



Gallagher Re

# 1<sup>st</sup> View: Continuing Discipline

JULY 2023





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

This thrice yearly publication delivers the first view on current market conditions at the key reinsurance renewal seasons: January 1, April 1 and July 1 based on the real time observations of Gallagher Re’s brokers working across all territories and classes covered in this document.

# Introduction

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The July renewal cycle saw a continuation of the pricing and structural market dynamics that defined the January 1 2023 renewal period, with midyear placements catching up and aligning with prevailing market undercurrents. While significant on a year-on-year basis, the market was orderly and rational, with adequate capacity from the reinsurance market available to support client needs. This resulted in a less stressed renewal process in most cases.

Supply and demand showed signs of coming more into balance, particularly for programs that were perceived by reinsurers to be well structured and appropriately priced. A combination of some new capital entering the market (both through capital raising by traditional reinsurers as well as ILS funds) allied with a moderated demand from buyers through a combination of increased retentions and deferring purchases of additional limit, have undoubtedly played a key role. These factors greatly contributed to the more orderly renewal.

Structural changes driven by reinsurers have seen continued moves from surplus to quota shares, while increased retentions—geared to moving entry points out in the return period—prevailed in excess of loss programs, consistent with the January renewals. While some buyers found it easier to achieve market-clearing pricing, others again found it difficult to settle on market-clearing firm order terms, with reinsurers' quotes on property treaties varying widely and a reluctance to follow market lead terms. However, even for the more challenging renewals, capacity could be secured privately in advance at acceptable terms eliminating distressed short fall placements.

Another sign of an improvement in the supply of capacity was seen in the retrocession market, where capacity on an occurrence basis was available—albeit at a significant cost, which in many cases was not yet proving attractive to buyers.

In contrast to the ongoing adjustments of the property market, casualty placements were straightforward in most cases, with adequate capacity and flat to moderate rate increases. In many cases, reinsurers remained comfortable with the improvements buyers have been making in their underlying primary policies, including adjustments for recent inflation. In some professional line classes, after several years of significant increases in primary rates, there are signs of softening—but by and large, reinsurers have been prepared to continue their support as they see the rates as still being adequate, as an improvement in original claims frequency and disciplined limit management is continuing to mute the impact of severity.

The landscape remains complicated. On the one hand, COVID-19 has significantly distorted data sets with rising economic and noneconomic inflation. On the other, huge increases in reinvestment rates in most (but not all) economies and currencies has fundamentally improved the overall economics of long tail business.

One of the more encouraging signs has been the ability of some ILS funds to attract new investments, particularly into more liquid cat bond strategies. The strong returns achieved by ILS funds in 2023 to date have undoubtedly assisted the growing investor interest, and this in turn has supported an increase in the number of new bonds being issued—many being successfully placed below initial spread guidance with increased limits. Attention has begun to refocus on ILS for other perils, structures and opportunities, including cyber and casualty, as the property market comes more into alignment.

With the improved terms and conditions available in the reinsurance market, some existing reinsurers are leaning into the hardening market, committing more of their existing capital, as well as any new capital they are raising, to reinsurance. However, in contrast to other historic hard markets, there are limited signs of completely new reinsurance entities, and the current trend is one of consolidation into fewer, larger reinsurance entities—which, in the absence of any major losses, points toward pricing stability.

## Tom Wakefield

Global CEO, Gallagher Re

July 2023



# Property: Commentary by Territory

## Australia

- Continued to be significant pressure on retention levels, with further increases to those that took place in 2022.
- Wide variance in quotations and indications were seen as reinsurers sought to reach what they perceive to be long term pricing adequacy and ongoing sustainability.
- Capacity was available, with certain reinsurers openly looking to increase shares if their expectations on pricing increases were met.
- Pre-paid reinstatements were only offered by reinsurers at levels above historic losses or with significant and often uneconomic loadings.
- Consistency from reinsurers in respect to minimum rates on line level that were seen at 1 January and 1 April.
- Push by reinsurers to utilize reverse two risk warranties on property per risk programs.
- Aggregate capacity remained limited.

## Caribbean

- Proportional capacity was very tight and non-proportional capacity was very expensive.
- The majority of English speaking islands saw double digit growth in original rates.
- Reinsurers were looking to hold monetary lines and potentially support natural growth. They were careful at client selection and have differentiated based on quality.

## China

- The hard market continues with further capacity withdrawal, especially on the catastrophe side.
- Very difficult to find new markets or secure additional capacity for programs with cat exposure; capacity is slightly more available on the Risk excess of loss side.
- In some programs, price increases are at more reasonable levels due to wider corporate relationships.

## Latin America

- Trends observed at 1 July have broadly followed those seen at January 1 and April 1, but with more consistency and concentration around average terms and conditions.
- In overall terms, there remained sufficient reinsurance capacity to meet ceding company demands, even in the peak catastrophe zones of Chile and the Caribbean.
- In spite of some reinsurers reducing capacity or offering only expiring monetary line support to growing portfolios, other existing and new players sought to lean into attractive reinsurance terms with increased capacity.
- Reinsurers have continued to focus on improving economic terms and conditions irrespective of movements in technical pricing, addressing concerns around inflation and coverage, especially related to SRCC and war exposure, secondary and non-modelled catastrophe perils exposure, as well as per event hours clause definitions.

- Reinsurers' ability to gain traction for their proposed changes to economic and non-economic terms has been highly correlated to supply and demand dynamics, and the balance of cedant reinsurance relationship between catastrophe and non-catastrophe exposed business.
  - In this sense, reinsurers have pushed through the hardest terms and conditions on large capacity stand-alone property catastrophe programs from peak zones. Reinsurers have been less successful on smaller capacity programs, non-peak zone programs and have favored cedants offering a balanced catastrophe and non-catastrophe cession.
- Reinsurers' appetite for catastrophe exposure at different probabilities of loss varies significantly, but there has been a general drift away from lower layers and towards higher layers.
  - This trend has helped to maintain the availability of high attachment 'sleep-easy' coverage at low rate on lines.

## Middle East

- For pro rata, structures moved towards a full quota share model.
- A very limited amount of leaders remain in market, most of which are not offering increased commissions or capacity unless in the very rare cases where clients have performed exceptionally well.

## South Africa

- Pro rata commissions were under pressure, with reinsurers pushing for greater margins because of uncertainty around catastrophe exposures.
- Risk adjusted increases on risk excess of loss structures were substantial at +25% to +35%, and in line with what was observed at January 1.
- Risk adjusted increases on cat excess of loss structures brought July renewals in line with January 1 levels, anywhere between +20% and +40% depending on loss experience.
- In general capacity has stabilized, but comes at a cost.

## United Kingdom

- The hardening seen in the UK property cat market at January 1 and April 1 continued through the July 1 renewals, although capacity was still plentiful at the right price, terms and conditions.
- The December 2022 freeze loss has crept higher in Q2 2023 for many cedants, with some getting close to their Cat excess of loss retentions, whilst others are actively making reinsurance recoveries.
  - This has put a further spotlight on the underwriting of the freeze peril in the UK, and reinsurers are looking to price bottom end catastrophe excess of loss layers accordingly.
- There continued to be a push from reinsurers for further clarity and tightening of Loss Occurrence definitions, but there is not a market consensus and bespoke versions for each cedant remain.
- Risk excess of loss programs continued to renew mainly with expiring markets with little new capacity entering the market.
- On pro rata deals, reinsurers continued to push for reduced event limits and stronger margins thus reducing client commissions.

## United States – Florida

- Overall, there was sufficient supply of capacity to clear renewals, albeit at meaningful price increases now compounding over multiple years.

- Property catastrophe rate on line indexes appear to be at record high levels and general sentiment is that current pricing levels are more than adequate.

## United States - Nationwide

- Since the April report, the market initially stabilized and then shortly before June 1 began to give ground on some of the harsher terms and conditions requests.
- As reinsurers assessed their writings from the first quarter and potential signings on June 1 accounts, the remaining renewals were effectively their final opportunity to make their business plan projections for the year. Accordingly, capacity became more readily available as reinsurers authorized increased and new lines.
- Restrictions in coverage which had been seen on the first quarter renewals were removed from outstanding Q2 authorizations and in many cases all risks coverage was resumed. Most notable softening position was on terrorism, but Strike, Riot & Civil Commotion (SRCC) aggregation limitations were still required by most reinsurers.
- Notable increase in appetite and capacity for named natural peril coverage – with reinsurers accepting FOTs significantly below their quotes on restricted peril covers.
- As alternative markets looked to deploy their remaining available capital, multi-year capacity from collateralized markets started to re-emerge at competitive pricing relative to traditional support.
- Risk excess capacity remained tighter as numerous participants from London in particular withdrew from this market segment. Unlike catastrophe lines, meaningful increases in appetite for per risk exposure were not apparent, particularly on lower layers where market interest contracted.
- Top layer catastrophe pricing continued to stiffen as reinsurers increased their minimum premium requirements in response to their own cost of capital.
- Pro rata commissions were less commoditized and more dependent on original portfolio results as well as changes in other structural elements.

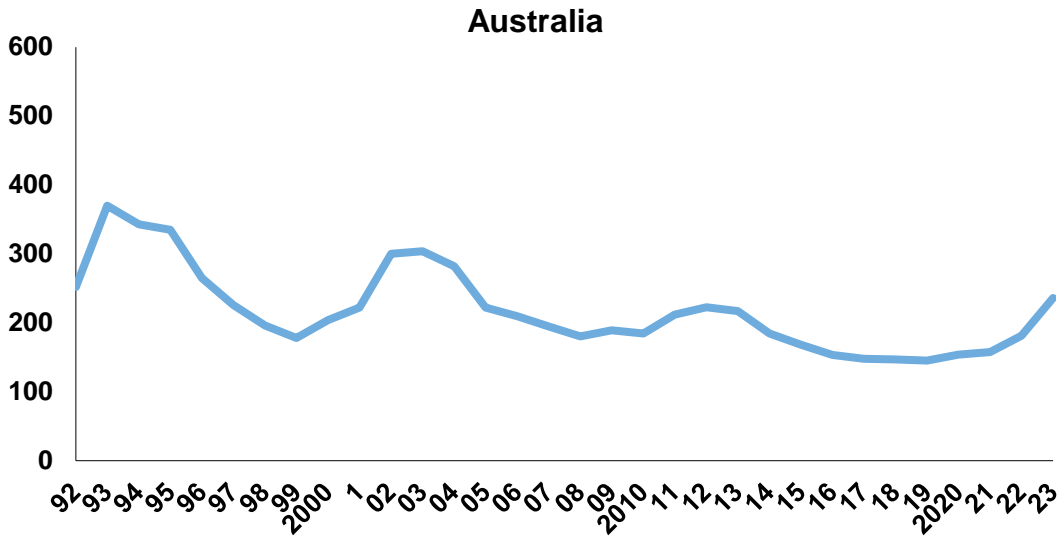
## Property Rate Movements

Territory	Pro rata commission	Risk loss free % change	Risk loss hit % change	Catastrophe loss free % change	Catastrophe loss hit % change
Australia	n/a	+15% to +25%	+40% to +60%	+20 to +30%	+40% to +75%
China	n/a	+15% to +25%	n/a	+15% to +25%	n/a
Latin America	-3% to 0%	+5% to +15%	+10% to +25%	+10% to +30%	n/a
Middle East	0%	+5% to +10%	+20%	+10%	+25%
South Africa	-3% to -1.5%	+25%	+35%	+20%	+40%
United Kingdom	-2.5% to 0%	+10% to +20%	+20%	+27.5% to +35%	+32.5% to +37.5%
United States - Florida	n/a	n/a	n/a	n/a	+30% to +40%
United States - Nationwide	-6% to 0%	+20% to +40%	+35% to +75%	+10% to +35%	+30% to +50%

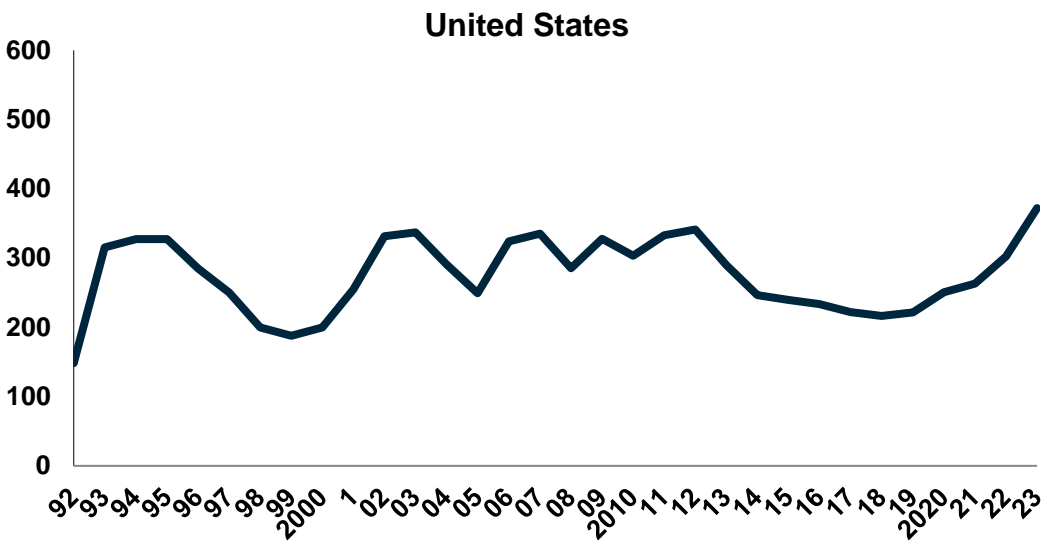
Note: Movements are risk-adjusted.  
Source: Gallagher Re

# Property Catastrophe Pricing Trends

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



Source: Gallagher Re



Source: Gallagher Re

# Casualty: Commentary by Line of Business & Territory

## International – Liability & Professional Lines

- International includes business that is renewing in Europe, Middle East, Africa, Latin America and Asia Pacific.
- The majority of liability and professional lines business falling due for renewal at 1 July is in Australia and NZ. There were also a handful of renewals in Europe.
- Many of the placements at 1 July are combined liability placements, mostly with significant retentions held by buyers.
- There are a number of placements for professional lines that have comparatively low retentions. All buyers were able to maintain their level of retention.
- Almost all of the business that renewed was on an excess of loss basis.
- For almost all of these placements, renewals have been relatively calm with some modest price increases. Reinsurers generally have been seeking rate improvements.
- There were also a number of renewals across Asia with placements in China presenting a more diverse picture – some placements hardening significantly and others experiencing more modest change.
- Response times from reinsurers were an improvement when compared to those of 12 months ago.
- Quotations received from reinsurers were generally more tightly grouped than this time last year.
- More significant increases were seen for the placements with low attachment points, due to inflationary pressures or specific claims activity.
- More generally across International, there has been an ample supply of capacity available. That said we observed some reinsurers offering only their expiring signed line rather than written line reducing the over-placement margin.
- Systemic and accumulative casualty risk continued to be an ongoing discussion topic, with reinsurers assessing issues such as cyber and mental anguish in more detail.

## United States – Healthcare Liability

- Capacity remained adequate for the majority of Healthcare professional liability lines.
- Hospitals remained the most stressed segment within Healthcare, as adverse development continues on historical years and overall limit deployment is trending slightly downward.
- Rates are generally increasing, but to a lesser degree than the previous 24 months.
- Outside of Hospitals, the broader Healthcare market is still showing rate increases in the aggregate, with pockets of competition pressuring rate due to an influx of new capacity.

## United States – General Third Party Liability

- Overall dynamics remain stable - structures and cession levels are relatively consistent amongst continued strong appetite by reinsurers for US Casualty.
- Reinsurance costs (Rate, Ceding Commission) remained sensitive to individual cedent portfolio dynamics which include prior year development, loss trends, rate change, and portfolio shape/mix.
- Reinsurers continued to exert some pressure on ceding commissions and excess of loss pricing, however buyers who laid out robust and transparent underwriting strategies were able to maintain relatively stable pricing and coverage terms.



## United States – Professional Lines

- Financial/Professional lines reinsurance terms continue to be under pressure as a result of negative rate change and ongoing prior year loss deterioration.
- While the more recent policy years are expected to be highly profitable, they are given limited credit in a reinsurer analysis due to age.
- The market is focused on years 2016-2019 which continue to develop unfavorably across the industry.
- These swings, both up and down, are largely driven by the US public D&O market.
- The lack of M&A activity is also impacting the market as highly rated SPAC/IPO opportunities have disappeared as has activity in the transactional liability (i.e. Representation and Warranty / Warranty & Indemnity / Tax).

## United States – Workers' Compensation

- Carrier subject premiums were mostly flat, with wage/payroll increases offsetting primary rate decreases.
- There was pressure for rate increases on working layers (single claimant exposed) despite the increase in yields that reinsurers are achieving - this is primarily due to concerns around the impact of medical technological advancements on claims severity.
- There continued to be significant capacity available for catastrophe layers so rate on lines were flat.

## Casualty Rate Movements

Territory	Pro rata commission	Excess of Loss – no loss emergence % change	Excess of Loss – with loss emergence % change
China	n/a	+7.5% to +20%	n/a
International – Liability and Professional Lines	0%	+3% to +5%	+5% to +12.5%
United States – Healthcare Liability	-2.5% to 0%	-2.5% to 0%	+2.5% to 10%
United States – General Third Party Liability	-1% to 0%	0% to +5%	+5% to +15%
United States – Professional Liability	-3.0% to 0%	0% to +10%	+5% to +15%
United States – Workers' Compensation	n/a	+12.7%	+12.7%

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

# Specialty: Commentary by Line of Business

## Global – Aerospace

- The Aviation reinsurance market continued to harden following severe loss deterioration, with inflation impacting known losses and expected losses.
- Reinsurers are tackling these issues by applying increased retentions, further risk adjusted rate increases, and tightening clauses and cover provided under excess of loss products.
  - These changes follow on from last year's market adjustments, and have continued this year for clients who missed last year's reaction and therefore are levelling the playing field. These are being supported by the retrocession market, where we are seeing a hardening of rates, tightening of clauses and cover provided, and a reduction in capacity.
  - Estimated excess of loss rate change both for 1st tier and retro was circa +50%, however this is client dependant due to individual loss experience and / or deterioration.
- We also saw increased rates being applied to Hull War excess of loss and Excess Avn 52 excess of loss specifics (War and Terror), where both products have seen an overall reduction in reinsurance capacity being offered.
  - Hull War rate change range circa +50% to +100%
  - Avn 52 rate change post January 1 2023 +100%
- From a quota share perspective, reinsurers continue to focus on terms and conditions with a reduction in commissions available (circa -0.5 to -1.5%), however reinsurers have also started to reduce their capacity in order to try and reduce the gross market capacity.
- As has been reported in the press, the Aviation "all risks" primary insurance market has to date been unable to improve the rating environment, which is driven by overcapacity, although not the sole factor.
  - This continues to frustrate reinsurers, hence a move to shrink quota share capacity, which they are hoping combined with increased excess of loss rates, more restrictive cover, and higher retentions, will stimulate rate improvement in the Aviation insurance market going forward.

## Global – Cyber

- Proportional:
  - Cyber insurance carriers continued to explore (and pursue) standalone cyber placements in response to increasing pressure by reinsurers to place cyber separately.
  - Incumbent reinsurance markets continued to grow following improved rate and portfolio optimisation across cyber insurance risk building on the sizeable new pro-rata reinsurance capacity which entered the market in Q4 2022 helping to rebalance the capacity dynamic across the sector.
  - Pro-rata renewals saw a consistent approach to gross loss ratio caps with modest increases in ceding commission (+0.5%) if merited by expectations of profitability across the 2021 & 2022 underwriting years.
  - War exclusions continued to be a prominent and evolving topic driven by; commercial pressures, lack of market uniformity, reinsurer bifurcation in supporting LMA compliant language, legal and regulatory frameworks.

- Aggregate Excess of Loss/Stop Loss:
  - Reinsureds were increasingly particular toward their preferred aggregate stop loss structure as they become more familiar with aggregation modelled output.
  - There remains a healthy demand for, and meaningful supply of, limit for this product and there was little movement in risk adjusted rates.
- Catastrophe/Event/Occurrence:
  - The occurrence product enables reinsurance buyers to access alternative rated (and non-rated) cyber reinsurance capacity.
  - Demand has grown meaningfully in the last 12 months driven by increased comfort across attritional and large loss ratios with the perception that aggregate cover is expensive and increasing comfort with cyber event definitions.
  - Handful of quoting markets but with a wide variance in pricing, structure and wording by the recognized leads.
  - Slightly longer lead in time with pro-active reinsurer/reinsured engagement did commonly enable the build out of a uniform subscription placement.

## Global – Non-Marine Retrocession

- Mid-year Retro renewals were more orderly compared to the dislocation observed at 1st January.
- Greater clarity on business plans and inwards rating environment, coupled with a clearer understanding of market requirements meant buyers were more prepared for the challenges, and geared their purchases around prevailing market dynamics.
- Renewals generally quoted in a timely manner, with negotiations concluded in advance of inception dates.
- Pricing remains broadly in line with 1 January, with underwriters remaining disciplined in coverage and attachment points.
- UNL market capacity less constrained than 1 January renewals, but supply is concentrated to the middle and upper-end of programs.
- Trapped collateral as a result of Hurricane Ian reduced as a function of Buffer Loss tables and reducing client loss numbers.
- Sufficient capacity for buyers 'core' layers provided coverage and pricing hurdles were met. Over-supply of capacity for tail protections, particularly for single peril region coverages, but market remains under supplied for bottom-end and true frequency level covers.
- Strong performance of catastrophe funds during 2023, coupled with a significant pipeline of maturities has led to new inflows.
- Oversupply of capacity for tail-end Indexed protections has reduced pricing and increased market appetite for lower attachment points relative to 1st January.
- Quota Share capacity remains constrained on a traditional basis, but the improving 1st tier rating environment is attracting new capital into investors QS strategies.

## Global – Personal Accident / Life Catastrophe

- Similar themes to those seen at 1 January & 1 April around terms and condition, pricing, and growth in available capacity
- Divergence between markets was still apparent, with some looking to push for more restrictive coverage for War & Passive War via IUA 06-001, and others happy with coverage as before but with a territorial exclusion for Russia / Ukraine / Belarus.
- 1st tier treaty market saw flat to +5% rate increases on loss free programs, and the Retro market seeing +10% to +20%
- Growth has been seen in capacity via MGAs and new entrants in Lloyd's writing direct & facultative. It remains unclear how this will impact pricing at this moment in time.

## Specialty Rate Movements

Territory	Pro rata commission	Risk loss free % change	Risk loss hit % change	Catastrophe loss free % change	Catastrophe loss hit % change
Non-Marine Retrocession	-2.5% to 0%	+10% to +20%	+25% to +35%	+30% to +50%	+50% to +60%

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

## Cyber Rate Movements

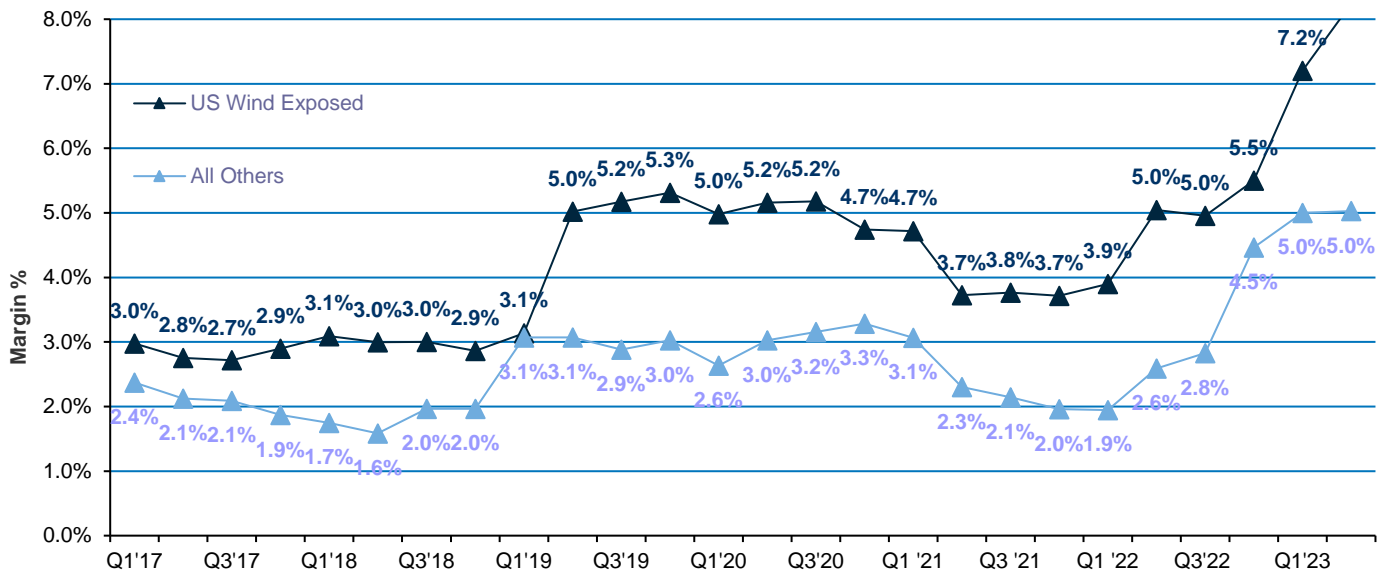
Territory	Pro rata commission	Risk loss free % change
Cyber	0% to +0.5%	0%

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

# ILS Update

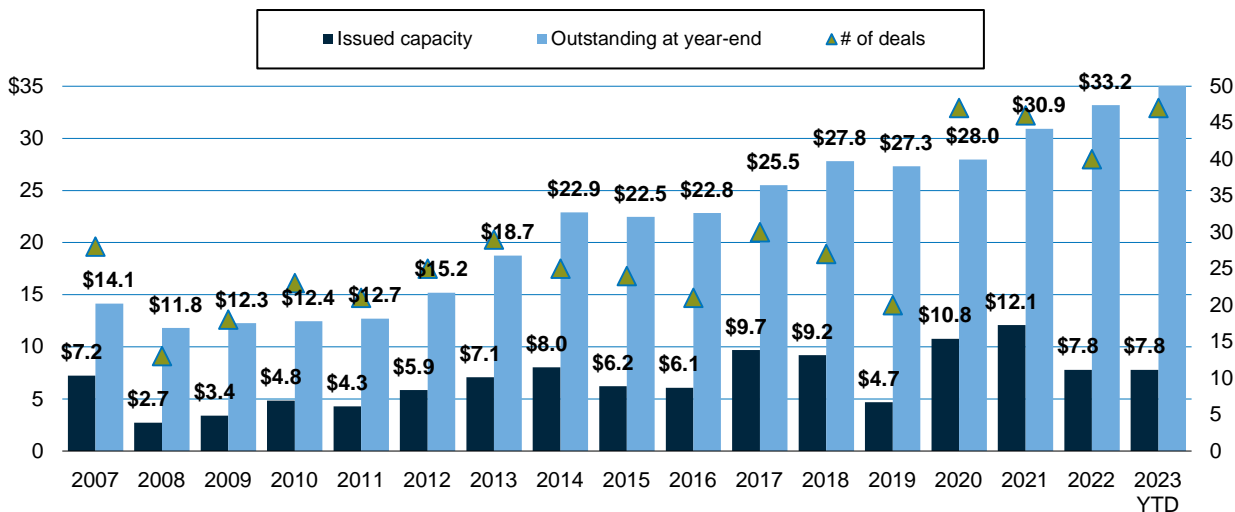
- The first half of 2023 has seen cat bond issuance on record pace reflecting increased availability of ILS capital and strong sponsor demand for capacity.
- Year-to-date nonlife cat bond issuance has already matched year end 2022 issuance levels.
- Sponsors included both new companies as well as companies accessing the market for the first time in many years.
- Many cat bonds have had risk spreads end up below initial guidance and final bond size increased as market conditions continued to improve during the period.
- While cat bond spread levels remain elevated year-on-year across all perils, they have also declined significantly since Q4 2022.
- With the steadying of the property ILS market, attention has begun to refocus to other perils, structures and opportunities including cyber and casualty.

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



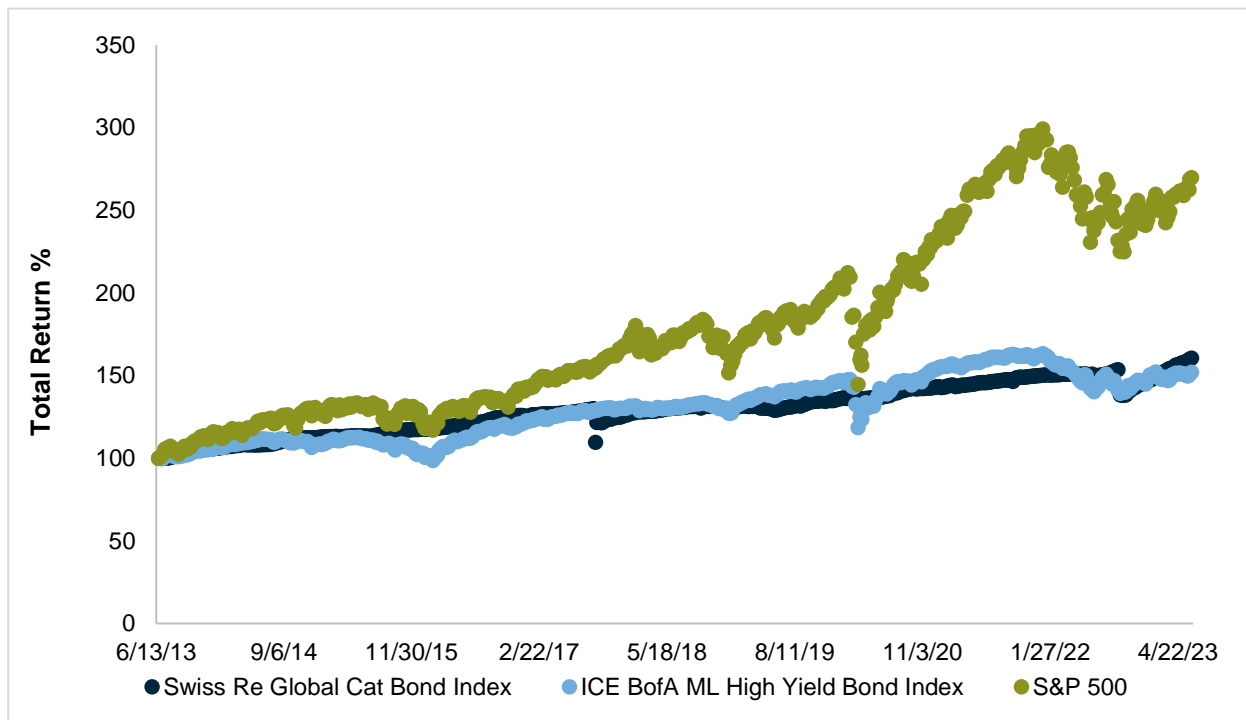
Source: Gallagher Securities Transaction Database as of 21 June 2023. Aggregate data exclude cat bond light deals. LTM = Last 12 months. Aggregate data are for primary issuance only and do not reflect secondary trading.

## Non-life Catastrophe Bond Capacity Issued and Outstanding by Year



Source: Gallagher Securities Transaction Database as of 21 June 2023. Aggregate data exclude cat bond light 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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