

PROPERTY

GLOBAL PROPERTY INSURANCE MARKET UPDATE

Q4 2023



Gallagher
SPECIALTY

ABOUT GALLAGHER SPECIALTY

Headquartered in London, Gallagher Specialty works with large multinationals and insurance brokers worldwide, providing bespoke programme design, risk placement, and consulting support across a range of industries.

A number of our divisions are market leaders; delivering global solutions for some of the largest and most complex risks that modern businesses and organisations face.

Our strong, well-established relationships in the London and international insurance markets are leveraged every day to obtain the most effective and innovative solutions for our clients.

Our Property division is split into regionally focused teams that work across all industry sectors to provide overseas brokers and clients with the experience, resource, and expertise they need to secure the best possible renewal outcomes within any given market environment.

Expertise. Ethics. Excellence. It's The Gallagher Way.

CONTENTS

INTRODUCTION AND MARKET OVERVIEW	03
REGIONAL UPDATES	
NORTH AMERICA	04
SOUTH & CENTRAL AMERICA	05
CARIBBEAN ISLANDS	05
AUSTRALIA & NEW ZEALAND	06
ASIA	07
MIDDLE EAST	08
EUROPE	08
HOW WE CAN HELP	09
CONTACTS	10

INTRODUCTION AND MARKET OVERVIEW



The Property insurance market in 2023 has been very challenging for clients, with many receiving their sixth consecutive renewal rate increases and probably their most punitive renewal terms of any of those over the prior five years.

The 1.1.23 and subsequent month's treaty reinsurance renewals significantly impacted all insurers who operate across all territories globally, with those insurers having to endure significant rate increases, and their premiums compounded further with exposures increasing due to valuation/inflation challenges. Notwithstanding this, they have also had to absorb increased retention and more limited overall coverage. This was all as a consequence of many years of unprofitable returns. In basic terms, the costs of capital has increased throughout the chain, and the insurers have had to pass on those costs to their clients in order to be able to continue providing the level of coverage that our mutual client(s) require.

Climate change and more frequent and severe weather events continue to be a discussion point, and during H1, global insured cat half-year losses passed USD50 billion for the first time. However, despite this, we saw Lloyd's posting a positive H1 result, the magnitude of which we have not seen since 2007. All eyes will be on both Lloyd's and other major insurers as to where the full-year results end up at. The major question that we are being asked for 2024 is not surprisingly, what should clients be expecting in 2024?

To provide some early perspective, it is felt that it will require a relatively benign second half of 2023 in terms of property CAT losses in order to produce a very positive underwriting result and thereby demonstrate to capital that the market does know how to underwrite property profitably during this prolonged period of increased weather activity and also taking into account the impact of inflationary pressures being prevalent, whether that is in terms of higher replacement cost valuations, and therefore passing on these

increased exposures to reinsurers when purchasing treaty covers' with further upward pressures on both retention and pricing. If we see capital have the confidence in returning to the property marketplace, will there be significant amounts available to positively impact pricing the marketplace? Will insurers be further impacted by treaty reinsurance renewal increases at 1.1.24 in the individual marketplaces (and in those subsequent months)?

These questions will be very much dependent on how the balance of the year performs from both a North Atlantic hurricane and a wildfire perspective and furthermore where looking outside of the US, how individual marketplaces have performed. Not all is clear at this stage, but there is a recognition that client affordability, as always, is a factor at the present time and clients will want to take a look at how we can assist in providing them with creative renewal solutions whether that is in the traditional sense or by way of introducing alternative risk transfer mechanisms such as

parametrics and retention risk financing products. The early indicators in respect of 2024 is that London insurers will be looking to expand their property appetite in terms of capacity and aggregate deployed which is welcome news in this current climate.

We will look to bring some further updates in our next Gallagher Specialty update and we hope that you find this property update to be of interest and would welcome any feedback or questions that you would like to raise.

We look forward to continuing to work with you all in expanding our current trading levels and thank you again for your continued support.



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NORTH AMERICA REGIONAL UPDATE

So far for 2023, we have seen the following

- Critical CAT capacity remains constrained throughout the Insurance/Reinsurance/Retro marketplace.
- Direct and Facultative insurers have maintained strong discipline around pricing and terms and conditions, with demand outstripping supply, particularly on CAT-exposed accounts.
- Rate increases accelerated throughout H1, with many carriers significantly ahead of budget early in the year. Carriers attempted to price themselves out of firm orders to manage catastrophe exposures, often being unsuccessful due to demand/supply imbalance.
- Many carriers significantly reduced average line sizes, particularly on CAT-exposed accounts, resulting in less total CAT limit available for clients.
- Insureds' often took larger retentions in order to attract additional capacity and offset rate increases.
- Business continues to flow from admitted markets to the E&S space, with GWP of circa GBP120 Bn predicted for 2023. E&S GWP makes up 20% of all commercial lines for the first time, according to AM best.
- H1 global losses from natural disasters are estimated at USD53 Bn, with US severe convective storm contributing USD34 Bn to this total. Global catastrophe losses in excess of USD100 Bn per year appear to be the "new normal."
- So-called secondary perils such as winter storm, severe convective storm/hail and wildfires are an increasing challenge for the industry.
- US D&F property carriers generally reported strong H1 results. Lloyd's of London reported H1 combined ratio of 85% with 22% increase in revenue (all classes), with property reporting a combined ratio of 82%.

- Full-year results will be heavily impacted by the US hurricane season, which at the time of writing has been relatively quiet contrasted with recent years.

Looking ahead to 2024

- End-of-year treaty renewals will impact D&F business plans for 2024, with direct writers looking to pass on potential increased reinsurance costs to insureds.
- Rhetoric emanating from the reinsurance markets is that they will continue to push for additional rates to account for current trend of extreme catastrophe losses and strong demand and potentially to increase retentions to match the current rates of inflation.
- Reinsurers are likely to maintain high attachment points, which have supported a return to profitability.
- Significant influxes of catastrophe reinsurance capacity (Traditional/ILS) are not anticipated supporting continued pricing discipline.
- Expectation that D&F carriers will attempt to achieve single-digit to low-double-digit rate increases at a portfolio level. There will be loss-affected accounts that will help push this average up, with clean accounts expected to be at the lower end of the spectrum.
- Industry adoption of RMS V23, with increased modelled output for named Hurricane in Florida and the Gulf coast. Average uplifts of 5%-10%, with certain portfolios subject to 20%-30% uplifts, depending on regions and building characteristics.
- RMS V23 could provide a tailwind for primary insurers/reinsurers trying to push rates further in named Windstorm-exposed regions.



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SOUTH & CENTRAL AMERICA AND CARIBBEAN ISLANDS REGIONAL UPDATE

A month into Q4, it is clear that catastrophe-exposed Latin American and Caribbean (LAC) cedants have continued to experience significant rate increases (of circa 25%) at their treaty renewals, with concerns that the completion of some of those in critical zones within the region was going to be a challenge. Those fears have gradually receded, with renewals having generally been more orderly than those earlier in the year, nonetheless a focus is still on higher retentions, rate adequacy, and more restrictive wordings. The D&F market has largely mirrored these trends.

Furthermore, a combination of inflation, reassessment of risk, and a capacity shortage in some countries have all contributed to rate rises, not to mention the exit of a few Lloyd's insurers from the property cat space and reduced appetite from others. That said, reinsurers appear generally

more satisfied with ratings across the region, with the exception perhaps of Mexico and Colombia, where increased appetite from some carriers has limited higher increases. That said, there is little doubt that rates will continue to rise during Q4, albeit at a much steadier pace and depending on account performance. It remains the case that longstanding clients are generally prioritised over new ones, both in terms of capacity deployment and more favourable pricing.



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AUSTRALIA & NEW ZEALAND REGIONAL UPDATE

With eyes on Australian floods and a focus on earthquake aggregation in Wellington insurers did not expect New Zealand's largest NatCat loss to come from a cyclone (Gabrielle) in the North Island in February, whilst their backs were turned. Estimated at an economic loss of NZD15 Bn and an insured loss of NZD3.5 Bn it was the biggest wind event in a generation.

Add to this the broadening of the definition of an Australian flood, cover for the peril has come into even sharper focus as we progress through 2023.

London has been able to provide viable flood solutions as an alternative to domestic insurers that have either reduced sub-limits, or excluded it.

There have been examples of large clients entering the London market for the first time this year, driven by NatCat needs.

Wellington earthquake capacity is readily available in the London market where we have seen an increase in new client orders' this year.

Our portfolio and expertise in food sector business continues to expand with London's appetite for EPS exposed risks remaining consistent and we are able to achieve obtaining significant limits.

We are continuing to see an influx of new clients being underwritten in the London market through our office as clients look for alternative long-term partnerships.



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ASIA REGIONAL UPDATE

The region has slowed down on the hardening trend of pricing in general and markets' appetite and capacity deployments are "two-tiered" for clean, well managed, and loss-affected, less-risked managed accounts. Catastrophe exposure continues to be a key factor in pricing and capacity, particularly when significant limits are required.

- Despite more orderly reinsurance renewals in mid-year compared to January renewals, markets continue to look for an upward trend in pricing, with catastrophe costs still rising but at a more moderate pace.
- The polarisation for targeted and non-targeted risks deepened as markets competed for well-performing and lower hazardous occupancies, whilst less well-managed and/or natural catastrophe-exposed risks continued to experience a more volatile market environment.

- The gap in premium requirements between local/domestic and international markets also expanded. Time is required to seek alternative solutions and structures, utilising a mixture of local/domestic capacity and international carriers to achieve the best outcome, and deliver the ultimate goals for the assured where a degree of rate cut is often expected.
- Additional factors leading to cost increases are the ongoing concerns related to high interest rates and inflation, which have led to continued scrutiny on the insured values.

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MIDDLE EAST REGIONAL UPDATE

Competition remains prevalent on all major accounts and capacity remains stable. Rate pressure has reduced, but there remains a difference between regional and international markets in this respect.



EUROPE REGIONAL UPDATE

Whilst treaty reinsurance pricing has increased the pressure on renewal pricing during 2023, capacity remains competitive and stable in the region.

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HOW WE CAN HELP

Our large team of placement specialists can assist with the following products/occupancies:

PRODUCTS

- Primary/Excess of Loss/Quota share limits
- Large high excess limits
- Difference in conditions/limits
- Named perils only, i.e., flood, windstorm, etc.
- Deductible buy-downs (CAT/Non-CAT)
- Parametrics
- Retention Risk Financing Products

OCCUPANCIES

- Public Entity
- Higher Ed/Scholastic
- Real Estate and Hospitality
- Manufacturing/Industrial
- Habitational/Multi-family/Single Family Rentals
- Risk Pools
- Food & Agri-business
- Warehousing
- Retail
- Ports and Terminals
- Rail
- Telecoms
- Religious
- Transportation & Logistics
- Life Sciences

LET'S TALK

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