



# Looking ahead to 1.1: What to expect from retention, market and pricing trends

Guy Carpenter's Jeremy Waite sets out his expectations for the upcoming 1.1 renewals in Asia

**F**ollowing the most challenging January reinsurance renewals in almost two decades, we must look to what has happened during the remainder of the year to help inform views on the upcoming January 2024 placements.

In the first half of 2023, global property insurance pricing remained firm. Over the past few years excess capacity in the Asia Pacific (APAC) region has dropped from a peak of 140 percent to 115 percent in 2023, while remaining sufficient to meet client needs. However, an uptick in available capacity occurred at the 1 July renewals – back to 135 percent – as reinsurers sought to place their unused 1 January capacity. The renewals that followed during 2023 were more orderly than at 1 January, with both sides adapting to the new paradigm.

The Guy Carpenter Asia Pacific Property Catastrophe Rate on Line (ROL) Index, including mid-year adjustments, increased by 16 percent, less than the US equivalent increase of 35 percent. The Guy Carpenter Global Property Catastrophe ROL Index increased by 29.3 percent at July 2023 compared to 2022 renewals.

## Retention/total limits

At July renewals, reinsurance capacity was more constrained at the lower layers, while middle and upper layers were generally oversubscribed (although still under strict underwriting guidelines where terms and conditions were met). This situation led to a general rise in retention: more than 30 percent of APAC clients saw retention increases. Where increases occurred, they varied widely but were around 60 percent on average, reflecting reinsurers' avoidance of unexpected frequency perils.

Total limits purchased were relatively flat in APAC, as inflation is a lesser issue than in the US and Europe. There have also been some market pooling arrangement changes in Australia and New Zealand (both key drivers of APAC catastrophe limit purchased), such as the introduction of the Australian cyclone pool and increased earthquake benefits.

## Buying trends

Cedants have had more time to adapt to 2023 market adjustments, and this is playing out in several ways. Cedants are funding increased reinsurance

purchasing with their growing premiums or alternatively mitigating the amount of reinsurance required as a result of more intensive aggregate management. The greater retained risk across insurance businesses in 2023 may impact volatility in 2024, leading to an increased emphasis on strategic portfolio management and opportunities for more structured capital solutions.

Thorough preparation and thoughtful differentiation, rooted in data, will enable cedants to adjust their own approach and utilise a range of solutions to transform risk into profitable returns. A new cadence has emerged, and Guy Carpenter is equipped to thrive amidst this new normal of interconnected and perpetual risk.

“ **More than 30% of APAC clients saw retention increases at the July renewals** ”

## Looking ahead to January 2024

- Guy Carpenter expects the market to be stable at 1 January – after 12 months of material corrections, more stable conditions should carry forward, however, certain underperforming portfolios or regions could see adjustments. Reinsurers' willingness to deploy capital will also increase along with demand, although underwriting discipline will not subside.
- Pricing is expected to remain solid and adequate across the board. Of course, this may change if there was a major industry loss event between now and January 2024.
- Lower-layer capacity and aggregates are likely to remain highly constrained, while middle to upper layers (particularly on quality programs) are expected to be oversubscribed.
- Clients should expect some pressure on retention, as reinsurers will continue to raise attachment points to avoid non-peak and lower return-period perils.

## How Guy Carpenter can help

Guy Carpenter experts help clients anticipate and navigate an ever-changing marketplace. We work to understand our clients' broad financial landscape before making recommendations for specific solutions. We deliver unmatched insight into the global (re)insurance market to help clients achieve their capital, growth and volatility goals.



Jeremy Waite is Asia Pacific catastrophe advisory group lead at Guy Carpenter