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January 1, 2024 Reinsurance Renewals Reflect a Motivated Market with Increasing Capital

Reinsurers' capacity deployment picked up pace in the approach to January 1, while remaining focused on pricing adequacy and program structure

New York, December 28, 2023 – According to Guy Carpenter, a leading global risk and reinsurance specialist and a business of Marsh McLennan (NYSE: MMC), a responsive reinsurance market has materialized at January 1 renewals, reflecting ample capacity and a commercial approach to trading partnerships, albeit with continued underwriting rigor.

Reinsurance capacity increased through year end, driven by rebounding capital in the sector and healthy reinsurer returns, estimated to be near 20% for 2023. Guy Carpenter, in partnership with AM Best, estimates total dedicated reinsurance capital increased by 10% compared with year-end 2022. Differing from past years following a major market correction, capital growth was driven by existing reinsurers with no start-up class of 2023.

"The January 1 market reflected more balanced trading conditions providing cedents improved opportunities to achieve their objectives while maintaining key reinsurer relationships," said Dean Klisura, President and CEO, Guy Carpenter. "Technical discussions were essential to reinsurers' increasing appetite and capacity allocations."

Under these conditions, capacity generally ranged from adequate to ample for completion of programs across classes (where price and structure thresholds were met), including where additional demand materialized. The market increased contract-level consistency on both wording and structural variations, thereby reducing non-concurrencies from the previous cycle, a signal of all parties working toward balance in a complicated market.

These improvements led to a smoother January 1 renewal period compared with year-end 2022. However, there were still geographies and client segments that faced challenges reaching market-clearing pricing and structure. Outcomes were dependent on loss experience and technical, data-driven insights, reflective of reinsurers' focus on a more in-depth understanding of portfolio dynamics. While property renewals were the focus a year ago, casualty faced more scrutiny this year.

Key developments during the January 1 renewals include:

- A more consistent trading rhythm returned to the property market, with capacity deployment outside of frequency-exposed layers and more heavily loss-impacted segments showing meaningful bounce-back, including on new business where reinsurer activity increased measurably. Markets remain sensitive to pricing, attachment point and overall structure adequacy, but with terms and conditions that were borne out of the demonstrable corrections made throughout 2023.
  - Proactive discussions early in the renewal process on subjectivities such as strike, riot and civil commotion (SRCC), terror, and cyber led to material concurrency improvements among placements.
  - Global property catastrophe reinsurance risk-adjusted rate changes averaged from near-flat to single-digits up for non-loss impacted and 10%-30% up for loss-impacted programs, with a wide range of outcomes around these averages. Generally, pricing pressure was greatest at the lower ends of programs, with any risk-adjusted decreases near the upper portion of placements, reflecting the adequacy of minimum rates-on-line and sufficient capacity.
- Casualty saw pressure on pro rata ceding commissions as well as excess of loss pricing. While negotiations were nuanced and bespoke, capacity was ample once market clearing terms were met.
  - The key to driving renewal capacity was differentiating client portfolios and ensuring actuarial assumptions reflected go-forward portfolio strategies. Additionally, it was important to demonstrate continued discipline in limit deployment, risk selection and other underwriting measures, as these efforts needed to be accounted for in renewal pricing.
- 2023 is shaping up to be profitable for reinsurers, reflecting the degree of market correction and patterns of loss activity. Return on capital is exceeding reinsurers' cost of capital, as projected average returns are nearing 20%.
- Property retrocessional capacity was available and not constraining reinsurers' risk appetite, in sharp contrast to this time last year. Price improvement generally occurred in middle to upper layers, retention levels largely held steady despite growth in underlying portfolios, and terms were more consistent within contracts.

Other significant market developments noted by Guy Carpenter include:

- Dedicated reinsurance capital, calculated in partnership with AM Best, bounced back in 2023, aided by strong underwriting and investment earnings and the unwinding of the significant mark-to-market investment losses that hit the sector hard in 2022. Guy Carpenter and AM Best's 2023 estimate of traditional dedicated reinsurance capital is USD 461 billion, a 12% increase from the initial year-end 2022 level, while alternative capital is estimated to have increased 3.7% to USD 100 billion net. Overall, dedicated reinsurance capital increased 10% from the initial 2022 year-end estimate.
- The catastrophe bond market had a record year in 2023. Sixty-nine different bonds were brought to the 144A market, totaling more than USD 15.2 billion in limit placed (of which USD 415 million includes cyber limited placed), taking the total outstanding notional amount of P&C and cyber catastrophe bonds placed to an all-time high of more than USD 41.3 billion.

- The total insured industry large losses for 2023, an aggregation of events in excess of USD 100 million of insured loss, currently stands at USD 94 billion, including Hurricane Otis, the Turkey earthquake, New Zealand floods and cyclone, and US windstorms. This preliminary estimate is expected to increase, as we finish out the year and more information becomes available.

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