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News Release

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RATE MOVEMENTS MODERATED BY AVAILABILITY OF CAPACITY AS NEGOTIATIONS CENTER ON PRICING AND TERMS AT JANUARY 1, 2021 RENEWALS

A slower and more complicated quoting process, rigorous contract reviews, later than average signing process and significant pricing pressure for loss-impacted programs were dominant themes

New York, January 5, 2021 – Price increases at the January 1, 2021 reinsurance renewals were moderated compared to initial expectations by abundant capital levels and an increased willingness on the part of reinsurers to deploy capacity in several sectors, according to Guy Carpenter & Company, LLC, a leading global risk and reinsurance specialist and a business of Marsh & McLennan Companies (NYSE: MMC).

Hallmarks of the January 1, 2021 renewals included:

- An earlier start to the renewals
- Slower and more complicated quoting process
- Rigorous contract reviews
- Later than average signing process
- Significant pricing pressure for loss-impacted programs
- Pricing for loss-free programs generally in line with expectations
- Renewal experience varied depending upon underlying portfolio exposures and performance.

Commenting on the resilience of the reinsurance market, Peter Hearn, Chief Executive Officer of Guy Carpenter, said, “2020 has been a year like no other. It has seen our industry take the strain of unparalleled uncertainty in the loss environment and the broader economy, all while working under conditions throughout the year we have never experienced. Yet despite these pressures, the reinsurance sector has performed admirably throughout a lengthy renewal process.”

Dean Klisura, President of Guy Carpenter, added, “We are focused first and foremost on client needs and working with our reinsurer partners to achieve the best possible outcomes for clients. We truly believe that the unique challenges our market has endured have served to strengthen the bonds we have throughout this industry as we all respond to this extraordinary period.”

The quoting and firm order process was more complex than in recent years, particularly for stressed geographies and lines of business. In addition to rate and structure considerations, contract wording discussions were a significant component of negotiations. Communicable disease and cyber exclusions were two of the more prevalent topics. This wide range of views on contract language and structure options drove increased non-concurrencies as compared to typical recent renewal years.

However, the early distribution of submissions into the market enabled companies to manage the slower quoting phase effectively and Guy Carpenter worked with clients to evaluate a broader range of solutions in response to these conditions.

Property

Pricing generally settled at the lower end of expected increases outside of more constrained segments at January 1. Where placements were loss impacted, particularly in cases where retentions were perceived to be too low, reinsurers held firmer on pricing or structure adjustments.

Global property renewal themes included:

- Ample capacity was available from incumbents and new entrants to the property reinsurance market during the fourth quarter of 2020.
- Limit demand was generally stable with a few pockets of increases.
- On non-loss impacted programs, risk-adjusted pricing was up mid-single digits to low teens in the United States; while in EMEA and the Asia-Pacific region, risk-adjusted pricing increased by low single digits on average.
- Known global large losses in 2020 were higher than average, excluding COVID-19, driven by frequency of small and mid-sized events.
- Based on current market views, loss implications from COVID-19 were not as disruptive as feared earlier in the year.

Property retrocession renewals were watched closely at January 1 as some observers expected hardening market impacts to be significant. However, rate movements on non-loss-impacted programs were not as robust as many anticipated and continued to moderate closer to January 1. Additional capacity in the retrocession market, lower limits bought by some global companies and increased activity in the catastrophe bond market all helped to moderate some of the upward pressures in this section of the market.

Communicable disease exclusion wording was a key discussion area on every property renewal worldwide. Due to the potential global nature of this type of loss and the possible broader financial market correlation, capital providers and investors stipulated exclusions in most cases. Since mid-year 2020, as this issue was crystalizing, there has been a substantial amount of focus across the industry on the best approach to satisfy the need for an exclusion, while not eroding critical protection for covered perils. Guy Carpenter has worked diligently with capital providers during the past few months to introduce wordings that address client concerns and bring the industry closer to a consistent approach.

Casualty

Casualty renewals varied widely, depending on individual circumstances including loss experience, covered lines and industry classes written. Every placement experienced some degree of continued reinsurance underwriting rigor around stress factors broadly encompassed by social inflation, the low interest rate environment and communicable disease.

Global casualty renewal themes included:

- Pricing was heavily dependent on factors noted above.
- Generally, ample capacity was available across most casualty lines.
- For some programs with more challenging loss experience or industry classes, there was additional pressure on other treaty terms/conditions and pricing.

- Financial lines were an anomaly in the casualty market, with stable to improving terms due to the strong underlying rate environment as well as continued carrier underwriting discipline.
- Cyber aggregate capacity saw continued tightening, driving increased pricing.
- There was some new or expanded client interest in casualty clash coverage

For casualty placements, contract language requirements around pandemic and communicable disease varied by line of business with workers compensation, long-term care, casualty clash and casualty programs with particular exposures requiring the most discussion.

Capital

Overall, traditional dedicated reinsurance capital for year-end 2020 was estimated at USD 397 billion by Guy Carpenter and A.M. Best, a marginal increase on year-end 2019. Favorable valuations of asset levels and capital initiatives saw capital levels recover from the decline witnessed at mid-year 2020. However, reinsurers struggled to achieve positive returns on equity due to the combined impacts of COVID-19 and catastrophe losses. Dedicated capital also benefited from new capital formations.

“While there is no doubt that in 2020 the reinsurance market was impacted on multiple fronts by property losses, COVID-19 and continuing strain in the casualty market,” said Lara Mowery, Global Head of Distribution at Guy Carpenter, “it is a credit to the financial robustness of our marketplace that reinsurers were largely able to navigate through these challenges, respond to changing conditions and define market strategies for management and investors.”

This resilience was also evident in the insurance-linked securities arena, which once again demonstrated its low correlation features. Overall, catastrophe bond offerings continued to attract significant capital while syndicated sidecar and collateralized reinsurance strategies experienced limited new inflows of capital. January 1 allocations were complicated by year-end loss reserve “buffering” related to COVID-19 and the high frequency of mid-size catastrophe losses in the United States, creating uncertainty regarding the level of capital available for new and renewing placements.

“New issuances in the catastrophe bond market have been very buoyant in the fourth quarter,” said David Priebe, Chairman of Guy Carpenter, “bringing full-year issuance to USD 10.8 billion, a new record for annual property and casualty catastrophe bond activity. Most fourth quarter issuance was well supported, which enabled many buyers to secure the top end of their size targets (or beyond) at the lower end of price guidance.”

TAGS/KEYWORDS

Guy Carpenter, Marsh & McLennan, MMC, reinsurance, renewals, US, EMEA, Asia-Pacific, COVID-19, property, casualty, retrocession, ILS, catastrophe bond, Hearn, Klisura, Mowery, Priebe

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