



# Gallagher Re 1<sup>st</sup> View

## Balanced Renewal

1 April 2022

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## 1st View

This thrice-yearly publication delivers the first view on current market conditions at the key reinsurance renewal seasons: 1 January, 1 April and 1 July.

## Gallagher Re

One of the world's largest reinsurance broking and advisory firms, operating across the risk and capital spectrum, Gallagher Re is part of Gallagher, the global brokerage, risk management and consulting services firm (NYSE: AJG) headquartered in Rolling Meadows, Illinois.

Originally founded in 2013 as the co-venture 'Capsicum Re' with Gallagher, the business grew rapidly and became wholly owned by Gallagher in 2020. In December 2021, the transformational acquisition of Willis Re was completed, making Gallagher Re the world's third largest reinsurance broker with a team of over 2,400 colleagues trading from more than 70 offices across 31 countries including all the key global reinsurance hubs of North America, Europe and Asia.

Gallagher Re prioritises clients advocacy above all else and offers clients a powerful combination of global and specialist expertise and geographic reach. By combining world class analytics capabilities with reinsurance expertise, strategic advisory services and transactional excellence, Gallagher Re helps clients drive greater value from their businesses, negotiate optimum terms and make better reinsurance decisions. Its global client base includes all of the world's top insurance and reinsurance carriers as well as national catastrophe schemes in many countries around the world.

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# Balanced Renewal

Reinsurers closed their 2021 full year accounts with an improved financial performance and a significant uptick in their return to shareholders. Even after dividends and share buybacks, the overall industry capital has shown a respectable increase. With improving underlying financial metrics bolstered by continuing improvements in terms and conditions achieved at the 1 January 2022 renewal, reinsurers approached the 1 April 2022 renewal with many still seeking top line revenue growth.

1 April 2022 renewal period is largely driven by the Japanese renewals which have seen substantial rate increases in recent years after recent major catastrophe losses, steady improvement in original property rates and no reduction in original earthquake rates. This led to an orderly and less tense renewal in Japan, but elsewhere pockets of difficulty were seen in certain classes (e.g., Marine and Marine Retro, Aerospace).

Capacity in most lines remained sufficient to allow buyers to meet their requirements, though there were continuing signs of some reinsurers adjusting their appetite for catastrophe risk by moving their capacity to higher attaching layers and in some cases reducing deployed capacity. This was offset by some modest increases from other reinsurers seeking to build out their portfolios.

Inflation remains a major and growing concern for reinsurers. It is now a key topic on every line of business with reinsurers assessing the impact of inflation on underlying portfolios to then be reflected in reinsurance pricing models. Buyers able to verify that their original underwriting is taking inflation into account through pricing, limit and original deductible management are being recognized by reinsurers and facing less pressure on their reinsurance renewal terms.

The tragic situation in Ukraine and the rapid evolution of far stricter sanctions regulation across the world has had an immediate impact on relevant clauses within treaties with the universal adoption of the market standard clause LMA 3100. Amended sanctions clauses giving some leeway to match original underlying policy wordings seen previously have fallen away and are now replaced with the strict clarity of LMA 3100.

Coming on the heels of the unexpected and unmodelled COVID-19 losses in 2020, several reinsurers have pushed harder for greater clarity over any potentially unclear areas of coverage particularly in the area of potential war exposures and incidental exposure from non-sanctioned exposures of overseas companies in Russia and Belarus. Unlike COVID-19 losses in many cases buyers have been able to show that they do not have exposures of this type. For carriers with a bias towards specialty lines with potential war exposures, the position has been more nuanced and dependent on the original coverage and class of business. For a

small part of this market these losses may prompt more changes to original and reinsurance coverage and conditions than were seen at the 1 April 2022.

Overall, the 1 April has seen an orderly calm renewal with reinsurers building on the 1 January 2022 renewal season achieving an improvement in the pricing and conditions on virtually all contracts. Some of the world's largest reinsurance capacity buyers secured renewal at acceptable terms, though there was limited demand for additional cover to truly test capacity risk appetite of the global reinsurance market.

**James Kent, Global CEO, Gallagher Re**

**1 April 2022**

# Property

## Commentary by Territory

### India

- Like the previous few years, Nat Cat activity in 2021 was benign in India. There were five named cyclones in the Arabian Sea and Bay of Bengal. Only Tauktae reached the Extremely Severe Cyclonic Storm category and caused reinsurance losses
- Flooding remains a constant threat and this year a large part of Maharashtra witnessed floods and landslides in June. Loss of life was more prominent from these floods but there was some economic losses and a few treaties impacted
- GIC Re remained the biggest cat capacity provider. Their focus on improving underwriting results was visible on all classes including property treaties which saw moderate price increases.
- The obligatory cessions to GIC Re have reduced to 4% and buyers have dealt differently with the consequent increase in their retention
- Owing to price increases, multiyear (and multiline) excess of loss covers for lower layers came back to play and helped some of the buyers manage their overall spend.
- In few cases, reinsurers were unwilling to provide even structured solutions high loss frequency layers
- Improvement in terms for proportional treaties continued but loss participation corridors remained. Buyers managed to obtain modest increases in treaty and event limits

### Japan – Property

#### Catastrophe Excess of Loss

- An orderly renewal with nuances to the price discovery process on a client-by-client basis
- Programme structures remained largely unchanged
  - A limited amount of new capacity was sought
  - A few examples of programme retentions increasing in the frequency area
  - Aggregate capacity remained constrained
- Available capacity remained broadly stable and sufficient to complete placements
  - There was a limited influx of new capacity and only a few reinsurers offering increased capacity
  - These increases were offset by some reinsurers reducing deployed capacity, especially “air capacity” not taken up at last renewal
  - Overall, over-placements have reduced somewhat
- Continued reinsurer pricing pressure faded during the course of the renewal
- Risk adjusted increases tightly clustered in the range +1% to +5%, with Earthquake Only covers at the lower end of the spectrum

### Catastrophe Pro Rata

- The primary market pricing continues to hold firm since the corrections made in the wake of the Tōhoku Earthquake in 2011
- Some upward pressure on Earthquake Quota Share commission levels
- Reinsurance capacity remains plentiful and terms attractive to reinsurers
  - Capacity significantly exceeds current placement levels
- No disruption from the earthquake event that tragically occurred on the 16th March
  - This was the third comparable event to have occurred in the past 2 years, with no impact to the international reinsurance market

### Per Risk Excess of Loss and Pro Rata

- Continued recognition from reinsurers of the rate and condition improvements flowing through the primary fire market in Japan
- Movement in pricing on Excess of Loss treaties varied by programme reflecting individual loss activity and historical record
  - Typically, flat to +5% risk adjusted on the back of underlying exposure growth
  - Layers impacted by loss activity saw increases in the range +10% to +25% risk adjusted
- Commissions on pro rata treaties were broadly flat but some small increases where performance has been good
- LMA 3100 Sanctions clause was widely adopted
- Capacity remains closely balanced with only modest over-placement
  - Some reinsurers reshaped their participations, trimming air capacity
  - Some reinsurers sought to take advantage of improvements in the primary market and reinsurance pricing

### Philippines

- Renewal pricing highly dependent on loss activity and the impact of Typhoon Rai/Odette on each buyer dictated terms for the renewal
- Loss impacted layers saw pricing increases anywhere between +20% and +35%
- Pricing for the higher attaching loss free layers ranged between -2% and +2%
- Proportional capacity continued to come at a premium with reinsurers lowering Event Limits, reducing commissions and broadening loss participation corridors
- Excess of Loss capacity remained adequate although levels of over placement were lower compared to last renewal. No new Proportional capacity came into the market.

## United States - Nationwide

- Continued scrutiny on lower attaching excess of loss renewals, both catastrophe and per risk, given the recent loss experience (particularly from secondary perils). Reinsurers generally concentrated utilisation of their capacity at higher attachment points
- Reinsurers sought individual buyers' views on inflation trends and where sufficient differentiating evidence was provided reinsurers were willing to utilize buyers' views of inflation in pricing models
- Capacity was more often deployed towards clients with a history of profitable results, longstanding trading partnerships with reinsurers, and strong balance sheets
- Continued leverage by larger buyers to encourage a sympathetic view, by core reinsurers, of some less popular property structures in exchange for favourable treatment elsewhere
- Class of 2020 reinsurers had appetite to broaden their market share, particularly on higher attaching excess of loss business
- Many reinsurers who grew QS writings due to the improvement in underlying margins have seen increased loss experience, causing many to revisit their strategy and push improved terms. The most dramatic shifts in ceding commissions were seen in cat exposed, loss impacted regional quota share treaties
- Catastrophe aggregates, particularly earnings-protection covers, continued to be a highly scrutinised product due to loss activity, particularly from poorly modelled perils. As a result, capacity was reduced, notably from the collateralised market. Continued pressure on event deductibles and attachment levels. Broader market support existed for aggregate covers that exclude named storm losses

## Latin America

- In line with the January renewal season, loss-free Risk and Cat XL programmes renewed flat to +3% risk-adjusted. In the case of loss-affected programmes, reinsurers pushed for increases between +7% and +13%
- Proportional commissions renewed in the range of flat to -2% according to programme performance
- Reinsurers continued to be selective about deploying their capacity with some reducing, withdrawing or reassigning capacity where renewal terms and conditions were below their required pricing
- Certain reinsurers focused on reducing exposures in key peak territories though buyers were still able to secure the capacity they required
- The agricultural market, in particular Brazil, has seen significant losses and capacity withdrawn for this line of business resulting in significant hardening of terms



## Property rate movements

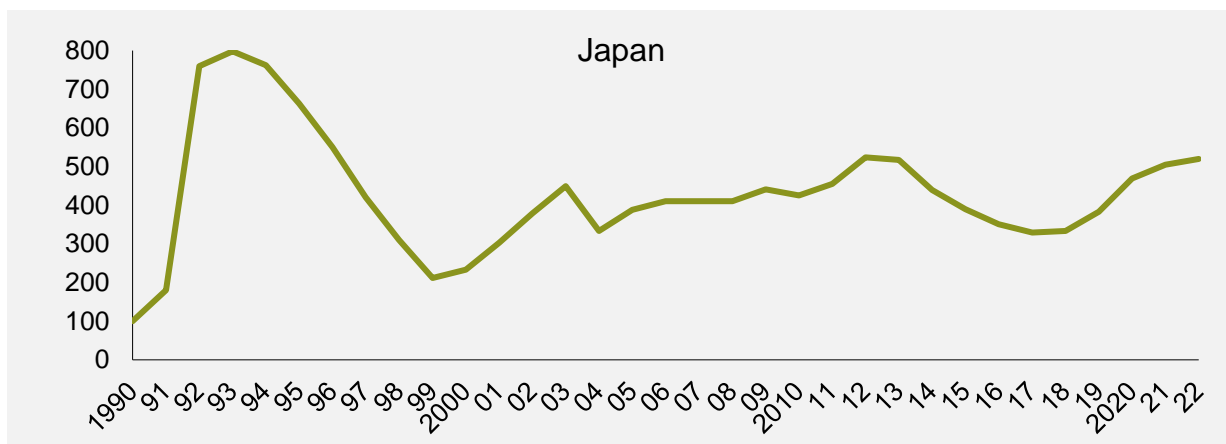
Territory	Pro rata commission	Risk loss free % change	Risk loss hit % change	Catastrophe loss free % change	Catastrophe loss hit % change
India	0% to +2.5%	0% to +20%	-	-5.0% to +2.5%	+5.0% to +20%
Japan Property Catastrophe	0% to +2%	-	-	+1% to +5%	-
Japan Property Risk	0% to +1%	0% to +5%	+10% to +25%	-	-
Latin America	-2% to 0%	0% to +3%	+7% to +13%	0% to +3%	+7% to +13%
Philippines	-1%	-2% to +2%	+20% to +35%	-2% to +2%	+20% to +35%
United States Nationwide	-3% to 0%	+2.5% to +10%	+10% to +25%	+2.5% to +10%	+10% to +25%

Note: Movements are risk-adjusted.

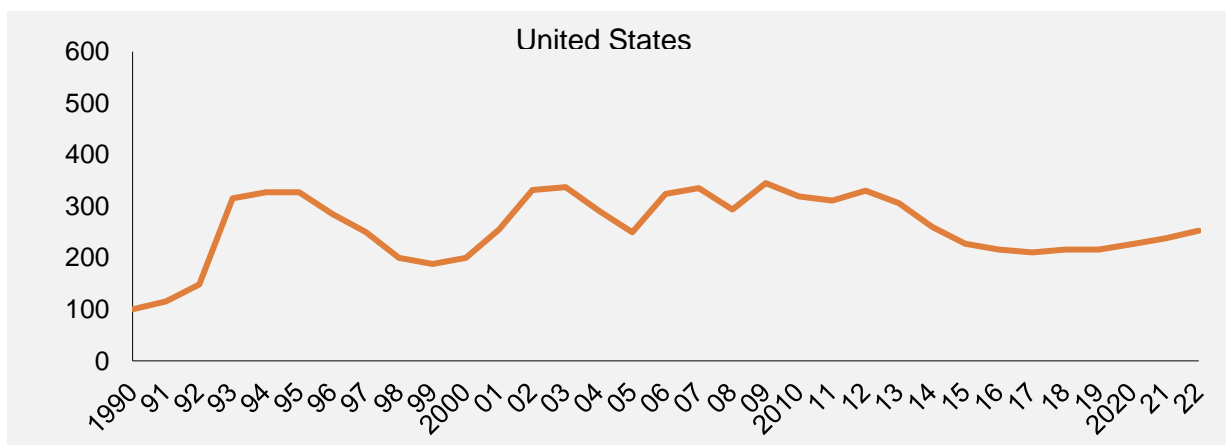
Source: Gallagher Re

## Property Catastrophe Pricing Trends

The charts on these pages display estimated year-over-year property catastrophe rate movement, using 100 in 1990 as a baseline.



Source: Gallagher Re



Source: Gallagher Re



# Casualty

## Commentary by Territory

### Japan – Cyber

- Primary rates remain fairly stable in Japan
- There was a noted increase in loss activity over the past 12-18 months, compared to pre-lockdown levels
- Underlying loss ratios remain favourable due to restrictive original coverage
- Some expansion of placements was made to cover a broader set of risks
- There was increased scrutiny from reinsurers in respect of losses
  - However, programmes continue to perform well with loss ratios remaining below global level of around 60%
- Reinsurer appetite remained largely stable, with some reinsurers cutting back and others looking to grow
- Going forward there is an expected continued scrutiny of Japanese cyber portfolios as they continue to grow and develop

### Japan – General Third-Party Liability/ Professional Liability

- A key topic was silent cyber clarification
  - This was the first renewal since the Lloyd's mandate came into effect for reinsurance casualty lines at 1 July 2021
  - Many buyers looked to clarify the underlying coverage in their portfolios
  - Where required, some buyers chose to include affirmative clauses
- Any sanctions concerns were addressed with the introduction of the LMA 3100 clause
- Communicable disease was no longer a key topic
  - Reinsurers are now comfortable with potential exposure given high attachment points and careful explanation of underlying exposures
- Some pressure from reinsurers on rate adequacy
  - However, reinsurance rates remained relatively stable and in line with exposure movements
- Inflation and social inflation remained topics of discussion
- Capacity continued to be plentiful with some new entrants to the market
- Professional lines were relatively stable in terms of structure and capacity
  - Reinsurance rates were typically risk adjusted flat

### Japan – Personal Accident

- Pricing was typically risk adjusted reduced to flat, with underlying exposures generally growing
- There were no significant changes in structure or coverage
- Less attention was paid to communicable disease as attachment points remain high and any loss experience very remote
- Some reinsurers questioned potential exposure to War/Passive War due to the developments in Ukraine
- Capacity remained stable with reinsurers providing expiring written lines or small increases

### Casualty rate movements

Territory	Pro rata commission	Excess of Loss – no loss emergence % change	Excess of Loss – with loss emergence % change
Japan – Cyber	0%	0%	-
Japan – General Third-Party Liability	-	-2% to 0%	-
Japan – Professional Lines	-	0%	0%
Japan – Personal Accident	-	-1% to 0%	-

Note: Movements are risk-adjusted.  
Source: Gallagher Re

# Specialty

## Commentary by Line of Business

### Global – Marine

- A general further hardening of the market, with buyers continued to be treated individually and differentiated accordingly by reinsurers
- Strong focus by reinsurers on coverage under individual contracts
- Marine, Energy and Terror Retrocession capacity was far more limited than on the Direct and Facultative, with consequential impact on pricing
- 1 March and 1 April renewals were later than in prior years due to uncertainty surrounding Russia / Ukraine conflict
- Concern as to potential impact on reinsurance programmes particularly regarding War on Land and Aviation War
- Peak Energy exposures, such as Sleipner and Johan Sverdrup, continued to put pressure on internal aggregate caps with reinsurers restrained by amount of exposure ceded to individual reinsurance programmes
- Terror was in focus due to increasing Blast Zone exposures in underlying portfolios, as well as particular attention drawn to SRCC coverage afforded within Specialty protections following Riots in South Africa, as well as War on Land in Ukraine
- Nat Cat aggregate remained a hotspot for reinsurers, with internal allocation of capacity restricting certain reinsurer's ability to continue with expiring line size, or certainly limiting growth
- Increasing emphasis by reinsurers on the growing impact of inflation and minimum price rises required to "stand still"

### Global – Aerospace

- Pre 24 February:
  - In the immediate lead up to the 1 April the aviation reinsurance market was continuing to follow a very similar approach to renewal pricing as seen at 1 January 2022
  - There was sense of stability across the market with excess of loss pricing being broadly flat relative to exposure adjustment. As reported at 1 January 2022 reductions were difficult to achieve with reinsurers being reluctant to give back hard won increases in pricing that had been achieved during the two previous renewal periods
  - Reinsurers approach to proportional placements similarly remained stable, with terms and conditions generally remaining unchanged. Early signs of the positive impact of reduced flying activity on both attritional and large losses is becoming evident within recent years underwriting results. In view of this there was an early move by some buyers to again review ceding commission levels
  - Against this backdrop the direct aviation market closed out 2021 with some softening evident. This was particularly noticeable within the airline segment, where rate reductions

in the region -5% were commonplace with certain insurers being prepared to take an optimistic view of how return to flight would combine with higher rating levels to generate a more sustainable airline income base

- Post 24 February:
  - An un-intended consequence of widescale sanctions has seen Russia adopt its own retaliatory response to these measures, passing a law which will allow airline operators to re-register aircraft, leased from numerous western based lessors, onto the Russian register. The non-return of a significant number of assets has the potential to result in sizeable losses impacting the aviation (re)insurance market to an extent not seen before and to a magnitude that could bring about profound change to the structural foundations of the market. There is no precedent for this type of event at scale and losses may be subject to protracted litigation
  - Whilst it is too early to make any predictions around such an unpredictable event, there has already been some first signs of (re)insurers firming approach to coverage and pricing. However, with firm order terms having been given on many 1 April 2022 programmes ahead of these developments the majority of placements renewed without too much change
  - Excess of loss pricing has therefore remained measured and consistent, but with more marked changes expected as we move through 2022

### Japan – Bond and Credit

- No significant changes in structure or coverages required by ceding companies. Limits for each obligor/buyer were maintained at similar levels overall, although some increases were seen (especially for customs bonds) primarily due to increases in natural resource prices
- Premiums largely remained stable with low loss activity during 2021
- Some reinsurers appeared cautious sensing that the economy might be entering a downwards phase in its cycle as increasing overhead costs begin to push some industries into more challenging environments. This was coupled with the possible cessation of the Japanese government's economic support measures for businesses, introduced in response to COVID-19, during the course of the year
- Reinsurer appetite remained strong and capacity plentiful, especially for Japanese domestic risks with placements oversubscribed
- Many ceding companies incorporated sanctions clauses where absent, driven by Reinsurers' increasing concern with sanctions compliance in context of the current geopolitical landscape

### Specialty rate movements

Territory	Pro rata commission	Risk loss free % change	Risk loss hit % change	Catastrophe loss free % change	Catastrophe loss hit % change
Global - Aerospace	0%	0%	0%	0%	0%

Notes: Movements are risk-adjusted.

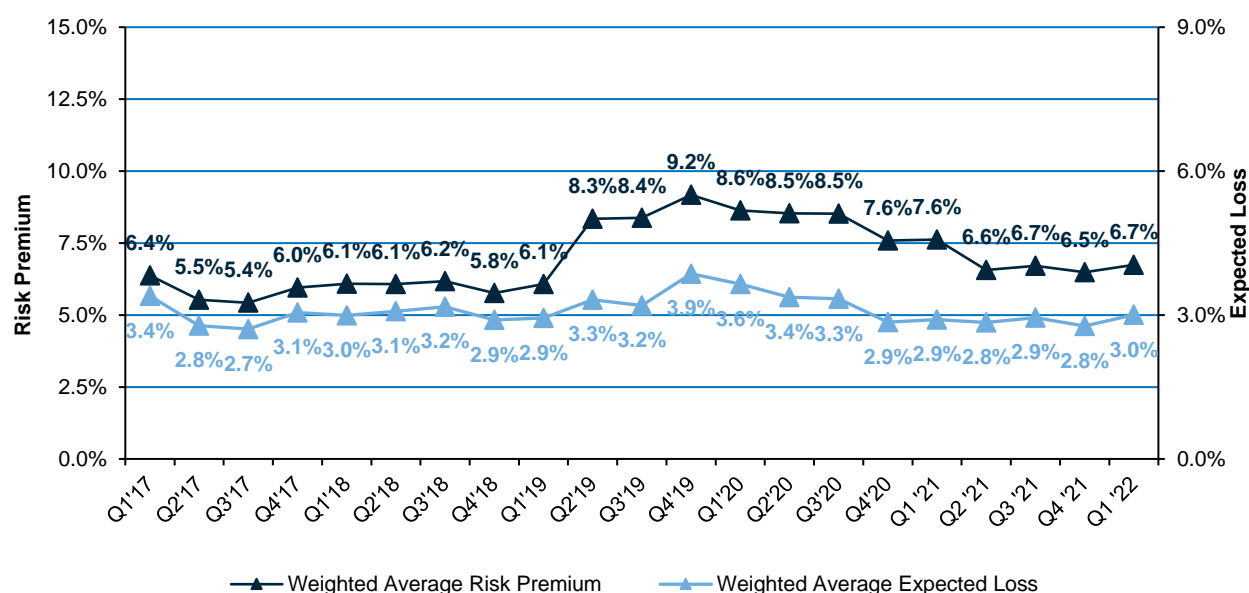
Source: Gallagher Re

# ILS Update

- Q1 2022 built on the record setting year of cat bond issuance in 2021, with a productive quarter of issuance, both in terms of deal count and total issuance volume
- The cat bond instrument remains attractive to investors, with industry index cat bonds continuing to attract narrow margins and favourable pricing for sponsors
- Whilst the collateralised reinsurance and sidecar markets remain relatively stagnant, adjustments to contract terms and revisions to collateral release mechanics designed to be mutually acceptable, suggest progression in the space
- We continue to see interest from existing and new investors and cedants in expanding the range of risks suitable for ILS investment

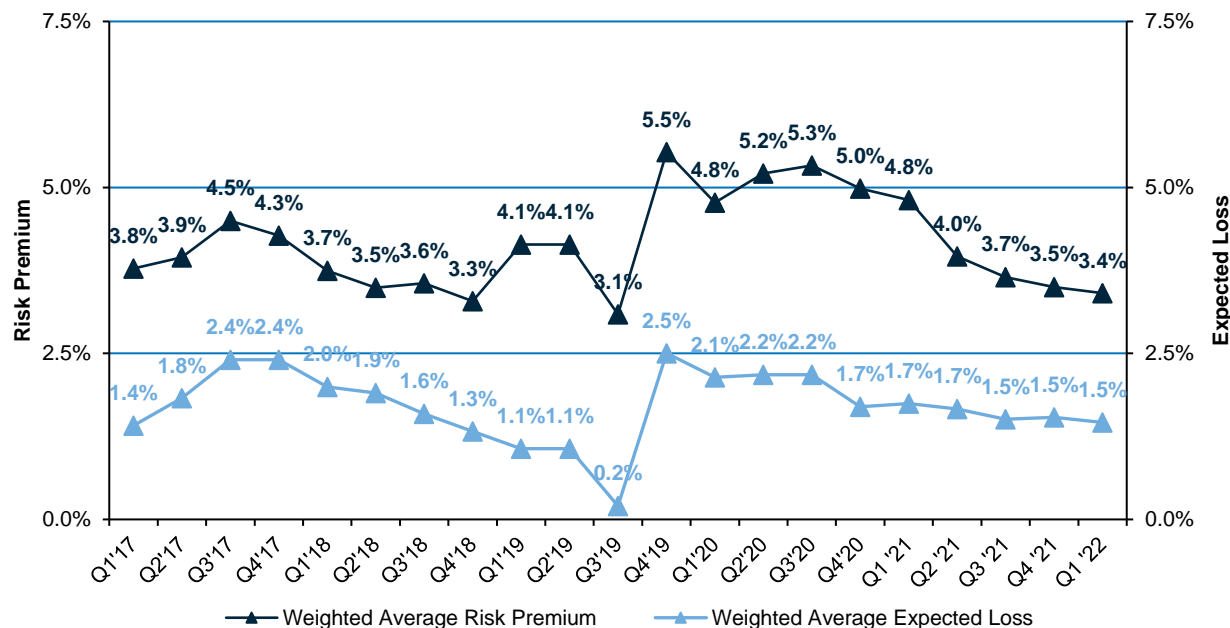
The charts below show the changes in the average risk premium and expected loss for both U.S. wind and non-U.S. wind publicly traded cat bonds, along with the capacity development of the cat bond market, and a comparison of the yield on cat bonds as against two other comparable investment classes.

**Quarterly Long-term U.S. Wind Exposed  
Weighted Average Risk Premium and Expected Loss**



Source: Gallagher Securities, Inc Transaction Database as of 31 March 2022. Aggregate data exclude private ILS deals.  
LTM = Last 12 months. Aggregate data are for primary issuance and do not reflect secondary trading.

### Quarterly Long-term Non-U.S. Wind Exposed Weighted Average Risk Premium and Expected Loss<sup>1</sup>

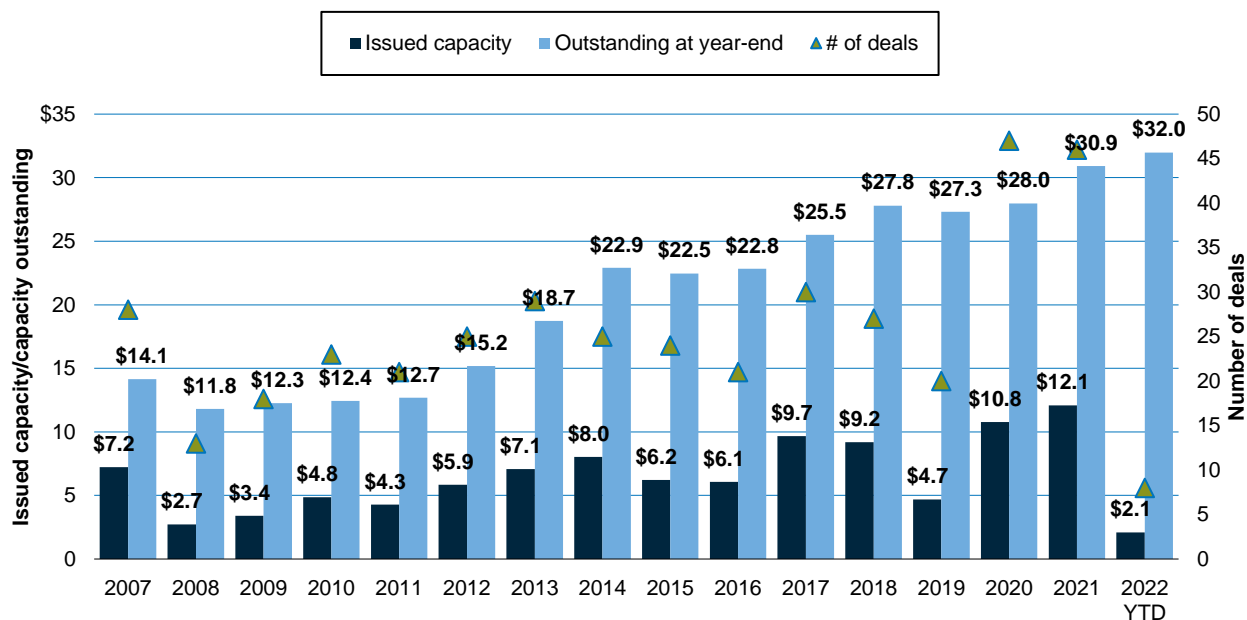


Source: Gallagher Securities, Inc Transaction Database as of 3/31/2022. Aggregate data exclude private ILS deals.

LTM = Last 12 months. Aggregate data are for primary issuance and do not reflect secondary trading.

<sup>1</sup> Note that the sharp decline in Q3 2019 expected loss and risk premium is caused by a lack of non-U.S. wind issuances since Q4 2018. Of those that were issued, size, expected loss and spread were relatively low, causing the drop-off in measurement.

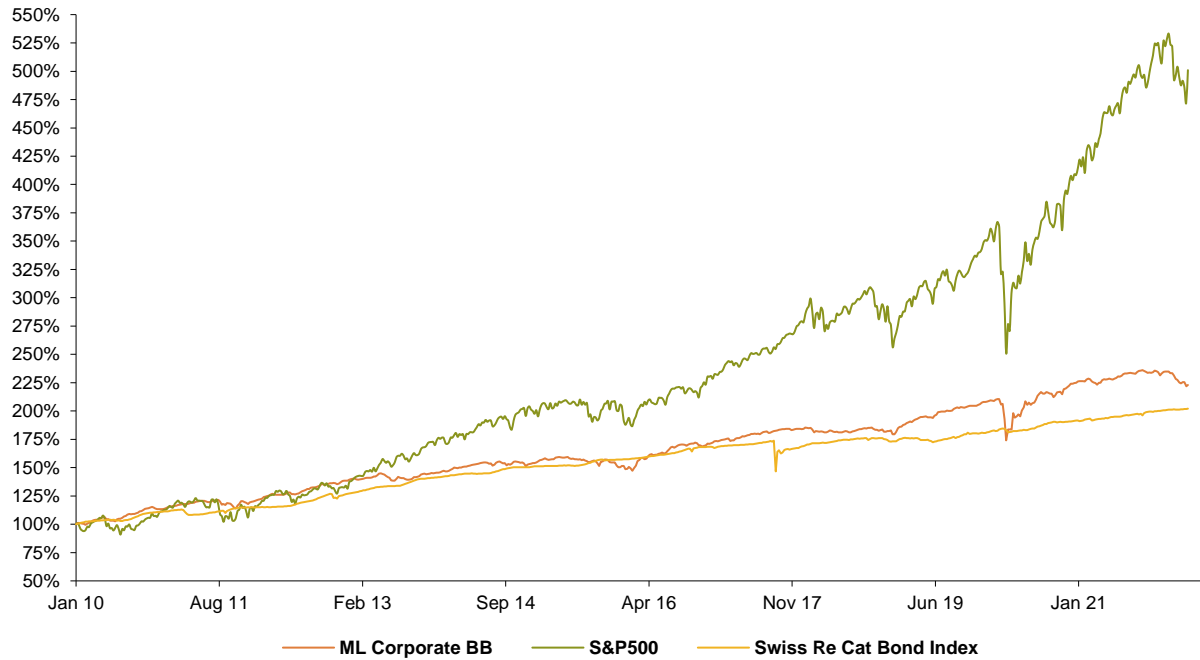
### Non-life Catastrophe Bond Capacity Issued and Outstanding by Year<sup>2</sup>



Source: Gallagher Securities, Inc Transaction Database as of 3/31/2022. Aggregate data exclude private ILS deals.

<sup>2</sup> All issuance amounts reported in or converted to USD on date of issuance. Outstanding amounts adjusted for actual principal losses.

## Historic Yield



Sources: Merrill Lynch Corporate BB Index, Standard and Poor's 500 Index, and Swiss Re Cat Bond Index



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