GuyCarpenter

GLOBAL SPECIALTIES 2024 MARKET UPDATE

A business of Marsh McLennan

"DATA WILL BE CORE TO ACHIEVING A STRATEGIC ALIGNMENT BETWEEN THE REQUIREMENTS OF OUR CLIENTS AND REINSURERS. ADVICE ON OPTIMUM STRUCTURES WILL BE SUPPORTED BY COMPREHENSIVE ANALYSIS, EXTENSIVE EXPOSURE MODELING, AND GRANULAR MARKET ASSESSMENTS BY OUR SPECIALIST TEAMS AS THE RENEWALS APPROACH."

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INTRODUCTION

Securing a strong negotiating position

The global specialty reinsurance market has entered a period of relative stability, following market upheaval characterized by significant rate movements, more restrictive terms and conditions, and upward shifts in attachment points.

Strong rating adequacy has been achieved across many business lines, capacity is available to meet demand outside of a few challenged areas, and there is increasing consistency in the coverage available. Reinsurers have overall achieved a strong performance in the specialty sector, and the market continues to provide opportunities.

However, it is important to recognize that much of the turbulence in recent years has stemmed from predicted losses that have yet to materialize. While the sector has experienced some sizeable events, we have not seen the catastrophic financial impacts – which have been the basis of a large proportion of the rate increases – flowing through into the market.

Undoubtedly, the Russia-Ukraine conflict will continue to loom large over the sector at renewal, the Baltimore loss will be keenly monitored, growing geopolitical tension will continue to be an area of considerable concern, and we await to see how the hurricane season plays out given active forecasts.

Yet, as we approach the renewal period, buyers will have an expectation to secure coverage at rates more commensurate with their risk profile and reflecting the improved performance of the underlying portfolios. They will be demanding more consistency on wordings, improvements on terms and conditions, and more flexibility on attachment points. The value of coverage will be just as important as the price.

As we prepare for the renewals, discussions with our clients have begun as we assess existing structures, analyze evolving risk profiles and look to align with their outwards reinsurance priorities.

Data will be core to achieving a strategic alignment between the requirements of our clients and reinsurers. Advice on optimum structures will be supported by comprehensive analysis, extensive exposure modeling, and granular market assessments by our specialist teams as the renewals approach.

Guy Carpenter is committed to ensuring our clients are in the strongest position to secure the best possible reinsurance outcomes.

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KEY REPORT FINDINGS

In this report, specialist teams from across Guy Carpenter's Global Specialties division provide our unique data-driven perspective on developments across the non-marine, marine & energy, aviation & aerospace, terrorism, construction, and trade credit, bond & political risk sectors.

Each section outlines the current market state-of-play, how these dynamics are driving changes in buying strategies, and what factors are likely to influence placement negotiations in the run-up to the January 1, 2025 renewals.

Key findings by sector, include:

Non-Marine

- The second quarter of 2024 saw a significant increase in demand for peak peril retrocession (retro) coverage and cat on direct and facultative (D&F) limit.
- Demand for retro XoL coverage increased following the April 1 renewals, driven by appetite from buyers at January 1 for peak peril retro top-up limit and new buyers looking to re-enter the market.
- Lower-level cover remains a fairly narrow market, but brokers are keen to get more reinsurers back into that space.
- Results in quota share have been strong, so more markets are willing to deploy capacity on a quota share basis. However, in the retro space, there is still more demand than supply for quota share capacity.
- Overall, the biggest issue ahead of renewals is what happens during the remainder of the North Atlantic hurricane season
- There is currently sufficient capital in the market to meet demand, but more is likely to be deployed, which will impact overall cost and supply dynamics.
- Attachment points are expected to be as prominent in renewal discussions as price.

Terrorism

- Despite upward rating movement in the direct terrorism market in recent years, abundant capacity has now driven flattening rates, while actual losses flowing through to the market have not been substantial.
- However, the potential threat of social unrest or political upheaval in the wake of global election activity this year is countering the rating trend in certain regions.
- A key determinant of reinsurer appetite and pricing is cedants' control of the business that goes onto their books; for political violence (PV) perils in particular, reinsurers are keen to see teams exert more control over portfolios.
- Many cedants have been de-risking their strikes, riots and civil commotion (SRCC) and war portfolios, and instead growing the terrorism portion of their book, which is seen as less volatile.
- The current mismatch between direct and reinsurance markets' event definitions is creating some tension, especially around the hours clauses for SRCC cover.
- A continuing lack of treaty losses from Russia's invasion of Ukraine contributed to slight softening through April 1 and mid-year, which saw some placements over-subscribed and clients re-engineering portfolios and changing lines sizes.
- While capacity is abundant, and cedants' strategies vary broadly, a common theme is the growth within their plans for 2025.

Marine & Energy

- The marine composite market continues to navigate highly volatile waters. While the ongoing war in Ukraine still has a strong market influence, increasing tensions and conflict in other regions are coming into sharper focus.
- The full quantum of the Baltimore bridge loss will not be known for some time. While investigations into the accident continue, the market is taking a considered approach to the loss.
- The reinsurance market continues to perform strongly, maintaining the positive trading environment of the last few years. While 2023 was a year of market dislocation, 2024 has seen dynamics settle with reduced verticalization and increased consistency of product offering.
- XoL programs have remained relatively loss free, with limited impact from attritional losses; while there has been some deterioration on quota share performance, overall appetite for marine and energy business remains strong.
- The energy transition is creating significant opportunities for growth on both the insurance and reinsurance sides.
- While appetite for proportional business is strong, challenges remain regarding the development of effective XoL cover to manage the transition.

Construction & Engineering

- The construction and engineering sector is buoyant reflecting a robust global pipeline of mega construction projects and the catalytic nature of the energy transition driving investment.
- While the expansion of the renewable energy space continues to drive growth, the market remains a challenge for insurers to convert these opportunities into profitable business.
- Given the significant attritional loss potential of the construction and engineering sector, quota share remains the dominant form of cover sought by buyers.
- In general, reinsurers are conducting increasingly stringent assessments of insurer programs, while there have been greater restrictions on the availability of treaty capacity for critical cat.
- Overall, reinsurers have experienced a significant improvement in the performance of their quota share business, with buyers looking to purchase more cover and cessions increasing.
- On XoL programs, buyers are showing greater demand for purchasing risk-attaching-during (RAD) XoL protection rather than losses-occurring-during cover to secure cradle-to-grave financial peace of mind.
- As insurers shift their underwriting towards non-hydrocarbon based business, there is a strong demand for supporting reinsurance solutions to cover the energy transition.

Aviation & Aerospace

- The divergence between the direct and reinsurance markets reported last year has narrowed through 2024.
- Ever increasing numbers of nuclear liability awards in US courts and increasing attritional losses are an abiding concern for the direct aviation market.
- For quota share business in the absence of significant losses, Guy Carpenter expects to see similar capacity available this year.
- The XoL market has continued to harden through 2023 and into 2024.
- For XoL business, we expect there will be abundant capacity, and this is a key area where ceded reinsurance buyers will exert the most pressure on rates.
- The big question mark hanging over the aviation market remains the Russia - Ukraine leasing situation. Until respective courts deliver their judgments, both the insurance and reinsurance markets continue to wait on key questions, namely policy coverage, quantum, date of loss and whether multiple lessor's claims may be aggregated.

Trade Credit, Bond & Political Risk

- The mid-year renewals saw a stabilization of reinsurer capacity relative to January 1, 2024, with reinsurers less inclined to 'rock the boat'.
- An increase of following capacity from smaller/mid-tier reinsurers looking to grow by sub-product and region is likely to continue in coming months. Overall, the market is slightly over-supplied, with political risk the tightest sector capacity-wise.
- Reinsurance rating adequacy is strong overall. Quote ranges for quota share business narrowed considerably at mid-year, reflecting expectations of higher commissions, and firm order terms were closer to January 1.
- For the seventh consecutive renewal period XoL business softened at mid-year on a risk-adjusted basis, with narrower quote ranges.
- Without major loss activity, reinsurers are likely to hold their position at January 1, 2025 relative to January and mid-year renewals. Increased inflation, restricted retro capacity, and increased geopolitical tensions or social unrest following election results could however see reinsurers review rates.
- Reinsurers are looking to grow with established clients with surplus capacity likely to come largely from new entrants and smaller reinsurers, predominantly as follow capacity.
- With respect to pricing, the narrowing of quote ranges for both quota share and XoL seen through mid-year renewals is likely to continue through 1/1.

About Guy Carpenter

Guy Carpenter, a business of Marsh McLennan (NYSE: MMC), is a leading global risk advisory and reinsurance specialist and broker. Marsh McLennan is a global leader in risk, strategy and people, advising clients in 130 countries across four businesses: Marsh, Guy Carpenter, Mercer and Oliver Wyman. With annual revenue of $23 billion and more than 85,000 colleagues, Marsh McLennan helps build the confidence to thrive through the power of perspective. For more information, visit guycarp.com, or follow on LinkedIn and X.