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News release

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Reinsurance market sees new cadence emerge

Guy Carpenter addresses key market drivers expected to influence placement discussions ahead of January 1, 2024 renewals

New York, September 6, 2023—The reinsurance market continues to demonstrate its resilience in response to ongoing and new global challenges, as reinsurers look to deploy more capital in 2024 in an environment of improved rate adequacy while demand for reinsurance increases. This is the view of a panel of business leaders who participated in a virtual media briefing, “A New Cadence” hosted by Guy Carpenter, a leading global risk and reinsurance specialist and a business of Marsh McLennan (NYSE: MMC), which addressed market conditions ahead of the January 1, 2024 reinsurance renewals.

In his opening comments, David Priebe, Chairman of Guy Carpenter, said: “Heading into January 2024 renewals, we believe demand for reinsurance will grow with reinsurers’ willingness to deploy capital also increasing—although underwriting discipline will not subside. Thorough preparation and thoughtful differentiation will enable cedents to adjust their own approach and leverage a range of solutions to transform risk into profitable returns.”

He continued: “Reinsurance industry veterans know this significant level of uncertainty is where our sector shines. Strategically transferring risk is our specialty and through innovation and collaboration we not only generate stability, but also opportunity.” He concluded his welcome by adding, “A new cadence has emerged, and we are equipped to thrive amidst this new normal of interconnected and perpetual risk.”

Capital Markets & Retrocession

Addressing how cedents have responded to these evolving market conditions, Lara Mowery, Global Head of Distribution, said: “Cedents have now had more time to begin adapting to 2023 market adjustments and this may play out in a number of ways at January 1, 2024 including cedents funding increased reinsurance purchasing with growing premiums or alternatively mitigating the amount of reinsurance required as a result of more intensive aggregate management.”

Ms. Mowery also provided the latest data on the reinsurance market’s capital positions, stating that currently Guy Carpenter and AM Best jointly estimate that the total dedicated reinsurance industry capital is USD 560 billion, an increase of 5.6% over 2022 adjusted levels and nearing 2021 totals.

Against this improving capital backdrop, she highlighted the strong performance of the catastrophe bond market. “The catastrophe bond market is experiencing a record first half of the year. By June 30, 41 different catastrophe bonds were brought to the 144A market for approximately USD 9.2 billion in limit placed, taking the total outstanding notional amount to over USD 37.8 billion.” In concluding her comments on the ILS market, Ms. Mowery said: “Moving forward, we expect this positive momentum to remain as reinsurers continue to manage volatility and investors increase activity in this alternative asset class.”

She later went on to discuss the retrocession market outlook leading into 2024 where: “There is increased certainty around supply to match demand, but reinsurers have remained clear in their intent to attach away from frequency perils and perceived attrition.”

Property, Casualty & Specialties

Focusing on developments across the property market, Dorothée Mélis-Moutafis, newly appointed North American Broking Executive and recently Interim CEO of Europe, provided the latest information on global rate developments, saying: “The US Property Catastrophe Rate on Line Index increased 35% year on year, while the Asia Pacific Rate on Line Index increased 16%, including mid-year adjustments. Incorporating these shifts in key geographies with other regions remaining largely stable from January 1, the Global Property Catastrophe Rate on Line Index increased to 29.3% for 2023, from the January 1 figure of 27.2%.”

She added: “Extensive and verifiable corrections over the past year are likely to equate to hard, but more manageable renewals for cedents at January 1 as reinsurer appetite is slowly growing in response to price adequacy and supportable structures.”

Turning to developments in the casualty market, Ms. Mélis-Moutafis said that Guy Carpenter expected capacity to be stable at the renewal, with a watchful eye on macroeconomic factors, social inflation, underlying rate moderation and prior year loss development.

She continued: “It is evident that those cedents who present a clear and proactive underwriting strategy and bespoke approach to limits management are those most able to mitigate reinsurance rating pressures and to secure reinsurance coverage as required. Reinsurers have a healthy appetite for the diversification of these longer tail lines as they hold or shift away from certain cat segments or geographies.”

Concluding with specialties, Ms. Mélis-Moutafis echoed other presenters’ comments on verifiable market corrections and added that: “Fears of a lack of capacity in the specialties space have proven unfounded as significant rate increases and repricing brought capacity into the market, though pinch points remain.”

Natural Catastrophe Risk

Discussing natural catastrophe risk and climate change, Josh Darr, Head of Global Peril Advisory, Global Model Solutions & Advisory, addressed the impact of global warming on key perils, saying: “While global warming has a direct influence on hazards such as extreme heat and heavy precipitation, the influence on perils that have driven losses this year, mainly US severe convective storm, wildfire and tropical cyclone induced flooding, is more nuanced.”

Highlighting the critical role that the (re)insurance industry must play, he stated: "As our industry progresses in meaningful quantification of climate impacts, the dialogue will need to shift to the most cost-effective methods to build further resiliency for communities subject to this range of natural disasters."

Cyber Risk

The focus of the panel discussion switched to the state of the cyber market. In his opening comments, Anthony Cordonnier, Global Co-Head of Cyber, said that the rate environment was settling after two years of significant market hardening and a compound rate rise of 182% since 2017.

Erica Davis, Global Co-Head of Cyber, added: "Although much of this rate stabilization can be attributed to the rather benign loss environment seen over the last couple of years following a period of increasing claims activity, it is evident that carriers are becoming more comfortable with cyber risk. Using traditional underwriting methods blended with increasing levels of technological intelligence and cyber-security risk management, policyholders are better able to mitigate ground-up risks, leading to carriers' more clearly defined and well-balanced risk tolerances."

As the cyber insurance market continues to grow, the ability to attract new capital into the sector will be critical, noted Mr. Cordonnier. He said: "While traditional reinsurance balance sheets have proven to be a reliable source of capital to support the growth of the cyber market, we see the potential for third-party capital to play a role as well."

"Although quota share and aggregate stop loss treaties dominate the cyber market at present, Guy Carpenter is working with cedents and markets to develop new cyber reinsurance structures, such as occurrence-based products, event XL, named perils covers and index-based products, all of which can provide crucial and tailored volatility and capital relief protection."

He added: "While much more mature in other classes, the cyber ILS market is comparatively in its infancy. Accordingly, it is vital to engage with these parties to induce more confidence in cyber risk."

Systemic Risks

In the final presentation of the briefing, Julian Enoizi, newly appointed CEO of Europe and current Global Head of Public Sector, explored systemic risks and the role of public-private partnerships to mitigate them.

Setting the global context, he said: "The social and economic costs of natural, man-made and health-related risks are growing and require innovative solutions. To deal with the breadth of these challenges requires partnership of the industry and governments in addressing hard-to-manage risks that threaten the prosperity and security of our societies."

Providing a unique example of how the public and private sectors can collaborate to address societal risk, he highlighted the work of Guy Carpenter and Oliver Wyman in advising the British and Ukrainian governments on how to attract approximately USD 1 trillion of investment to fund the reconstruction of Ukraine.

Mr. Enoizi added: "Guy Carpenter can design and implement solutions by offering an advisory-led broking model. Drawing on the expertise of our sister companies further enables delivery of holistic solutions and most effectively leverages the power of our analytics and advisory capabilities to design solutions aimed at addressing ever-changing, complex risks."

About Guy Carpenter

Guy Carpenter & Company, LLC is a leading global risk and reinsurance specialist with 3,400 professionals in over 60 offices around the world. Guy Carpenter delivers a powerful combination of broking expertise, trusted strategic advisory services and industry-leading analytics to help clients adapt to emerging opportunities and achieve profitable growth. Guy Carpenter is a business of Marsh McLennan (NYSE: MMC), the world's leading professional services firm in the areas of risk, strategy and people. The Company's more than 85,000 colleagues advise clients in 130 countries. With annual revenue of over $20 billion, Marsh McLennan helps clients navigate an increasingly dynamic and complex environment through four market-leading businesses including Marsh, Mercer and Oliver Wyman. For more information, visit www.guycarp.com and follow us on LinkedIn and Twitter.