Global volatility and its impact on reinsurance

Guy Carpenter president and CEO Dean Klisura on how global volatility is reshaping reinsurance

How is global volatility, including economic uncertainty and geopolitical and social instability, impacting the (re)insurance industry and what can insurers do to manage this?

In this new era of risk, global volatility is a significant factor shaping the way the reinsurance industry will evolve and innovate. Major contributors to this volatility include climate change, inflation, societal polarisation and great power competition. These issues are creating fractures in the business environment that are more complex to navigate.

The global economic outlook has improved modestly in the last year, though macroeconomic conditions remain unsettled. While the economic recovery in the US has exceeded expectations, the growth outlook in other regions is mixed. For the reinsurance industry, short-term softening should only have a negligible impact, but a sustained weak outlook could become a significant headwind for growth.

Reinsurers have also faced a deteriorating geopolitical environment in the last year, marked by the highest number of state-based conflicts since 1946[1] and growing social unrest. The historic number of elections in 2024 – involving more than 70 countries – adds further uncertainty and could lead to legal and regulatory changes affecting the reinsurance industry.

In the face of this volatility, the (re)insurance industry can play a critical role in helping societies manage risk and the broader insurance industry manage outcomes. We have built resilience within the industry by investing in expertise for tomorrow's problems and developing a market that effectively spreads risk throughout a variety of traditional and non-traditional capital providers.

What are some of the new and/or emerging risks creating additional complexity for insurers?

In addition to the new macroeconomic and geopolitical landscape, the changing nature of risk for perils such as flood, wildfire and severe convective storms, plus emerging risks such as cyber and other technology threats, are increasingly challenging insurers.

The reinsurance industry's main objective has always been to help insurers manage such volatility. The reinsurance sector has continually provided solutions to enable primary insurers to offer more consistent and stable products to businesses and consumers.

The industry has also played a crucial role in ensuring that other stakeholders, including investors and regulators, understand the potential impact of these increasingly interconnected risks. This role is especially important so that stakeholders are aware of real risk profiles and, therefore, able to help society better manage and mitigate those risks.

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How can the reinsurance industry adapt and innovate in this new era of risk?

As risk becomes more complex, the frequency and severity of catastrophes grow, and losses increasingly impact multiple and overlapping lines of insurance, we must innovate new risk transfer solutions to help manage the evolving landscape.

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There are opportunities for continued innovation in the capital structures of risk takers, for example with rated balance sheet companies and/or third-party capital providers through ILS. And new parametric approaches increasingly allow companies to finance or transfer risk in a non-traditional way.

Guy Carpenter can help public and private sector clients meet this challenge through a powerful combination of broking, global analytics and advisory, and capital management.

Across Marsh McLennan, we have expertise in every facet of the risk transfer value chain, enabling us to provide a holistic view of our clients' balance sheets and advise on managing optimal capital returns and profitability.

[1] The Peace Research Institute Oslo.