Guy Carpenter

Full Recap: Guy Carpenter Media Briefing

DYNAMIC TRADING ENVIRONMENT MEETING REINSURANCE DEMAND

Wednesday, September 4

Guy Carpenter business leaders describe market conditions expected to influence placement discussions ahead of January 1, 2025 renewals

According to Guy Carpenter, the reinsurance market is characterized by reinsurers' strong profitability in 2024 and growing capitalization, which is expected to continue into 2025.

Sharing their views at a virtual media briefing, *Dynamic trading environment meeting reinsurance demand,* ahead of the Monte Carlo Rendez-Vous, Guy Carpenter's business leaders addressed the market outlook for the January 1, 2025 reinsurance renewals. David Priebe, Chairman, Guy Carpenter, noted that overall risk appetites continued to improve through the first half of 2024, with underwriting discipline remaining.

While reinsurance renewal conditions are currently being impacted by a range of factors, such as geopolitical volatility and continued economic and social inflation, the market remains strong with healthy reinsurer returns on equity, and adequate capacity.

"The market has ample capacity and reinsurers are motivated to engage with cedents," said Dean Klisura, President & CEO, Guy Carpenter. **"Our clients are seeking to differentiate themselves in this marketplace and leverage key strategic trading relationships."**

Examining the current data on the reinsurance market's capital positions, Guy Carpenter and AM Best jointly project a 9% increase in dedicated reinsurance capital, rising to $620 billion in 2024.

At mid-year, the reinsurance market transitioned into a rhythm where appetite was meeting demand in a dynamic trading environment. Building on mid-year momentum, Mr. Priebe noted, **"this current trading cycle is marked by engaged stakeholders actively coming to the table to provide critical capital and financial support to the economy."**

Capital Markets

Addressing how cedents are responding to 2024 market conditions, Laurent Rousseau, CEO, Europe, Middle East and Africa, and Global Capital Solutions, said that the prevailing pricing and investment return environment contributed significantly to improved return on equity for reinsurers in 2023. Reinsurers achieved exceptional returns in 2023, estimated at 21.9%, comfortably exceeding their cost of capital. The Guy Carpenter Reinsurance Composite's future estimated returns on equity (RoE) are now forecasted to continue to exceed cost of equity in each of the next three years.

Mr. Rousseau added that catastrophe bonds once again had a record first half of the year, with Q2 being the most active quarter recorded. By June 30, 51 different catastrophe bonds had been brought to the 144A market for approximately $12.2 billion in limit placed, taking the total outstanding notional amount to more than $45.2 billion.

"As we approach year-end, a heavy maturity schedule of catastrophe bonds should drive continued increased issuance activity, although availability of capital will depend upon the results of the 2024 wind season," Mr. Rousseau continued. **"Additionally, the interest in ILS (insurance-linked securities) remains high with first-time sponsors, which we expect to continue in Q4 2024 and Q1 2025."**

In addition, Mr. Rousseau noted there has not been the same amount of new capital entering as previous cycles. However, the incumbent industry is expected to have sufficient capital growth not only to absorb rising demand, but also to intensify competition without eroding underwriting discipline.

Property & Casualty

Focusing on developments across the property market, David Duffy, President, Global Clients, explained **"After a historic reset in pricing, program retentions, and coverage in 2023, 2024 has been characterized by a more orderly trading environment."** Conditions are expected to continue in 2025, subject to normal loss activity for the balance of the year.

Measuring changes in the United States and portions of Asia and Australia, where some of the highest levels of mid-year renewal activity occur, Guy Carpenter's US Property Catastrophe Rate on Line Index increased by just over 1% year on year, while the Asia Pacific Rate on Line Index decreased by less than 1%, including mid-year adjustments. Mr. Duffy added: **"When incorporating these rate on line shifts in key geographies with other regions remaining largely stable from January 1, the Global Property Catastrophe Rate on Line Index increased by an estimated +2.3% for 2024 renewals between January 1 and July 1."** He said that year-to-date the average change in rate-on-line decreased from the January 1 measurement of +5.4% with outcomes affected by regional loss activity, structure adjustments, and ongoing evaluation of price adequacy.

According to Jennifer Paretchan, Guy Carpenter's newly appointed Global Head of Distribution and Market Relations: **"Capacity is expected to be adequate for long-tail lines, but there will likely be scrutiny across various sublines, particularly those without positive underlying rate changes."**

"Reinsurance terms and conditions will reflect how carriers managed their portfolios over the market cycles, actual versus expected loss development, and the impact of any underwriting pricing adjustment."

"We expect varied outcomes, particularly in certain sub-lines given the different underlying market dynamics. However, reinsurers remain committed to the casualty market and will continue to deploy capacity, particularly for strategic partners."

Retrocession & Specialty

Examining the specialty market, James Boyce, CEO of Global Specialties, remarked that the sector has entered a period of relative stability, with strong rating adequacy achieved across most lines and capacity meeting demand outside of a few challenged areas. **"Overall, reinsurers have achieved a strong performance in the specialty sector, the forthcoming renewal season gives our clients an opportunity to improve their terms and conditions,"** he noted.

Turning to the property retrocession market, Mr. Boyce said absent of a major industry loss we believe this sector will continue to be an attractive marketplace for sellers. Therefore, we anticipate an increase in supply of retro capacity from both rated and ILS markets. This will be from a combination of retained earnings and new investor mandates to existing or potential new ILS platforms.

While the market remains disciplined, we expect this increase in supply will lead to better buying conditions for our clients.

The increase in demand we saw in 2024 is set to continue in 2025 against a backdrop of continued inflation, updated vendor models and climate volatility. GC advocates for clients accessing the full suite of risk capital pools through traditional UNL to Quota Shares, Cat Bonds, Index and Parametric covers.

Climate Change and Natural Catastrophe Perils

Discussing natural catastrophe risk and climate change, Josh Darr, Head of Global Peril Advisory, Global Model Solutions & Advisory, addressed the need to drive innovation through nature-based solutions to mitigate insurance industry catastrophe losses.

Mr. Darr noted that the 2024 catastrophe is closely following the traits of the 2022 and 2023 catastrophe years.

Addressing the drivers behind increasing catastrophe exposure, he said: **"While weather and climate tend to make headlines, it is important to note that human factors are more impactful in the total quantum of loss seen in recent years."**

"The range of human factors does not appear to change meaningfully in the foreseeable future, nor does a reversing of increasing global temperatures," Mr. Darr continued. **"Looking into the second half of the decade, the insurance industry can incentivize nature-based solutions to drive mitigation and adaptation of catastrophe losses."**

Cyber Developments

Erica Davis, Global Co-Head of Cyber, said that **"As the cyber market grapples with multiple established threat vectors at any one time, new and novel threats continue to arise and require innovative approaches to redress. It is this pattern that gives the cyber risk landscape the characteristics of a digital hydra."**

Anthony Cordonnier, Global Co-Head of Cyber, added, cyber developments have created some of the most dynamic and shifting risks in the global reinsurance market over the last 20 years.

"By better understanding the capabilities and limitations of the technology in its current form, we recognize that AI is not the progenitor of cyber risk but rather the facilitator of it," he said.

Conclusion

In closing the session Mr. Priebe remarked that the majority of rating agencies have the reinsurance sector in a stronger position today than a year ago. He added: **"The reinsurance industry is resilient because of its continued evolution and ability to adapt to meet the needs of today's world."**

About Guy Carpenter

Guy Carpenter & Company, LLC is a leading global risk and reinsurance specialist with 3,500 professionals in over 60 offices around the world. Guy Carpenter delivers a powerful combination of broking expertise, trusted strategic advisory services and industry-leading analytics to help clients adapt to emerging opportunities and achieve profitable growth. Guy Carpenter is a business of Marsh McLennan (NYSE: MMC), the world's leading professional services firm in the areas of risk, strategy and people. The company's more than 85,000 colleagues advise clients in over 130 countries. With annual revenue of $23 billion, Marsh McLennan helps clients navigate an increasingly dynamic and complex environment through four market-leading businesses including Marsh, Mercer and Oliver Wyman. For more information, visit www.guycarp.com and follow us on LinkedIn and X.