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News release

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Materializing opportunities in a changing and challenging risk landscape

New York, September 07, 2022 – A highly complex risk environment caused by influences within and outside of the sector, coupled with the evolving dynamics of a hardening market, are generating significant volatility within the reinsurance sector, yet there is much to inspire confidence amongst (re)insurers. This is according to panelists at a recent virtual media briefing “Materializing Possibilities” hosted by Guy Carpenter, a leading global risk and reinsurance specialist and a business of Marsh McLennan (NYSE: MMC), addressing conditions across the property, casualty, retrocession, and specialty markets, as well as capital shifts, insurance-linked securities growth, and cyber risk evolution.

In his opening comments, Dean Klisura, President and CEO of Guy Carpenter, remarked: “2022 has been a very challenging year for our clients and we expect the renewal at January 1, 2023 to be equally challenging in key segments of the market.”

Describing the factors driving current market complexity, he touched on macro-economic conditions, rising core inflation, increased frequency and severity of global catastrophe losses, geopolitical conflicts, and constriction of property capacity in certain segments.

However, Mr. Klisura said: “Despite these challenges, demand for strategic advice and solutions has never been greater for Guy Carpenter as our clients manage through this volatility.” He added: “We will continue to leverage our market-leading data and analytics platform to build tools for our clients to help them manage their portfolios and these associated volatilities.”

Providing further assessment of market conditions, David Priebe, Chairman of Guy Carpenter, addressed the impact of several macro-economic challenges, including inflation, historically low consumer confidence, and the slowdown in GDP. However, against these headwinds, he stated that the market had now been in a “firming cycle for 19 consecutive quarters,” which put the sector on a “stronger footing” to deal with emerging challenges.

“Rolling rate increases on insurance coverages have improved earnings,” he said. “Risk profiles have been re-shaped through disciplined pricing and underwriting. Loss trends and loss picks are frequently being re-evaluated, as the environment remains uncertain and ever changing. Insurers and reinsurers alike are being strategic about business they are taking on and are carefully evaluating the corresponding risk before assuming it.”

Against this backdrop, Mr. Priebe added: “Demand for reinsurance is expected to remain strong as risk awareness and desire for downside protection is pervasive across the industry in this uncertain environment. Overall, this is one of the most challenging and complex markets seen in years and January 1 will likely follow the wide range of renewal outcomes achieved at mid-year.”

Commenting on the substantial movement within the property sector, Lara Mowery, Global Head of Distribution at Guy Carpenter, described a transitioning market compared to 2021. Ms. Mowery said: “The US Property Catastrophe Rate-on-Line Index increased nearly 15% year on year, while the Asia Pacific Rate-on-Line Index increased 9.5%. These shifts through mid-year in key geographies had a material impact on the global property catastrophe Rate-on-Line index, which grew to an estimated increase of 15%, from the January 1 figure of approximately 11%.”

Looking ahead to January 1 renewals, Ms. Mowery commented that both “inflation and the drivers of evolving loss expectations” will be at the forefront of all negotiations. As a result, risk tolerances will continue to shift, and demand is expected to increase. She added: “While in the past we may have seen the industry flex to accommodate 3% - 5% growth in a given year without any strain, the 2023 ask of property reinsurers will be multiples of that.”

Positively, Ms. Mowery shared that “there are a number of reinsurers planning for growth in their property portfolios” and that as measurable price and structure changes address existing sector concerns “now is the time to lean into the market.’

Carolyn Morley, Managing Director of Global Casualty at Guy Carpenter, commented that the casualty sector is also facing societal and market challenges, leading to more emphasis on individual account dynamics. “Reinsurers are increasingly concerned with external economic and political factors and the resulting heightened volatility applying to both short- and long-tail lines.”

Addressing these factors going forward, Ms. Morley said: “Heading into January 1, we expect strategic trading relationships to continue to carry significant weight as the interest rate environment, Russia-Ukraine conflict and inflationary recession concerns remain at the forefront of renewal discussions.” She added: “Overall, casualty capacity is expected to remain adequate although some pricing pressure is anticipated depending on the line and capital requirements. Cedents who proactively highlight their limits management, portfolio actions and policy changes will be strongly positioned for successful renewal outcomes.”

Assessing developments on the retrocession front, James Boyce, CEO of Global Specialties at Guy Carpenter, said that the hardening pressures in the property retro market prevalent at January 1 have continued through 2022, reflecting a sustained period of catastrophe losses since 2017, growing climate-related concerns, inflation and modelling challenges.

Looking ahead to the renewals, he said: “Retro capacity will remain somewhat limited for aggregate and low attaching per-occurrence layers, despite material de-risking in 2022. The generally positive performance of mid and upper-level retro occurrence layers will remain attractive to markets looking to deploy capacity. Buyers will look for a balance between spend and retention levels, supported by the improvement in terms and conditions of the underlying business.”

With regards to specialty classes, Mr. Boyce added: “Losses from the Russia-Ukraine conflict are complex and for some classes will take time to be fully understood and resolved. Capacity in specialty classes remains buoyant, but challenges will persist around available coverage so early engagement with markets will be important.”

Turning attention to developments in the capital markets, Shiv Kumar, President of GC Securities* at Guy Carpenter, described a resilient marketplace. Total dedicated reinsurance industry capital at year-end 2022 is estimated at approximately $530 billion by Guy Carpenter and A.M. Best, which is roughly 7% lower than year-end 2021 (about an 8% decrease in traditional capital and a 1% increase in alternative capital).

Commenting on developments in the property sector, he said: “With demand increasing, global capacity for property cat risk is challenged and alternative capital remains an important source of property cat capacity.”

In terms of growth in the catastrophe bond market, while the year started “with a bang” in terms of issuance, capacity became constrained in the second quarter. However, Mr. Kumar said: “The total amount of outstanding cat bonds has increased this year as new issuance has outpaced maturities. 33 unique transactions were completed during the first seven months with an average tranche size of $144 million. Cedent interest continues to broaden, and seven new sponsors utilized the cat bond market this year for the very first time. As traditional capacity remains constrained, we are seeing increased inquiries around the cat bond product and expect future issuance of both indemnity and index structures to be strong going forward."

Switching focus to the cyber market, Anthony Cordonnier, Managing Director and Global Co-Head of Cyber at Guy Carpenter, highlighted how the market had undergone a "momentous shift in recent years" with exponential premium growth, stating that: "Guy Carpenter has pegged the 2021 year-end cyber premium to be $10 billion globally, and it is expected that this figure will rise to as high as $20 billion by 2025."

To support this maturing market and ensure its sustainability, advances in cyber and risk analytics tools will be needed, Mr. Cordonnier said: "The sector can leverage predictive analytics to identify risk control efficiencies. This supports businesses to make more informed cyber security investment decisions, while also helping risk carriers to correlate cyber controls to portfolio performance."

Erica Davis, Managing Director and Global Co-Head of Cyber at Guy Carpenter added that the current market growth has created reinsurance capacity constraints, stating: "As the demand continues to increase in the direct market and there is a continued lack of new entrants into the reinsurance market, the squeeze on reinsurance capacity for cyber insurers will continue to be exacerbated."

When reflecting on overall market conditions, which are "complex and intertwined", Mr. Priebe said: "That just means we need a focused outlook based on thoughtful, collective, and data-driven strategies to employ and engage as we deliver solutions for the near-term while also keeping an eye on the longer-term horizon."

TAGS/KEYWORDS
Guy Carpenter, Marsh McLennan, Reinsurance, Renewals, Property, Casualty, Retrocession, Specialty, Capital Markets, Cat Bonds, Cyber, Dean Klisura, David Priebe, Lara Mowery, Carolyn Morley, James Boyce, Shiv Kumar, Anthony Cordonnier, Erica Davis

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