

# 1<sup>st</sup> View: What a Difference a Year Makes

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# What a Difference a Year Makes

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The 1.1.24 renewal season has seen major changes in market conditions compared to last year. Only 12 months ago property catastrophe reinsurance was considered an unpredictable and volatile class warranting reduced capacity and changes in coverage, attachment, and pricing. Capacity was mostly appetite constrained rather than capital constrained, with shortages of supply limited to a few areas of peak exposure.

This year, property supply and demand has snapped back into balance, with returns for the first three quarters of 2023 exceeding reinsurers' increased cost of capital. Retained earnings, modest new capital raises, ample retrocession capacity and buoyant ILS markets combined to increase available catastrophe reinsurance limit. The structural changes that manifested this time last year really were an exception, with a much calmer renewal period and an improved alignment of all parties' expectations leading into 2024.

## Challenges remain

A lack of large US wind events had a positive impact on insurers' and reinsurers' results alike. However, there were more than USD100 billion of insured property catastrophe losses over the course of 2023, including some significant catastrophe reinsurance events in France, Italy, and the tragic 7.8 magnitude Kahramanmaraş earthquake in Turkey.

In the US, severe convective storm (SCS) losses exceeded USD 59B in 2023. This resulted in US insurers assuming most of the losses net, given increased retentions and the scarcity of aggregate protection. Divergence also exists in personal and commercial lines, with those operating in tightly regulated markets having limited ability to pass on the increased cost of risk. The impact of 2023's 'sudden discontinuity' of certain structures and significant repricing of risk has caused some buyers to seek capacity from alternative sources of capital. The ILS market in the form of catastrophe bonds, often with multi-year duration, offers a hedge to price and availability shocks from traditional capacity.

## Cyclical correction or structural change in the property market?

With capacity pressure easing, many primary companies have successfully managed to buy more tail cover. This increased demand for top end protection (particularly in the US) has been supported by the reinsurance market's appetite to deploy capacity, particularly where non-modeled peril activity is deemed remote. Renewal pricing at this level has consequently been squeezed and signings suggest that there will be further capacity available for those nationwide/global carriers renewing throughout the rest of the year. For frequency protections on either an aggregate or low-level occurrence basis, reinsurance capacity has been very tight, leading a growing number of buyers to utilize structured buy-downs to meet their needs.

At the other end of the property catastrophe chain, the economics for buyers of property retrocession in 2023 proved to be less compelling because the underlying market adjustments were not priced in at last year's renewal. Existing suppliers of retrocession capacity responded by being more flexible at 1.1.24 with additional capacity coming from ILS investors. Risk-adjusted pricing changes of up to -15% were achieved.

However not all areas of the property market enjoyed calmer conditions. Per risk cover continued to be challenging, as reinsurers placed greater emphasis on both treaty structure and improvements in the original portfolios to address many years of underperformance in this class.

Overall, faced with a decade of deteriorating results, coupled with climate change pressure (whether real or perceived), the reinsurance market needed to self-correct – and it did. What is clear, is that the supply/demand dynamics that impact pricing in most markets are alive and well.

## Casualty: 'all change'

"All change" is the call to passengers when their train has reached the end of the line. Casualty, notably but not exclusively US casualty, was no longer the valuable currency that was used to support property catastrophe capacity this time last year.



**Gallagher Re**

Confidence in third party liability lines has diminished despite very significant increases in primary market pricing and limit reductions since H2 2019. There are concerns over the impact of elevated loss inflation (economic and social inflation) and the impact on both current and forward-looking rate adequacy. That uncertainty is amplified by the need to normalize the impact of COVID-19 on reduced economic activity and thereby loss frequency.

US buyers mostly purchased pro-rata, meaning corrective levers were limited to ceding commission levels, which were under pressure from reinsurers publicly signaling their concerns in advance. The final result, however, was more muted, with reinsurers differentiating overall commission reductions by client relationship. Reinsurers also acknowledged privately that inflation, and the subsequent increase in interest rates, is not all bad, having driven significantly elevated reinvestment rates that improved the total economics of long tail classes.

Non-US clients continued to mostly purchase excess of loss. Elevated large loss trends put pressure on terms. More expected losses have been pushed above retentions than original policy limit reductions have offset. The exception being where original primary market rate increases have been so significant that excess of loss rates reduced on a like-for-like basis; UK motor a case in point.

### **Specialty including cyber**

In line with recent years, capacity for specialty lines remained buoyant, with coverage, not pricing being the main challenge. The war in Gaza and its potential escalation, coupled with the ongoing Russia/Ukraine conflict has meant that war on land, political violence, and terrorism continued to be in focus. The market remained partially bifurcated on event definitions, but significant progress was made with some recognized leading reinsurers showing flexibility in tailoring solutions for clients. How or whether remaining inconsistencies in outwards reinsurance impacts the original market will be tested as Lloyd's completes its thematic review on these classes of business.

The aviation market showed signs of stabilizing in the "All Risks" excess of loss market, though the continued original rate reductions on airline business remains a source of frustration for pro-rata reinsurers. However, in the more specialized aviation war and AVN52 markets, prices continue to rise.

In cyber, buyers commenced the migration to more non-proportional instruments as the market matures, growing more confident in reducing quota share cessions. The ILS market started supporting cyber bonds during 2023 with the first successful issuance completed in June 2023 by Beazley – structured and placed by Gallagher Securities. This has been followed by a growing number of 144A bonds from a variety of sponsors.

Specialty retrocession capacity remains tight in all segments.

### **In summary**

2024 looks to have provided a welcome return to more stability and predictability, allowing the expectations of all parties to be managed in a less rancorous fashion than 12 months ago. More relevant are the signs of over-placement on well-structured programs, indicating an improving position for some buyers going into 2024. From a pricing and structure perspective, reinsurers managed to hold their positions, but perhaps not always their shares, and some buyers remain dissatisfied about the lack of available capacity for earnings protections.

Going forward, we expect more 'structured' buy-downs in a market where client differentiation is not only feasible, but essential, for successful results. Overall, the reformation of structures and pricing that took place in 2023, has led to more favorable trading conditions for buyers in 2024.

What a difference a year makes...

**Tom Wakefield**  
CEO, Gallagher Re

# Property: Commentary by Territory

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## Asia-Pacific (APAC)

- Excess of loss pricing adjustments in Asia reverted to levels reminiscent of the period preceding the market hardening in 2023. Risk-adjusted movements on loss-free programs ranged from flat to +5%. Programs affected by losses experienced more significant increases, with outcomes contingent upon loss size and historical record.
- Risk excess of loss capacity remained scarce with most incumbent leaders unchallenged. Following reinsurers waited at the sidelines for leaders to finalize pricing and terms before deciding on capacity commitments.
- Deductibles levels remained largely unchanged, with the exception of programs with continued high claims frequency or those where buyers willingly accepted increases in exchange for reduced premiums.
- All perils coverage remained a common feature and existing hours clause wordings were largely maintained.
- Full subscription placements returned with either shortfalls covers, or the demand for private pricing rarely seen or required.
- Levels of over-placement were higher than at last renewal, albeit not yet returning to levels seen prior to the 2023 market change.
- With limited exceptions, proportional placements renewed with largely unchanged terms and conditions. Significant restructuring occurred during the 2023 renewals and with terms remaining unchanged, reinsurer appetite was greater.

## Australia & New Zealand

- Reinsurers were unwilling to give up gains made on structure at 1.1.23, but discussions focused on growth and inflationary impacts, rather than significant shifts in return period attachments.
- Capacity returned, but there was discipline from reinsurers on how this was deployed in line with a continued narrative on maintaining “adequate” technical premium.
- Similar to last year, there was limited appetite from reinsurers for earnings protections, sideways drop downs and aggregate structures.
- Clearer client differentiation discussions between buyers and reinsurers.
- Reinsurers showed more willingness to negotiate on contract terms and conditions to help unify wordings for buyers, with an easing of some of the more restrictive wording requests seen last year.

## China

- Most proportional treaties enjoyed improved results for underwriting years 2022 and 2023. Catastrophe losses were largely retained and not ceded to proportional covers.
- Leaders tightly guarded their positions, which led to late renewal conclusions; all treaties renewed with expiring leaders and little structural change.
- Discussions continued to focus on commission levels as well as Chinese Interests Abroad capacity. Other terms and conditions varied depending on buyer and results.
- The harder market conditions were maintained on all excess of loss treaties, although overall price increases were significantly smaller than last year.
- Typhoon Doksuri was the most discussed catastrophe loss this year, but the price and structural impact is only likely to be fully reflected after the mid-year renewals.

## Indonesia

- Proportional placement remained very much under the spotlight with a continuation of the hardening terms seen at last renewal.
- Commissions were reduced on average by -2.5%, co-insurance restrictions were added and there was a reduction (and in some cases removal) of cover for inwards facultative.
- Excess of loss pricing varied depending on the individual client, segment and portfolio. Reinsurers continued to push for per risk pro-rata treaties to move onto a gross excess of loss basis

## Korea

- Following several years of high frequency, high severity losses, the frequency of large losses reduced in 2023 although some buyers still made meaningful reinsurance recoveries.
- In response to the historical performance issues, 2023 saw the introduction of significant changes in proportional terms and conditions such as broad sliding scales of commission, loss participation clauses, loss ratio caps and co-insurance limitation clauses. These remained in place at this renewal. This stability resulted in an increase in interest from reinsurers, with placements being far smoother than 12 months ago.
- Risk excess of loss contracts continued to be difficult to place, regardless of price. Very few reinsurers were willing to lead. Appetite for event excess of loss cover was much higher by comparison.



- There was increased interest in non-property programs as part of a strategic effort by reinsurers to diversify their portfolios; appetite for motor covers being a good example of this.

## Malaysia

- Excess of Loss placements have been orderly with oversubscription on some. Proportional placements were less straight forward but still completed although signing requirements were limited.
- Following the December 2021 Flood, Malaysia has experienced a severe tightening of terms and significant upward movement in excess of loss costs.
- Tightening of terms for proportional treaties included reduced commission (average of 8% ONR reduction), introduction of loss participation clauses on the majority of treaties, Fire Quota Share cessions introduced for a few buyers and increased deductibles on excess of loss contracts were imposed last year.
- This year most proportional treaties rolled over with same commissions given the significant tightening last year
- On pro rata treaties, there has been a reduction in the binding capacity for hazardous risks graded on PIAM's occupational code.
- Capacity remains intact, albeit meaningful focus on terms, pricing and conditions before being deployed
- Reinsurers pushing for gross excess of loss structures over the last 24 months with some success although 60% of the market remain on a traditional bouquet structure
- The market is carefully watching the impact of the detariffication 2.0, particularly Fire, with concerns around further rate reduction.

## Taiwan

- In general, the market showed single-digit risk-adjusted price increases for loss-free programs.
- Some new or additional capacity was committed by reinsurers to risk, catastrophe and pro-rata programs.

## Vietnam

- Very few reinsurers were willing to take new leadership positions. Most existing leaders were unchallenged in their positions, with the following reinsurers preferring to sit back and wait for final terms to be negotiated.
- Proportional terms remained largely unchanged, with commissions being held flat in many instances.
- The new Decree 67 was the hot topic on the build up to renewal. This allows buyers the flexibility to either increase or decrease the premium rates by 25% compared to the standard fire premium, and resulted in incumbent leading reinsurers spelling out their restrictive minimum conditions for underwriting property risks. Some leaders have converted fixed commissions to sliding scale commissions, to compensate for the expected rate reduction in underlying portfolios.
- Once terms were finalized, placement was relatively smooth with some new following capacity being offered.
- Several buyers accepted an increase in their attachment point even when their programs were loss-free.
- Excess of loss capacity remained ample, with most programs achieving an over-placement (albeit not a significant one).

## Europe, Middle East & Africa (EMEA)

### Europe

- Europe suffered significant natural catastrophe losses in 2023, with the devastating earthquake loss in Turkey, significant SCS/hail and flood losses across a large number of European countries, but particularly in Italy, and finally some late windstorm losses in November in France. In the aggregate, these losses fully eroded the 2023 European catastrophe excess of loss reinsurance premium pool.
- Placements returned to a traditional timeline that saw a more orderly balancing of supply and demand, and for desirable loss-free business, the pendulum of control shifted back towards the direction of buyers. For distressed/loss-affected accounts, it remained a sellers' market, creating a bifurcated renewal market with a wide range of risk-adjusted price adjustments.
- Setting firm order terms took longer than anticipated, with buyers and reinsurers wanting to ensure they were reading the market correctly but there was no evidence of a stalemate that so painfully frustrated buyers last year.
- There was a general perception from buyers that the quotes received, even for loss-free programs, were higher than required. But as the European property market is at its most attractive level for the best part of a decade, reinsurers showed flexibility, demanding few additional hard red lines. They were prepared to compromise on price, but not on the hard-fought concessions on treaty conditions gained last year.
- At 1.1.2023 we saw a substantial shift of capacity towards traditional European carriers. Overall, these reinsurers kept their positions at this renewal, but with Bermudian carriers managing to recover some lost ground at 1.1.2024
- Reinsurers' early demands for continued rate increases centered on their expectations of substantial additional catastrophe demand. However, it became quickly evident that despite no formation of new carriers, existing reinsurers were able to fully meet any new capacity demands driven by ongoing higher than expected inflation and original portfolio growth. In many cases over-placements were achieved particular on middle and upper layers. The Turkish catastrophe market was an exception, as it has faced a particular market disruption.
- Reinsurers' own client segmentation saw a flight towards prime placements which amplified the over-placement on these accounts to levels not seen during the past renewals, and leading to many reinsurers fighting for their signings to ensure they can achieve growth in an attractive environment.
- There was no uncertainty over the availability of catastrophe retro capacity and arguably the better-than-expected market terms provided a tail



wind for reinsurers' catastrophe appetite.

- Whilst there was a record issuance and announcement of catastrophe bonds, this capacity wasn't required to close out (large) catastrophe programs. But it did provide buyers with additional leverage.
- For loss-free programs there was a continuation of modest risk-adjusted rate increases of up to 10%. Loss-impacted programs saw rate adjustments similar to the two previous years of +20 to +40% (excluding Turkey, which saw adjustments well above this level.) Additionally, there was some ongoing pressure on retentions to increase, although this varied widely, influenced by the current level of attachment points and measures taken during the previous renewal.
- Ongoing global and European per risk losses continued to impact the supply of per risk capacity, particularly for lower layers that for many reinsurers are a source of underperformance. Reinsurer risk appetite was steady, but at insufficient levels for a well-balanced supply/demand dynamic. Profitable programs saw modest risk-adjusted increases, whilst programs in deficit required substantial restructuring to attract capacity and to complete placements.
- The pressure on aggregate structures was even greater than last year, with an increased number of reinsurers declining all such structures, regardless of terms and conditions. In general, only aggregate covers with very simple structures and significant retentions were able to be (partially) placed, or required balancing with other placements to complete.
- As a result of (further) raised retentions and lack of aggregate capacity, there was significantly increased interest from buyers to purchase multi-year structured reinsurance solutions to address loss frequency and capital strain below their program retentions. Reinsurers have increasingly responded to this trend since last renewal, creating a wider supply pool beyond the historical market leaders.

## Austria

- The Austrian market returned to its usual early timetable this year, with many programs placed before the end of November.
- The appetite of the core reinsurers in this region was relatively stable, with some increased interest in supporting higher layers, especially where new capacity was sought.
- The trend of pressure on retentions continued, though less aggressively than last year.
- Nevertheless, a number of buyers chose to increase their retentions to avoid overly punitive pricing for their lowest layers.
- Aggregate structures remained challenging, with limited appetite from reinsurers. However, covers structured to be far enough away from average frequency levels were placed.
- Surplus treaties have almost completely disappeared from the Austrian market, with a strong push from reinsurers towards non-proportional structures.
- There was sufficient appetite from reinsurers to support new non-proportional structures, where the retentions were seen as sufficient in view of some market loss activity in recent years.

## Central & Eastern Europe

- Loss-free catastrophe excess of loss renewals experienced a 'back to normal' journey in terms of timing, available capacity and price uplift.
- With once-in-a-generation losses in some territories, there has been a bifurcation in catastrophe renewal trends. Retentions and reinstatement provisions were once again under pressure for all buyers (retentions were up between +50% and +100% on loss-impacted portfolios). Buyers sought additional capacity and reinsurers were able to meet these needs.
- In all cases, reinsurers looked to secure more restrictive contractual conditions, with gains made. Cash spend by buyers was up again. Bottom layers remained under pressure with minimal over-placements, whilst more capacity was available for upper layers.
- Risk excess of loss was a harder market than catastrophe, driven by loss activity in the region and wider Europe. Retentions and cash spend both increased year-on-year. Minimal over-placements if any were seen.
- Proportional quota-share treaties that have run well renewed largely as expiring, and reinsurers' appetite remained stable. Surplus treaties came under pressure, with no support for new treaties or additional capacity, and commissions reduced as reinsurers sought greater balance. Some buyers moved away from surplus treaties towards gross risk excess of loss

## France

- 2023 loss activity had the following effects for France:
  - Windstorm Ciaran (EUR1.6B estimated by perils) affected some bottom / first catastrophe layers,
  - Losses from Windstorm Domingos stayed within buyers' retentions,
  - 2022 Hail losses: for some buyers, there were significant loss deteriorations during 2023 compared to loss estimates at last renewal.
- For the majority of buyers, catastrophe excess of loss retentions increased to follow the increase of exposures.
- Additional catastrophe excess of loss capacity was bought.
- Strikes, Riots and Civil Commotion (SRCC) losses affected per risk programs and depending on the performance, retention adjustments helped to keep the risk-adjusted pricing stable, or with only small increases (especially for small to medium size portfolios).
- There were discussions on increasing the attachment points of SRCC exposures in per risk treaties, and on tighter event definitions.
- We saw structural changes on catastrophe excess of loss including:
  - Retentions increased again this year, in many cases to offset SI inflation
  - Confirmation of paid reinstatements and adjustable premiums as a new norm.
- Aggregate excess of loss structures, where in place, remained stable, after significant changes last year.
- There were moderate budget increases within the current economic context.
- There was a slight increase of appetite from reinsurers as part of global partnerships, as well as some new capacity from non-European reinsurers.



## Germany

- The German renewal season returned to its traditionally early timetable, with many programs being concluded in late November / early December in an orderly manner.
- The appetite for German catastrophe excess of loss programs remained stable, with increased interest in supporting higher layers, especially when placed on a named perils basis.
- There was a modest continuation of risk-adjusted rate increases for all programs and some ongoing pressure on retentions to increase, although this varied widely by buyer, depending on the changes made to programs last year and the modeled level of the attachment point.
- In quite a few cases buyers chose to increase retentions to mitigate disproportionately heavy rate increases on the lowest layers of programs.
- Many German buyers purchased additional catastrophe capacity for the tail of their programs, driven by a combination of underlying portfolio growth, inflation and cautious risk management in an environment where pricing for tail capacity was relatively competitive.
- The pressure on aggregate structures was even greater than last year, with an increased number of reinsurers declining all such structures, regardless of terms and conditions.
- In general, only aggregate covers with very simple structures and significant retentions were able to be even partially placed.
- As a result, there was a significantly increased interest from buyers to purchase multi-year structured reinsurance solutions to address loss frequency below the program retentions.
- In general, per risk property programs were placed with similar or expiring markets and with modest risk-adjusted increases, although lower layers were sometimes under pressure and in some cases buyers introduced annual aggregate deductible features into their lowest layers to help mitigate heavier than anticipated price increase

## Italy

- From a property catastrophe perspective, 2023 losses have been a record year for the Italian insurance industry.
- The flood loss in May and the numerous atmospheric events that occurred in July have caused insured losses in excess of EUR4B (according to the most recent estimates) and left the economy with a much higher financial bill.
- Whilst last year's market hardening generally had less impact on Italy than on many other international markets, this year losses have put significant pressure on structures, pricing and terms.
- Retention levels have broadly increased between +50% and +100%, but capacity levels have remained mostly unchanged, only with some inflation-driven adjustments. Demand for natural catastrophe capacity, however, is expected to rise significantly during the course of 2024, given the likely introduction of new legislation on compulsory insurance for catastrophic hazards, including earthquake and flood, for all registered businesses.
- A full review of the risk landscape quantification has been carried out this year, with flood and atmospheric events now fully embedded in the exposure pricing. Previously, these were only accounted for at the lower end of the programs to capture loss experience.
- The property per risk market continues to experience frequency of medium to large losses, putting pressure on the terms and conditions of risk excess of loss programs. There were only moderate adjustments to retention levels to allow for more sustainable pricing and lower layers' rates on line. The vast majority of programs in the market are loss-affected.
- Proportional property treaties continue to reduce in number, with more constraints on natural catastrophe capacity and stringent event limits relating to atmospheric perils.

## Middle East & Africa

- Hardening was muted compared to prior renewal seasons. Generally, reinsurers demonstrated a renewed appetite for business in the region.
- In the Middle East, there was again a mix of healthy and poor performers, the latter mostly being driven by risk loss activity. The market is heavily traded, therefore adjustments were to the lower end of the ranges shown in Table 1 below. There was less focus on structural changes, although reinsurers pushed for greater alignment of interests where proportional treaty results did not meet expectations. The number of leading reinsurers for proportional placements reduced.
- In North Africa, programs were mostly loss free, other than the Moroccan catastrophe pools. Rate increases were towards the upper end of the relevant ranges shown in Table 1. Structural changes were in many instances proactively driven by buyers.
- In South Africa, catastrophe experience was benign, and observed adjustments were to the upper end of the loss-free catastrophe range shown in Table 1. Risk loss experience was more varied – again, adjustments were to the upper end of the relevant ranges. Structures remained largely unaltered, with price and terms and conditions attracting more of the attention.
- Across MENA, buyers displayed an increased interest in structured solutions to replace the traditional lower layers of programs.
- In South Africa, lead reinsurers were focused on implementation of grid failure exclusionary language.

## Netherlands

- It was a more orderly renewal with reasonable risk-adjusted price increases. There was an early start, but placement finalization of most programs only took place in mid-to-late December.
- On the loss-free catastrophe programs, risk-adjusted rate increases of +5% to +15% were seen. Most of the time this was to correct for inflation, though this effect was not as large as at the last renewal. There was still a general push for a 1:10 year retention level.
- Catastrophe capacity was available, but there was pressure on price.
- Risk pricing was more appetite driven and tailored according to claims and exposure changes. There was also sufficient capacity, but it differed significantly per reinsurer.
- On the loss-free catastrophe programs, risk-adjusted rate increases of +2.5% to +10% were seen on top of variable inflation corrections. This was more modest than at the last renewal and reflected significant pricing movements already seen at 1.1.2023. There was capacity available with a select number of reinsurers.



## Nordic Countries

### Property catastrophe:

- There was underlying growth in rates across the region, largely driven by a lag in inflation, which was less pronounced than anticipated last year and looks to ease off to normal levels in 2024 – inflation was not a big discussion point during the renewal.
- The market experienced a few separate natural catastrophe events during 2023 that amounted to about USD1B of insured losses. There was a mixture of storm, storm-surge, flood and landslide losses, of which more than 65% came from Norway (which has otherwise been largely loss-free for a significant period of time). None of these losses were significant enough to shift reinsurers' appetite, however, the region remains a profitable and diversifying catastrophe territory for most reinsurers.
- The market continued to see some increases in retentions, following the significant increases in 2023, broadly driven by loss-impacted programs and/or where significant growth would have resulted in uneconomical terms at the lower end.
- Compared to 2023, there was a substantially improved renewal process – orderly, with constructive client-focused discussions and quotes arriving broadly within deadlines. Nevertheless, underwriting discipline was kept and program margins increased further.
- Catastrophe programs were placed comfortably, but with limited over-placements at the bottom end.
- There was no reduction in coverage, but interests abroad remained in focus.
- Whilst bottom/middle layers saw rate increases, many top layers that had experienced significant price increases in 2023 saw margin reductions, as growth in exposures could be included without significant movements in minimum rates-on-line.

### Property per risk:

- Recent years have seen heightened per risk loss activity and 2023 was no exception, with some of the largest risk losses the region has ever seen: a mix of fire and natural catastrophe-related losses.
- Reinsurers paid close attention to original underwriting, loss limits, and original lines offered – where the market started seeing a shift from writing 100% of a risk to co-insurance/layered insurance.
- Reinsurers looked to improve the balance of profitability between themselves and buyers. Where loss-impacted programs saw significant price increases it also impacted loss-benign treaties.
- Retentions continued to increase largely as a consequence of price increases, and limited appetite from reinsurers at low levels of attachment.
- There was a meaningful inflow of capacity in 2024 as reinsurers that were new to the market saw a good opportunity to come onboard, which substituted for a slightly reduced appetite from some historic core reinsurers.
- Detailed portfolio information and transparency around underwriting strategy was clearly rewarded by reinsurers, and largely prevented further restrictions on reinsurance coverage.

## Switzerland

- The Swiss market is generally attractive for reinsurers and the loss activity from natural catastrophe perils was low during 2023, resulting in a relatively benign approach to pricing for those buyers who do not have exposures outside of Switzerland.
- There was a focus on severe convective storms and reinsurers' view of risk for this peril. This was an important issue and had some impact on pricing for programs exposed to this peril.
- Pure earthquake and/or flood covers were comfortably renewed, with relatively low risk-adjusted increases.
- Property per risk and proportional programs came under pressure after a year in which some medium-sized fire losses impacting reinsurance programs.
- Surplus treaties were heavily under pressure, with reinsurers pushing buyers towards non-proportional solutions.
- Overall, there remains a healthy amount of reinsurance capacity for Swiss buyers and a stable panel of reinsurers who have been actively supporting this region for many years, although some recent new reinsurers coming into this market have been able to grow their share of the business.

## Turkey

- The most challenging renewal faced by Turkish buyers in a generation followed the MW 7.8 Kahramanmaras earthquake in February 2023.
- Under-performing proportional treaties were subject to radical tightening of capacity and conditions while non-proportional pricing incorporated substantial payback in addition to new conservative vulnerability loads addressing perceived catastrophe model weaknesses.
- A substantial uplift in earthquake coverage demand was attributable more to correction of underinsurance than increased penetration and combined with reduced proportional event limits to drive multiples of expiring limit being purchased by many buyers.
- Notwithstanding proportional margin improvement and the introduction of quota share cessions complementing traditional surpluses, many buyers were obliged to incorporate planned or unplanned shortfalls into new excess of loss arrangements.
- Coinsurance capacity practically disappeared, which will force more medium-to-large risks into facultative markets during 2024 compounding the strong uplift in original pricing observed since February.
- Original rate improvement will be supported by both earthquake tariff uplifts (a further +25% from 1.1.2024) and an obligatory minimum balance of tariff and non-tariff (flexa) premium in proportional treaties.
- Risk-adjusted uplifts on catastrophe excess of loss programs of over 100% were universal, although precise measurement is complex given Turkey's blend of hard and local currency policies subject to variable inflation and exchange rate fluctuation.
- Program rates on line jumping +250% on limits increasing two or threefold were not uncommon, causing monetary spend to rise by multiples of 3 to 5 times.
- Notwithstanding the above, there were many incomplete placements as the market entered the final week of the renewal, with indexed parametric products and multi-year structured solutions becoming more common.





## Latin America & Caribbean (LAC)

- Trends observed during the renewal season have followed those observed earlier in the year, with reinsurers continuing to push for year-on-year risk-adjusted price increases and maintaining the restrictions in coverage terms and conditions imposed during recent renewals.
- In contrast to earlier 2023 renewals, risk-adjusted price increases for loss-free programs were managed within a narrower range of flat to +10%.
- The extremes of the range were driven by program capacity requirements and proximity to peak catastrophe zones.
- Overall reinsurance capacity for catastrophe risk was sufficient to meet buyers' demands, including moderate organic growth, even in the peak catastrophe zones.
- Some reinsurers sought to allocate their capacity between proportional and excess of loss programs, and to consolidate their catastrophe capacity with buyers that also offered other lines of business, in order to balance their catastrophe exposure.

## North America

### Canada

- Insured losses from Canadian catastrophes in 2023 exceeded CAD3B and once again were slightly above the new recent Canadian annual average of approximately CAD2B. These losses were primarily driven by secondary perils, such as wildfires in British Columbia, severe storms across the prairies and floods in Nova Scotia.
- A large proportion of these losses were borne by buyers due to increased catastrophe retentions at the 2023 renewals. 2023 has therefore been considered a profitable year for reinsurers in Canada, when accounting for the rates achieved coupled with increased reinsurance retentions.
- For this renewal, the focus was once again on moving away from frequency layers that provide earnings volatility protection rather than capital protection. Low attaching layers on both per risk and catastrophe programs experienced the most pressure on rate levels.
- Reinsurance pricing varied broadly by buyer, based on overall performance.
- Per risk programs with loss experience saw considerable pressure on rates and/or retention increases due to a lack of new or additional reinsurance capacity availability. Programs that were loss-free experienced less overall pressure, with pricing adjustments more aligned with exposure change.
- Loss-free catastrophe layers achieved pricing consensus with sufficient supply of capacity, unlike at last renewal.
- In general, risk-adjusted increases on catastrophe layers diminished the higher the attachment point, while supply of capacity increased.
- Top catastrophe layers in Canada have become further detached from the US, with minimum rates-on-line supported well below 3%. This can largely be attributed to the regulatory requirements on Canadian companies to buy significantly further in the tail for earthquake exposure.
- Overall, companies with loss experience, exposure growth and minimal change to structure experienced the most variability in quotes and substantial rate increases, while companies that had consistent results with retention adjustments experienced a relatively benign renewal.

### United States

- The market dislocation experienced during the 1.1.23 renewal season has subsided. Reinsurers had clearly defined plans in place for renewal business, which allowed for an orderly quoting process.
- Reinsurers returned to a more bespoke, client-specific underwriting approach, heavily influenced by company performance and strategies related to rate, insurance to value, deductibles and other cost sharing initiatives.
- Buyers with favorable loss experience were able to attract more capacity to their programs which dampens further pressure on rates and risk-adjusted retentions.
- Following heavy scrutiny on structure and particularly attachment points at 1.1.23, reinsurers were generally comfortable with renewal structures this year. They did not apply the same pressure on attachment points for loss-free programs.
- Loss-impacted catastrophe programs, primarily driven by heightened severe convective storm (SCS) activity, experienced further pressure on retentions, rates and narrower reinsurer quoting panels.
- Lower attaching catastrophe layers experienced the greatest pressure on rate, while mid to upper layers benefited from ample capacity.
- Loss-impacted risk programs experienced varying levels of pressure on retentions and a shift from prepaid to paid reinstatements.
- Risk-adjusted rate decreases were obtained on top layers in certain regions on loss free programs, especially for new limit placed in 2023, but continued reinsurer price sensitivity was observed on loss-impacted programs.
- Overall, there was an adequate supply of catastrophe and risk capacity and in some cases capacity outpaced demand. But there was greater reinsurer price sensitivity on loss-impacted programs.
- Capacity for frequency coverage remained selective, as reinsurers focused their efforts on existing programs.
- Reinsurers adjusted their view of SCS frequency to account for the 2023 storm season, which put additional pressure on pricing.
- Event deductibles within the catastrophe aggregate structures came under the most scrutiny.



## United Kingdom

### Catastrophe:

- All UK buyers had to pay significant rate increases for their catastrophe excess of loss purchases over the last 12 months, regardless of renewal date. However, this has been more of a market correction after many years of a soft UK market, rather than the start of a steep, long-term upward trend.
- Pricing this renewal was between flat and +5% risk-adjusted.
- The UK had another catastrophe loss-free year in 2023, but there was significant loss creep from the December 2022 freeze event for certain buyers, resulting in recoveries from their 2022 treaties.

### Risk:

- The capacity and appetite to write per risk excess of loss in the UK mostly remained concentrated amongst a handful of key reinsurers that typically adopt a package approach across multiple treaties.
- There were pockets of new capacity available from risk specialists, which resulted in buyers having to take fewer co-participations.
- Pricing was heavily influenced by loss activity, with loss-free programs +5% to +10% risk-adjusted, whilst loss-hit could be anything up to +20%.

### Pro-rata:

- There was still good appetite from reinsurers to write property pro-rata, although some were still cautious about backing MGA distribution models. Commission levels remained stable compared to prior renewals.
- Event limits for natural catastrophe losses remained in place.
- The new RMS HD European Wind model, which for some buyers resulted in reduced modeled outputs for UK wind, was not being used by reinsurers for underwriting but some reinsurers were prepared to consider the outputs as part of their analysis.



**Gallagher Re**

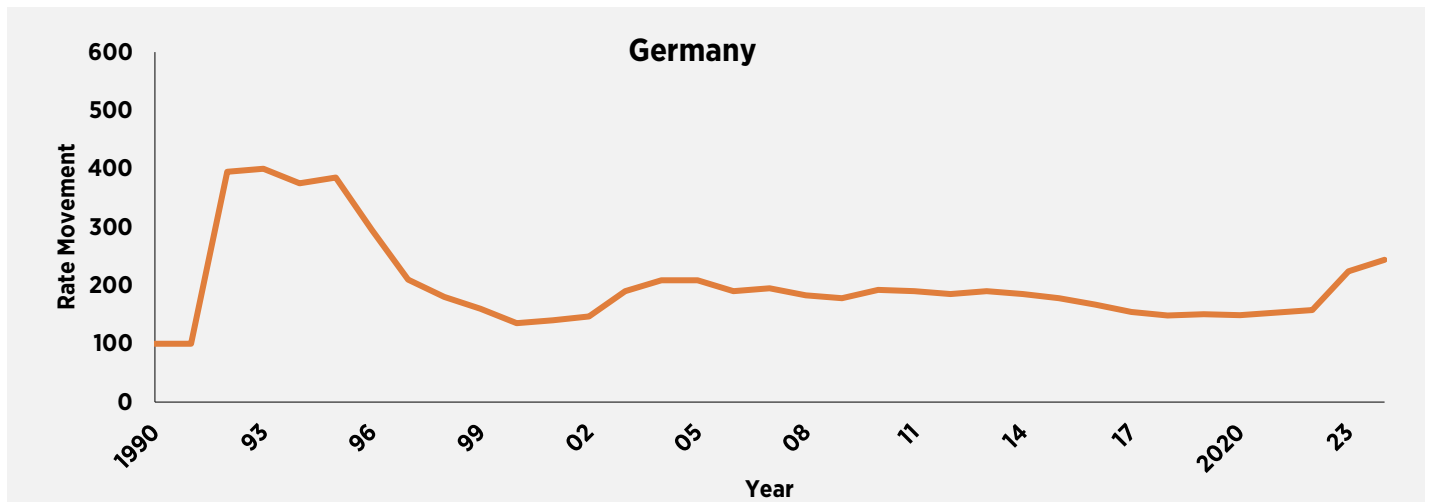
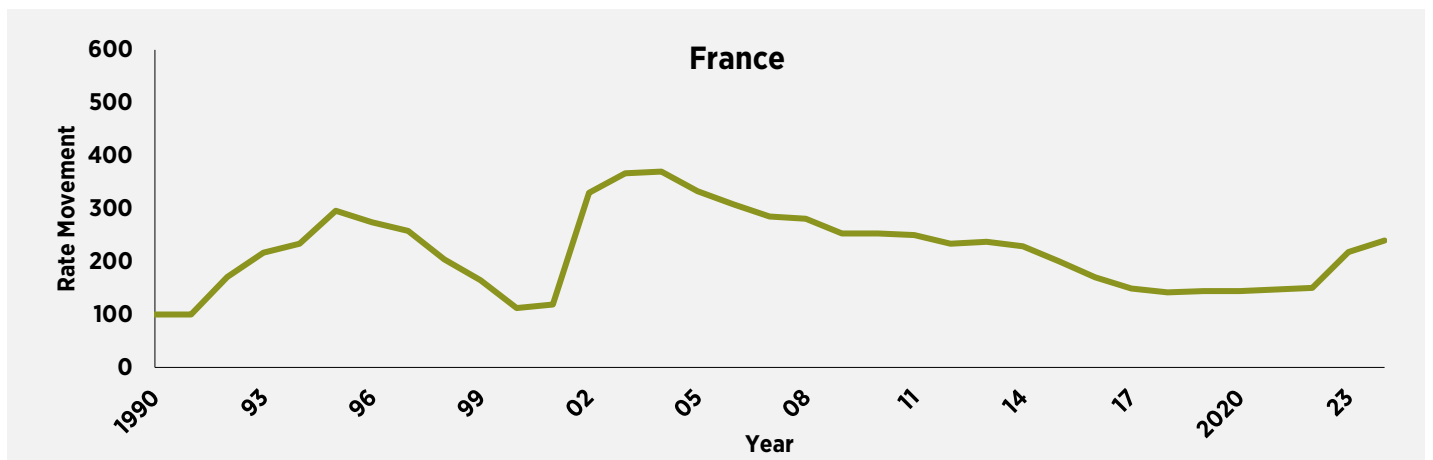
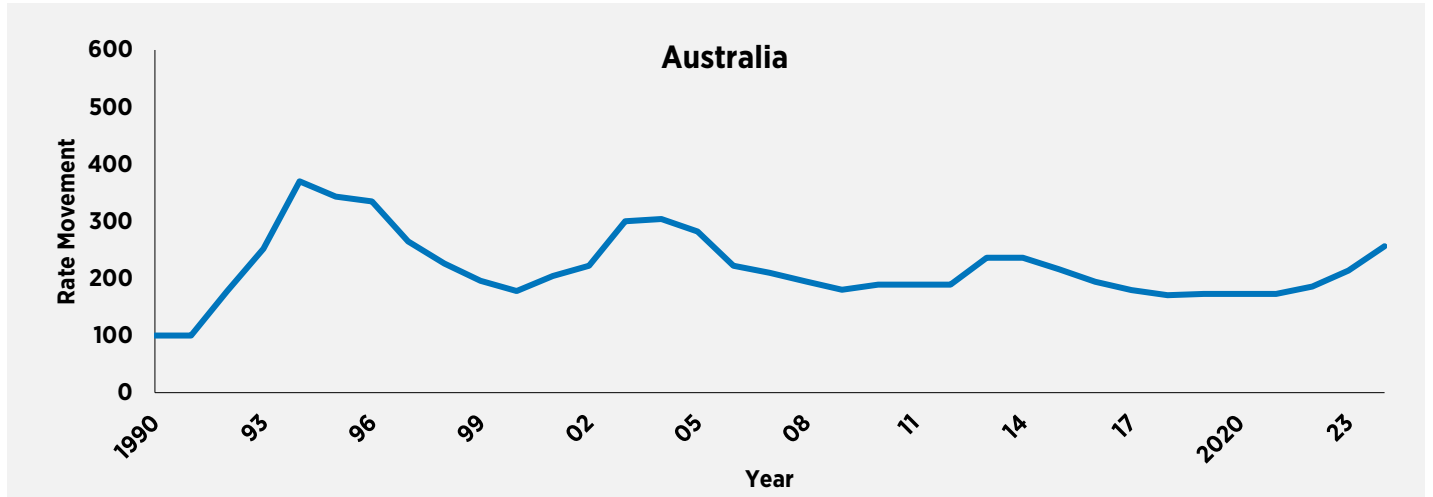
## Figure 1: Property Rate Movements

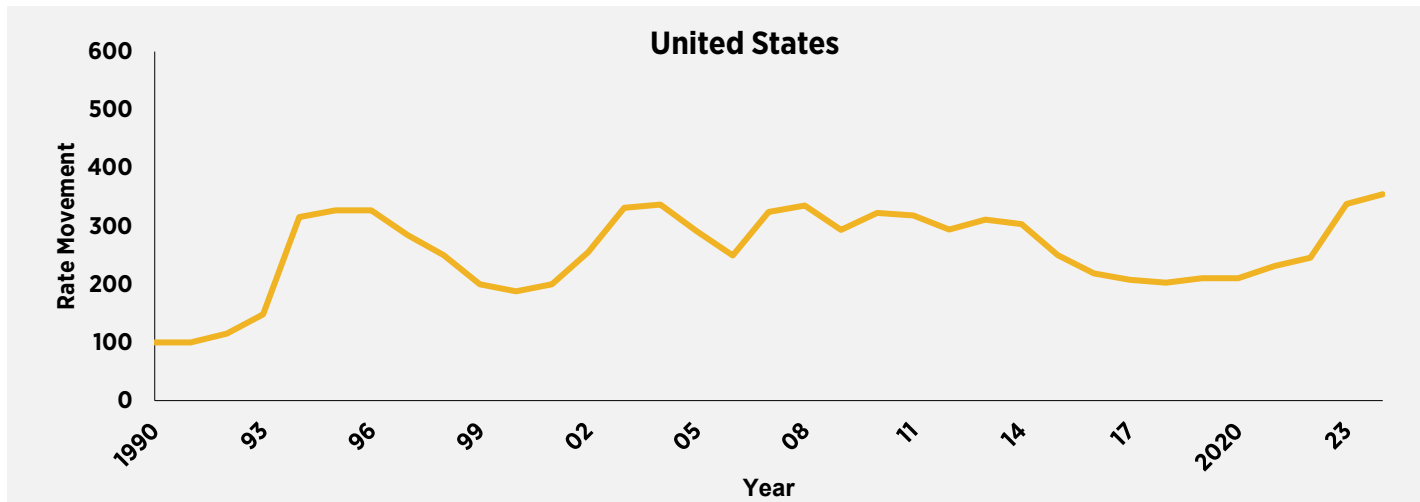
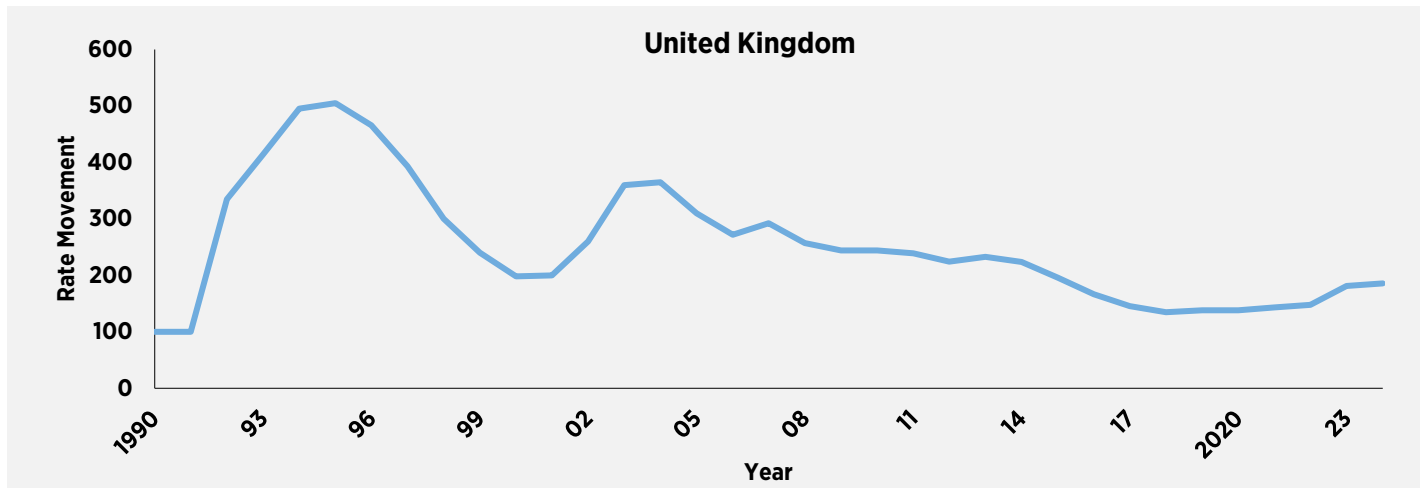
Territory	Pro rata commission	Risk loss-free % change	Risk loss-hit % change	Catastrophe loss-free % change	Catastrophe loss-hit % change
Australia	-2.5% to 0%	+2.5% to +7.5%	+10% to +30%	+2.5% to +10%	n/a
Austria	n/a	+7.5% to +10%	+20% to +40%	+5% to +12%	+10% to +15%
Canada	n/a	0% to +10%	+10% to +50%	0% to +10%	+10% to +35%
Central & Eastern Europe	QS: 0% to -1% Surplus: -2% to -5%	+7.5% to +15%	+20% to +40%	+5% to +10%	+10% to +45%
China	-5% to 0%	+5% to +20%	+5% to +20%	+5% to +15%	+25% to +30%
Europe (Large programs excluding Turkey)	n/a	+5% to +10%	+20% to +40%	+5% to +10%	+15% to +40%
France	n/a	+0% to +5%	+10% to +15%	+5% to +10%	+10% to +15%
Germany	n/a	+7.5% to +10%	+20% to +40%	+5% to +12%	+10% to +30%
Italy	n/a	0% to +7.5%	+10% to +30%	n/a	+25% to +50%
Indonesia	-2.5% to 0%	0% to +5%	+15% to +20%	0% to +5%	+15% to +20%
Korea	0%	0% to +5%	+5% to +25%	-5% to +5%	0% to +15%
Latin America & Caribbean	-3% to 0%	+5% to 10%	+10 to +50%	0% to +10%	n/a
Malaysia	0%	0% to +10%	n/a	0% to +10%	n/a
Middle East & Africa	n/a	0% to +10%	+20% to +35%	0% to +10%	+20% to +25%
Netherlands	n/a	+5% to +10%	+10% to +25%	+2.5% to +10%	n/a
Nordic Countries	n/a	+5% to +10%	+20% to +50%	+2.5% to +7.5%	+20% to +30%
Switzerland	n/a	+7% to +15%	+15% to +30%	+2.5% to +10%	+10% to +15%
Taiwan	-1% to +0%	+5% to +10%	+10% to +50%	+2.5% to +10%	n/a
Turkey	-5%	+50% to +100%	+100%	n/a	+100%
United Kingdom	0%	+5% to +10%	+7.5% to +20%	0% to +5%	n/a
United States	0% to +2%	0% to +10%	+7% to +50%	0% to +10%	+10% to +50%
Vietnam	0%	+5% to +10%	n/a	+5% to +10%	n/a

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

## Figure 2: 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.





# Casualty: Commentary by Territory

## International – General Third Party Liability

- There was persistent and strong support for general liability programs which were perceived as less complex, however negative prior year development in financial lines (especially in the US) led some reinsurers to exercise caution in expanding their exposure in this segment.
- Reinsurers' quotations were generally timely, within expectations and without too much deviation in price or variation in coverage.
- As a hot topic, inflation took a backseat to reinsurer concerns on other issues such as US risks and PFAS (per- and polyfluoroalkyl substances - a group of over 9,000 "forever chemicals").
- Pricing distinction emerged in the market, with portfolios that have heavier or greater exposure to the US seeing risk-adjusted prices above the averages.
- Those buyers who were able to adequately describe their underwriting controls for US risk & PFAS exposure in their portfolios ahead of time, usually achieved better outcomes during negotiations with reinsurers.
- Increasingly, reinsurers requested more data to analyze such exposures. Reinsurers also acknowledged that buyers may encounter limitations in meeting these demands, but expected them to commit to enhancing data quality in the future.
- Casualty catastrophe programs continued to generate support, noting however increasing constraints in appetite and even capacity limitations apply to volatility associated with embedded cyber exposures.

## International – Motor

- The positive effect of the COVID-19 years has unwound, and loss frequency levels returned to previous levels.
- Inflation and supply chain issues, which particularly impact motor hull (electric vehicles especially) and third party property damage losses, have caused primary insurers to increase pricing. In some countries this resulted in a major correction.
- The lead up to renewal was calm and well-disciplined. Some reinsurers were vocal about the additional impact of social inflation but they were rarely able to offer any conclusive proof of such developments and could be countered with good claims development information. There were some discussions about index clauses and attachment levels but no significant changes have been observed. Overall, adequate reinsurance capacity was available.
- In some territories where there have been changes to the basis of compensation, reinsurance rate increases were higher than the averages reported in the table below.
- Reinsurers' quotations were generally provided on time, within expectations and without too much deviation in price.

## Asia-Pacific (APAC)

### China

- Casualty capacity remained ample, with a sufficient quantity of willing quoting markets.
- There was loss activity on the lower layers of programs, but overall treaty results remained positive.

## Europe, Middle East & Africa (EMEA)

### France

#### General Third Party Liability:

- Earlier in 2023, some reinsurers expressed an interest for GTPL to further diversify their portfolios.
- Appetite remained stable for general liability programs, but reinsurers were more cautious regarding US exposure.
- For domestic portfolios, the individual performance was still the main driver of reinsurer appetite and enabled buyer to renew at stable conditions.
- Inflation remained a topic and discussion on PFAS is emerging slowly, but has not yet become a market standard.

#### Motor:

- The market is facing a lack of potential leading reinsurers, which was confirmed again this year.
- There were no specific changes regarding annuity clauses or capitalization rates.
- There was less of a split between loss-free and loss-affected portfolios this year, as since last year there has been a clear distinction/separation of covers between Motor Own Damage (MOD) and Motor Third Party Liability (MTPL).
- No real major loss events this year.



# North America

## Canada – General Third Party Liability

- There was a push from the market for inflation adjustments to pricing, which was met with some resistance based on the regionality and segmentation of portfolios.
- Reinsurers also cited the capital impact of IFRS 17 as a concern.

## United States – General Third Party Liability

- 2024 US casualty renewals were flagged both publicly and privately by reinsurers in advance as an area of concern, following significant adverse development during H1 2023 (impacting accident years 2014-2019.)
- Some thematic messaging was overblown but most was rooted in legitimate and shared concerns over elevated loss trends and the impact on forward-looking rate adequacy.
- Reinsurance capacity for US casualty business remained both adequate and stable; but this renewal period was defined not by whether it was available but whether reinsurers would deploy it.
- Reinsurers drilled in on how buyers articulated and quantified their forward-looking underwriting/pricing strategies to address continued pressure from loss trends as well as claims strategies and patterns to quantify the impact from COVID on loss frequency and tail length.
- Negotiations were protracted with an exchange of more technical and analytical data and underwriting/claims insight, the latter often experience based and nuanced compared to previous years.
- Reinsurers adopted a client-by-client approach considering their overall relationships and those buyers who were well prepared and proactive with data and insight to address reinsurers concerns fared well.
- The result at this renewal was some reductions in the level of quota share ceding commission, some exposure-adjusted increases in excess of loss pricing with no material change in appetite to retain more or less risk amongst buyers.
- There were some modest changes in individual reinsurer appetite, but placement turnover was muted, with both parties trading forward with continuity. This seemed more prevalent in long tail than short tail classes.

## United States - Healthcare

- Prices continued to moderately increase as severity remains a key driver across all sub segments of US healthcare.
- Capacity remained adequate overall, with select reinsurers modestly increasing or decreasing their appetite. Hospital exposures continued to be the sub segment most scrutinized by reinsurers, given the larger limit stretches and higher exposure to 'nuclear verdicts'.
- While state location continues to be a key consideration in evaluating severity exposure, the continued spread of 'nuclear verdicts' across all states, even those historically viewed as favorable, is also a driver of continued pricing pressure.

## United States – Professional Liability

- There is a broad range of products within the professional lines segment but market conditions this renewal created two groups with distinct characteristics: US public D&O and everything else.
- Despite some increasing competition, all other lines including commercial E&O, private/non-profit ML and even financial institutions were relatively stable both in the insurance and reinsurance market. Public D&O has been an area of focus and the insurance market and reinsurance market are diverging when it comes to expectations on profitability.
- Underlying rates for public D&O decreased and continue to be negative, but there are indications that decreases are moderating.
- This follows a very hard market in 2020-2022 where D&O rates nearly doubled across the board, there were dramatic reductions in limits deployed and carriers optimized their portfolios. In addition, during 2023 the claims environment (specifically the frequency of securities class actions) has been relatively low for the third year running. This renewal, the divergence in views came from how rate is evaluated - notably rate change vs. rate adequacy.
- Many buyers believe that despite the decreases, rates remain adequate. For those reinsurers solely focused on negative rate change, the outlook is much more pessimistic and ignores the other positive shifts in buyers' portfolios in recent years.

## United States – Workers' Compensation

- Working layer (single claimant exposed) pricing has been under pressure for increases, even on loss-free layers.
- This is due to continued primary rate decreases, medical inflation, and reinsurers' concerns around medical technological advancements.
- Even though medical inflation has been benign, it is still a significant concern because of the long-tail nature of the line. If medical inflation were to spike, it would impact both reserves and go-forward results. Capacity for working layer business tightened because of reinsurers' concerns.
- For catastrophe layers, there continued to be ample capacity. Despite significant increases in rates on line in other lines of business, workers' compensation catastrophe rates on line remained flat.



# United Kingdom

## London Market – Overview

- Renewal discussions with buyers began in good time relative to previous years, but the need to provide granular evidence to reinsurers in response to their key concerns, delayed the release of some submissions to market.
- Reinsurers' focus shifted from inflationary concerns to the impact of prior year deterioration on prospective profitability in the face of original rates plateauing or even declining in places.
- Client differentiation was critical, and was achieved by clearly illustrating and evidencing rate adequacy, and the underwriting/risk selection approach (particularly US exposures and limit discipline in the face of competition.)

## London Market – General Third Party Liability

- Reinsurers' focus on US exposure in international casualty lines has intensified following high profile US losses emanating from international risk portfolios (e.g. 2021 Securitas / Champlain Towers Surfside loss).
- Market appetite for strictly non-US-exposed casualty business was keen, with abundant capacity available.
- Pricing for excess of loss capacity saw some wide spreads, in part driven by each reinsurer's own historic results and/or corporately mandated approach to casualty lines, but also dependent on levels of US exposure.
- Reinsurers' concerns focused on: US exposure; PFAS; inflation and recessionary impacts.

## London Market – Professional Liability / Financial Lines

- Reinsurers' focus on the US publicly-traded D&O pricing environment has significantly reduced the market's appetite for US D&O portfolios, particularly if not protected as part of a wider diversified portfolio.
- International financial lines business was seen as more attractive, but concerns around the original pricing environment and indirect US exposure (ADR landscape) remain.
- Pricing for excess of loss capacity saw some wide spreads, in part driven by each reinsurer's own historic results and/or corporately mandated approach to casualty lines, but also dependent on levels of US exposure.
- Reinsurers' concerns focused mainly on: bankruptcy risk (recession); D&O rates and limit expansion.

## UK – Motor

- Original rates in the direct market increased significantly in 2023, comfortably exceeding experienced levels of claims inflation.
- This renewal, the increased level of original rate meant reductions on excess of loss income rates were available, while reinsurers were still achieving their required level of reinsurance premium on a per-vehicle basis. Buyers who purchase cover at higher retentions found it harder to achieve reductions as the geared inflation at these levels becomes higher and thus harder to offset with original rate improvements.
- Excess of loss capacity was readily available, with many reinsurers looking to take advantage of the favorable position of the market cycle. In general, there was a continued trend of higher levels of retention from buyers who were not seeing the value in lower-level purchases. This offset the level of reinsurance premium increases that arose from direct rate strength and further bolstered the pool of available capacity.
- Proportional capacity was readily available due to the encouraging amounts of original rate in the market and some reinsurers increased capacity in this area. There was generally more appetite for Funds Transferred Quota Shares as reinsurers looked to recover the benefit of increasing investment returns on their reinsurance premiums.





### Figure 3: Casualty Rate Movements

Territory	Pro rata commission	Excess of Loss – no loss emergence % change	Excess of Loss – with loss emergence % change
China	n/a	n/a	0% to +10%
France – General Third-Party Liability	n/a	0% to +15%	0% to +40%
France – Motor Liability	n/a	0% to +15%	0% to +15%
International – General Third-Party Liability	0%	0% to +5%	+5% to +12%
International – Motor Liability	-2% to 0%	0% to +5%	+5% to +10%
Canada	n/a	0% to +5%	+12% to +15%
United States – General Third-Party Liability	-1.5% to 0%	0% to +10%	+5% to +15%
United States – Healthcare	-1% to 0%	0% to +10%	+5% to +20%
United States – Professional Liability	-1.5% to 0%	0%	0% to +10%
London Market Casualty/Injury	-1% to 0%	0%	+5% to +15%
London Market Financial Lines	-1% to 0%	0%	+5% to +15%

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

Note: Movements are risk-adjusted.

Source: Gallagher Re

# Specialty: Commentary by Line of Business

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## Accident, Health & Life Cat

- First-tier and retro catastrophe risk-adjusted rates predominantly remained flat, with a few reinsurers pushing for small increases of up to +5%.
- The pricing of per risk covers was determined by loss experience and fluctuated accordingly.
- The pricing of mortality aggregate (stop loss) remained competitive, with stable reinsurance panels and pricing levels.
- US medical excess of loss rates came under some pressure due to significant increases in the frequency and severity of large claims, and uncertainty related to new cell and gene therapies.
- Group life excess of loss rates remained stable, despite some elevated mortality.
- Group long term disability rates were stable to declining, with incidence and return to work trending favorably.
- First-tier lead and follow capacity remained plentiful, with new following reinsurers, in the form of MGA's, entering the life, accident and health market. The abundance of capacity in the first-tier market was a key driver for the rates remaining flat.
- The retro market was somewhat capacity constrained, more so following the acquisition of Validus Re, who were a key leader in the life, accident and health market. However, this did not result in upward rate pressures.
- US medical capacity varied by line of coverage and was generally less plentiful, with a number of reinsurer exits over the last 2-3 years.
- US group life and disability capacity remained limited, with a small number of reinsurers in these markets.
- The key topic of discussion at this renewal was exclusionary language around war and passive war, largely driven by the ongoing Israel-Gaza conflict. There was a lack of consensus among reinsurers on the topic, with some pushing for the exclusion of passive war coverage in country of domicile. However, the lead reinsurers largely approached it on a case-by-case basis, meaning the majority of programs without direct Israel exposure renewed as expiry, without specific exclusions for passive war.
- Another key topic throughout the course of 2023 was mass lapse reinsurance, which has seen a surge in demand following changes in the regulatory and interest rate environments.
- Medical reinsurers remained cautious due to uncertainty around the rapid advancement of medical therapies (cell and gene therapies primarily).

## Aerospace

- A more orderly approach to the aviation reinsurance renewal was evident in the lead up to 1.1.24.
- Reinsurers continued to push for further pricing increases but this was markedly more measured than experienced during the previous 12 months.
- On non-proportional placements, reinsurers' focus was more towards the middle to top end of programs. Primary layers faced less scrutiny given that much of the difficult negotiations on attachment points and pricing was addressed at the last renewal.
- There was a greater degree flexibility in reinsurers' willingness to acknowledge exposure movements and where direct writers were able to demonstrate a more circumspect approach to recent major renewals, this was reflected in renewal pricing.
- The aviation "All Risks" primary insurance market continued to be a source of frustration, particularly for those reinsurers providing proportional capacity, as many airlines have continued to benefit from further rate reductions. As a response to this, the default position from quota-share markets at this renewal was to reduce commission levels in an attempt to address their profitability concerns.
- Despite recent capacity withdrawals the aviation retrocession market has been particularly resilient. This sub-sector of the aviation reinsurance market has seen continued modest rate momentum.
- Pricing for Non-Proportional placements cover hull war risks continued to increase. Broadly this was aligned with the premium growth seen on the original business, moving upwards by a further +10 to +15%.
- The excess AV52 market also continues to see premium growth. During the last 12 months, this segment of the market has seen rate increases to the magnitude of +75% to +100%. The short supply of excess AV52 coverage under either Excess of Loss or Quota Share placements has been a key contributor to this degree of pricing movement.
- Current levels of upward pricing movement for non-proportional placements stands at around +40% to +50%.
- In summary, we are seeing some first signs of aviation all risk reinsurance pricing reaching a peak relative to current levels of known loss activity and the slow, but not wholly unexpected, deterioration of certain other past losses. Absent any meaningful crystallization of losses that may develop under contingent-leasing policies linked to the restraint of aircraft within Russia, we expect this trend to continue, with rate movement starting to plateau.

## Cyber

### Proportional:

- Over the course of 2023 we have seen increasingly competitive market dynamics for cyber insurance carriers, many of whom are struggling to meet income targets owing to softening rates and slowing organic growth for both full year 2023 and 2024 projections.
- The cyber market is heavily reliant on proportional reinsurance as a means of risk transfer. For proportional treaty reinsurers there were fewer capacity restrictions from an aggregate and premium perspective compared to prior years. This means reinsurers are less constrained in their deployment of proportional capacity as they have more aggregate available and are seeing less income growth in the original market.
- The prior 24 months of portfolio optimization and improved rate has had a material positive impact on performance, which has attracted a number of new reinsurers entering the market, as well as upscaling from existing players looking to capitalize on improved returns.



- On the buyer side, we also saw a trend of larger and/or more sophisticated buyers scaling down or dropping cessions to improve ceded margins – meaning that reinsurers are increasingly signed down or removed from placements if their offered terms are unfavorable.
- Ultimately, a combination of the above factors led to an increase both in proportional capacity available in the reinsurance market, and in the ability of buyers to drive terms as the supply/demand balance shifted in their favor.

#### Aggregate excess of loss/stop loss:

- In the non-proportional space, there was growth in capacity from incumbent reinsurers while demand for this product has broadly remained flat year-on-year (this includes some non-renewals of longstanding placements balanced by a few new programs to market). This too has shifted the renewal dynamic in buyers' favor.
- Buyers of aggregate excess of loss/stop-loss products have seen several consecutive years in which terms hardened. At this renewal this trend plateaued, with the majority of programs renewing as before in terms of structure but with pricing improvements in buyers' favor. As rates soften in the original market, this renewal trend represents a risk-adjusted reinsurance cost improvement for buyers (and a decrease for reinsurers) of anything between -5% and -20%.
- In terms of demand for the product itself, we saw increased scrutiny of its cost and efficacy, particularly as attachment points increased relative to exposure. In some cases, buyers scaled down the limit they purchased in order to manage spend, or dropped their aggregate stop-loss placements altogether. Meanwhile, others are pursuing pricing and or structural improvements as we move into 2024.

#### Event/Occurrence

- Occurrence/event coverages are still in the early stages of development in terms of buyer sophistication and reinsurer appetite. However, there has been a distinct trend of buyer interest in exploring this coverage. Some large cyber insurers have dropped their existing aggregate stop-loss placements in favor of occurrence/event-based solutions.
- There is currently only a select number of capacity providers for event coverages; these reinsurers typically sell on proprietary wordings and there is wide variance in both the coverage and pricing offered by recognized leading reinsurers.
- There remains a significant way to go until the market has a standardized and easily tradable occurrence product, but capacity to support these structures is expected to increase.

## Engineering

- Headline capacity remained stable and sufficient for the largest programs. The availability and deployment of reinsurer capacity continued to be dependent upon factors such as buyers' underwriting strategy and management; projected treaty profitability; treaty structure; and data quality.
- Enhanced pricing and margin requirements have been maintained for catastrophe capacity, especially in the United States.
- Reinsurance terms and conditions remained generally firm during this renewal period. However, whereas reinsurers' positions for the 2023 renewal were often framed by wider corporate appetite and pricing dynamics (following multi-class losses in 2022), renewals this year have been approached more pragmatically, with more differentiation of terms and conditions for each line of business, and indeed for each individual buyer.
- Quota-share commissions have remained generally flat, and similarly excess of loss risk-adjusted pricing remained flat on loss-free programs.
- Important areas of discussion during the renewals included: portfolio rates, terms and conditions; the impacts of inflation on loss projections; and timber frame/mass timber construction (where written).
- Quota-share and/or excess of loss program structures continued to attract the best deployed capacity from reinsurers. Some appetite remained for surplus structures, but it was both restricted and reduced.

## Marine & Energy

- Pre renewal commentary during conference season was for risk-adjusted rating of 0% to +5% rate rises
- The market was also dogmatic around event coverage with no appetite to ease terms and conditions achieved in 2023, complicated further by Israel situation with leaders taking differing approach to the conflict
- Despite talk of early renewal leading reinsurers were careful not release terms early forcing the renewal season into the final two weeks of December
- Given ample capacity available brokers pushed back hard on pricing and coverage securing improvements in both price and coverage
- Continuous communication with following market and provision of client agreed slips with firm order terms allowed placements to move forward quickly and efficiently allowing coverage to be finalized prior to inception.

## Non-Marine Retro

- There was broadly stable demand from buyers, but increased supply, driven by growth from incumbent reinsurers and increases in ILS capacity. Retro market dynamics were seen by reinsurers as favourable.
- Capital raises from rated carriers, coupled with new fund inflows, retained earnings and the release of tied up collateral from Hurricane Ian loss reserves has led to greater supply of capacity for peak-peril UNL retro layers.
- Large over-placements on many programs, particularly peak-peril covers and more remote layers.
- Firm order pricing on core placements ranged from flat to -10% reductions, as the over-supply of ILS capacity became apparent for buyers willing to entertain one-shot coverages.
- More meaningful reductions were seen on tail end covers, with large reductions in minimum rates-on-line from 2023's historic highs, driven by oversupply of capacity and competition with catastrophe bond investors.



- Buyers have benefited from a much more measured renewal season, with timelines more reasonable compared to last year.
- Quotes were received much earlier than 12 months ago, and were typically open for one week, with flexibility on extensions where needed.
- Placements reverted to more typical subscription quote, firm order and follow dynamics.
- A significant number of large lines were bound early in the renewal, putting pressure on the expiring panels.
- Trends in coverage and attachment points were stable relative to 2023, with buyers seeking to consolidate cover with limited differential terms available to reinsurers.
- Buyers achieved modest reductions in attachment points where Hurricane Ian loss development and portfolio movements allowed.
- The prices and attachment points offered in the indexed product market continued to reduce as sellers looked to deploy capacity, but buyers tended to prefer UNL coverage, which was more competitive than at 1.1.23.

## Political Risk

- Although original total exposure from the Russia/Ukraine conflict has continued to fall, 2023 has seen an increase in loss notifications.
- Alongside concerns over sub-Saharan Africa and general global economic challenges, reinsurance capacity was down, year on year.
- A protracted quoting process this year has seen a much later renewal season than expected.
- That said, quota share commissions were generally flat.
- Excess of loss pricing was driven by increased exposure and/or loss situations, up +10% to +20%.

## Political Violence & Terrorism

- Following the unbundling of the composite products and the reversion to standalone placements in 2023, structures remained broadly unchanged going into 2024.
- Retentions have largely held, but demand for quota share capacity rose significantly as buyers sought back-to-back protection with original exposures and perils, while combatting time and distance restrictions which became evident in the excess of loss market throughout 2023.
- The conflict in Gaza and its potential regional escalation, coupled with the ongoing Russia/Ukraine conflict, has meant war on land, political violence, and terrorism continued to be a focus at this renewal. There was pressure on broader event definitions, although reinsurers have shown flexibility in tailoring solutions for buyers.
- Some reinsurers have sought to differentiate themselves by focusing on price and coverage splits for different perils, either by providing capacity for terror- and sabotage-only perils, or broader political violence and war specific event definitions, designed to provide optionality for buyers, but with specific rate split by peril.
- Reinsurers have differentiated support for clients who demonstrated good understanding and control of their aggregates post Ukraine/Russia, and on a going-forward basis in respect of the Israel/Gaza conflicts.
- Quota share commissions have remained stable year-on-year.
- For excess of loss, there was evidence of risk-adjusted increases with further rises based on broadening of event language (where applicable).

## Retrospective & Legacy

- The volume of ceded business peaked in H1 2023, with multiple deals, each in excess of USD1B, closing in quick succession.
- The flow of successfully concluded deals has slowed in the latter half of the year, but there is continued interest from multinational and regional cedants.
- US and UK markets remain the most active, and there has been an uptick in enquiries from EMEA and APAC. However, Lloyd's third-party Reinsurance to Close and Loss Portfolio Transfer activity is currently at the lowest level seen in recent years.
- Overall reinsurer capacity remains high (with additional capital raises for established reinsurers rumored to be underway).
- However, there has been a level of market concentration with certain investors and reinsurers reducing and/or changing their underwriting appetite.
- Increased price discipline has become apparent among reinsurers (especially in casualty lines), together with heightened scrutiny of buyers' motivations to transact.
- This supply/demand dynamic is creating hardening market conditions, with deal pricing trending upward – especially for historical business that is deemed to be most materially impacted by social and economic inflation.
- The higher interest-rate environment is also creating an interesting dynamic. Buyers are often considering how to minimize the transfer of float (given increased yields). On this basis, retrospective markets should be able to incorporate greater levels of discounting into terms for transferred funds. However, the reinsurer's returns are impacted by higher costs of capital and that appears to have dampened the positive effect of increased returns in the latter half of the year.
- Execution risk is being more materially impacted by buyer motivation and, for transactions driven by distressed lines of business, has led to a greater volume of deals failing to conclude or being pushed into 2024 for completion.
- Although there is evidence of market hardening and other headwinds, there remains significant capital available to deploy for well-planned and structured transactions.



## Trade Credit

- Loss ratios continued to normalize after the low loss activity seen during COVID-19 but remain below the historic mean average.
- Inflation continued to drive demand for the cover, and the trend of increasing insured limits on peak risks also continued.
- Reinsurer appetite increased compared to 1.1.23. This was due to the combined effects of underlying performance remaining strong, and less 'top down' influence on the credit reinsurance teams regarding the wider reinsurance environment.
- Client differentiation was at the forefront of renewal negotiations, based on historical performance, current results and demands.
- Quota share commissions largely remained flat at already historically high levels.
- Excess of loss pricing remained dependent on exposure and performance, but flat (on a risk-adjusted basis) was the starting point.

## US – Medical Excess

- A continued increase in both the frequency and severity of large medical and pharmaceutical claims accounted for the hardening of excess medical reinsurance pricing.
- Pricing is also being increased by the gene and cell therapies already approved by the FDA, and the pipeline of numerous therapies that will be approved during the next couple of years.
- There continued to be healthy competition and capacity in the medical reinsurance market.

## US – Surety

- Capacity remained stable on loss-free programs, but was tighter for loss-affected programs as reinsurers remained selective in where they deploy their capital.
- Capacity was dependent on treaty profitability, projected margin, treaty structure, terms and conditions, and per principal aggregations.
- Pricing rose on loss-impacted accounts and many buyers were required to increase net positions via co-participations or increased retentions.
- Firming reinsurance pricing was driven by recent reinsurer loss experience and increased internal return on capital hurdle rates.
- Loss-free programs saw rate increases in the mid to upper single-digit range, due to portfolio expansion principally on treaty exposed limits.
- As structures were amended, reinstatement provisions came under focus with reinsurers demonstrating limited appetite for prepaid reinstatements.
- Rebalancing of programs continued as buyers sought additional vertical limit due to inflationary pressures while reinsurers required increased retentions to address legacy structural inequities on risk sharing.
- Some reinsurers looked to tighten exclusions for bank depository business due to the banking crisis of Spring 2023, while cryptocurrency, commodity, and energy-related principals also remained under scrutiny.
- There was some evidence of new treaty interest in the class, but we saw no impact on market underwriting discipline.



## Figure 4: Specialty Rate Movements

Line of Business	Pro rata commission	Risk loss-free % change	Risk loss-hit % change	Catastrophe loss-free % change	Catastrophe loss-hit % change
Accident, Health & Life Cat	n/a	n/a	Varies	0% to +5	n/a
Aerospace	-1.5% to 0%	0% to +5%	0% to +10%	+15% to +25%	+15% to +25%
Engineering	0%	0%	n/a	0%	n/a
Non-Marine Retrocession	0% to +2.5%	0% to +5%	+5% to +10%	0% to -15%	+10% to +20%
Political Risk	0%	0% to +10%	+10% to +20%	n/a	n/a
Political Violence and Terror	0%	+5% to +10%	0% to +15%	+5% to +10%	0% to +15%
Trade Credit	0%	0% to +15%	n/a	n/a	n/a
US - Medical Excess	0%	0% to +15%	+10% to +30%	n/a	n/a
US - Surety*	0%	+4% to +6%	0% to +10%	n/a	n/a

Notes: Movements are risk-adjusted.

Source: Gallagher Re

\*Surety rate movements are combined risk and cat.

## Figure 5: Cyber Rate Movements

Line of Business	Pro rata commission	Aggregate loss-free % change	Risk loss-hit % change
Cyber	+0.5% to +2%	0% to -20%	n/a

Source: Gallagher Re

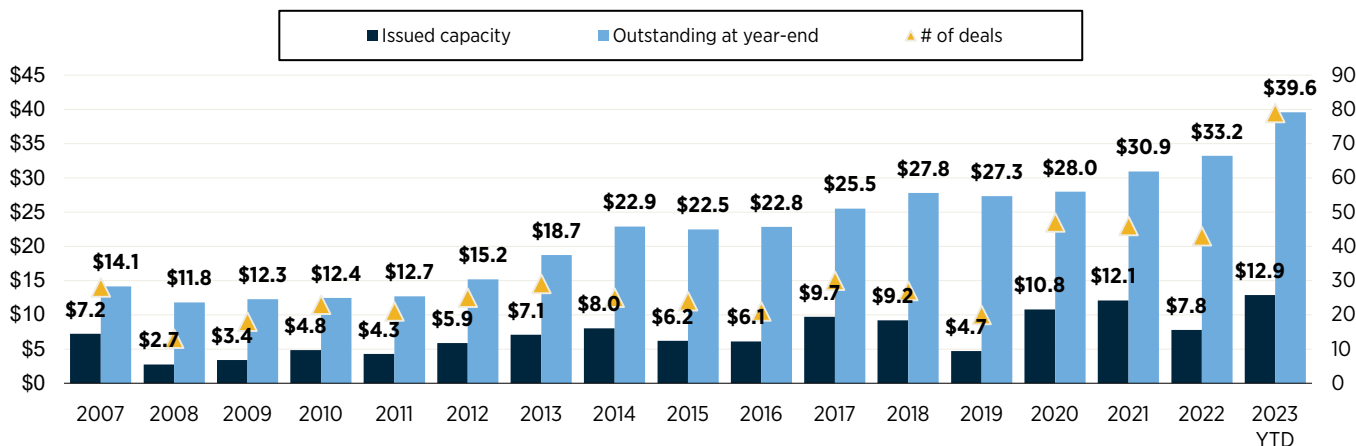


**Gallagher Re**

# Insurance Linked Securities (ILS)

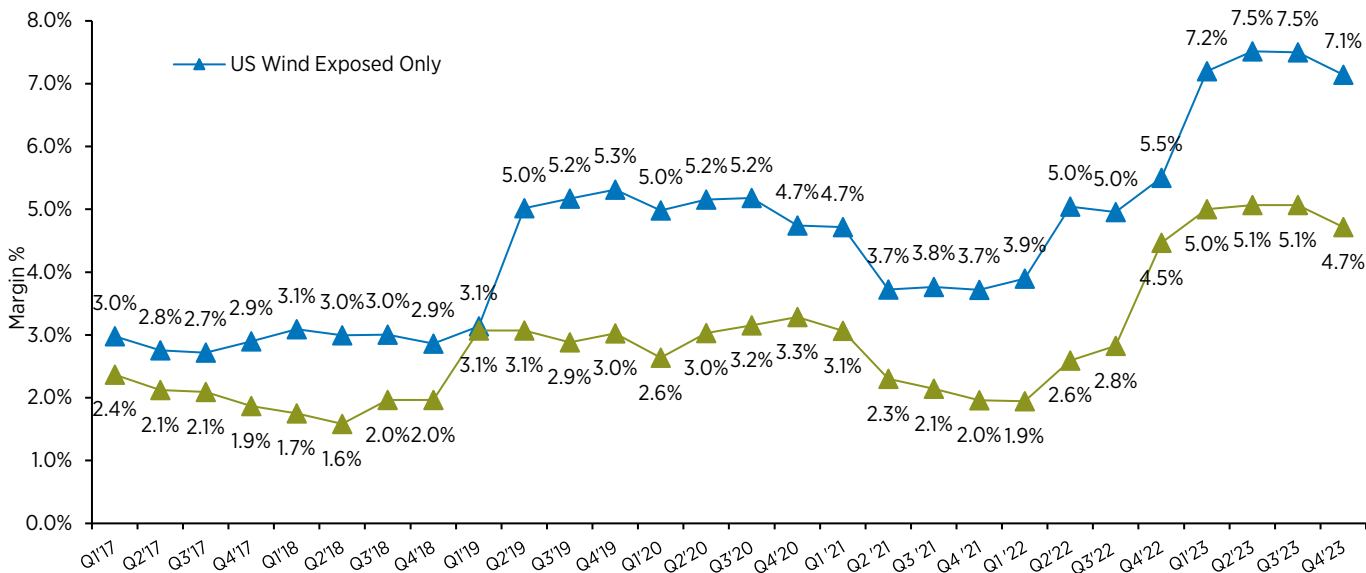
- H2 2023 continued the strong cat bond issuance levels seen in H1 resulting in an annual record for nonlife cat bond issuance.
- Q4 saw the completion of multiple underwritten cyber cat bonds for the first time and a record level of cat bonds sponsored by EU-based insurers
- Also in Q4, a number of insurers came to market for the first time and others returned after having been absent from the market for many years.
- ILS managers' net AUM growth chiefly came from cat bond mandates, with interest in less-liquid ILS strategies continuing to lag
- We see a large cat bond pipeline building for Q1 2024 with issuance remaining elevated at least through Q2 2024 – driven in part by relative value.

**Figure 6: Non-life Catastrophe Bond Capacity Issued and Outstanding by Year**



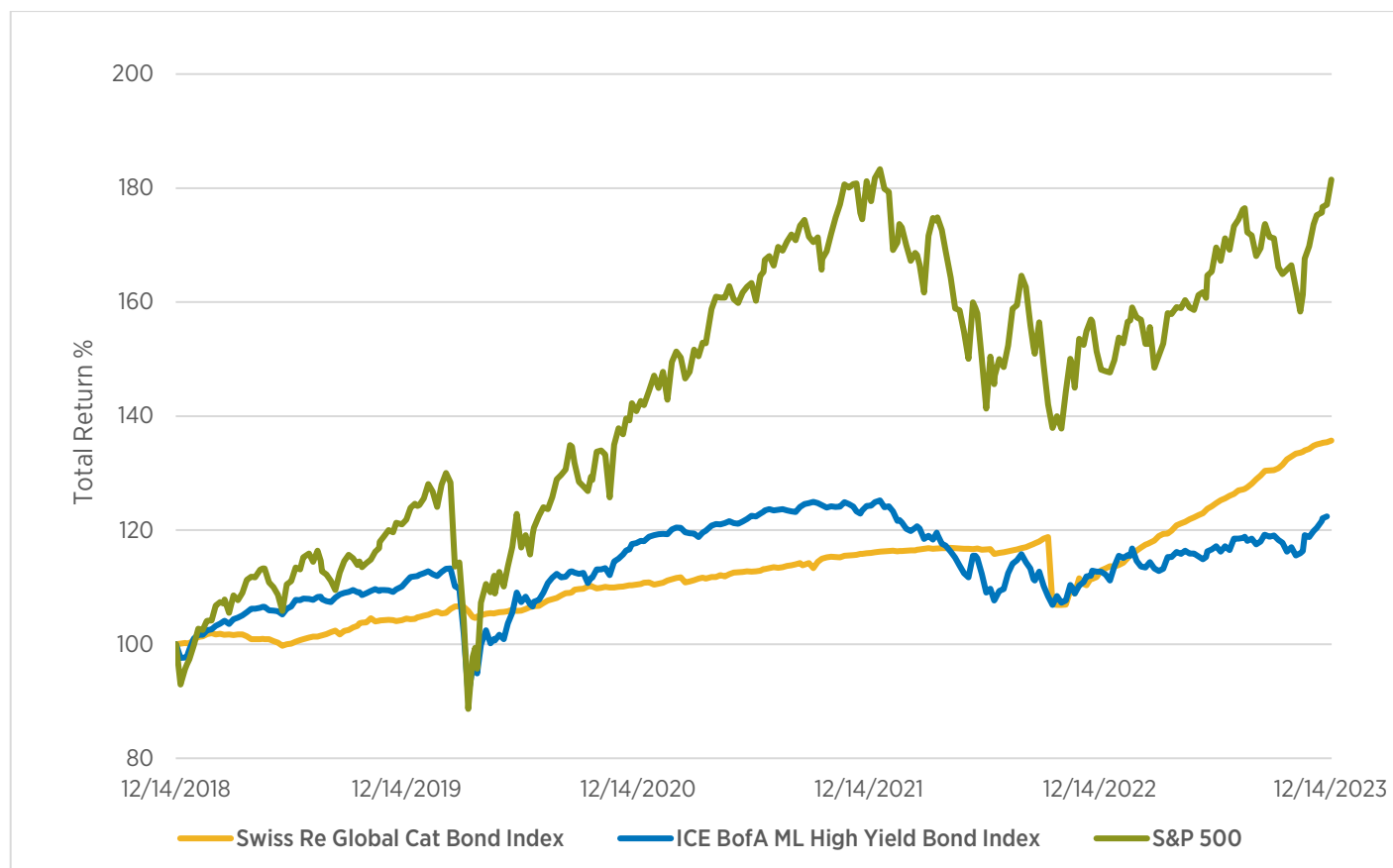
Source: Settled cat bonds in the Gallagher Securities Transaction Database as of December 4, 2023. Aggregate data exclude cat light deals. All issuance amounts are reported in or converted to USD on date of issuance.

**Figure 7: Quarterly Weighted Average Margins for New Issue Cat Bonds on an LTM Basis**



Source: Settled cat bonds in the Gallagher Securities Transaction Database as of December 4, 2023. Aggregate data exclude cat light deals. LTM = Last 12 months.

## Figure 8: Historical Relative Returns



Source: BofA Merrill Lynch US High Yield Bond Index, S&P 500 Index, and Swiss Re Global Cat Bond Total Return Index

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