

THE GLOBAL REINSURANCE MARKET - WHAT'S ON THE HORIZON?

The South African Marine Forum

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A business of Marsh McLennan



Where are we today?



A DIFFERENT 1/1 REINSURANCE RENEWAL

Inflation, interest rates, capital and markets' resolve

MACRO BACKDROP

- Slowing economies
- Surging global inflation
- Volatile financial markets:
 - S&P500 -20% (2022)
 - UST10Y 3.6% (x2)
 - Wider risk spreads

THE INDUSTRY

- NatCat losses >USD100bn in 4 of last five years
- Another year of inadequate returns
- Fall in dedicated capital

BEHAVIOURS

- Supply-demand narrative
- Reinsurers' resolve
- Buyers' pushback
- Stocks bounce (P/BV 1.8x)

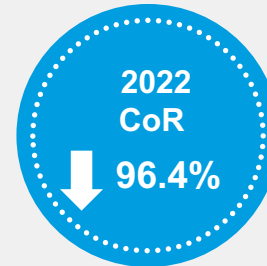
WHAT NEXT?

- New capital (some)?
- 1Q23 results
- Upcoming renewals
- IFRS 17
- S&P Capital Model Requirements
- Multiple tail risks

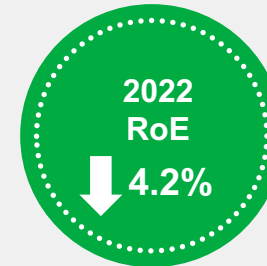
GROWTH



VOLATILITY

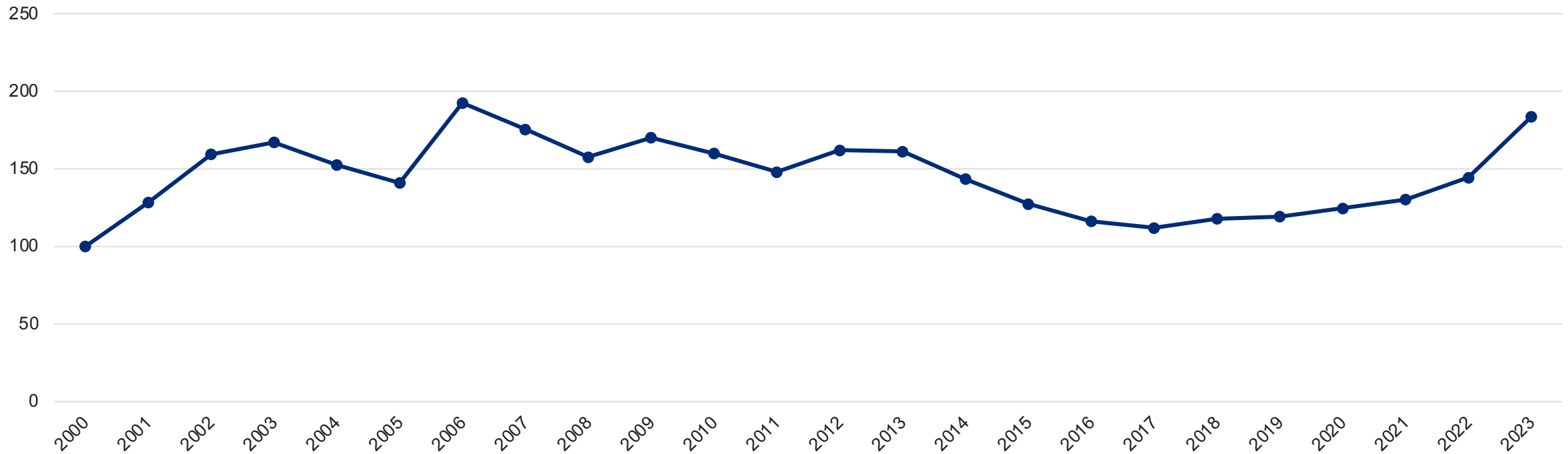


CAPITAL



Global Property Catastrophe Rate-on-Line (ROL) Index

2000-January 1, 2023*



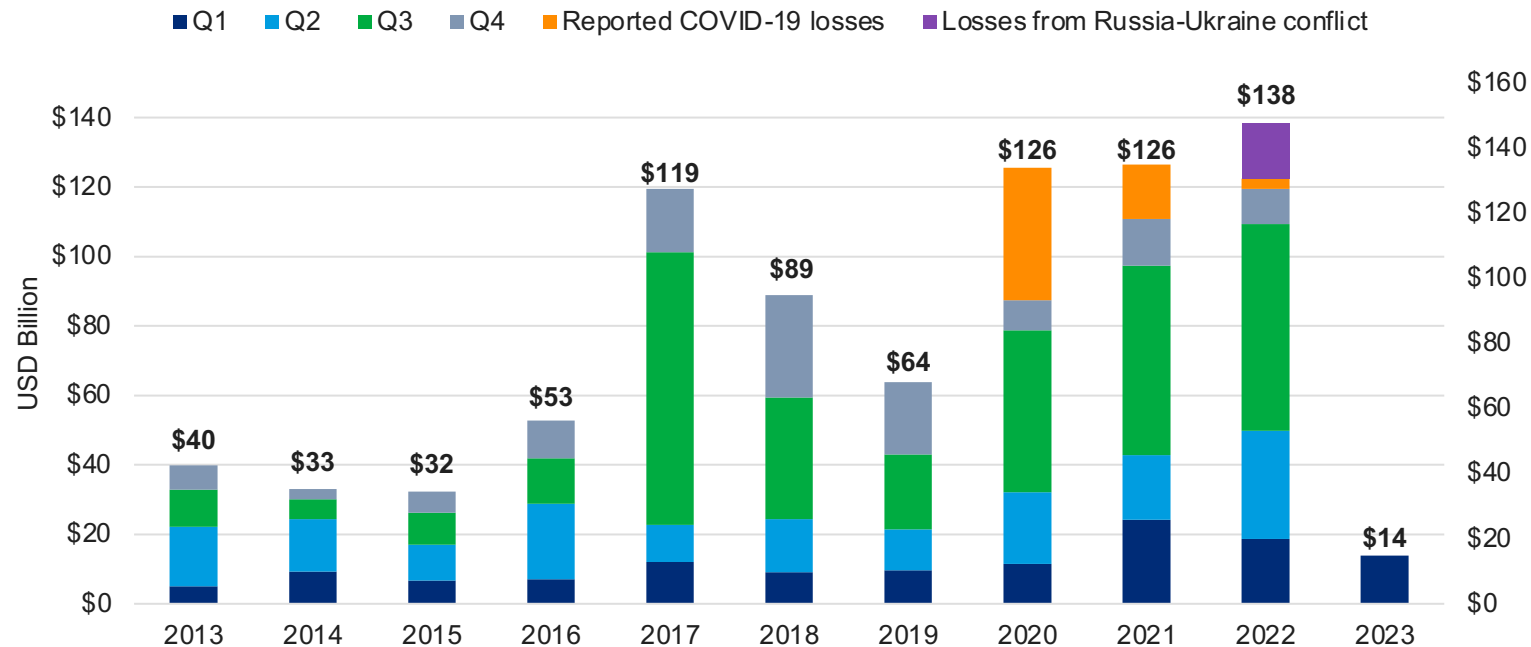
The Global ROL Index increased 27.2%, primarily driven by pricing and attachment point adjustments in the US and Europe.

Source: Guy Carpenter. * Preliminary January analysis, subject to updates. The Guy Carpenter ROL Index is a measure of the change in dollars paid for coverage year-on-year on a consistent program base. The index reflects the pricing impact of a growing (or shrinking) exposure base, evolving methods of measuring risks and changes in buying habits, as well as changes in market conditions.

Global Large Loss Activity

2013-2023*

Significant Insured Losses (2013 to 1Q2023)



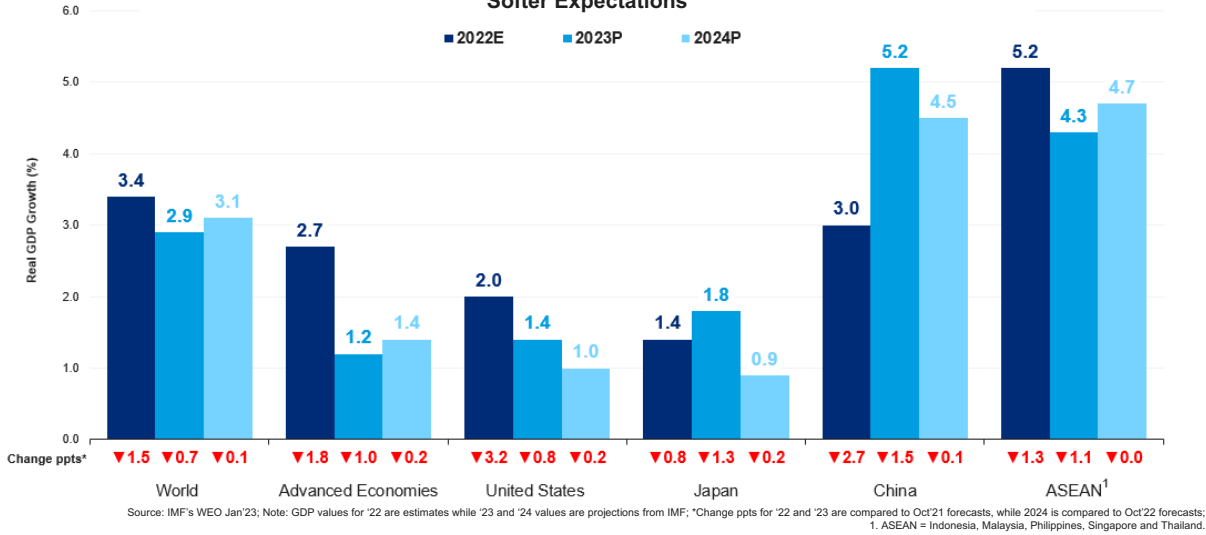
- The projected annual 2022 large loss total rose to **USD 138 billion**, driven by Hurricane Ian.
- Q1 2023 large losses are estimated to be approximately **USD 14 billion**. Earthquakes in Turkey and Syria resulted in losses of approximately **USD 3.4 billion**, while other notable large losses included severe convective storms in the US and floods in the North Island of New Zealand. Please note that this is just a preliminary estimate, as losses for some catastrophe events that occurred in March are not available yet.

* Significant Insured Losses (Est. losses > USD 100M). The Q1 2023 significant insured loss estimate is updated as of 4/10/23. Sources: PCS, ICA, AIR, PERILS, Verisk, Guy Carpenter.

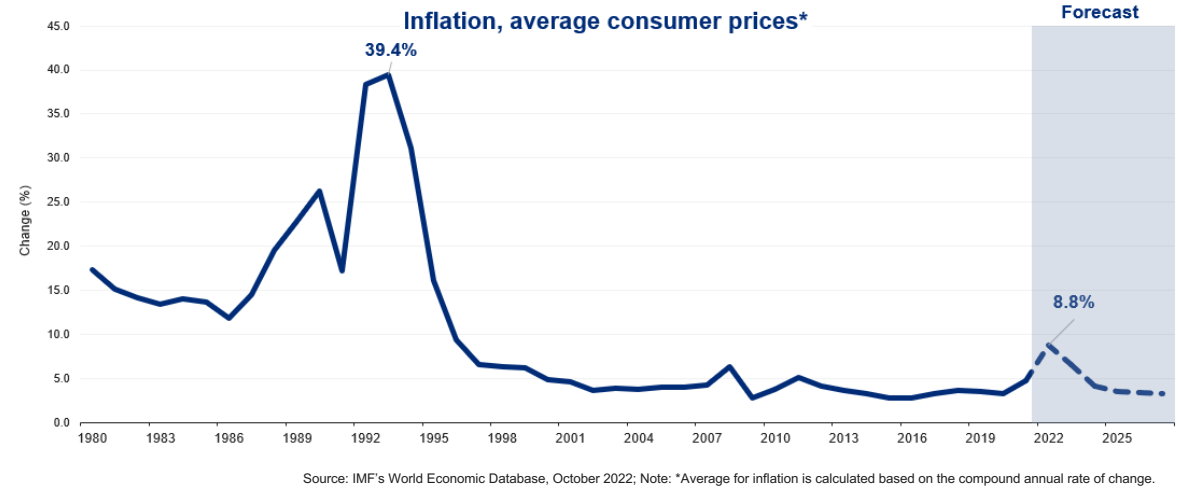
MACRO AND FINANCIAL MARKETS

Adjusting to higher bond yields is painful for some

Global Economic Outlook Softer Expectations



Global Inflation "Global inflation will fall in 2023 and 2024 amid subpar economic growth" - IMF



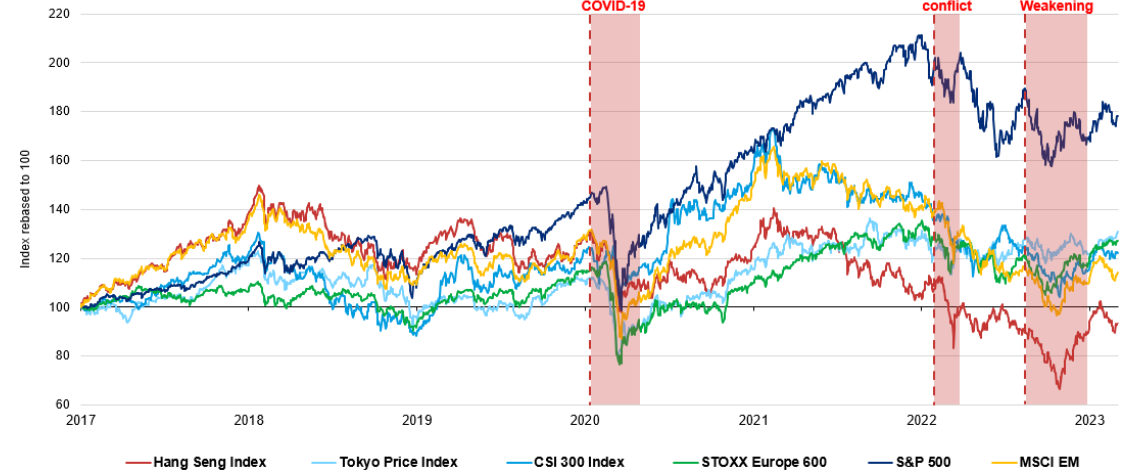
Bonds – US

All about inflation, recession risks and the US Fed



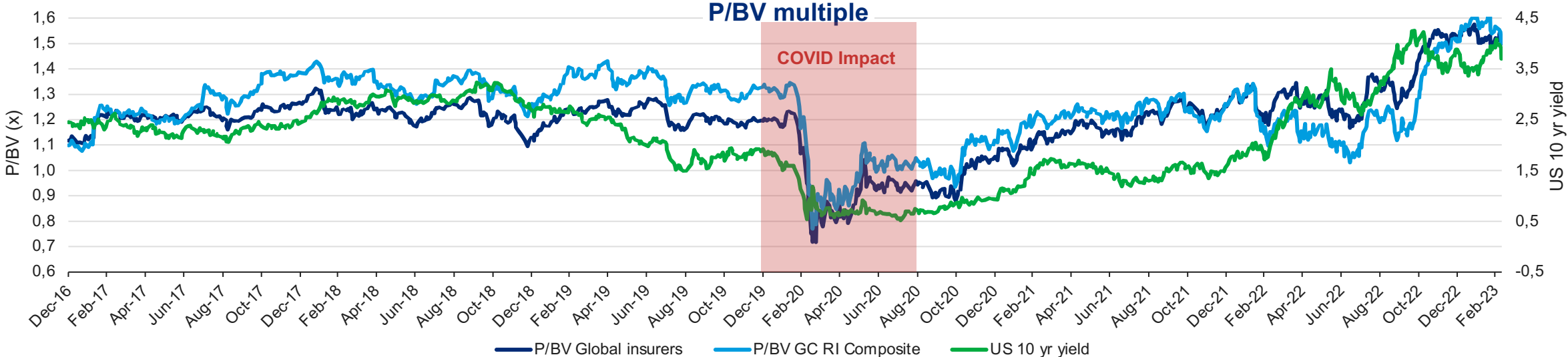
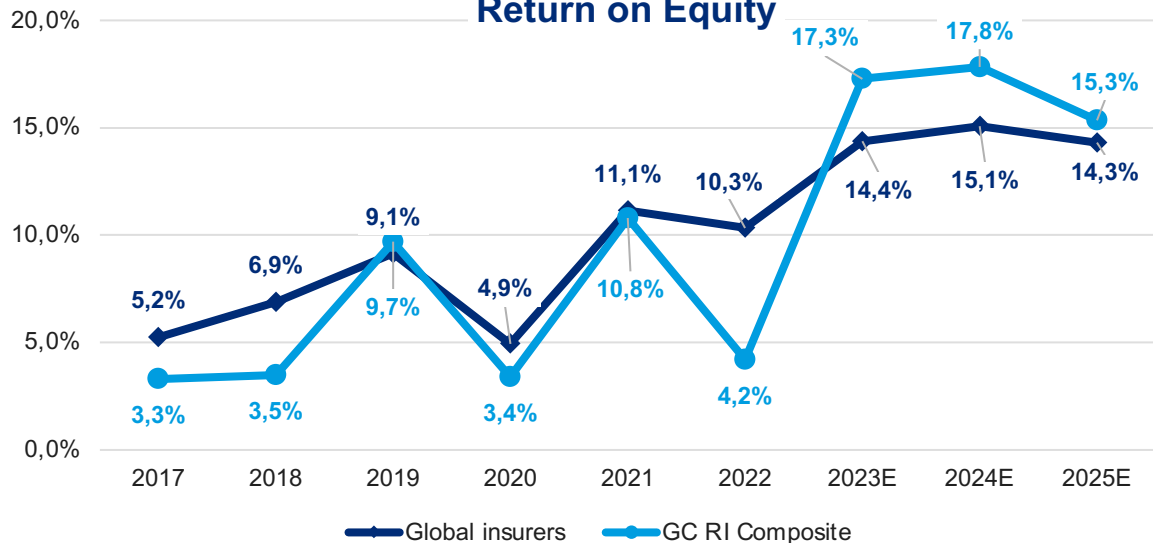
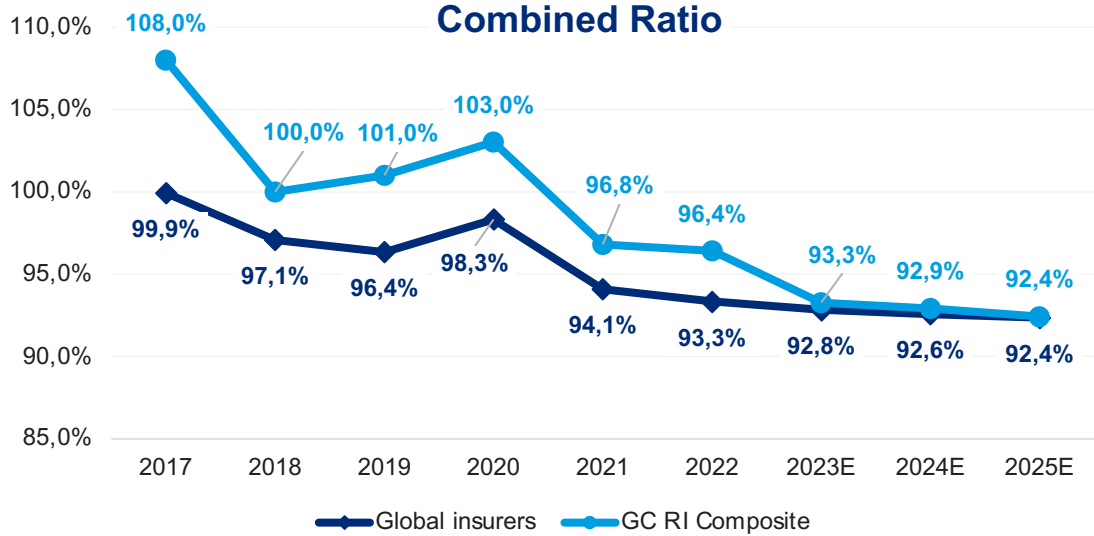
Equities

COVID-19, Energy prices and US dollar



INVESTOR SENTIMENT POSITIVE

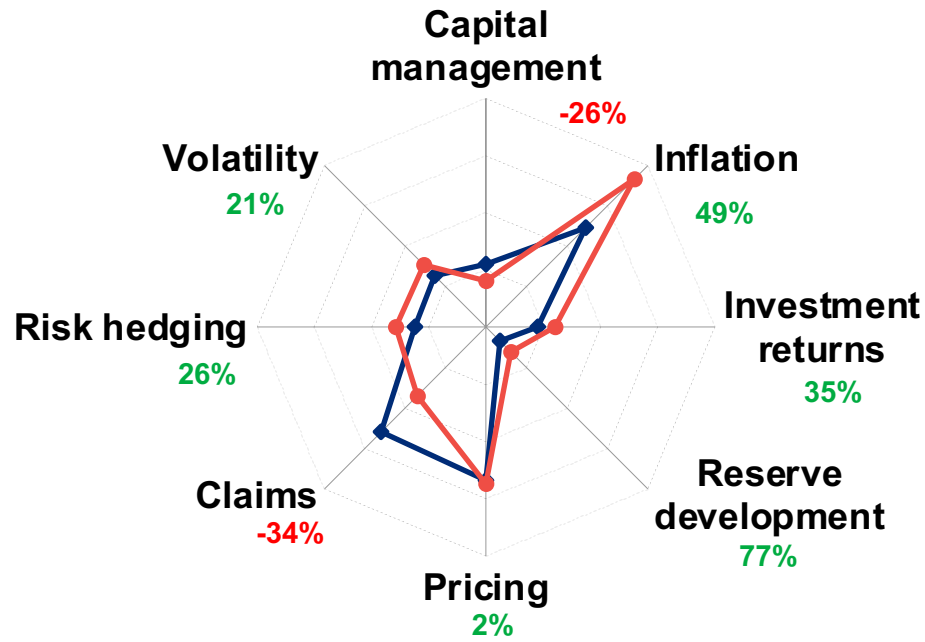
Rapid turnaround expected in the industry's fortunes



WHAT ARE COMPANIES TALKING ABOUT?

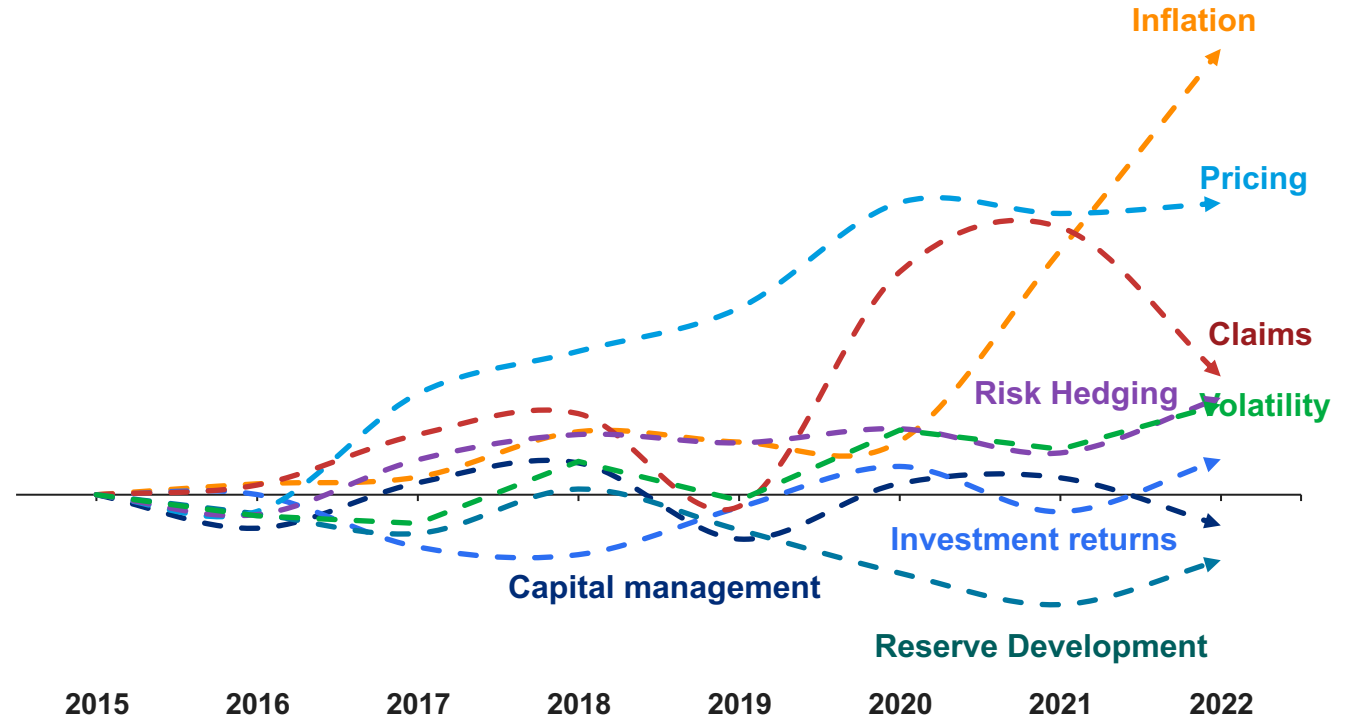
Inflation and pricing but reserve development mentions rising

Frequency¹ of hits (2022 versus 2021)



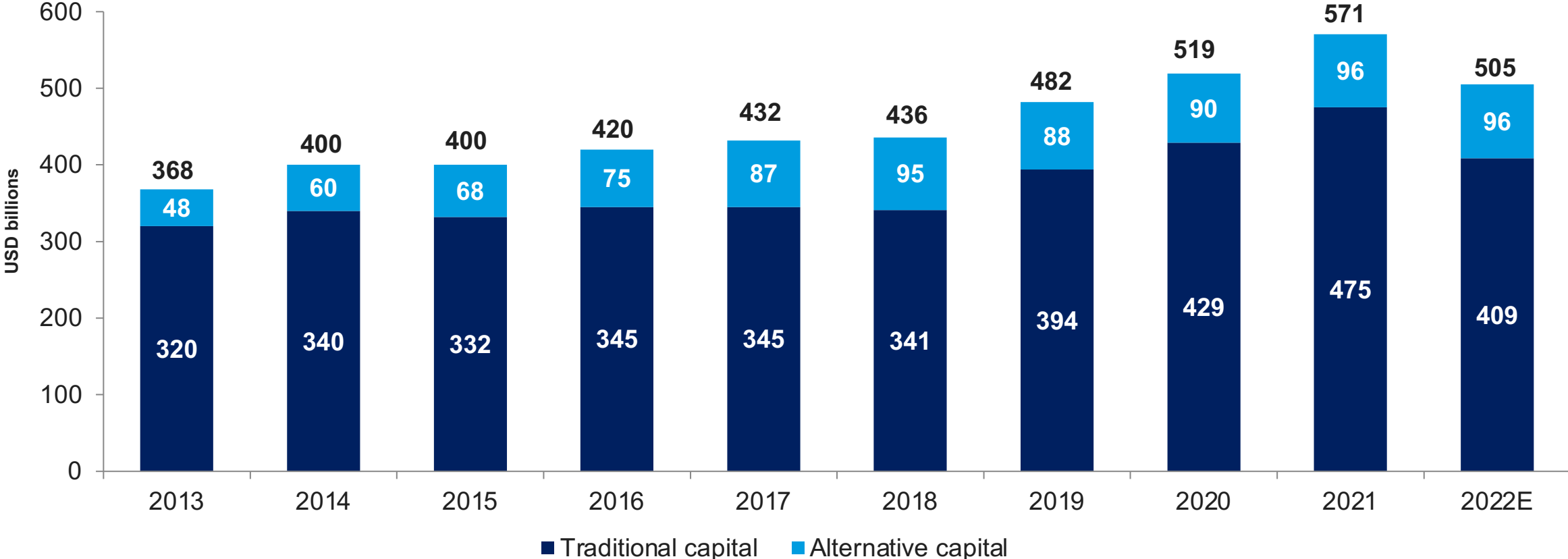
(Percentages show YoY change in frequency of hits)

Frequency¹ of hits (2015 - 2022)



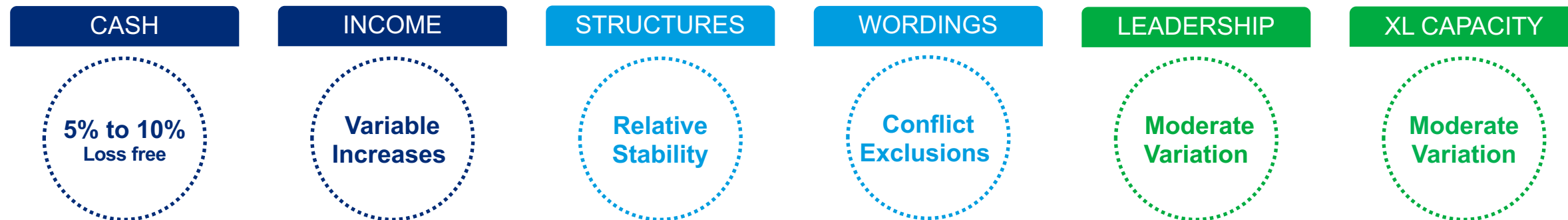
DEDICATED CAPITAL FELL BY ~12%

Mainly due to investment market volatility



Reinsurance Market end – Post 1st April 2

International Marine & Energy Outcome – (ex Japan)



Price & Structure
XL

- 5% – 10% increase on clean non-proportional business with some larger rises
- Differentiation between International and London Market Composite Programmes
- Push for increase in attachment points but expiring structures predominantly maintained



Original Portfolios
Income and Losses

- Normal loss activity – no unusual market severity losses
- Increasing hull losses being advised from Ukraine/Russia hostilities
- Some increases in underlying income driven by variables such as inflation, FX and growth.



Wordings
Dominant focus of renewals

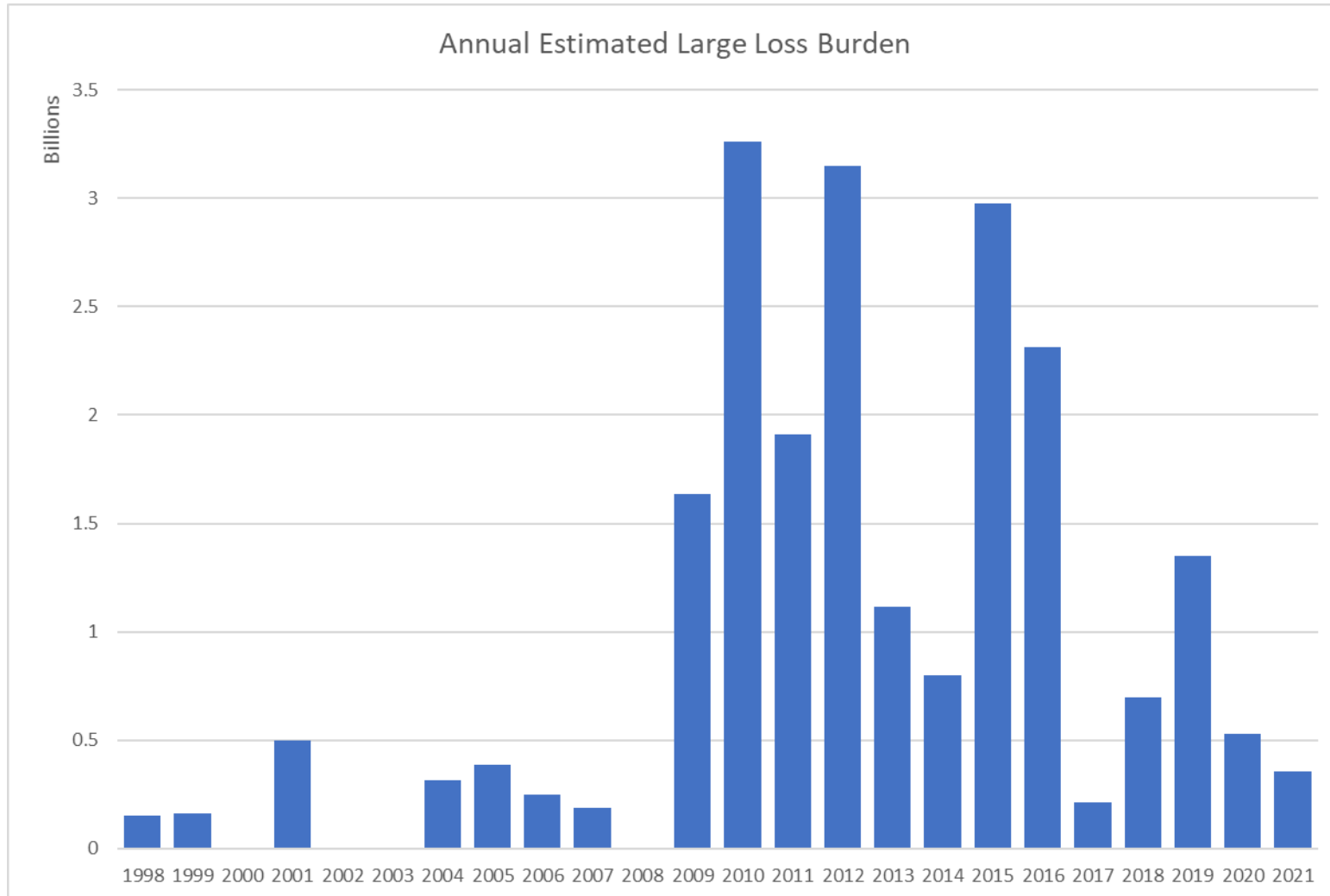
- Most Reinsurers now require some form of conflict exclusionary language
- Significant variation in language requested by Reinsurers and heavily negotiated
- European conflict zone and war on land the predominant exclusions applied across International portfolio



Market
Supply > Demand

- Some variation in leadership due to mismatch in pricing expectations or exclusionary language requirements
- Some Reinsurers lost business or reduced shares due to insistence on War stipulations
- Some Reinsurers reduced participation due to mismatch in pricing expectations

Major Marine Losses: 1998-2021



Global marine losses elevated since 2009



South African Marine market relatively benign prior to 2022 KZN floods



South African Marine pricing driven primarily by the Global / London Market reinsurer cost of capital

What's next?



Drivers of Dynamic Market Conditions



Macro Headwinds



Ongoing
Inflation



Rising
Interest Rates



Ongoing War
in Ukraine



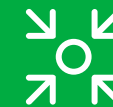
Supply Chain
Disruptions



Climate
Change Anxiety



Global Cat
Loss Activity



Constrained
ILS and Retro Capacity

Top Risks Perceived to be Most Severe Over a Time Horizon

Short-Term

0-2 years	
Rank	Risk
1	Cost-of-living crisis.
2	Natural disasters and extreme weather events.
3	Geo-economic confrontation.
4	Failure to mitigate climate change.
5	Erosion of social cohesion and societal polarization.

Long-Term

5-10 years	
Rank	Risk
1	Failure to mitigate climate change.
2	Failure of climate-change adaptation.
3	Natural disasters and extreme weather events.
4	Biodiversity loss and ecosystem collapse.
5	Large-scale involuntary migration.

■ Economic
 ■ Environmental
 ■ Geopolitical
 ■ Societal
 ■ Technological

Note: World Economic Forum (WEF) Global Risk Perception Survey (1,249 responses worldwide). Source: World Economic Forum; MMC analysis.

Top Concerns by Region

	1	2	3	4	5
North America	Cost-of-living crisis	Debt crises	Rapid and/or sustained inflation	Severe commodity price shocks or volatility	Severe commodity supply crises
Latin America and the Caribbean	Rapid and/or sustained inflation	Cost-of-living crisis	Lack of widespread digital services and digital inequality	Natural disasters and extreme weather events	State collapse
Europe	Rapid and/or sustained inflation	Cost-of-living crisis	Severe commodity price shocks or volatility	Geoeconomic confrontation	Severe commodity supply crises
Middle East and North Africa	Cost-of-living crisis	Debt crises	Rapid and/or sustained inflation	Severe commodity price shocks or volatility	Severe commodity supply crises
Sub-Saharan Africa	Cost-of-living crisis	Debt crises	Rapid and/or sustained inflation	Employment and livelihood crises	Lack of widespread digital services and digital inequality
Central Asia	Interstate conflict	Rapid and/or sustained inflation	Geoeconomic confrontation	Severe commodity supply crises	Severe commodity price shocks or volatility
South Asia	Debt crises	Cost-of-living crisis	Geopolitical contestation of strategic resources	Lack of widespread digital services and digital inequality	Rapid and/or sustained inflation
East Asia and the Pacific	Rapid and/or sustained inflation	Geoeconomic confrontation	Cost-of-living crisis	Debt crises	Geopolitical contestation of strategic resources

■ Economic
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Mid-year Market Conditions Summary



Overall Dynamics

The market remains challenging with many macro headwinds driving conditions including but not limited to, rising interest rates, ongoing inflation, stress in the financial sector, prior year casualty loss development, and elevated catastrophe loss activity.



Timing and Negotiations

Spring and mid-year renewals are showing signs of more orderly negotiations as stakeholders make use of lessons from a hectic January 1. The general trend around timing is earlier to ensure cedents and reinsurers have adequate time for more complex negotiations.



Property

Property remains the most challenged sector with stressed conditions persisting. However, market adjustments to pricing, attachment and coverage at January 1 are leading to earlier and more productive conversations with hope for less non-concurrences moving forward.



Casualty

Similar to the January 1 conditions, casualty renewal outcomes hinge on portfolio results – underlying rate changes and adverse loss development. Financial Lines renewal discussions center around impacts from recent failures in the banking sector and go-forward underwriting strategies for financial institutions.



Capital

Some new capacity is becoming available but is adhering to market corrections and not softening conditions. While predominantly property focused, collateralized capacity solutions have more recently emerged with a focus on casualty and other non-property solutions as well.



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