Gallagher Re 1st View

Mixed Markets

1 January 2022

Gallagher Re

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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

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Mixed Markets

A very late renewal season marked by tense negotiation tactics, with reinsurers seeking improved pricing and buyers determined to resist, has strained several long-term relationships. However, the reinsurance industry remains well-capitalised and with some reinsurers looking for growth, the overall renewal picture is one with a wide range of outcomes as final terms settled very much on a client and portfolio specific basis.

Coming into the 1.1.2022 renewal season, reinsurers' hopes of more profitable 2021 results were dashed by an uptick in natural catastrophe losses, many from secondary perils, which saw most companies exceeding their annual natural catastrophe budgets. From the earliest stages of the renewal season, the senior management of many reinsurers were strongly advocating the need for pricing improvement especially on volatile underperforming contracts. In several cases, senior managers followed this up by retaining tighter central control on their line underwriters which resulted in more protracted negotiations and instances of capacity reduction.

The determination of reinsurers to seek pricing improvements did not apply equally across the market with quota share placements on non-catastrophe lines of business that have shown consistent improvement in original pricing and conditions over the last few years being keenly sought. Quota share placements for US Professional Lines and Casualty, along with some other Global Specialty lines, saw buyers achieving higher commissions on the back of continued rate increases for many primary lines, reduced cession percentages and/or heightened capacity supply. In many cases, the signing allocations on these more sought-after treaties were used to help the placement of more stressed lines of business such as casualty excess of loss, cyber, property cat and property risk.

The determination of reinsurers to seek pricing improvements did not apply equally across the market

Property cat rating movements varied greatly by territory and client with large increases being seen on loss hit programmes but more modest changes on loss free programmes. For some reinsurers, the increases were insufficient resulting in a withdrawal of capacity or in many cases only renewing signed lines and not the expiring written line capacity, particularly on lower attaching layers exposed to secondary perils. As signalled well in advance, aggregate and loss frequency protections proved very demanding with reinsurers trying to move capacity away from these covers resulting in buyers having to use the leverage of other more attractive treaties to achieve completion.

As predicted retrocession buyers experienced a very difficult renewal. Aggregate retrocession capacity has reduced substantially as ILS funds who have provided the bulk of the indemnity retrocession capacity found themselves with increases in trapped capital and a diminishing investor base as ILS capital was redeployed to ILWs, cat bonds and to primary reinsurance. Collateralised occurrence and sidecar retrocession capacity was consequently in short supply leading to some reinsurers pulling back catastrophe capacity for primary buyers. The expectation management of some ILS Funds attracted comment as the size of capacity reduction for indemnity retrocession from some Funds only became apparent at a very late stage, leaving reinsurers little time to adjust their portfolios at 1.1.2022. However, the impact of the stressed retrocession market has been relatively muted at 1.1.2022 in terms of primary capacity and it is not yet evident how much of the aggregate capacity previously in place is a result of opportunistic hedging versus a strategy of core capacity supply.

Aside from natural catastrophe losses, discussion around loss cost inflation has featured widely across both short and long tail classes. For long tail lines, the pricing of excess of loss covers was dominated by debates around underlying cost inflation and wider social inflation. On short tail lines, inflationary concerns around constricted supply chains and labour supply leading to loss cost inflation were prominent. Focus on understated values considering the current inflationary environment added to the complex renewal negotiations on many accounts.

The market appears to have moved on from the Covid-19 claims of 2020 as primary companies' claims reserves stabilise and reinsurance recoveries have started to move through the market with an increasing number being settled. Debate around exclusionary language for communicable disease clauses and other previously highlighted issues such as silent cyber remained a factor but price and attachment points have been much greater influences than recent renewals.

The end of a more challenging renewal season than most has, on balance, provided another rational outcome. Reinsurers have managed to achieve further improvements in pricing to build on the increases of the last 18 months, particularly on accounts ceding losses, but may be wondering if they have over-stressed some long-term client relationships which might create difficulties in the longer term. For many buyers, ultimately they have managed to secure sufficient capacity knowing the continued improvement in the underlying business has resulted in portfolios that are better balanced and supported by largely consistent reinsurance protections to manage volatility and net lines.

The end of a more challenging renewal season than most has, on balance, provided another rational outcome.

James Kent, Global CEO, Gallagher Re
January 1, 2022

Property

Commentary by Territory

Asia

- Loss free excess of loss programmes experienced flat to low single digit risk adjusted pricing movements.
- Loss impacted programmes saw more meaningful uplifts with final risk adjusted movements dependent on loss size and historical performance.
- Despite some early market signals that cat capacity would be reducing, we did not observe any drop in deployed capacity when firm orders were issued.
- Pro rata capacity continued to be harder to source, particularly on treaties where historical performance has been poor and where margin improvement expectations were low.
- Communicable disease and silent cyber exclusionary language requirements remained unchanged.

Austria

- Austria suffered an extended period of low pressure during late June, resulting in heavy hailstorms and even a tornado in Lower Austria close to the Czech border. Furthermore, parts of Upper Austria and the Salzburgerland faced severe losses from the Bernd flooding event in July. Some parts of Austria also suffered snow pressure losses from the early months of 2021, which are generally covered on an annual aggregate basis within catastrophe programmes. Many Austrian reinsurance programmes, though not all, suffered losses from one or more catastrophe events, with aggregate and stop loss covers also impacted, sometimes significantly.
- Losses led to strong pressure on pricing and structures from reinsurers and an adjustment of terms for many programmes, going significantly beyond the risk-adjusted growth levels.
- No claims bonuses, a feature of some Austrian programmes in the past, were generally not able to be included for the 2022 renewal.
- Wordings and coverage were generally stable, with the main focus being on price.
- There was also some realignment of reinsurer panels, with several reinsurers being forced to reduce shares or decline programmes due to more limited capacity. These gaps were relatively easily filled by new capacity.

Australia

- Increased reinsurer discussion on inflation and the impact on pricing. Continued limited appetite for aggregate and lower layers exposed to frequency losses.
- Some buyers increased retentions to mitigate reinsurance spend particularly in response to poor loss experience or low attachment levels.
- No material changes to wordings or conditions.

Belgium

- Belgium suffered from the most severe flood event in July 2021, with heavy rainfall across the territory that caused intense flooding in east and central regions and the worst impacts being seen in Wallonia, Liege and Limbourg. The latest loss estimate is estimated at EUR 1.9b.
- The market significantly increased the capacity bought for flood and earthquake following the partial disengagement of the local CAT NAT national pool scheme following the Bernd loss.
- Consequently, reinsurers focused their attention on the flood peril and other 'secondary perils' such as earthquake. Most reinsurers adjusted their view of risk on flood post-Bernd and quoted significantly higher terms.
- Restructuring of loss impacted programmes was necessary, especially at the bottom on working layers, with overall increases in retentions.
- Reduction in the number of reinsurers who supported the Belgian market, due to loss activity and perceived unsatisfactory increases of prices, with often late and inflexible management decisions from the reinsurers. Partially offset with some Continental reinsurers that offered more capacity.
- Aggregate programmes were again under pressure, even where structures significantly evolved to allow consensus between reinsurers and cedants. Despite efforts to increase retentions and simplify the structures, less capacity was deployed by reinsurers, but overall placements were completed.
- After the uncertainties about the state coverage on flood and earthquake discussions were not only on price but also on wordings to ensure all parties know and understand what is covered under the treaties.

Canada

- Insured losses related to Canadian catastrophe events in 2021 were relatively tempered and primarily emanated from British Columbia.
- Reinsurance pricing further segmented by company-to-company year-over-year and has become further dependent on individual buyer performance.
- Global catastrophe losses influenced pricing with selected reinsurers, particularly on layers that had loss activity.
- Layers and programmes that have been operating at a loss required rate and / or retention increases to bring pricing back into alignment with the view of risk (both risk and catastrophe).
- Programmes or layers that have been loss free and historically profitable saw minimal pressure on price.

Central and Eastern Europe

- Cat excess of loss: Market showed real distinction between loss free and loss affected renewals. For loss free renewals, risk adjusted flat or modest increases were possible to achieve. For loss affected treaties, reinsurers had an expectation of pronounced pay-back which resulted in double digit price increases both on a risk adjusted and on a monetary basis
- Risk excess of loss: Reinsurers were keen to keep their relationships with buyers, which made them more flexible. Loss affected programmes achieved risk adjusted increases but most reinsurers only offered their 2021 signed capacity.

- Over-placement on both risk and cat excess of loss has reduced significantly.
- Pro rata: Commissions mostly remained flat.

China

- Pro rata:
  - Cedants generally offered improved terms and reduced commission, due to poor 2021 results.
  - However, improvements were still less than requested by reinsurers, hence placements were difficult.
  - Onshore reinsurers were tougher than previous years and more disciplined in providing lead terms, even with package offers.
  - Not much interest from new reinsurers; placements relied on continuity from existing panels.
- Excess of loss:
  - Hard market on the back of severe event losses in 2021.
  - Reinsurers had reduced interest in quoting as leaders, especially on loss hit treaties.
  - Wide divergence in price increases depending on loss severity.
  - Reinsurers were more willing to negotiate on loss free treaties, but price reductions were rare.

Europe-wide

- Whilst the 2021 renewal discussions were dominated by negotiations around communicable disease and cyber contract clarifications and late pricing deceleration, the 2022 European property renewals reverted back to more traditional subjects of price and risk appetite.
- The magnitude of price corrections on loss affected programmes was more pronounced than many commentators anticipated pre-renewal given the record levels of reinsurer capitalisation at mid-year 2021.
- It is difficult to define a single factor that led to the market hardening and global macroeconomics certainly played its part. However, it is difficult not to focus on reinsurers' anticipation of another above-average cat loss year – and its associated earnings squeeze – fuelled by cat events of global scale like Winter Storm Uri, Hurricane Ida and record levels of European cat losses caused by the devastating flood event Bernd (>EUR 12bn) and several severe convective disturbances.
- These collectively influenced reinsurers' cat risk appetite and created a focus on underwriting discipline and pricing corrections not seen in Europe for the non-retro cat segment for the majority of this century.
- However, such changes were by and large restricted to territories impacted by the European losses, namely Germany, Switzerland, Austria and Belgium resulting in a tougher renewal market than anticipated. These changing risk appetites prevailed throughout the renewal and didn't soften during the final weeks of the year unlike during so many prior renewals.
- By contrast, the pricing impact on loss free territories, particularly UK, Nordic and France were better than expected (risk adjusted flat to +5%). UK and Nordic buyers enjoyed a fairly smooth, albeit also late, cat renewal process with sufficient capacity available.

- However, for other large cat markets (particularly France) the overall market conditions led to a significant drop in reinsurance capacity where some programmes just got completed. Italian programmes being impacted by frequency losses unrelated to Bernd resulting in rate adjustments of low to mid-teens percentages and similar to France a significant drop in reinsurance capacity.
- Key themes of the 2022 European property renewals are:
  - A very late renewal market, particularly for loss hit territories, where negotiations were often described as a "stalemate with intent"
    - Many reinsurers tactically playing for time
    - Cedants and brokers found it challenging to identify market clearing programme prices
    - Significant disparity in reinsurer quotes, indicating different market approaches for cat only writers vs portfolio writers but also displaying a perceived difference in corporate pressure and opportunism.
  - The absence of market disciplining events of Monte Carlo and Baden Baden (largely) was identified by many market participants as an unhelpful void in the decision-making process.
  - A much-differentiated European property market where renewal adjustments were country and client specific, and no "everyone is paying more" approach being principally applied.
  - Reinsurer risk appetite was significantly impacted downwards for protections impacted by losses from secondary perils.
    - Some reinsurers executing a shift of underwriting capacity away from cat, some struggling to manage an "outsized" Bernd loss
    - A general anticipation of a reduced retro offering, particularly for quota share and aggregate capacity and its associated impact on net exposure
    - The reduction in risk appetite manifested in a shift "out of the money" away from aggregate structures as well as significant changes to top layer pricing with rates increasing by over 50% for focal areas
    - At the same time demand increased with overall European cat capacity increasing, particularly in loss impacted territories (by some 10%) as well as in the Nordic markets
    - For specific clients, the sustainability of their cat structure eclipsed the pricing debate. However, whilst some restructuring of programmes was executed, larger loss impacted clients were in the main unwilling to give up hard won coverages and tried and succeeded to renew their programmes without meaningful increases in retention.
  - Some of the withdrawal of capacity was recovered through the class of 2020 and selective additional capacity deployment by primarily European based carriers either directly or sometimes through "facilities" in cases creating tensions between own risk appetite and delegated risk appetite.
  - On balance the net effect was that in loss free markets, renewals were assisted by the newcomers. But loss impacted programmes had much reduced over placements or "just got done", with some re-pricing needed in specific cases.
    - This created a significant shift in panels which was viewed by some reinsurers as a welcome opportunity to gain market share in a market that is traditionally seen as "locked" for newcomers and dominated by long standing relationships.

  - Much discussion occurred around the long-term sustainability of European cat pricing, the judgement of a return period for a cat year 2021 and the possibility and likelihood of a return of a Bernd type event. This led to a growing introduction of the argument of the impact of (future) climate change in the renewal discussions, however, its potential magnitude is yet to be defined and quantified within individual placements
  - Property per risk placements were challenging, with reinsurers – driven by ongoing poor portfolio performance across Europe – withdrawing per risk capacity and driving rate increases for loss free programmes beyond the cat price development.

France

- Another loss free year clearly helped, compared to neighbouring countries (Germany, Switzerland, Belgium, Austria), to complete cat excess of loss programmes with moderate increases.
- Reinsurers did not achieve their desired pricing and a clear reduction of capacity from some reinsurers took place with reductions confirmed at the end of the quoting process.
- Over placement reduced as Firm Order Terms were lower than reinsurers expected but overall felt as satisfactory by all parties.
- Main renewal topics were much more focused on price than wordings compared to last year, even on Cyber where parties quickly managed to agree terms
- A few new reinsurers looked at France this year and offered modest capacity or at least looked at programmes in much more detail.
- The French Cat Nat system has offered some safety net to several companies regarding secondary perils compared to other territories.
- Aggregate excess of loss covers were very much the main point of concern. Where restructuring and significant adjustments (price and/or retention) took place, it allowed completion but with reduced over placement than in prior years.
- Whilst the risk adjusted increase range between 0% to +4%, the monetary increases went from +5% to +15% driven by the rate increases but also from underlying portfolio growth.

Germany

- The German insurance market faced unprecedented property catastrophe losses during the summer of 2021, the largest of which was the flooding event, Bernd, in Western Germany. The final loss amount estimated for Germany is EUR 8.2bn (GDV estimate), making it the largest insured natural catastrophe loss in German history. A large hail event, Volker, also affected parts of South-West and Southern Germany in June, as well as parts of Austria and Switzerland, impacting many buyers' reinsurance programmes with sizeable losses.
- German buyers faced a challenging market situation for the renewal of their property catastrophe programmes, with a deeper focus on the flood peril and other 'secondary perils', with some reinsurers adjusting their view of risk post-Bernd and quoting significantly higher terms..
- The value of high-quality modelling and reliable portfolio data was once again proven to play a crucial role in negotiations with reinsurers over price and coverage conditions.

- There was a reduction in capacity from a number of reinsurers who have previously been significant supporters of German catastrophe programmes, generally driven by their head offices outside of Germany, which resulted in some previously reliable capacity disappearing from the market, although in most cases this was replaced by proactive reinsurers from outside Continental Europe, who saw their opportunity to get sometimes-long-awaited shares of some programmes.
- Aggregate programmes are traditionally popular in Continental Europe, especially in Germany and Austria, but were under the greatest pressure this renewal, with a marked reduction in reinsurer appetite, particularly for programmes where the attachment points were considered too low or the loss-qualifying mechanisms too complicated or volatile.
- Pricing was the biggest topic, rather than wording or coverage conditions, with some pure cat markets, e.g., London and Bermuda, pushing for higher pricing than Continental Europeans.
- A number of traditional quoting reinsurers were surprisingly slow to define their quoting strategy, which created problems for some clients and brokers who rely on a wide range of quotes from those key capacity providers, in order to set realistic pricing.
- Some re-structuring of heavily loss impacted programmes was also necessary, with more of a move towards event-based, rather than aggregate, covers. Retentions were increased in some cases, whilst other cedants purchased greater capacity than in previous years, with some having been surprised by the magnitude of the Bernd losses to their programmes.
- Whilst a small number of placements had to be re-priced mid-placement due to a lack of available capacity at the original terms, the majority of programmes were successfully placed once terms had been agreed with the largest capacity providers, albeit much later than usual for the German market, with many shares being confirmed in the last days of the year.

Indonesia

- Pricing was mainly driven by treaty performance and exposure growth.
- Introduction of Loss Participation Clauses and reduction of capacity for inward facultative acceptances were implemented by local reinsurers.
- Packaged participation on pro rata and excess of loss remained for leaders' positions.

Italy

- Property cat: 2021 was another year of heavy loss activity driven by secondary perils (atmospheric events) and was as bad as 2019, which was the worst year recorded from an atmospheric events point of view.
- In addition, some loss activity has occurred within regions with low insurance penetration. Cat excess of loss treaties have seen increased retentions in the last couple of years, therefore much of the loss activity remained within buyers' retentions.
- The trend of increased retentions continued for 2022 renewals as buyers looked to increase their retentions to control reinsurance spend, particularly on loss affected programmes.
- The majority of Italian programmes are loss affected, particularly bottom layers.
- There were significant monetary increases, driven not only by losses but by substantial increases in exposure. This drove significant increases in vertical occurrence limits purchased.

- Per risk: The general performance of risk excess of loss treaties continued to be poor, with most loss affected layers renewing with high rates on line, given the continued high frequency of large losses.
- Due to loss activity, treaties continued to perform poorly and therefore required price review and structure adjustments (re-layering and increases in retentions).
- Multi-line aggregate excess of loss: These treaties are considered strategic from the buyers' perspective and are generally more sustainable given their diversification as they normally cover a bundle of property and casualty lines of business. Structures were generally stable and despite having performed well in 2021 saw pricing increased in excess of +20%.
- Property cat aggregate excess of loss: These treaties are much more volatile and have been under pressure in the last couple of years due to the sustained frequency of atmospheric events. Treaties were significantly restructured over the last couple of years and continued to be restructured in 2021 for loss affected programmes. Due to the volatility, consensus around the price was difficult to achieve.
- Market capacity: There was a significant decrease in the level of over-placement, leaving very little head room for placement of property excess of loss treaties.
- There was less new capacity available compared to prior renewals. Reinsurers put in place stronger segmentation, meaning they were more selective and offered capacity only to strategic partners.

Korea

- With concerns about increase in loss frequency, a number of reinsurers stopped writing unprofitable proportional business.
- Conversely, due to some improvements in underlying primary pricing, where a proportional placement was profitable historically, we observed an increase in appetite from reinsurers.
- Capacity for cat excess of loss remained ample but some sizable price increases were seen on loss impacted risk excess of loss programmes.

Latin America

- Loss free per risk and cat excess of loss contracts renewed mostly flat or with slight increases on a risk adjusted basis compared to 2021 levels.
- Pro rata programmes with good results renewed at same levels of commissions, although in some territories there were shortfalls in proportional treaty placements as demand for this capacity outstripped supply.
- Although some reinsurers were pushing for upwards rate adjustments and exclusions / restrictions, this was counteracted by a surplus of capacity.
- Reinsurers increased rates from +10% to +15% on loss affected per risk and cat excess of loss programmes and reduced commissions up to -2% on loss affected pro rata treaties.

Middle East

- Sufficient proportional and excess of loss capacity in the MENA region was seen.

- Challenging to replace current proportional leaders as they concentrated on their existing book of business. Treaty limit/ceded premium balance had to be acceptable otherwise capacity was reduced.

Netherlands

- Pricing was up slightly for catastrophe excess of loss programmes, whilst only a few programmes in the Netherlands were affected by the 2021 flood.
- Risk excess of loss programmes showed small increases.
- Well-performing proportional treaties achieved slightly increased commissions whilst underperforming treaties were confronted by pressure to reduce commission.

Nordic Countries

- The Nordic property cat market has in large been viewed as a welcomed loss benign, diversifying region for many European cat underwriters.
- No significant nat cat events since 2013, hardly any Covid-19 losses and whilst 2021 saw some localised events in Sweden and Norway and some buyers picked up smaller losses from the summer events in Europe, the overall profitability remains healthy.
- As a result, capacity remained ample. Stable support from existing lead reinsurers and additional capacity from some new entrants. Whilst a few reinsurers decided to reduce support, largely due to what was viewed as insufficient price increases, the big historical over-placements meant that programmes still were placed with comfortable margins.
- Cat excess of loss prices were largely flat to a few percentage points up risk-adjusted with monetary spend up by high single digit percentages.
- Several buyers purchased more capacity, both for cat and risk.
- 2021 saw a continuation of per risk losses, both from local and interests abroad, some of which were significant and happened late during the renewal. This meant continued pressure on risk excess of loss programmes both on pricing and structure, even those not loss impacted. Last years' activities have created a diverse view of appropriate pricing level and client segmentation was driving underwriting decisions for many reinsurers. For many key capacity providers, risk and cat programmes were viewed as packages.
- Pro rata treaty results remain mixed with pressure on commission levels on programmes that see a continuing poor loss ratio trends.

South Africa

- 2021 performance was yet again unfavourable, due to developments in the Covid-19 claims situation as well as unprecedented riots and looting.
- As a consequence, there was an observed a reduction in appetite and number of reinsurers supporting the South African market, with firming up of underwriting. There was also a notable reduction in appetite for whole account / aggregate structures.
- From a structural perspective there have been adjustments of programmes, particularly in relation to proportional treaties.

- Biggest drive by reinsurers on property placements was reduction / removal of non-material damage BI exposures, especially those relating to grid collapse.

Switzerland

- Many buyers in Switzerland suffered substantial property catastrophe losses during 2021, being Hailstorms Volker and Xero in June, followed by Hailstorm Dirk in late July. Specifically, for the private insurance sector several reinsurance programmes faced multiple event losses and some lower layers were completely exhausted, including reinstatements.
- Following lengthy loss free periods for many Swiss domestic and international catastrophe programmes, this led to a significant increase in pricing for loss affected layers, some restructuring and increasing of retentions to mitigate against price increases of substantially more than +100%.
- In most cases, reinsurers aimed to maintain their shares on programmes, although some reduction in capacity was apparent from a small number of reinsurers, allowing a of degree re-shuffling of panels and for new reinsurers to gain a foothold on programmes which had been closed to new capacity in recent years.
- In general, there remained a healthy appetite from reinsurers to support Swiss property catastrophe business and there has been sufficient supply of reinsurer capacity at the right price.
- Some Swiss buyers purchasing wider multi-territory programmes faced challenges where they had losses from non-Swiss territories to be added to the Swiss loss experience in 2021, but reinsurers were ultimately willing to support these renewals with healthy capacity.

Taiwan

- Risk-adjusted increases of +0% to +5% were seen but total capacity reduced for risk and cat.

Turkey

- Substantial and ongoing weakening of the Turkish Lira (dominant exposure currency) against the Euro (protection currency) during the final quarter of 2021 prompted wide variation in selected exchange rates for modelling, structuring and pricing.
- No meaningful range of risk-adjusted movement can be calculated in the circumstances.

United Kingdom

- Despite remaining largely loss free in 2021, UK cat buyers experienced modest upwards pricing pressure.
- There was a greater disparity between quotes than seen in previous years, with certain reinsurers attempting to use the upward pressure on loss affected European programmes as justification for larger price increases in the UK.
- Firm Order pricing of loss free UK cat treaties was in the region of +2.5% risk adjusted, this challenged some reinsurers and resulted in some reducing capacity. However, capacity remains plentiful for UK cat.

- There are a number of UK cat programmes with Covid-19 losses. They all have their own characteristics, but the claims discussions were often a feature of renewal discussions.
- Appetite for per risk continued to be more limited than cat, but capacity was readily available if the contract was deemed to be appropriately structured and priced.

United States

- While reinsurance capacity remains strong, there has been no new reinsurance company formations as was seen in 2020.
- Significant Asset Under Management headwinds in the ILS sector as a result of trapped collateral and challenging returns since 2017. This mostly impacted the Retro market with some consequent capacity limitations for property cat.
- Class of 2020 reinsurers remained eager to broaden their market share on catastrophe excess of loss business, particularly in the regional space.
- 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 on layers above the modelled 1:20 year threshold.
- Reinsurers focused on strategic client relationships and making some property cat capacity conditional on trading relationships on non-cat lines, a complete reversal of recent market cycles.
- 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. Regional specific QS in deficit positions faced the most pressure, as prospective margins are shifting less dramatically based on underlying rate changes.
- Reinsurers put greater emphasis on assumptions in their pricing and in the underlying pricing, especially on larger commercial accounts. Examples of assumptions include concerns surrounding claims inflation and trend due to Covid-19 supply issues, increased cost of raw materials, business interruption undervaluation, insurance to value deficiencies and shifts to exposure rating loss curves.
- The renewal season was later than usual, various influences include an opaque and difficult Retro renewal; Q4 loss activity including the December tornados; and the previously mentioned focus across clients' entire reinsurance portfolios.
- 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 for aggregate covers that exclude named storm loss.

Vietnam

- Proportional results varied but, on the whole, resulted in commissions being renewed at between -3% and flat.
- A diverse range of pricing experienced on excess of loss programmes but firm order terms ranged from Flat to +5%.

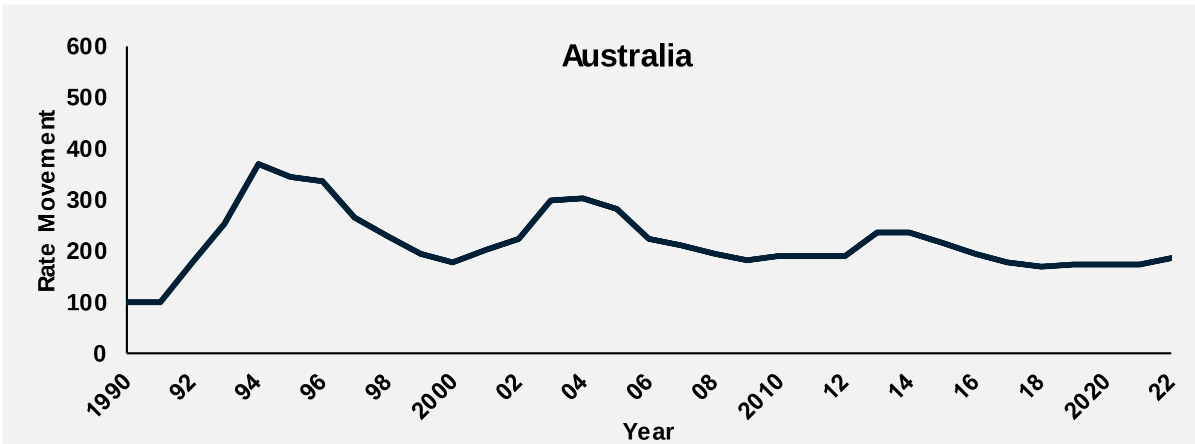
Property rate movements

Territory	Pro rata commission	Risk loss free % change	Risk loss hit % change	Catastrophe loss free % change	Catastrophe loss hit % change
Asia	-2% to 0%	-2.5% to +5%	+5% to +15%	-2.5% to +2.5%	+5% to +15%
Australia	n/a	0% to 5%	+5% to +15%	+5% to +10%	+10% to +25%
Austria	-3%	0% to +3%	+5% to +15%	+2.5% to +7.5%	+20% to +40%
Belgium	n/a	+3% to +7%	+15% to +25%	+2.5% to +7.5%	+15% to >50%
Canada	0% to +5%	+5% to +10%	+10% to +20%	0% to +10%	+10% to +20%
China	-2.5% to 0%	0% to +15%	n/a	-2.5% to 0%	+20% to +30%
Europe	n/a	0% to +7.5%	+5% to +25%	0% to +5%	+15% to >50%
France	n/a	-3% to +1%	0% to +4%	0% to +4%	n/a
Germany	-5%	+3% to +7%	+15% to +25%	+2.5% to +7.5%	+15% to >50%
Italy	n/a	+5% to +10%	+10% to +30%	+3% to +7%	+7% to +17%
Indonesia	0%	-2.5% to 0%	0% to +5%	-2.5% to 0%	n/a
Korea	-2% to 0%	0% to +3%	+5% to +15%	-5% to 0%	n/a
Latin America	-2% to 0%	0% to +5%	+10% to +15%	0% to +5%	+10% to +15%
Middle East	-2% to 0%	0% to +5%	+5% to +15%	0% to +7.5%	+5% to +20%
Netherlands	-1.5%	0% to +5%	+2.5% to +10%	+2.5% to +5%	+5% to +10%
Nordic Countries	Varied	0% to +3%	+15%	0% to +2%	0% to +5%
South Africa	-2% to 0%	0% to +5%	+15% to +25%	0% to +5%	+25% to +25%
Switzerland	-3%	n/a	n/a	+2.5% to +7.5%	+20% to >50%
Taiwan	0%	0% to +5%	+5% to +50%	0% to +5%	n/a
United Kingdom	n/a	+2.5% to +5%	+5% to +15%	+1.5% to +5%	n/a
United States	-1% to +0.5%	+2.5% to +10%	+10% to +25%	+2.5% to +10%	+10% to +25%
Vietnam	-3% to 0%	-2.5% to +5%	n/a	-2.5% to +5%	n/a

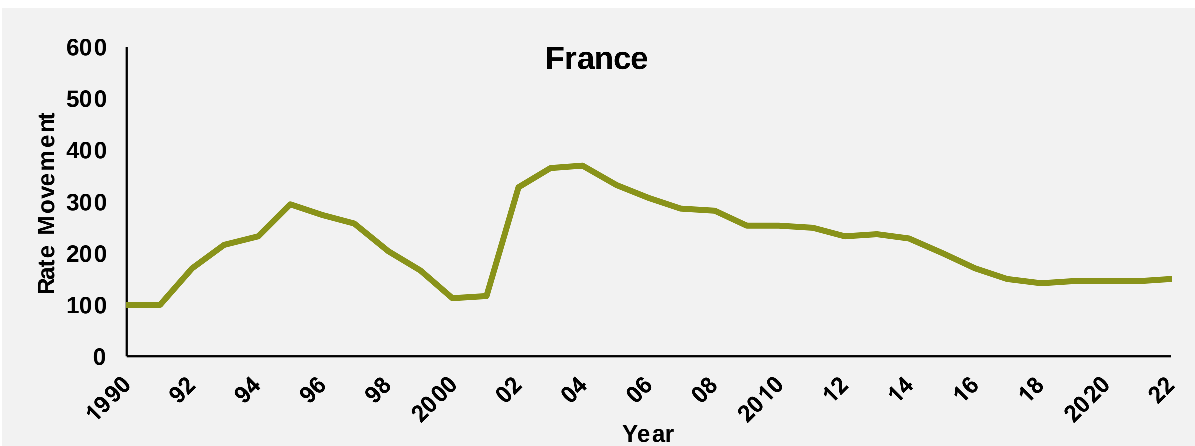
Note: Movements are risk-adjusted.
Source: Gallagher Re

Property Catastrophe Pricing Trends

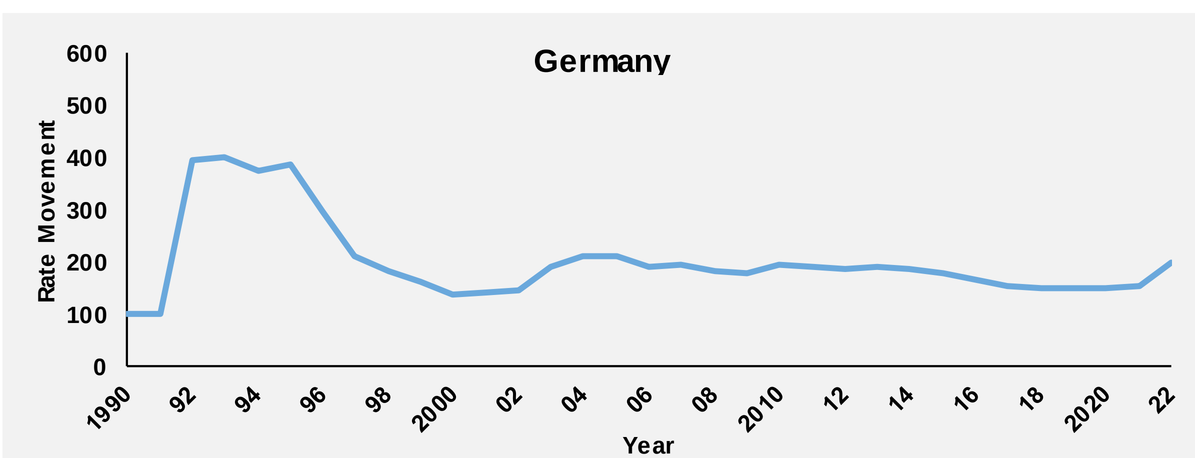
The charts on these pages display estimated year-over-year property catastrophe rate movement, using 100 in 1990 as a baseline.



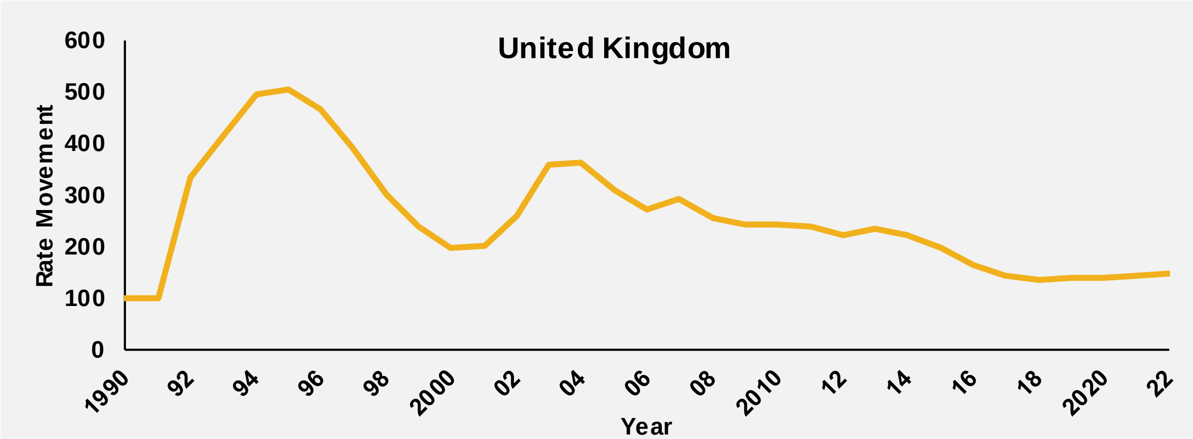
Source: Gallagher Re



Source: Gallagher Re



Source: Gallagher Re



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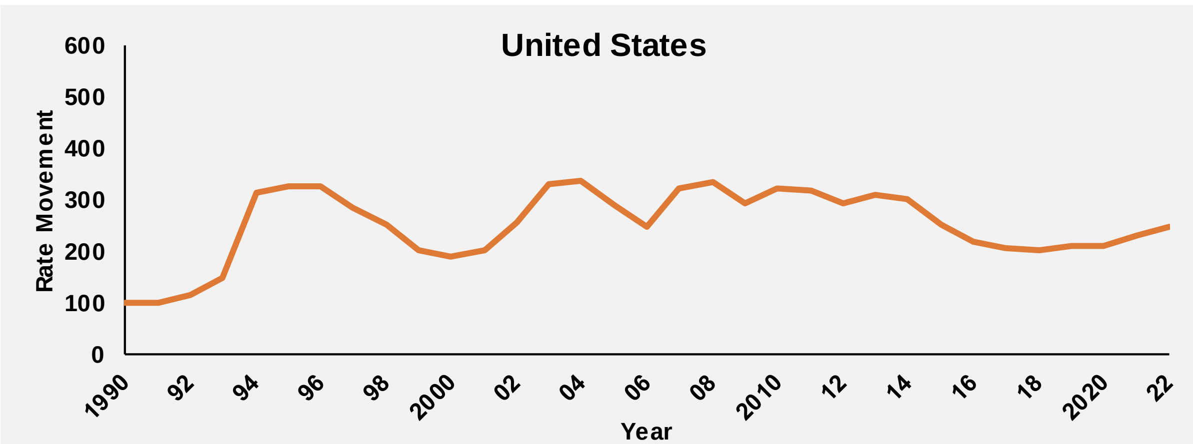


Source: Gallagher Re

Casualty

Commentary Grouped by Territory

Australia

- Following several quarters of rate increases, the renewals saw ongoing but reduced upward pressure on rates. For the most part, increases followed underlying exposure growth, however reinsurers continued to seek more meaningful increases on loss affected business.
- Despite an absence of any evidence of inflation in historical claims portfolios, some reinsurers referenced concerns about the risk of inflationary pressures on future liabilities.
- Improvements in the underlying portfolios attracted additional capacity and reinsurers appeared to be less willing to concede to reduced shares or lapse business.
- Casualty catastrophe continued to be an area of active interest to buyers and reinsurers alike. Appetite remained buoyant where underlying exposure could be clearly articulated.
- Residual concerns around contagious disease took a backseat to discussions on silent cyber, with buyers offering reinsurers deeper insights into their underwriting approach to all cyber risks.

Canada – General Third-Party Liability

- Many general third-party liability treaties are ancillary to property-related coverages and exposures in Canada. These protections are placed as package policies and experienced less pressure than specialty and personal accident business.

China – General Third-Party Liability

- The market remains soft and required capacity is small, hence sufficient capacity to complete placements was provided by a few reinsurers.

Global – Motor Liability

International

- The International Motor renewal season ran late this year with delayed quotes, as a result of stricter internal referral processes at reinsurers, and the consequent late issuing of firm order terms.
- Reinsurers continued to cite concerns about claims inflation and discount rate levels as justification for the high quotes being provided.
- However, there was a strong sense that recent performance in the Property market is infecting Motor (and Casualty) renewals and reinsurers' pricing aspirations.
- Recognised reinsurance market leaders attempted to leverage their positions to achieve significant pricing improvements.
- Ultimately underlying portfolio improvements and original premium increases meant that sensible outcomes have been achieved.

Netherlands

- Overall, Motor excess of loss programmes saw rate increases and layers with low retentions saw more significant rate increases (>10%)

United Kingdom

- Reinsurers' focus was generally on the changes in the adequacy of original motor pricing, reflecting a concern that some insurers have cut rates to maintain or expand market share in a challenging market.
- Once these original pricing adjustments were taken into consideration, there was a rough consensus amongst the majority of reinsurers that flat-ish renewal pricing was an adequate outcome after two years of significant rate increases.
- There was a trend amongst some reinsurers, especially those with superior security ratings and larger expiring lines, to seek year-on-year increases of >10%, and sometimes significantly more.
- Technical justification for these uplifts were seldom persuasive and the trend appeared to be driven by opportunism from reinsurers and a wish to leverage a dominant market position to their commercial advantage.

International Casualty

- Most of the business placed across the various International territories is transacted using excess of loss reinsurance.
- There were examples of territories where clients have achieved better results than that suggested by our range, but there are also others where the outcome is worse.
- Following several quarters of primary rate increases, the 1.1.2022 renewals saw ongoing pressure on reinsurance rates, but a reduction in the upward pressure compared to 2021. For the most part, increases followed the movement of underlying exposure growth, however reinsurers continued to seek more meaningful increases on loss affected business.
- Despite an absence of any evidence of inflation in historical claims portfolios, some reinsurers referenced concerns about the risk of inflationary pressures on future liabilities.
- In some International territories, Casualty catastrophe continued to be an area of active interest for buyers and reinsurers alike. Appetite remained buoyant where underlying exposure could be clearly articulated.
- Residual concerns around contagious disease have taken something of a backseat to discussions on silent cyber with many buyers offering reinsurers deeper insights into their underwriting approach to all cyber risks. While contagious disease may not be the dominant discussion point, some reinsurers continued to seek clarification as to any potential losses that buyers may have from Covid-19.

Lloyd's and London Market – General Third-Party Liability / Employers' Liability / Professional Liability / Healthcare

- Renewals, whilst generally quite late to market, experienced more stable conditions than were seen last year. Reinsurers voiced concerns over inflationary fears, both economic and social, however there was abundant capacity and ultimately reinsurer pricing moved from 'aspirational' to a more rational outcome.
- Given the desire to reflect the strong underlying rating environment, as well as their capital structure, excess of loss remains the dominant product of choice for Lloyd's and London Market buyers.
- Excess of loss reinsurers differentiated between loss affected and non-loss affected programmes, focusing on achieving a small improvement in terms in the face of adverse loss development whilst seeking to preserve their position on the best performing accounts with renewal pricing ranging from flat to a modest risk adjusted rate decrease.
- Some buyers have sought to manage spend and to self-finance the 'dollar-swapping' elements of their excess of loss structures with increased use of annual aggregate deductibles. There has also been widespread re-structuring of excess of loss programmes at renewal, primarily in order to re-balance the key areas of risk transfer.
- Contract wordings also came under intense scrutiny, with buyers looking to extract broader treaty coverage to get better value from their reinsurance spend.
- Last year's focus from reinsurers on managing accumulations from Covid-19 in the wake of the pandemic has this year been replaced by extended discussions on affirmative and non-affirmative cyber, with buyers requiring treaty protection that is back-to-back with their underwriting approach to cyber exposures in the direct market.
- In a post Covid-19 world, casualty catastrophe reinsurance continues to be an active area of interest for buyers seeking to manage their unknown accumulation risk, particularly in the face of an uncertain economic environment and growing cyber concerns. Casualty cat capacity remains available, especially where potential sources of aggregation can be clearly articulated, however pricing is a function of perceived exposure and available capacity and has therefore not directly benefitted from original rate improvements.

United States – Healthcare Liability

- Primary rates continued to generally see upward pressure, with physicians seeing the smallest increases and facilities business seeing larger increases (hospitals, allied/miscellaneous facilities, senior care).
- Geography and experience continued to be major influencers on the magnitude of rate increases.
- Reinsurance rates, while still increasing on the whole, have flattened a bit over the year, as the underlying rate increases taken in prior and current years continue to flow through the primary portfolios.
- Pro rata business generally saw flat renewals, with some small fluctuations in ceding commissions being seen based on specific circumstances. Excess of loss remained heavily dependent upon historical experience, as underperforming programmes continued to see meaningful rate increases.

- Catastrophe excess of loss layers, such as awards made, common loss and systemic treaty structures continued to see Rate on Line increases as less reinsurer capacity was available due to the historical impacts of social inflation on loss severity that has impacted these types of covers.
- Capacity was constrained within the noted "catastrophe" type treaty coverages, but with adequate capacity to complete placements at increased rate levels. Beyond the cat type treaties, capacity also contracted, but less so, with adequate capacity remaining to complete treaties that were perceived to be adequately priced.

United States – General Third-Party Liability

- Buying strategies and structures were relatively consistent following significant shifts in 2020 and 2021. Buyers continue to utilize a balance of quota share and excess of loss structures.
- Reinsurer appetite for US Casualty continues to grow, particularly on Umbrella/Excess Liability where pricing, terms and conditions in the original market have improved most significantly.
- While excess of loss capacity remains relatively stable, capacity for quota share structure has materially grown leading to an over-supply.
- Quota share ceding commissions have gone up where commensurate improvements in loss ratios were observed.
- Excess of loss pricing is flat while questions surrounding loss trend dynamics remain.
- No major changes in coverage or contract wordings as underlying concerns of the impact of Covid-19 and performance in casualty fall away.

United States – Professional Liability

- There was plentiful capacity for pro rata reinsurance with continued hardening in the primary market rates driving the improvements in ceding commission terms. The greatest improvement in terms can be seen in stand-alone D&O or D&O driven placements.
- Commercial E&O quota shares also achieved improved terms but to a lesser degree, in line with the achieved underlying rate being very positive but not to the same degree as D&O. Tech E&O, often bundled with cyber, was the outlier with pressure on terms and shares being placed.
- Increasing number of cedants were exploring or expanding excess of loss placements focusing reinsurance on severity protection. These placements were generally done in conjunction with long-standing QS covers and are designed to provide cedants with a holistic reinsurance programme that will be effective across the market cycle. Terms on these placements are not as directly comparable and are typically negotiated in conjunction with the quota shares but in general renewals were very close to flat.
- Overall cedant orders were broadly flat year-over-year after having seen some reduced orders at this time last year.

United States – Workers' Compensation

- The Workers' Compensation market is continuing to emerge from pandemic-induced reductions in payroll and subject premiums. Unlike January 1, 2021 where we saw -5% to -15% reductions in subject premiums, January 1, 2022 client subject premium bases were up an average of +6.8%.

- The Workers' Compensation reinsurance market is two distinct sectors. The single life exposed working layer market and the multi-claimant exposed catastrophe market.
- Working layers continued to see pressure from reinsurers for rate increases, even on loss free layers. This resulted in reinsurer panel turnover as certain incumbent reinsurers held firm on their need for additional rate.
- On catastrophe layers, reinsurers quoted slightly higher rates on line but firm orders were supported at flat to small increases. This generally resulted in premium rate decreases due to increased subject premiums.
- Contract terms remained consistent with respect to communicable disease and pandemic treatment. Pandemic exclusions weren't required on working layers but the ability to aggregate communicable disease claims was limited. Pandemic exclusions continue to be required on catastrophe layers.

Casualty rate movements

Territory	Pro rata commission	Excess of Loss – no loss emergence % change	Excess of Loss – with loss emergence % change
Australia	n/a	+3% to +5%	+5% to +10%
Canada	0% to +5%	+2.5% to +5%	+5% to +15%
China	n/a	-15% to 0%	-10% to 0%
International Casualty	n/a	+2.5% to +5%	+5% to +7.5%
International – Motor Liability	n/a	0% to +5%	+5% to +10%
Netherlands – Motor Liability	0%	+2.5% to +7.5%	0%
United Kingdom – Motor Liability	Varied	Varied	Varied
United States – General Third-Party Liability	0% to +3%	-5% to +5%	0% to +10%
United States – Healthcare Liability	0% to -1%	-2% to +5%	0% to +20%
United States – Professional Liability	0% to +2%	-5% to 0%	0% to +15%

Territory	Pro rata commission	Risk loss free % change	Risk loss hit % change	Catastrophe loss free % change	Catastrophe loss hit % change
Lloyd's and London Market	n/a	-2.5% to 0%	+2.5% to +5%	0% to +5%	+5% to + 7.5%
United States – Workers' Compensation	n/a	0% to +5%	+5% to +15%	0% to +3%	n/a

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

Specialty

Commentary by Line of Business

Global – Aerospace

- During the final quarter of 2021, the excess of loss market was broadly flat relative to exposure adjustment. Reductions were difficult to achieve with reinsurers being reluctant to give back hard earned, post loss, increases in pricing that had been achieved during the two previous renewal periods.
- Back year loss deterioration and more recent loss activity within the General Aviation sector has additionally served to strengthen reinsurers' resolve with concerns around escalating award levels and the general impact of social inflation on loss costs.
- Not surprisingly an improving pricing environment has continued to draw capacity towards the class and both direct and reinsurance segments have seen some new and existing markets seeking to gain market share in certain cases, buyers have engaged with new markets on a verticalized pricing basis.
- Capacity for proportional placements has generally remained stable, increasing slightly, but broadly terms and commission levels were largely unchanged.

Global – Cyber

- The very significant underlying rate increases and improvements in terms and conditions observed in late 2020 and throughout 2021 are being further compounded with reinsurers seeing benefits flowing through into this year's renewals
- Whereas primary cyber markets are truly hard the reinsurance market is hardening with capacity still available on a pro rata basis though there was more pressure on capacity for aggregate stop loss covers
- In addition to modest reductions in pro rata commissions, loss ratio caps were unchanged or marginally reduced in some instances.
- With primary cyber insurers deploying an increased utilisation of more advanced technologies and underwriting techniques, as well as portfolio optimisation through improved risk selection, there were early signs that reinsurers are starting to differentiate by ceding company.

Global – Engineering and Construction

- For Global Engineering and Construction Treaty business, market headline capacity generally remained stable, although there was evidence of interest from a number of new reinsurers.
- Mobilisation of support and deployed lines were increasingly influenced by the ceding companies needing to evidence portfolio profitability together with the treaty structure, terms and conditions.
- There remained evidence of continued market hardening but generally terms and conditions, especially commissions remained flat.

Marine

Global

- Abundant capacity on all lines of marine reinsurance business, although capacity was more watchful and conservative with new opportunities.
- There was considerable interest in pro rata treaty business, particularly in relation to global insurers who have driven underlying rate changes in the original business.
- Nearly all programmes paid increases at renewal, with larger adjustments for those with negative loss experience.
- Terms and conditions are still heavily scrutinised with a particular focus on cyber and communicable disease coverage.
- Low single digit, risk adjusted rate increases.

US Market

- Following several years of primary rate improvement in marine classes, the insurance market rates continued to improve albeit at a much lesser degree.
- No lost reinsurance capacity and several reinsurers looking to expand in the US meant that placements had abundant potential capacity.
- Reinsurers were looking for +2.5% to + 5% rate increases and where Hurricane Ida losses were disproportionate, programmes had greater rises.
- Continued focus of container accumulations on vessels and around ports, with the California backlogging in particular under scrutiny..
- Strict adherence to cyber and communicable disease language was incorporated throughout the last twelve months.

London Market

- Broad range of impacts to programme key metrics – income, exposure, experience with clients treated individually and differentiated accordingly by reinsurers.
- Marine, Energy & Terror Retrocession capacity was more limited than on the reinsurance side, but there were opportunities for certain reinsurers to switch some of their net retained exposure from protecting at lower single digit reinsurance rates to writing retro excess of loss at higher rates on line.
- Reinsurers focused on overall trading balance and a strengthening view of strategic partnership approaches.
- Certain buyers are projecting upticks in income through growth and rate, with reinsurers seeking to share in underlying rating increases and premium growth.
- Peak Energy exposures, such as Sleipner and Johan Sverdrup, continued to put pressure on internal aggregate caps with reinsurers restrained by the amount of exposure ceded to reinsurance programmes.
- Terror is increasingly 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 the 2021 riots in South Africa.
- Golden Ray deterioration over the course of 2021 has seen the 2019 Year of Account deteriorate for reinsurers, with the vast majority going straight into the Marine excess of loss market.

- Hurricane Ida had limited impact on the market, with a small handful of clients with larger losses than peers – limited loss impact on Gulf of Mexico Wind Energy accounts.
- Nat cat aggregate was still a hotspot for reinsurers, with the internal allocation of capacity restricting certain reinsurer's ability to continue with past line sizes, or certainly limiting growth.
- Specialty remains viewed by many reinsurers as a diversifying range of classes of business, and consequently an attractive area to deploy capital and capacity. New entrants, as well as existing reinsurers looking to grow shares – continue to provide supply to the marketplace.
- Lead reinsurers maintained a firm stance on price and coverage, with enhancements in respect of cyber, communicable disease and latter in SRCC, continuing to strengthen contract wordings.
- A later renewal than in prior years, but once lead terms were obtained, following reinsurers were ready to provide their capacity in a timely fashion, as well as the whole market being better prepared for wordings discussions than last year.

Global – P&I

- Poor results in the Marine Liability space has given continued momentum to rate increases.
- Non loss affected business saw up to +10 to +15% increases. Programmes with poor loss records were restructured by reinsurers.
- In the Non Poolable space, there have been some high-profile Charterers and Fixed P&I losses during 2021.
- Significant new capacity is being provided by well-respected and senior market underwriters who have started portfolios with new capacity providers in the Marine Liability market.

Global – Non-Marine Retrocession

- Capacity was constrained with traditional reinsurers tightening their requirements to deploy capacity and significant outflows (with limited inflows) from the ILS market.
- Appetite for low level excess of loss business is scarce with reinsurers increasingly focused on attachment level rather than price.
- Aggregate capacity was in short supply as capacity providers continued to scrutinise secondary peril exposure following another year of significant losses from events with a limited modelling footprint (e.g. Winterstorm Uri, German flood event Bernd).
- Increased frequency and severity of Cat events continues to put pressure on reinsurers view of aggregate covers and the ability of ILS funds to attract investors, with events like the December Tornadoes drawing additional scrutiny.
- Aggregate programs still attracted market support although there was an increasing requirement for them to be second or third event in nature and with more sizeable each and every loss deductibles.
- Significant Asset Under Management headwinds as a result of poor historical performance, trapped collateral and negative investor sentiment, has seen a material reduction in ILS' relative share of the Retro market.
- Indexed products such as Cat Bonds and ILWs remain an attractive asset class for investors with purchasing of County Weighted and State Weighted industry products garnering greater appetite from buyers.

- Quota Share capacity continues to reduce as limited new capacity entered the space and incumbent reinsurers came off business which had not been profitable in recent years.
- Increased claims frequency coupled with socio-economic pressures and claims inflation has driven loss costs higher year on year.
- Portfolios with poor results, or at unsustainable attachment levels, have attracted less capacity as reinsurers continue to differentiate clients. This disparity has become increasingly marked.

Global – Personal Accident / Life Catastrophe

- Rating remained flat on non-loss affected programmes with some additional capacity in the market due to hardening in 2021.

Global – Political Risk

- The primary market has benefitted from improved trading conditions compared to 2019. 2021 has seen premium incomes generally ahead of original forecasts and are at least on track, despite risk counts being flat or down.
- Where exposures are up, it often resulted from buyers looking to deploy bigger lines whether that be driven by buoyed commodity prices or simply maximising attractive opportunities.
- Despite forbearance and governmental support, claims have increased due to the impact of Covid-19 but not to the extent initially feared.
- Reinsurance renewals have seen increases for loss affected programmes and where exposures and/or projected incomes are materially up. But overall, programmes have renewed roughly flat.
- Reinsurance programme oversubscriptions have returned this season, as a handful of reinsurers have entered the class, seeing Political Risk as an area to expand their client relationships across multiple lines of business. Rather than looking to offer alternatives to existing quoting markets' pricing, participations tend to be limited to following line capacity.

Global – Trade Credit

- State support schemes for Trade Credit ended on 30 June 2021, but finally proved to have been largely unnecessary.
- 2021 has been a year characterized by extremely abnormal low loss activity, partly due to the continuing levels of government support for the economy in general.
- Tighter conditions imposed by insurers at last renewal have been softened again under pressure from policyholders due to the low loss levels reported at insurers' investor presentations.
- Similarly, reinsurance conditions have reverted to (at least) pre-pandemic levels as predictions of sharply increased loss ratios proved to be unfounded.
- There continues to be uncertainty about the outlook for 2022 but is starting from a benign ongoing environment.

United States – Surety

- The surety reinsurance market remained stable in 2021, with the restriction of capacity and tightening of terms and conditions isolated to select buyers. Initial expectations of increased insolvencies, brought on by the heightened risk environment of the global pandemic, have not materialised. Downward pressure on pricing increased throughout the year, suggesting that reinsurer perceived risk in 2020 has dissipated.

- Covid-19 related rate risk loads in reinsurer pricing models were scaled back significantly, translating into flat to significant risk adjusted rate reductions.
- With no frequency of loss in the surety market in 2021, the line of business remains attractive to reinsurers, fuelling competition on treaty renewals.
- Reinsurers maintained a measured and increasingly client-centric approach by providing adequate capacity and terms to buyers. Cedants with profitable reinsurance programmes and long-standing reinsurer relationships were differentiated by reinsurers and able to achieve more favourable terms. Conversely, loss affected programmes experienced remedial action in structure and rate. Reinsurers continued to be more discerning and reduced shares on placements they viewed as under-priced or unprofitable.
- Per principal excess of loss structures continued to be the predominant structure in the U.S. surety market. Reinsurer capacity restrictions implemented during 2020 were lifted, allowing the option to purchase additional vertical and horizontal limit. In some instances, buyers increased retentions, reflecting a growing capital base and increased appetite to retain profitable results.
- Surety reinsurers continued to have a particular interest in cedants' underwriting approach and appetite for certain classes of business perceived to have elevated risk, such as the energy sector and private equity backed businesses. For sureties who are active in these segments, reinsurers remain focused on underwriting expertise, as well as evaluating the overall strategy in these specialised market segments.

Specialty rate movements

Territory	Pro rata commission	Risk loss free % change	Risk loss hit % change	Catastrophe loss free % change	Catastrophe loss hit % change
Aerospace	0%	0%	0% to +10%	0% to +10%	n/a
Engineering/Construction	+1%	n/a	n/a	n/a	n/a
Non-Marine Retrocession	-2.5% to 0%	+5% to +15%	+15% to +25%	+5% to +15%	+10% to +30%
Personal Accident/ Life Catastrophe	0%	0% to +5%	+10% to +20%	0% to +5%	+10% to +20%
Political Risk	0%	-5% to +5%	+5% to +10%	n/a	n/a
Surety	n/a	n/a	n/a	n/a	n/a
Trade Credit	+1.5% to +3%	-4%	n/a	n/a	n/a

Notes: Movements are risk-adjusted. Engineering/Construction: Portfolio renewing at 1/1/22 is predominantly proportional, the increase in commission above is skewed by one large treaty and does not represent the "market" picture.
Source: Gallagher Re

Cyber rate movements

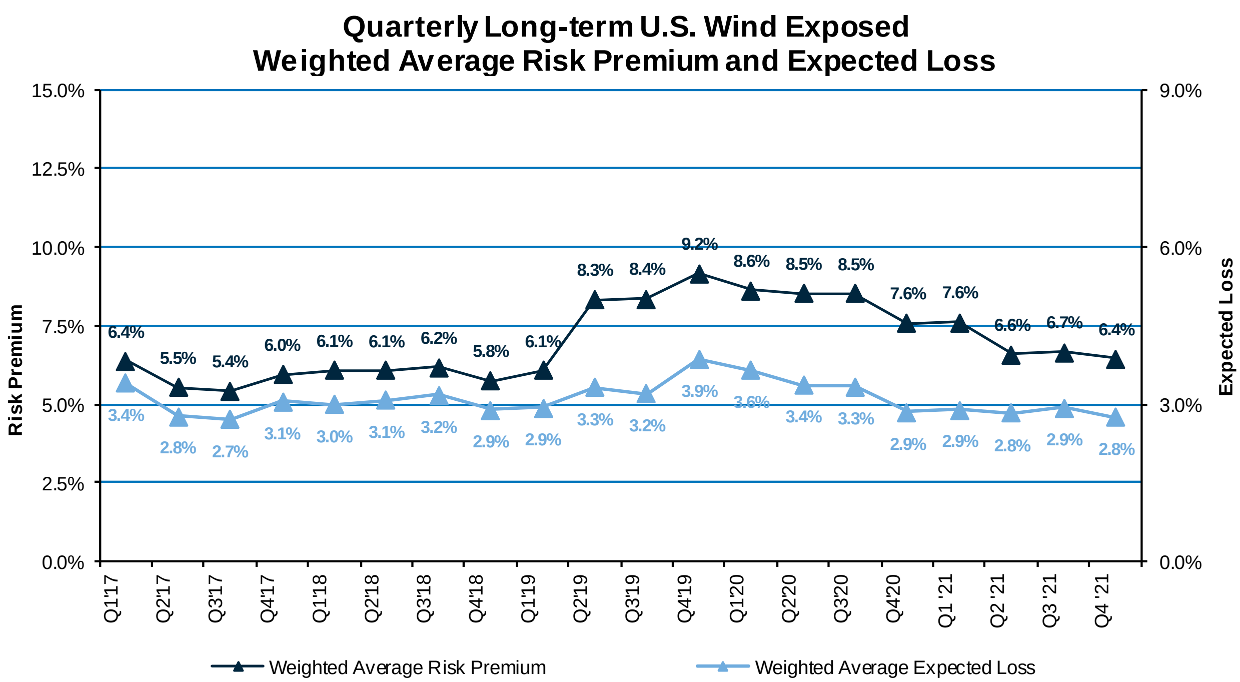
Territory	Pro rata commission	Aggregate Stop Loss Rate on Line
Cyber	0% to -3%	+15% % to +20%

Note: Cyber values are nominal change, not risk-adjusted
Source: Gallagher Re

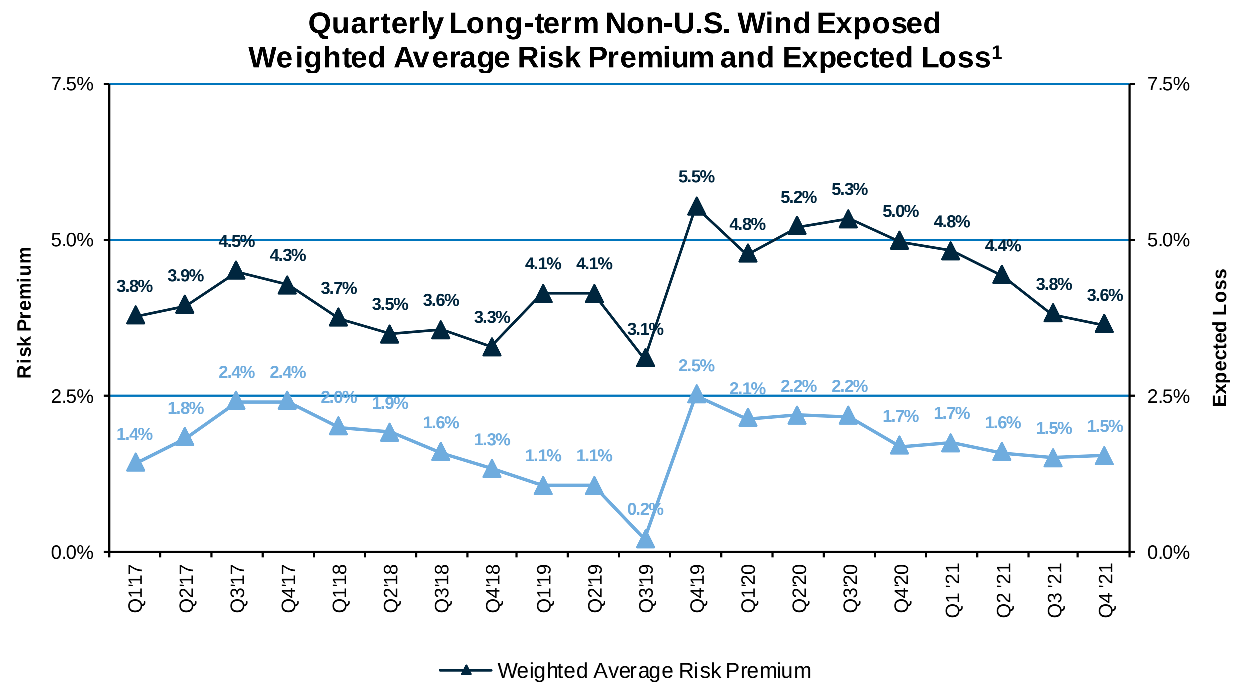
ILS Update

- 2021 has been a record year for activity within the cat bond market – with total capacity issued comfortably surpassing the previous record set in 2020.
- The liquidity, transparency and contract certainty offered by the cat bond instrument has proven to be attractive to investors. When combined with the influx of capacity into the cat bond space, driven mainly by the notable growth of UCITS funds year-on-year, the result has been tightening margins and attractive terms available to both new and repeat sponsors
- ESG has started to emerge as a major consideration for sponsors and investors alike in the ILS space. Applying and adapting ESG frameworks to ILS may take time so its ultimate impact remains uncertain; however, early signals suggest a net positive impact.
- Whilst the cat bond market has witnessed a record year, the collateralised reinsurance and sidecar markets have stagnated somewhat, hamstrung by broad contract terms and the impact on returns of potential trapping of collateral. Transactions this year involving the incorporation of legacy risk into sidecar form has however displayed that appetite remains in the ILS market for new risks and points of differentiation

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.



Source: Willis Securities Inc. Transaction Database as of 12/31/2021. Aggregate data exclude private ILS deals.
LTM = Last 12 months. Aggregate data are for primary issuance and do not reflect secondary trading.
[1] 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.



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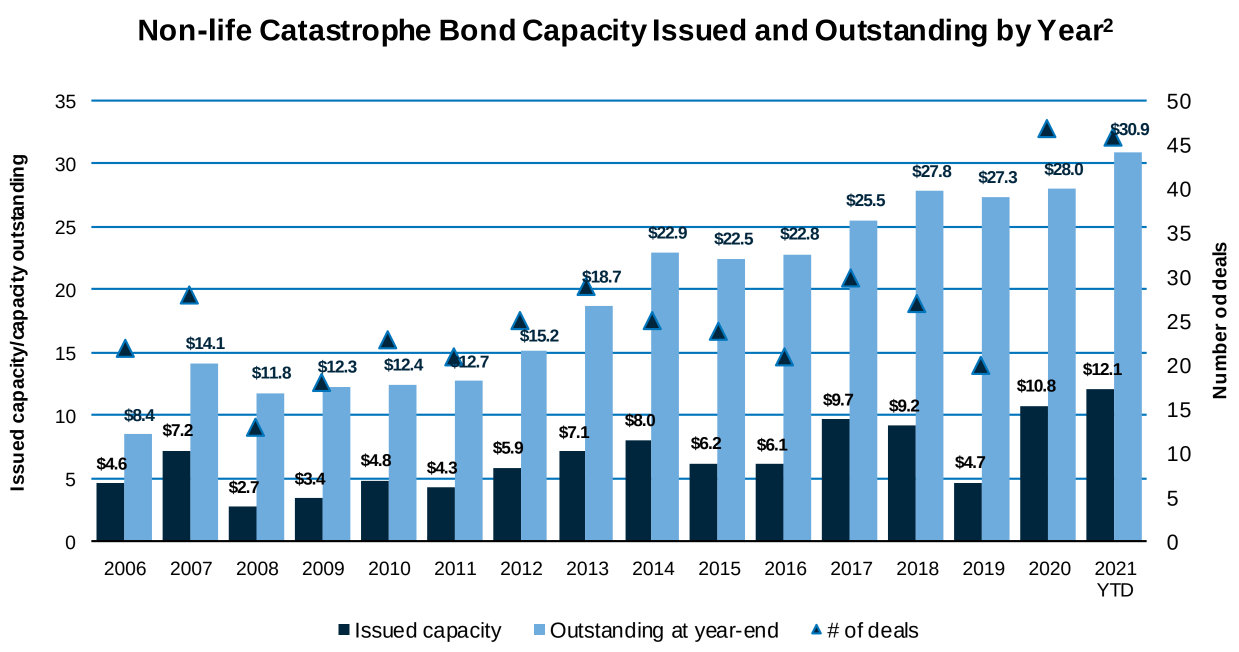
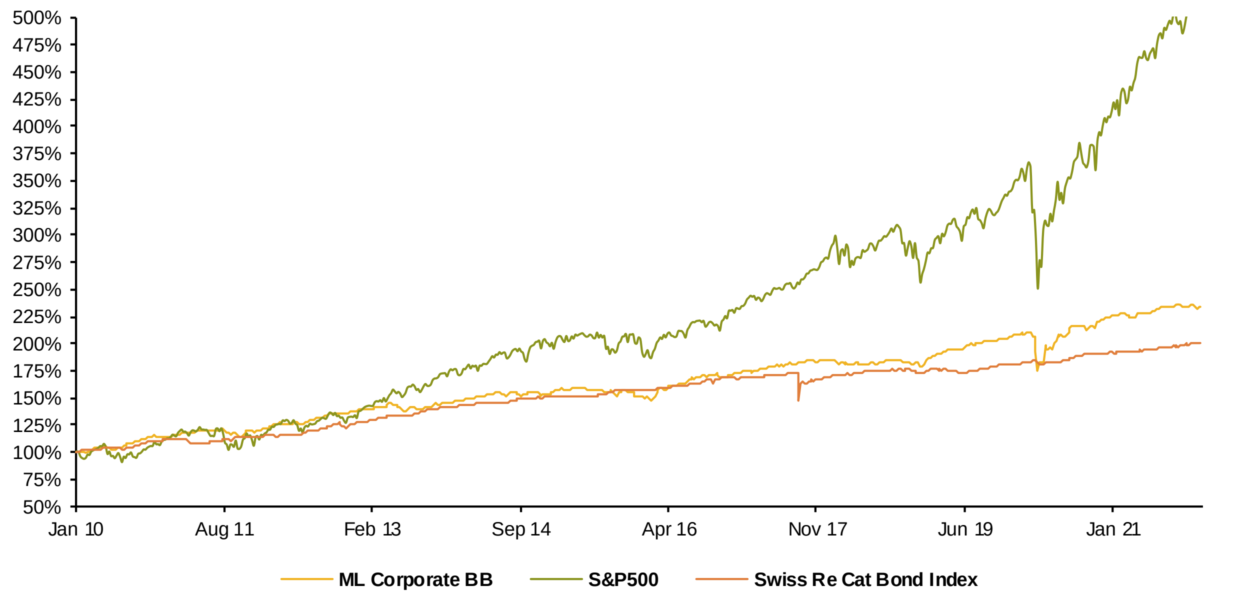


Source: Willis Securities Inc. Transaction Database as of 12/31/2021. Aggregate data exclude private ILS deals.
[2] All issuance amounts reported in or converted to USD on date of issuance. Outstanding amounts adjusted for actual principal losses.

Historic Yield



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

GLOBAL AND LOCAL REINSURANCE

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