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News release

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Challenging Jan 1 renewals reflect a market seeking new equilibrium

New York, December 30, 2022 – January 1 renewals are proving to be one of the most challenging reinsurance markets the sector has experienced, as reinsurers and cedents work to establish a new market equilibrium, according to Guy Carpenter, a leading global risk and reinsurance specialist and a business of Marsh McLennan (NYSE: MMC).

In a renewal season that was extremely late, ultimately, placements were largely completed at client issued structures and pricing, without many of the requested modifications in coverage. Reinsurers presented fractured views at the outset, with more extreme coverage modifications threatening to erode the core value of the reinsurance product.

However, progress has been made finding paths to completion and many non-concurrent coverage issues have been resolved. There is still work to complete; this is not yet a settled market.

“Looking past the renewal of January 2023, it’s important to remember that we have been at crossroads before,” said Dean Klisura, President and CEO, Guy Carpenter. “In prior reinsurance cycles, significant catastrophe loss events such as Hurricane Andrew, the attacks of September 11, 2001, and Hurricanes Katrina, Rita and Wilma were the catalysts for market corrections that preceded new capital entering the sector. It is imperative that the industry stay focused on providing workable client solutions, thorough coverage and balanced pricing for the long-term sustainability of cedents and markets. Our top priority is ensuring that clients are getting the coverage and clarity they require in order to conduct their business.”

Key developments during the January 1 renewals include:

- Property was the most challenged sector. Market adjustments focused on three distinct areas: pricing, attachment and coverage. Consistency in coverage and achieving concurrent terms are priorities for cedents. Ultimately, coverage changes that presented the most extreme erosion of value were not widely taken up and market-wide adjustments were largely limited to terror and strike, riot and civil commotion (SRCC) clauses.

- The imbalance of supply and demand in property catastrophe drove a stressed market and, in some cases, led to pricing and structural changes unsupported by technical considerations. While conditions warrant a market correction, not all outcomes were logical or sustainable. Average price adjustments and increased attachment point movements were substantial across the portfolio, worldwide.

- Some reinsurers reduced or withdrew their property capacity in 2022, but others are now viewing this market inflection point as an opportunity to increase their participation and future outcomes should stabilize as capacity deficiencies moderate.

- The expected inflation-driven increase in demand did not materialize as buyers reassessed the cost/benefit of additional limit purchases, which resulted in only negligible increases.
- Underwriting requirements in other classes of business (outside property) were widely varied. Specific to casualty lines, treaty results were highly dependent on prior-year results, underlying rate changes, and overall portfolio performance, with pressure on pricing seen across most lines. Overall, once market-clearing pricing was determined, capacity was stable across most casualty lines with very little change in terms/conditions.
- There was limited new capital inflow through the fall as investors held back amid continued catastrophe loss, increasing risk-free rates, their own moderating AUM and a desire to assess the market transition at January 1. However, capital did start to move more freely into the sector in December as the degree of market correction became clearer.

Commenting on how Guy Carpenter is helping clients address the challenges of this renewal period, David Priebe, Chairman, Guy Carpenter, said: “As reinsurers adjusted their approach, Guy Carpenter worked closely with our clients to prepare for more detailed, technical discussions and to strategize on multiple solutions in a shifting environment, finding pathways to achieve viable renewal outcomes. We all recognize a healthy, dynamic and responsive reinsurance market is crucial to the global economy and our collective success.”

Other significant market developments noted by Guy Carpenter include:

- Dedicated reinsurance capital contracted in 2022. Guy Carpenter and AM Best’s projection of traditional dedicated reinsurance capital was $435 billion at mid-year 2022, an 8% decrease from year-end 2021. Since then, the rise in interest rates and continued risk of recession has caused asset values to deteriorate further, creating additional downward pressure on capital levels.
- In 2022, 42 different catastrophe bonds were brought to the 144A market for more than $9 billion in limit placed, taking the total outstanding notional amount to $34 billion, an all-time high. In view of constrained investor capacity, a majority of the bonds priced at or above the higher end of the price guidance and attracted less total limit. Investors also pushed back on complex books, secondary perils and more involved structures.
- The projected 2022 annual large loss total rose to $112 billion, driven by Hurricane Ian. European flood and hail events, Australian floods and US severe storms also contributed to 2022 loss experience. This does not include the impact of the most recent December events.

TAGS/KEYWORDS
Guy Carpenter, Marsh McLennan, Reinsurance, Renewals, Property, Casualty, Climate Change, 144A Catastrophe Bonds, Klisura, Priebe