SPECIAL RVS EDITION 2024

CROWDSTRIKE: Everything you need to know

RETRO REVIEW: SCOR Global P&C's JP Conoscente

CLASS CANCELLED: Where did the reinsurer startups go?

BROKEN RECORD: ILS at another all-time high

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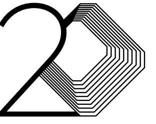
BACK TO A MARKET OF DIFFERENTIATION

Gallagher Re's Tom Wakefield sees a return to downward pressure



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Bienvenue à Monte-Carlo!

DAVID BENYON
Editor

And now please forgive me if I switch to English. Welcome to the annual Monte Carlo Rendez-Vous edition of *Global Reinsurance*, which we hope will be your trusted wingman as you go into our industry's favourite, big and bubbly shindig.

I have to assume you're reading this from the salons of the Principality of Monaco. If so, I hope it's an informative source as you go into discussions taking place at this year's RVS – the traditional starting gun for renewals discussions ahead of 1/1.

This year's cover story is an exclusive interview with Tom Wakefield, CEO of Gallagher Re (turn to page 8), who provides a must-read reinsurance broker's eye-view on the state of the reinsurance market after the mid-year renewals and before the market's leadership jets off its biggest shindig of the year.

For a view from the reinsurance underwriting flipside, see our exclusive piece with Jean Paul Conoscente, CEO of SCOR Global P&C. He offers a timely look at how he sees the market – a mixed bag – as reinsurers and cedants discuss retentions and persistent fears lurk in the background for reinsurers – not least reserving developments for US casualty business.

While broker reports at mid-year renewals were big on words such as "finely balanced" and "equilibrium", such a state of affairs can't last long. "What comes next?" should be the question on everyone's lips.

For an invaluable collage of loss estimates and commentary on the state of the cyber market, see our feature on the CrowdStrike outage (page 22). It's packed with insightful expert views on cyber catastrophe – a source of intense but also maybe disproportionate fear.

The sheer uncertainty is probably the biggest take-home from the incident, as sources agree that underwriters simply don't know enough about their aggregates, amid a web of correlations, when a largescale IT outage takes place. And it's this that makes estimating their exposures an unenviable task.

We also bring you a highlights reel from *GR*'s recent Dubai World Insurance Congress (DWIC) 2024 event (page 35), which smashed previous records, with well over 1,200 people attending the premier reinsurance event for Middle East, African and South Asian markets.

I would also recommend reading the interview with David Flandro (page 14), Howden Re's stats guru (sadly not his real title), who provides a masterclass in judging where the market may go from here, as well as a sneak peak of the themes of the broker's Monte Carlo report.

While broker reports at mid-year renewals (pages 4–5) were big on phrases such as "finely balanced" and "equilibrium", such a state of affairs can't last long.

'What comes next?' should be the question on everyone's lips, as capital and reserving trends continue to form and market softening continues – unless storm clouds arrive over Florida to upset everyone's calculations, of course.

I wish everyone a successful and prosperous Monte; this remains the industry's best meeting in the calendar. ■

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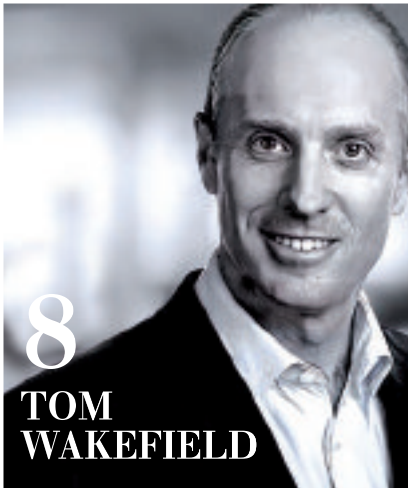

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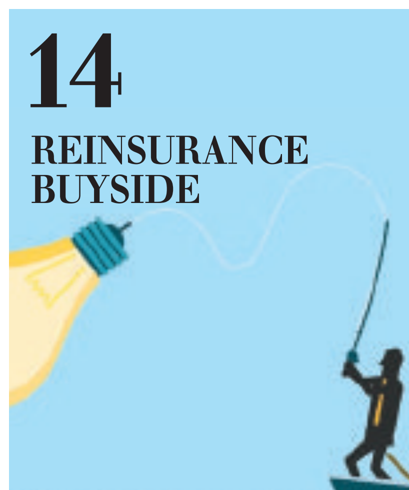

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Hiscox confirms the death of chairman Jonathan Bloomer in Bayesian yacht tragedy

Jonathan Bloomer and his wife Judy were among the guests on board the Bayesian, which sank in a storm off the Sicilian coast following a freak waterspout weather occurrence.

> **"It was a privilege to have known Jonathan and to have benefitted from his generosity and wisdom."**
>
> **AKI HUSSAIN**, GROUP CEO, HISCOX

The 56-metres long UK-flagged superyacht Bayesian was close to the Sicilian city of Palermo and carrying 22 people, 12 passengers and 10 crew, when a storm struck in the early hours of Monday 19 August, creating waterspouts, described by experts as a 'Black Swan' freak weather occurrence. Six passengers have been confirmed dead, including Jonathan Bloomer and his wife Judy.

Bloomer had been chairman of Hiscox since July 2023. He also served as chairman of investment firm Morgan Stanley International since November 2016.

His career spanned five decades in financial services, including serving as chief executive of insurer Prudential from 2000 to 2005. Bloomer had joined Prudential as its finance director from accountancy firm Arthur Andersen in 1995, rising to become its CEO within five years.

A statement from Hiscox described Bloomer as a well-liked, highly valued colleague and friend, adding: "Our thoughts are with his family and loved ones at this difficult time."

The luxury vessel, which was valued at £30m and named after a British mathematician, was owned by British entrepreneur Mike Lynch, founder of technology firm Autonomy. Lynch was among the six fatalities named so far, along with his 18-year-old daughter Hannah. Clifford Chance lawyer Christopher Morvillo and his wife Neda Morvillo were also among the victims.

DEARLY MISSED

Aki Hussain, group CEO of Hiscox, said of Bloomer: "It was a privilege to have known Jonathan and to have benefitted from his generosity and wisdom over the last year.

"His deep experience across our industry and in the broader business arena, combined with his personal values, made him both an excellent chair and a person I was proud to know and work with. His advice and support were immensely valuable to me, and he will be dearly missed." ■

CELEBRATING FRIEND'S LEGAL VICTORY

The group had been holidaying in the Mediterranean to celebrate Lynch's recent acquittal from a high-profile fraud trial in San Francisco, just two months prior. This had marked the culmination of a 12-year legal battle and a multi-billion-dollar fraud case.

The case arose from the $11.7bn sale of Autonomy, the company Lynch had co-founded in 1996, to US technology giant Hewlett-Packard in 2011, with the acquirer alleging that Autonomy's leadership had fraudulently inflated the firm's value prior to sale. Bloomer had testified as a defence witness for Lynch at his friend's trial.

Aon: Stage is set for a competitive 2025

Mid-year renewals have built on the positive momentum from 1/1 and 4/1, finds Aon's reinsurance dynamics report.

Aon's Reinsurance Market Dynamics report provided analysis of June and July 2024 renewals, most notably for Florida's property catastrophe market, Latin American business, as well as Australia and New Zealand.

Overall, insurers achieved positive renewal outcomes at mid-year renewals, with property cat risk-adjusted rate reductions and improvements in terms and/or coverage.

The market emerging from last year's "global reset" of reinsurance pricing is more dynamic, according to Aon, suggesting the ability to make informed decisions quickly, supported by data and analytics, will be key to navigating the market.

This dynamism is attributed to volatility in secondary peril losses in property, a heightened Atlantic hurricane season forecast, as well as casualty reinsurance concerns, led by social inflation and adverse reserve development.

Mid-year capacity for US cat-exposed business was "more than ample to meet increased demand", with upwards of $10bn of additional catastrophe limit purchased by US insurers, according to Aon.

Renewals on June 1 and July 1 "continued to build on positive momentum" from January and April renewals, with increased appetite from traditional reinsurance and insurance linked securities (ILS) markets.

This resulted in "downwards pressure on pricing", Aon said, for both US nationals and Florida specialist insurers – the latter experiencing rate reductions for the first time in three years.

Total reinsurance capital hit a new record of $695bn by the end of 2024 Q1, up from $670bn at year-end 2023. Capital increases were driven by retained earnings, recovering asset values and new inflows to the catastrophe bond market.

Aon Securities estimated overall ILS capital increased to an all-time high of $110bn through the second quarter, increasing from $108bn at year-end 2023, with a record $46bn of catastrophe bond limit on-risk. For the first time, more than $8bn of cat bonds were issued in a single quarter, Aon remarked. ■

Gallagher Re: 2024 looks strong

Reinsurers have built on near-record returns in 2023, says the broker, although the market is also moving in buyers' favour.

Last year, many reinsurers achieved a return on equity exceeding 20%, and the underwriting side of the business has done its part to repeat this profitability, with up to a 12% improvement in combined loss ratios.

Non-life insurance-linked securities capital reached a record $107bn at year end 2023 and continued to grow in the first half of 2024, driven by successful cat bonds and increased investor interest. However, new capital in the form of rated entities is limited.

Property has become more competitive, Gallagher Re claimed, with some pricing improvements for buyers, following the steep rises of 2023. Property cat buyers had been able to negotiate better terms and conditions on their reinsurance contracts due to the "risk on" approach taken by reinsurers.

Risk-adjusted cat placements remaining "flat to down -10%", the broker said, with the greatest pricing pressure on more remote layers, and reinsurers more willing to adjust premiums rather than the structure of contracts.

Flood losses in the UAE, Germany, and Brazil in 2024 Q2 reinforced reinsurers' discipline in retaining risk, "with no signs of flexibility".

For casualty, reinsurance underwriters are "not as confident" as their property counterparts, according to Gallagher Re. Concerns over US rate adequacy have increased, after adverse development reported by liability insurers in 2023 and 2024. The lengthening and deteriorating tail of liability claims have added to reinsurers' concerns, as the market deals with economic and non-economic loss inflation.

In the specialty lines sector, reinsurers have maintained underwriting discipline, resulting in no capacity constraints for reasonably priced and structured programmes, except for ultimate net loss retrocession.■

Guy Carpenter: Transitioning reinsurance market at 1/7

Mid-year renewals reflected a transitioning reinsurance market meeting demand in a dynamic trading environment, according to Guy Carpenter.

Casualty programmes were completed "with adequate capacity, pricing and underwriting scrutiny persisted due to a variety of market trends", reinsurance broker Guy Carpenter acknowledged.

President and CEO, Dean Klisura, said: "Well-positioned cedents achieved greater concurrency and pricing consideration in this positive but still cautious trading environment. However, headwinds like unsettled macroeconomic conditions and the geopolitical environment are leading to shifting risk appetites."

The preliminary mid-year Guy Carpenter US property catastrophe rate on line index was "near flat year on year".

According to the broker's analysis, the majority of property placements were completed early to on time, while risk programmes remained under scrutiny amid continued concerns about the frequency and severity of large risk losses.

Global property cat reinsurance risk-adjusted rates at mid-year were "generally flat to down mid- to high-single digits". In some cases, upper layers were risk-adjusted down 10% or more for non-loss impacted accounts, in what the broker termed "a moderating but still robust pricing environment".

Casualty renewal outcomes varied by sublines as well as reinsurance type. General liability and excess/umbrella placements that were US exposed experienced continued reinsurance pricing pressure for excess of loss programmes, while quota share outcomes were tied to the amount of adverse development.

For financial lines, Guy Carpenter said downward pressure on ceding commissions continued. This was driven by public directors' and officers' liability portfolio concentration, underlying rate environment and continued prior year development.

The cyber reinsurance market remained active at mid-year renewals, with buyers finding improved terms across all structures. Mid-year cyber renewals saw "ongoing interest in alternative structures", including event-based covers, continuing a trend observed at the start of 2024.

Cat bonds had a record first half of the year, Guy Carpenter said, with Q2 being the most active quarter recorded. By June 24, 47 different cat bonds were brought to the 144A market for around $11.9bn in limit placed, taking the total outstanding notional amount to more than $44.6bn.

Through Q1, most retrocession buyers sought to secure similar limits to 2023, said Guy Carpenter. Mid-year purchasing saw "increased demand in Q2" from existing buyers along with historical buyers returning to the market. Drivers of this increase were noted as improved purchasing dynamics relative to 2023, underlying portfolio growth and active North Atlantic wind season forecasts. ■

REINSURANCE BUYERS ADD TO CAT LIMITS IN 2024, SAYS GUY CARPENTER

Reinsurers' recovering profitability, coupled with additional available capital, created right conditions for cedents to evaluate property cat limit purchases.

Across geographies, demand significantly increased and reinsurers met this growing demand, placing the sector "largely in equilibrium", according to the intermediary.

Reviewing buying activity from January through July 2024, Guy Carpenter estimated $35–50bn of additional limit has been purchased worldwide. This increase generally represents 5–10% of catastrophe capacity purchased, including cat bonds, depending on the region.

"Additional demand was diversified with a significant portion of cedents buying some level of additional limit. In North America, over 60% of property catastrophe contracts included expanded limit with the top 20% purchasing in excess of $100m of additional limit," the broker said.

"The majority of additional capacity was provided by traditional reinsurers while insurance-linked securities impact was primarily via catastrophe bonds and in some cases investor support of traditional reinsurers."

For 2025, Guy Carpenter said it expects there will be additional factors providing further momentum for increased demand. Key factors affecting buying decisions over the next 12 months included: continued (albeit lesser) increases in property valuations; growth in overall exposure; model version changes; and focus on continued risk mitigation.

International order 'in decline', warns WTW report

A political risk report from the broker highlights the decline of consensus on the liberal international order, calling it 'lukewarm'.

Political risk is on the rise, warns a report from broker WTW, with bilateral investment treaties expiring and under greater strain in a multipolar world.

If the rules-based order is indeed in decline, will these changes – from the adoption of the rule of law to trade openness to the protection of intellectual property rights – be reversed? That is the key question addressed in the latest edition of WTW's 'Political Risk Index'.

It analyses patterns in some of the world's most vulnerable countries, looking at 40 emerging market countries. The paper, with Oxford Analytica, finds the overall feeling 'lukewarm', partly because the order's institutions are out of sync with geopolitical and economic shifts.

"Whatever one's views on the so-called 'rules-based international order' or 'liberal international order,' it appears to be on its way out," said Sam Wilkin, WTW's director of political risk analytics. "Macro indicators suggest that the order's key principles, from international peace to free trade to electoral democracy, are in decline globally," he continued.

"Whatever one's views on the so-called 'rules-based international order' or 'liberal international order,' it appears to be on its way out."

SAM WILKIN, DIRECTOR OF POLITICAL RISK ANALYTICS, WTW

The rules-based order was not based solely in international treaties or indeed the headquarters of multilateral organisations such as the World Trade Organization or International Monetary Fund, he explained.

"Rather, in large part, the order was embedded in the political, legal, and regulatory choices of countries worldwide, in many cases via substantial institutional changes, such as democratisation."

The importance of bilateral investment treaties, vital for foreign direct investment between counterparties and core to political risk insurance, were highlighted.

For instance, there were more than 1,100 bilateral investment treaties in force worldwide at the late-90s peak, WTW noted.

In 2020, for the first time, the number of bilateral investment treaties terminated exceeded the number of new treaties coming into force, the report highlighted.

By 2022, the ratio of treaties terminated to new treaties was nearly five to one, WTW observed. ■

FORTY COUNTRIES: WHERE DO THEY STAND?

THE STRONG SUPPORTERS (actively support the order, and make little effort to reform it)
CHILE, TAIWAN, UKRAINE

THE COMMITTED REFORMERS (active support, seeking to reform)
COLOMBIA, COTE D'IVOIRE, GHANA, KENYA, NIGERIA, ZAMBIA

THE FRIENDLY OPPORTUNISTS (sometimes support the order, make little effort to reform it)
ARGENTINA, KAZAKHSTAN, PHILIPPINES, VIETNAM

THE TROUBLED DEPENDENTS (sometimes support, position is contested)
EGYPT, IRAQ, JORDAN, LEBANON, PAKISTAN

THE FRIENDLY CRITICS (sometimes support, seeking to reform)
MEXICO, MOROCCO, SENEGAL, TUNISIA

TROUBLED DEMOCRACIES (sometimes support)
ANGOLA, BANGLADESH, ECUADOR, PERU

REGIONAL POWERS (sometimes support , sometimes seek reform)
ETHIOPIA, SAUDI ARABIA, TURKEY

THE RISING NEW ORDER (sometimes support, strongly seeking to reform)
BRAZIL, CHINA, INDIA, SOUTH AFRICA

THOSE ON THE SIDELINES (no active position)
CAMEROON, INDONESIA, MOZAMBIQUE, THAILAND, UZBEKISTAN

THE OPPONENTS (actively oppose)
IRAN, RUSSIA

‘Robust’ economies will drive insurance growth – Swiss Re

The insurance industry is in a state of ‘equilibrium’ that will allow for more growth, as major economies appear more resilient than expected, Swiss Re’s annual Sigma report finds.

The Swiss Re Institute’s annual World Insurance Sigma report finds that the global economy has remained remarkably resilient, despite geopolitical tensions and higher inflation causing economic concerns.

Instead, a “robust” economic outlook sets the scene for growth and improved profitability across the insurance industry, the reinsurer’s research unit has observed. Three positive trends are reported:

1 Major economies are more resilient than expected, with global GDP growth forecast at 2.7% in real terms in 2024.

2 Non-life hard market is expected to continue over 2024 and 2025 as inflation and rising claims costs push rates higher.

3 Higher interest rates will boost both growth and profitability for life insurance business in 2024.

INSURANCE MARKETS BY TOTAL PREMIUM POOL

RANK	COUNTRY	TOTAL PREMIUM VOLUME			MARKET SHARE
		2023*	2024E	2025F	2023E
1	US	3,227	3,424	3,584	44.9%
2	CHINA	724	812	893	10.1%
3	UK	375	401	420	5.2%
4	JAPAN	363	370	382	5.0%
5	FRANCE	283	292	303	3.9%
6	GERMANY	245	255	264	3.4%
7	SOUTH KOREA	186	194	205	2.6%
8	CANADA	171	176	185	2.4%
9	ITALY	159	165	171	2.2%
10	INDIA	136	149	162	1.9%

e = estimated, f = forecast
*Data for 2023 is provisional for Canada, Switzerland, Hong Kong. Data for 2023 is estimated for US, UK, Japan, France, Germany, South Korea, Italy, India, Netherlands, Brazil, Spain, Australia, Denmark and Sweden.
Source: Swiss Re Institute

“The insurance industry has reached a new equilibrium after the challenges of recent years,” said Jérôme Haegeli, Swiss Re’s group chief economist. “The global economy has surprised on the upside, which should drive more demand for insurance. The life sector in particular is one to watch as higher interest rates drive investment income and consumer demand for annuities, giving more people secure retirement incomes.”

Swiss Re estimated that global GDP will grow by 2.7% in real terms in 2024, the same as 2023.

This “resilient growth” is expected to continue into 2025 at 2.8% in real terms, the reinsurer said.

While the overall outlook is positive, regions are on different trajectories, with the US forecast to grow at 2.5% in 2024, while the euro area is expected to show below-trend growth of 0.7%. The trend to global disinflation continues, the sigma study reported, but returning to target inflation levels is unlikely to be a smooth journey.

In the US, inflation is expected to return to target in 2025, due to higher-than-anticipated core services prices. Europe is already near its target inflation levels, driven by a fall in energy prices in 2023, softer core prices and an expected deceleration in wage growth, the report said.

RATE CHANGES

Due to inflation and the resulting rise in claims costs, non-life insurers have increased rates over recent years. Swiss Re Institute sees higher prices continuing for personal lines in 2024, moderating into 2025. For commercial lines, though still positive, rate increases have decelerated with some markets starting to soften.

Overall, non-life premium volume is forecast to build on the 3.9% growth achieved in 2023, reaching $4.6trn in 2024 and $4.8trn in 2025.

Property and casualty insurers are expected to improve profitability in 2024, with industry-wide return on equity across eight major markets at 10% so far this year, up from 6% in 2023.

“Commercial insurance accounts for almost half of the total property and casualty market,” said Kera McDonald, chief underwriting officer of Swiss Re Corporate Solutions.

“We expect commercial P&C carriers to maintain profitability in 2024, as rate trends have enabled lines like property to stay sustainably priced. The industry has seen single-digit rate increases for property business written this year. On the casualty side, we observe a trend of general market softening across most long tail lines.” ■

Time to stand out

Against the backdrop of the most dramatic re/insurance market we have seen, Gallagher Re's CEO Tom Wakefield predicts a return to a true market of differentiation for this year's 1/1 renewals.

The re/insurance market of 2024 is perhaps the most exciting it has ever been. A heady cocktail of shock pricing, fast-changing emerging risks, a drumbeat of climate-linked catastrophe activity, against a context of macro volatility are making for very interesting times.

The 1 January renewals will see reinsurers differentiate between cedants based on individual risk profiles and exposures, as well as the state of their overall trading relationship, as carriers move away from broad-brush approaches to pricing and T&Cs, according to Gallagher Re's CEO Tom Wakefield.

"It didn't feel like we were ever in what I would classify as a really hard market, but it was a challenging market."

Speaking to *GR* ahead of this year's Rendez-Vous de Septembre in Monte Carlo, Wakefield said, absent force-majeure, he expects 1/1 renewal discussions to be more orderly than the market had witnessed in recent years. "We're back to a market where data matters… where we can work with clients and really truly differentiate their portfolios."

He said reinsurers were open to providing pricing and conditions that are commensurate to specific clients and their needs. "The overarching message is that we're back to a market of differentiation, and that's what we intend to do for our clients."

Wakefield said the market is now in a place where it will reward clients who offer data and insight as well as positive trending on reserves. This is a far cry from reinsurance renewals over the past 18 months where property cat was considered an unpredictable and volatile class warranting reduced capacity and changes in coverage, attachment, and pricing.

"The 1 January renewals are going to be really varied, depending on a number of factors. The type of client, the nature of the exposure, the back year development, the reinsurer relationships – they'll all be in focus."

A HIGH-LEVEL DILEMMA

Wakefield predicted this year's Monte Carlo discussions would largely revolve around the need for carriers to maintain profitable earnings without increasing volatility. Commercial lines re/insurers are entering a phase where, following substantial enhancements in pricing, terms, and conditions over recent years, overall performance has also shown improvement. However, the story is slightly different in US casualty, with stakeholders carefully considering appetite for future growth.

The equity outlook has brightened for both insurers and reinsurers. Many reinsurers are currently trading at considerably higher as a multiple of book than they have in recent years.

"The challenge for insurers more than reinsurers is that they need to manage volatility, but they're entering into a different part of the insurance cycle, so growth is going to be harder."

With the insurance cycle expected to soften from a rate perspective, Wakefield suggested that a potential strategy for insurers is to adjust their retentions in an effort to boost net retained earnings. But this approach has its own risks. Increasing retentions can lead to greater volatility, something investors are currently averse to.

Wakefield said: "The high-level dilemma for CEOs of insurance companies is: 'How do I keep volatility down, earnings high, and achieve top-line and bottom-line growth in an insurance market that is price adequate but coming off from a rate perspective?" he said. "I think that will dominate a lot of conversations and what reinsurance products are available to support this."

"Insurers are taking a disproportionate amount of elevated cat losses and reinsurers are taking less than they have done in the past."

SUPPLY, DEMAND GROW TOGETHER

Drilling down into property cat renewals, Wakefield reiterated that there was a need to provide more earnings protection, with cedants currently taking almost 100% of the losses that are coming through.

According to Gallagher Re's Natural Catastrophe and Climate Report, 2023 was the fourth consecutive year of insured losses over $100bn. In the first half 2024, insured nat cat losses stood at $61bn, 25% higher than the 10-year average of $49bn.

Wakefield explained that in 2023 that equated to nearly 3 percentage points being added to the combined ratio of US personal lines carriers, but reinsurers globally saw a 1% benefit from lower than expected natural catastrophe losses. "Insurers are taking a disproportionate amount of elevated cat losses and reinsurers are taking less than they have done in the past."

Discussing how cedants were structuring, or restructuring, property cat programs, Wakefield said that there was an increase in demand at the top end of programs that has been driven by the inflationary environment.

"If we look at our cat book on a constant set of clients, limits are up about 8%, which implies around $35-40bn of additional limit. That sounds like a big number, but really it's just carriers catching up with the limit they would have liked to have purchased 12 or 18 months ago, but couldn't, either because it wasn't available or because it was price prohibitive."

Despite inflation slowing down, the laggard effect of demand would probably push another $20bn into the market in 2025 – or around 4% more limit on global cap – with ample capacity in the market to support that growth. "We think supply will grow and demand will grow together."

MORE TRICKY THAN HARD

Wakefield said he expected the downward pressure on pricing witnessed at the mid-year 2024 renewal seasons to continue at 1/1. "The reality is that the pricing, particularly at the higher end of cat programs, is more than adequate as far as reinsurer's models are concerned."

And while reinsurers will continue to look for growth opportunities, it is expected to be disciplined. Wakefield argued that the market of recent years, while tough, was never truly hard. "It doesn't feel like we've really been in a hard market. For me, the definition of a hard market is when you can't place something."

And while you could argue the market was hard for certain earnings cover, aggregate at the bottom end of programs and aggregate retro, this hasn't been the case for core occurrence based property placements.

Wakefield said Gallagher Re was in a position this 1/1 to meet clients' "additional asks", from being more flexible at the bottom end of programs, to buying more limit. "We expect cedants to be able to purchase programs at 1 January that are more aligned with what they really wanted to buy than what they had to buy.

"So, we feel pretty good about the market, and the opportunity to develop coverage in a way that lines up alongside our clients' exposures." ■

Where we need to be

Despite a picture of price adequacy on US peak risks, North American casualty risks loom large, as do European secondary perils, from floods to riots, warns Jean-Paul Conoscente. He gives his perspective on the changes we need to see.

Ahead of renewals discussions in Monte Carlo, *GR* spoke to Jean-Paul Conoscente, CEO of SCOR Global P&C, for his top-level view on the market.

Conoscente was firstly quite bullish about reinsurance rate adequacy at the half-year point for US peak risks, which usually dominate chats at the RVS. "Even with the decreases we saw in June and July, we feel price adequacy on this business is still very high," he said.

SCOR also has a "strong appetite" for specialty lines, he continued, with priorities for marine, engineering and inherent defect insurance particular growth areas for the reinsurer's property and casualty (P&C) arm. "Those have been three segments of strong growth, probably 12–20% growth for us throughout the year, and we think they will keep growing as the price adequacy is quite good."

CASUALTY LOSS TREND

However, he repeated previous fears about the health of the US casualty reinsurance market, for which claims data trends have been headed in a negative direction. Loss trends since 2015 were "severely underestimated", he warned, a trend that has continued into recent years. "We've been concerned about US casualty for a while, and we capped our overall capital we want to allocate to US casualty."

"The concern is the loss trends have stayed very high – double digits – and the primary rate increases, although they have been positive, have not kept up with the loss trend."

Conoscente's message for primary insurers of US casualty business in two-fold. First, their price rises need to be higher than those already seen.

"I think it needs to accelerate significantly. Right now, we see it in high single digits. It has to reach double digits for it to play catch up, because the loss trend is not slowing down. Until there's tort reform to put in place safeguards against litigation funding, I think we'll continue to see a loss trend in the double digits," Conoscente said.

Secondly, the commissions that are currently paid by reinsurers on US casualty business are making it unprofitable for them to take on more of the business. "As a reinsurer, we still see commissions as too high. When you take into account the loss trend and primary rate increases, despite all the improvement on the underwriting side that insurers have been doing, the compression of limits and so forth, technical profitability is not there. When we pay commissions at 10 or 15 percentage points, on top of the acquisition costs, there's certainly no chance for reinsurers to make money."

PUSHING RETENTION LEVELS

He noted that after the movements in attachment points seen amid 2023's hard market renewal, renewals have been "broadly flat" this year.

"In 2025 I think there will be a push to slightly increase the retentions. Meanwhile, insurance companies are trying to reduce their retentions and are looking for markets to take on more of that volatility on the lower layers. From a reinsurer perspective, we need retentions to keep increasing with inflation," Conoscente said.

"We can already see in 2024 some smallish events, such as German floods this summer, that in 2023 would

have not been a reinsurance market loss at all, but are starting to get into the first layers of programmes. It shows that there's been erosion of the retentions over the last two years, and so increases are required for us to stay at a sustainable level," he continued.

Reinsurers remain uninterested in buying into lower attachment points, he emphasised. "There's been a large amount of additional limit bought by clients this year, but it's been mainly at the top of programmes, buying additional limit at the top. That's been absorbed in large part by existing reinsurers. Catastrophe bonds are helping insurance companies, but they're also helping reinsurers get additional retro.

"The cat bond market is still coming in at the top end of programmes, and the amount of new capital coming in has stayed limited. It's more the capital of incumbent reinsurers increasing with their appetite for business."

RETRO PROGRAMME'S MANY LAYERS

SCOR's retrocessional programme is a major one to determine retro market dynamics. Conoscente explained how the reinsurer protects itself with retro coverage for cat risk, through a range of structures, layers, and product types.

"On the cat side, we buy quota shares on our portfolio, and then excess of loss, with the different layers attaching differently for some of the perils. We have a US layer, a Western European layer, and a non-peak layer.

"The core programme is covering our main perils. Then we have our cat bonds that we renew every year, which are typically three-year cat bonds. Lastly, we have an annual aggregate structure, which complements the rest of the programme."

In late July, SCOR was pulling together Q2 data ready for discussions in Monte Carlo. "I feel there's a good supply of retro capacity. We're aiming for a time framework, where we have the programme placed by November, which is typically what happened in the past. We think there's a good chance of that being the case.

"There's strong appetite for retro, but a lot will depend on what happens in the hurricane season and whether some big events hit the market or not. Unless that happens, we feel that there's a good chance for us to complete the programme by November."

While reinsurers become hurricane watchers at this time of year, so-called non-peak or secondary perils are another serious concern for Conoscente, he emphasised.

"US casualty price rises need to accelerate. Right now, we see it in high single digits. It has to hit double digits for it to play catch up."

JEAN-PAUL CONOSCENTE, CEO, SCOR GLOBAL P&C

"Non-peak perils are a serious concern. Of course, hurricanes and windstorm are top of mind, but we're more concerned about flood, tornado, and hail, which have been a big driver of insured losses over the past few years, especially in Europe. I'm not sure that, as an industry, our modelling of these risks has been sufficiently accurate, so it's an area of attention for us."

STRIKES, RIOTS, AND CIVIL COMMOTION

France has faced recurring civil unrest threats in recent years. This June–July, a legislative election saw left-wing parties unite to stop the far-right National Rally from achieving a victory in the French parliament. There were also street protests against the National Rally. Around the same time last year, ethnic and social tensions sparked riots in French towns and cities.

Conoscente has consistently flagged the issue of strikes, riots and civil commotion (SRCC) within French property and all risks insurance as a concern when passed onto the reinsurance market. "It remains a concern. Riots in New Caledonia were another big example of that type of event occurring, which led to a significant insured loss," he said.

In May 2024, civil unrest in the Pacific territory of New Caledonia, part of overseas France, sparked by ethnic tensions and electoral reforms, caused ten deaths and a state of emergency issued, with insured losses arising from damage to property and business interruption through all risks policies.

"That's been a €1.1bn insured loss" Conoscente said. "As a major player in the French market, we're affected. It's a moderate loss, but we receive virtually no premium for that risk on the reinsurance side. We've managed to restructure some of the programmes, to limit them in terms of hours clause, and increase the retention of cedants, but the amount of premium that insurance companies pay reinsurers for this risk is very small. I remain concerned about the political environment in France, which is ripe for riots or civil unrest."

More modelling and risk assessment work has gone into SRCC in recent years, he suggested, while efforts to gain adequate premium have not yet resulted in significant change to the situation, despite a heightened threat environment.

The upcoming US election is another SRCC threat. If SRCC events take place, the insured risk will largely reside within property policies. "I'm concerned about the US, where, regardless of who wins, half of the country will be unhappy. There's a situation that's ripe for civil unrest."

IGNORING THE NEGATIVE NOISE

SCOR's share price took a hit in July and August following reported H1 problems to the life and health (L&H) reinsurance portfolio. A profit warning accompanied a €308m net loss for the segment in Q2. At the end of July, it was announced that SCOR's group CEO, Thierry Léger, would assume management of the L&H division, with the departure of Frieder Knüpling, the previous CEO of SCOR L&H since 2021.

Conoscente said: "The onus was always pretty heavy for us to deliver. I don't think it affects our strategy, it just creates negative noise. I think we were just coming into a more positive dynamic, so it's a setback from that perspective. The positives, however, have been that the company made very good year-end 2023, very good renewals in 2024 so far, and good results on the P&C side." ■

Time for the next stage

After a Goldilocks period for reinsurers, a new stage in the cycle is on the horizon, and with it comes a need to shake up our assumptions about asset values, rates, investments, and more, says Howden Re's David Flandro.

At this year's Monte Carlo RVS, Howden Re's head of industry analysis and strategic advisory, David Flandro, will present a global report aiming to "step out of the narrative of the past two years" of the market turn and current pricing picture, and instead ask what lies around the corner for the industry.

He begins with equity markets spooked in August, due in part to weaker than expected US employment data. "What's next is implications for lines of business, led by workers' compensation (if US payroll numbers continue to deteriorate), and because workers' comp has been the biggest source of reserve redundancies."

These have helped balance deficiencies elsewhere, something Flandro thinks could change. "It all fits together," he said.

> **"This narrative of a finely balanced equilibrium will inevitably change. It could be arrested by a big hurricane, but whatever happens, we're going to go through the cycle."**
>
> **DAVID FLANDRO**, HEAD OF INDUSTRY ANALYSIS AND STRATEGIC ADVISORY, HOWDEN RE

CHANGING TIMES

On the asset side, "the fixed-income securities in insurers' and reinsurers' portfolios have gone up on a market-to-market basis," he said. "This hasn't yet come through fully in the reporting, due in part to dividend payments in the first half, but capital will have risen for insurers and reinsurers. That's not capital that's been raised, and it doesn't create additional capacity, near term, but it does create additional solvency."

In the past year, reinsurers have seen much higher returns on equity and invested capital, driven by higher pricing, lower loss attachments, and higher investment returns, leading to share price appreciation for carriers.

"The Goldilocks period – a year of high prices, high yields, recovering capital, reserve redundancy, mostly high returns on equity, and high economic value added for reinsurers – cannot last forever. Capital entry has been slower than the supply creation that normally takes place during this type of period, but things are starting to change," Flandro said.

"We're beginning a new phase of the cycle, for which we have different considerations. We're going to have to have different assumptions about asset values, about discount rates, and about investment returns and yields."

"This narrative of a finely balanced equilibrium will inevitably change. It could be arrested by a big hurricane, but whatever happens, we're going to go through the cycle, and this is a global cycle."

IN AN ERA OF VIOLENCE

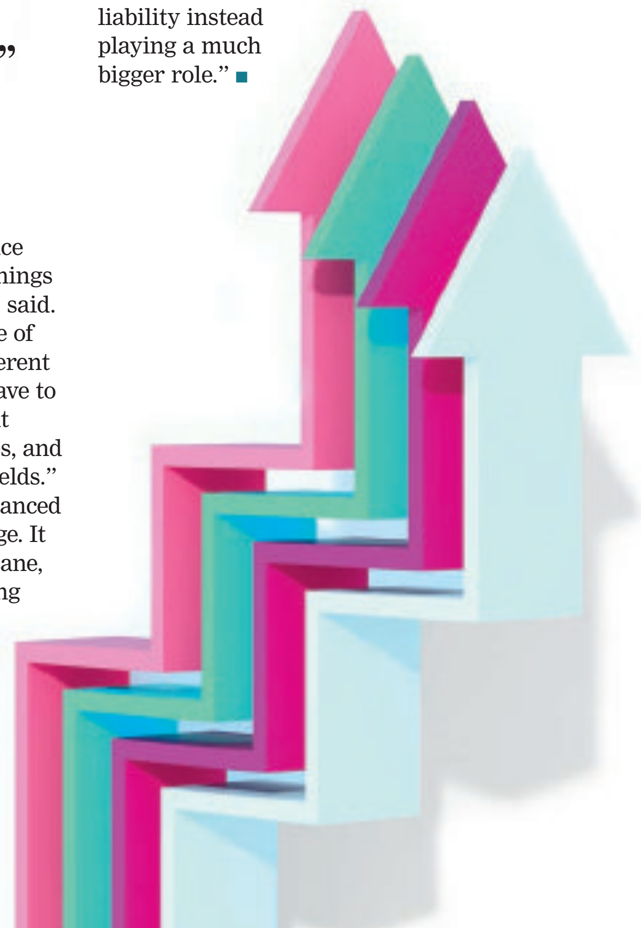
In other pillars of Howden Re's briefing, there will be a focus on non-peak perils – both man-made, such as strikes, riots and civil commotion (SRCC), and natural, albeit climate change-linked, such as severe convective storms (SCS).

"We have analysed SRCC very closely, because, sadly, we're in an era of political violence and war. We've looked at different secondary perils, SCS and tropical cyclones that are emerging and how that's changing," said Flandro.

Lastly, he revealed that Howden Re will highlight the potential for major change in the nature of insurance coverage, which could have profound implications for the future of the re/insurance market.

"This is a big one," he said. "For instance, in 10 years' time, do people own cars in the same way they do now? Out of $4trn of global property and casualty premiums, about one-third is motor. If that changes dramatically, it's going to have huge effects on reserving and pricing.

"It will also have a major effect on other classes of businesses associated with motor, with product liability instead playing a much bigger role." ■



ILS market is fighting fit

Aside from achieving record-breaking new issuance in a 'remarkable year', Aon Securities' Paul Schultz highlights the ILS market's strength in continuing to grow amid the flux of incoming and outgoing capital.

Insurance-linked securities (ILS) markets have reached new heights in 2024, building on a record-breaking 2023.

"It's been a remarkable year in ILS in a lot of ways – hitting issuance records, of course – but we've also navigated some volatility around capital inflows and outflows, and competitiveness between the traditional and ILS markets," Schultz told *GR*.

Last year was a record year for ILS, followed by strong catastrophe bond issuance in the first half of 2024 that broke further records. There was more than $12.3bn of primary issuance across 49 catastrophe bond transactions in the opening six months of 2024, while the secondary market experienced record high trading volumes.

"We've accomplished a lot in managing some of the volatility as the market gets larger," Schultz said. "Some allocators pulled capital from the market to realise the profits they've had over the past 18 months, and that cycling of capital in and out has been a source of uncertainty."

For capital entering the sector, ILS has offered an efficient option, notably

> "We've accomplished a lot in managing some of the volatility as the market gets larger."

PAUL SCHULTZ, CEO, AON SECURITIES

playing a dampening role among any expectations that there might have been a 'class of 2023' of new-forming traditional property cat reinsurers.

"ILS is very efficient and flexible," Schultz said. "When there's additional capacity or capital needs, you can grow your ILS portfolio; when the market starts to get a bit over collateralised, you can shrink some of the capacity that you have in the system. It becomes a very efficient tool for both reinsurers and insurers to manage capital more dynamically, by having not necessarily all capital come into a regulated entity."

SIDECAR TURNAROUND

Schultz also points to a reversal in the sidecar market, which has begun to grow again, with traditional reinsurance underwriters reuniting with third-party capital for these well-tested vehicles. "We're starting to see more investors participate in sidecars again. Property continues to be the foundation, but we've also seen a couple of casualty sidecar deals, and we're likely to see more casualty transactions, whether that's in sidecars, or more conventional ILS form."

The past year's record ILS volumes include a trend towards traditional catastrophe bonds, and away from the private transactions of collateralised reinsurance markets. Schultz said this emerging preference among managers and allocators began two years ago.

"Cat bonds are offering a compelling investment, in risk and return terms, and the market has gravitated there to some extent. I would also put industry loss warranties in a comparable light, whereas collateralised re has been flat within overall ILS growth."

Schultz is upbeat about the ILS market's future. "If we have another light cat year, that will be two strong years for investors, and that creates more capacity."

CYBER TRIO

Q1 of 2023 saw three cyber ILS issues. Axis ILS closed the first cyber cat bond, with its $75m Long Walk 144A issuance. Chubb then launched a $100m East Lane 144A cyber transaction, and Beazley issued its debut 144A cyber cat bond, with a $140m PoleStar Re deal, since scaled up to $300m with a $160m PoleStar issuance in May.

Issuers and investors have been "highly supportive" in getting such "pioneering trades" done, Schultz said, and the data will serve as a "confidence boost" for more cyber ILS to follow. "As the cyber market expands, it's going to grow more in an excess of loss than a proportional basis. I think that's going to create more opportunity for ILS to participate in cyber in the future." ■

‘Calmer waters’ allow space to innovate

Insurers are taking advantage of the gradual softening market conditions by looking for ways to diversify and explore their options, reports *Insurance Times* editor Katie Scott (with additional reportage from *GR* editor David Benyon).

Calmer conditions at mid-year renewals are encouraging primary insurance buyers to innovate their reinsurance approaches. The reinsurance cycle has entered a gradual softening stage after the hard market conditions experienced by buyers in 2023.

Following completion of the 1/7 reinsurance renewals, some UK reinsurance buyers have reported their purchasing in 2024 has returned to an even keel after the rocky rises of 2023.

Russell White, CEO of commercial lines insurer Peach Pi, said: “Last year, the market was quite hard in reinsurance. [There were] double-digit rate increases on property. This year’s certainly been a lot calmer waters.

“[In 2023], there’d been pushes to change and restrict cover and this year, it didn’t feel that we’d got those same changes in cover going on. We hope that the current stable environment continues into 2025.”

Another reinsurance buyer at a large insurer with some North American catastrophe risk exposure, mainly around secondary perils, agreed. “After paying so much more at 1/1 in 2023, we didn’t see increases at 1/1 in 2024. Mid-year renewals in 2024 were flattish to slightly down.”

“We don’t see anything radical happening. We’re into the gradual softening stage of the reinsurance buying cycle. Reinsurers will continue to show discipline, not wanting to significantly lower retentions or terms. The market is far from being in free fall, but there is some softening.

“Where we’ve seen rates come down, it’s been on the higher layers of US business. Outside of those pockets of softening, you won’t see the lower layers budging – they are unaffected.”

Aside from savings, an advantage of market softening from the buyside is that it encourages innovation, providing the reinsurance sector with “the opportunity to look at the programmes they’re writing, to think of new and more efficient structures”, White said.

“When the market’s harder or in upheaval, people are just happy to renew. When the market’s a bit more sensible, that’s when innovation and really considering the art of what we’re doing tends to come to the fore.”

EXPLORING NEW OPTIONS

Agreeing with White, the reinsurance buyer admitted that he was “looking at what we might do differently” amid the stable to softening conditions.

“We’re looking at a few new treaties. One of these is to buy political violence and terrorism on a specific treaty basis, rather than within existing treaties. This is a relatively small treaty, but something entirely new. Pricing in that market has been softening [on a primary insurance market basis], which seems antithetical to the state of the world, geopolitically, today.”

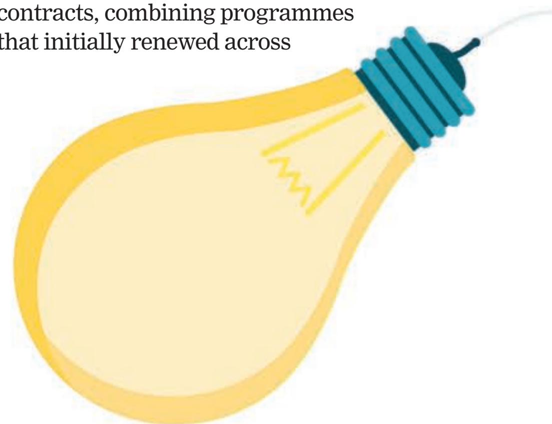
The buyer noted that it might be time to explore buying catastrophe aggregate cover again. “A number of large insurance groups are looking at buying catastrophe aggregate reinsurance protection. This was dropped in 2023 amid the turmoil of that year – it didn’t make economic sense to buy it. Reinsurers ran away from it and capacity got very tight. It’s a sideways cover, a bit of a ‘nice to have’ and many buyers decided to go net.”

There is appetite from reinsurers for this type of cover, too. The Reinsurance Market Dynamics report, published by Aon in July 2024, noted: “Today’s healthy reinsurance market presents opportunities for insurers to leverage reinsurance capital to support growth plans, manage volatility and alleviate capital constraints.

“At the mid-year renewals, reinsurers were more open to discussions on how to meet the needs of insurers’ property portfolios, with increased flexibility around attachment points and ancillary covers.

“On a selective basis, we are also seeing opportunities in property to address aggregate exposures, with growing interest in traditional sideways cover, as well as quota share and multiyear coverages in the structured solutions market. For reinsurers, there are growing opportunities to support insurers.”

White added that Peach Pi had used the mid-year renewal season to amalgamate some of its reinsurance contracts, combining programmes that initially renewed across



1/1 and 1/7 to now have just one mid-year renewal date instead. “It was a merger of a big quota share arrangement into an excess of loss

treaty arrangement, which was really good for us because it gave us a boost in the perceived scale of what we could offer to reinsurers and has given us a more optimal rate and cover as well."

The firm had also sought to take on more risk itself as the business scales. White said: "Having a higher net retention for any one claim means that we can do away with some of the bottom layers of our reinsurance treaties and take the risk ourselves."

> **"When the market's a bit more sensible, that's when innovation and really considering the art of what we're doing tends to come to the fore."**
>
> **RUSSELL WHITE,** CEO, PEACH PI

CAPACITY AND CAPITAL

Aon's aforementioned report estimated that global reinsurer capital rose by $25bn (£19.5bn) to a new high of $695bn (£543bn) in the three months to 31 March 2024, "principally driven by retained earnings, recovering asset values and new inflows to the catastrophe bond market… Capital is building quickly, prompting questions around deployment."

Tom Wakefield, chief executive at Gallagher Re, agreed with this sentiment. In the broker's *1st View: Balance Maintained* update, published in July 2024, he said that reinsurance buyers were experiencing a more "welcoming market" at mid-year thanks to reinsurers achieving "near record returns in 2023".

This included exceeding 20% return on equity "in many cases". "This more comfortable market for buyers has been underpinned by sufficient supply of capital to meet rising demand as reinsurers' balance sheets have expanded on the back of strong 2023 and Q1 2024 results."

Meanwhile, credit rating agency AM Best, writing in its July 2024 *The 2023 Reinsurer Class – The Class that Never Was* trend review, added that the reinsurance segment was currently enjoying "risk-adjusted returns not seen since 1993".

With such upticks in capital, it makes sense that "there's plenty of capacity in the [reinsurance] market".

The reinsurance buyer agreed with this, noting that "many reinsurers are saying they can probably do a bit more with you in 2025 if the price is right".

The buyer also predicted that reinsurers' buoyant capital will soon be put towards M&A activity. "Conditions are rife for more consolidation among reinsurers. They will have the question of what to do with all that capital on their balance sheets. You either go out and do some M&A or give it all to shareholders. Some of them will want to diversify."

BUCKING THE STARTUP TREND

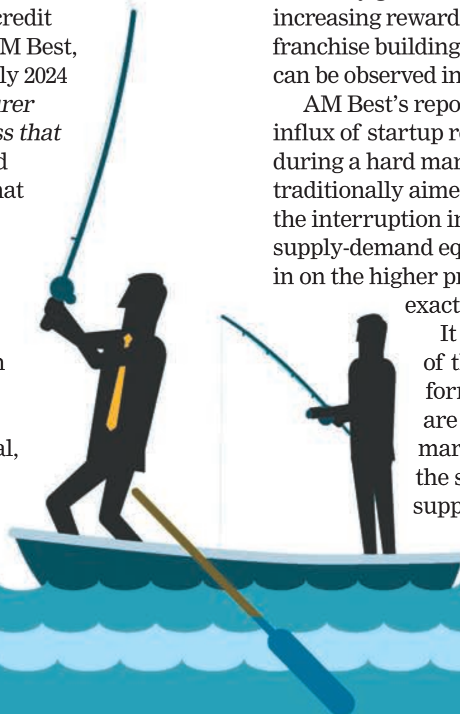
Despite the rise in reinsurance capital that typically follows a hard market, there has been an absence of new startup reinsurers.

Aon's report concurred: "New startups continue to be notable by their absence, despite the attractive returns currently achieved, suggesting investors remain concerned about the challenging risk environment.

"There are competing alternatives for newly generated capital, notably increasing rewards to investors and franchise building via M&A. Activity can be observed in both areas."

AM Best's report also noted that an influx of startup reinsurers is expected during a hard market. These startups traditionally aimed to "capitalise on the interruption in the reinsurance supply-demand equilibrium" – cashing in on the higher pricing that can be exacted from buyers.

It continued: "Many of these new reinsurer formations merge or are acquired as the market cycle returns to the soft phase as the supply-demand equilibrium is reached at a lower price level after the new capital is used".



But the rating agency confirmed that reinsurance startups appear to be missing in action this year, describing the lay of the land as "noticeably devoid of new reinsurer formations".

It said: "No new reinsurers were formed to capitalise on the turning market. This was not for a lack of effort or talented executives, as some high-profile management teams publicly announced their intentions to form new reinsurers, while many more were rumoured to be seeking funding. Ultimately, none of the potential entrants have made it past the fundraising stage."

THE NEED TO COMPETE

Despite the overall positivity surrounding the mid-year reinsurance softening, buyers admitted to friction as the reinsurance market begins to turn in buyers' favour, after nearly two years of reinsurers calling the shots.

White said: "What we have seen from some reinsurers in the past, when the market has been tough, is them being quite opportunistic and charging higher rates than the rest of the panel, or slightly more restrictive cover than the rest of the panel.

"You can do that when market conditions allow you to do that, but don't be surprised if insurers remove you or reduce your line in future when market conditions are more favourable."

The reinsurance buyer at a large insurer added: "Reinsurers want to grow, so there's competitive tension. We did see some reinsurers keep rates constant, so we will continue to keep the pressure on to find consistency in price, pushing on those reinsurers that have kept up higher than average rates within our programme." ■

Nat cats, human drivers

Research shows human factors are behind the increasing loss frequency and cumulative losses we are seeing for severe convective storms. As we head towards the fifth consecutive $100bn-plus year of losses, Josh Darr of Guy Carpenter outlines how nature-based solutions could help.

The 2024 catastrophe year to date is following very closely the patterns of the 2022 and 2023 catastrophe years, with $59bn in property insured losses comparable to the same point in 2023 and not far behind the record high of $69bn observed in 2022.

Global severe convective storm (SCS) losses are again the driver of catastrophe losses in 2024. Record high frequency of insured SCS events in the US transpired in the first half of the year. 2024 flood events in Germany, the Middle East, Brazil and Italy are the second largest contributor to insured loss and close to the quantum of total 2023 flood losses.

Noteworthy wildfire events in Texas, California and Canada also occurred before the late summer and autumn peak season. While the heart of the Atlantic hurricane and West Pacific season can still change the overall magnitude of annual losses, it appears that 2024 is on track to be the fifth consecutive year of $100bn or higher losses.

CLIMATE-LINKED EVENTS

Record warm air and ocean temperatures were observed in 2023 and surpassed in 2024. Of concern for its impact on catastrophe frequency and severity is the higher moisture content feeding off the oceans into individual weather systems; each degree Celsius of atmospheric warming affords 7% higher capacity of atmospheric moisture storage.

Heavier precipitation events are closely correlated to this phenomenon, as seen in Italy, the Middle East and Brazil this year. Dubai saw a year's worth of rain in 12 hours, with unprecedented flooding in the region.

At the same time, other arid regions have seen widespread drought; increasing temperatures in arid regions increase evapotranspiration of moisture from the soil into the atmosphere, accelerating the extent and severity of drought.

A multi-year drought in north-central Mexico is a major factor in elevated severe thunderstorm and wildfire activity across portions of North America.

Other drought-stricken regions have the propensity for extreme wildfire activity when windy, dry, and elevated temperatures are present, including British Columbia, Texas, California and portions of Russia in 2024.

SEASONS ARE GETTING LONGER

One distinct trend for recent loss years is longer periods of opportunity for factors that lead to catastrophe events. The record oceanic warmth affords more calendar days in the year for tropical cyclone activity; 2023 was the most active Atlantic hurricane season on record, with wind shear-inducing El Niño conditions usually limiting activity. Fortunately, landfalls were in less populated areas.

Ocean temperatures in 2024 were nearly three months ahead of the average, supporting more storm formation in April and May. The exceptional early season warmth resulted in Category 5 Hurricane Beryl being the earliest in Atlantic records, with landfalls seen in Beryl, Debby and Ernesto through mid-August 2024. As

$59BN

The current property insured losses in the first half of 2024

2023

was the most active Atlantic hurricane season on record

> "SCS activity is starting earlier and ending later, due to increasing temperatures affording severe weather outbreak opportunities."

JOSH DARR, MANAGING DIRECTOR, GLOBAL HEAD OF PERIL ADVISORY, GUY CARPENTER

with 2023, no major population centres have taken a direct hit from these storms.

SCS activity is starting earlier in the calendar year and ending later, due to increasing temperatures affording severe weather outbreak opportunities in the traditionally quiet autumn and winter seasons.

The same is true for wildfires; the western US season is now more prone to events nearly year round. The February Smokehouse Creek wildfire in Texas this year was the largest in state history, and the July/August Park Fire in California ranks as the state's fourth largest.

While overall fire frequency is declining over time in the US, severity as measured by cumulative acres burned is increasing because of a propensity for uncontrollable fire activities due to a combination of weather and ground conditions.

HUMAN FACTORS CAUSED $100BN LOSSES

Examining the largest driving peril of SCS over the last several years, Guy Carpenter research indicates a range of human factors are the main drivers of increasing loss frequency and cumulative losses.

The specific drivers of loss for a region and peril can vary from negligible to meaningful contributions of a warming planet. Heatwave, drought, and flood risk have a stronger imprint from a changing climate. For smaller footprint perils, such as hailstorms and tornadoes, it can be more challenging to detect a clear link between those perils and a changing climate.

Insured losses have increased notably over the last 10 years, even when adjusted for inflation, wealth creation, and population growth. However, trended losses relative to global gross domestic product illustrate more year-to-year variability and a less discernable upward trend. Consider the range of factors putting pressure on reconstruction and repair costs:

- **AGING WORKFORCE:** Workers aged 55-plus have doubled from 11.5% in 2003 to 22.7% in 2020. (US Bureau of Labor Statistics)
- **INFLATION ON CONSTRUCTION MATERIALS:** 36% since 2020 (US BLS)
- **POPULATION MIGRATION TO MORE RISKY GEOGRAPHIES:** The 10-year growth rate of population in very high-risk SCS countries has been 9% and is expected to continue at an annual rate of 3% for the next five years – the highest growth of any category of SCS risk classes.
- **ALTERING THE NATURAL LANDSCAPE VIA POPULATION SPRAWL:** An increase in flood potential, due to greater areas of impervious surfaces, along with increased temperatures from heat islands.
- **CHANGE IN NATURAL VEGETATION:** The Lahaina Maui wildfire spread quickly due to invasive grasses, planted after the closure of pineapple plantations. The non-native grasses desiccate more quickly in the dry season, adding additional fuel sources for fire spread and intensity.
- **AGING INFRASTRUCTURE:** Average electricity distribution lines are 40 years old in the US, with a quarter of the grid being over 50 years old; 40% of Europe's grid is over 40 years old.

MITIGATION PLANS

The insurance industry can incentivise nature-based solutions to drive mitigation and adaptation of catastrophe losses. Multiple studies highlight a range of efforts to enhance and reinforce natural systems to slow the propensity of increasing losses.

1 RISK ASSESSMENT AND UNDERWRITING

Insurance companies can consider natural features and ecosystems, such as wetlands and forests, that provide protection against catastrophes. By valuing these assets, insurers can better assess risk and adjust premiums accordingly.

2 DATA AND ANALYTICS

Insurers can use advanced tools to analyse historical data and model future scenarios, quantifying the risk reduction potential of nature-based interventions. This informs underwriting decisions and pricing strategies.

3 PUBLIC-PRIVATE PARTNERSHIPS

Collaboration between insurers, governments and stakeholders is crucial. Governments can provide incentives and regulatory frameworks, while partnerships facilitate data-sharing and resources for large-scale nature-based projects.

4 EDUCATION AND AWARENESS

Insurers can promote education about the value of natural ecosystems in reducing cat risks, incentivising adoption and behaviour change.

These strategies enable the insurance industry to integrate nature-based solutions, reduce catastrophe losses and promote environmental sustainability. ■

Josh Darr is managing director and global head of peril advisory at Guy Carpenter.

What a good place to be

Despite ongoing challenges like climate change and geopolitical issues, Matthew Wilken of Hiscox Re & ILS believes strong pricing discipline and plenty of demand are putting the reinsurance market in a "phenomenal" place this summer.

Pricing discipline and fresh demand mean the reinsurance market is "a good place to be" this summer, thinks Matthew Wilken, chief underwriting officer of Hiscox Re & ILS, who is responsible for a reinsurance book of more than $1bn gross premium.

This follows the "phenomenal" market seen last year, which continues to benefit reinsurers, he emphasised, despite challenges ranging from climate change linked extreme weather on the property side, to geopolitical volatility, which affects the marine and aviation elements of the book.

Speaking to *GR* "in the midst of our business planning stage", Matthew Wilken revealed that the property catastrophe-focused reinsurer's strategy "presupposes that the market is still in a really good place".

Unless, that is, something suddenly transforms the market within the coming weeks. But then again nearly every reinsurer conversation that takes place during the hurricane season just ahead of the Monte Carlo RVS has that caveat attached to it, almost inevitably.

"We're seeing pricing and discipline that is really, really strong. In the 30 years that I've been doing the business, last year was phenomenal, probably the all-time high," Wilken said.

"Did we see some slight softening in the second half of this year? A little bit, but at the same time, there was a lot of demand for new capacity. That word 'equilibrium' is a good one, in that there is enough supply to satisfy the demand, and there is also strong discipline that remains in the market, not just from a pricing perspective, but also in the terms and conditions."

He checks off the mood music that faces his market – first and foremost, climate change and extreme weather concerns as the hurricane season enters its usual peak months of activity. He emphasised that his role requires staying up to speed with the climatic situation in the Atlantic, particularly the early forecasts of high-frequency and high-severity storms, due to record sea surface temperatures.

"You blend all of this into the mix, but there are significant entities with the capacity to satisfy demand. Still, we're also very conscious that 'one

swallow a summer doesn't make', and last year's good results were preceded by challenging returns in our industry," he said.

Wilken joined Hiscox in January 2022 as CUO for Hiscox Re & ILS. Prior to this, he was head of reinsurance at MS Amlin, after having served in senior underwriting roles at Kiln, Argo Re and Ariel Re.

LITTLE MOVEMENT

Wilken agrees for the most part with the big brokers' mid-year renewals reports, citing a property catastrophe market that's still flat overall, with some relatively slight dips in rate here and there.

"There is a little bit [of movement] in price, but it's variable, and it depends who the cedent is, how much they're buying, and where in the stack they're buying it," he said.

As to whether there is movement on attachment points for property cat excess of loss covers, he emphasised that this can be difficult to determine from a carrier's perspective, not knowing what other layers may have been placed at lower levels.

"We're in a slightly rarefied environment because we'd already moved our attachment points of many of our key clients," Wilken said. "We'd already come up the stack, so we probably didn't feel as much pressure to move up the stack as others did, and because we have really meaningful line size and scale, and we've got that lead market position, it does allow us to get to the clients early, to try to set terms and conditions."

This scale affords the reinsurer the ability to be able "to be meaningful" in the places it wants to play.

"That doesn't mean that we're immune from the requests of cedents and brokers to drop down and write more at lower layers, but we find that our distribution reflects where we want to play, rather than just being compelled to take positions."

Several years of soft market pricing meant reinsurance had become a profit and loss tool for cedents, rather than a protector of capital, he suggested, something that has been reversed since the market turn of 2023.

"There's always demand to have lower attaching points, because the market, over the last five years, got used to being able to use cat reinsurance as very much a P&L protector, rather than the capital protector, and we've always seen it very much as a capital tool as much as P&L," Wilken said.

"'Equilibrium' is a good word, in that there is enough supply to satisfy the demand, and there is also strong discipline that remains in the market, not just from a pricing perspective, but also in the terms and conditions."

MATTHEW WILKEN, CHIEF UNDERWRITING OFFICER, HISCOX RE & ILS

LEANING IN

There is a desire to grow the book, with the continued ability to attract capital. Third-party capital continues to back Hiscox Re & ILS strongly, Wilken explained, with new capital raised this year to deploy, along with freshly allocated capital from within the group.

Asked where the opportunities to grow lie, Wilken said Hiscox's reinsurance arm wants to "lean into everything", but quickly qualified that this applies only within the confines of the short-tail cat business the reinsurer focuses on.

"We want to grow the book, there's no doubt about that, but we're a short-tail focused reinsurer, so we don't have any casualty on the books, for instance," he said. "It's about being that specialist provider with deep knowledge of the lines we're in. Property cat is what we're renowned for, but we do write elements of pro rata and we have a very mature risk excess portfolio."

Growth will also largely depend on conversations about rate as the season progresses in the coming weeks, he explained.

"Assuming that there will still be relative discipline and if the market returns some stellar results in the next six months, then do I foresee that there will be additional capital retained by the big companies and they will be looking to deploy that? Probably. Does that therefore mean that there will be a slight softening? Potentially. Do I think that would be aggressive? I would hope not. Our forecasts will reflect where that market ends up landing, and we'll know a lot more about where that is in another month's time."

SCS CONCERNS

One area that Wilken said he has been nervous about price adequacy has been in aggregate excess of loss products, due to their exposure to severe convective storm (SCS) events, which have been the bulk of $100bn annual insured cat losses. He expects this will continue, with individual SCS events regularly hitting the $3bn range.

"We pulled back from that, very significantly. It was a product that the market sold quite strongly because it was largely seen as a good return on capital in an area that wasn't particularly cat heavy. However, it was very SCS heavy and tornado heavy, and it was sidewards rather than vertical capital."

"We looked at the increase in the frequency and severity of these SCS-type events. It wasn't so much the pricing of the product, per se, but where it was attaching, and the pure attrition around it. The attachment points didn't reflect where we wanted to be."

He also expects that these aggregate covers for SCS will be a battleground for brokers to "re-engage" at upcoming renewals negotiations.

"That's where I think there will be some pressure," he said. "It was a luxury item for people to be able to manage their sidewards, attritional losses, and that's where I see the brokers trying to apply more pressure."

HISCOX LAUNCHS CYBER XoL

In April 2024, Ariel Re and Hiscox Re & ILS launched CyberShock, an industry-first cyber catastrophe consortium, designed to offer up to $50m per-programme capacity, providing tailored and event-based protection for cyber insurers worldwide, with Hiscox co-binding in the manner of an MGA.

Asked about growth potential for cyber cat reinsurance, on an excess of loss (XoL) basis, rather than the proportional, pro rata protections that primary cyber insurers have tended to buy, Wilken said there were signs that this is starting to happen.

"Yes, we are seeing this, and we called it about two years ago. All of our cyber reinsurance book is XoL based, and the vast majority of that is on an aggregate or stop loss basis, so it's not event based. We were nervous that the early forms of that event definition simply weren't capturing enough detail in a way that made us comfortable," he said.

"We spent the last year or two digging deep into the definitions of event based, and we recently launched the consortium partnership with Ariel Re to be able to trade on an event-based cyber occurrence.

"I suspect that given events like the recent CrowdStrike outage, there'll be a lot more requests coming through over the next year or two. There's nothing quite like an event to focus the market's minds into the scope and value of the products sold, and how they work."

> **"There's nothing quite like an [outage] event to focus the market's minds into the scope and value of the products sold, and how they work."**
>
> **MATTHEW WILKEN**, CHIEF UNDERWRITING OFFICER, HISCOX RE & ILS

THREE-PRONGED APPROACH

Insurance-linked securities (ILS), and particularly the catastrophe bond market, has enjoyed a bumper year of record issuance and volume in play. Pressed on which is the most attractive avenue for capital deployment in the current market, Wilken demurred, but emphasised that Hiscox Re & ILS sees strength in continuing to provide "an integrated model" offering multiple options.

"We have three prongs. We use Hiscox's own group capital, and we have traditional reinsurances, largely in the form of long-term quota share partnerships. Those are the gold standard of the traditional quota share capital – they're superb. And we also have the third-party ILS capital as well, with a dedicated team to provide the support that our capital providers need."

An integrated model means from end to end of the products, he stressed, with access to the underwriting teams across Hiscox, as well as research and development resources.

"Having the dedicated ILS team working alongside us as well gives us the extra edge to be able to design bespoke products that certain capital providers want. Sometimes they want to closely mirror exactly what Hiscox has; sometimes they have a different appetite, and that takes tailoring," he said.

"We think that as a strong differentiator in the market, this has afforded us the ability to attract some capital. While there is capital out there, there hasn't been a huge abundance of new capital coming in – a lot of it's been retained earnings among the large reinsurers," he continued.

Added to this, Hiscox has cultivated a reputation for quality underwriting on a proprietary basis, and that helps when appealing to third-party capital against less well-established rivals.

"They do like that we have skin in the game. Knowing that we are going to prosper when they prosper, and that we can't make money while they lose, seems to be a very strong theme," he added.

CORE COMPONENT

There has been speculation – long and short term – that Hiscox will be the recipient of a takeover offer, like many of its London market peers over the past decade or more. Asked how important Hiscox Re & ILS is to the group, Wilken underlines its enduring importance.

"I'd say it's a fundamental and critical component of what we do. It's in the DNA, born of the syndicate at Lloyd's that was started over 100 years ago, and the evolution of the cat product, where it all began. We've been trading on it for generations." ■

Value all voices

The insurance industry historically has fallen short when it comes to diversity, inclusion, and reflecting the global markets it serves. Mark Lomas, head of culture at Lloyd's, is working to foster real change.

"We live in a world that's increasingly complex… You need a variety of perspectives to come up with effective solutions."

MARK LOMAS, HEAD OF CULTURE, LLOYD'S

One of the big drives within organisations around the world in recent years has been the embedding within their ranks of diversity and inclusion (D&I) programmes – initiatives to welcome voices from what are deemed to be underrepresented backgrounds.

Many organisations now bring in D&I experts to foster an atmosphere of inclusion, working to ensure that every employee feels appreciated and able to progress, regardless of race, religion, gender or sexual orientation.

At Lloyd's, this is a mission for Mark Lomas, the corporation's head of culture, who joined in January 2022 after six years in a similar role at HS2. Lomas recently sat down with *GR*, ahead of the 10th Dive In Festival, which champions the D&I message in the London market.

A DEVELOPING CONVERSATION

"We've got people participating from over 90 countries this year. The global reach is absolutely huge. We generally expect more than 30,000 attendees, so it's a massive global audience," he said.

"The themes and events really reflect what's important to people in their region, so there are discussions around mental health, neurodiversity, intergenerational working, racial inclusion, disability inclusion, and domestic violence. It's a huge range."

At Lloyd's, Lomas is responsible for diversity, inclusion, leadership, capability, wellbeing, and employee engagement. He also oversees Principle 13 within the market.

Principle 13 is an edict from Lloyd's that its managing agents should be diverse and create an inclusive, high-performance culture through five objectives: demonstrating leadership focus; fostering inclusive behaviour; fostering psychological safety; ensuring diverse representation; and understanding their employee population.

Lomas believes the conversation around D&I has moved on in leaps and bounds during his career. "The Dive In Festival in 2015 was in one room. It's now in 48 countries, and has driven an understanding of topics such as mental health, domestic violence, neurodiversity, and the multigenerational workforce, among others. The Lloyd's market has been deliberate about its culture work, in terms of education and holding firms to account, through cultural oversight and upskilling programmes," he said.

"It's one of the things that's made a huge difference to both individuals and their managers who can often be curious about this topic. The latter can turn up to a session and learn something that they didn't know, then take that back to their teams. The Dive In Festival started a lot of these new conversations and I think that's why it continues to evolve."

BOOSTS PERFORMANCE

Critics of D&I initiatives sometimes feel they prioritise feelings over performance, or question their link to the purpose of the organisation as a business. Lomas is firm that neither of these is the case. "It's about the practices that enable high performance at individual, team, and organisational levels. The Dive In Festival plays a key role in raising awareness of the best practices across the globe.

"We live in a world that's increasingly complex, and where the risks in terms of insurance are more interrelated than ever. You need a variety of perspectives to come up with truly effective solutions." ■

DIVE IN CAMPAIGNS

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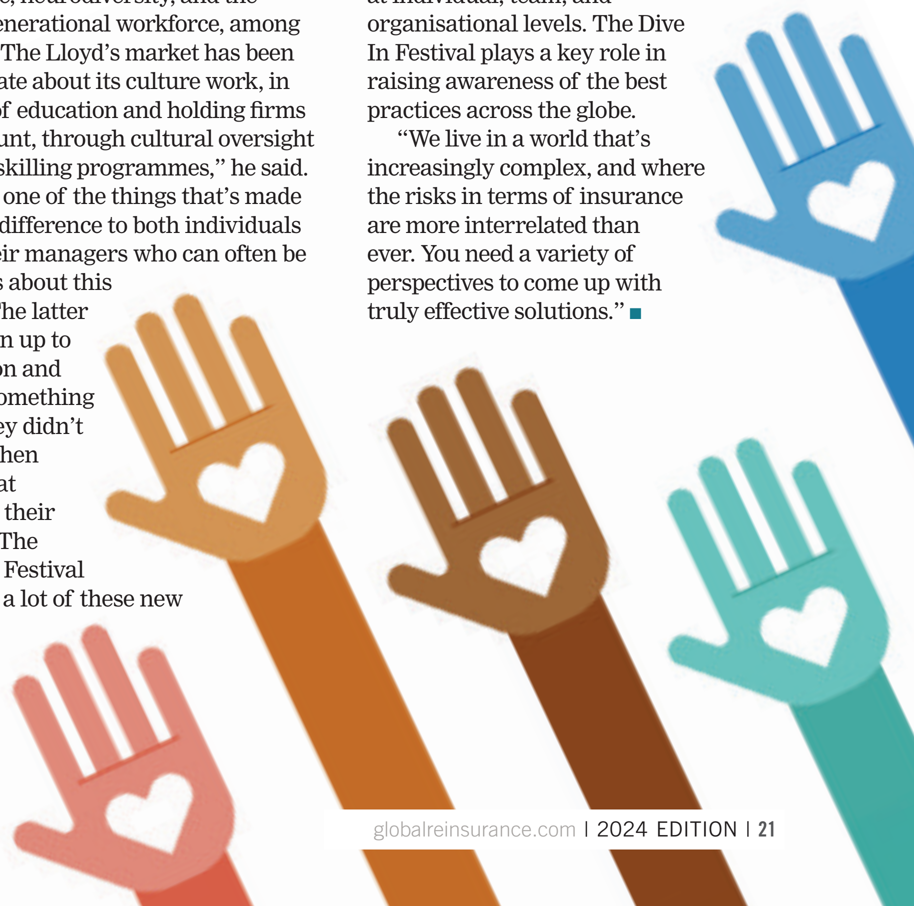

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A cyber cat of sorts...

The CrowdStrike cyber incident brought retail, transportation, banking, and more to a shocking standstill. In the aftermath, what can insurers do to gain clarity on the true exposures in their books before the next Blue Screen of Death?

You would struggle to have missed the global IT outage that took place on Friday 19 July 2024, which made CrowdStrike, a security technology provider, a household name. The event sent Microsoft scrambling to release recovery tools and advice as users faced the dreaded 'Blue Screen of Death'.

The cyber incident was attributed to a software update from CrowdStrike for its Falcon EDR product that caused problems with PCs, servers and IT equipment running Microsoft Windows, triggering substantial disruption across many businesses.

The CrowdStrike outage is the latest high-profile disruptive cyber event to have left underwriters fearing unforeseen correlations within their portfolios, and questioning scenarios for cyber aggregation risk.

The event mimicked a supply chain incident, said Damini Mago, associate director of product management for cyber at Moody's, causing cascading and widespread disruptions among interconnected systems.

"Unlike a malicious attack, due to the vendor's trusted position within the networks of affected enterprises, this update event could skip the initial access hurdle and many other kill chain steps, and avoid protective, defensive measures designed to thwart threat actors," she said.

"Early reporting states the update triggered a system-level problem, resulting in the affected Windows operating system computers entering into a dreaded 'Blue Screen of Death' loop. The machines would reboot, encounter the Blue Screen of Death, and then restart – endlessly."

WHO GOT HIT?

According to tech firm Parametrix, a quarter of US Fortune 500 firms were impacted, including every airline and 43% of retailer and wholesaler firms. About 75% of health and banking sector firms suffered direct costs.

Beyond such primary financial losses, CrowdStrike's impact on critical services resulted in a cascade of operational delays affecting the Fortune 500 companies and their downstream entities, Parametrix said.

With CrowdStrike's estimated 20% market share for cyber security, and 50% of Fortune 500 companies, the victims are household names. The number of companies that rely on a business using CrowdStrike Falcon in conjunction with Microsoft is estimated to be in the millions, meaning insurers will need to plan to address these exposures, said Tancred Lucy, vice president at Acrisure Re.

"This event is likely to be felt most acutely in the large and mid-market

"Why is the market in this position? Clients have a clear need for this cover, but risk is being insured that we can't fully and discretely articulate."

DAN CARR, HEAD OF CYBER, ARIEL RE

dependent business interruption insuring clauses.

A note from Moody's said: "Most losses from the outage will be BI, which is a primary contributor to losses from cyber incidents. Because these losses were not caused by a cyber-attack, claims will be made under 'systems failure' coverage, which is becoming standard coverage within cyber insurance policies."

Most cyber policies include triggers for malicious and non-malicious events, and BI and DBI coverage typically extends to incidents at IT vendors. Some cyber policies will also contemplate DBI coverage for non-IT vendors. Further uncertainty arises from the many products with different BI triggers, based on net loss of revenues or profits, for example, as well as potentially different limits within the same policy for BI, DBI, and contingent BI claims.

Cyber insurance is still maturing. It has evolved in the past decade, from a third-party liability product – focused on data privacy and the risk of breach – to more of a first-party BI protection, expanded into contingent coverage, in parallel with the society-wide trend to the cloud.

That means most insureds, regardless of sector, are reliant on outsourced third-party cloud providers for core IT functions. This has contributed to a lack of clarity among cyber underwriters about their true cyber exposures, suggests Dan Carr, head of cyber, Ariel Re.

"By moving infrastructure out of a business there is less visibility over those assets, and less operational governance as to whether those systems are available or not, and ultimately, the market has assumed that risk and uncertainty," said Carr.

"The flow of exposure understanding and probabilistic judgment over those systems remains limited. Is that external system going to go down or not? In reality, at present, the market doesn't know what the complete end-to-end risk picture looks like. Why is the market in this position? Clients have a clear need for this cover, but risk is being insured that we can't fully and discretely articulate."

He added: "If you put this into another domain – such as natural perils – it's not saying, 'there is uncertainty around the frequency or the severity of an event'. In this instance, all the locations of the risk being insured, their health, and how they are managed is unknown. Long-term, that isn't a sustainable means of providing insurance coverage."

COST TO FORTUNE 500

The portion of the loss covered under cyber insurance policies was likely to be no more than 10–20%, cloud monitoring, modelling, and insurance services provider Parametrix, said. This was due to many companies' large risk retentions, and to low policy limits relative to the potential outage loss.

$5.4bn

Financial loss to all US Fortune 500 companies, excluding Microsoft

$1.938bn

Financial loss suffered by the healthcare Fortune 500 companies

$1.149bn

Loss to the Fortune 500 banks

$36m

Manufacturing sector losses, a small fraction of its $3.4trn annual revenue

corporate space. But when you consider that over 20,000 companies use CrowdStrike Falcon in conjunction with Microsoft, and many managed security service providers license CrowdStrike for their clients, it brings systemic exposures among SMEs into greater focus."

WHAT'S THE IMPACT ON INSURERS?

CyberCube provided a preliminary estimate of insured losses between $400m and $1.5bn for the standalone cyber insurance market, adding to the Parametrix estimate. Verisk's Property Claim Services (PCS), has designated the CrowdStrike outage as a cyber catastrophe loss event.

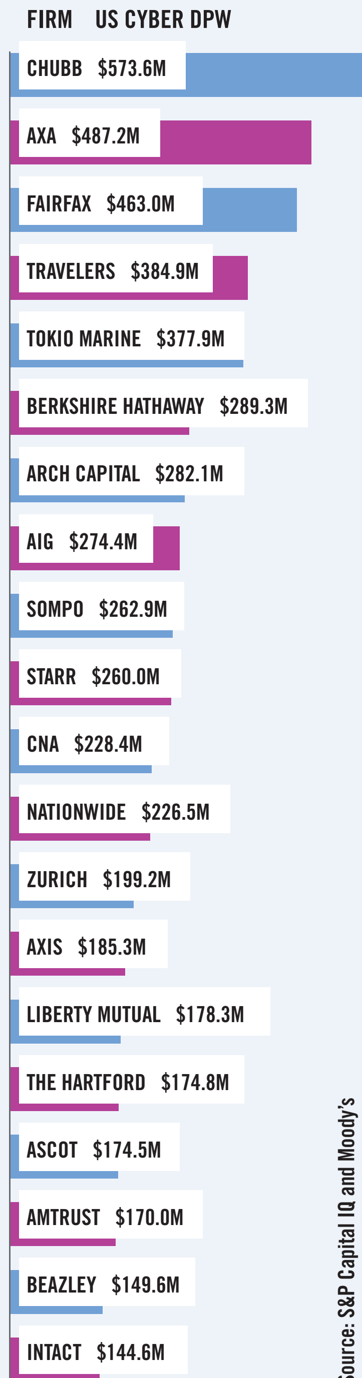
"This means it's likely to exceed $250m industry-wide insured loss," said Tom Johansmeyer, global head of index classes at Price Forbes Re, and former head of PCS, on an episode of *The Political Risk Podcast*. "Is it a cat? Yes. Is it carnage? No. My back of the napkin puts it at $300–500m… I think on the worst possible days, it could approach $1bn, but that's it."

Acrisure has said that the expected wave of notifications following the event would mean losses under business interruption (BI) and

FEELING EXPOSED?

The size of the cyber insurance industry has certainly grown

TOP 20: US WRITERS OF CYBER INSURANCE, 2023



exponentially. The global cyber insurance market reached $14bn last year, and is estimated by reinsurer Munich Re to increase to $29bn by 2027.

But is the industry overcooking the scale of cyber catastrophe risk? Johansmeyer certainly thinks so. "The insurance and reinsurance industry so thoroughly misunderstands cyber catastrophe risk, and it's manifested in pricing, capital availability, risk transfer behaviour," he said.

"There are some really good things being done from a weak understanding, and that's what I'd like to see fixed," he continued. "You've got fears of cyber mega catastrophe that are unjustified; you've got fears of cyber war that defy both empirical evidence and state incentive structures; some of our fears as an industry make no sense."

He added: "The worst cyber-attack on critical infrastructure in history is believed to be the 2015 Russian attack against the Ukrainian power grid. This is the one everybody talks about. A total of 230,000 people lost power for one to six hours. That's the worst of it."

> **"You've got fears of cyber mega catastrophe that are unjustified. Some of our fears as an industry make no sense."**
>
> **TOM JOHANSMEYER,** GLOBAL HEAD OF INDEX CLASSES, PRICE FORBES RE

Reinsurers have been among those most alarmed by cyber cat, including recent cyber war exclusions, highlighting an aversion to high aggregate exposures reaching systemic risk levels. However, from a reinsurance perspective, supply is exceeding demand for cyber risk in 2024, sources agree, with clients buying less of the proportional products reinsurers have offered, retaining more risk.

This is leading some reinsurers to pursue aggregate stop loss and cat risk products that work on a per-occurrence basis. However, buyers of cyber reinsurance have shown modest appetite for buying cyber cat products.

Ariel Re is among those reinsurers looking to grow in this area. Ariel Re typically reinsures malicious cyber events, Carr said, the basis for its cyber cat appetite, and therefore has limited exposure to a non-malicious systems outage event like CrowdStrike.

However, Carr sees CrowdStrike as an event likely to highlight uncertainty about exposures on insurers' balance sheets, as underwriters struggle to answer such questions to board level, which may drive interest in buying cyber cat reinsurance covers.

"I don't think CrowdStrike is a huge market loss, but nor is it going to breed confidence in cyber's scope of coverage, so I think investors and insurers are going to have some reconsideration of risk appetites" he said. "If you're writing significant aggregate limit on this basis, are you going to want to double your capital position in those circumstances? It's unlikely, unless there is further development in coverage scope, exposure visibility, or reinsurance protections," Carr added.

HOW BAD COULD IT BE?

While many reinsurers have moved to limit their own exposures, there is still little clarity on what a 'worst case' cyber cat event might look like. Attempts to quantify cyber catastrophe risk are somewhat spotty. In 2023, the Lloyd's market undertook a systemic risk scenario that it said revealed the global economy was exposed to as much as $3.5trn from a major cyber-attack, some $1.1trn of which was judged to come from the US market.

Johansmeyer said: "Swiss Re's estimate that cyber insurance is 10% penetrated worldwide… would mean a $40bn industry-wide insured loss would be $400bn economic loss addressable. But if you add up the 10% market share, that means the addressable insurance market is $4trn relative to global GDP of around $120trn last I saw.

"This means that $400bn economic loss to drive a $40bn insured loss is really going to be several times that, because you're going to have economic losses that fall outside the addressable insurance market. You're looking at something north of $1.5trn in economic loss to drive that $40bn insured loss."

Johansmeyer's Ph.D research has focused on building a history of cyber cat economic losses, as far back as 1998, arriving at an overall loss figure estimate for these cyber cats over the period. "Adjusted for inflation at 3%, you're looking at $300bn [economic loss]. Are we going to see a single event five times 25 years of cyber cat losses? No, we've got to get real." ■

Demand-supply balance on the line

As the sector recovers, reinsurance capital has hit record levels in 2024. But, IQUW Bermuda's Stephen Young writes, a number of concerns still threaten to tip the demand-supply balance.

The reinsurance sector is reaping the benefits of recent treaty adjustments and positive rate increases that have followed a significant soft market for many years.

After reinsurers suffered multiple challenging losses, a re-evaluation of coverage, attachment points and rate increases has propelled reinsurance returns into the mid-20s in 2023 and made for a more orderly renewal 2024.

With the sector's recovery, reinsurance capital has reached record levels in 2024, rising ~20% from the lower capitalisation of year end 2022. In addition, AM Best has revised its reinsurance sector outlook to positive. Good news for the industry.

Retained earnings and asset valuation improvements have been major factors in the capital uplift over the last year or so. However, broker talk of supply and demand being in perfect harmony overlooks a lingering reticence among many reinsurance capital providers and investors about the industry, even as we experience the most favourable property market conditions in almost two decades.

Figures of ample capacity meeting the increased demand are good news. Yet there were nerves in May. June 1 renewals were being finalised and forecasts of an above-active hurricane season squeezed property cat supply.

In addition, there have been no new re/insurance start-ups attracting capital to the industry. Investors likely remain concerned about the start of the hurricane season after category five Beryl's unprecedented early arrival.

Further, there are continued concerns about the mounting loss development in the casualty sector.

Reinsurers have led the P&C industry out of the earnings doldrums and the positive higher interest environment has made the sector more attractive for capital providers.

> **"Broker talk of supply and demand being in perfect harmony overlooks a lingering reticence among reinsurance capital providers about the industry."**
>
> STEPHEN YOUNG, GLOBAL HEAD OF REINSURANCE AND CEO, IQUW BERMUDA

However, investors are still looking for a three-to-five-year track record of strong results. Insurance stocks on the S&P 500 have outperformed the wider index for many months, but in recent weeks their lead has narrowed.

IMPACTS ON BOTH SIDES

On the supply side, the hurricane season will have a major impact on 2024 profitability and sentiment around the 2025 renewals, for listed entities and backers of private reinsurers alike.

Depending on the type of loss, heavy second-half property cat losses, coming after Gallagher Re put first-half losses 25% above the 10-year average at $61bn, might lead to further rate hardening at the 2025 renewals.

On the demand side, primary carriers had to retain more exposure through reinsurers' treaty realignment, including increasingly frequent and severe losses from weather events.

This has had a significant impact on their insurance businesses. We're already seeing these increased losses eroding insurers' surplus in some regions, while stringent state regulations typically do not allow a quick adjustment to increased deductibles or rate changes fast enough to counter this financial impact.

And while inflation may have eased, the impact of elevated prices for goods endures, and primary carriers will need more protection to cover the higher asset values they are insuring.

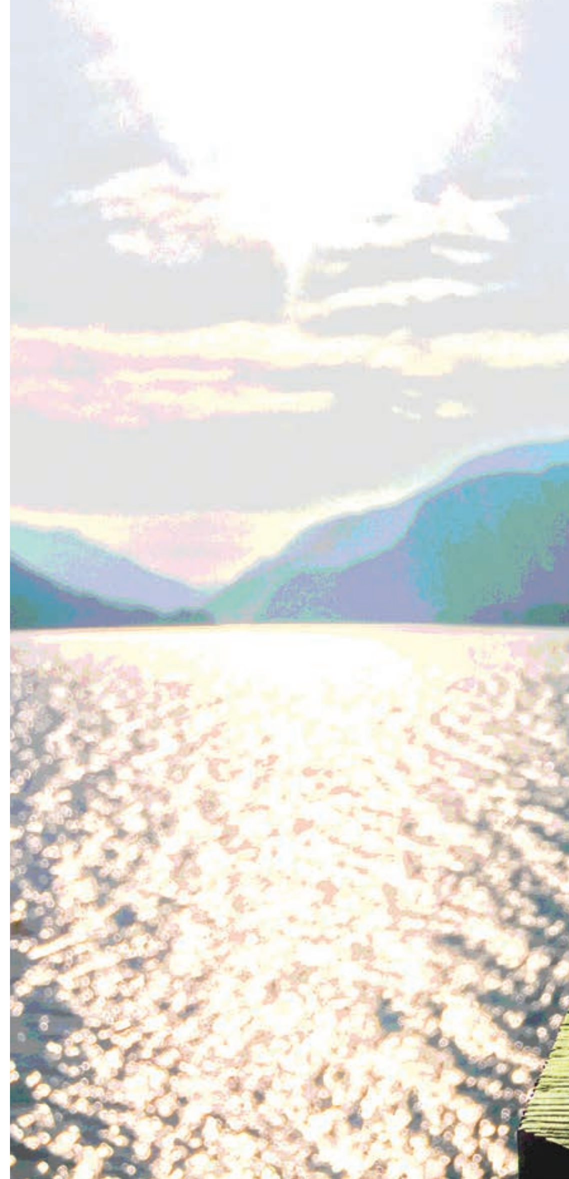
A steady run of property events, casualty reserve increases along with specialty losses, such as the CrowdStrike outage, alongside geopolitical tensions, adds to unease.

Still, if the second half of 2024 has lower than expected losses from nat cats and man-made events, the industry might be awash with capital from retained earnings and returns might be more challenging in future.

Reinsurance investors have acquired a taste for double-digit returns. Reinsurer returns on equity in the mid-20s continued in the first quarter of 2024. Anything that abruptly jeopardises those returns will highlight how very fragile the perceived demand-supply balance actually is. ■

Stephen Young is global head of reinsurance and CEO at IQUW Bermuda.

Designing the future over a G&T



Apollo's James Slaughter sat down with Yiannis Kotoulas to discuss the group's deliberate focus on innovation, the importance of sharing your vision and his 'gin and tonic document' on the industry's future, written during an early – and ultimately premature – retirement.

Many firms in the insurance industry will claim their name is synonymous with the sort of innovation that drives excitement in the future. But, in the case of Apollo Group, it's undeniable.

Whenever news has broken in the last 12 months of an innovative product or proposition launch in the London market, the odds are that Apollo has been involved – whether directly or through its strategic partner syndicates at Lloyd's.

For example, Apollo was responsible for underwriting the AppliedEV, the first fully autonomous, zero-passenger vehicle to drive on European roads in 2022, via its Ibott MGA.

It also supported drone insurance MGA Moonrock to become a Lloyd's coverholder earlier this year, as the firm's long-term insurance partner, and partnered with Innovative Risk Labs to launch a parental leave insurance product.

Speaking to *GR*, Apollo's chief underwriting officer, James Slaughter, explained that this apparent commitment to innovation is no accident.

On the contrary, he said: "In the last 12 months, quite a lot of very exciting things have come out of a very deliberate business strategy around engaging with opportunities.

"It all comes back to one fundamental capability, which is a culture aligned to the values of the business and the people in it."

ON THE WINGS OF FORTUNE

Slaughter's journey to his role as CUO at Apollo Group has been a "long old story", but it began with him visiting a friend in the City, who had just joined Commercial Union's graduate scheme, and deciding to do exactly the same.

In a full-circle moment, that friend – Carl Day – was recently announced as Apollo's new deputy CUO and will link back up with Slaughter in late 2024.

After joining the graduate scheme, Slaughter says that he "rode the wings of fortune" by "grasping opportunities" that presented themselves to him.

In one of the acquisitions that followed Commercial Union's merger with GA to form CGU, Slaughter took the opportunity to transfer across to Berkshire Hathaway rather than remain on what had become Norwich Union's graduate scheme.

After a formative period at the Warren Buffet-owned firm, which covered the time period including the 9/11 attacks and "a massive correction in ratings", Slaughter joined Liberty Mutual's Syndicate 4472 in the middle of 2005.

It was there, in 2010, that Slaughter was responsible for the launch of Liberty's global reinsurance strategy group, of which he became global chief executive in 2017.

Slaughter said: "Through that whole process, I learned a huge amount at a

"Innovation is a quirky thing that covers a lot of things, but what we mean by it here [at Apollo] is building new markets and new products that solve real customer needs."

JAMES SLAUGHTER, CUO, APOLLO GROUP

relatively young age. But when COVID hit, running a global business was really tough, with 18-hour days back to back over Zoom."

It was at this point that Slaughter decided he "had given it his all" at Liberty and left to begin "an early retirement".

This didn't last long, however. Slaughter explained: "During that phase, I increasingly thought that I hadn't quite exhausted all of the avenues that I felt I could in the industry.

"This sector is a fabulous industry, but fraught with unsolved problems, principally in the deployment of technology in a sophisticated way."

GIN AND TONIC DOCUMENT

It was during his early 'retirement' that Slaughter completed his "gin and tonic document" – so-called because he put it together "while travelling Europe with my family and sipping gin and tonics by lake sides".

He explained: "The gin and tonic document is my thesis on the future of the industry, which became what we call augmented underwriting at Apollo. It's a philosophy of human-integrated technology around how we can improve as an industry – our customer focus, our engagement, performance, product, all of these aspects – by correctly embedding the opportunities that technology brings."

Slaughter eventually joined Apollo after he was introduced to chief executive David Ibeson and had a chat around "how we saw the world".

He says: "It turned out that we were 10 for 10 on all the things we agreed on and the rest was history."

However, Slaughter says that, prior to agreeing to join the firm, he performed some due diligence with people he knew at Apollo, to check whether it walked the walk on its outward, innovative appearance.

"Apollo, almost by serendipity, turned out to be exactly the platform that was a natural fit for me. We have innovation running through our blood here."

CULTURE OF INNOVATION

As Slaughter puts it, the prerequisite of Apollo's success in innovation is culture – but the prerequisite of culture is a shared vision of success that goes from the top down in an organisation.

He said: "As a leader, you've got to persuade your people of your vision – and everything that goes with that – and bring them along with you on that journey. One of the most important things for leaders in our industry is to be really thoughtful about how you see the market in the five to 10-year time horizon."

As the prerequisite for innovation, however, a culture of innovation is not the same thing as innovation itself. So what is?

Slaughter explained: "Innovation is a quirky thing that covers a lot of things, but what we mean by it here [at Apollo] is building new markets and new products that solve real customer needs.

"For example, Ibott was all about addressing the needs of the sharing economy. Moonrock was all about trying to address the fact that a standard aviation policy is not sufficient or appropriate for an electric take-off and landing vehicle."

The other important aspect of Apollo's success in innovation, as Slaughter sees it, is a commercial focus. "Our innovation is commercial so, in that sense, we learn painful lessons more quickly," he said.

"If you have a lesson to be learned in our business, it's probably because you need to reprice or change the coverage to make it commercially viable. One of the reasons we're so successful is that every single one of those innovations has someone that's responsible for [profit and loss]."

Most importantly, however, Slaughter believes that truly succeeding in innovation is about persistence.

He concluded: "If you want to be successful with innovation long term, you have to bring people with you right from day one – and they have to ride the bumps in the road with you, because the rewards are not going to come in the first couple of years, unless you're very fortunate." ■

Time for catastrophe modelling 2.0

The models used today are outdated, and allow for massive market disruption by underestimating hurricane risk and losses, and overlooking secondary perils, writes KCC's Karen Clark. Time for an upgrade.

Over 30 years ago, Hurricane Andrew caused massive disruption in the property re/insurance markets: 11 insurers went bankrupt, major insurers left Florida, and reinsurers reduced capacity and dramatically increased prices.

Why? Systemic underestimation of hurricane risk and potential hurricane losses.

Fast forward to today and we're witnessing the same level of disruption in the market. Why? Systemic underestimation of losses from the frequency (aka secondary) perils, most notably severe convective storms (SCS) and winter storms.

Hurricane Andrew left us in no doubt that the industry needed a major upgrade to its long-accepted methods for measuring and pricing hurricane risk.

Today, it's equally clear the industry needs another major upgrade to the nearly 40-year old catastrophe modelling technology.

Catastrophe models have been available in the re/insurance industry since 1987, but it was not until after Hurricane Andrew that there was widescale adoption of this then new technology.

"Second generation models now exist that can capture this complexity and accurately quantify the loss potential of the frequency perils."

KAREN CLARK, CEO, KCC

The primary focus has always been on the perils able to cause solvency-impairing event losses. Emphasis has been on quantifying "tail risk", and perils such as SCS, winter storms, and wildfires have been "secondary".

Catastrophe models are essential tools for the global re/insurance industry, and the first-generation models have proven their value for pricing and managing hurricane risk. But they fall short of providing credible information for other types of more frequent atmospheric perils.

OVERHAUL TIME

The first-generation catastrophe models still used by many reinsurers are statistical models that base future events on extrapolations of historical events. Events are modelled using 'parameters' such as maximum wind speed, storm track, and radius of maximum winds for hurricanes. Earthquakes are modelled using parameters such as magnitude, rupture depth, and faulting mechanism.

But the frequency perils, and in particular SCS, cannot be defined by a set of static parameters because these perils are too amorphous and dynamic over time. The images on the left illustrate the difference. Image 1 is a satellite image of a hurricane showing

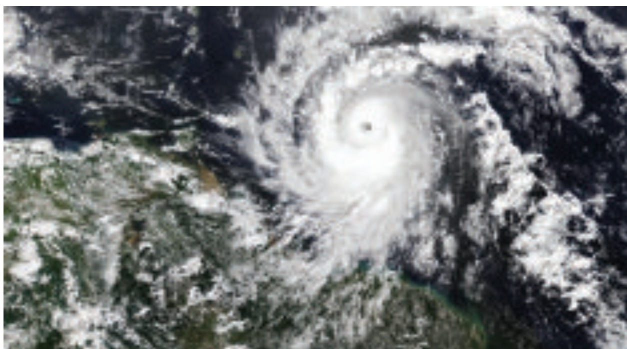


Image 1: Satellite image of a hurricane

Image 2: Radar image of an SCS

the typical shape of circular winds around a central eye. It's easy to imagine a set of parameters that can reproduce this familiar shape.

Contrast that with the radar image of an SCS in Image 2. Not only is the shape much more complex, it's also unique to this particular weather system, and it's dynamic over time.

Fortunately, new second generation models that can capture this complexity and accurately quantify the loss potential of the frequency perils now exist and can be easily implemented by reinsurers. These new models are based on the same fundamental structure, including the same components, inputs, and outputs, as the traditional models.

But as opposed to statistical extrapolation, the hazard components of the second-generation models are based on physical modelling techniques. Physical models operate on complex equations of the atmosphere and thousands of dynamically changing variables to capture the complexities of SCS and other frequency perils.

KCC scientists have proven the accuracy of the new physical models with daily verification. KCCLiveEvents is a fully automated process through which over 30 gigabytes of satellite, weather model, and radar data are ingested into the KCC SCS model each day. This is used to create high-resolution hail and tornado/wind footprints that insurers can use to estimate their daily claims and losses.

Months after the events, insurers can compare their actual losses with the KCC SCS model estimates.

Through this, the accuracy of the KCC physical models has been verified with tens of billions of dollars of high-resolution insurer claims data.

The process extends beyond SCS. The February 2021 Arctic Air Outbreak provided an impressive validation of the KCC Winter Storm model. While this $20bn event was a "model miss" for the older models, it was predicted accurately in real time by the KCC model.

BRING REINSURANCE CAPACITY BACK

In order for reinsurers to offer additional capacity for the frequency perils, they must first have confidence in the tools they're using to quantify and price the risk. According to an important underwriting adage, "there's no such thing as a bad risk, only a bad price."

KCC has invested tens of millions of dollars and years of research to build accurate models for SCS, winter storms, and wildfires. This new physical modelling technology – incorporating over 100 terabytes of high-resolution atmospheric data and advanced AI and ML techniques – has proven its accuracy and re/insurers already adopting this technology are quickly gaining confidence in the results.

KCC experts are also working with leading reinsurance brokers and ILS investors on innovative products to close the current gap between supply and demand.

One such innovation is the Modelled Loss Transaction (MLT) in which the payout to the insurer is based on what the model estimates for an event rather than the final indemnity amount.

The insurer provides current or projected exposures to the modelling agent, and those exposures are run through the model to produce the EP curves used to price the transaction. When a covered event occurs, those same exposures are run through the model to determine the event loss.

This means there's symmetry between the assumptions used to price the transaction and the assumptions used to determine the payout. Other benefits of the MLT include the speed of payout (weeks after an event versus months or years) and the elimination of potential loss creep from economic and social inflation.

Of course, the MLT requires accurate models or there would be too much basis risk to the insurers. Second generation physical models provide the required accuracy. While the MLT can be used for any peril, the highest demand has been for SCS, and several such transactions have been completed to date.

CHRONICALLY UNDER-ESTIMATED

It may be tempting to blame the current market disruption on climate change, but to date, the impacts of climate change on hurricane, SCS, and winter storm losses have been relatively minor. That may not be the case in the future, but as of today, historical event losses when calculated based on current property exposures do not exhibit an increasing trend.

The current disruption in the reinsurance market has been caused by systemic underestimation of the loss potential for perils long considered secondary. And the shrinking of reinsurance capacity for these perils has in turn exacerbated insurance market dislocations as insurers have pulled out of states and limited their writings to control exposures.

While likely not solvency-impairing for many companies, there is significant annual volatility in non-hurricane weather-related losses that insurers would like to manage with reinsurance. Increasing demand means increasing opportunity for reinsurers with the most advanced and accurate technology for quantifying and pricing the risk.

After nearly 40 years, it's time for a major upgrade to the industry's risk modelling technology. Along with unprecedented accuracy, a major advantage of the new second generation models is they automatically incorporate any changes due to climate because they are based on current atmospheric data rather than decades old historical data. ■

Karen Clark is CEO of Karen Clark & Company (KCC).

Fronting's new frontier

Hybrid fronting is seeing explosive growth and Bridgehaven is the first of its kind in the UK. CEO Paul Jewell outlines what this new model has to offer.

Recent years have seen hybrid fronting gain traction as a method for reinsurers to diversify portfolios while accessing more profitable areas of business. In the US, there are currently between 20 and 30 hybrid fronters.

However, Bridgehaven is the first hybrid fronter to bring the business model to the UK, setting up last year, with Paul Jewell as CEO of the firm, which specialises in a mix of commercial and specialty lines.

"In 2022, I put in an application to a regulator for a hybrid fronter," he told *GR*. It was the first insurer to be approved in three or four years by the UK's Prudential Regulation Authority.

"In July 2023, we were authorised to begin work as Bridgehaven. We're a separately regulated entity, and we have this moniker of a 'hybrid fronter'."

WHY IS THIS DIFFERENT?

Fronting, where a licensed, admitted insurer issues an insurance policy on behalf of a self-insured organisation or captive insurer without the intention of transferring the risk, has been around for years. Hybrid fronting, is new.

Jewell said: "Fronting tends to describe when an insurance company is used to facilitate the issuance and compliance of a local policy in a jurisdiction. It tends to be done when another insurer or reinsurer wants to be compliant in a local jurisdiction. What it does is pass the underwriting risk back to the master policy, fronting for some other capital provider."

"Usually, the fronter just does the regulatory side, issuing the policy and having the licence. They don't focus on the underwriting risk. Hybrid fronting is very different. We retain risk to the balance sheet, and we underwrite the original business that we write."

A hybrid front is an insurance company that partners with an MGA, but is leveraged and works closely with reinsurance capital.

More insurers are opting for more retention. It is a cycle, said Jewell, that has ebbed and flowed in recent history. Reinsurers are looking at diversification along multiple lines – product, geography, excess of loss. "They have realised that they have distribution platforms through MGAs. They're up against traditional insurers that they're not clear on the distribution strategy of. They may have branches that are direct to consumers, or have fragmented models, or a cost base that is so heavy that they can't reach an economic deal that works with MGAs."

A BROAD PANEL

Bridgehaven focuses on MGAs – all specialty classes and products. And it wants to work with other reinsurers. There are many benefits to this: the reinsurers get access to new business on a quota-share basis and bigger premium volumes. "They're also getting access to us as an insurance company and partner that takes care of the underwriting risk. We are an underwriting company. We're aligned with the reinsurers and the MGAs to make sure that we're deriving underwriting profit.

"We see ourselves as taking care of the reinsurer's capital, as well as our own, as we retain risk to the balance sheet."

PAUL JEWELL, CEO, BRIDGEHAVEN

"We see ourselves as taking care of the reinsurer's capital, as well as our own, because we retain risk to the balance sheet – we retain 10–15% on our balance sheet, with the other 85–90% using quota-share reinsurance."

Bridgehaven's model relies on selling the strength of its decision-making for putting together a portfolio among different MGAs. Recent deals have involved MGAs on both sides of the pond, with Brown & Brown in the US, and Dual, part of Howden Group, in the UK.

"We will partner with 30–40 MGAs," Jewell concluded. "Each one will generate about £25m in GWP. Diversification is important; you need to have that broad product spread. We don't have legacy, so we can build that up from the beginning." ■

How satellites size up floods

As flood events rise, ICEYE's Rupert Bidwell explains how satellite data can help insurers size event impact, manage capital and set reserves quickly and effectively.

How much of a capital strain do floods place on insurers given the high degree of uncertainty around the size of loss?
The scale, speed and complexity of flood events can create significant capital challenges for insurers. Sizing these losses quickly and accurately is critical, but the process is highly technical, and achieving adequate situational awareness can take weeks, during which time capital allocation and reserving strategies are in limbo.

Often insurers are having to cross reference the incomplete flood footprints – from multiple different sources of varying degrees of accuracy – with exposure data as it becomes available to understand the cost of the loss. Damage data is often limited and disparate early on, while claims data takes time to compile due to inspection delays and late claims reporting.

"[With satellite data] insurers have near-instant access to detailed and reliable info on the property-level impact."

RUPERT BIDWELL, VICE PRESIDENT, INSURANCE SOLUTIONS, ICEYE

How important is the flow of loss information when it comes to managing capital through an event?
After a major event, CEOs, CFOs and CROs want to know instantly what the likely capital impact is. And that need for information extends in several different directions as major shareholders, reinsurers, regulators, and other industry bodies want to understand the financial fallout.

Therefore, that flow of loss information and the speed at which insurers can begin to provide accurate and stable numbers on the financial impact is very important.

It is also key to establishing initial claim reserving levels, which is extremely challenging in those early phases when loss data is limited. Potential reserving ranges can be significant and material when insurers are reserving on modelled data rather than on a bottom-up view of the depth of the waters impacting their policies.

How can satellite data support improved loss sizing and more effective capital management during a major loss?
Integrating satellite data into the event loss-sizing process provides a much more secure data platform to determine the likely loss and be on the front foot in terms of making any capital decisions.

Insurers have near-instant access to detailed and reliable information on the property-level impact across their portfolio. With information on the overall flood extent and water depth at the building level, actuaries can conduct precise, robust calculations to establish the optimum reserving levels to be recorded against the claims and size of the overall loss.

Insurers can start this process as the flood starts, using satellite data showing the impacted area in time-stamped snapshots of the flood's progression. As the event develops, estimates can become much more robust by incorporating water depth, which gives an even clearer picture of the direct portfolio impact and likely claims fallout.

Early access to the right data helps reduce the time to calculate and update expected loss figures while increasing the overall accuracy much earlier in the lifecycle. That helps reduce the overall cost of capital as well as the potential P&L impact by limiting the risk of over-reserving and tying up capital.

How critical is the ability to demonstrate the integrity of your data early on?
It is becoming increasingly important. It shows to the insurer's key stakeholders that they are in control of the loss and will be able to reserve claims appropriately. Furthermore, the near real-time flood extent data can be used to make decisions to help mitigate the loss, improve event response and reduce the ultimate claims costs.

It provides a level of reassurance to all parties to the loss, especially when you are not only producing financial impact figures earlier, but also figures that stand the test of time. The more robust the initial hazard and damage data, the more likely initial loss estimates will remain relatively stable post event. The solidity of those early-stage figures in turn demonstrates strong overall control by the insurers and heightens stakeholder confidence. ■

Rupert Bidwell is ICEYE's vice president, insurance solutions.

Class is cancelled

A hardening market usually heralds the arrival of new reinsurers, but this has not happened in 2023 and 2024. Two analysts from AM Best sat down with *Global Reinsurance* offer their theories why.

It is no secret that the insurance industry has experienced a hard market for reinsurance, a process that generally occurs following a major catastrophe, most notably in this millennium after the 9/11 terrorist attacks or the trifecta of extreme weather events that struck in 2005: Hurricanes Katrina, Wilma, and Rita.

But 2024 is different, as a recent special report from re/insurance market credit rating agency AM Best, "The 2023 Reinsurer Class – The Class That Never Was", makes out. The most recent hard reinsurance market is different from what came before.

The steep pricing rises experienced by cedants in 2023 followed an accumulation of property cat events have led to significant underwriting losses and resulted in earnings events for almost all reinsurers. The situation in 2023 was stoked by the persistent softening of the market between 2017 and 2021. So far, so familiar.

It was during this time, AM Best wrote, that historically low interest rates caused an abundance of capital for traditional reinsurers and insurance-linked securities. These low capital costs led to reinsurers pushing for new business, while also driving margins down to unsustainable levels.

In 2022, AM Best said, a mediocre underwriting year led to a re-evaluation of underwriting positions, while interest rates climbed.

THE CLASS THAT NEVER WAS

Two of AM Best's analysts sat down with *GR* to talk about its report. At its forefront is the firm's observation that despite such a market usually producing a new class of reinsurers, the present market has been devoid of new entrants in the traditional manner.

"The last big class would have been in 2005," said Daniel Hofmeister, associate director, AM Best. "There were a few entrants coming through in the early 2010s, but these were hedge funds offering a solution for the market being so soft, and I don't think we view them as big players in the reinsurance market. They tend to be more niche strategies."

He went on: "If you go back to 2005-ish it was the Arch and Validus conglomeration of companies, which evolved into something more approaching specialty. When they were formed, they were trying to fill a gap in the reinsurance market.

"You have to go back to the early 2000s when you had RenaissanceRe and PartnerRe. Those were probably the last big, real property catastrophe formations that we've seen. RenRe has stuck mostly to that strategy, while PartnerRe is still there, but has diversified a bit more into other lines."

Hofmeister's colleague, Carlos Wong-Fupuy, senior director for global reinsurance ratings at AM Best, explained that back in the early 2000s, the sentiment in the market was markedly different, as the new companies formed were aiming to take advantage, almost solely, of property catastrophe rates, specialising in this area.

WHY TAKE ON LIQUIDITY RISK?

The situation is different in 2024, Wong-Fupuy said. "Right now, it's not just that we are not seeing new company formation, but the business plans that are coming out are not particularly focused on property catastrophe. They're much more diversified as business models. That's what we're seeing with the current companies in the market."

Arguably, property catastrophe rates peaked last year to comparable highs with previous turns. So why the diversification; and why not continue in the same pure-play prop cat vein?

"There's a couple of reasons for this," said Hofmeister. "The big one that sticks out is that the only avenue

"[With ILS capital], you can get into a catastrophe bond and capitalise on these rates, and be out in several months, while getting all of your capital back."

DANIEL HOFMEISTER, ASSOCIATE DIRECTOR, AM BEST

used to be traditional reinsurance. But right now, there's insurance-linked securities (ILS) capital, so if you're an investor, you can choose to fund a start-up, over a three to five-year timeframe. There's a quick liquidation preference.

"You can get into a catastrophe bond and capitalise on these rates, and be out in several months, while getting all of your capital back. It makes sense from their perspective to question why you would take on that liquidity risk."

Another reason, said Hofmeister, is that the other lines of business are probably being driven by multiples. Even the outstanding property operators out there have seen their book value decline from historical highs, from perhaps four time, down to below half of that.

Hofmeister said there are better book values on display in the excess and surplus lines insurance sector, in comparison, which is faring much better from the viewpoint of multiples. "It's the same with the managing general agents. They're trading so much better and capital is so much more effectively managed from a private equity perspective. I think that if private equity is going to lock in their capital for a time period, they're going to go for something with a higher multiple."

He went on: "Investors don't really see franchise value in the property catastrophe market. The ILS market has been helpful for the reinsurance industry, it's led to much more stability in that sector, but I think it will restrict new capital from coming in, because where's the benefit to investors by dumping in new capital to a market that's probably not going to remain hard for five years.

"There's at least a few years of softening market, so it's hard to imagine capital coming in for property cat, specifically."

LEAVING THEIR CAPITAL AT HOME

AM Best's report makes clear that there is a lack of interest from venture capital in moving into this space. Private equity and other investors, it said, are not appearing to show any interest in supporting start-up non-life reinsurers.

It is a situation that Hofmeister acknowledged, saying that AM Best hears that there is passive capital out there – sovereign wealth and pension funds – but they would generally need a private equity type partner to also be present to manage the finances, and it is the latter that is opting to leave their capital at home.

"They are more focused on three or five-year liquidities. They don't want to partner so that their capital gets tied up. They're really the bottleneck in the whole chain," Hofmeister said.

While this looks stark for the future of the industry, he noted that ILS markets, too, are very capable of being burned by poor performance, as has happened in the past, while the ILS market's continued lack of penetration into casualty risks is also limiting its ambitions.

"We had a long period of time with very low interest rates and investors looking for diversification, and reinsurance looked attractive. Right now, rates are higher."

CARLOS WONG-FUPUY, SENIOR DIRECTOR, GLOBAL REINSURANCE RATINGS, AM BEST

CHANGING CLIMATE

Another and more long-term issue in the industry is that of climate change, which Wong-Fupuy said is changing the very nature of the industry, in terms of its effects on property cat business.

"It's not just about the cycle," Wong-Fupuy said. "There are a couple of long-term trends, one of which is our changing climate that's impacting the frequency and severity of natural catastrophe losses. That's something that goes beyond cycles.

"There's an ongoing reassessment of that and how it can be properly priced, underwritten, and brought into balance sheets. That's another reason we think companies are looking at this diversified business model."

The second point, he said, is the effect of interest rates on the reinsurance market. "We cannot look at the reinsurance market in isolation. Investors are looking at this compared to other alternatives. We had a long period of time with very low interest rates and investors looking for diversification, and reinsurance looked attractive.

"Right now, rates are much higher, and although 2023 was a stellar year, reinsurance is a segment that, for several years, has underperformed.

Investors are not impressed by a single year with a high return on equity. "Sure, reinsurers got 20% in 2023, but in 2022 it was almost zero." ■

Lloyd's: A new era

Andreas Loucaides, CEO of IGI UK, discusses distribution, how trading in Lloyd's is opening up new opportunities, and the evolution of the MGA market.

Lloyd's of London has undergone a transformation in recent years and its return to profitability is attracting new entrants, including IGI, which opened a box in Lime Street's iconic underwriting room in May this year.

ATTRACTING NEW PLAYERS

Lloyd's recorded its highest gross written premium (GWP) result in sixteen years in 2023, having written over £52bn in GWP. The results demonstrated a steady underlying underwriting performance, which has enhanced Lloyd's standing with credit rating agencies.

With this recent track record, it's no wonder there has been increased interest in Lloyd's from the insurance and investment sectors over the past two years.

Lloyd's has also been working hard to become a market-leading, profitable underwriting platform. The institution has rolled out several initiatives, including attracting big underwriting franchises as well as smaller entrepreneurial companies, hosting captives, opening its doors to new investors, and encouraging innovation.

As a result, prominent companies like Aviva, Fidelis, and Blackstone are among the recent newcomers. IGI saw the opportunity to access a new distribution channel and discover new business opportunities in carefully selected regions and markets.

FRESH THINKING

Lloyd's has brushed off its image as being overly bureaucratic and has grown more flexible in recent years, coming up with fresh concepts to attract smaller syndicates that will hopefully grow into larger organisations.

Being associated with a globally respected 330-year-old, "A+" rated organisation like Lloyd's has many advantages, such as giving access to special business that comes with being housed in the Lloyd's building and providing a marketplace for in-person negotiations. It also presents an opportunity for brokers to interact directly with our underwriters.

While IGI has not formed a syndicate, we may look at it again in the future if market conditions are favourable.

MGA EVOLUTION

The managing general agent (MGA) market has grown rapidly in the past five to 10 years, and several of them are now bigger than typical insurers. Companies in the re/insurance space are increasingly considering creating their own MGAs, supported by both internal and external capital, that function independently.

MGAs can be an important and valuable link in the insurance distribution value chain, positioned between other intermediaries, such as retail or wholesale brokers and insurance companies. Certain distribution models have minimal central costs because they are expressly designed to write MGA business; these expenses are covered by an extra override to the MGA.

While MGAs were once only seen as a way to gain wider and better distribution, today they are more prized for their access to capacity and expertise.

As more insurance companies become aware of the advantages that MGAs offer – including specialised knowledge, lower risk, broader geographic coverage, and the speed and innovation that come from adopting cutting-edge technology and having an entrepreneurial mindset – the number of MGAs will only rise.

It is not surprising that the market has embraced and welcomed the MGA model, as it gives brokers and consumers more options and enables insurers to tap into specialist segments of the industry.

Consequently, MGAs are becoming advocates of the wider underwriting industry and many companies in the market – including IGI – are prepared to assist skilled MGAs with robust underwriting expertise and a deep understanding of the markets in which they operate. ■

Andreas Loucaides is CEO of IGI UK.

"Lloyd's has brushed off its image as being overly bureaucratic and has grown more flexible in recent years, coming up with fresh concepts to attract smaller syndicates."

ANDREAS LOUCAIDES, CEO, IGI UK

POST-EVENT REPORT

HOSTED AND ORGANISED BY:

DUBAI WORLD INSURANCE CONGRESS 2024

FROM UNCERTAINTY TO OPPORTUNITY

An event report on 2024's record-breaking Dubai World Insurance Congress

Word from the CEO

DIFC is continually fine-tuning its capabilities to cater to this evolving risk landscape, and DWIC is the perfect forum in which to learn and develop.

> "By co-hosting globally renowned events such as the DWIC, DIFC… offers opportunities for continuous engagement, market access, transparent communication and talent development."

Around the globe, the relevance of the insurance industry as a mechanism for risk transfer is heightened due to external circumstances, such as weather, cyber attacks, conflict and supply chain disruptions, among others.

Specialisation, revamped business models, tech innovation such as AI and customer-centric products are all empowering the insurance value chain to expand into novel frontiers.

With low insurance penetration compared to other global markets, the MEASA region is relatively nascent, bolstered by favourable demographics and increased technological adoption.

The insurance sector has long recognised the need to build extensive knowledge capabilities, ensuring local markets adhere to the latest international standards, thereby optimising client servicing. Most importantly, these capabilities build trust; a hallmark of the insurance value proposition.

DIFC has strengthened its capabilities, servicing people and businesses for the past 20 years. With the highest GWPs recorded in its 20-year history, at close to US$2.6bn, DIFC is continually fine-tuning its competencies to cater to an evolving risk landscape.

Its re/insurance industry has been further bolstered by its rate of cultural innovation, access to new markets through geographical connectivity, time zone advantages, and new distribution techniques.

WELCOMING THE MGA

The rise in the number of MGAs in the Centre is a big trend. Due to their robustness, resilience and flexibility, MGAs can cater to specific needs and penetrate markets in a more efficient, cost-effective way. This makes them attractive to more underserved countries and reinsurers looking to build a localised portfolio without incurring significant investment costs.

Reinsurers have increasingly participated in creating MGAs in the last five years, as they offer a vehicle to specialise in specific lines of business. This makes them a win-win for all partners in the value chain.

The growing number of MGAs also strengthens DIFC's position as an insurance hub. According to our latest data, established international, regional and start-up MGAs in the Centre now account for 43% of the sector, contributing considerably to DIFC's premium growth.

Insurance brokers also play a pertinent role in the insurance value chain by understanding the needs of their clients and connecting them with suitable coverage options. They can provide comprehensive insurance and risk management solutions, tailored to the needs of their clients.

SERVING THE INDUSTRY

DIFC is today home to a wide range of world-class insurance brokers, five of whom are among the top ranked entities by AM Best. The Centre has also bolstered its brokered premiums by 61% year-on-year in 2023, crossing the US$2bn threshold.

By co-hosting globally renowned events such as the DWIC, DIFC stimulates innovation and thought leadership within the industry, offering opportunities for continuous engagement, market access, transparent communication and talent development.

This world-class regulated insurance and reinsurance market is valued for the trustworthiness and peace of mind it offers through diverse product offering and client-centric services. Being part of DIFC's ecosystem augments these hallmarks, building character and depth in the ever-evolving re/insurance sector. ■

Arif Amiri is chief executive officer of DIFC Authority.

A record-breaking year for the DIFC

An opening keynote from the DIFC's Alya Al Zarouni celebrated the impressive growth within Dubai's hub for international re/insurance business, and reflected the the excitement felt in the industry to embrace its future.

The year 2023 was a record breaker for the Dubai International Financial Centre Authority (DIFC), with the highest premiums in its 20-year history.

The DIFC saw gross written premiums rocket by 26% last year, ultimately reaching almost $2.6bn.

Over the same time period, premium brokered in the DIFC crossed $2bn, up 61% from the year before, and there was 20% growth in the number of registered insurance and reinsurance firms.

LARGEST CONGRESS YET

Opening DWIC 2024, the DIFC Authority's chief operating officer, Alya Al Zarouni, said: "The DIFC has driven the insurance and reinsurance industry, attracting global talent and technical expertise to access key markets in the Middle East, Asia and Africa.

"The DIFC today is home to over 120 registered insurers, reinsurers, captives, MGAs and insurance-related firm."

Since 2017, the DIFC has partnered with *Global Reinsurance* to grow DWIC into one of the pre-eminent events for the industry. Momentum is growing year on year, and this year's Congress is the largest in its history.

> **"With over 1,300 key delegates from 73 countries gathering here, the DIFC is excited to accelerate growth around the many areas that will, in one way or another, reshape the future of the industry."**
>
> **ALYA AL ZAROUNI**, CHIEF OPERATING OFFICER, DIFC

WHAT WILL MAKE US STRONGER

Al Zarouni underlined that key themes chosen for this year's DWIC conference are vitally important topics for the industry. These included capacity building, embracing innovation, nurturing AI, navigating volatile risk and developing talent.

She said: "With over 1,300 key delegates from 73 countries gathering in this venue, the DIFC is excited to accelerate growth around these areas, all of which will, in one way or another, reshape the future of the industry." ■

Insurers must offer stability in an uncertain world

Insurance is more important than ever to help businesses manage escalating risks, QBE's Andrew Horton told DWIC 2024. But to do this well, insurance companies must prioritise one of their key strengths: consistency.

Insurance and reinsurance are increasingly central to economic prosperity and growth, QBE group chief executive officer Andrew Horton told delegates of DWIC 2024. In his international keynote, Horton argued that insurance is more critical to successful risk management than ever before.

"The global landscape is incredibly challenging. As we are seeing increasing levels of uncertainty, emerging risks and very volatile markets, there is a clear and growing need for insurance as a safeguard against unforeseen events.

"With climate change, geopolitical instability and technological disruptions, individuals and businesses face a myriad of risks that they have never faced before, and that necessitates insurance protection."

Horton added that insurance provides stability and reliability amid great uncertainty, because it not only offers financial security, but promotes confidence and enables economic growth by mitigating risks.

"Insurance is not merely a transaction. I am a great believer that it is a force for good, offering peace of mind and protection in times of trouble."

> **"I am a great believer that insurance is a force for good, offering peace of mind and protection in times of trouble."**
>
> **ANDREW HORTON**, GROUP CHIEF EXECUTIVE OFFICER, QBE

LET'S FOCUS ON CONSISTENCY

However, he also argued that in a world of increasing volatility, insurers must be more consistent if they are to help businesses manage their interconnected risks.

He explained: "While the world around us is increasingly uncertain, I've long held the belief that in response, insurance needs to be consistent… It is something I find very frustrating with the insurance world that we're not as consistent as we should be."

Horton said that this means thinking carefully about approach, pricing, appetite, and claims adding that buying an insurance product should be a consistent process.

He said: "What we're trying to do is get consistency across our appetite on in certain lines of business, working with our clients through the cycle and remaining consistent in our lines of business and geographies.

"Pricing is always challenging. Prices go up and down and are very volatile within the insurance industry. We also need to be consistent in how we treat claims; something that can be challenging, especially through major events."

CULTURE IS KING

The other area Horton felt insurers must prioritise is internal culture. That means creating a culture where it's safe to speak up, and being open and transparent from an engagement perspective and for strong governance.

Horton concluded: "Consistently investing in talent and capabilities is a non-negotiable and not only helps us attract talent, it enables us to retain it in a rapidly changing environment. We need to invest in training and development programs to equip our teams with the skills needed to navigate complex risks and emerging trends.

"Get the foundational elements of a positive culture right for all people and you will ultimately have happy clients, brokers and other stakeholders. And this should mean a consistent financial return, ultimately, for our shareholders." ■

Climate risk must be high on our agenda

Our industry has a history-making opportunity to play a central role in the green transition, Lloyd's deputy chair Vicky Carter told DWIC delegates in her keynote speech. But collaboration and innovation will be essential.

Delivering her keynote address on day one of the DWIC, Vicky Carter, deputy chair of Lloyd's, examined how the industry could move from uncertainty to opportunity when it comes to the green transition.

"Due to climate crisis, the risk landscape has been transformed over the last two decades," said Carter, who is also chairman, global capital solutions, international at reinsurance broker Guy Carpenter.

"And with 90% of the world's global economy committed to decarbonisation, the climate crisis is on everyone's agenda."

A SUPPORTING ROLE

She argued that insuring the climate transition could be one of the greatest opportunities for insurers and reinsurers today.

"We are on a trajectory to exceed the 1.5-degree threshold, as well as many other related tipping points, by the early 2030s," Carter said.

"So, insurance has a unique role to play in enabling, investing in and convening to support multiple industries as they take climate-positive action in the transition to a more resilient future."

> **"We need to innovate relentlessly, invest responsibly and insure inclusively."**
>
> **VICKY CARTER**, DEPUTY CHAIR, LLOYD'S

She said that so far offshore wind and solar have been leading the solutions, with each now having established insurance markets.

However, where she's seeing demand increasing is across technologies like carbon construction and storage, hydrogen, sustainable fuels, low-carbon construction and, more recently, a growing demand for carbon offset credits insurance.

She said: "One area of major opportunity in this respect is green energy… This is especially true in this region where significant investments into hydrogen are being made by the energy majors. An exceptional opportunity exists for our industry to support this expansion and facilitate the shift towards sustainability."

BOLD MOVES

To do this, Carter argued that the insurance industry must continue working with energy firms, financial services, and policyholders to understand, profile and sustainably price risks that support the development of insurance solutions for these critical technologies.

"Responding to the complex and uncertain global outlook requires bold cross-sector collaboration. Many of the risks we face are too big for any one sector to address alone. The insurance industry has already facilitated work in finance, industry, government, regulation and academia.

"We need to innovate relentlessly, invest responsibly and insure inclusively. If we keep collaborating and adapting at the scale and speed seen in the industry so far, we can shape a future that is more sustainable, resilient and inclusive." ■

Focus on risk management and mitigation

The world is in a state of chaos, characterised by interconnected risks and high turbulence. But for Chris Mackinnon of Lloyd's, this creates significant opportunities for an industry that majors in volatility.

Speaking on the main plenary debate at DWIC 2024, Chris Mackinnon, deputy regional director, Asia Pacific, Middle East and Africa at Lloyd's, said: "The way we're describing it at Lloyd's is really as being a manageable plateau of chaos.

"We understand chaos, and in fact, we as an industry major in volatility. So it's an opportunity for us to manage some of the chaos that is going on in the world."

He argued that while there is a lot of investment coming in and opportunity for investors to come into the market, there needs to be better recognition that insurance is not just an annual benefit, it is a long-term, ongoing investment in that capital.

"When we look at 2023, it was a phenomenal year. Lloyd's posted its best results ever in 2023. But it was one year," he explained.

"And to be frank, we were lucky because the wind didn't blow in 2023. Had it blown, it would have been a different story. But if we then average the return on the capital over the last six years, even including the great results from 2023, it was 3.6% return on capital.

"It's not good enough. It's not good enough to accommodate the volatility and the uncertainty that we have in the world at the moment," he added.

WORK ON RISK RESILIENCE

To counter this, he said that insurers must really work on not just looking at traditional risk transfer and instead focus on helping organisations to build resilience and manage risk.

He said: "We have to look much deeper than that. This is about building long-term partnerships with investment and mitigation, building resilience, working in partnership with governments and the private enterprise to be able to create a sustainable platform going forward.

"We don't have enough risk-bearing capacity in the market to deal with the risks that we know we have, and those risks are changing as well."

He gave the example of the shift between tangible and intangible risks as one key area where the market has changed significantly, sharing that 10 years ago in Lloyd's, 29% of the portfolio written was long tail classes, but this has grown to`40%.

Mackinnon concluded: "There is a massive shift away from tangible assets. And intangible assets are now the primary area on the balance sheet that we're being asked to fix. This is long tail liabilities, so we can't look in isolation with a single year of great results and power sales on the back of that.

"We've got to continue to work and grow the market sustainability over a long period." ■

"Lloyd's posted its best results ever in 2023. But it was one year. And to be frank, we were lucky because the wind didn't blow in 2023. Had it blown, it would have been a different story."

CHRIS MACKINNON, DEPUTY REGIONAL DIRECTOR, ASIA PACIFIC, MIDDLE EAST AND AFRICA, LLOYD'S

MGAs: catalysts for change

DWIC's day one roundtable discussed how MGAs are reshaping the traditional distribution model and driving efficiency in underwriting and product development.

The roundtable on managing general agents (MGAs) was hosted by Gracita Aoa De Gracia, assistant vice-president, insurance and reinsurance, at DIFC.

Panellists emphasised the MGA model as a source of innovation and a disruptor to the traditional insurance market. They provide efficient distribution channels, expertise in their areas of focus, and tailored solutions to meet evolving customer needs.

MGAs are leveraging data analytics, technology and market insights in myriad ways, to develop innovative insurance products and streamline underwriting processes. So long as they continue to do this, speakers underlined, they will continue to receive broker business and underwriting capacity.

But there are regulatory challenges, panellists agreed. Some supervisors remain wary of MGAs, with licensing requirements, governance and compliance issues remaining barriers in some Middle East territories. There is also still suspicion surrounding MGAs based on the potential for short-termism. Panellists emphasised that while some MGA backers may have short-to-medium-term horizons, many more offer enduring relationships with clients.

Other speakers pointed out that by continuing to invest in technology, MGAs can continue to provide a competitive edge versus traditional rivals for their customers and their backers. They may be able to turn their use of technology for data-driven underwriting to also gain a competitive edge in issues such as data privacy, governance and compliance.

WHAT'S THE TEN-YEAR PLAN?

Panellists agreed that for some, "the natural evolution" will be to morph into traditional insurance companies in the next decade. This may come through long-term investment or acquisition, and one speaker said that some MGAs may decide to start captive insurance vehicles, which can develop in time into their own risk carrying insurance business.

Two further trends were put forward: a move towards more regional MGAs, as a softening market will mean "underwriters want to get closer to their clients"; and investment in technology, data and AI. Such moves are likely to secure more long-term capacity.

CONCLUDING REMARKS

The roundtable participants were asked to offer a closing thought on the future of MGAs in the industry.

Wael Mohsen of Optio Re stated: "To encourage MGAs in the re/insurance market, we need more support from regulators, regarding licensing requirements and establishing operations, to develop better opportunities for growth in the re/insurance sector."

Denis Tur, Alif MGA's chief property and engineering underwriter, explained that he was fully committed to the model: "I'm optimistic about the future of MGAs as drivers for the Middle East's insurance market. I changed my own 20-year career in a reinsurance company to work for an MGA."

GR Risk Partners' senior executive officer Rahul Misra commented: "We see MGAs as an engine for evolution, because we continue to identify new risks coming up from existing product lines, and MGAs are the first ones to look at them."

Nick Charteris-Black, managing director, market development, EMEA, AM Best, said: "We maintain a positive outlook on the global MGA segment. Positives include sustained growth and performance, the ability to serve under-served and emerging risks, and technology and talent continuing to drive innovation.

"Negatives include tight capacity for certain risks, some uncertainty in the fronting market, and ongoing, evolving economic challenges."

Gallagher Dubai's senior executive officer Nadim Semaan closed with: "We're very happy with the growth of MGAs in the region, and we will support MGAs, provided they offer long-term solutions to our clients and a robust reinsurance capacity." ■

MGA ROUNDTABLE PARTICIPANTS

OWAIS ANSARI CEO, Life & Health, MENA, Munich Re

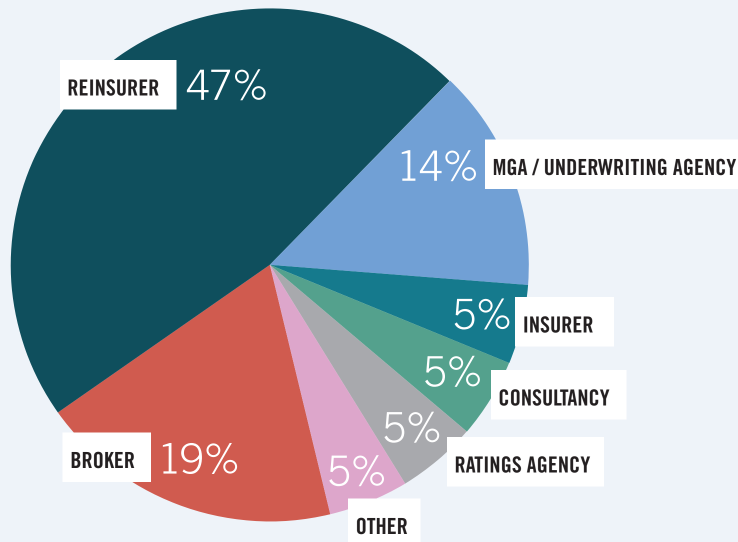
NICK CHARTERIS-BLACK, managing director, market development, EMEA, AM Best

RAHUL MISRA, senior executive officer, GR Risk Partners

WAEL MOHSEN, managing director of broking and general lines, Optio Re MENA

NADIM SEMAAN, senior executive officer, Gallagher

DENIS TUR, chief property and engineering underwriter, Alif MGA



A finely balanced market

Global Reinsurance's annual RVS Benchmarking Poll for 2024 provided some interesting insights into the market mood ahead of reinsurance CEOs, underwriters, brokers, and their cedants congregating in Monte Carlo.

This year's survey garnered responses from more than 100 re/insurance market participants of varying stripes, with the different perspectives likely playing some part in cancelling out each other's relative interests in talking the market one way or another.

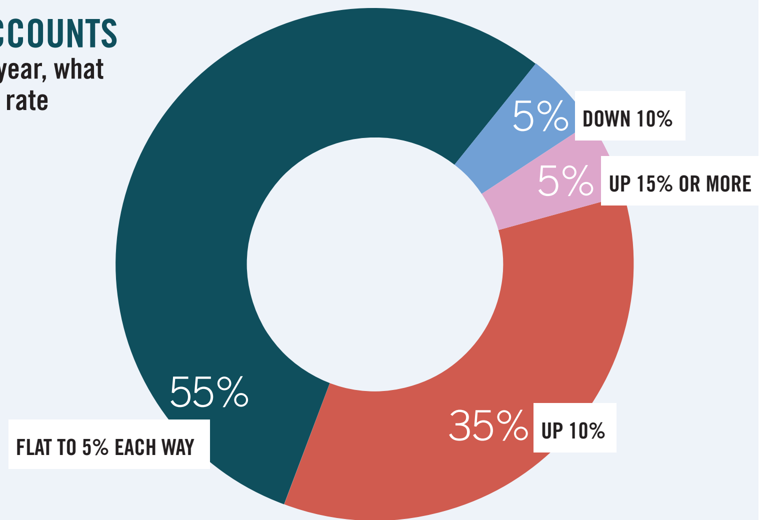
The results this year reflected the dramatic changes seen in the market over the past 18 months, returning to something more like equilibrium. The heavy price rises of 1/1 2023 are firmly in the rear-view mirror, it seems, and the market is beginning to contemplate gentle rate softening, while also showing robustness and discipline that left many respondents expecting pricing to be flat or within 5% each way this year.

US WIND XOL PROPERTY TREATY ACCOUNTS

If they haven't experienced claims in the past year, what do you think will be the YoY aggregate renewal rate movement at 1/1 2025?

A majority of survey respondents thought pricing for US wind excess-of-loss (XoL) property treaty accounts would be "flat to 5% each way" at 1/1 2025, on aggregate for loss-free business.

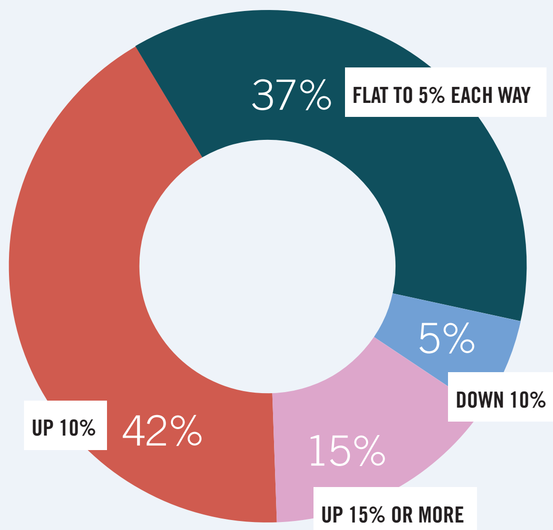
However, a minority of respondents – perhaps reinsurers! – though that pricing should be up by 10% on the same basis.



US CASUALTY / LIABILITY TREATY ACCOUNTS

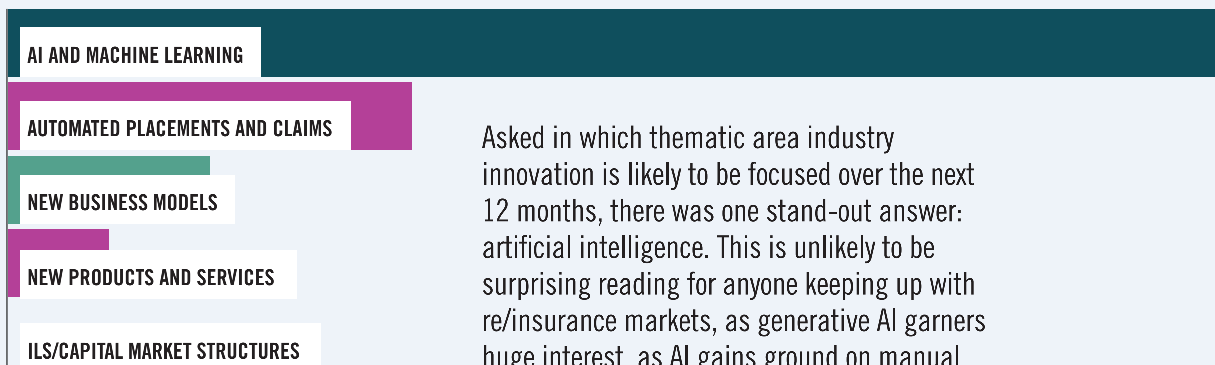
What do you think will be the YoY aggregate renewal rate movement at 1/1 2025?

For loss-free US casualty / liability treaty accounts, the most popular answer (42%) was for a 10% rise in rate at 1/1 renewal. Another 37% of respondents thought such business would be flat or 6% either way. Some 15% thought there would be double-digit rises of 15% or more.



FRESH IDEAS

Where do you most anticipate seeing industry innovation over the next 12 months?



Asked in which thematic area industry innovation is likely to be focused over the next 12 months, there was one stand-out answer: artificial intelligence. This is unlikely to be surprising reading for anyone keeping up with re/insurance markets, as generative AI garners huge interest, as AI gains ground on manual processes, from automating claims processes to facilitating data-led underwriting and portfolio management.

REINSURANCE HUB MUST-HAVES **Which of the following characteristics will be most important for reinsurance centres (e.g., Lloyd's and London/Bermuda/Dubai/Singapore) to succeed in the current environment?**

When asked to contemplate the issue of where to do business in the global reinsurance landscape, the characteristics of a successful reinsurance hub always make for interesting reading.

Ease of access to capital and funding was a runaway success as a factor for success, garnering most top spots in respondents' rankings, although it was followed by a significant number of replies giving the top ranking to the necessity for having a critical mass of major players and service providers as a worthy runner up. Again, those two things are rather complementary.

The second placed spot was more evenly distributed in respondents' rankings. Enjoying a conducive regulator giving the space to innovate was a popular second pick, as was the need to keep a lid on business overheads, and access to local markets and cedants – the most popular second-pick of the bunch.

EASE OF ACCESSING CAPITAL AND FINDING

CRITICAL MASS OF MAJOR PLAYERS / SERVICE PROVIDERS

ACCESS TO LOCAL MARKETS AND CEDANTS

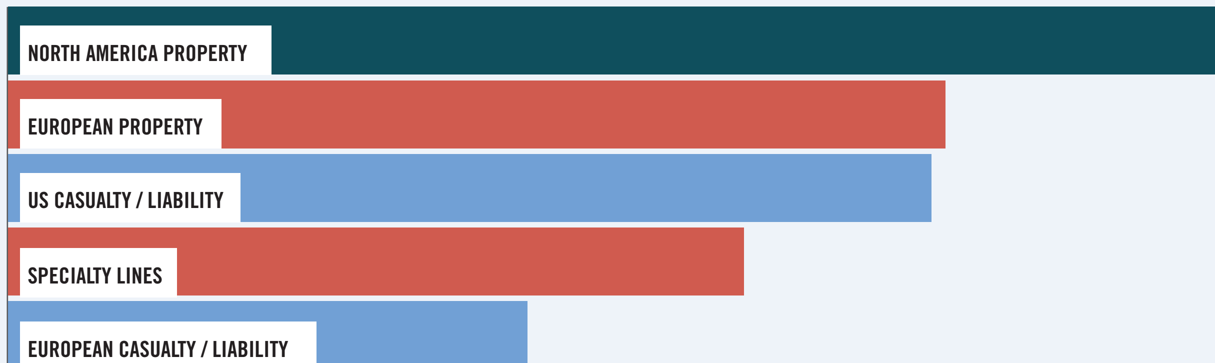
BUSINESS OVERHEADS

LATEST TECHNOLOGY PLATFORMS FOR PLACEMENT / CLAIMS PROCESSING, ETC

ABILITY TO TRANSACT THE BUSINESS FACE TO FACE

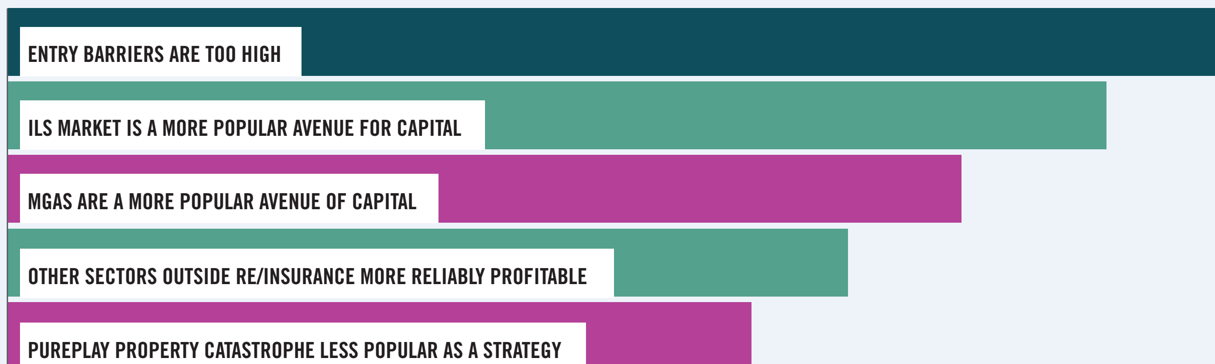
1
2
3
4

PRICING RISES Which classes of business will see the most change at 1/1?



When asked which classes of business will see the most change in pricing at 1/1, ranking the examples given from top to bottom, respondents were split relatively evenly. Narrowly ahead in the top ranking was North American property, followed by European property and US liability, followed by specialty lines, with European casualty business bringing up the rear.

NO NEWCOMERS Why haven't we seen a class of 2023/24 new reinsurers hit the market?



The survey also asked respondents why the sector hasn't witnessed a 'Class of 2023-2024' of new reinsurers being launched in the market (a theme also explored in the interview with two AM Best analysts on page 32).

The survey replies were relatively evenly distributed. High entry barriers for reinsurers came out on top, just ahead of the insurance-linked securities (ILS) market being seen as a more popular avenue for fresh capital – two answers which are by no means mutually exclusive, but together represent a compelling explanation.

However, the other options listed also garnered significant support. Similar to the ILS answer, MGAs were also characterised as a preferable way to deploy capital into the market, underwriting business for fees on behalf of capacity providers.

Less popular answers were the relative popularity of other sectors relative to reinsurance, something that has held the industry back previously, but perhaps there is some optimism following a year of roughly 20% returns on equity, halcyon days, for many reinsurers.

At the foot of the rankings was the suggestion that pure-play property catastrophe business is a thing of the past, based on the growth of attractive diversifiers such as specialty business. Perhaps property cat remains the shining light of the market, given its market-turning role and the high rates on offer.

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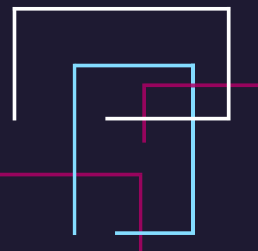

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