



# Reinsurance market report

Results for full-year 2021

April 2022



**Gallagher Re**

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## Key findings

Welcome to the Gallagher Re Reinsurance market report which tracks the capital and profitability of the global reinsurance industry.

2021 was a strong year for the global reinsurance sector, with robust capital and premium growth, and much-improved combined ratios and ROEs. While COVID-19 continued to impact daily lives last year, it barely registered in terms of insured losses. However, the sector did absorb a heavy load of natural catastrophe activity.

Global reinsurance dedicated capital totalled USD 728 billion as of the end of 2021, with a growth rate of 8% over the restated 2020 base.<sup>1</sup> This was the third year in a row of robust growth, driven by both strong underwriting and investment performance.

The 8% overall growth came from both the INDEX<sup>2</sup> companies and a resumption of growth in alternative capital. Focusing on the **INDEX** companies, which contribute over 80% of the industry's capital:

- The **INDEX** companies achieved a 10% increase in capital.
- Strong investment markets once again powered this growth, although this driver was concentrated in a single company, National Indemnity, with its large equity portfolio.
- Net earnings also contributed, with companies paying back less net earnings to shareholders than in previous years.
- Going back to 2014, there is a clear trend of capital, or 'supply', growing faster than demand and this was again apparent in 2021.

Drilling further into profitability, for the **SUBSET** of companies within the **INDEX** that provide the relevant disclosure:

- Premium growth was a robust 17%, aided by a strengthening pricing environment as well as economic recovery.
- The reported combined ratio improved sharply to 97.6%, from the COVID-19 impacted 104.1% in 2020. It was the strongest combined ratio since 2016.
- The strong combined ratio was particularly noteworthy given the heavy weight of natural catastrophe losses last year. At the same time, however, recent years have all had such high losses that 2021 natural catastrophes were no worse than the five-year average we use for normalised natural catastrophes.
- On an underlying basis<sup>3</sup>, the combined ratio also improved, from 100.7% to 99.8% and it is the first time since 2014 that it has fallen below 100%. While inflation is a growing concern, to date rate increases have outstripped claim trends. This drove down the ex-nat cat accident year loss ratio last year and a lower expense ratio also helped.
- Likewise, the average ROE, whether measured on a reported or underlying basis, improved markedly. The reported ROE rebounded from 2.7% to 11.4% and the underlying from 1.3% to 6.2%.
- Having said this, the industry still has a gap to close in terms of getting its underlying ROE up to its cost of capital.

<sup>1</sup> We have re-stated year-end 2020 capital from USD 658 billion to USD 672 billion, following our annual review of constituents.

<sup>2</sup> **INDEX** relates to those companies listed within Appendix 2 of this report. **SUBSET** is defined as those companies that make the relevant disclosure in relation to natural catastrophe losses and prior year reserve releases. Appendix 2 also identifies the **SUBSET** companies.

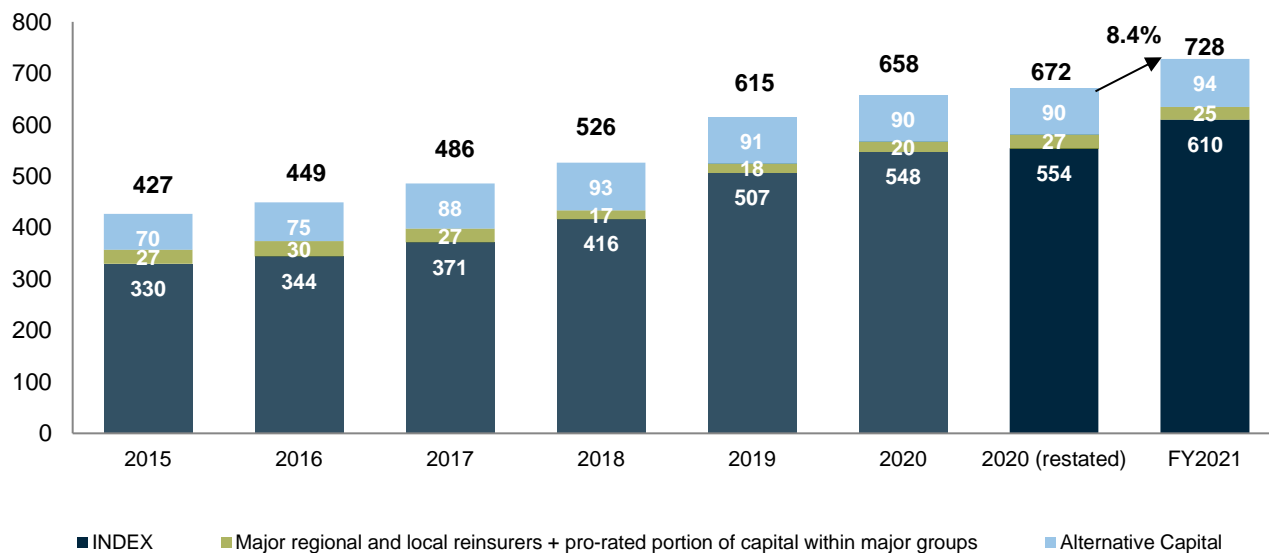
<sup>3</sup> The underlying basis replaces actual natural catastrophe and COVID-19 losses with a normalised cat load and strips out prior year reserve movements and investment gains.

## At a glance

### Capital

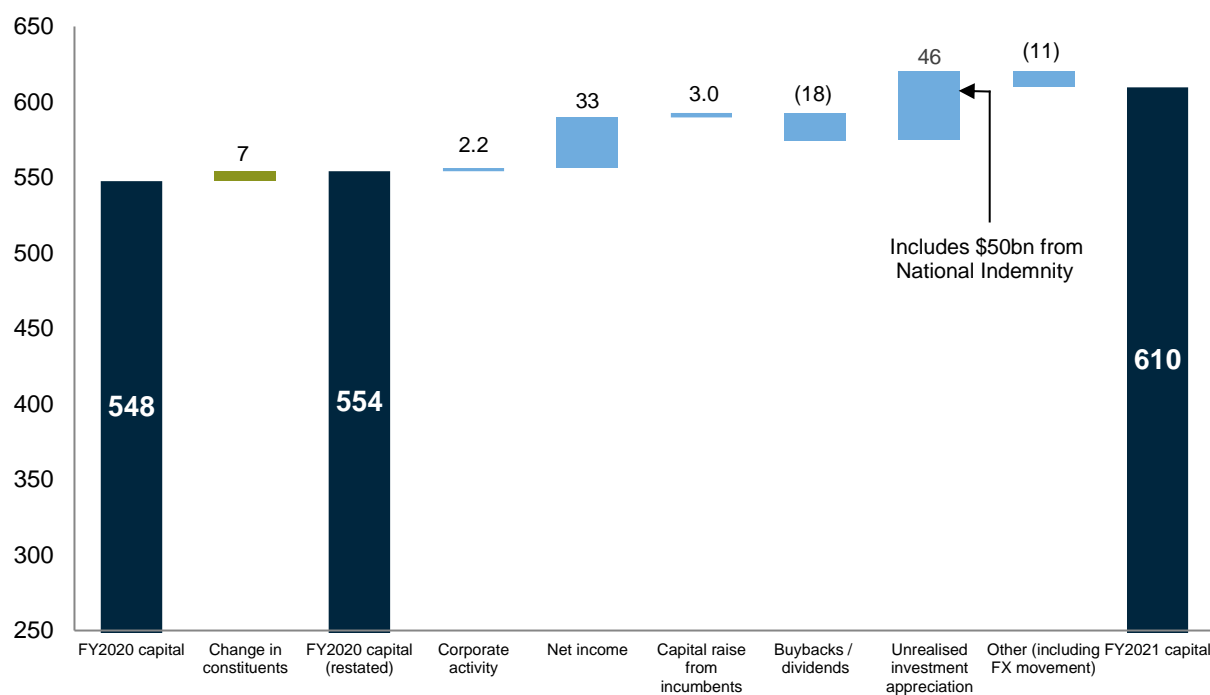
#### Total industry capital grew robustly in 2021

Total reinsurance dedicated capital (USD billions)<sup>4</sup>



#### Capital growth driven by net income and investment returns

Capital analysis for the INDEX (USD billions)<sup>5</sup>



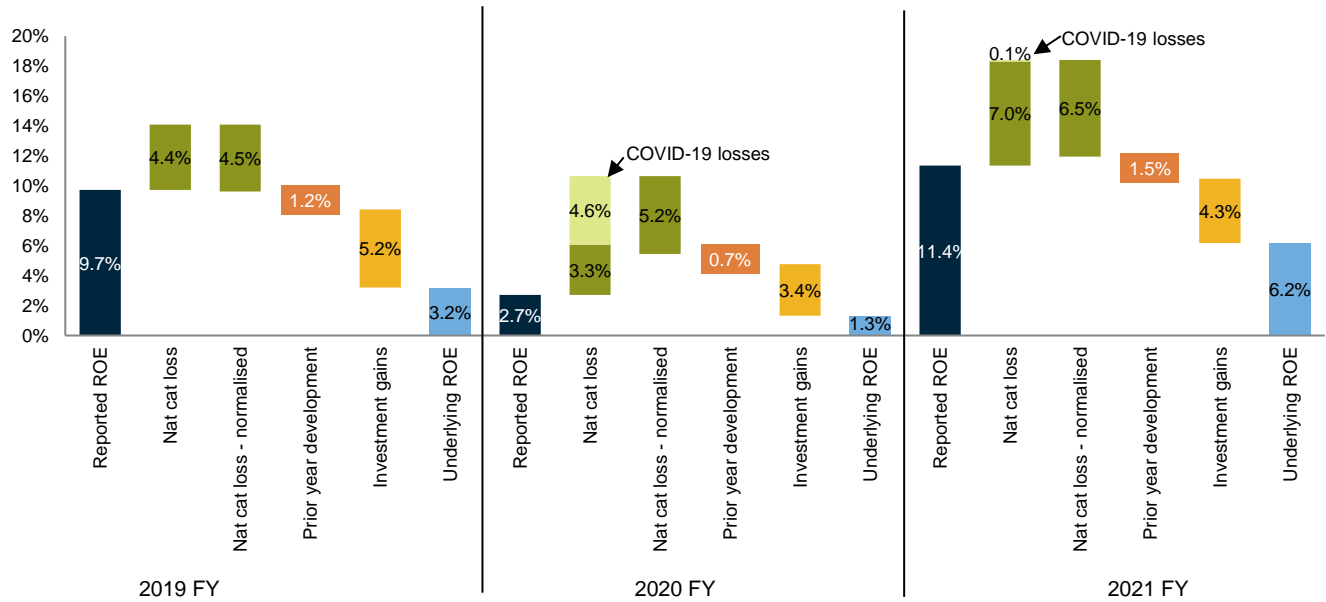
<sup>4</sup> We have re-stated year-end 2020 capital from USD 658 billion to USD 672 billion, following our annual review of constituents

<sup>5</sup> Change in constituents includes FY2020 late filers. Corporate activity is Third Point's acquisition of Sirius.

## Underlying ROE for the SUBSET

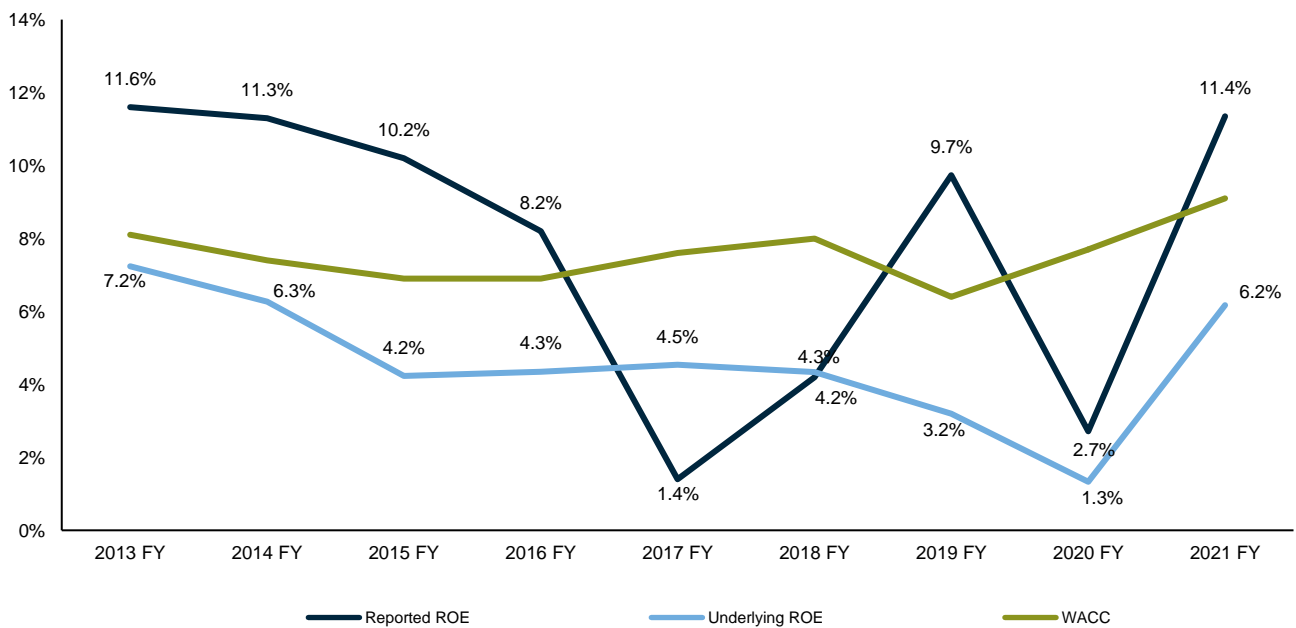
### A strong recovery in both headline and underlying ROEs

ROE analysis for the SUBSET



### Underlying ROE still trails cost of capital

ROE for the SUBSET<sup>6</sup>

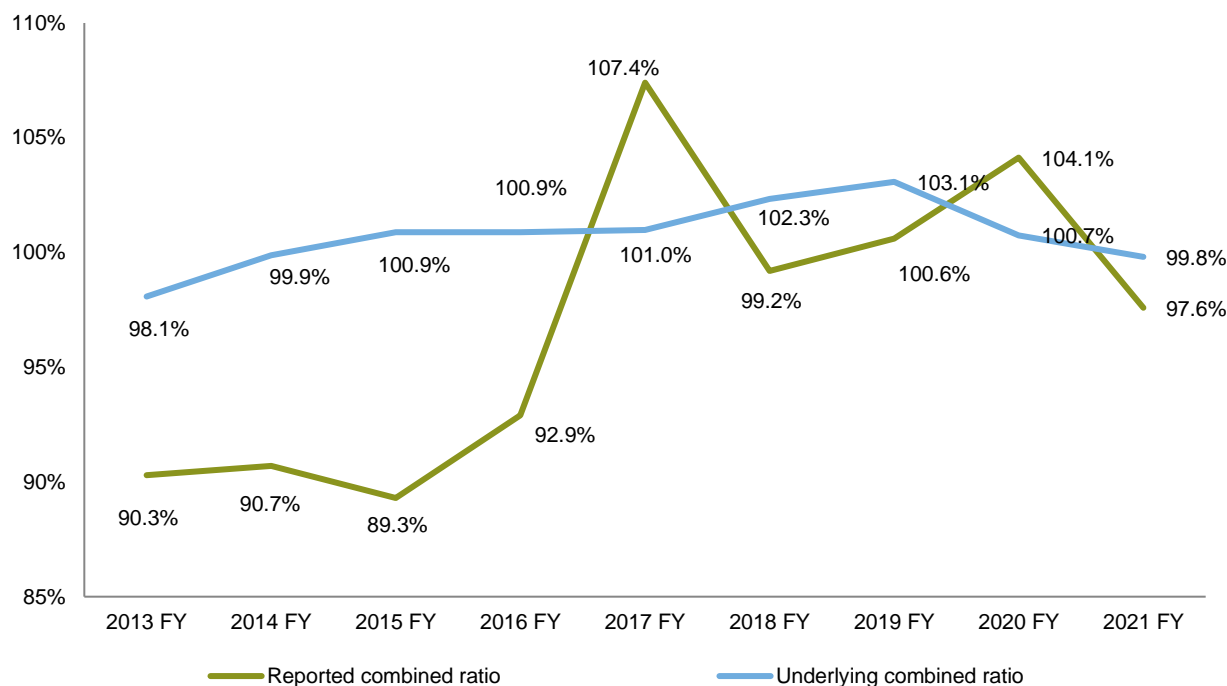


<sup>6</sup> S&P WACC (weighted average cost of capital) figures.

## Combined ratio for the SUBSET

### Reported and underlying combined ratio improve to sub-100%

Reported and underlying combined ratio for the SUBSET



### Reported combined ratio benefitted from diminishing COVID-19 losses and greater reserve releases

Combined ratio detail for the SUBSET<sup>7</sup>

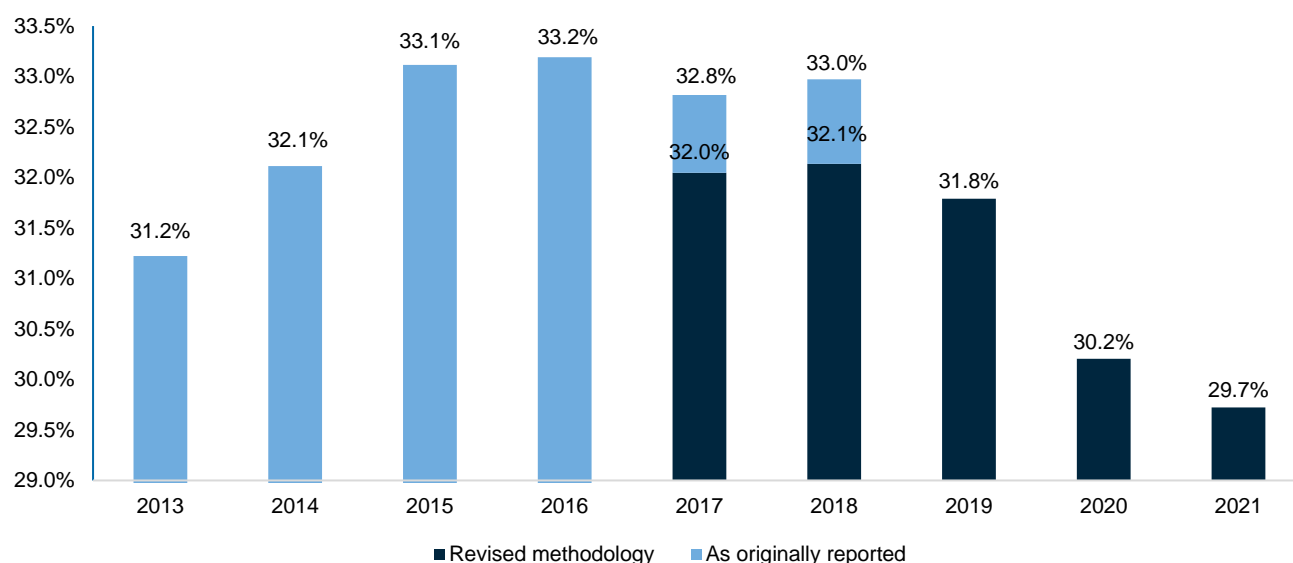
SUBSET	2014 FY	2015 FY	2016 FY	2017 FY	2018 FY	2019 FY	2020 FY	2021 FY
Reported combined ratio	90.7%	89.3%	92.9%	107.4%	99.2%	100.6%	104.1%	97.6%
Remove prior year development	5.6%	6.7%	6.3%	5.3%	4.6%	2.3%	1.5%	2.3%
Accident year combined ratio	96.3%	96.0%	99.2%	112.7%	103.8%	102.9%	105.6%	99.9%
Strip out nat cat loss	-2.8%	-1.5%	-4.7%	-18.1%	-8.6%	-8.1%	-5.7%	-10.1%
Strip out COVID-19 loss							-8.2%	-0.2%
Ex-nat cat accident year combined ratio	93.5%	94.5%	94.5%	94.6%	95.2%	94.9%	91.7%	89.7%
Add in normalised nat cat loss	6.4%	6.4%	6.4%	6.4%	7.1%	8.2%	9.0%	10.1%
Underlying combined ratio	99.9%	100.9%	100.9%	101.0%	102.3%	103.1%	100.7%	99.8%
Expense ratio	32.1%	33.1%	33.2%	32.0%	32.1%	31.8%	30.2%	29.7%
Ex-nat cat accident year loss ratio	61.4%	61.4%	61.3%	62.6%	63.1%	63.1%	61.5%	60.0%
Ex-nat cat accident year combined ratio	93.5%	94.5%	94.5%	94.6%	95.2%	94.9%	91.7%	89.7%

<sup>7</sup> The normalised natural catastrophe load is the five-year moving average of the SUBSET's natural catastrophe losses (including COVID-19 losses), calculated on the basis of annual results

## Expenses for the SUBSET

**Premium growth continues to outpace expense growth, bringing the expense ratio down**

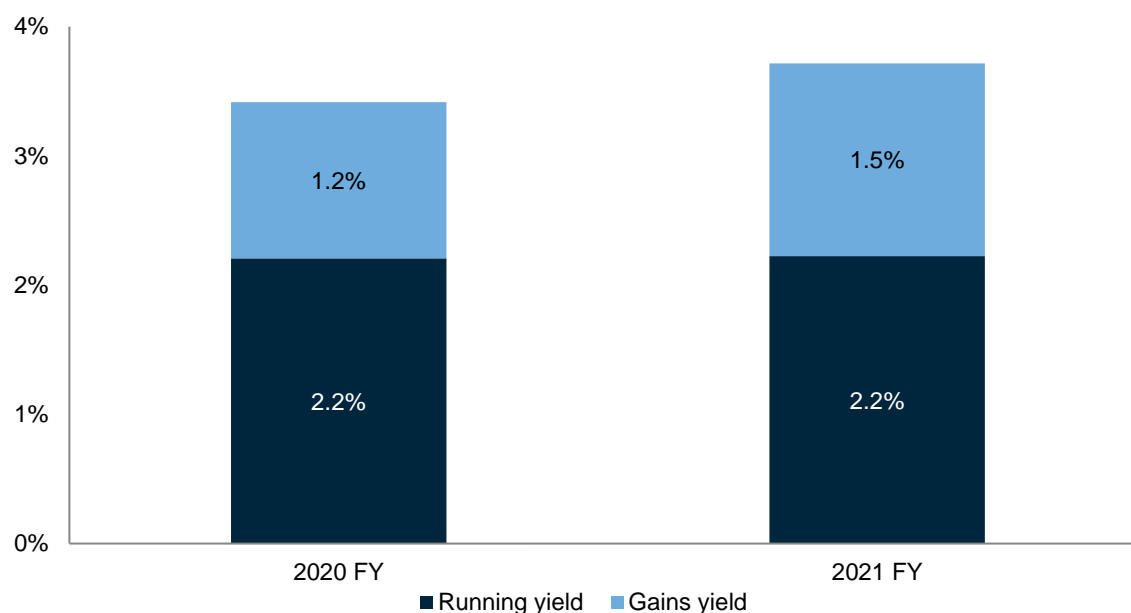
Weighted average expense ratio for the SUBSET<sup>8</sup>



## Investment yield for the SUBSET

**Stronger investment income, thanks to gains**

Investment yield for the SUBSET<sup>9</sup>



<sup>8</sup> The revised methodology we introduced with our half-year 2019 report produced a discontinuity in our time series of SUBSET expense ratios. Several of the companies removed from our constituent list, particularly Lloyd's companies, have high expense ratios. Therefore, our 'revised methodology' expense ratios for 2017 and 2018 are approximately one percentage point lower than the ratios we originally reported

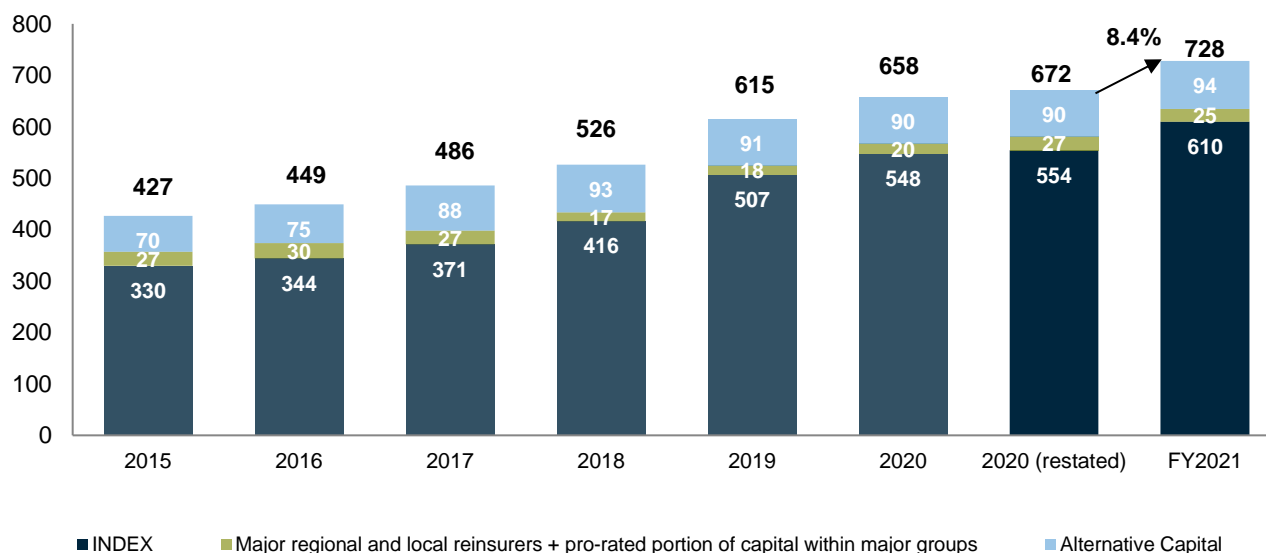
<sup>9</sup> Running yield captures items such as bond coupons, equity dividends and interest income

## Capital

### Total reinsurance dedicated capital

#### Total industry capital grew robustly in 2021

Chart 1: Total reinsurance dedicated capital (USD billions)



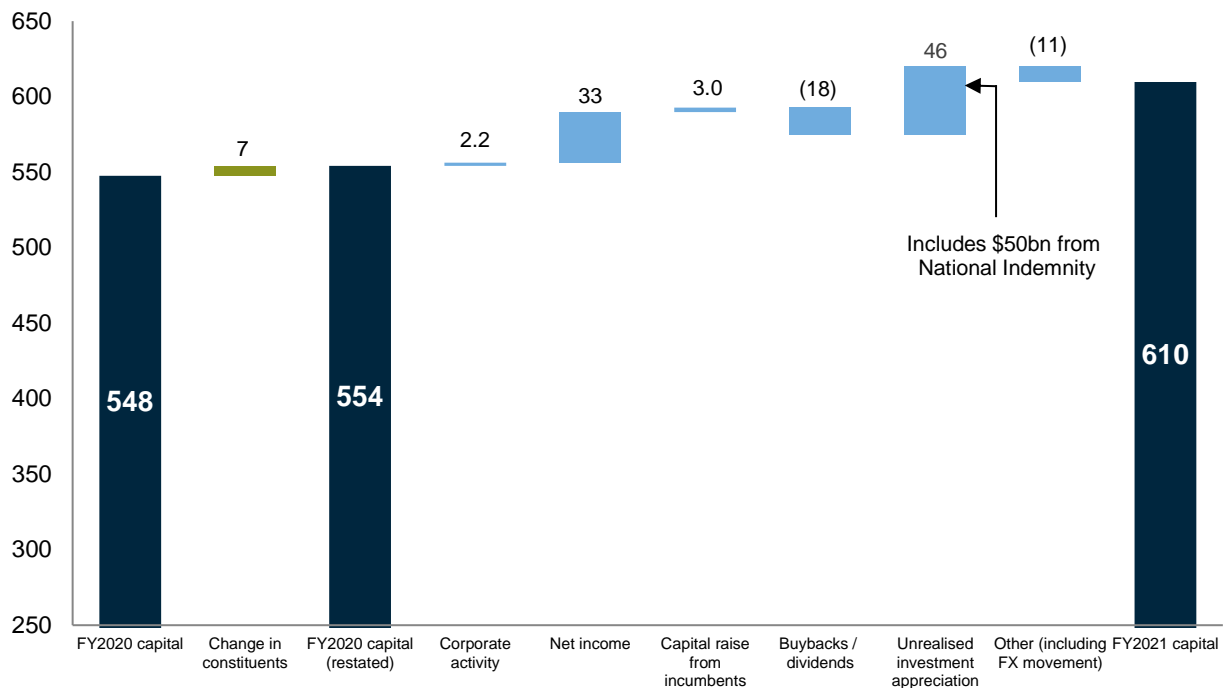
- Global reinsurance dedicated capital totalled USD 728 billion as of the end of 2021. This is a robust 8.4% growth over the restated USD 672 billion at year-end 2020. Since 2015, total reinsurance dedicated capital has grown by 70% which equates to an average annual pace of 6%.
- INDEX companies' capital grew by 10% to USD 610 billion (2020 re-stated: USD 554 billion) and now represents 84% of the reinsurance industry's capital base. Alternative capital followed the same direction and went up by c. 4%.
- Including other major regional and local reinsurers, and a pro-rated portion of capital within major groups, we derive an estimate of USD 635 billion (2020 re-stated: USD 581 billion) of capital for the traditional reinsurance market.
- A majority of the reinsurers have reported strong results for 2021 with improved capital positions backed up by rising equity markets and retained profitability.
- 2021 non-life ILS market capacity resumed growing and reached its highest ever level at USD 94 billion, driven by significant growth of the catastrophe bond space. The overall ILS market experienced a period of rebalancing in 2021, with capital allocation shifting away from less liquid ILS structures, with investors instead preferring the transparency and liquidity available through the catastrophe bond instrument.



## INDEX capital

### Capital growth driven by net income and investment returns

Chart 2: Capital analysis for the INDEX (USD billions)<sup>10</sup>

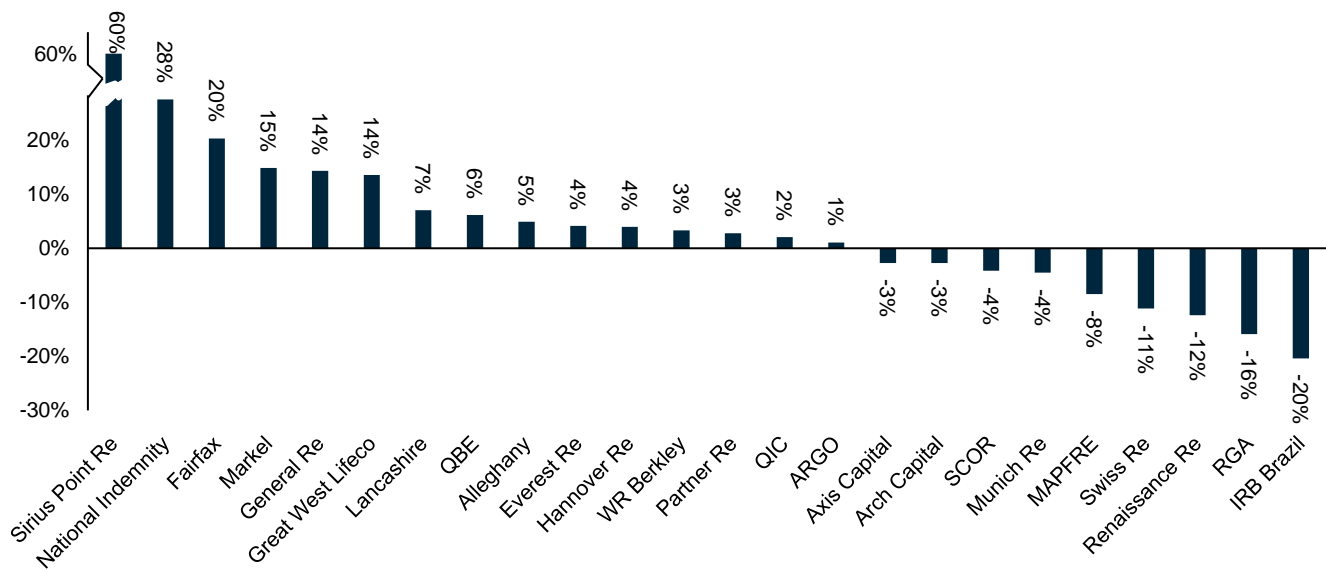


- As had been seen at the half-year stage, strong investment markets were the main driver of capital growth for the INDEX companies. Unrealised investment appreciation amounted to USD 46 billion, with National Indemnity alone accounting for USD 50 billion. Other than National Indemnity, the rest of the INDEX companies saw an overall depreciation of USD 5 billion in their investment portfolio. Bond prices move in an inverse relationship to yields and government bond yields generally were on an increasing trajectory in 2021 (the U.S. 10-year yield increased from 0.9% to 1.5%, for example).
- Net income of USD 33 billion contributed 6% to the opening stock of adjusted capital. As discussed below, this level of profitability was supported by rate increases, reserve releases and strong investment income.
- USD 18 billion of net income was returned to the shareholders in the form of buybacks/dividends, which equates to a payout ratio of 53%. We note that this is the lowest payout ratio since at least 2014.
- While many reinsurers are clearly seeking to grow into the market's firming conditions, the reduced payouts may also indicate a conservative approach in the midst of recent inflation trends and evolving landscape around natural catastrophe events.

<sup>10</sup> Change in constituents includes FY2020 late filers. Corporate activity is Third Point's acquisition of Sirius.

## Wide range of company-by-company capital growth, according to investment stance

Chart 3: Movement in capital reported as at FY 2020 for the INDEX constituents<sup>11</sup>



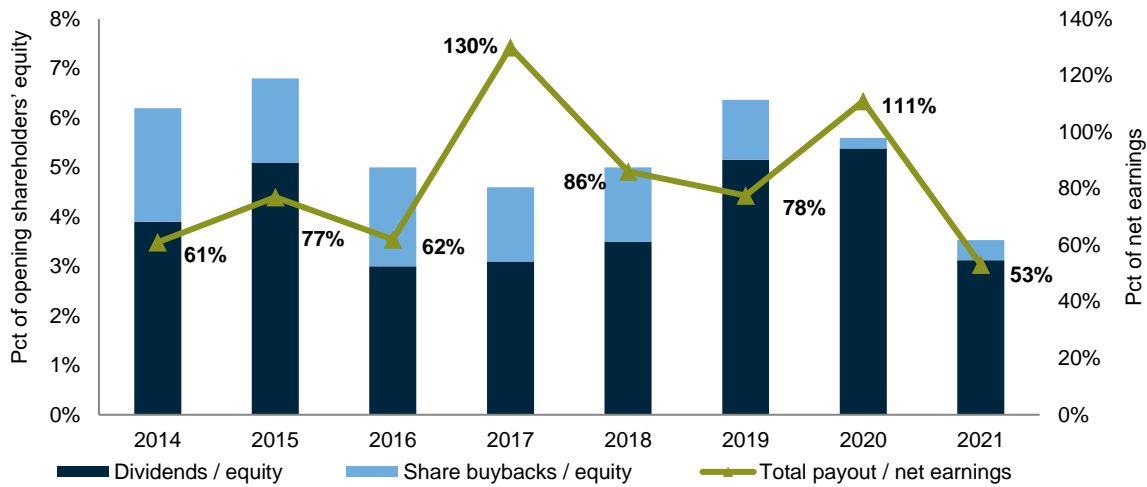
- As equity markets have continued to expand, reinsurers with higher equity weightings in their investment portfolio are the ones that have seen the largest capital increases — for example National Indemnity, Fairfax and Markel.
- Third Point Re also issued equity and preference shares to finance its acquisition of Sirius and this is the main driver of the renamed Sirius Point Re growth.
- An opposite impact has been seen for the reinsurers holding less equity and higher debt weightings in their investment portfolio. Due to the increase in risk-free interest rates, lower bond prices have resulted in unrealised losses for the likes of Swiss Re, Munich Re and RGA.
- Although the investment outcome is mixed depending on the investment portfolio composition, most companies have benefitted from robust underwriting income in 2021.

<sup>11</sup> Excludes companies who have not yet reported FY 2021

## Return of capital

### Reinsurers retaining more capital, with less returned to shareholders

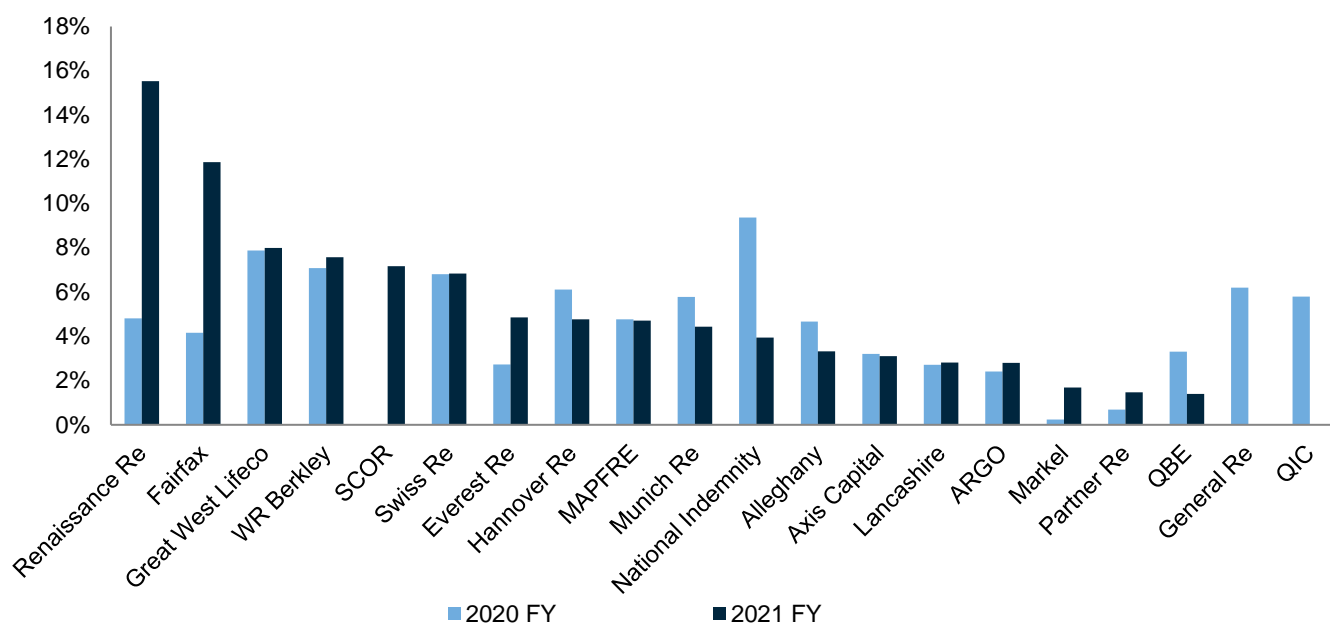
Chart 4: Return of capital (as percent of opening shareholders' equity) and payout ratio for the INDEX



- In 2021, there was a significant contraction in the overall payout. Capital payout measured 53% of net income and 3.5% of shareholder equity. The decrease in the latter ratio was driven by a reduction in dividends upstreamed by National Indemnity. As a percentage of earnings, the ratio also fell due to the recovery of earnings.
- Share buybacks as a proportion of equity were higher compared to 2020, a year which was impacted heavily due to low earnings and regulatory restrictions. Nevertheless, since 2014, 2021 was the second lowest in terms of buyback as a proportion of equity.

### Very few companies were able to maintain payouts at a similar level to 2020

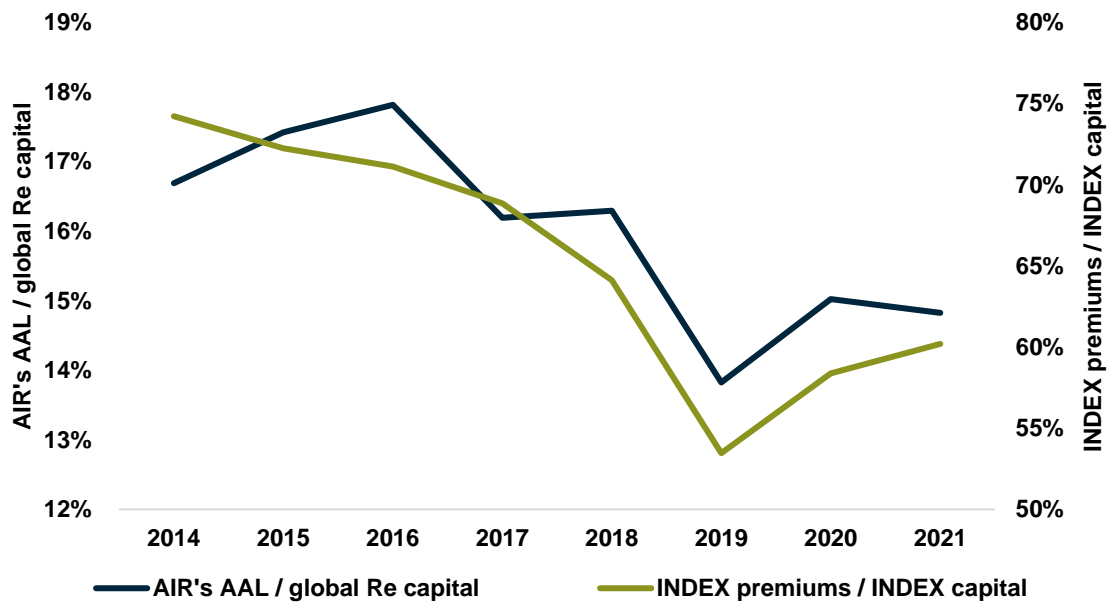
Chart 5: Return of capital (as percent of opening shareholders' equity) for the INDEX constituents



- After the French regulator recommended no dividend payouts in 2020, SCOR resumed its capital return to shareholders in 2021. Ren Re and Fairfax also significantly boosted their payouts.
- As mentioned above, National Indemnity decided to significantly reduce its dividend payout in 2021. General Re and QIC also did not pay dividends last year.
- For now, a number of other companies, such as Hannover Re and Munich Re, have not maintained the special payouts that had been announced in pre-pandemic times.

## Demand is expanding too, not just supply

Chart 6: AIR loss scenarios and premiums vs capital<sup>12</sup>



- If the reinsurance industry's capital base is 'supply', then a proxy for 'demand' is the premiums ceded to reinsurers. Another proxy is catastrophe modelling agency AIR's aggregate annual loss (AAL).<sup>13</sup> Both measures are imperfect – premiums capture price changes as well as exposure growth and AIR's figures reflect only the natural catastrophe portion of reinsurance demand.
- Nevertheless, there is a clear trend according to both proxies of demand. Over 2014-2019, the reinsurance industry's capital base, or supply, was expanding at a faster pace than demand – as evidenced by the declining ratios in the chart above. We see this as one factor behind the generally favourable pricing achieved by cedents over this period.
- The trend reversed in 2020 as both demand measures grew more strongly than the 8% growth in INDEX capital.
- The 2021 picture is mixed. Premiums have continued to grow faster than capital, but we suspect that has been driven more by price than exposure. The AIR proxy for demand has actually grown slightly less quickly than supply.

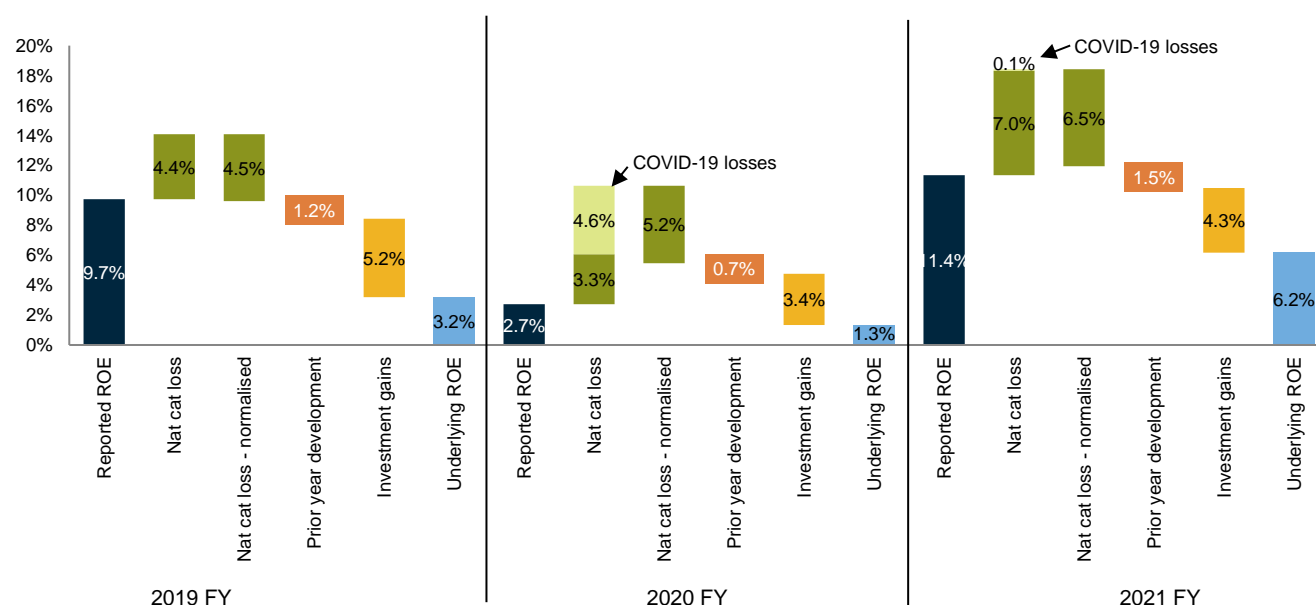
<sup>12</sup> Source: AIR Global Modeled Catastrophe Losses report

<sup>13</sup> AAL is AIR's mean value of a loss exceedance probability (EP) distribution. It is the expected loss per year, averaged over many years.

## Return on equity

### Reported and normalised ROE recover after the 2020 pandemic shock

Chart 7: ROE analysis for the SUBSET



### Underlying ROE saw an improvement from each of its components

Chart 8: ROE components for the SUBSET

	2019 FY	2020 FY	2021 FY
<b>Reported ROE</b>	<b>9.7%</b>	<b>2.7%</b>	<b>11.4%</b>
Remove nat cats (ex COVID-19)	4.4%	3.3%	7.0%
Remove COVID-19 losses	0.0%	4.6%	0.1%
Add in normalised nat cats	-4.5%	-5.2%	-6.5%
Remove prior year development	-1.2%	-0.7%	-1.5%
Strip out investment gains/losses	-5.2%	-3.4%	-4.3%
<b>Underlying ROE</b>	<b>3.2%</b>	<b>1.3%</b>	<b>6.2%</b>

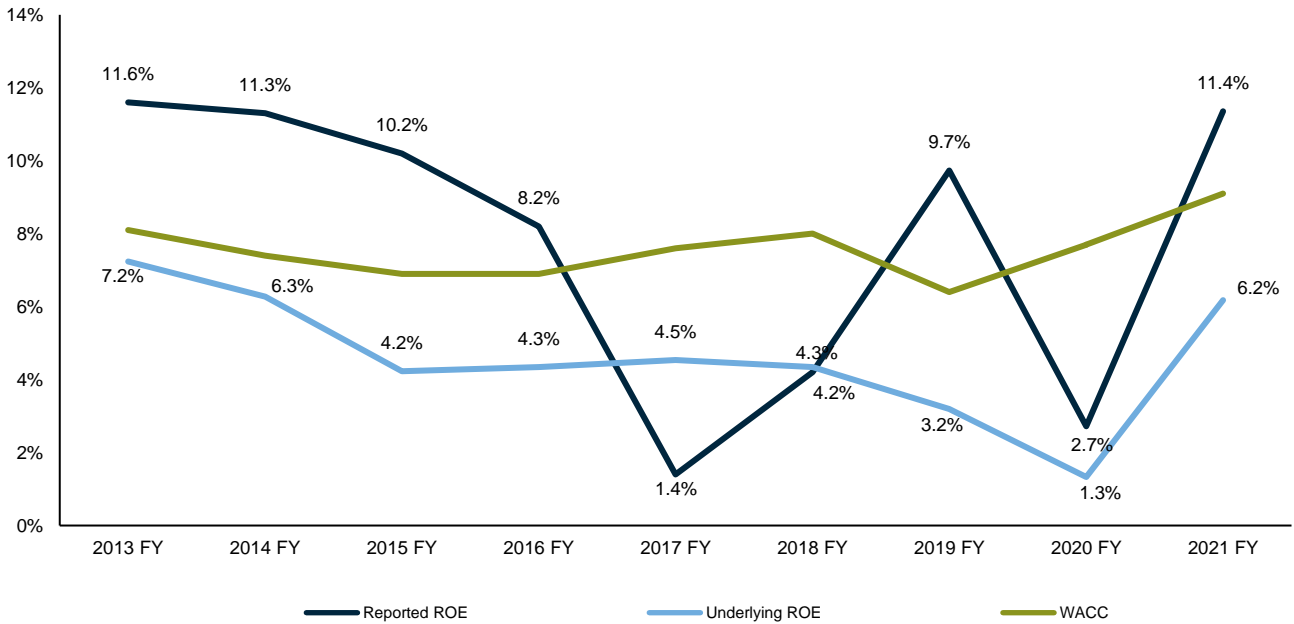
  

<b>Composition of Underlying ROE</b>			
Underlying underwriting margin	-1.7%	-0.4%	0.1%
Running investment income	8.8%	5.9%	6.5%
Other income/expenses	-3.9%	-4.2%	-0.5%
<b>Underlying ROE</b>	<b>3.2%</b>	<b>1.3%</b>	<b>6.2%</b>

- The average reported ROE for SUBSET companies increased from 2.7% in 2020 to 11.4% in 2021. Similarly, the average underlying ROE (normalised for cat loads and excluding PYD and investment gains) increased from 1.3% in 2020 to 6.2% in 2021.
- The drivers behind this 3x growth in both reported and underlying ROEs are an increased return on investments and a decrease in pandemic-related losses. We calculate COVID-19 losses cost 0.1 percentage points on the ROE, a much smaller impact than in 2020, when they accounted for 4.6 percentage points.
- Each component of underlying ROE improved last year – underwriting margins, running investment income and the fairly opaque ‘other income/expenses. The latter partially reflects reduced restructuring expenses.

## Underlying ROE still trails cost of capital

Chart 9: ROE time series for the SUBSET<sup>14</sup>

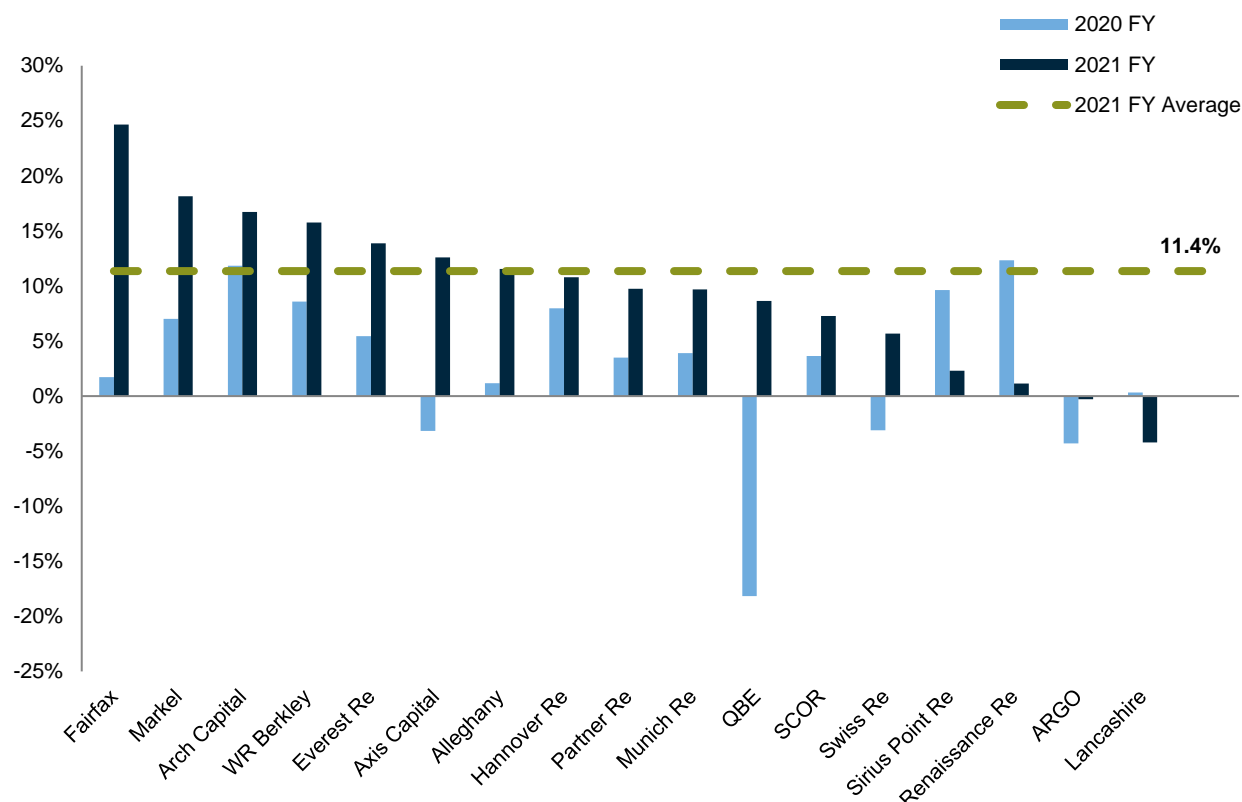


- Although severe natural catastrophe losses seem to be the new norm of the last few years and 2021 was particularly tough for the sector, the underlying ROE recovered after the pandemic and exceeded the average of previous five years.
- While ROEs improved in 2021, the weighted average cost of capital, as measured by S&P, also increased due to higher equity and credit risk premiums. The average reported ROE exceeded WACC, but underlying ROE remains below.

<sup>14</sup> S&P WACC (weighted average cost of capital) figures.

## Most SUBSET constituents improved ROE in 2021

Chart 10: Reported ROE for the SUBSET constituents<sup>15</sup>



- Most companies in the SUBSET improved their returns on equity. Almost half of them recorded ROEs above the SUBSET's average. Three companies' return on equity deteriorated from 2020 to 2021.
- Fairfax and Markel's notable recovery levels are partially due to gains from movements in the value of their financial investments flowing through P&L.
- Understandably, most of the companies that suffered from a reduction in shareholder value in 2020 recovered in 2021 to positive ROE territory although below the SUBSET's average. Axis Capital is a notable exception here, as their steep ROE recovery resulted from a combination of positive investment and underwriting results with a reduction in FX losses. QBE also achieved a notable positive swing in its ROE.

<sup>15</sup> ROEs are based on 'all-in' net income. They do not necessarily match the 'headline' ROEs reported by the companies as these are sometimes struck on an operating net income basis.

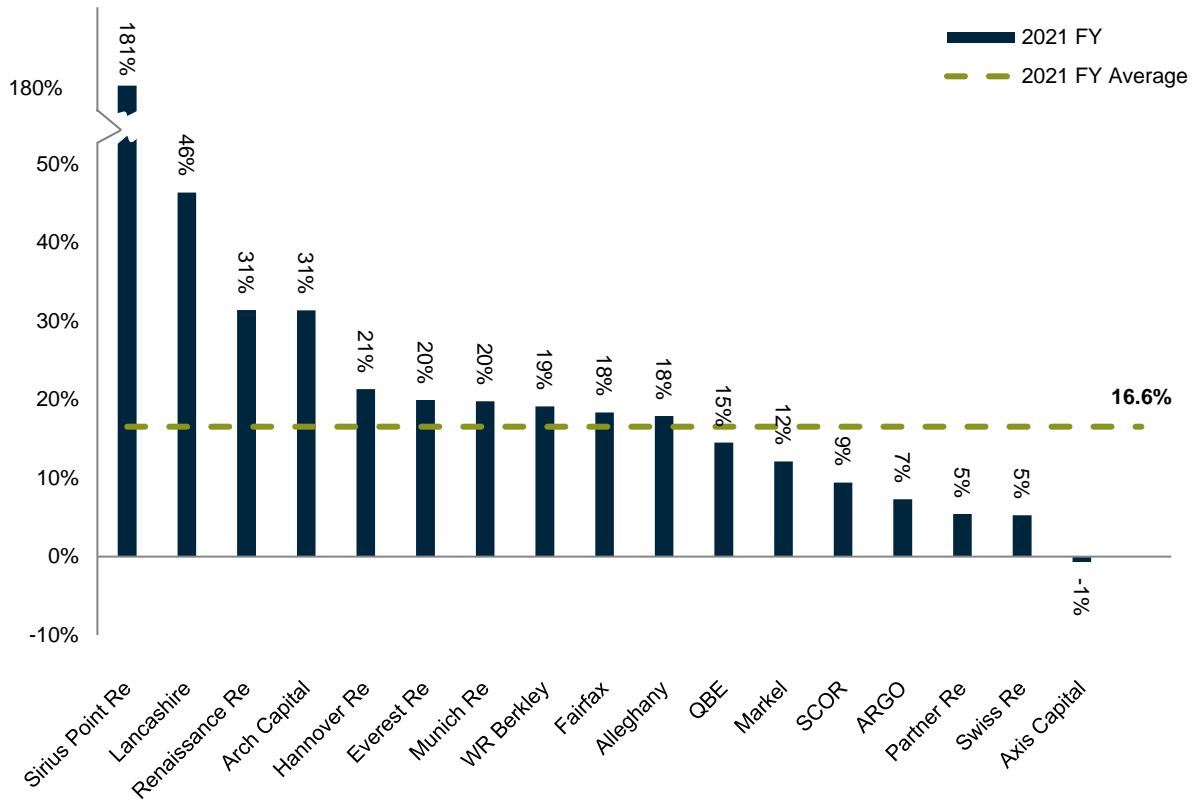


## Underwriting performance

### Premium volumes

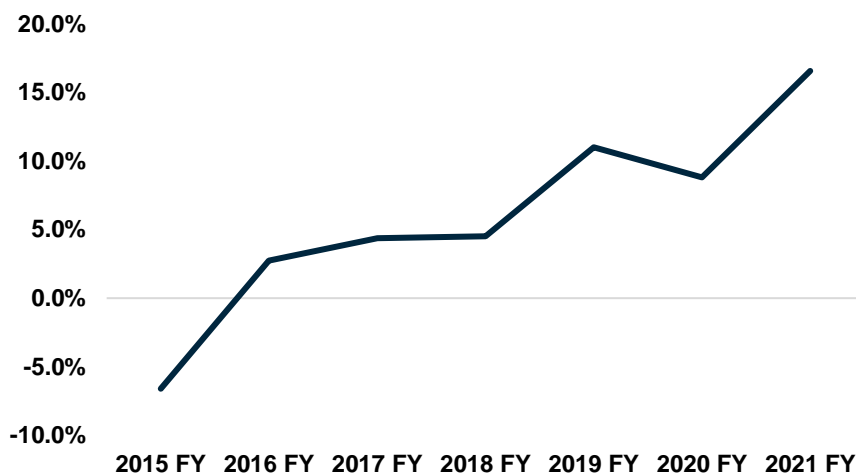
#### Double-digit premium growth for many of the reinsurers

Chart 11: 2020 change in relevant<sup>16</sup> net earned premium (USD basis) for the SUBSET constituents



#### Premium growth at its highest level since at least 2015

Chart 12: Premium growth over time of SUBSET constituents (USD basis)



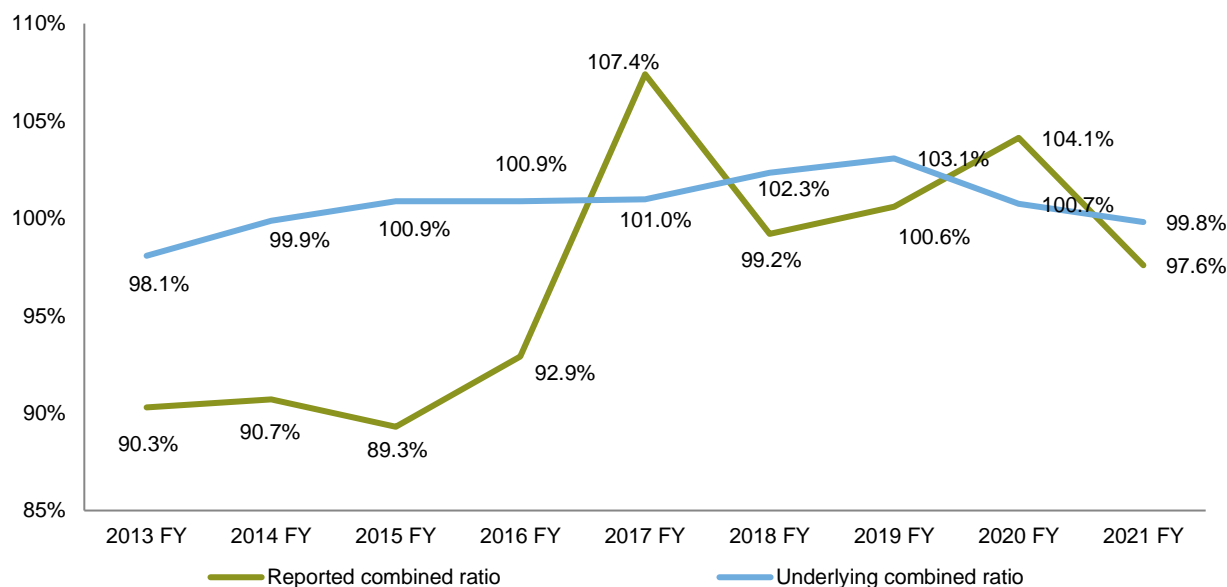
<sup>16</sup> Net earned premiums relate to the reinsurance segment if disclosure is available, or otherwise to the consolidated group. Appendix 1 explains in more detail.

- Premium growth remained robust throughout the year at an average of 17%. This is the strongest growth rate we have seen since at least 2015.
- A number of SUBSET companies reported premium growth well into double digits. This is generally driven by higher premium rates and growth in net new business.
- Sirius Point Re's 181% growth was driven by the combination of Third Point Re and Sirius.
- Lancashire attributes its strong growth to an increased volume of specialty business.
- At the other extreme, Axis has spent the past two years reshaping its reinsurance portfolio and following a sharp contraction in 2020, its reinsurance premiums declined a bit further in 2021.

## Combined ratios

### Reported and underlying combined ratio improve to sub-100%

Chart 13: Reported and underlying combined ratio time series for the SUBSET



### Reported combined ratio benefitted from diminishing COVID-19 losses and greater reserve releases

Chart 14: Combined ratio detail for the SUBSET<sup>17</sup>

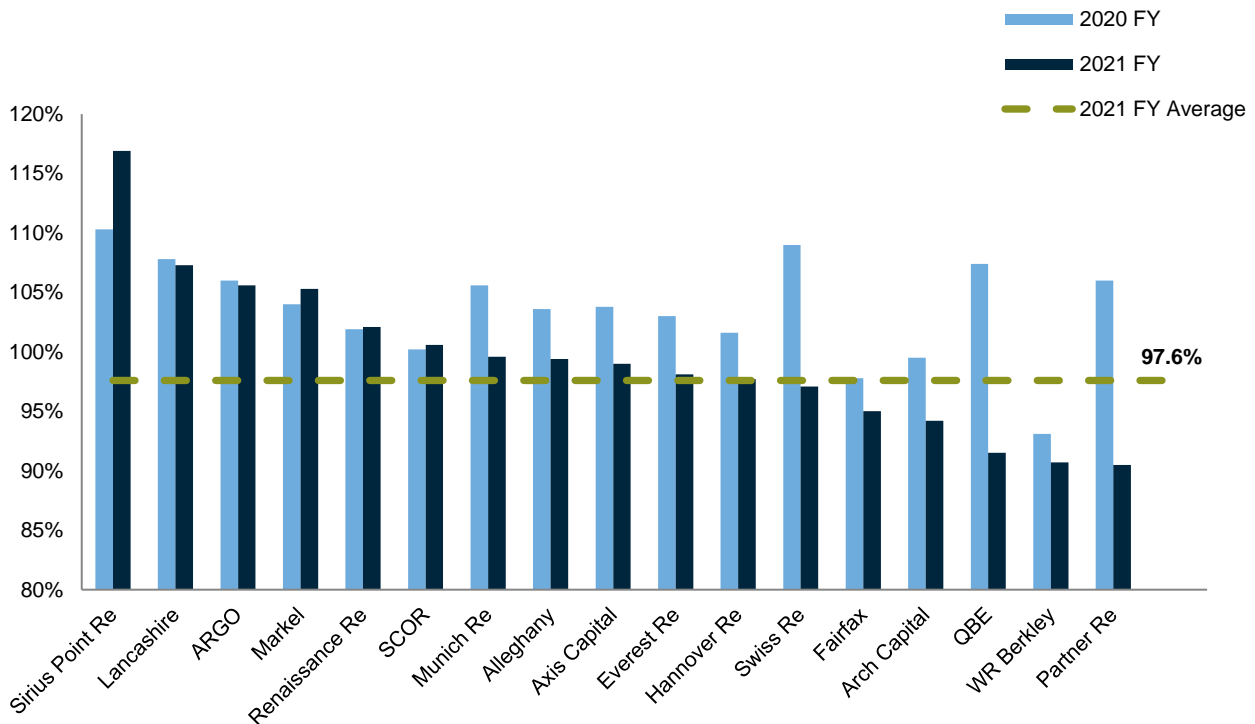
SUBSET	2014 FY	2015 FY	2016 FY	2017 FY	2018 FY	2019 FY	2020 FY	2021 FY
Reported combined ratio	90.7%	89.3%	92.9%	107.4%	99.2%	100.6%	104.1%	97.6%
Remove prior year development	5.6%	6.7%	6.3%	5.3%	4.6%	2.3%	1.5%	2.3%
Accident year combined ratio	96.3%	96.0%	99.2%	112.7%	103.8%	102.9%	105.6%	99.9%
Strip out nat cat loss	-2.8%	-1.5%	-4.7%	-18.1%	-8.6%	-8.1%	-5.7%	-10.1%
Strip out COVID-19 loss							-8.2%	-0.2%
Ex-nat cat accident year combined ratio	93.5%	94.5%	94.5%	94.6%	95.2%	94.9%	91.7%	89.7%
Add in normalised nat cat loss	6.4%	6.4%	6.4%	6.4%	7.1%	8.2%	9.0%	10.1%
Underlying combined ratio	99.9%	100.9%	100.9%	101.0%	102.3%	103.1%	100.7%	99.8%
Expense ratio	32.1%	33.1%	33.2%	32.0%	32.1%	31.8%	30.2%	29.7%
Ex-nat cat accident year loss ratio	61.4%	61.4%	61.3%	62.6%	63.1%	63.1%	61.5%	60.0%
Ex-nat cat accident year combined ratio	93.5%	94.5%	94.5%	94.6%	95.2%	94.9%	91.7%	89.7%

<sup>17</sup> The normalised natural catastrophe load is the five-year moving average of the SUBSET's natural catastrophe losses (including COVID-19 losses), calculated on the basis of annual results

- Reported combined ratios for the SUBSET improved to pre COVID-19 levels, to 97.6% on average. This is attributable to positive reserve releases, negligible COVID-19 losses, price improvements both at the underlying primary and reinsurance levels and improved expense ratios. The overall improvement was partially offset by natural catastrophe losses.
- Prior year development provided a benefit of 2.3 percentage points in 2021, higher than last year's 1.5 percentage point benefit. This reverses the trend seen over 2015–2020 of a declining benefit from reserve releases. Swiss Re and Partner Re had taken reserve increases in 2020 and their return to a pattern of releases is the main reason for the overall swing. Despite the improving trend, a few companies have taken a conservative approach due to the rise in inflation.
- The underlying combined ratio reached a sub-100% mark for the first time since 2014. The improvement in the underlying combined ratio came despite a higher normalised natural catastrophe load (the five-year moving average), which has seen a remarkable increase over the recent five-year period.
- While 2021 was the third largest natural catastrophe year since 2011, the generally high natural catastrophe activity of recent years means that it merely matched the average of the past five years – 10.1 percentage points in both cases.
- The ex-nat cat combined ratio of 89.7% is a record low going back to 2014. An impressive 2 percentage point improvement was comprised of a 1.5% improvement in the ex-nat cat loss ratio and a 0.5% improvement in the expense ratio.

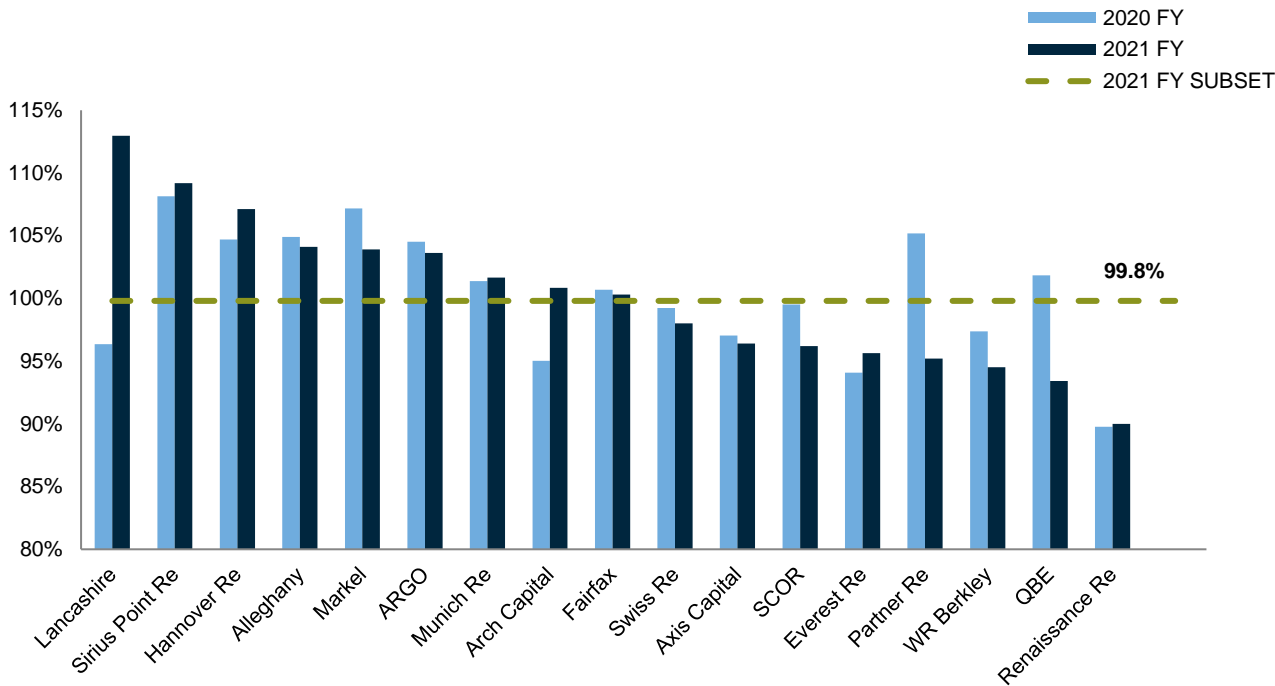
### Reported combined ratios improved for most companies despite heavy natural catastrophe activity

Chart 15: Reported combined ratios for the SUBSET constituents



Underlying combined ratios also improved for most companies

Chart 16: Underlying combined ratios for the SUBSET constituents

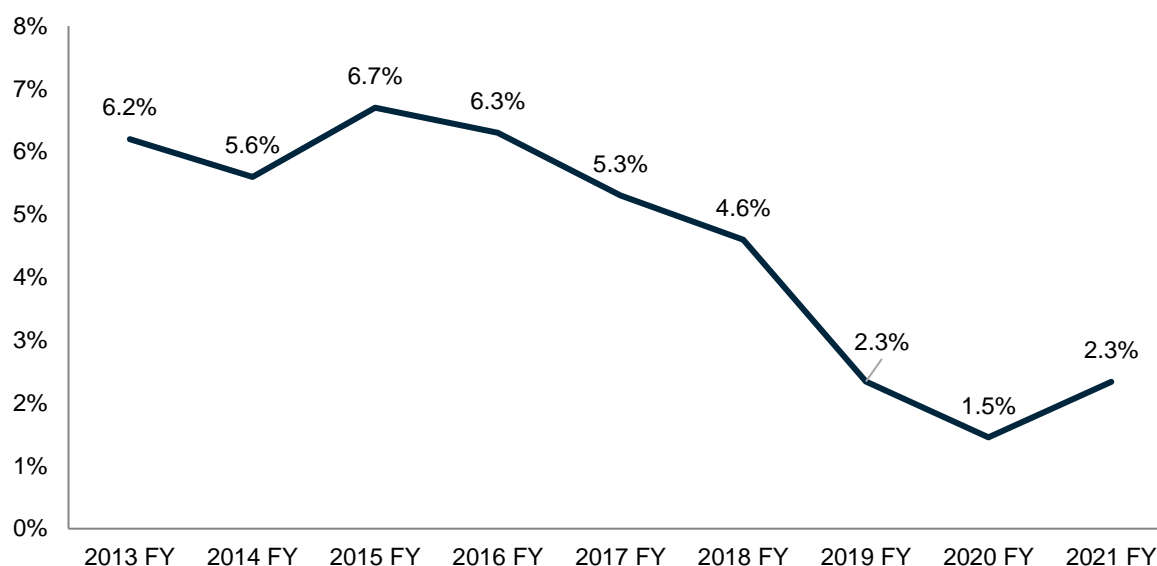


- A number of SUBSET companies recorded a combined ratio of less than 100% in 2021 with most companies showing an improvement over 2020.
- Ren Re continued to show very strong results with a 90% underlying combined ratio. At the other end of the spectrum, Lancashire’s increased combined ratio was driven by higher natural catastrophe losses. Sirius addressed its underwriting performance and undertook a comprehensive re-underwriting of its reinsurance portfolio.

## Prior year loss development

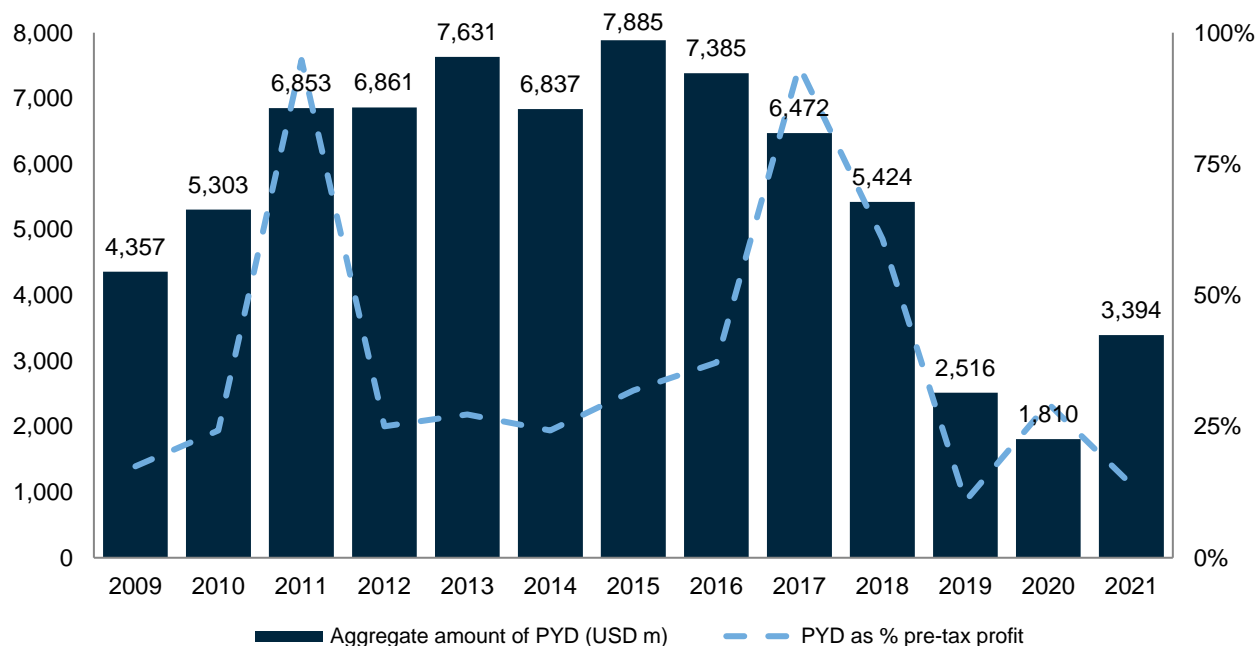
**Support from reserve releases increased in FY 2021, bucking the trend but still less than previous years**

Chart 17: Prior year development impact on combined ratio for the SUBSET<sup>18</sup>



**PYD in absolute terms increase but at a lower rate than increase in profit**

Chart 18: Prior year development for the SUBSET (positive number = benefit)

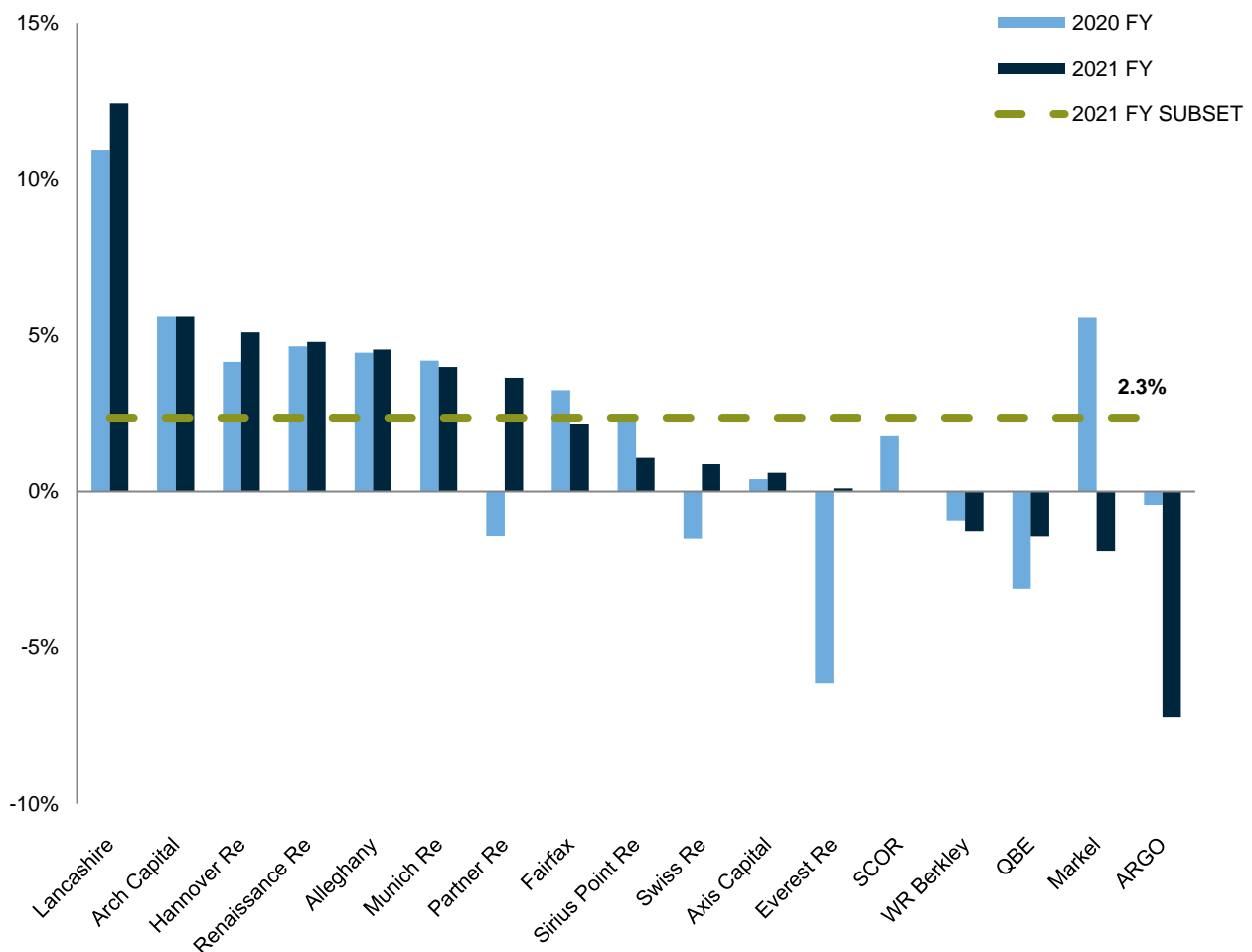


<sup>18</sup> Positive number indicates a favourable prior year impact.

- The benefit to combined ratios from reserve releases had been reducing since 2016, and this trend reversed in 2021. In aggregate for the SUBSET, reserve releases benefitted the combined ratio by 2.3 percentage points, up from 1.5 percentage points in 2020.
- As a percentage of group pre-tax profit, reserve releases average 14% for the SUBSET in 2021. Although 2021 saw a positive movement, it has not kept pace with the growth in profits and is still one of the lowest going back to 2009.
- Swiss Re and Partner Re strengthened reserves in 2020 and have made reserve releases in 2021, albeit still less than their pre COVID-19 levels.
- The consensus view is that the large reserve redundancies that have been produced by older accident years are now coming to an end and recent accident years are more challenging from a reserve adequacy standpoint. If so and notwithstanding the better position in 2021, the reduced support to earnings from reserve releases should take some time to reverse – and we expect this pressure on reported combined ratios and ROEs to resume.

### Widely varying PYD across companies in 2021 vs 2020

Chart 19: Prior year development impact on combined ratio for the SUBSET constituents (positive number = benefit)

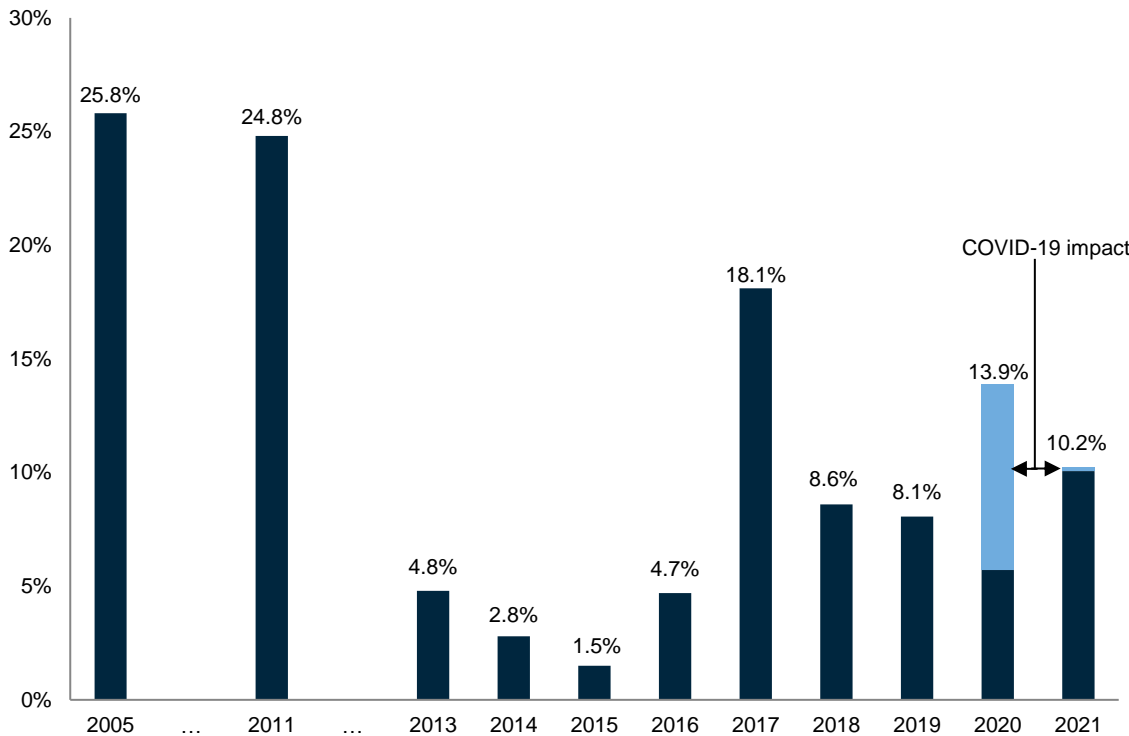


- Amongst the individual SUBSET companies, 2021 showed varied moves around reserve releases. Lancashire recorded another sizeable reserve release. ARGO strengthened reserves substantially with a 7 percentage point impact on its combined ratio. Markel, QBE and WR Berkley also posted net adverse reserve development.

## Natural catastrophe losses

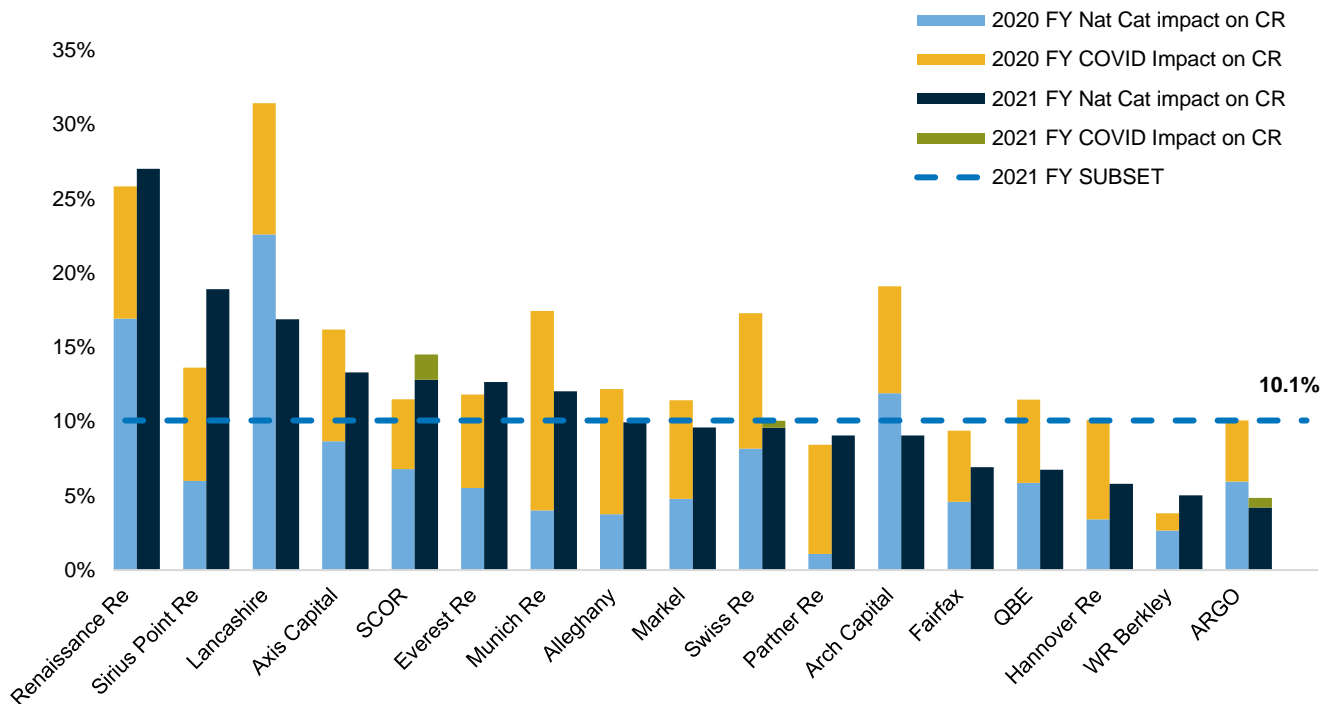
**2021 records third-largest natural catastrophe (re)insurance losses since 2011; COVID-19 losses negligible**

Chart 20: Natural catastrophe impact on combined ratio for SUBSET



**Significant increase in natural catastrophe load, in turn weighing down the combined ratios**

Chart 21: Natural catastrophe impact on combined ratio for the SUBSET constituents

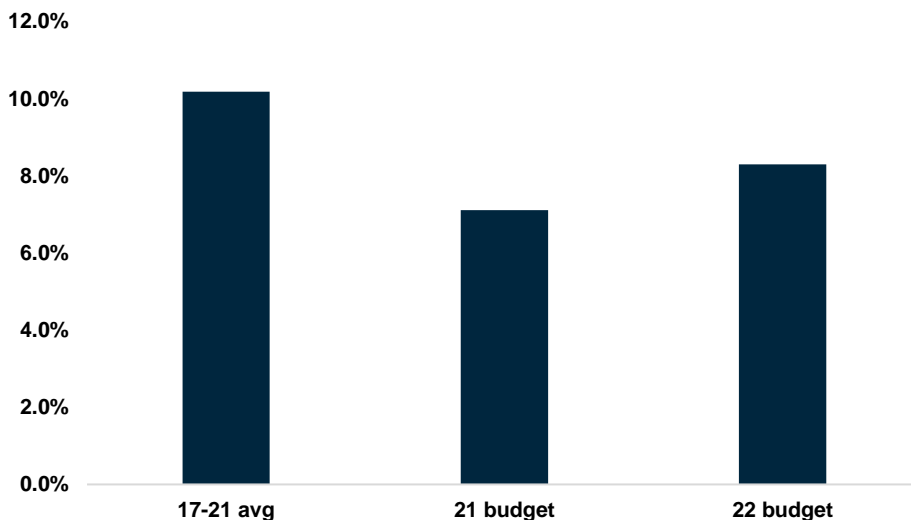




- The weight of natural catastrophe losses on the SUBSET companies' combined ratios averaged 10.1%, much higher than recent years and also brought the normalised five-year average to the same level.
- Insured loss estimates from major natural catastrophes in 2021 are the third-largest since 2011 (see Gallagher Re's [Summary of Natural Catastrophe Events 2021](#)). The largest losses of the year came from tropical cyclones followed by severe thunderstorm. In the U.S. the largest insured losses from a single event came from Hurricane Ida in August. In Europe, the largest loss-causing event was Storm Bernd. In Asia, the events drawing the most attention were the thunderstorms in China.
- Initial assessments of the insurance coverage for COVID-19 alarmed the market in 2020. However, the exposure management measures taken by the (re)insurance companies, together with populations learning how to live with COVID-19, have helped to contain incurred losses in 2021. Additionally, the companies have generally not changed reserves held for COVID-19 losses booked in 2020. Given the heavy weight of natural catastrophe losses, disclosed COVID-19 losses in 2021 were thankfully only 0.2 percentage points on the combined ratio, down from 8 percentage points in 2020. Few companies in fact even separated out their COVID-19 losses.
- Ren Re had a significant impact from the natural catastrophe losses at 27%, followed by Sirius Re and Lancashire with 19% and 17% impact respectively.

### Recent natural catastrophe activity has been well above budget

Chart 22: Natural catastrophe impact versus budget, for SUBSET companies who report budget

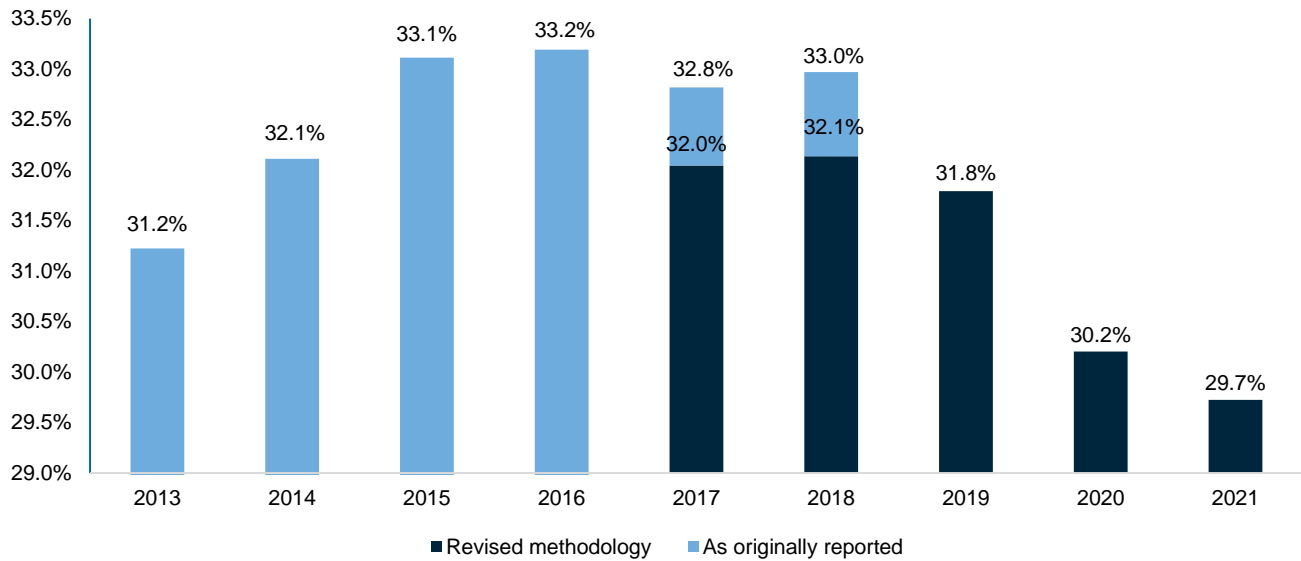


- Several reinsurers publish their budget for 'normal' natural catastrophe losses. As the figure above shows, for these companies actual natural catastrophe activity over the past five years has run well ahead of budget. Partly in response, these companies raised their 2022 budgets but to a level still below the actual experience over 2017-2021.
- The elevated natural catastrophe activity of recent years is consistent with today's heightened focus on the topics of climate change and modelling of secondary perils.

## Expense ratios

### Premium growth continues to outpace expense growth, bringing the expense ratio down

Chart 23: Weighted average expense ratio for the SUBSET<sup>19</sup>



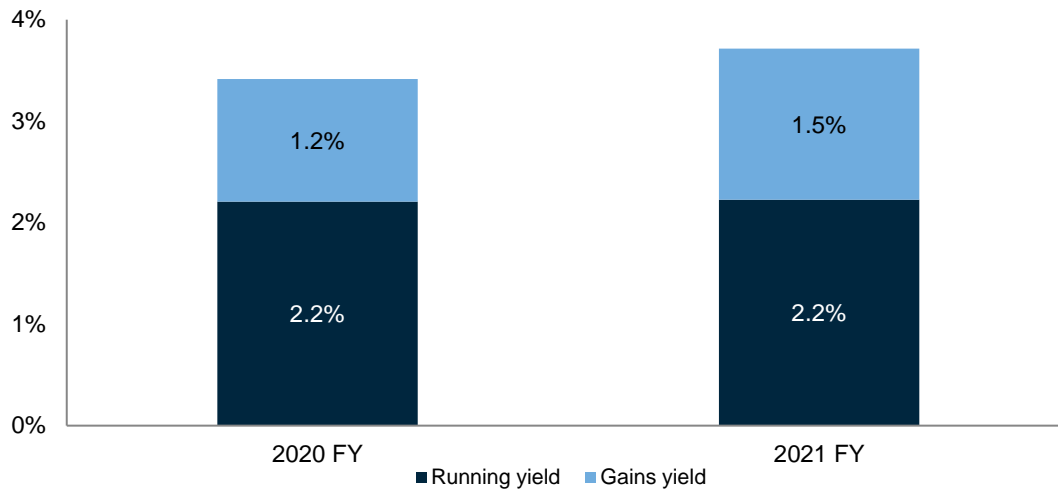
- Average expense ratios for the SUBSET have improved for three consecutive years and for the first time since 2013, expense ratios are sub-30%. This trend is attributable to robust premium growth which has outpaced the growth in absolute expenses. In 2021, the overall absolute expenses increased by 15% and the SUBSET's premium by 17%.
- Industry players are also increasingly investing in technology advancements to achieve efficiencies and hence lower overall expenses.
- The continued improvement in expense ratios, as noted above, provides an important support to combined ratios.

<sup>19</sup> The revised methodology we introduced with our half-year 2019 report produced a discontinuity in our time series of SUBSET expense ratios. Several of the companies removed from our constituent list, particularly Lloyd's companies, have high expense ratios. Therefore, our 'revised methodology' expense ratios for 2017 and 2018 are approximately one percentage point lower than the ratios we originally reported.

## Investment performance

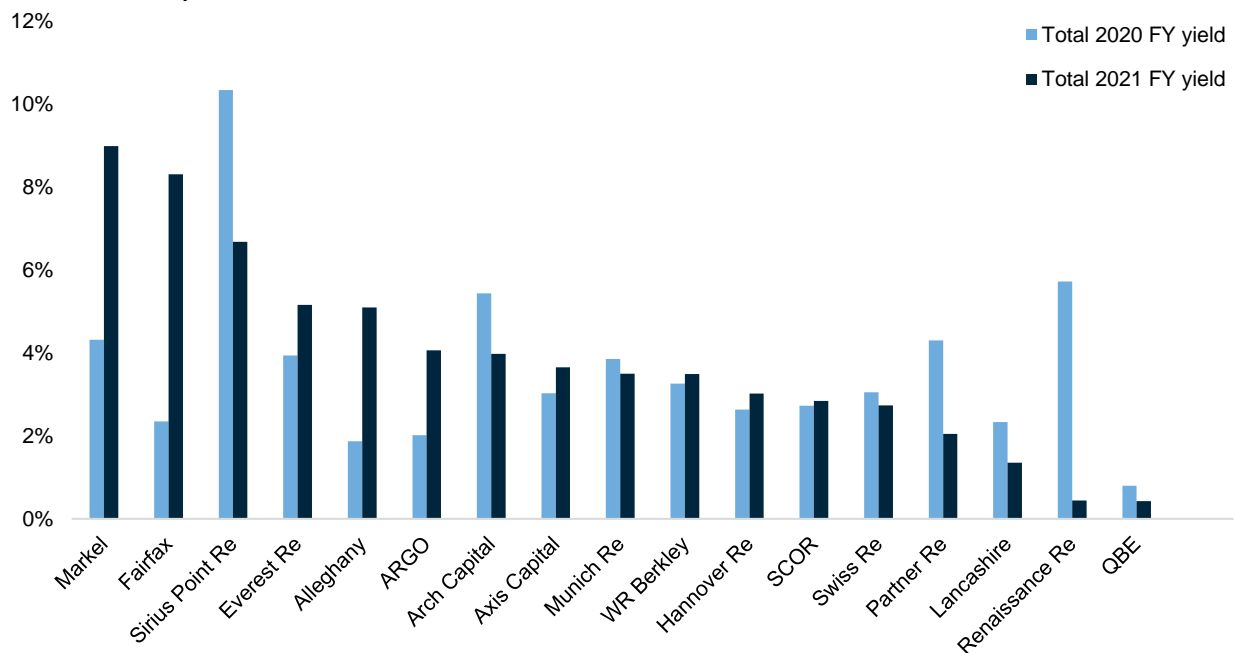
### Stronger investment income, thanks to gains

Chart 24: Investment yield for the SUBSET<sup>20</sup>



### Almost a half of SUBSET companies saw improvement in investment yield

Chart 25: Investment yield for the SUBSET constituents



- The overall investment yield expanded from 3.4% in 2020 to 3.7%, with this improvement contributing to the improvement in ROE. Its more recurring component, the running yield, remained constant, while investment gains expanded. These 2021 investment gains were largely the result of the year's strong equity markets.
- Almost half of the constituents have seen an improvement in their investment yields from 2021 levels, with Markel, Fairfax and Alleghany recording the biggest increases. On the contrary, Partner Re, Renaissance Re and Sirius Point Re noted significant decreases of investment yields between 2020 and 2021. Some of these decreases are attributable to differences in classification and measurement between U.S. GAAP and IFRS and thus whether or not the unrealised gains and losses on equity investments flow through the P&L.

<sup>20</sup> Running yield captures items such as bond coupons, equity dividends and interest income

# Appendix 1

## Methodology

In our HY 2019 report, we broadened our definition of capital to include subordinated debt and minority interests, and restated FY 2018 capital accordingly. We also introduced the rules below to choose the constituents of our capital calculation for the traditional reinsurance market. As per Chart 1 on page 6, these components are the INDEX, major regional and local reinsurers, and pro-rated portion of capital within major groups.

We review and adjust our constituents annually based on year-end data.

The constituents of these components within this report have been selected by applying the rules below to year-end 2021 disclosures. We also restate the prior year's capital position. The impact on the previous year's capital position from these constituent changes is the USD 7 billion 'Change in constituents' shown in Chart 2.

### **INDEX**

Capital at least USD 1 billion or total group NWP at least USD 1 billion, and reinsurance NWP at least 10% of group NWP.

### **Major regional and local reinsurers**

Capital at least USD 250 million, or total group NWP at least USD 250 million, and reinsurance NWP at least 10% of group NWP.

### **Pro rata of composites**

In the case of large groups whose reinsurance NWP is less than 10% of group NWP, we take a pro-rated portion of capital which must be at least USD 250 million.

### **Segment versus group data for the SUBSET**

In our combined ratio analysis, we use P&C reinsurance segment combined ratios for those SUBSET reinsurers which provide the disclosure. Otherwise, we use group combined ratios. In calculating the SUBSET averages, we weight these combined ratios by the appropriate segment or group net earned premium. In the section on premium volumes, we show the growth rate in this 'relevant NEP'. In Appendix 2, premium income is on a written basis and relates to the entire group.

### **Lloyd's market**

The treatment of the Lloyd's market is complex given its nature. Lloyd's syndicates are not explicitly included in this study, in order to avoid double-counting. Many of the companies included in this study have capital backing Lloyd's syndicates, which is included in each company's individual contribution.

## Appendix 2

## FY 2021 results detail for INDEX

Group 2021 FY results table (USD millions)														
Consolidated data unless otherwise stated	Notes	Total capital			Net written premium			Net income			Combined ratio			Δ FY ppts
		2019 FY	2020 FY	2021 FY	Δ FY	2019 FY	2020 FY	2021 FY	Δ FY	2019 FY	2020 FY	2021 FY	Δ FY	
Alleghany	(1)	8,777	8,756	9,187	4.9%	5,752	6,344	7,149	12.7%	858	102	1,035	NM	-4.2
African Re	(2)	975	1,017	1,017										
Arch Capital	(1)	12,260	13,929	13,546	-2.7%	6,039	7,438	9,018	21.3%	1,595	1,364	2,093	53.5%	-5.3
ARGO	(1)	2,039	1,971	1,993	1.1%	1,754	1,809	1,977	9.3%	-8	-72	-5	NM	-0.4
Aspen	(1)(2)	2,726	2,998	2,998										
AXA XL	(1)(2)	13,210	13,222	13,222										
Axis Capital	(1)	5,964	5,716	5,561	-2.7%	4,490	4,336	4,927	13.6%	323	-151	588	NM	-4.8
CCR, France	(2)	2,946	3,597	3,344										
China Re	(2)	13,928	15,762	16,198										
Conduit Re	(2)	1,053	1,053	1,053										
Convex	(2)	1,634	2,478	2,478										
DEVK Re	(2)	2,435	2,794	2,598										
Everest Re	(1)	9,370	9,950	10,363	4.2%	7,824	9,117	11,446	25.5%	1,009	514	1,379	168.2%	-4.9
Fairfax	(1)	18,088	17,712	21,316	20.3%	13,836	14,865	18,278	23.0%	2,004	218	3,401	NM	-2.8
Fidellis	(2)	1,360	2,034	2,034										
General Re	(5)	12,104	12,181	13,927	14.3%	1,716	499	4,974	NM	440	399	258	-35.4%	-26.1
GIC India	(3)	5,247	7,288	7,039										
Great West Lifeco	(2)	19,770	21,280	24,167	13.6%	18,469	32,078	42,124	31.3%	1,778	2,194	2,495	13.7%	
Hamilton Re	(2)	1,677	1,512	1,512										
Hannover Re	(1)	15,250	17,212	17,893	4.0%	22,775	25,450	29,384	15.5%	1,437	1,007	1,456	44.6%	-3.9
IRB Brazil	(2)	1,155	820	652	-20.4%									
Korean Re	(2)	2,132	2,270	2,074										
Lancashire	(2)	1,388	1,736	1,859	7.0%	425	519	816	57.1%	118	5	-62	NM	-0.5
MAPFRE	(1)	12,599	13,406	12,270	-8.5%	21,164	19,192	21,097	9.9%	1,069	936	905	-3.3%	2.7
Markel	(1)	11,078	12,815	14,718	14.9%	5,412	5,932	7,120	20.0%	1,790	816	2,389	NM	1.3
Munich Re	(1)	38,621	42,864	40,942	-4.5%	54,635	59,453	65,254	9.8%	3,049	1,381	3,467	151.1%	-6.0
National Indemnity	(5)	167,718	187,762	239,470	27.5%	26,985	30,401	34,348	13.0%	9,198	12,609	10,054	-20.3%	1.3
Pacific LifeCorp	(2)	16,055	17,452	17,452										
Partner Re	(2)	7,340	7,884	8,101	2.8%	6,909	6,301	7,134	13.2%	937	254	723	184.6%	-15.5
Peak Re	(2)	1,095	1,487	1,487										
QBE	(2)	10,843	11,441	12,144	6.1%	11,794	12,343	14,474	17.3%	547	-1,511	750	NM	-15.9
QIC	(2)	2,806	3,019	3,081	2.0%	3,048	2,240	2,336	4.3%	179	35	169	388.5%	
R&V Versicherung	(2)	2,412	2,630	2,445										
Renaissance Re	(4)	5,971	7,560	6,624	-12.4%	3,381	4,096	5,939	45.0%	749	762	73	-90.4%	0.2
RG	(4)	12,720	15,471	13,014	-15.9%	11,297	11,694	12,513	7.0%	870	415	617	48.7%	0.4
SCOR	(1)	9,856	10,661	10,216	-4.2%	16,168	16,622	16,952	2.0%	472	267	539	102.1%	
Sinus	(1)	2,157	2,000	2,000										
Swiss Re	(1)	38,948	35,332	31,389	-11.2%	39,649	39,827	43,220	8.5%	727	-878	1,437	NM	-11.9
Sinus Point Re	(3)	1,414	1,565	2,503	59.9%	623	548	1,735	216.4%	201	144	45	-68.9%	6.6
Toa Re	(2)	1,592	1,709	1,576										
Validus Re	(2)	3,447	3,439	3,439										
Vantage	(2)	1,000	1,000	1,000										
WR Berkley	(1)	7,317	7,428	7,675	3.3%	6,863	7,262	8,863	22.0%	682	531	1,022	92.7%	-2.4
WMIG Ark	(6)(7)	508,423	554,211	609,729	10.0%	292,510	319,873	371,077	16.0%	29,977	21,045	33,384	58.6%	-2.5
Index aggregate	(6)(7)	205,498	215,549	217,047	0.7%	208,328	222,264	253,686	14.1%	16,491	4,752	20,332	327.8%	-6.5

NB : Shaded rows in the above summary denote SUBSET groups. NM = not meaningful.

- (1) Combined ratios are in respect of the P&C Reinsurance segment only.
- (2) Due to lack of disclosure at the time of the report, total capital shown for FY 2021 is based on FY 2020 disclosure.
- (3) Companies which have a March 31 financial year-end. Data for the year ended 31 March 2021 is included in the column headed FY 2020 (and similar for prior years), and FY 2021 data is also based on year-end 31 March 2021 disclosure.
- (4) Figures for net premiums are net earned premiums, not net written premiums.
- (5) Numbers are sourced from unconsolidated financial statements.
- (6) Total of numbers reported, converted to USD at exchange rates prevailing at end of reporting period for total capital figures. For net income and NWP figures, we use average exchange rates over the reporting period.
- (7) Pre-FY 2021 aggregates shown in this appendix will not necessarily match the aggregates shown in body of report. In the body, prior year figures have generally not been restated for changes in constituents. The figures here have been restated.

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