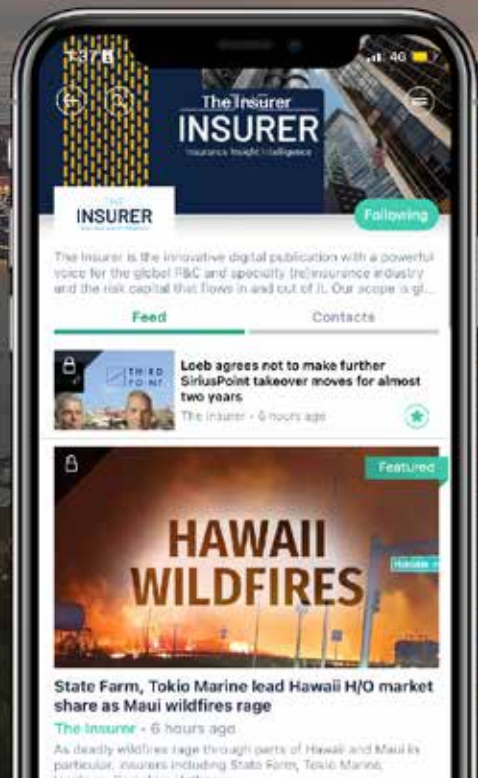
market. Much will depend on underwriting decisions and effective portfolio management as the reinsurance sector undergoes this pivotal shift. Embracing modernisation, including new underwriting structures now coming into their own, will also be key.

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# Reinsurance returns set to exceed cost of capital in 2023: Howden Tiger

**R**einsurance returns are set to exceed the industry's cost of capital this year for the first time since the current pricing cycle began, according to analysis by Howden Tiger.

David Flandro, head of analytics and strategic advisory at the reinsurance broker, said there is now scope for greater optimism across the reinsurance sector following a strong H1 performance.

Having dipped to around \$350bn in 2022, Flandro said dedicated reinsurance capital should recover to more than \$400bn this year.

"2022 was the year in which the sector suffered its largest capital impairment since the financial crisis," he said. "By contrast, in the first half of 2023, most carriers experienced capital increases."

This trend, across both reinsurers and primary carriers, was in part due to realised gains on investment portfolios following losses in 2022.

For reinsurers, Flandro said the solvency margin ratio – capital divided by premiums – was now at around the same level as it was after the financial crisis.

"We estimate that for the first time in this cycle, reinsurance should exceed their cost of capital creating economic value added on a forward basis," he said. "All of this should inform renewal discussions going into 1.1."

"It is clear that insurers and reinsurers can create economic value in this environment, if they use reinsurance effectively and allocate portfolios strategically," Flandro said.

"Capital levels are recovering and should have stabilised back to previous levels if we have a normal second half."

Michelle To, Howden Tiger's head of business intelligence, said multiple positive factors

had impacted industry results during the first half of 2023.

"Strong premiums drove underwriting performance worldwide, with capital levels steady thanks to investment recoveries."

"Most of the outperformance at the global level was driven by high premiums, which in turn benefited from recent positive pricing trends in insurance and reinsurance."

To said composite combined ratios across

the insurance and reinsurance sector saw a slight improvement, with current year loss ratios improving by two percentage points.

Even with upwards of \$50bn of natural catastrophe losses, To said technical profitability had improved across the (re) insurance sector.

All of this was reflected in mainly positive reactions from analysts following the second quarter and first half results," To said. "Share

price movements across all insurance composites in [Howden Tiger's data analytics platform] Nova have outperformed benchmark indices throughout the earnings season.

US carriers absorbed a large portion of the first half

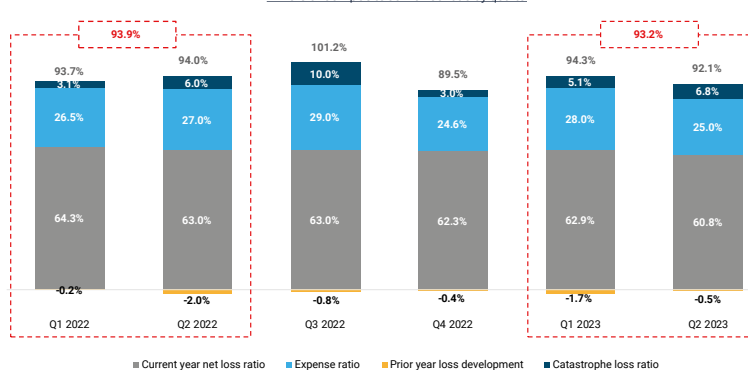
cat losses, with significant losses in the personal lines admitted market. In contrast, she said H1 cat losses at Bermuda and London carriers had shown improvement.

This is on the back of a shift in appetite away from lower layers by reinsurers at recent renewals, which has been reflected by increased retention rates for primary carriers.

As a result, To said composite retention rates were the highest for at least five years during H1 2023.

## Combined ratios improved YoY due to higher premiums despite higher first half cat losses

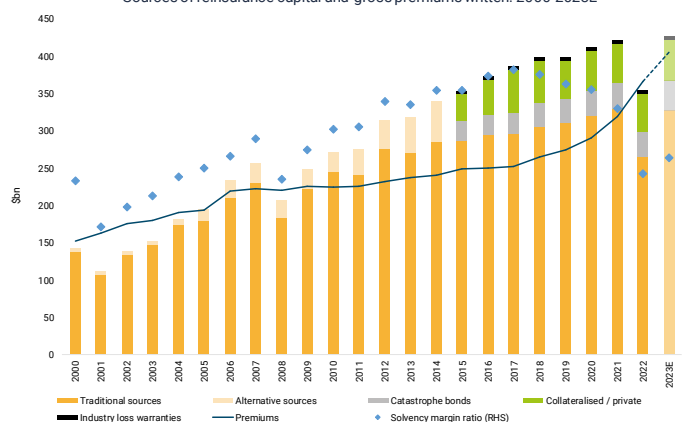
Drivers of composite combined ratio by quarter



Source: NOVA, company quarterly statements

## Dedicated reinsurance capital is anticipated to recover by year-end 2023

Sources of reinsurance capital and gross premiums written: 2000-2023E



Source(s): Company interim earnings report, 10Q, NOVA, Howden Analytics, Swiss Re  
Notes: Consolidates dedicated capital figures by entity including estimates where undisclosed

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# Munich Re remains largest global reinsurer in AM Best ranking

**M**unich Re has held on to the top spot in AM Best's annual ranking of the top 50 global reinsurers, with Swiss Re remaining in second place behind its major rival. The two firms together accounted for approximately one-quarter of the \$363.6bn of gross written premiums (GWP) across the 50 entities in the ranking.

This aggregate premium base represented a 2.6 percent increase year on year, which the rating agency said reflected rate increases rather than exposure growth for many reinsurers.

Much of the top 10 was unchanged, with Hannover Re and Canada Life Re retaining the third and fourth spots in the overall ranking.

Hannover Re was boosted by growth of 18.9 percent in its P&C segment during 2022, which helped drive a 13 percent increase in premium volume at the reinsurer.

Berkshire Hathaway moved above Scor into fifth place, with the French reinsurer having grown at a slower pace than its peers during 2022.

Lloyd's, China Re, Reinsurance Group of America and Everest round out the top 10 in the overall ranking.

The 10 largest reinsurers in the ranking accounted for 69.4 percent of total reinsurance GWP last year, up from 67.9 percent at the end of 2021.

RenaissanceRe missed out on the top 10, coming in at 11th with GWP of \$9.21bn.

AM Best said it was likely RenRe will move up the rankings next year given its recent \$3bn acquisition of Validus.

RenRe and Validus generated combined GWP of \$12.3bn at year-end 2022, a repeat of which next year would see the merged group move above Everest into 10th place.

New entries in the top 50 in 2022 include Convex Group at 40 and Core Specialty at 44. The two firms generated reinsurance GWP of \$1.42bn and \$1.04bn respectively.

## Hannover Re maintains second place in non-life

Hannover Re remains ahead of Swiss Re in the non-life reinsurer rankings for GWP, having attained second place behind Munich Re in 2021.

Hannover Re's non-life GWP totalled \$25.88bn, compared with \$23.76bn at its Swiss rival.

However, Swiss Re had the second largest non-life premium base on a net basis, with its NWP totalling \$22.82bn compared with \$21.64bn at Hannover Re.

Munich Re maintains by far the largest book of non-life business, writing \$36.73bn gross and \$35.29bn net during 2022.

## Ten largest global reinsurers by 2022 GWP

	Company	Reinsurance GWP (\$bn)
1	Munich Re	51.3
2	Swiss Re	39.7
3	Hannover Re	35.5
4	Canada Life Re	23.4
5	Berkshire Hathaway	22.1
6	Scor	21.1
7	Lloyd's	18.5
8	China Re	16.9
9	RGA	13.8
10	Everest Re	9.3

Source: AM Best

## Ten largest global reinsurers by 2022 GWP (non-life only)

	Company	Reinsurance GWP (\$bn)
1	Munich Re	36.7
2	Hannover Re	25.9
3	Swiss Re	23.8
4	Lloyd's	18.5
5	Berkshire Hathaway	16.9
6	Scor	10.7
7	Lloyd's	9.3
8	China Re	9.2
9	RGA	7.7
10	Everest Re	7.0

Source: AM Best



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# Green shoots emerge as embattled insurtech sector recovers from brutal 2022

A shift to a more selective investor base with insurance expertise is enabling a recovery – albeit a patchy one – in the insurtech sector this year following the brutal repricing of 2022

**The Insurer's insurtech composite – which captures the share price movement of eight key stocks representative of the sector – has expanded by 42.1 percent in the year to date, outperforming the S&P 500 and the tech-heavy Nasdaq Composite, which rose 16.9 percent and 31.5 percent, respectively.**

The insurtech composite fared even better when compared against the industry-focused S&P 500 Insurance index, which is up just 1.1 percent to date this year after struggling to recover from the March financial turmoil.

Moreover, the HSCM Public InsurTech Index – which encompasses 14 additional companies beyond those considered in *The Insurer's* insurtech composite – delivered gains of 26.9 percent, further confirming the sector's strong performance throughout this year.

A significant portion of this surge occurred in January, as the sector experienced a natural recovery

following a period of stagnation during the final quarter of 2022.

In fact, *The Insurer's* insurtech composite declined by 57.7 percent last year so the current increase of 42.1 percent over the year to date only brings the index to less than two-thirds of its value at the beginning of 2022.

## The Insurer insurtech composite vs market indices

(base 30-Oct-2020 = 100)



Source: *The Insurer* analysis based on S&P Capital IQ Pro

## A mixed bag

Our composite of publicly listed insurtech companies also shows a very mixed share price performance over 2023, with movements driven largely by company-specific developments rather than broad trends.

Three companies out of the eight included in *The Insurer's* composite explain the bulk of the uplift in 2023.

Root stood at the top, with its shares rising 156.6 percent since the start of the year.

The auto-focused insurtech, which went public at the end of October 2020 with a total market valuation of \$6.7bn, reached a low point in mid-March this year when its valuation fell below the \$50mn mark.

The shares recovered gradually after that before a further boost on 21 June, when the insurtech received an acquisition offer from Embedded Insurance at a more than 3x premium to its closing stock price of \$6.02 on the previous day.

Root turned down the offer but continued to trade at a new higher level of just below \$10 apiece, then rising to around \$11.50 in the last two weeks, equivalent to a market capitalisation of around \$165mn.

Personal lines intermediary Goosehead Insurance also drove the expansion in the composite in the year to date, with its shares soaring by 112.4 percent.

But like Root, Goosehead was one of the major fallers of 2022, shedding 73.6 percent in the year.



## Talking points

- *The Insurer* public insurtech composite up 42.1% YTD, after losing 57.7% in 2022
- Root (+156.6%) and Goosehead (+112.4%) see most significant YTD rises after recording the biggest falls in 2022
- EverQuote sheds 58.3% having been the most resilient stock last year
- Q2 total insurtech funding falls 34% (with respect to Q1) to lowest level in five years, according to Gallagher Re
- Early-stage funding down by 48%, the highest decline since Q3 2017
- But insurtech sector seems to be entering a new healthier phase as (re)insurers gain prominence as investors (relative to venture capital) and focus is placed on sustainable business outcomes (as opposed to high cash burn growth models)



The company to record the third-largest gain so far in 2023 was Duck Creek Technologies.

However, the recovery for the Boston-headquartered company – which went public in August 2020 – was reflective of the premium paid for its shares as it entered into an agreement to be acquired by Vista Equity Partners at the start of January, in an all-cash deal valued at \$2.6bn.

On its last trading day before being delisted from Nasdaq at the end of March, Duck Creek's shares had risen by 57.5 percent since the last day of 2022.

Meanwhile, auto insurtech EverQuote and Hippo were the two most significant fallers among the composite in the year to date.

EverQuote – which went public in mid-2018 – was trading at \$6.15 on 11 September, down 58.3 percent from the last trading day of 2022.

Significant gains in December 2022 meant the stock finished only 5.9 percent down for the year, setting itself apart from all other public peers.

Meanwhile, home insurer Hippo had a good start to the year, rising over 40 percent towards mid-May.

However, shares in the company fell after it released second quarter results on 8 August that showed a jump in its gross loss ratio, leading to a fall of 27.6 percent on a year-to-date basis.

### Insurtech funding at three-year low

Public insurtech underperformance in 2022 reflected broader trends across the tech sector, with the Nasdaq Composite falling 33.1 percent in the year.

This included recession fears, heightened geopolitical risks and higher interest rates as a result of central banks' response to inflationary pressures.

The failure of several crypto-related businesses and the liquidation of a number of SPACs in late 2022 further complicated the backdrop.

These macro trends have continued in 2023

and are also reflecting beyond the public listed companies.

According to Gallagher Re's latest Global InsurTech Report, quarterly funding for the sector was down 34 percent in the second quarter of 2023, with respect to Q1, dropping below the \$1bn mark for the first time in five years.

Meanwhile, early-stage funding fell by 48.1 percent in the second quarter, the largest drop for early-stage funding since the 60 percent drop in Q3 2017.

However, the broker's global head of insurtech Andrew Johnston suggested the sector was entering a secondary phase "focused on beneficial deliverables, rather than digital

usurpation and quick cash", and where "those presenting clear commercial outcomes for themselves and their clients will benefit from investors' more realistic sense of what can

be achieved". The report also noted that corporate venture capitalists – VCs associated with (re)insurers – now represent a larger proportion of total insurtech investors than ever.

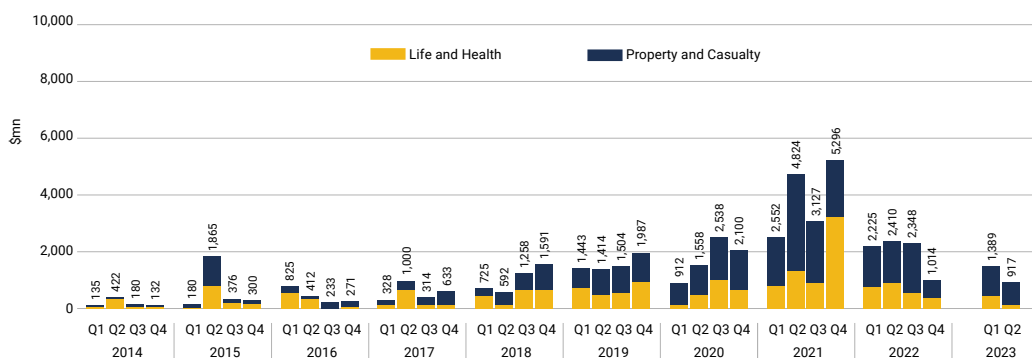
*The Insurer* insurtech composite includes only property casualty-focused companies. Its eight current constituents are Lemonade, Root, Hippo, Duck Creek, Guidewire, Goosehead, MediaAlpha and EverQuote. The composite is built as a chained index weighted on a daily basis by each of the constituents' market cap. It also adjusts for the successive addition or removals of constituents.

### Insurtech share price performance vs composites

	2022	2023-YTD
Lemonade	-67.5%	-5.1%
Root	-92.0%	156.6%
Hippo	-80.8%	-27.6%
Duck Creek Technologies	-60.0%	57.6%
Guidewire Software	-44.9%	48.5%
Goosehead Insurance	-73.6%	112.4%
MediaAlpha	-35.6%	-19.7%
EverQuote	-5.9%	-58.3%
<b>The Insurer insurtech composite</b>	<b>-57.7%</b>	<b>42.1%</b>
S&P 500	-19.4%	16.9%
Dow Jones Industrial Average	-8.8%	4.6%
Nasdaq composite	-33.1%	33.0%
S&P 500 Insurance	8.1%	1.1%
HSCM Public InsurTech Index	-47.5%	26.9%

Note: YTD changes calculated as of 11 September 2023 (except for Duck Creek Technologies).  
Duck Creek Technologies' YTD change corresponds to the share price movement through 30 March 2023, when the stock was de-listed from Nasdaq.  
Source: The Insurer analysis

### Quarterly insurtech funding volume – all stages



Source: Gallagher Re

# Building better models

Dan Dick, global head of property analytics for Aon's Reinsurance Solutions, explains how the business applies insights and data to the property (re)insurance segment to help define each client's view of risk

## How are Aon's academic collaborations incorporated into its Impact Forecasting catastrophe modelling suite?

Our 14 collaborations are all critical to help insurers be better informed on evolving risks. For instance, climate models may be incorrectly representing the Pacific response to greenhouse gas-induced warming with trends toward El Niño-like conditions rather than La Niña-like conditions, according to a new Perspective article in PNAS based on research supported in part by a collaboration between Aon and Columbia University. This inaccuracy could mean that projections of severe weather may be underestimated and that climate modellers and adaptation planners should consider a wide range of potential outcomes. The whole idea is to understand how perils are going to change, publicly share that information, and then build event sets hosted within Impact Forecasting that reflect those changes.

## What is the scope of the modelling suite, and which perils are gaining greater prominence?

Impact Forecasting has already built a suite of 130 models across 90 countries and 12 perils. As we continue to respond to evolving losses, we are studying a range of perils from major perils such as hurricanes through to so-called 'secondary' perils including wildfires and global floods – even though these should not be considered 'secondary' – in order to integrate this data and insight into our model. For example, we are now developing a new severe convective storm model for the US. To do this, we have been finding the right academic partnerships to cover these perils. But we don't just want to stop

there. We want to understand the impact of climate change, and not just for typical catastrophe perils, but also for perils such as extreme heat and drought, and ultimately how this might impact the insurance industry. This understanding will help our clients to navigate volatility and build longer-term business resilience.

## What types of information are (re)insurers demanding?

A lot of information that has been captured over the years for underwriting purposes is not always appropriate for the specific risk being insured. Instead we need to focus on granular details most relevant for the specific perils. Wind or hail risk, for example, should have data that focuses on the condition of the roof, the shape of the roof and the type of roof covering. These data attributes are fundamentally more important for the peril than the typical information collected on an insurance application.

We have been seeing more carriers looking to third-party technology vendors that are able to marry imagery and AI to provide qualitative and quantitative information about risks.

Aon's Industry Exposure Database is also helping to fill these gaps. Technology will allow underwriters to augment the data they are collecting and make even better decisions around pricing and reinsurance.

## How are clients navigating the current conditions?

We think 2023 will go down as, if not the worst, the second-worst severe convective storm season in US history from an insurance standpoint.

We are starting to see losses pop up in areas that were not typical tornado or hail alleys before. Insurer education is going to become critical, because they want to provide a service and be there to help when these events happen. But they need to get a fair price for the risk they are taking while helping homeowners understand what they can do to mitigate and manage that risk.

“ We are starting to see losses pop up in areas that were not typical tornado or hail alleys before ”



Dan Dick is global head of property analytics at Aon's Reinsurance Solutions

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MIND THE GAP

# The worldwide protection gap keeps growing. What can insurers do about it?

EY's Isabelle Santenac on the (re)insurance sector's role in addressing the protection gap

**T**he huge insurance protection gap that exists around the world continues to expand. Insurers and government authorities increasingly recognise that people and businesses have far less protection than they need. That's especially true relative to climate-related risk, but social protection gaps are growing, too.

In 2021, the Swiss Re Institute estimated the global insurance gap at \$1.4trn, a doubling since 2000. In 2022, global economic losses from natural disasters reached \$313bn, according to EY research. Of that, only 42 percent, or \$132bn, was insured. The annual average of 180 natural disasters per year during the last decade is the highest ever recorded. Emerging and developing economies face the largest gaps, due to limited availability of coverage, lower risk awareness and other factors.

Further expansion of the gap is a certainty, given the increased frequency and severity of natural catastrophes. Extreme temperatures in the US this summer have disproportionately impacted socially vulnerable populations that lack air conditioning, are forced to work outside, or need additional support to manage disease or disability. High inflation further restricts their ability to obtain insurance. Inflation will also widen the protection gap by driving up the values of buildings, vehicles and other insurable assets, and by producing higher claims costs, especially those related to construction.

Many insurers have exited high-risk geographies, because it's become too difficult to accurately assess and profitably price climate risks. Others have reduced capacity due to a hardening reinsurance market. We believe these are short-sighted moves – simply covering “good” risks will only expand the protection gap and undercut the industry's

fundamental purpose of providing protections.

To be clear: insurers have taken many steps – from variable pricing and more precise risk modelling to transparent information sharing about exposures – to address climate risks. These efforts should continue. But there's more to do if insurers are to capture new revenue and boost profits, while closing the protection gap.

New products and services (e.g., multi-peril crop insurance, parametric policies) are essential to prevent food crises caused by severe weather, as are alternative forms of risk capacity (e.g., cat bonds, insurance-linked securities). Advanced technology, such as AI-enabled modelling tools, can link index insurance with traditional mechanisms to reduce risk. Predictive tools can provide advance notifications of seasonal weather patterns and potential storms.

In partnering with public sector agencies, the industry can help educate individuals, businesses and communities about the need for protections. It can provide tools to reduce carbon outputs and promote greener behaviours. Insurers and reinsurers should also look to collaborate with governments to transfer financial risks, working across the entire value chain to address underlying risks, rather than acting as “pure carriers”.

In all of these endeavours, insurers should be careful to avoid both greenwashing (positioning their offerings and efforts as more eco-friendly than they actually are) and greenblushing (downplaying or concealing their efforts in support of a greener economy). The industry needs to be the catalyst for helping society at large to change its behaviour and prepare a better future for the next generations.

“  
The industry needs to be the catalyst for helping society at large to change its behaviour and prepare a better future for the next generations  
”



Isabelle Santenac is global insurance leader at EY



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# The role of technology in the future reinsurance paradigm

Liberty Mutual's Parul Kaul-Green and Ly Lam on the opportunity emerging technology provides for the reinsurance sector

**A**s we stand at the threshold of a technological revolution, with AI poised to transform the reinsurance industry, Liberty Mutual Insurance Group is looking forward to a world where AI can enhance decision-making and streamline processes. Utilising AI's ability to process vast amounts of data in a short space of time can unlock enormous potential for growth and success across the reinsurance industry.

To capitalise on this potential, the reinsurer of the future must have a solid foundation and embrace technology to deliver exceptional services to clients and business partners. This is the core principle that underpins Liberty Mutual Reinsurance's journey towards its future reinsurance model.

While the effects of technological change cannot be neatly categorised, so all-encompassing is their scope, we consider the most significant impacts to fall into two broad areas:

- **Underwriting performance:** empowering our underwriters by critically mastering data, thereby enabling predictive and structural analytics to enhance exposure management and risk analysis in their decision-making.
- **Operational and distribution efficiency:** ensuring smooth, flexible and efficient distribution channels by working in partnership with brokers and clients.

It is not a simple matter of building IT systems. It must start with a vision of the model of a future reinsurer. We believe this will impact all aspects of our business: people, processes and organisation. Technology will play a critical role in enabling the transition to our future state.

## 'Essential data at their fingertips': empowering underwriters through technology

This year has seen momentous market changes. Macroeconomic factors, climate change-driven losses, geopolitical forces and societal shifts have forced reinsurance capital providers to take a hard look at how their capacity is being deployed. On the other side, clients need more efficient and responsive

solutions to address those same macro factors.

Underwriters need essential data and advanced modelling capabilities at their fingertips to view and assess their portfolio in all its dimensions. Mastering our portfolios, exposures and capital modelling will provide reinsurers tools for better risk selection, facilitate efficient capital provision and bring new solutions to our clients.

The macro environment is a strong incentive to invest in data and technology to deliver leading capital and risk solutions, and we cannot afford to pass up on this opportunity.



**It is not a simple matter of building IT systems. It must start with a vision of the model of a future reinsurer**



## Building an efficient, effective and transparent distribution chain

On the downstream of the reinsurance value chain, technology will enable the swift and efficient distribution of risk and capital. The industry has long bemoaned the costs of doing business. Technology will create

process efficiencies and reduce the distribution costs significantly.

The key to unlocking all this potential is a responsive, efficient and near real-time form of exchange that matches risk with capital at speed. Distribution partners are our key ally in creating this; data-driven exchanges will better connect broker and underwriter to match risk to capital. In addition, risk modelling and processing will be streamlined to reduce manual touchpoints and drive data quality.

To realise their full potential, several elements of the puzzle need to be settled, including agreed data standards. Live risk exchanges will need to share large volumes of data swiftly, securely and in a consistent and accessible form. This can only be in the interest of all stakeholders in the value chain.



Parul Kaul-Green is chief digital strategy officer at Liberty Mutual Global Risk Solutions International



Ly Lam is chief of staff at Liberty Mutual Reinsurance

## 'At the threshold of change': unlocking value through technology

We stand at the threshold of transformational change. Technology can unlock trapped value in the reinsurance chain. By embracing the possibilities offered, we can safeguard against macro challenges and future value loss. Transformation is not only necessary, but also an exciting opportunity we can't afford to miss.



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on a renewal  
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# Meeting the cyber challenge

Ariel Re's Daniel Carr provides an overview of dynamics in the cyber market

**A**fter the marked increase in claims arising from ransomware in 2018-21, the cyber market saw significant year-on-year rate increases.

Early signs in late 2022 and early 2023 suggested a tempering of rates following a reduced period of ransomware activity because of improved security controls at insureds, geopolitical disruptions from the Ukraine war and more stringent underwriting standards.

However, ransomware activity levels have seen a resurgence in early 2023, meaning the market could benefit from taking stock before pushing ahead with any further rate reductions.

The nature of cyber events is also changing: moving away from targeted events at individual companies and towards incidents that impact multiple companies through the compromise of widely used technologies or suppliers as part of a broader attack.

For example, the recent attack against MOVEit – a commonly used file-transfer application – has driven a significant amount of recent ransomware activity. This event follows a string of similar and adjacent events over the past few years, including attacks against SolarWinds and Microsoft Exchange.

Given the increased use and centralisation of common technologies, the frequency of cyber attacks and levels of risk against common platforms is certain to rise, notably given the continued growth of cloud-based services.

The risks posed by attacking supply chains and common technologies is a significant concern throughout the insurance industry and society, and it represents a material threat to the stability of both cyber portfolios as well as the broader technological ecosystem economies increasingly rely upon.

As a result of the above, aggregation, accumulation and systemic concerns have been at the centre of many cyber market and product initiatives over the past 18 months. These have attempted to proactively address how cyber (re)insurers can best tackle these growing concerns amid a dynamic market and risk environment, and also how the market can manage and overcome the risks posed by advanced, resourced and capable threat actors (including nation states)

“ **Aggregation, accumulation, and systemic concerns have been at the centre of many cyber market and product initiatives over the past 18 months** ”



Daniel Carr is head of cyber at Ariel Re

with the potential to cause systemic and widespread economic loss.

The changing nature of losses has also resulted in changes to reinsurance purchasing – with many insurers now seeking specific cyber reinsurance products focused on aiding their ability to withstand systemic shock events within their portfolio. This trend accelerated at the beginning of 2023 and continues to increase, with such products increasingly likely to form a more material component of 2024 reinsurance programs for many carriers.

In addition, the growth and use of AI in wider society is bringing new exposures to the cyber market. Increasingly, organisations are rapidly adopting new AI technologies – including services such as ChatGPT – within their business. However, in the race to adopt

AI applications, it is likely that all the data flows to and from such services are not fully understood, potentially leading to a wide range of new and evolving cyber threats.

That said, AI also presents new and emerging opportunities to detect, monitor and prevent malicious cyber activity. As with all technological innovations, it brings both threat and opportunity but often at different paces of development.

“ The wider risks and threats posed by using AI technologies (including AI for voice, video and imagery) across various applications – malicious or not – all have the potential to materially reshape the cyber liability and product risk landscape over the coming years, as well as bringing new threats to existing and widely used cybersecurity techniques, such as voice verification in banking. ”

There is growing pressure on technology companies to have a moratorium on bringing new AI services to the market until they have been rigorously tested to try to mitigate against potentially dangerous consequences such as the AI hallucinating – that is, simply making up information.

The cyber insurance market remains extremely fluid, and a major challenge for the industry is how to best respond to these dynamics with risk mitigation products that are fit for purpose, as well as the appropriate capital and market structures to ensure their sustainable and enduring availability.



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# Striking the balance: Data and expertise in reinsurance renewals

BMS Re's Simon Woodage on the importance of accurate risk assessment during reinsurance renewals

**D**ata is crucial to the reinsurance industry at all times, but particularly during renewal seasons. It provides clarity, informs decisions and can be leveraged for better options.

Unfortunately, data is often misused to deliver what's expected instead of harnessing its full potential.

Cedants and reinsurers alike have the opportunity to make the most of their data and set themselves apart in its application, making better-informed decisions during this upcoming renewal season.

## Going beyond the basics

Accurate risk assessment is at the heart of reinsurance renewal. Data isn't just for modelling risk; it guides risk accumulation management and shapes parameters like premiums, probable maximum losses, as well as actual losses – and their development.

Our collective responsibility goes beyond simply processing the data we're given. We must validate its accuracy and develop a deep understanding of what it represents. This is a complex process, and at BMS, it starts long before the beginning of any renewal season. Comprehensive command of clients' data is the only way to truly identify their positive differentiators, properly anticipate questions from actuaries and/or cat modellers, and ensure that there isn't a mismatch between reinsurance sought, reinsurance purchased and their underlying exposures.

History shows that over-relying on catastrophe models often leads to the mismatch identified above. Often models do not account for certain unmodelled perils – for example, Storm Uri, which hit Texas in the winter of 2021, caught the industry by surprise and resulted in substantial losses.

## Navigating additional pitfalls

Recent catastrophic losses in Louisiana highlighted the risks of inadequately valuing primary portfolios using insurance to value. In addition, data is often

used to fixate on a single point within a distribution of many likely outcomes rather than considering the full array of loss outcomes.

To enrich raw risk data, engaging with cedants and brokers is invaluable. Providing further insight into loss outcomes, reducing the impact of outsized losses and successfully managing risk for better outcomes.

In addition, today's economic environment dictates that it is important to understand inflation's impact on portfolios. For example, supply chain complexities and macroeconomics drive inflation, increasing costs. When reporting exposure data to reinsurers, cedants must ensure that inflationary context is clearly communicated, to avoid additional costs as a result of standard adjustments for uncertainty which are added by underwriters.

## Benefiting through partnership

Best-in-class reinsurers will seek a true partnership with their clients, enhancing trading relationships through transparency, and the sharing of their expertise and knowledge for everyone's benefit.

Having a deep understanding of our clients on an individual basis is something we are proud of at BMS Re. We work closely with cedants to ensure reinsurers have the most accurate data not only at renewal, but over the course of the contract period. We model, synthesise and analyse our clients' data at regular intervals so that they are able to make the most educated and informed decisions at renewal. Our expert brokers, catastrophe analysts and actuaries are always prepared to assist our clients with structuring and pricing methodologies. Elsewhere, we have in-house meteorological expertise to help clients truly understand climate-driven risk. Having this full understanding of data allows for efficient workflows, reducing miscommunication and misunderstanding.

At BMS Re we focus on providing relevant and bespoke insight to our clients. Our team of more than 300 colleagues around the world use data to deliver answers, not to generate outputs. This ensures that clients can manage risk, evaluate reinsurer underwriting perspectives and communicate clearly with reinsurers as we go into this renewal period and beyond, together.



Simon Woodage is divisional director, P&C at BMS Re

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# Hippo confident portfolio shake-up will make it more attractive to reinsurers at 1.1

**H**ippo CEO Rick McCathron believes the re-underwriting within its Hippo Home Insurance Program (HHIP) portfolio in recent weeks will make the business a more attractive proposition to reinsurers as it looks to renew the bulk of its quota share treaties at 1 January 2024

This publication reported in August that Hippo had pressed pause on writing the HHIP across the US as it sought to remedy issues in its portfolio highlighted by heavy weather-related losses during Q2 2023.

In the time since, Hippo has initiated non-renewals, cancelled business, changed its independent agent commission structures in certain regions and raised deductibles in states where it could do so.

As McCathron explained during KBW's 2023 Insurance Conference last week, the US homeowners-focused insurtech will in the coming days once again begin writing HHIP business "in a very selective way".

For the second quarter, Hippo's consolidated gross loss ratio shot up 29 percentage points year on year to 107 percent owing to heavy catastrophe losses.

Despite the high loss ratio, McCathron said "most of our net quota share partners are actually doing quite well".

Looking ahead, the bulk of Hippo's reinsurance treaties renew at 1 January, and McCathron is optimistic that despite the losses incurred this year, the changes the insurtech is making to its portfolio will actually improve its position.

"I'm not concerned about the reinsurance placement for 1.1," he said.

"All the actions we're taking are actually going to help the placement, not hurt the placement."

McCathron highlighted how when it renewed its quota share treaties at 1 January this year, and when it later placed its catastrophe excess-of-loss program at 1 July, the insurtech was "oversubscribed for both at better terms and conditions than we had previously".

Looking ahead to its upcoming renewals, McCathron said "the good news" is there remains "ample reinsurance solutions" for Hippo.

"The bad news is most of the quota shares have shifted from gross quota share to net quota share," the executive explained.

As McCathron detailed, with the net quota share coverage, reinsurers impose a first dollar loss cap on weather events, and then provide an allowance to buy XoL coverage.

But with the shift in the property reinsurance market and the introduction of higher deductibles, a layer is created between the two coverages for losses from small weather events such as hail and severe convective storms that Hippo has to bear itself.

"When you have a portfolio that's concentrated more towards hail, and not towards things like hurricane, you don't have one or two huge losses, you have a lot of baby losses, and those fall below

the XoL but above the caps on the gross quota share," McCathron outlined.

"The reinsurance market has dictated that we take more net quota share as opposed to gross quota share, and that's really what hit us in the Q2 results," the executive said.

"It's that middle gap that's a problem," McCathron added, and so Hippo is working to reduce or eliminate the volatility in that section through the re-underwriting of its portfolio.

"We're fortunate that our attritional loss ratios are in a good place," said McCathron.

"We're reducing or eliminating the weather volatility so we can take more exposure, and then still buy cat for those large single events that we're not overly exposed to."

The next step for Hippo as it moves toward the 1 January renewals is to determine how much net quota share the company wants, with the executive confirming the percentage the insurtech takes "will likely change because the economics of the portfolio and the volatility and relation to weather in the portfolio".



**"I'm not concerned about the reinsurance placement for 1.1. All the actions we're taking are actually going to help the placement, not hurt the placement"**

**Hippo's Rick McCathron say the changes to its loss-hit portfolio will help its 1.1 reinsurance placement**





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# PwC: Global non-life legacy trades total \$9.4bn over past year

**T**he global non-life legacy market transacted estimated gross reserves of \$9.4bn across 37 publicly announced deals in the 12-month period to the end of H1 2023, according to analysis by PwC.

This marked an uptick on the \$9.3bn transacted in the 12 months to H1 2022, although the market did see a dip in deal volume from last year's 55 deals.

Major deals announced this year include a trio of transactions with gross reserves of over \$1bn, including Enstar's \$1.9bn loss portfolio transfer (LPT) with QBE, RiverStone's £1.2bn transaction with MS Amlin and Compre's \$1.3bn ground-up LPT with SiriusPoint.

Speaking at the report's launch at this year's *Rendez-Vous* in Monte Carlo, Alan Augustine, director of deals at PwC UK, said: "Deal pricing remains competitive and underwriting discipline has generally held up great for other markets."

However, he noted that the market was going through a "transition phase", with a shift in demand towards reinsurance-based capital relief solutions.

Also speaking at the event, Andrew Ward, liability

restructuring partner at PwC UK, underlined that the trend towards increased volumes of liabilities transferred will continue, adding that "capital" is now a buzzword in the legacy space.

"Quotes that we've got from sellers of books in business seem to be any array of words as long as it's got capital in front of them. Rationalisation,

optimisation, efficiency, relief and release. It's a massive feature of the market at the moment," underlined Ward.

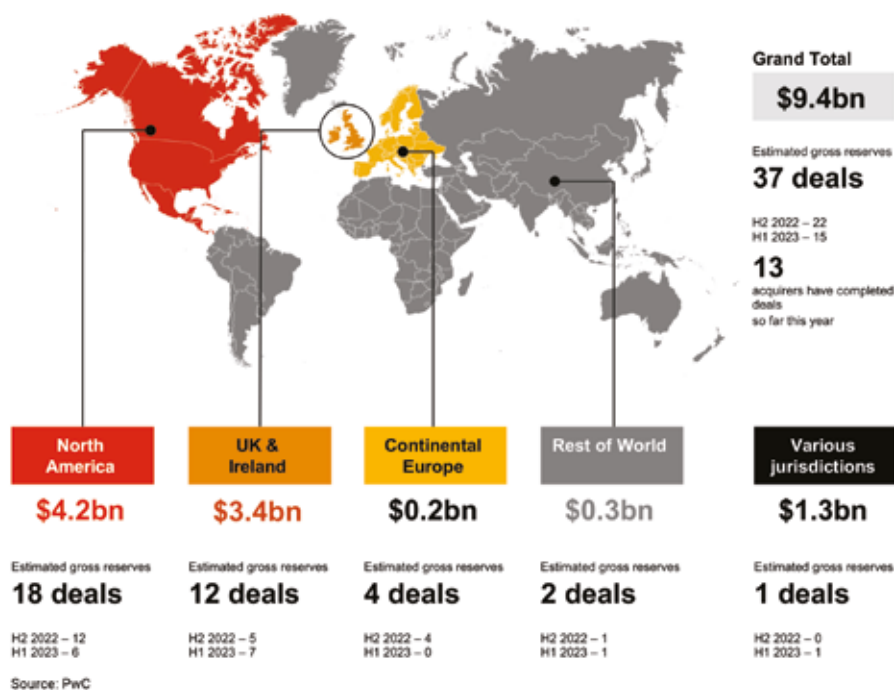
The legacy sector has also been an attractive area to deploy capital. Barry Gale, Aon's head of legacy, explained: "What we've continued to see is an influx of capital into the market, which is a great thing for organisations which have wanted additional capital and have got a strong track record."

Gale noted that the legacy market

has recently seen an influx of new and existing investors.

He said this had driven larger deals and more investment in data, with the latter helping to drive better claims and actuarial decisions.

## Deal activity by region – H1 2022 and H1 2023



## RiverStone International acquires Catalina Ireland

**R**iverStone International has signalled its intent to further grow its European presence by signing a deal to acquire Catalina Insurance Ireland.

The acquired business comprises two main portfolios – a German med-mal book, and a UK motor portfolio.

Total acquired reserves were approximately \$350mn at the time of

evaluation, RiverStone International said. Catalina Ireland was previously part of HSBC Group, having been acquired by Catalina in October 2012.

While operating as HSBC Insurance (Ireland), the company underwrote creditor and personal lines business in Ireland, the UK and Italy before putting those business

lines into run-off in July 2010.

Under Catalina's ownership, the company acquired a portfolio of insurance liabilities from Quinn Insurance Limited in 2015, predominantly comprising UK and Northern Ireland motor and professional indemnity business. The majority of this portfolio has been in run-off since the end of 2012.





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# Retrospective solutions: Where legacy and reinsurance meet

Compre's David Presley and Simon Hawkins on the rise of the retrospective market

**In recent years the retrospective market has evolved considerably, relieving (re)insurers of unwanted prior-year liabilities (PYL) in new ways and in greater volumes. Some recent transactions would not have been possible five years ago, yet the conditions now exist for further significant advances in the next two years.**

While retrospective solutions are many and varied, they essentially fall into two categories. The first are the traditional M&A projects. These are often huge and resource-intensive for both client and retrospective provider, frequently involving discontinued lines following a strategic extrication from a market or territory.

The second, which is much newer and far simpler, is more akin to a reinsurance product, providing an economic and/or operational solution to PYL where a carrier wishes to remain in a particular market.

Such solutions mark a significant step forward and are an increasingly important part of (re)insurers' capital management toolbox. They have also paved the way for the retrospective market to play an even more important role in reinsurance capital management and on a cyclical basis. When looking at capital business plans, (re)insurers have generally tended to look forward, yet more are developing capital management teams with both prospective and retrospective remits. The desire to optimise the deployment of capital, maximise return on total capital and redeploy prior-year capital into a hardening market is propelling the market's next evolution – from strategic exit tool to cyclical capital management solution.

While this promises to provide greater opportunity at both an individual carrier and a market level, it will test retrospective providers' own resilience. Those that prove to be robust, long-term partners will bear several distinctive hallmarks.

Currently, retrospective reinsurance remains an

opportunistic product; it is not possible to deliver a pre-designed business plan where the market supply allows for a diverse selection of risk. So building a balanced, diversified portfolio requires a disciplined approach to the opportunities that are presented. Rigorous due diligence is essential, asking the right questions – and a lot of them. Having deep underwriting skills backed by sector-specific expertise to write complex risks competently is also vital. Developing specific areas of focus and centres of excellence will become increasingly essential to maintain and build resilience.

Claims excellence will become even more significant; legacy players must ensure they handle claims better and in a more focused manner than their clients. Focus on claims remains unequivocally within the DNA of the retrospective market – paying claims

swiftly, allocating greater resources and focus to accelerate run-off and help the broader insurance market recycle capital. This is fundamental in fostering genuine partnerships and vital in maximising long-term mutual benefit.

Attracting and retaining the best talent will also be required for all in our market to take the next evolutionary steps. It is untrue to say providers are reliant on a small specialist talent pool, with companies increasingly demonstrating the ability to attract top talent from across the (re)insurance market.

After decades on the periphery, the retrospective market is quickly becoming an increasingly embedded part of the (re)insurance industry. There now exists the very real and exciting opportunity to forge more meaningful long-term partnerships, which will further strengthen the reinsurance market and have a highly desirable knock-on effect for the resilience of the insurance industry as a whole.

“  
Currently, retrospective reinsurance remains an opportunistic product  
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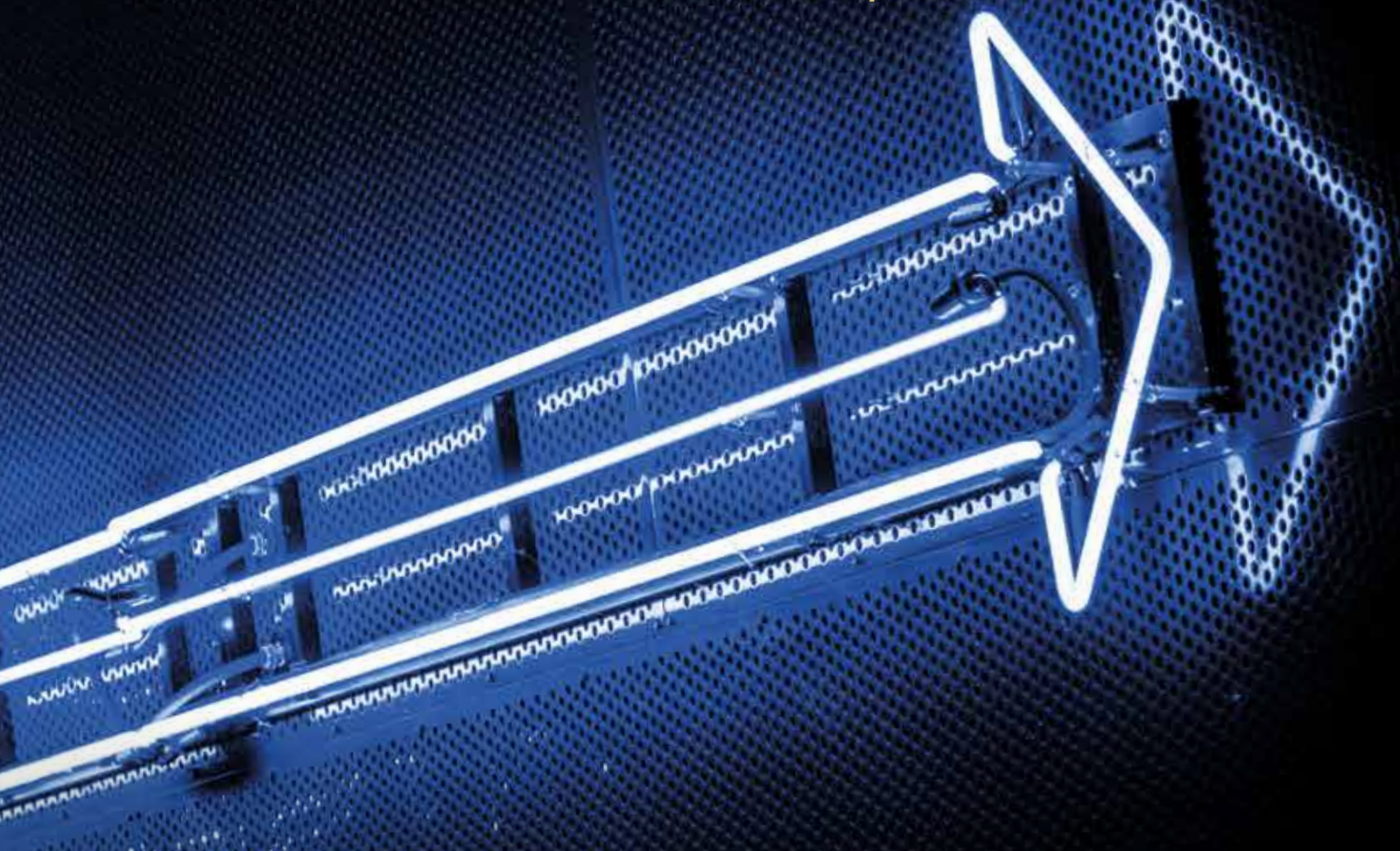
David Presley is CEO of North America and Simon Hawkins CEO of Europe at Compre





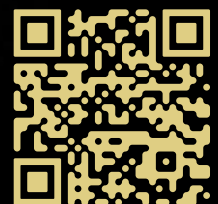
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## UK's 2022 financial turmoil and double-digit returns fuelling ILS cat bond shift: Albertini

**2023 is poised to be a record year for cat bond issuance and a key factor is the UK's brief financial crisis last year, which reminded pension fund managers around the globe of the importance of liquidity, according to Leadenhall Capital Partners CEO Luca Albertini.**

Speaking at *The Insurer's* Pre-Monte Carlo Forum, Albertini said: "Brokers have indicated that in the first half of this year, there were as many cat bond issuances as last year, showing that investor demand has been very healthy."

But he contrasted this with collateralised reinsurance placements, where pension funds – the largest component of the ~\$100bn ILS market – remain cautious on issues such as trapped capital and limited liquidity.

Albertini also referenced the strong "double-digit" returns that are currently available to cat bond investors. At H1 2023, the Swiss Re cat bond index – which measures total returns on outstanding cat bonds – was up 10.3 percent. Indeed, after a strong July-August, it is looking increasingly likely that the authoritative index's record annual return of 15 percent in 2007 may be exceeded this year.

In addition to strong returns, however, pension funds are particularly concerned about liquidity after UK life insurers in September and October 2022 were confronted with margin calls after leveraging their gilt portfolios with liability-driven investments. It sparked a mini confidence crisis until the Bank of England stepped in to stabilise the markets, a key factor in the exit of British Prime Minister Liz Truss.

While sidecars, industry loss warranties and collateralised XoL reinsurance placements are locked in, the secondary market for cat bonds

provides investors with the additional reassurance of liquidity in the event an early exit is required, Albertini explained.

"Clearly, there has been a shift to liquid strategies," he said.

"Yes, you still have the risk of collateral trapping but you can trade out within two weeks [with cat bonds]."

On the issue of trapped collateral, Albertini

estimates that around \$20bn – or "20 percent give or take" – of the \$100bn ILS market is currently locked. This means it will either be returned to investors or drawn down to cover incurred losses, but in the meantime cannot be deployed as live risk capital.

Speaking to an audience of nearly 300 London executives, he said ILS fund managers

like Leadenhall Capital remain concerned about excessive trapping of capital.

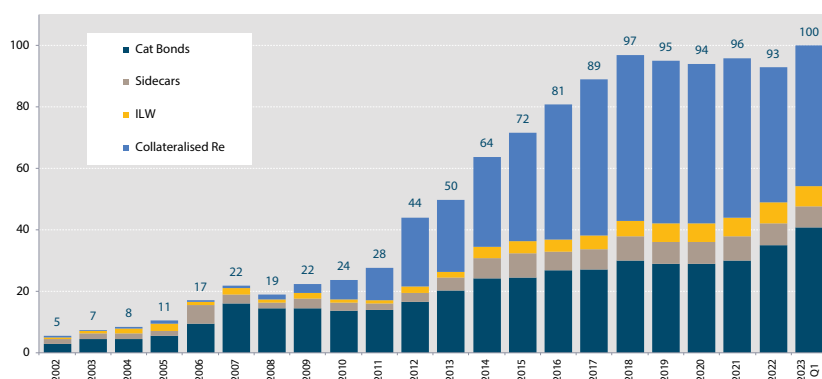
"Of course, collateral trapping is a prudent way to manage the development of reserves, especially when there is uncertainty, but it is very hard to find clarity and to properly codify," he noted. Albertini added that he is at times sceptical when loss estimate reserves are frequently set close to positions that enable a broker to lock higher layer positions.

He reminded the audience that it's a hard market with capacity less freely available and fund managers may simply decide not to renew if the behaviour is "abusive".

"So some of the behaviour when it's abusive will be punished by having less capital available. It is part of being ethical and being and being sensible in developing relationships.

"I'm Italian, I remember and I keep a grudge," he joked to the audience.

### Total Insurance Linked Investments



Source: Aon Reinsurance Market Dynamics (June 2023) (\$bn)





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# Ursano: Expect more broker IPOs and strategic mergers as PE firms look for liquidity

**Insurance Advisory Partners (IAP) managing partner and co-founder Tony Ursano predicts the concentration of private equity in the broking sector together with attractive valuations will result in a flurry of strategic mergers and some IPOs in 2024 and beyond.**

Speaking at *The Insurer's* Pre-Monte Carlo Forum, Ursano said that commissions and fees from the top 20 global brokers now total almost \$60bn.

The top 10 publicly traded brokers now hold \$282.5bn of market capitalisation and generated \$32.8bn of revenue in 2022, he added.

Ursano said public brokers are now trading at around 22.3x their 2023E Ebitda, a measurement he felt could inspire a number of private equity firms' broker-focused strategies.

Of the 23 largest private brokers, Ursano said 21 were owned or at least part-owned by private equity firms – representing a total enterprise value of ~\$200bn.

But the IAP managing partner said higher interest rates and borrowing costs meant “private equity to private equity trades have become trickier at current valuations”.

He explained that increased interest rate expenses had contributed to a reduction in net income. For example, he said net income for a \$200mn Ebitda business with 7x leverage was now 51 percent lower compared to 20 months ago.

Ursano suggested two anticipated consequences from this development.

The first will see a greater focus on more strategic mergers of equals, where synergies are expected to justify a greater value. Ursano's second expectation

is that private equity firms will opt towards the public listing of their investee companies with New York being the natural location.

“We also expect to see IPOs launched to establish a path to liquidity for private equity shareholders. People are talking about it a lot today. This is especially true given the average public brokers are trading at around 20x,” said Ursano.

The increase in strategic mergers and the anticipated launch of IPOs will both contribute to the increased consolidation of brokers to an even fewer number of larger players over the next three to five years, Ursano explained.

Ursano offered a valuation comparison between the “highly attractive” model adopted by brokers and that of carriers.

For \$2bn premium businesses, Ursano estimated the goodwill value of the less capital-intensive brokers to be ~\$1.73bn compared to \$1bn for a carrier.

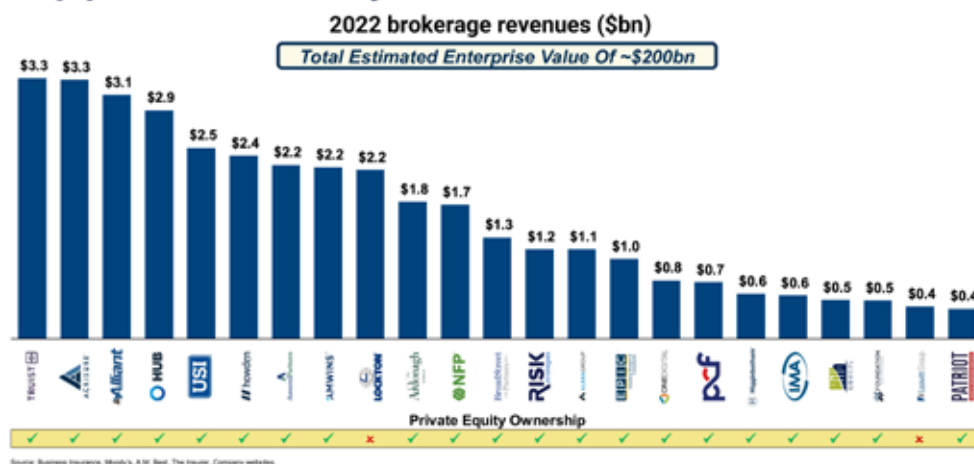
Ursano said this disparity in goodwill value contributed to 85 percent of private equity firms stating they had zero interest in balance sheet businesses.

“Why? Because they made a fortune selling, buying and recapping [broker] businesses as opposed to carriers,” Ursano continued.

“As you all know brokers have little if any volatility embedded in them.

They are capital-intensive with recurring revenue streams, inorganic and organic growth opportunities, and great margins.”

## Top private brokers by revenue







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# D&Iing it differently

Aaida Abu Jaber, assistant vice president PR and marketing and diversity and inclusion (D&I) champion at IGI, explains how the firm approaches D&I and its plans for promoting progress in the industry

## What prompted IGI to undertake its D&I initiative?

Since 2001, we have grown from a Middle Eastern-rooted business into a truly global company with eight offices across four continents. As such, we consider diversity intrinsically part of the company's DNA, with employees coming from diverse backgrounds and ethnicities.

D&I has always been part of our multifaceted corporate social responsibility (CSR) programme, which extends into a wide range of areas. But, in 2017, we instituted D&I as a standalone element of our broader CSR programme with a separately allocated budget.

## IGI has achieved a 50:50 gender-balanced workforce, but its board and senior management team remain mostly male. Is IGI also seeking to achieve gender balance in its leadership?

The IGI leadership has always believed in gender equity, and we are proud of our gender-balanced workforce, but more work and action are needed to increase female representation in executive and leadership positions. We have invested in the career development of our women by offering the opportunity to enrol in a programme focusing on leadership training. Furthermore, our board diversity policy promotes diversified representation on the board and its committees.

In the past few years, the number of women in senior management positions at IGI increased from one in 2017 to seven today. We have a woman on our seven-member majority independent board of directors, and we expect to see these numbers increase further in the coming years.

## Has the D&I initiative impacted the wider market and community outside the company?

Our approach to D&I has had a notable impact on the communities in which we operate. For instance, we tackled harassment in the workplace by providing

awareness sessions for women working in factories in remote parts of Jordan. In 2022, we conducted a global market-wide survey to understand the barriers to women reaching executive levels in the industry and the role played by menopause and child/elderly care.

## The whole industry is facing challenges in building a more diverse workforce. What is IGI doing to address disparities in the sector?

We must understand that diversity issues exist in all aspects of life, and not just in business or our industry. Hence, we need to start the education process at the grassroots level – in schools and universities. By connecting with youth at this critical age before they start thinking about their professional futures, we can encourage them to consider joining the industry, thereby widening and diversifying the pool of talent.

## What are your plans for this year's Dive In event?

IGI has been a proud sponsor of the Dive In Festival since 2018. We have been named country lead for Dive In in Jordan by the Lloyd's of London organisers.

This year's theme is 'The Power of Inclusion: Unlocking Innovation', so we will address AI and host a panel of academics on 28 September discussing the role of AI and data in driving D&I. As a new topic for the festival, we think it will stir things up a bit. This event will be aired on the Dive In platform and available on IGI's website and social media channels.

Many smaller companies argue that they do not have the resources to make a difference on the D&I front. Is that true? If not, what advice would you give them?

Taking one step at a time can have a large cumulative effect. Out-of-the-box thinking and unconventional ways of drawing attention to D&I can also be quite effective. We do not believe companies should shy away from sensitive topics such as harassment or the menopause.



Aaida Abu Jaber, assistant vice president PR and marketing and diversity and inclusion (D&I) champion at IGI

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# Insurers' strategies for managing rising climate change risks

Moody's Investors Service's Brandon Holmes and Moody's RMS' Joss Matthewman explain how insurers are using increasingly sophisticated data and modelling to better understand climate risks

## What signs are there that climate change is impacting catastrophic risk?

**Joss Matthewman:** On average, between 1980 and 1989 there were just over 70 natural catastrophes per year; from 2013 to 2022, it was just under 200 per year according to Swiss Re. Economic losses are also increasing. Swiss Re classifies catastrophes as events which exceed given insured and economic loss thresholds, and as such, growing insured exposures and higher reconstruction costs will contribute to this increasing trend, which makes it challenging to isolate and attribute the impact of climate change alone. However, for some catastrophe perils in certain geographies, there is scientific consensus surrounding the historical increase in frequency of extreme weather events, which will therefore contribute to this upwards trend in losses.

## Are insurers seeing climate change modelling as a priority?

**Brandon Holmes:** Yes. At our recent insurance conferences in New York and London, we asked insurers how physical climate change was being incorporated into their risk management and underwriting practices. Many respondents are prioritising the implementation of more sophisticated data and modelling capabilities, followed by repricing of property policies, policy terms and conditions changes, and business renewal decisions.

## What does this mean in practice?

**Holmes:** Insurers are at various stages of evaluating the impact of climate change on their business, with some already incorporating climate change into strategic planning and stress testing.

## Can you give an example of how exposure data is measured and managed?

**Matthewman:** Key data quality indicators for property insurers include location accuracy, and building attributes such as age, construction type and up-to-date replacement costs. Better quality data helps insurers to price risk more accurately and improve

portfolio management, to gain an edge over less sophisticated peers, both in managing risk and in securing steady reinsurance capacity.

## How does catastrophe model usage vary regarding climate change?

**Matthewman:** It ranges from insurers giving more weight to recent events in their catastrophe modelling to 'conditioned' catastrophe models that generate potential outcomes from current and future catastrophes by incorporating climate change scenarios. We are starting to see near-term future views from conditioned catastrophe models being used in portfolio management activities such as sustainable pricing and affordability, product innovation, selection of strategic reinsurance partners and wider business planning.

## What impact is rising temperatures having on catastrophic risks such as flood?

**Matthewman:** Rising temperatures are increasing underwriting risks. Moody's RMS analysis shows that across most of Europe, compared with 1979-2010, modelled flood average annual insured losses would be 40-60 percent higher by 2050, using a climate change scenario with an increase in global mean surface temperatures of 2.3°C relative to pre-industrial levels. The change varies significantly across the region though, with modelled flood risk projecting higher increases in Germany and Central Europe, and lower increases in Southern Europe.

## How might this insight impact the role of governments and others?

**Holmes:** More collaboration among reinsurers, primary insurers, governments, companies and individuals will likely be required to adapt and mitigate risk. For governments, mitigation could see investment in infrastructure improvements, implementation of stricter building codes and land use policies that reduce vulnerability to climate risks, while the insurers can develop new products and share their data and risk management expertise to help develop more sophisticated data and modelling practices.



Brandon Holmes is vice president – senior credit officer, financial institutions group at Moody's Investors Service



Joss Matthewman is senior director – product management, global climate

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A woman with dark curly hair, wearing a 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 listening intently. The background shows a bright window with a view of a city skyline.

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# Why digital trust is key to unlocking AI's full potential in insurance

Swiss Re's Moses Ojeisekhoba on the potential role AI can play in the insurance industry

**T**he current public debate about disruptive advances in digital technology – particularly surrounding AI – has served to highlight people's wariness of a world where the line between the physical and virtual is increasingly blurring. It also speaks to the complexity of building digital trust. While digital innovation promises to lift insurers' growth prospects, the industry may find that success in this arena still hinges on old-fashioned human efforts to build faith in this transition.

Mistrust of revolutionary technologies has been a common theme through the ages. There are numerous examples of suspicion and upheaval that accompanied technology-driven transitions in society and economies. As the Industrial Revolution unfolded to start the 19th century, for instance, there was a backlash against new machinery that some feared would replace skilled labour.

We're currently seeing this phenomenon repeated, this time with some of the technologies that drive digital transformation. For example, some of the same people who have breathed life into AI are now saying they have regrets. Global experts have raised red flags about the risks of machine intelligence that rivals that of humans. As generative AI applications proliferate, teachers are despairing about the future of the classroom essay.

While some of these worries may amount to hyperbole, insurance companies should pay close attention to this debate. In an industry where technology and innovation are central to growth, building and maintaining digital trust among customers is an essential ingredient in achieving successful product design and superior user experience. Taking a multidimensional approach to understanding how people perceive trust – and how that trust may be eroded – is of utmost importance.

## Digital solutions must appeal to customer values

Although digitalisation may seem ubiquitous in a world where we can do nearly everything online, we still can't take digital trust for granted. In fact, there may be a fundamental misunderstanding of the real building blocks required to create it.

A recent Swiss Re Institute study found no direct

correlation between the sophistication of a country's digital infrastructure and higher levels of digital trust among its people. The mere presence of digital infrastructure or AI capabilities in a society isn't sufficient to win people over. Rather, digital trust also demands that we advance the values that really matter to consumers, including a sense of purpose, ease of use, the need for security, and transparency.

When it comes to making digital platforms user-friendly, other recent studies have shown that ease-of-use factors in digital financial services can directly and positively influence trust relationships. This doesn't merely mean having intuitive operating systems – platforms that make terms and conditions easily digestible for people who aren't steeped in industry jargon will also stand out.

## Insurers must nurture 'explainability'

One hurdle that demands the industry's attention is the perceived opacity of automated decision-making tools, which is likely contributing to anxieties that these could eventually develop beyond human control and perhaps expose us to societal-scale risks.

Perhaps such concerns are unavoidable, given that the complexity of algorithms underpinning AI may make it difficult for consumers to quickly grasp how they work. However, if uncertainty is allowed to persist or is magnified, mistrust may follow. Consequently, some of AI's benefits, such as faster decision-making, quicker processing and lower costs, may go unrealised.

To remedy this, solutions based around the concept of 'explainable AI' can be extremely valuable in addressing trust gaps. This means implementing AI-powered systems that lay out in easily decipherable terms how they produce their results and how customer information is used to arrive at fair and ethical decisions.

Nurturing this explainability ensures that people understand how our industry is working diligently to eliminate bias from AI, and it enables stakeholders to make informed decisions while protecting privacy, confidentiality, and security.

If we do, AI will play an increasingly significant role within the insurance industry – boosting efficiency, driving cost-effectiveness, and ultimately setting the stage for new innovative solutions.

“ **Mistrust of revolutionary technology has been a common theme through the ages** ”



Moses Ojeisekhoba is CEO, global clients and solutions at Swiss Re

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# US commercial pricing momentum goes into overtime in Q2

**T**he feedback from CEOs of US-listed property casualty carriers shows the strong commercial insurance pricing momentum continued during Q2, with property leading the way, while outliers such as public D&O are causing concern.

Several leaders on second quarter earnings calls reported an acceleration in rate increases in Q2.

Chubb's North America commercial P&C rate increases accelerated to 8.7 percent in Q2, up from 6.4 percent in the first quarter of the year.

Chairman and CEO Evan Greenberg told analysts that "the re-acceleration is a rational response to the external environment", pointing to the loss environment, inflation and higher reinsurance costs in property insurance, as well as higher loss trends in casualty.

Greenberg also noted that rate increases continue to outpace loss costs, which were trending at 6.7 percent in Q2.

AIG also reported an acceleration in its commercial rate increases in Q2, which in North America were up 9 percent excluding workers' compensation (8 percent inclusive) compared with 8 percent in Q1 (7 percent inclusive).

On a Q2 investor call, CEO Peter Zaffino reported that AIG's overall commercial loss cost inflation remained at 6.5 percent in the quarter.

In addition, Travelers reported Q2 renewal rate change for domestic business insurance excluding national accounts of 7.2 percent, up from 4.7 percent in Q1 2023 and compared with 4.8 percent in Q2 2022.

Discussing the acceleration in rate change, Travelers chairman and CEO Alan Schnitzer said: "I think what's going on here is there are some

headwinds. The reinsurance costs are higher, inflation is higher. We're in a tight labour market, there's weather and so on. So we're reacting to all those things.

"And on the other hand, after years of pretty good pricing, returns are in a pretty good place."

## "An extended period of rate hardening"

Other executives also provided positive feedback on the strong pricing environment.

CNA chairman and CEO Dino Robusto said on a Q2 earnings call that his company continues to "lock in the hard market improvements in pricing and terms and conditions with consistently high retention levels, which in the second quarter for P&C overall was 86 percent".

The Chicago-based insurer's overall property casualty renewal premium increase was unchanged at 7 percent in Q2 compared to the first quarter of the year.

However, the renewal premium increase in CNA's commercial segment increased 2 percentage points to 11 percent.

"Importantly, the increase in the rate change was broad-based across business units and line of business,"

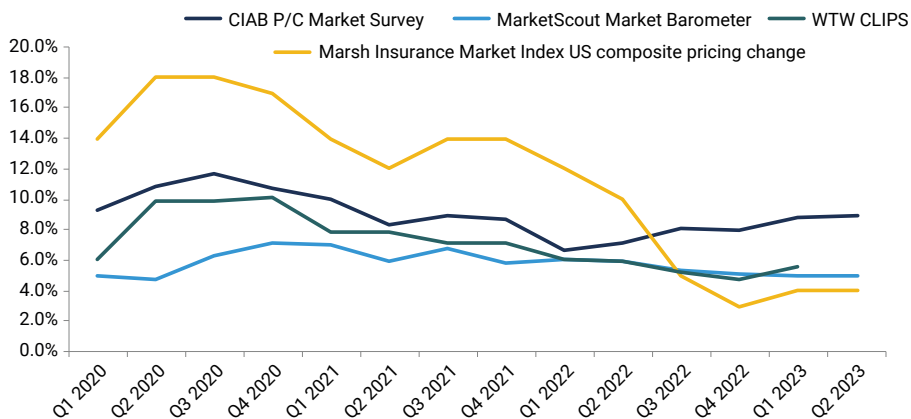
Robusto said.

"Even if you account for the increase in loss cost trends, the rates today are still above a pretty hard market."

Arch Capital CEO Marc Grandisson suggested that expectations from some on earnings calls last year that rate increases would slow, or rates might even decrease, have not come to fruition.

"The current environment dictates an extended period of rate hardening," he said. "This hard P&C market is proving to be one of the longest we've

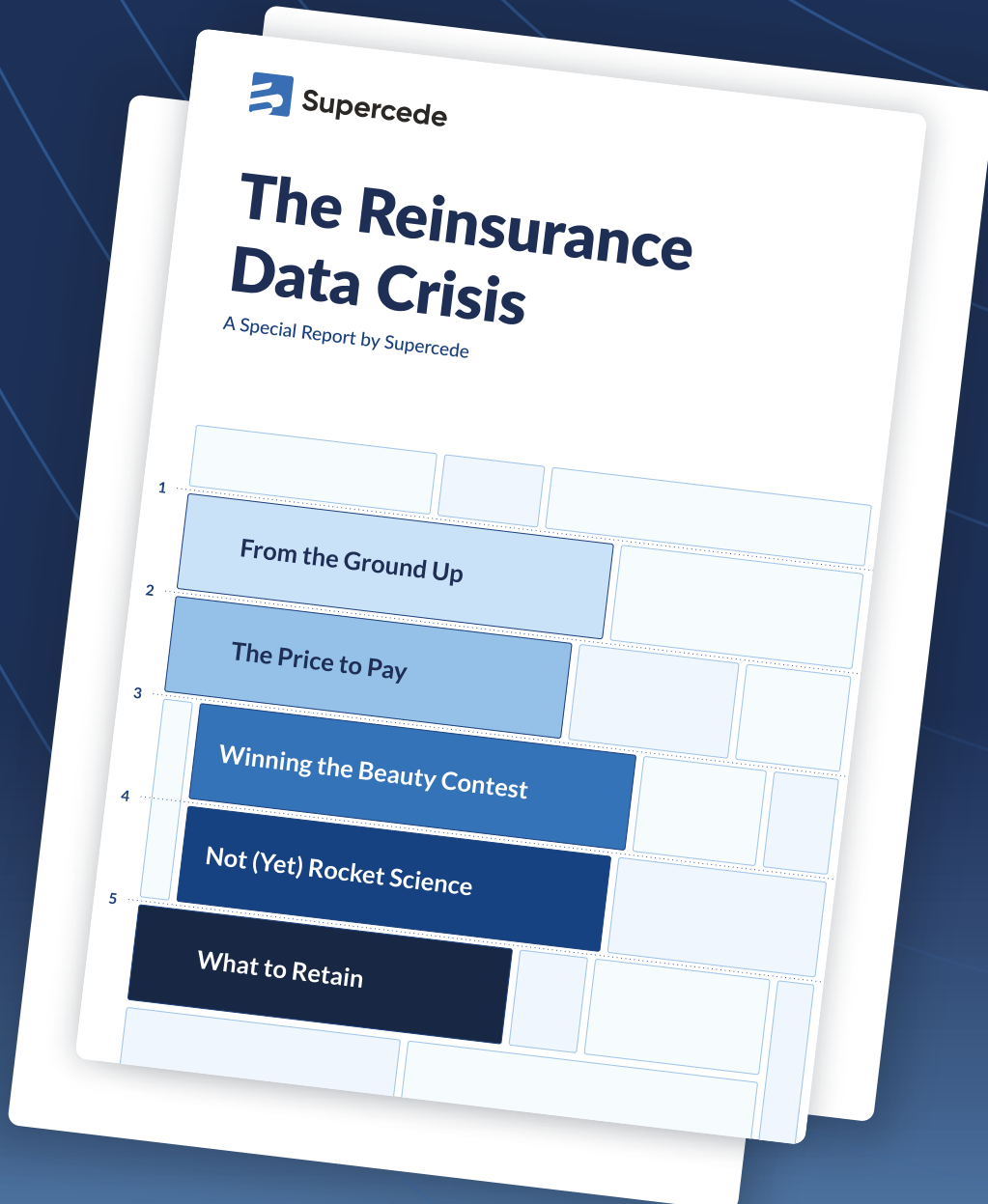
## Broker and other feedback on US commercial price increases



Source: Company reports

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experienced and we are in an enviable position as we look to 2024 and beyond.”

The momentum in Q2 has also been underlined by feedback from brokers and associations that track rates (see chart). The Council of Insurance Agents & Brokers’ pricing survey showed that premium increases inched up 0.1 point to 8.9 percent compared to Q1, while Marsh and MarketScout reported unchanged pricing changes for US commercial insurance.

### A “nuanced” market

Not all reported acceleration of rate increases, however.

WR Berkley’s average Q2 rate increases excluding workers’ compensation were 8.2 percent, down slightly from Q1’s 8.3 percent.

Talking to analysts, president and CEO Rob Berkley reiterated his comments made on previous calls that the market is not operating “in any type of lockstep” with major lines continuing to “somewhat march to the beat of their drum”.

“In addition to that, we continue to see the marketplace struggling with trying to strike the balance between rate need and keeping up with loss cost trend and, on the other hand, a desire to grow,” Berkley said.

Markel’s insurance president Jeremy Noble made similar comments, stating the current market cycle “is nuanced, with each product line having a bit of its own story”.

Noble said that submission activity and new business opportunities generally remain strong outside professional lines, particularly for Markel’s E&S operations.

“Broadly speaking, rates are holding up fairly well,” he said. “By and large, in our estimation they are keeping uplift, and in some cases are slightly ahead of our view of trend. We have many products where rates are up 5 percent to 10 percent.”

### Pricing drives strong property premium growth

The area seeing the most pronounced pricing change is property.

For example, Chubb’s Greenberg said of property insurance: “We’ve never seen better pricing and better risk-adjusted returns than we see right now in large account, E&S, middle market, in a variety of geographies across the globe.”

Chubb’s property pricing was up 31.5 percent in Q2, with rates up 22 percent, and exposure change of 7.8 percent. Major accounts and E&S property together grew premiums over 40 percent in the quarter, while middle market property grew 11.4 percent.

“The rate environment accelerated in property, and I think that speaks for itself, where it’s about the loss environment particularly around inflation costs in property generally,” Greenberg said. “And reinsurance costs have moved up in property.”

### A need to “tread carefully” in D&O

On the other end of the scale, public D&O pricing is concerning many in the market.

WR Berkley’s CEO said that “we are benefiting as much as anyone on the property front” but that areas like workers’ comp and D&O are counterbalancing that.

“I think public D&O within the professional lines space is clearly a place that one needs to pause and tread carefully,” Berkley said. “We are seeing the pricing erode at a very rapid pace. Clearly, there has been good margin in that business, but that seems to be whittling away quite

quickly.”

Markel’s Noble said his company has continued to decrease its writings in some professional liability lines, most notably in the large account public D&O space, where the insurer remains “uncomfortable with the rate decreases and loss cost trends”.

Noble added that D&O is the most prominent example, but Markel is also “being cautious and thoughtful” around E&O, employment practices liability and other lines.

Aside from a few outliers like D&O, however, the suggestion from Q2 earnings calls was that the conditions are ripe for the strong pricing momentum to continue.



“  
**This hard P&C market is proving to be one of the longest we’ve experienced and we are in an enviable position as we look to 2024 and beyond**  
Arch CEO Marc Grandisson







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# Connected risk comes of age

Russell Group's Suki Basi on the continued drive to develop solutions for connected risk

**R**ussell Group is undergoing a strategic transformation to provide its (re)insurance clients and corporate working group with forward-looking datasets that build a holistic view of risk.

Russell's connected exposure analysis now encompasses the aviation, marine, energy and casualty classes. Russell continues to develop solutions for connected risk, which it defines as the systemic impact on commercial organisations from cumulative events and resulting uncertainties. Russell is building its connected risk proposition of deeper insights and analytics at a time of rapid transformation and uncertainty. As Russell approaches its 30th anniversary, we look forward to helping clients to reimagine the next generation's connected exposures, starting with aviation.

## Aviation

The aviation market has traditionally been one of the most open and transparent (re)insurance classes, due mainly to the exposure profile of the industry. The class is generally more open to collaboration with deeper detailed data than many other lines of business.

However, our clients tell us there is a clear need for higher quality, granular data, but more important is the requirement for an improved frictionless exchange of data between the different nodes in the (re)insurance network and wider aviation ecosystem.

This is where Russell can help, as we are an unbiased third party.

This makes us uniquely placed to aid the flow of granular, clean, digital data throughout the entire (re)insurance value chain and drive new initiatives to the practitioners who need it to make informed business decisions.



**Our marine clients are particularly concerned with their potential aggregated and clash portfolio exposures from trade event scenarios**

## Marine

With regular port disruptions and commodity shortages, it can be difficult for marine (re)insurers and their clients to get a handle on their potential exposures to their portfolio. Our marine clients are particularly concerned with their potential aggregated and clash portfolio exposures from trade event scenarios.

This is why the latest developments in our ALPS Marine solution are focused on providing our clients with their aggregated/clash portfolio exposures across a range of areas including selected commodity type, industry sectors, transit route/airport/port, country and flag.

## Energy

We have also made strong strides in our ALPS Energy solution to continue to ensure that our clients can validate their current assets against standard asset, coverage and reference lists.

## Casualty

Last but not least, Lloyd's Realistic Disaster Scenarios (RDS) stress test both individual syndicates and the market for material catastrophe risks but there is still a black hole of information with regards to the casualty class, which Russell is helping to plug with its Casualty RDS.

Since the start of the pandemic, Russell has doubled in size, grown its client base to 28 and corporate working group to 30 members. The pandemic and the Russia-Ukraine conflict have demonstrated connected risk exists and driven the need for more forward-looking and connected solutions. Russell is linking corporates and insurers together through imagined outcomes, for which it then creates the data and analytics to enable the outcome to be transactable.



Suki Basi,  
managing  
director at  
Russell Group






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In the final instalment of *The Insurer's* look back at some of the industry greats lost over the past 12 months, we reflect on the career of Lloyd's "Father of the House"...

## Michael Meacock



**M**ichael Meacock passed away while on holiday in February, surrounded by his family.

At the time of his passing, he was still engaged in the job he loved as underwriter of Syndicate 727, a role he occupied for more than 55 years.

Meacock was the oldest Lloyd's active underwriter, with a Lime Street pedigree stretching back more than 60 years. He remained a regular fixture on Syndicate 727's Lloyd's box throughout his career.

In contrast to the modern Lloyd's underwriter, Meacock continued to take great personal exposure to the risks he underwrote on behalf of his syndicate's Names and backers.

In 2022, his last year of underwriting, Meacock underwrote more than £6mn of capacity on Syndicate 727, with his family also participating separately.

A huge supporter of the traditional, third-party capital Lloyd's model, he inspired a tremendous following among Lloyd's Names in resisting the temptations of selling out to corporate capital, remaining steadfastly loyal to his individual backers.

They were rewarded with a track record of consistent returns. Since 1993, for example, Syndicate 727 made an average annual return on capacity in excess of 8 percent.

Critics would point to the syndicate's modest scale – and it is true that Syndicate 727's 2023 stamp capacity of £110mn falls far below the average syndicate size of nearly £500mn. However, the last soft market disproved the notion that scale

automatically equals outperformance – Meacock kept Syndicate 727 intentionally small so he could consider and underwrite every risk.

A passionate commentator on the Lloyd's market, Meacock regularly made his position known on some of the thornier subjects debated in the market, when other executives would shy away.

This is a custom that appears to have been passed down in his memory with Alec Taylor, who assumed the role of active underwriter on an interim basis prior to the appointment of James Meacock and Matthew Bartlett as joint active underwriters, continuing the tradition of chiding Lloyd's over the costs of doing business in the syndicate's annual report in April.

Perhaps Meacock's frustration stemmed from the fact that he was steeped in Lloyd's pedigree. The managing agency SA Meacock took the initials of his grandfather Sydney Arthur Meacock who – according to Lloyd's legend – underwrote at Lloyd's until the ripe age of 94. His father, John, was also a Lloyd's underwriter, and Michael took over in 1966.

With such a pedigree, it was perhaps no surprise that Meacock had in abundance many of the qualities necessary to be a skilled underwriter: a superb memory, great attention to detail, integrity and an understanding of risk.

It will be a comfort to his family and friends that he passed away while still doing the job he loved.

“  
**Meacock had in abundance many of the qualities necessary to be a skilled underwriter: a superb memory, great attention to detail, integrity and an understanding of risk**  
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