

NON-MARINE TREATY PRELIMINARY JAPAN RENEWAL REVIEW

Guy Carpenter Japan Team

Prices, Terms and Conditions

After three consecutive years of increased pricing, Japanese insurers aimed to minimize any further reinsurer demands for rate hikes. Modest growth in aggregate exposures for most cedants meant that gentle increases in layer rate on lines were to be expected. There was a low-single-digit percentage increase in risk-adjusted pricing on average.

Quoting and Price Negotiation

Renewal timelines were similar to previous years with realistic pricing ranges leading to a generally orderly quotation process. A minority of reinsurers did provide quotes with significant increases despite the notable raises experienced recently.

Coverage – Sanctions and War

A minority of reinsurers had concerns that they wished to address, which were split into two main classes: war clauses and the territorial scope of treaties. Careful negotiation was needed to allay reinsurer concerns in these areas.

Capacity

Capacity was tighter compared to 2021. In particular, capacity lost was not easily replaced especially in the harder lines such as Aggregate XL, Per Risk XL or Engineering pro rata.

Japan Renewals: Typical Risk-Adjusted Price Movement Per Unit of Capacity

2022 Renewal	2022 <u>RISK WEIGHTED</u> Price Movement	Notes
Catastrophe Excess of Loss	Wind/AI Risks: +1% to +5% Earthquake: +1% to +4%	Reinsurers were generally realistic in quotation, and pricing was within expectations.
Earthquake Pro Rata	Flat	Reinsurers accepted commission increases in view of improved treaty metrics
Per Risk Excess of Loss	Loss-Free: +5% to +10%	Movements in losses drove pricing against a difficult market background.
Risk Pro Rata	No change	Capacity was generally stable.
Personal Accident	Flat	Concerns over COVID-19 have diminished.
General Liability	Flat	Silent cyber the dominant concern.
Cyber	Flat	Reinsurer education about ransomware has helped the Japanese market.

Source: Guy Carpenter

Property Catastrophe

Catastrophe Excess of Loss

Prices increased by 1% to 5% for programs covering windstorm. Therefore, the average price for typhoon risk remains at historic highs. Capacity was tighter, as reflected in reduced overplacement percentages.

Japanese Windstorm Excess of Loss: Capacity and Price

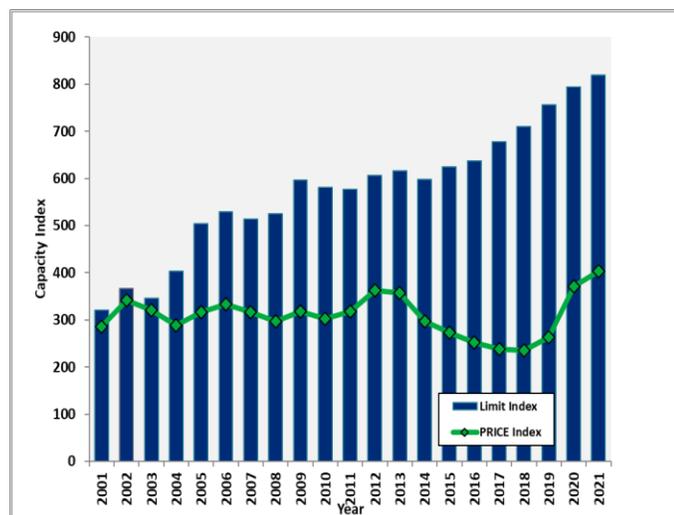


Chart shows total windstorm excess of loss price and capacity purchased, including via combined excess of losses.

Source: Guy Carpenter

The rapid growth in earthquake purchase that has marked the past 20 years, and especially the period after the 2011 Tohoku earthquake, has now levelled off, and the total capacity purchased in 2022 was stable. The majority of excess of loss cover was purchased by mutual companies, which saw some modest restructuring. This left total capacity stable or very slightly reduced. Non-life companies increased their purchase by a small margin, reflecting a combination of slightly higher exposures and small growth in the amount retained under proportional treaties. Pricing moved very modestly upward.

Aggregate Excess of Loss

A loss-free year eased the technical specific pressure on the aggregate and second-loss covers purchased by Japanese insurers. At the same time, this type of cover was under the most pressure in the general global reinsurance market, and as a result placements were tight, even though pricing increased.

Japanese Earthquake Excess of Loss Capacity and Price: Non-Life Companies and Mutuals

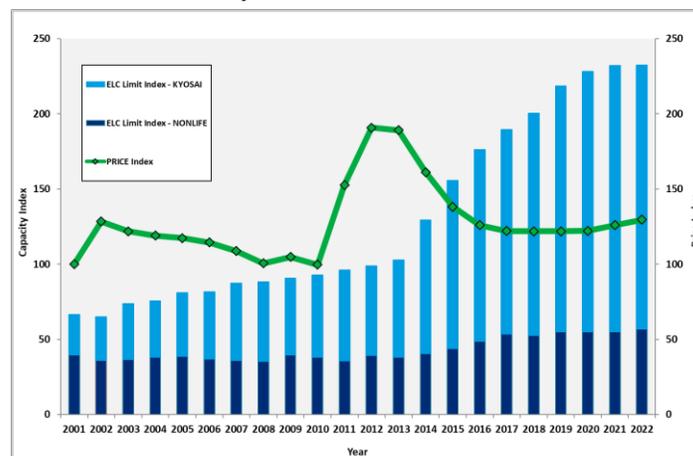


Chart shows total earthquake excess of loss price and capacity purchased, including via combined excess of losses.

Source: Guy Carpenter

Earthquake Pro Rata

A stable renewal in this class, which is popular with reinsurers. There were increases to commissions in several cases, with growth usually in the order of 1.5% to 2.0%. Buyer sentiment was that these were a resumption of planned increases that had been deferred since the 2018 typhoon season. At the same time, improved profitability metrics in treaties meant that reinsurers were generally accepting of these changes.

Catastrophe Bonds

Catastrophe bonds are used to a certain extent by Japanese buyers to diversify their sources of capacity. Several new cat bonds were issued to cover Japanese windstorm, and separately, earthquake risk. All the new issuances were by existing sponsors looking to replace expiring bonds or create additional capacity. Rates for cat bonds are similar to those in the traditional market, and total limit supplied by this form of capacity remains small as a percentage of the overall limits purchased.

Catastrophe Covers Outside Japan

A number of overseas cat covers are purchased by Japanese companies. In the past, the tradition had been for Japanese buyers to purchase separate protections for their domestic cat and overseas cat exposures. However, there are now a number of covers that protect both global and Japanese domestic cat exposures on a combined basis. The total amount of cover purchased in 2022 stabilized, with buyers choosing to take large co-participations where necessary to manage market pricing pressure.

Property Per Risk

Fire Pro Rata

After difficult catastrophe loss years, the market returned to modest profitability in 2022. This was an improvement on the negative position that had initially been predicted at this point last year when the Asahi Kasei loss was looking like it would break all records for size. The 2021 year is currently shaping up to be profitable. Capacity and treaty terms were stable.

Fire Excess of Loss

The global per risk XL market has become increasingly firm following a run of generally poor results for the class as a whole. As a result, even loss-free treaties experienced upward pricing pressure from reinsurers. Some treaties have been affected by some of the larger fire losses of the past couple of years. Loss-affected treaties saw price increases, each according to its own results.

Casualty

Personal Accident

The 2022 Personal Accident XL renewal season was relatively uneventful compared to those of the previous two years. COVID-19 losses have been small compared to reinsurance retentions. Reinsurance premiums were increased slightly against a background of growing underlying aggregate exposures and original premium income.

Liability

Silent cyber was the dominant coverage concern. Sanctions and Ukraine concerns needed to be addressed to the satisfaction of both sides. Rating was flat or slightly increased.

Engineering

A tight renewal. Capacity remains very tight, and it was difficult to replace any reinsurer that would not agree to 2022 terms. Some commission decreases following poor results.

Cyber

Additional reinsurer capacity led to an uneventful renewal of proportional facilities.

Credit and Bond

These classes remain popular with reinsurers and ample capacity was available. A smooth renewal.

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