PROPERTY MARKET UPDATE

Q4 2023

INTRODUCTION AND MARKET OVERVIEW

The property insurance market in 2023 has been very challenging for clients with many receiving their sixth consecutive renewal rate increases and probably their most punitive renewal terms of any of those over the prior five years.

The 1/1/2023 and subsequent month's treaty reinsurance renewals significantly impacted all insurers whom operate across all territories globally with those insurers having to endure significant rate increases, and their premiums compounded further with exposures increasing due to valuation/inflation challenges. Notwithstanding this, they have also had to absorb increased retentions and more limited overall coverage. This was all as a consequence of many years of unprofitable returns. In basic terms, the costs of capital has increased throughout the chain and the insurers have had to pass on those costs to their clients in order to be able to continue in providing the level of coverage which our mutual client(s) require.

Climate change and more frequent and severe weather events continues to be a discussion point during H1, global insured CAT half-year losses passed USD50 billion for the first time. However, despite this, we saw Lloyd's of London posting a positive H1 result, the magnitude of which, we have not seen since 2007. All eyes will be on both Lloyd's of London and other major insurers as to where the full year results end up at.

The major question that we are being asked for 2024 is not surprisingly, what should clients be expecting in 2024?

Well, to provide some early perspective, it is felt that it will require a relatively benign second half of 2023 in terms of property CAT losses in order to produce a very positive underwriting result and thereby demonstrate to capital that the market does know how to underwrite property profitably during this prolonged period of increased weather activity and also taking into account the impact of inflationary pressures being prevalent whether that is in terms of higher replacement cost valuations, and therefore passing on these increased exposures to reinsurers when purchasing treaty covers' with further upwards pressures on both retention and pricing.

If we see capital have the confidence in returning to the property marketplace, will there be significant amounts available to positively impact pricing the marketplace? Will insurers be further impacted by treaty reinsurance renewal increases at 1/1/2024 in the individual marketplaces (and in those subsequent months)?

These questions will be very much dependent on how the balance of the year performs from both a North Atlantic hurricane and a wildfire perspective, and furthermore where looking outside of the US, how individual marketplaces have performed. Not all is clear at this stage but there is a recognition that client affordability, as always, is a factor at the present time and clients will want to take a look at how we can assist in providing them with creative renewal solutions whether that is in the traditional sense or by way of introducing alternative risk transfer mechanisms such as parametrics and retention risk financing products.

The early indicators in respect of 2024 is that London insurers will be looking to expand their property appetite in terms of capacity and aggregate deployed which is embracing news in this current climate.

We will look to bring some further updates in our next Alesco market update and we hope that you find this property update to be of interest and would welcome any feedback or questions that you would like to raise.

We look forward to continuing to work with you all in expanding our current trading levels, and thank you again for your continued support.

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US MARKET VIEW

SO FAR FOR 2023 WE HAVE SEEN THE FOLLOWING:

- Critical CAT capacity remains constrained throughout the insurance/reinsurance/retro marketplace.
- Direct and facultative insurers have maintained strong discipline around pricing and terms and conditions, with demand outstripping supply, particularly on CAT exposed accounts.
- Rate increases accelerated throughout H1 with many carriers significantly ahead of budget early in the year. Carriers attempted to price themselves out of firm orders to manage catastrophe exposures, often being unsuccessful due to demand/supply imbalance.
- Many carriers significantly reduced average line sizes, particularly on CAT exposed accounts resulting in less total CAT limit available for clients.
- Insureds' often took larger retentions in order to attract additional capacity and offset rate increases.
- Business continues to flow from admitted markets to the E&S space with GWP of circa GBP120 billion predicted for 2023. E&S GWP makes up 20% of all commercial lines for the first time, according to A.M. Best.
- H1 global losses from natural disasters are estimated at USD53 billion, with US severe convective storm contributing USD34 billion to this total. Global catastrophe losses in excess of USD100 billion per year appear to be the 'new normal'.
- So called secondary perils such as winter storm, severe convective storm/hail and wildfires are an increasing challenge for the industry.
- US D&F property carriers generally reported strong H1 results. Lloyd's of London reported H1 combined ratio of 85% with 22% increase in revenue (all classes), with property reporting a combined ratio of 82%.
- Full-year results will be heavily impacted by US hurricane season, which at the time of writing has been relatively contrasted with recent years.

LOOKING AHEAD TO 2024

- End-of-year treaty renewals will impact D&F business plans for 2024, with direct writers looking to pass on potential increased reinsurance costs to insureds.
- Rhetoric emanating from the reinsurance markets is that they will continue to push for additional rate to account for current trend of extreme catastrophe losses and strong demand, and potentially to increase retentions to match the current rates of inflation.
- Reinsurers likely to maintain high attachment points which have supported a return to profitability.
- Significant influxes of catastrophe reinsurance capacity (Traditional/ILS) are not anticipated supporting continued pricing discipline.
- Expectation that D&F carriers will attempt to achieve single-digit to low double-digit rate increases at a portfolio level. There will be loss-effected accounts that will help push this average up, with clean accounts expected to be at the lower end of the spectrum.
- Industry adoption of RMS v23, with increased modeled output for named hurricane in Florida and the Gulf coast. Average modeled uplifts of 5%–10%, with certain portfolios subject to 20%–30% uplifts, depending on regions and building characteristics.
- RMS v23 could provide a tailwind for primary insurers/reinsurers trying to push rate further in named windstorm exposed regions.
- Continued focus from carriers on adequate insurance to value despite inflation beginning to taper off in the US.

LET'S TALK

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