

News release

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(Re)insurance industry continues to demonstrate resilience in challenging market

London, September 10, 2021 – The convergence of tangible and intangible challenges facing the (re)insurance industry is creating one of the most dynamic and potentially volatile environments in recent market history, yet (re)insurers continue to demonstrate their resilience through their ability to adapt and respond. This is according to panelists at a recent virtual media briefing, *Moving Forward*, hosted by Guy Carpenter & Company, LLC, a leading global risk and reinsurance specialist and a business of Marsh McLennan (NYSE: MMC).

The briefing explored evolving market conditions, capital developments, insurance-linked securities growth, and drivers of change, including technology, Environmental, Social and Governance (ESG) strategies and the expanding cyber threat. Lara Mowery, Global Head of Distribution, Guy Carpenter, led the panel, joined by Sebastian Cook, Managing Director, Head of London Europe; Christopher Ross, Managing Director, Treaty Broking; Shiv Kumar, President, GC Securities; Dr. Jessica Turner, Managing Director, Catastrophe Advisory; and Erica Davis, Managing Director, Global Co-Head of Cyber.

Ms. Mowery opened by describing the evolution of pricing trends in 2021, stating that while the first six months of the year saw pricing continue to firm, “mid-year placements indicated moderating increases in average pricing due to the strong capital position of the sector and general economic rebound.”

With a view toward January renewals, she added, “Some drivers of uncertainty are dissipating. Primary rates are stabilizing, and ample traditional, as well as alternative capital, is bolstering the sector. Reinsurers’ risk appetites and product offerings continue to evolve in response to emerging market realities, and differentiation remains valuable.”

“The market will continue to monitor how COVID-19 claims are resolved and how the losses of 2021 develop while also turning attention to evolving risks including cyber and climate change,” she continued.

Offering further insight into the firm-but-manageable market conditions, Mr. Cook provided commentary on the shifting conditions within the property market.

“The U.S. Property Catastrophe Rate-on-Line (ROL) Index increased by six percent for renewals from January through July, approximately half of the increase experienced over the same period in 2020,” he said. “The increase in Asia, meanwhile, was approximately five percent. Overall ROL levels were impacted by several factors, including some upward shifts in retentions, particularly on loss-impacted programs, additional limits purchased on the top end of programs and increased pricing. More broadly, the concerns about exposure from secondary perils and

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climate change were offset by abundant capacity, the effect of compounding rate increases and strong appetite for growth.”

Turning to developments on the casualty front, Mr. Ross highlighted how multiple counterbalancing factors are impacting the marketplace, with capacity reductions, retention increases, coverage restrictions and a greater focus on client risk-management strategies affecting levels of rate increases.

Commenting specifically on the dynamic reinsurance marketplace, he said: “Engagement between all parties has been remarkable during this unprecedented period. Heading into year-end renewals, we expect this positive momentum to continue and lead to an orderly renewal period with ample capacity to support cedents’ reinsurance strategies.”

Continuing the theme of the resilience of the (re)insurance sector, Mr. Kumar highlighted the ongoing robustness of the capital markets and in particular the growth of catastrophe bonds over the past 12 months.

“The 144a catastrophe bond market is on track to have a record issuance year,” he said. “In the first six months of 2021, we saw \$7.9 billion in new bond issuance via 27 different transactions for 26 unique sponsors. First-time bond sponsors included reinsurers and Florida domestic carriers, as well as mutuals and corporates. Public entities and risk pools (including the Federal Emergency Management Agency or FEMA, Florida Citizens and the Texas Windstorm Insurance Association or TWIA) have executed fairly substantial catastrophe bond transactions. Also, a growing number of reinsurers are exploring this market as an efficient substitute for retrocessional capacity through aggregate industry index-based structures.”

Shifting the focus to drivers of change within the (re)insurance industry, Dr. Turner said: “While the last 18 months have been dominated by the COVID-19 pandemic, 2021 is fast becoming the year of ESG. Climate change and other environmental risks remain a key concern for CEOs around the world, both in terms of likelihood and their impact. Additionally, ESG has become a topic at the top of many company agendas driven by expectations across an array of stakeholders, including investors, regulators, ratings agencies, employees and clients.”

She went on to describe how Guy Carpenter and Marsh McLennan are working with clients to help them address the broad range of ESG challenges they face.

“We are able to advise on the expectations of investors, rating agencies and regulators with regard to ESG, identifying what good looks like and helping companies develop strategies to manage the transition toward their own net-zero targets,” she said.”

A further driver for change in the (re)insurance sector is the growing and evolving impact of cyber risk. As Ms. Davis made clear, this year has very much been “the year of change” for the cyber insurance market.

“Across the industry, loss-development assumptions for cyber risk are again being revisited in 2021, to reflect the effect of the current claims activity,” she said. “For attritional impact, a higher propensity of cyber incidents, particularly ransomware attacks, is likely to hinder a near-term reversal of claims-cost trends. Responding to a continued uptick in both frequency and severity, this was the year for cyber underwriters to take action.”

TAGS/KEYWORDS

Guy Carpenter, Marsh McLennan, MMC, Reinsurance, Property, Casualty, COVID-19, Capital, Cat Bonds, ILS, ESG, Cyber, Lara Mowery, Sebastian Cook, Erica Davis, Shiv Kumar, Christopher Ross, Jessica Turner

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