

1st View: Market Turns

JANUARY 2023



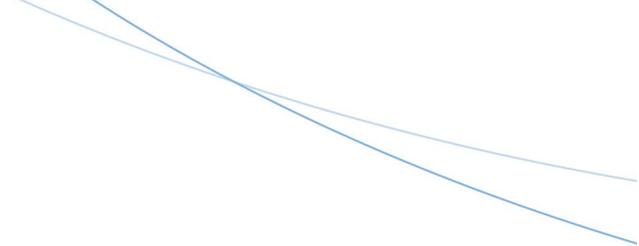


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1st View

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 based on the real time observations of Gallagher Re’s brokers working across all territories and classes covered in this document.

Market Turns

The market has faced a very late, complex and in many cases frustrating renewal. As anticipated before negotiations commenced, the two areas of most constraint were peak-zone US property catastrophe capacity and coverage for strikes, riots & civil commotion and war. In most other lines and regions, buyers have largely been able to source capacity, albeit at a higher cost and in many cases changed structures with an increase in attachment points and the raising of the 'floor' on minimum rates on line, a key focus for many reinsurers. The renewal process has been gruelling for participants, many of whom have not faced such a rapid change in market conditions across a single renewal season.

Whilst in a changing market frustration is easily felt by all participants, several buyers perceived that their efforts to approach markets early with more detailed renewal presentations addressing reinsurers' concerns over inflation and coverage were not recognized. Only a limited number of reinsurers were prepared to offer quotes in a timely fashion leading to difficulties for clients and their brokers to find market clearing prices, terms, and conditions.

Political violence renewals have been especially demanding in terms of finding a market consensus. The differences in opinion between buyers and sellers were aggravated by the perception that there was time to reach agreement on the complex issue of the Ukraine/Russia conflict well in advance of renewals.

As renewals approached the end of the year, the market became more bifurcated:

- A divergence between reinsurers prepared to provide clear lead terms and capacity and others who waited for firm orders in an effort to adjust terms at the last minute
- Clients with broad trading relationships facilitated negotiations with some reinsurers to be 'packaged', helping generated preferred pricing and/or increased capacity
- European property renewals generally being completed earlier than those for U.S. clients albeit much later than the previous norm, in some instances by as much as a month or two
- A casualty treaty market viewed as calmer and more rational than other parts of the business, and with renewals completed at terms seen as tough but fair by most buyers

This final point perhaps best illustrates the challenge facing many clients. The primary liability market has seen improved trading conditions for insurers for the last four to five years and did not require a hardening reinsurance market to provoke its own 'turn'. Reinsurers, while wary of prior year development in some instances, saw the benefit of improved original pricing and consequently reinsurance capacity and pricing has remained relatively constant. In addition, the significant increase in interest rates over the last 12 months is providing additional support for reinsurers, a benefit they have not enjoyed for many years.

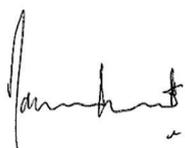
Conversely for short-tail lines, insurance pricing in recent years has not seen the same degree of price increases as witnessed in the longer tail lines. This competitiveness has been facilitated by a reinsurance market willing to provide attractive terms with plentiful occurrence and aggregate capacity. For 2023, the property treaty market has hardened considerably, and now many clients face the challenge of increased reinsurance costs, increased retentions and more restricted coverage knowing that the original market pricing environment will take time to move upwards, particularly for personal lines business and the US admitted market. The current economic climate makes this predicament even more challenging. It is for this reason that buyers were inclined to favour reinsurance partners taking a longer-term view on adjusting pricing, terms and conditions.

Market Turns (continued)

For property Risk renewals there has been less regional differentiation and a more uniform approach adopted by reinsurers seeking to improve their returns on a globally under performing class of business. Capacity has been restricted with reinsurers wanting to see the impact of original underwriting changes some buyers were starting to introduce in their portfolios before committing additional capacity.

There are, however, reasons for cautious optimism. The improvement in pricing and conditions, most notably in property treaty business, has led to some new capacity coming into the market from a combination of modest capital raising by existing reinsurers, a reallocation of internal capital from some reinsurers, and notably some primary carriers with existing reinsurance operations. ILS and collateralized markets have seen little signs of new capital entering, but lower estimates from certain clients on Hurricane Ian losses has eased some concerns over trapped capital and helped to provide much needed additional liquidity for retrocession buyers in the last few weeks of the renewal season. In the stressed US natural Catastrophe market, more positive signs of regulatory reform are tentatively emerging and whilst not impacting the 1/1/2023 capacity challenge they should provide some tangible relief further into 2023.

Times of significant market change are always challenging to navigate but we have seen a significant difference how individual reinsurers have reacted despite a widespread stated ambition to grow premium volumes in what is being viewed as the best treaty underwriting terms and conditions for a generation. Some have reached the end of the renewal season with reputations enhanced, and frankly deservedly so. This was done by exercising a firm and transparent approach based on client selection, allied to a commitment to their own view of pricing adequacy. Clients have favoured growth with these core strategic reinsurers, leaving both in good stead especially once capital and competition rebuild in the global reinsurance market.



James Kent

Global CEO, Gallagher Re

1 January, 2023

Property: Commentary by Territory

Asia

- Pricing on loss free Risk and Cat programmes in ASEAN and China varies from +15% to +20% risk adjusted, and even larger increases are seen in Taiwan and Korea.
- There has been an inconsistent application of deductible increases, primarily imposed on loss impacted placements.
- All peril coverage remains a common feature and existing hours clause wordings have been largely maintained.
- Rarely, shortfall terms have been imposed on proportional and excess of loss contracts.
- Proportional placements renewed with limited changes; commissions changed by low single digits. However, there was very limited additional capacity.
- Regional Retro deductibles increased significantly (usually dropping 1st layers) and pricing was up across the board, however, access remained to Worldwide capacity and coverage.
- Risk covers with existing Cat coverage renewing with no additional restrictions.
- Pre-paid reinstatements moved to paid for both Risk and Cat contracts.

Australia

- Renewal was extremely late with very few reinsurers willing to provide quotations.
- Continued to be pressure on increasing Cat retentions with limited appetite for low or frequency layers.
- Some reinsurers were looking to rebalance their Australian Cat portfolio and sought to reduce their exposures but did provide some support to clients where there was a broader relationship.
- Cat exposures in Proportional and Risk excess of loss programmes were under pressure with reinsurers pushing to reduce coverage.
- Reinsurers continued to push pricing and were willing to walk away from business that did not meet their requirements.
- Treaty terms and conditions remained mostly stable with no material changes to wordings, although sanctions clauses received additional focus.

Canada

- Canada experienced two Top Ten Catastrophic events in 2022 with a Derecho in May (6th largest) and Hurricane Fiona in September (10th largest).
- Fiona was the costliest hurricane to make landfall in Canada, although much of the economic losses were uninsured.
- Scrutiny was placed on layers with low attachment probability and high frequency of loss.
- First layers on Per Risk programmes viewed as "dollar trading" were partially or entirely retained by ceding companies, while Cat retentions were similarly seeing pressure to increase.
- Reinsurance capacity was mainly dedicated to existing clients with limited appetite for new business.
- Loss-impacted accounts or those with historically unprofitable results saw the biggest challenge to maintaining expiring capacity. Reinsurance pricing varied broadly by client and indications provided spanned

a wide range with certain reinsurers being consistent with market sentiment, while others were behaving more erratically and inconsistent to prior years.

- Top Cat layers saw a higher capital charge threshold but still well below the U.S. minimums.
- Overall, the Canadian market did not see the same level of pressure around terms and conditions as other regions and although pricing did experience meaningful increases in certain cases, it still offered financially viable pricing to support long standing trading relationships.

Central and Eastern Europe

- Majority of Cat excess of loss placements had a combination of retention increases, additional capacity purchased and a spotlight on reinstatement provisions. Cash spend was up from prior year and over-placement was minimal, if any.
- Majority of Risk excess of loss placements saw retention increases, cash spend up from prior year with minimal over-placement if any.

China

- Proportional:
 - Cedants and leaders had more rounds of negotiations to reach an agreement, resulting in a very late renewal.
 - Cedants continued to make concessions to reinsurers although the expected 2022 treaty results are much better than previous years.
 - Increased retentions a trend as cedants looked to retain more.
- Non-Proportional:
 - Market hardened although no severe event or Per Risk loss has occurred this year; most programmes remain loss free.
 - The quotations from reinsurers were far more than buyers' expectations, giving rise to very late firm orders and placements.

Europe

The traditional European January 1 renewal kick-off at the annual market gathering in Monte Carlo had already indicated a hardening property market and subjects such as secondary perils losses (again being responsible for an above-average Cat load at mid-year), high inflation and growing demand for Cat capacity – that was perceived at that time to be beyond the then available Cat capacity – dominated the meeting agendas.

Whilst these challenges were recognised by buyers, reinsurers and brokers, they didn't nearly address the fundamental European Property Market pressures that then played out post Hurricane Ian in the 4th quarter of 2022.

A very late renewal market evolved, which turned through November and December from a hardening market closer to a hard market, driven by discipline rather than shortage of capacity. This was described by many as a very tense renewal with little flexibility shown by reinsurers and some hard fought "wins" at the expense of damaged client relationships and reduced confidence from some buyers in the reinsurance product. During those two months, European clients ended up mostly stepping up to reinsurers requests, issuing market led firm order terms FOTs, and aiming at full syndication. Arguably the European property market re-set in two months some ten years of downwards cycle.

Key outcomes of the European Property Renewals were:

- European Cat and associated placements came together in a late rush during December but only after a renewal process that was delayed by weeks. Clients felt that this was driven by a combination of tactical delays by some reinsurers to force change as well as an inability to commit to renewals by others. Overall, this approach shifted the European market shares of the different global reinsurance markets (Bermuda, Europe, Lloyd's/London and Asia) to a much greater degree than during previous renewals with many traditional European markets gaining from this move.
- Driven by a once-in-a-generation CPI development, inflation became a key renewal subject. Most renewal portfolio data was adjusted for 2022 inflation and prospectively inflated into 2023 which represented a new approach for European buyers.
- Low attachment levels were challenged by reinsurers, moving on an event basis closer towards the 1 in 10 years for key perils – slightly lower attachments for combined perils layers were sometimes achieved. However, there was little or no flexibility shown by reinsurers towards these benchmarks with markets holding firm their positions to the end and often “forcing” programme restructurings.
- Despite the inflation driven cash increases on programmes that often already represented a double-digit percentage increase, most Cat firm order terms – even for loss free covers – were up by at least a further mid +20% to low +40% risk-adjusted uplift for contracts covering key perils – slightly lower for EQ – only covers and significantly higher (some up to +100%) for loss affected and Aggregate covers. Accepting to lose existing relationships, reinsurers were determined to force through these changes motivated by their own internal pressures of poor past results and restricted capacity for Euro wind often influenced by limited availability of Retro coverage – other reinsurers were willing to step up but only at a price.
- Reinsurers aimed to limit the number of reinstatements (partly successful) and to move away from pre-paid (mostly successful).
- Early fears of limited key perils capacity (Euro wind) and inability of reinsurers to satisfy additional capacity requests didn't materialise as numerous reinsurers were willing to expand their deployed capacity, but only at the right price for new top layer capacity and often with restricted coverage. The expected increase in demand for Cat limit didn't materialise in line with inflation as overall more modest additional capacity was sought.
- The market was less aligned on conditions with reinsurers pushing for coverage limitations on Strikes Riots and Civil Commotion, Non-Damage Business Interruption, Russia Ukraine and Belarus and limits on hours clauses which represented a significant challenge to align overall placements.
- An early renewal push by some reinsurers – some European but mainly Bermudian markets – to limit Cat coverage to named perils didn't ultimately materialise. However, it was a significant “road block” in the early weeks of the renewal and one of the contributors to the delayed renewal.
- Earning protections and bottom end aggregate Cat covers were in a true hard market situation, several of them either not being completed or even renewed

Despite all of the above challenges, the vast majority of Cat excess of loss programmes have achieved their target placement levels and there have been many fewer “shortfall covers” transacted than certain reinsurers expected and sometimes seem to have been waiting for.

France and Belgium

- An unprecedented renewal in many ways. After a first hint of a hardening market during the 2022 renewals, 2023 has shown a clear reset.
- The market hardening was driven by a combination of factors, which individually would not have been enough to shake the renewal but were very much cumulative. These include the overall macroeconomic

situation, firming interest rates, high single digit inflation (not seen for decades), overall reinsurance results worsening, large natural peril losses in the U.S. with Hurricane Ian, plus local French secondary losses emerging midyear.

- 2022 was a heavy loss year in France: hail losses (more than €5bn for the market) and subsidence (above €2bn for the market). The bottom layers of Cat excess of loss programmes were affected, and majority of the excess aggregates were burnt.
- This convergence of factors pushed most large buyers, and buyers who had sought increased capacity, to quickly adjust their structures and budgets to cross the line early enough. It was even more challenging for the small to mid-sized buyers.
- Major structural changes were seen across all products, including
 - Cat excess of loss:
 - Retentions increased significantly.
 - Paid reinstatements no longer available.
 - Adjustable premiums now the norm rather than flat premium.
 - Several programmes required differential terms in order to complete the placement.
 - Aggregate:
 - FGU aggregate disappeared and feeding layers are the new standard.
 - Completely restructured with retention increases and more money on the contract.
 - Appetite was low even with these major changes, excess aggregate were not fully placed.
 - Many reinsurers completely withdrew capacity from aggregate structures.
 - Nat Cat (under French law): Subsidence coverage was an important topic, a number of reinsurers no longer cover this peril.

Germany, Switzerland, and Austria

- Shortage of capacity seen with some key reinsurers exiting and others needing to reduce their exposure. A limited number of reinsurers had new capacity to deploy, leading to less capacity being available compared with previous years – especially for certain aggregate and stop loss structures.
- Increased demand by clients driven by inflation, real exposure growth (which was not unusually high and in line with previous years) and reduced risk appetite from buyers (partially caused by the flood event “Bernd” in 2021) and thus an intention to buy above 1 in 200. Adjustment for inflation according to buyers’ internal analyses and market studies led to much more capacity being sought.
- Market imbalance – the combination of higher demand and reduced capacity led to significantly higher premiums.
- In many cases, buyers restructured programmes to reflect reinsurers’ demand with retentions generally shifting upwards to a greater extent than expected, and in some cases with a second shift during placement if the first was deemed insufficient by too much of the market, gearing entry points towards at least 1 in 5 (some reinsurers pushing for 1 in 10).
- Reinsurer reluctance to support Aggregate, AAD or stop loss contracts drove a move towards pure Event covers and some stronger wordings requests including for increased clarity and some attempts to restrict coverage.
- Reinsurers were overwhelmed by quotation requests or new offers with each submission taking more time to analyse due to restructured programmes, inflation, etc. and more complex internal referral processes.

- Some reinsurers delayed their final business plans and ability to write business until mid-to-late November, delaying the process further leading some reinsurers not to look at new offers and focus on their existing clients as well as picking and choosing those contracts that offered the largest margins or came from the most well-known clients.
- The above led to a unique and challenging renewal progress as before and during Baden-Baden the majority of market participants seemed to expect a continued hardening of the market – in line with the 2022 renewal, i.e., to a reasonable extent and were not prepared for the sudden late changes in the market with a plateau not being achieved until beginning / mid-December.
- As a result, some early ordered programmes had to be re-structured and / or re-priced to get fully placed which triggered an expectation from reinsurers that other programmes required revised FOTs as well and caused placements to struggle.
- In some situations, reinsurers ignored first FOTs in the hope that a second round would come afterwards but from beginning / mid-December significant progress was made and programmes started to be fully placed, with some being closed shortly before Christmas.
- At the end of December some reinsurers offered their remaining capacity at very attractive terms and some reinsurers had an opportunity to significantly increase their involvement with chosen clients.
- Buyers had to accept several reinsurer requirements, most notably increased retentions and pricing, but finally got their programmes placed before the end of the year in most cases.
- Reinsurers' attempts to reduce coverage or impose unreasonable wordings restrictions were generally not successful, although some restrictions were seen especially on more internationally or globally exposed portfolios.
- Inclusion of other lines of business within property programmes (with the exception of Motor Hull) was generally difficult and was only partially able to be resolved through higher premiums.
- Many buyers were disappointed by reinsurers' behaviour during the renewal. Buyers certainly understood the changed market environment and agreed to most requirements. However, there was an opportunistic approach from some reinsurers which was negatively noted by buyers.
- The demand for higher capacity and the requirement to replace reinsurers who couldn't renew shares was largely covered by the remaining reinsurer panel instead of by new players.

Indonesia

- Financial issues with domestic reinsurers resulted in some cedants shifting capacity to overseas reinsurers.
- Local lead reinsurers pushed through an overall increase in pricing and tightening of proportional terms (less inward facultative capacity) whilst also reducing reinsurance commission.
- Excess of loss pricing increases varied considerably depending on clients and results – in some cases deductibles increased albeit not in a meaningful way.

Italy

- Property Catastrophe:
 - Experienced a generally benign year in terms of loss activity, as it was loss-free from a peak perils perspective with some events from non-peak perils (severe convective storms and a flood in central Italy). However, that did not affect the insurance market as widely as in prior years.
 - Despite a relatively positive year in terms of reinsurance performance, a very late renewal was experienced with a prolonged quotation and slow written lines authorization process.

- Retention levels have continued to be under pressure as in previous years, with reinsurers asking for much bigger increases and often refusing to quote sub layers and low attachment / high rate on line layers. As a result, the vast majority of property Cat or Cat-related contracts have been forced to increase retentions significantly.
- Several differential conditions have been offered by reinsurers to allow clients to close placements.
- Levels of over-placement reduced to minimum or none with very few exceptions, despite a reduction in overall capacity needed in the market since last year.
- Some new or additional capacity appeared in the market from reinsurers seeking the positive diversifier of Italy earthquake exposure.
- Nat Cat aggregates were under even more pressure with revised feeding layers, reduced scope of cover, increased annual aggregate deductibles, and significant risk adjusted increases.
- Most of the Nat Cat aggregate placements were disconnected from the mainstream renewals and discussed separately, with overall scarce and reduced capacity.
- Per Risk:
 - Most of the considerations made on Cat remain valid on Per Risk programmes in terms of structural changes and price revisions.
 - Many programmes were loss affected or have seen loss deterioration from previous underwriting years.
 - Programmes continue to perform poorly especially at lower attachments.
 - Cedants remain flexible on price adjustments to keep retention levels as close as possible to expiring.

Korea

- Significant loss activity over the past 12 months (both risk and event) resulted in a meaningful hardening of pricing and terms with several reinsurers exiting the market entirely.
- Appetite for proportional reduced substantially with reinsurers only willing to offer quota share support going forward (most surplus structures disappeared).
- This renewal has seen the introduction of broad sliding scales of commission, loss participation clauses and loss ratio caps.
- New introduction of co-insurance limitation clause which limits the treaty capacity in case of co-insuring an underlying risk with one or more primary insurers.
- Excess of loss pricing increases varied considerably depending on individual contract loss position.

Latin America

- The market continued to harden as reinsurers have withdrawn and/or are more selectively deploying capacity in peak catastrophe territories in Latin America and the Caribbean. In general, reinsurers prioritised long-standing relationships with clients when deploying their capacity.
- Reinsurers sought to maintain their natural catastrophe exposed line sizes in absolute monetary terms, which led to challenges in meeting buyers' growing requirements for event limit capacity on property proportional treaties.
- Property Cat excess of loss pricing increased on a risk adjusted basis across the region; ranges influenced by supply and demand dynamics.
 - For Cat loss free programmes, the observed increases were from +7% to +35%.

- Non-property Cat and non-property treaty placements with good claims history were sought by reinsurers as a means to balance Cat exposures. Terms and conditions for such programmes saw lower increases, +5% to +12%.
- Fewer reinsurers were willing to quote at this renewal, and many reinsurers delayed their offers to reassign Cat capacity to programmes offering the highest technical margins in each catastrophe zone and to ensure alignment with their own retrocession costs.
 - This issue, along with many other internal demands, caused placements to undergo significant delays, even when renewal information was released very early to market.
- Some reinsurers sought to limit coverage via exclusion of perils and/or per event definition. Broadly there has been sufficient capacity in the market and most programmes have been placed with little concession of coverage from cedants.
- Inflation has been a muted topic at renewal for Latin America and the Caribbean as cedents have historically dealt with this pressure and have embedded inflation management mechanisms in their business models.

MENA and South Africa

- Middle East:
 - Mixture of healthy and poor performers, the latter mostly being driven by risk loss activity; imbalance a concern for reinsurers, which is leading to increased restructuring of treaties/programmes to achieve better alignment of interest. Localised catastrophe losses as a result of flooding affecting KSA and Oman programmes.
- North Africa:
 - Healthy performance, no noteworthy loss activity; corrections driven primarily by pressure on minimum rates on line. Observed increases towards the lower end of the mentioned range.
- South Africa:
 - The most heavily loss affected of the contributing regions, and hence upper end of the range of noted increases applicable; market witnessed the largest ever natural catastrophe loss, being the Kwazulu-Natal floods, in April 2022.
- Proportional:
 - Proportional programmes saw drastic structural changes, including the reduction/removal of surplus lines and increases in gross retentions, with the focus on transferring volatility from reinsurers to cedants.
 - Financial terms were as expiring for good performing accounts and reduced for bad performing accounts.
 - There was increased focus on premium reserves to follow global market trends.
- Excess of loss:
 - Excess of loss programmes saw increases in retention levels and increased pricing for even loss-free accounts.
 - There was a reduction in Cat capacity as well as a reduction in coverage and scope.

Malaysia

- Similar market reaction to that seen at the 2022 April 1 and July 1 renewals with January 1 buyers renewing for the first time post the Malaysian flood.

- A meaningful reduction in reinsurance commission on proportional was seen, with an average of -9% reduction (between -3% to -16.5% reduction) and tightening of retention tables across all cedants.
- Loss Participation clauses now commonly in place – most triggered at 100% loss ratio with cedant participation between 30% and 50%.
- Excess of loss pricing increased dependent on loss record.
- Overall, deductibles remained unchanged although some cedants chose to increase to manage costs.

Netherlands

- Property Catastrophe:
 - Significant February Windstorm loss activity sparked discussions about event definition clauses and loss payback on top of what was already going to be a difficult renewal due to inflationary pressures. This prolonged the quotation process and final terms negotiations. The result was a very late renewal with a slow written line authorization process and reinsurers pushing for differential terms, which were avoided in majority of the cases.
 - Retention levels have continued to be under pressure for a majority of Cat excess of loss placements with significant increases; a number of clients obtained additional capacity and discussions were concentrated on coverage and reinstatement provisions. Cash spend was up (anywhere between 25% and 40%) compared with prior year and over-placement was minimal, if any.
- Majority of Risk excess of loss placements were with loss experience. Almost all saw retention increases, cash spend up from prior year with minimal over-placement if any.

Nordic Countries

- Property Catastrophe:
 - Denmark was impacted in early 2022 by windstorm Malik with first layer losses for the local markets, and Sweden saw deterioration of the 2021 Gavle floods. Despite this, in the absence of any larger Nat Cat related events, the Nordics continue to be a profitable and diversifying Cat territory for most reinsurers.
 - Although the majority of reinsurers will have made a profit in 2022, on top of the past 10 years, the typically late renewal process was pushed even later with several key reinsurers unsure of where to price the market and what capacity they wished to deploy.
 - Almost all cedants increased their retentions as the economic realities and capacity available at low attaching layers made expiring entry points broadly unsustainable. Some of these decisions were taken very late in the renewal.
 - Increased retention levels were welcomed by most reinsurers, but some still preferred to deploy their capacity higher up the programmes as they had limited capacity available and strong internal guidelines to not support below certain entry return periods (generally below 1-in-6 to 1-in-10). Bottom layers therefore experienced very little, if any, over-placement.
 - Nordic renewals were generally later than rest of Europe and were put under competition for capacity from reinsurers with limited capacity available and/or limited cedant touchpoints. Over-placements were therefore commonly reduced.
 - Where differential conditions were needed, placements invariably included price and/or coverage and in those few instances, cedants largely rewarded reinsurers who were perceived as helpful in the overall process and across multiple lines of business rather than opportunistic reinsurers.

- Any Nordic interests abroad and management thereof were a key discussion point for many reinsurers.
- The usage of prepaid reinstatements was heavily reduced.
- Top layers in the region saw a significant increase in pricing following movement on what reinsurers considered to be minimum rates on line.
- Per Risk:
 - Several of the region's property Per Risk programmes saw continued loss activity in 2022, following an active few years recently, which has left many reinsurers with negative results.
 - Retentions were under pressure and most cedants decided to increase retention levels as a response to increasing prices and reducing appetite from reinsurers to deploy capacity at what was perceived as too close to action.
 - Several historic core reinsurers reduced their portfolios leaving opportunities for others to step in and whilst several reinsurers saw this as a good opening, the new capacity didn't easily replace lost capacity.
 - Non-Physical Damage BI and especially energy price related BI scenarios were a key discussion point for those writing large commercial business in the region following recent loss activity and macro-economic realities.
 - Losses outside of the Nordics was again under investigation from many reinsurers.
 - Following significant market withdrawal, facultative facility capacity was reduced, and clients had to work hard to complete such placements.
 - Over-placements generally reduced from the previous year.

Turkey

- Near triple-digit inflation drove up aggregates with Turkish Lira devaluation only partially offsetting limit requirements of Euro-denominated non-proportional programmes.
- A late proportional renewal with some tightened terms (particularly on co-insurance capacity) and lower commissions encountered significant placement challenges.
- Non-proportional risk-adjusted pricing up +20% to + 50% but also encountered placement challenges.
- Historic high return periods purchased were widely reduced to avoid needing additional limit.
- Monetary cost increase considerably greater than risk-adjusted increase in many cases.

United Kingdom

- The majority of reinsurers quoted the structures that were requested but a small number were reluctant to quote on the basis asked by cedants.
- On Per Risk and Cat business, prepaid reinstatements moved to paid for many clients.
- Some reinsurers sought to limit critical Cat in Per Risk treaties, but this was resisted by buyers.
- Buyers have raised retentions on both Risk and Cat meaningfully, and in many cases bought additional Cat capacity due to the impact of inflation on their portfolios.
- Reinsurers requested changes to Loss Occurrence definitions which was met with mixed reactions from cedants. The most common changes included reducing hours for storms, flood and freeze and no reinstatement in the same event in respect of Nat Cat.

- Capacity remains but at a cost. Pressure on pricing for new capacity with a higher hurdle rate relative to existing capacity.

United States

- In addition to Hurricane Ian, other recent Cat and Risk losses, the return of inflation and increasing interest rates are all causing disruption in the market.
- While reinsurers were citing difficulty in raising new capital; there have recently been a number of capital raises which helped alleviate some capacity constraints late in the season.
- Overall, the renewal season ran late; many reinsurers were refusing to quote before Thanksgiving which had a knock-on effect with FOTs not being issued until the middle of December. Reinsurers were also not authorizing rapidly, waiting for revised firm orders. Some cedants who issued firm orders prior to the market crystalizing in late December needed to provide revised FOTs.
- On Pro Rata structures, ceding commission reductions were generally seen across the board with larger reductions on less profitable contracts. Gross quota share capacity was largely unavailable, and many programmes shifted to a net basis.
- Reinsurers were seeking to exclude natural perils from Risk excess programmes; however, this position was moderated with many programmes completed on an all-perils basis and others excluding critical Cat only.
- Reinsurers aimed to tighten occurrence definitions on Cat programmes, and in some cases sought to exclude secondary perils and restrict coverage to critical Earthquake and Hurricane perils only. On firm order terms natural perils were generally accepted, however, cedants looking to complete large capacity programmes had to accept some restriction of perils covered.
- A wide range of price changes was observed as reinsurers looked to differentiate between geographical scope, peril specific coverages, cedants and loss impacted accounts.
- First layers of Risk excess of loss and Cat programmes were particularly challenging to place as reinsurers looked to move up programmes. Accordingly, many cedants increased net positions via co-participations, annual aggregate deductibles, or fixed retention increases.
- While many cedants looked to buy more capacity in response to exposure increases, inflation and perceived loss trend, top layer pricing came under pressure as reinsurers substantially increased their minimum premium requirements in response to their own cost of capital.
- Cyber, Communicable Disease, Terrorism, Strike and Riot (SRCC) became a frequent point of discussion with reinsurers seeking to restrict coverage.
- Non-concurrent terms have become much more prevalent with some cedants being encouraged to bind authorizations as they come in rather than waiting for programme completion.

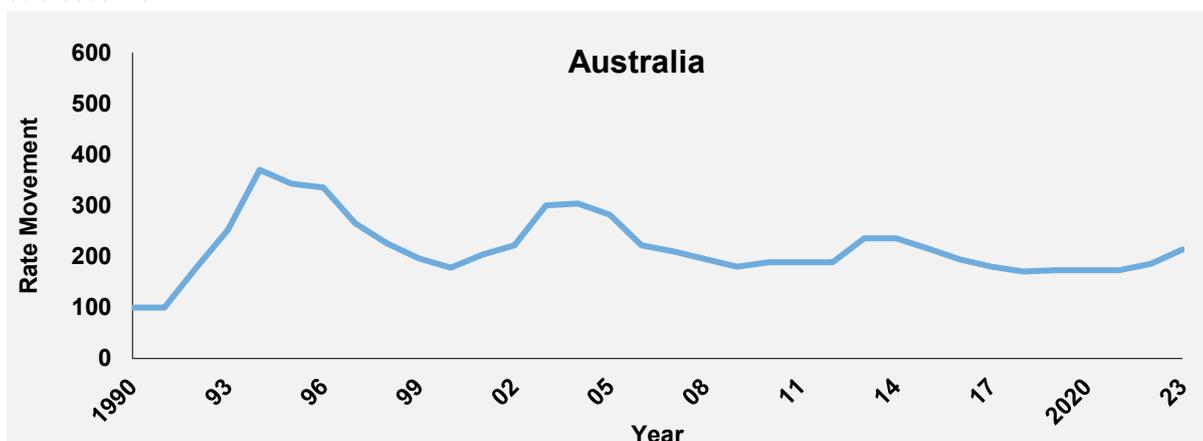
Property Rate Movements

Territory	Pro rata commission	Risk loss-free % change	Risk loss-hit % change	Catastrophe loss-free % change	Catastrophe loss-hit % change
Australia	-5.0% to -2.5%	+5% to +15%	+15% to +30%	+10% to +20%	+25% to +45%
Canada	-4% to -2%	+10% to +20%	+20% to +35%	+12% to +25%	+20% to +40%
Central & Eastern Europe	-1.5% to 0.0%	+5% to +20%	+20% to +35%	+10% to +30%	+20% to +50%
China	-4% to -1%	+15% to +30%	n/a	+20% to +30%	n/a
Europe	n/a	+20% to +30%	n/a	+25% to +40%	n/a
France, Belgium	n/a	+10% to +20%	+20% to +30%	n/a	+25 to +60%
Germany, Switzerland, and Austria	n/a	+25% to +60%	n/a	+25% to +60%	n/a
Italy	n/a	n/a	+5% to +25%	+7.5% to +20%	+10% to +35%
Indonesia	-2.5% to 0%	+5% to +20%	+30% to +40%	+5% to +20%	+30% to +40%
Korea	-10% to -5%	n/a	+50% to +100%	+15% to +20%	+50% to +100%
Latin America	-7% to 0%	0% to +12%	+10% to +25%	+7% to +35%	+10% to +45%
MENA, South Africa	-3% to 0%	+5% to +10%	+10% to +25%	+15% to +30%	+30% to +50%
Malaysia	-9%	+20% to +25%	+25% to +100%	+20% to +25%	+25% to +100%
Netherlands	-2% to 0%	+2.5% to +17.5%	+7.5% to +25%	+5% to +32.5%	+15% to +45%
Nordic Countries	n/a	+10% to +30%	+15% to +50%	+15% to +30%	+25% to +35%
Turkey	-5%	+20% to +50%	n/a	+20% to +50%	n/a
United Kingdom	n/a	+20 to +25%	+30% to +40%	+20 to +27.5%	n/a
United States	-6% to -3%	+15% to +25%	+35% to +150%	+25% to +50%	+45% to +100%

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

Property Catastrophe Pricing Trends

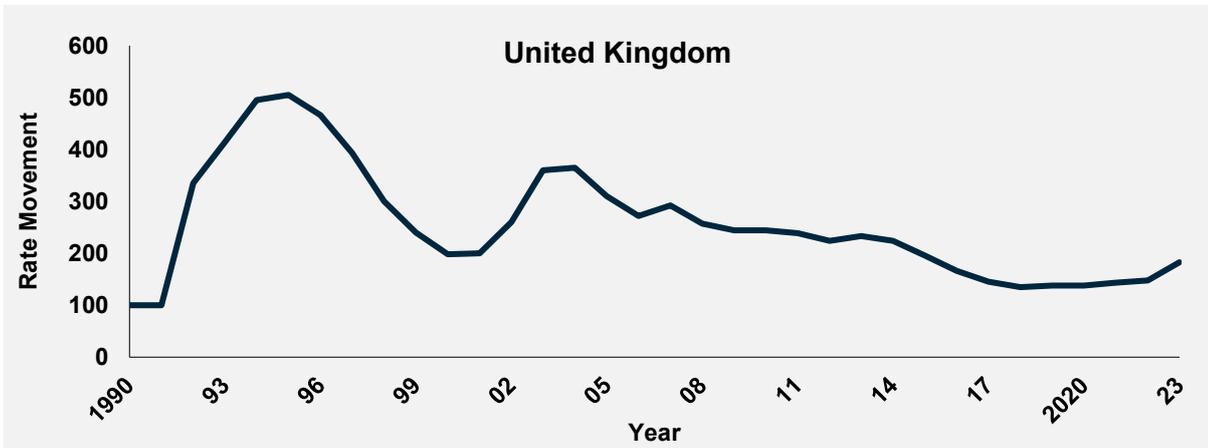
The charts on these pages display estimated year-over-year property catastrophe rate movement, using 100 in 1990 as a baseline.



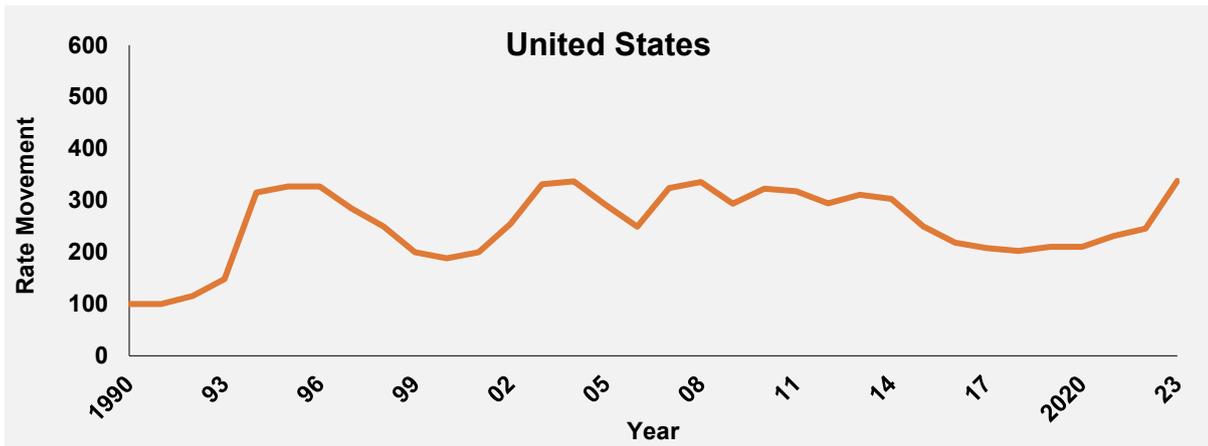
Source: Gallagher Re



Source: Gallagher Re



Source: Gallagher Re



Source: Gallagher Re

Casualty: Commentary by Territory

Overview

The casualty treaty market, was overshadowed by its noisier Catastrophe and Specialty siblings. The market was calmer and more rational with renewals completed at terms seen as tough but fair by most buyers.

Concerns over prior-year deterioration coupled with the real uncertainty of economic and non-economic loss inflationary dynamics are shared jointly by primary market participants and their reinsurers. Quota Share ceding commissions adjusted moderately to reflect rate and loss experience but for context, that follows two years of upward movement for the same reasons.

The primary liability market has seen improved trading conditions for the last four to five years led by insurers resolve to address underperformance. It did not nor does not require a hardening reinsurance market to provoke its own 'turn'. Furthermore, the economics of longer-tail classes have benefitted from the major improvement in reinvestment rates over the last 12 months providing additional support for reinsurers, a benefit they have not enjoyed for many years.

Global – Motor Liability

- The renewal season for Motor was, as with other lines of business, very late but seemed to be slightly more measured than short-tail lines. Reinsurers often cited a need to understand the broad client relationship before committing their capacity.
- Recent performance was relatively stable in most territories and not needing any major corrections; however, reinsurers have been taking the opportunity of a harder market to improve terms wherever possible. This action was countered to some extent by the desire of some reinsurers to diversify away from Property Cat and Risk and broaden client relationships. On the same basis buyers have been using long-tail lines as a sweetener to maintain support in more challenging areas.
- Pricing corrections averaged around +10% risk adjusted, with reinsurers often citing concerns about social inflation in addition to economic inflation. Of course, with long-tail lines, the potential improvement in investment returns and increases in discount rates in some markets, will have enhanced reinsurers margin further.
- There was some pressure on retention levels, but many programmes found an acceptable price in order to maintain existing levels.
- Initial discussions regarding Index Clauses and a desire to move towards full indexation were short lived.
- In most placements, clarity around Russian, Ukrainian and Belarussian exposures was secured.

France – Motor Liability

- On motor MGA, limited capacity as reinsurers needed to refer any new engagement on MGA segment and proceed to due diligence before renewal.
- Willingness to separate coverage of Motor Own Damage (MOD) and Motor Third Party Liability (MTPL) into two different treaties or to include MOD in property treaty.
- Stable capacity, although some buyers saw large decreases and the loss of several leads.
- New table published for capitalization of losses (rate down from 0% to -1%).

United Kingdom – Motor Liability

- Several UK motor excess of loss programmes have seen double digit rate increases, driven predominantly by care cost inflation. Buyers who purchased cover at higher attachment points generally paid the highest increases as inflationary impacts are disproportionately larger at this level. Additionally, buyers who had not demonstrated sufficient rate strength to counter inflation tended to be on the higher end of the rate increases.
- Hardening market conditions also meant that many buyers who previously attached at lower levels opted to drop layers in order to reduce their overall reinsurance spend and minimise ceded margin.
- Pro rata saw pricing challenges, with some reinsurers having lost money on their 2021-22 underwriting year contracts due to unexpectedly high levels of inflation in 2022. Some reinsurers sought to get ‘pay back’ in their 2023 contracts through increased margins and reduced minimum commissions though buyers resisted.
- Whilst some established reinsurers opted to deploy less capacity on excess of loss programmes, this was offset by new capacity from other reinsurers who saw an opportunity to enter and capitalise on the hardening rates. The fact that less reinsurance was purchased through dropping layers and reduced cessions also served to ameliorate any potential capacity issues. Consequently, there was adequate capacity in the market to place both proportional and non-proportional treaties.

International Casualty

- International Casualty is a predominately excess of loss market with consequently little evidence of commission discussions across International compared with North America.
- It was an exceptionally slow renewal with a significant delay in the provision of quotations and in turn firm orders. Most placements finalised on or before inception.
- Reinsurer response times were slow – in some instances this appeared to be a deliberate tactic with reinsurers waiting to take advantage of the challenges in the property market.
- The range of quotations was broad. In almost all cases pricing was up with loss impacted reinsurance placements facing larger increases.
- Reinsurers sought additional clarification across all exposures, noting inflation and cyber exposures as a key focus.
- There was real reluctance from most reinsurers to accept changes in coverage without detailed explanation or additional premium.
- Other issues at the front of mind for reinsurers included:
 - Limit utilisation (i.e. how are buyers selling their limits after a period of limit compression).
 - Rate change within the business – reinsurers are increasingly interested in statements about movements in original rates, seeking to dissect rate changes driven by inflation compared with rate change driven by growth in exposure.
- Buyers continued to seek solutions for systemic and accumulative risks. Although reinsurers underwriting appetite and process was significantly more discerning, adequate capacity for Clash and casualty Catastrophe was still available for quality buyers that presented well and showed sufficient pricing adequacy. There was however, a clear trend of reinsurers seeking to remove or limit exposure to the more volatile risks.

France – General Third-Party Liability

- Capacity stable on General Third-Party Liability excess of loss programmes.

- No issue regarding event clauses, some request to amend sanction clauses and clarify Russia/Ukraine exposure.
- France renewals were less impacted by inflation speculation.

Italy – General Third-Party Liability and Motor Liability

- Motor performance deteriorated during 2021 and 2022 and companies have gradually intervened on original tariffs to adjust Loss Ratio trends.
- Deteriorations have been driven by continued reduction in average premiums and increase in average claim cost. Furthermore, changes in court awards criteria have caused reserving reviews and moderate increases in bodily injury claim cost.
- Reinsurance renewals were less complex than in property.
- Large loss activity remained relatively stable in line with previous years and cedants largely succeeded in defending existing levels of retentions at acceptable price adjustments, sustainable with growing projected premium incomes.
- Long tail lines are still seen as sweetener in the overall bouquet placement dynamics and as a consequence capacity has remained available.
- More and more reinsurers wanting to move away from pure property Cat placements and looking to expand the broader client relationship.
- Niche liability lines remain treated separately from the mainstream general liability portfolios via dedicated placements or facultative cessions.
- Reinsurers slightly reduced commissions on proportional treaties.
- Aggregate:
 - Multiline aggregate programmes with a long tail component are often treated as property aggregates, as a consequence many reinsurers stepped away from them. They seem however, to be perceived as more sustainable when a well-balanced business mix is covered.
 - Significant price increases and adjustments in the scope of cover have been observed.

United States – Healthcare Liability

- Severity continues to be the key driver in the overall Healthcare class as nuclear verdicts have picked up where they left off pre-pandemic.
- Aside from that commonality, Healthcare in general is becoming more fragmented as different sub segments within the overall class are being viewed uniquely in the market.
- Hospital business continues to largely see positive primary rate increases, although slowing compared with recent years.
- Other non-Hospital Facilities (including Senior Care) are seeing a mix of modest positive and negative rate movements based on increased competition and capacity in these segments.
- Physicians' business remains relatively stable with predominantly flat to moderate rate increases being seen.
- Catastrophe programmes and layers (Awards Made, Systemic, Common Loss) continued to see the most contraction of overall market capacity, and as a result continued to see the largest rate increases - driven primarily by the continued presence of outsized/nuclear verdicts across the country.

United States – General Third-Party Liability

- Programme structures and cession levels remained relatively consistent amidst robust appetite and interest in the US Casualty market.
- Reinsurance costs were highly sensitive to individual cedant underwriting strategy, portfolio make up and treaty performance and many reinsurers focused capacity on those clients with longstanding relationships rather than new business.
- Some pressure on ceding commissions driven by reinsurers forward-looking view of profitability – taking into account prior year deterioration, the potential impact of inflation and changing views on loss trend.
- Excess of loss pricing was impacted by loss emergence, reinsurers concern of heightened volatility and the potential for limit expansion in the next phase of the market cycle.

United States – Professional Lines

- January 1 renewals are predominantly quota shares and driven by D&O exposures.
- The underlying market, particularly the public D&O market, experienced a material shift in rates causing projected rate change to be missed in 2022 and negative projections for 2023. This rate shift had a material impact in portfolio loss picks for 2023. Quantum of prior year development (PYD) varied from carrier to carrier, but PYD was another common theme in underlying portfolios.
- Renewal process with quotes slow to develop and firm orders largely being issued in the last two weeks of the year, influenced by broader reinsurance market.
- Early quotes were typically from those reinsurers seeking significant changes in renewal terms, but a broad range of quotes were ultimately received making it difficult to determine market clearing firm order terms.
- Ceding commissions on pro rata placements were under pressure across the board, negating many of the increases cedants achieved over the prior two years.
- Programmes that are not driven by public D&O exposure have also been impacted by broader market conditions and reinsurers have quoted reduced terms. However, unless there are specific concerns regarding profitability these deals renewed flat or with modest changes in terms.
- Orders were largely completed as expiring but some FOTs were set to achieve a slightly reduced placement order given deterioration of terms.
- Contract wording and coverage remains broadly consistent.

United States – Workers' Compensation

- Working layer or single claimant exposed business saw pressure for rate increases due to ongoing concerns about inflation and overall P&C market conditions.
- Loss-free layers were successfully renewed with flat or single digit rate increases despite select reinsurers looking for double digit rate increases. This resulted in reinsurer panel turnover as some reinsurers showed a willingness to walk away from loss-free business if they did not get their rate.

Casualty Rate Movements

Territory	Pro rata commission	Excess of Loss – no loss emergence % change	Excess of Loss – with loss emergence % change
Australia	n/a	+5% to +7.5%	+6% to +13%
China	n/a	0% to +10%	+20% to +30%
France – General Third-Party Liability	n/a	0% to +5%	+10% to +30%
France – Motor Liability	n/a	+15%	+15% to +30%
International Casualty	n/a	0% to +10%	+5% to +30%
International – Motor Liability	n/a	+7.5% to +12.5%	+10% to +15%
Italy – General Liability and Motor Liability	n/a	+5% to +10%	+5% to +20%
United States – General Third-Party Liability	-1% to 0%	0% to +5%	+5% to +15%
United States – Healthcare Liability	-1% to 0%	0% to +10%	+10% to +30%
United States – Professional Liability	-2.5% to -1.0%	0% to +5%	0% to +15%

Territory	Pro rata commission	Risk loss-free % change	Risk loss-hit % change	Catastrophe loss-free % change	Catastrophe loss-hit % change
United States – Workers' Compensation	n/a	0% to +5%	+5% to +15%	0% to +5%	n/a

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

Specialty: Commentary by Line of Business

Global – Aerospace

- The aviation reinsurance market is going through a period of seismic change which has had an impact on all sub-lines within the class including Aviation All Risk, Major Risk placements, General Aviation and most notably Aviation Hull War renewals.
- The severity of the market's reaction to renewals was driven by significant back year claims deterioration and the ongoing spectre of sizable Contingent Leasing losses being formally presented in the coming months.
- Reinsurer's focus was towards both coverage and pricing. Coverage was subject to much tighter restrictions and limitations and reinsurers were seeking to significantly re-inflate the premium volume flowing into the aviation reinsurance market. This was markedly evident on non-proportional placements with increases in prices being applied to both clean and loss impacted programmes.
- The quantum of rate increase varied by attachment point, with middle to top layers of general excess of loss placements severely impacted with increases being evident in the region of +150% to +200% of expiring levels.
- Beginning to see a distinct tightening in the availability of retrocessional capacity which will stimulate a further hardening within excess of loss pricing. Capacity for Hull War placements was also in short supply with demand for capacity much increased as reinsurers have looked to remove coverage from composite placements.

Global – Cyber

- Proportional
 - Continued appetite for existing pro rata treaties as Cyber premium and exposures grow both on a standalone basis and where Cyber forms parts of composite treaties.
 - Reinsurers looked more closely at exposure growth across their portfolios with pressure on Loss Ratio caps to decrease, especially in light of underlying exposure reductions and rate increases.
 - Reinsurers supportive of following clients' original war exclusions where strategies for this have been communicated following the Lloyd's bulletin communicated earlier this year on this subject.
- Aggregate Excess of Loss / Stop Loss
 - Significant risk-adjusted rate increases driven by increasing attachment points, treaty limit compression and higher rates on line.
 - Despite significant rate hardening in underlying portfolios, 'market performance deterioration' on prior years of account meant that reinsurer loss picks remained stable, rather than reducing. Capacity demand and supply dynamic also contributed to hardening environment, although new entrants and growth in appetite of some markets helping to offset increase in demand.
- Cat/Event/Occurrence
 - Increased interest in occurrence structures from buyers and reinsurers with a few new purchases being considered and more interest going into 2023.

Global – Engineering and Construction

- Headline Engineering and Construction Treaty Reinsurance capacity has remained generally stable but deployed line sizes have remained dependent on treaty margin and profitability, treaty structure, terms & conditions and in some cases payback.
- Renewals saw reinsurers pushing to improve their account profitability in the short term. Whilst not directly impacted by large loss activity during 2022, significant hardening has been experienced in the Engineering and Construction treaty space, primarily as a consequence of changing corporate risk appetites and pricing requirements following the significant losses in a variety of business segments, particularly Property Cat.
- Reinsurers focused on volatility reduction and portfolio management, with pricing optimization across both proportional and non-proportional accounts. Accordingly Proportional Treaty Commissions came under pressure and excess of loss pricing increased on a risk adjusted basis, dependent on scope of coverage and geography.
- Catastrophe capacity was scarce particularly in respect of the U.S., with a requisite increased pricing and margin adequacy for placements having US exposure, whether on a Proportional, Per Risk or Per Risk and Event excess of loss basis.
- There was a strong technical focus during renewal discussions on Inflation, Portfolio Management, Natural Perils exposures, War and Sanctions.

Global – Non-Marine Retrocession

- Retro capacity was materially constrained at January 1 with more significant reductions seen on US exposed programmes.
 - Very challenging fundraising environment for ILS segment given recent Cat performance coupled with broader macro-economic influences (risk free returns in excess of 4% and investors' pursuit of more liquid investments).
 - A number of traditional reinsurers looked to utilise their available US Cat Aggregate on 1st tier Property reinsurance given the supply / demand imbalance being experienced in this market.
- Widespread pressures on attachment levels driven by inflationary concerns and frequency of losses.
 - A number of buyers' risk tolerance increased YoY as underlying conditions improved on assumed business – this was particularly true for international exposures where rate improvements / coverage restrictions were more meaningful than originally anticipated.
- Meaningful pockets of capacity remained available for buyers looking to address very specific requirements.
 - Buyers who recognised market conditions, engaged early and communicated a clear purchasing strategy benefited from a more orderly renewal.
- Reinsurers increasingly looking to provide coverage on a named natural perils basis with growing pressure to move towards modelled perils only on aggregate protections.
 - A number of sellers looked to shift to adjust off pre-agreed tables for modelled EL movement, moving away from more traditional income adjustments.
- Majority of demand for “new” limit was identified for tail capacity; however, pricing was often very penal with larger percentage rate increases being seen at more remote attachments.
- Indexed pricing for clients willing to engage early was typically more favourable with commercial decisions on trapping of collateral typically unlocking the best terms.

- Aggregate capacity remains in very short supply with few remaining sellers looking to manage attritional loss activity by way of peril restrictions – available limit typically sold on a 2nd/3rd event basis.
- Quota share capacity continues to reduce as limited new capacity entered the space and incumbent reinsurers looked to further reduce their participations.

Global – Personal Accident / Life Catastrophe

- 1st tier Cat risk adjusted rates ranged from 0% to +5%.
- Still plentiful capacity was available on a lead and follow basis.
- London Market excess of loss Cat risk adjusted rate change ranging from +10 to +15%.
- Lead capacity was less plentiful than follow capacity but still enough to finalise programmes.
- Renewals have focused on exclusionary language for Russia, Ukraine & Belarus as well as War.
- Some reinsurers have looked to impose blanket exclusionary language for Russia, Ukraine, and Belarus for losses directly, or indirectly, linked to the conflict, as well as exclusions for passive war, Nuclear, Biological, Chemical and Radiation.
- This has not been acceptable to the majority of buyers and there has been a significant push to make the exclusionary language for Russia, Ukraine & Belarus territorially focused.
- Emerging Covid-19 and hospitalisation benefits losses in the APAC region have impacted local capacity and pricing.

Global – Political Violence and Terror

- The outbreak of war between Ukraine and Russia in February 2022 drastically changed the Political Violence and Terror (PVT) market dynamics, seeing a transition towards a hardening market. This has further intensified at January 1, when renewal demand was the highest.
- The market saw the composite product being unbundled and clients being forced to purchase stand-alone PVT structures to protect their portfolios. The composite market still had appetite to provide PVT coverage, but this was restricted to excess of a maximum Risk line or “deemed” max Risk line with some reinsurers looking to cover Sabotage and Terror (S&T) perils only.
- Increases in retention levels were seen.
- Reduction in reinsurance capacity as a result of reinsurers being unable to maintain the current PVT limit they are afforded within their retrocession protections.
- Tightening of Loss Occurrence Definitions with the Time and Distance restrictions being added for all perils, along with restrictions being imposed for Russia, Ukraine and Belarus exposures.
- Reinsurers differentiated their support to those clients who have demonstrated a good understanding of their aggregates and control of their portfolios post the Ukraine/Russia crisis.
- Facilities renewed within the Primary PVT Market but considerably amended in terms of breadth of coverage and level of delegation. To maintain back-to-back facility coverage within Reinsurance programmes, clients had to evidence that action was taken on the renewal and full details of all facilities was provided with Reinsurance Submissions.

Global – Trade Credit

- Loss Ratios beginning to normalise after three years of exceptionally low loss activity due partly to government intervention.
- Inflation drove significant increases in insured limits on peak risks.
- Some reinsurers reduced written lines to maintain existing exposures on increasing treaty limits.
- Quota share commissions remained at historically high levels.
- Excess of loss prices increased in line with exposure.

United States – Surety

- The surety reinsurance market continued to evolve over the course of 2022, with loss-free programmes witnessing stable pricing and adequate market capacity to support growth in the underlying books of business during the mid-year renewal cycle.
- The inflationary macroeconomic environment led buyers to purchase additional vertical limit on their excess of loss programmes in anticipation of continued expansion of their underlying portfolios.
- The impact of a general reinsurance market hardening began to influence pricing on indirectly impacted lines of business in 4Q 2022, as reinsurers broadly sought to improve economic terms on January 1, 2023 placements.
- Reinsurers focused on the risk implications of a tightening credit market namely, private equity owned businesses, inflation, labour shortages and ESG policies as they pertain to the energy sector.
- With wider economic dynamics resulting in inflated cost to complete construction projects, reinsurers scrutinised the adequacy of the industry’s modelled PMLs.
- Due to the lag in updating PML data, select reinsurers imposed pricing loads in their analysis to finance the perceived increase in volatility.
- Reinsurers applied pressure to retention levels and reinstatement provisions for cedants with a recent uptick in loss frequency and severity.
- Structural adjustments were required on highly leveraged programmes with relatively low attachment points that were not commensurate with the compounding growth of underlying portfolios.
- Premium and exposure growth across the industry enabled buyers with loss-free programmes to achieve risk adjusted pricing reductions, despite moderate adjustable rate increases in the mid to upper single digits.
- Sureties operating in either higher risk market segments or those experiencing recent loss frequency encountered challenges in securing price relief and additional capacity, as capital continued to be deployed in a selective manner.

Specialty Rate Movements

Territory	Pro rata commission	Risk loss-free % change	Risk loss-hit % change	Catastrophe loss-free % change	Catastrophe loss-hit % change
Aerospace	-2% to 0%	+40% to +60%	+50% to +75%	+100% to +150%	+150% to +200%
Engineering/Construction	0%	0 to +10%	n/a	n/a	n/a
Non-Marine Retrocession	-2.5% to 0%	+10% to +20%	+25% to +35%	+30% to +50%	+50% to +60%
Personal Accident / Life Catastrophe	0%	0% to +5%	+5% to +10%	0% to +5%	+5% to +10%
Political Violence and Terror	-1.5% to -1%	+30%	+50%	+30%	+50%
Trade Credit	0%	+20%	n/a	n/a	n/a

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

Cyber Rate Movements

Territory	Pro rata commission	Risk loss-free % change	Risk loss-hit % change
Cyber	0%	+20%	n/a

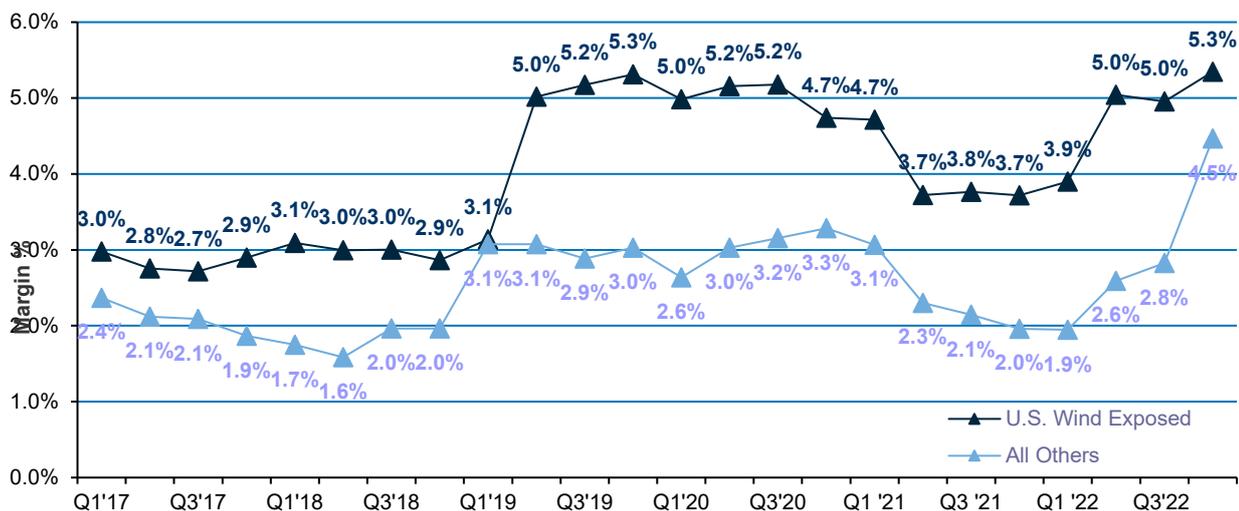
Source: Gallagher Re

ILS Update

- The combination of Hurricane Ian losses, less than expected returns results over the broader 2017 to 2022 period, the strong U.S. dollar and large number of issuances since 2020 leave USD ILS capital constrained in terms of liquidity implicating that risk spreads are widening considerably.
- The potential inaccuracy in modelling introduced by inflation remains an investor concern even more so than climate change.
- ILS capacity continues to gravitate away from collateralised reinsurance towards Cat bonds, as Cat bonds have performed better for investors over the past five years and are more liquid.
- Aggregate, cascading structures and unmodelled perils remain decidedly out of favour.
- The Cat bond pipeline is quite strong and potentially record breaking moving into H1 2023; however, the capacity constraints mentioned above may make it difficult for some of the deals to succeed.
- Moving further into 2023, conditions should improve as investors are raising new capital to deploy; however, the speed with which this new money comes in is highly uncertain.

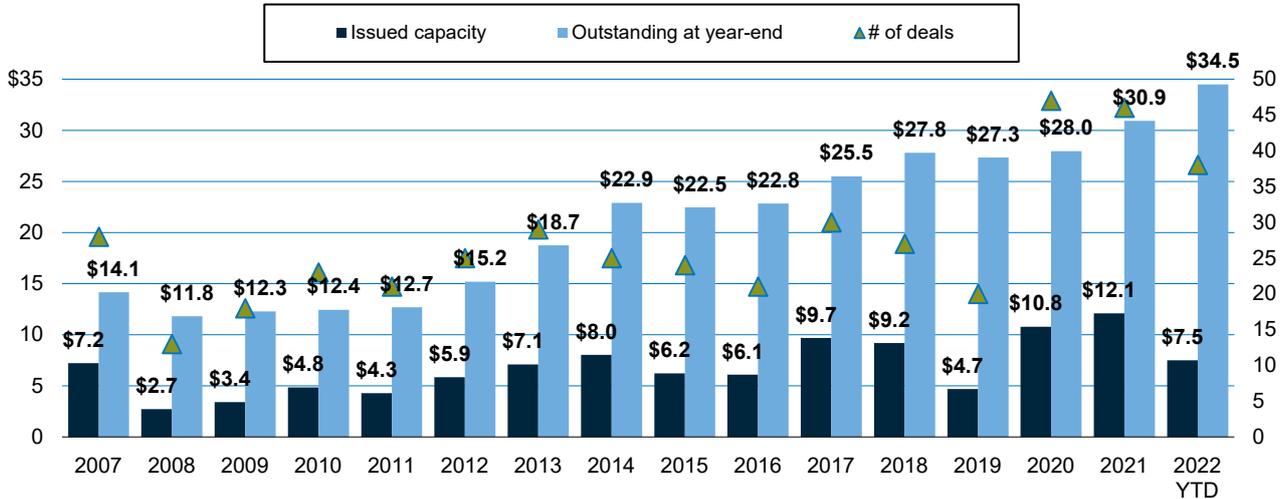
The charts below show the changes in quarterly weighted average margin (risk spread - expected loss) for different types of Cat bonds, along with the capacity development of the Cat bond market, and a comparison of the total return on Cat bonds as against two other comparable investment classes.

Quarterly Weighted Average Margins for New Issue Cat Bonds on an LTM Basis



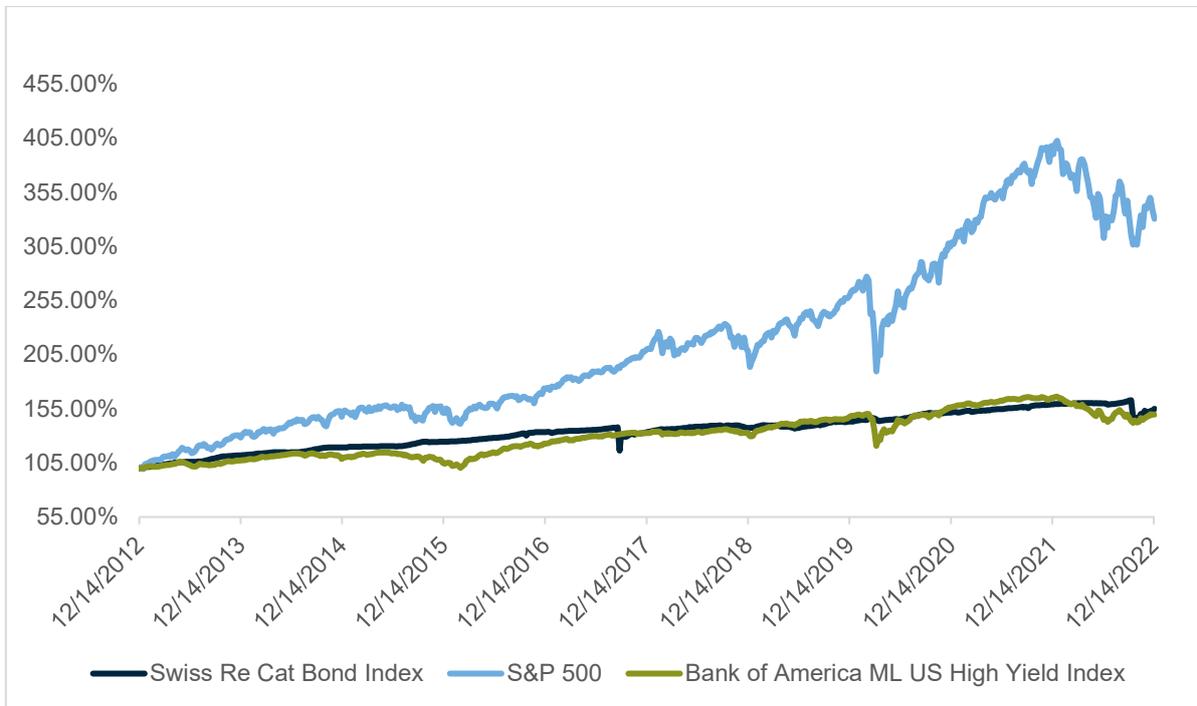
Source: Gallagher Securities Transaction Database as of 20 Dec. 2022. Aggregate data exclude private ILS deals. LTM = Last 12 months. Aggregate data are for primary issuance only and do not reflect secondary trading.

Non-life Catastrophe Bond Capacity Issued and Outstanding by Year²



Source: Gallagher Securities Transaction Database as of 20 December 2022. Aggregate data exclude private ILS deals. 2-All issuance amounts reported in or converted to USD on date of issuance.

Historic Relative Returns



Source: BofA Merrill Lynch US High Yield Bond Index, Standard and Poor's 500 Index, and Swiss Re Global Cat Bond Total Return Index

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