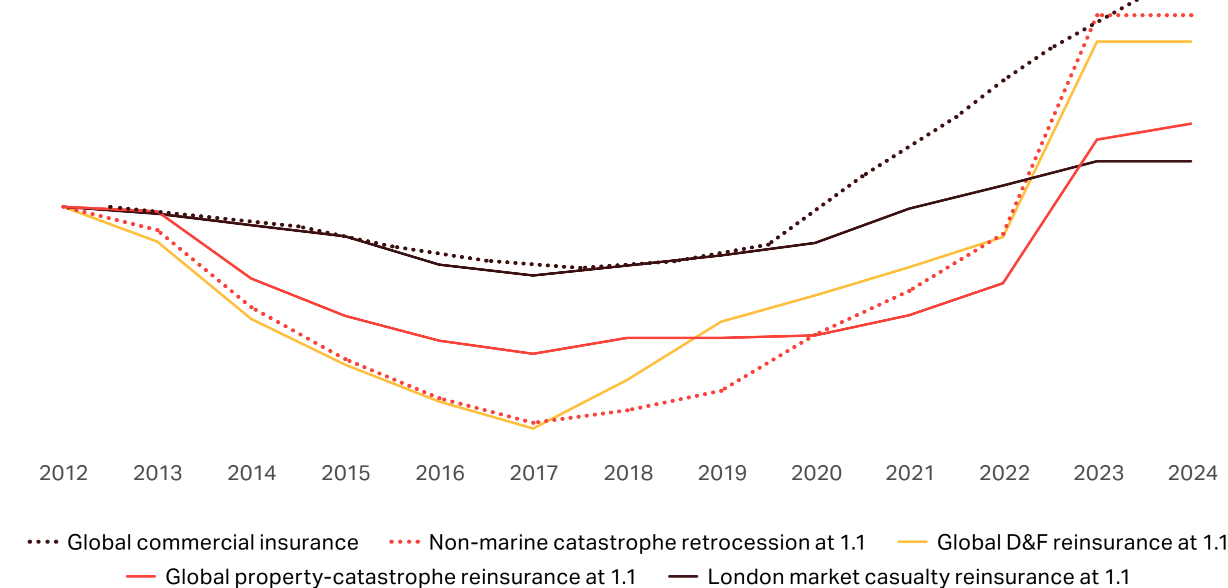
A new world

Key takeaways

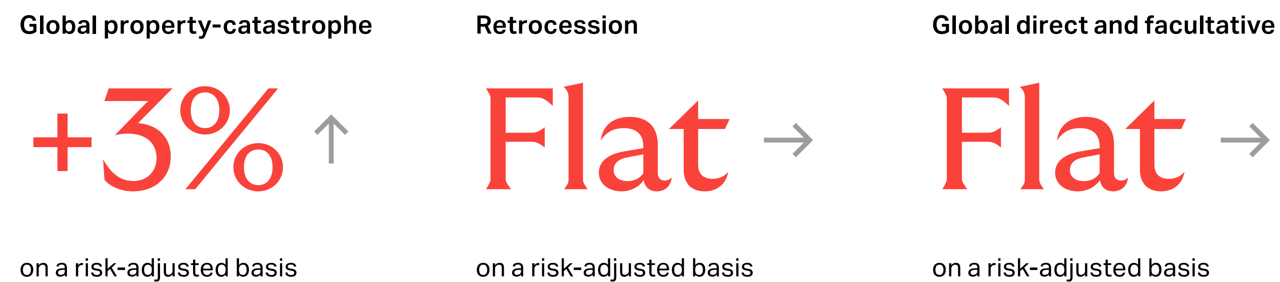
Nuanced conditions across the (re)insurance market reflect a period of turbulence since the turn of the decade that has brought about new macroeconomic and geopolitical realities and reset loss expectations.

Differing rate momentum across commercial and reinsurance markets has partially reversed the long-standing lag for reinsurance

Global insurance and reinsurance pricing index from 2012

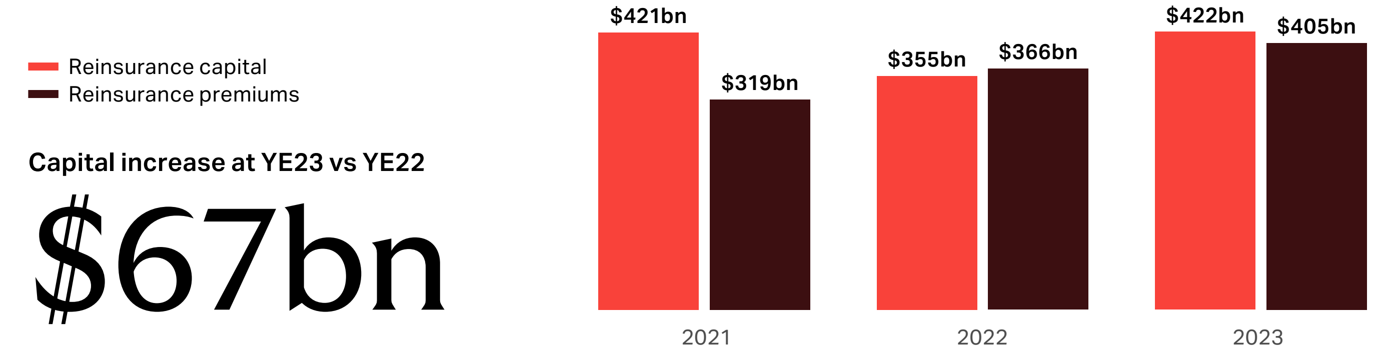


1 January 2024 reinsurance renewals conducted within pricing parameters set last year



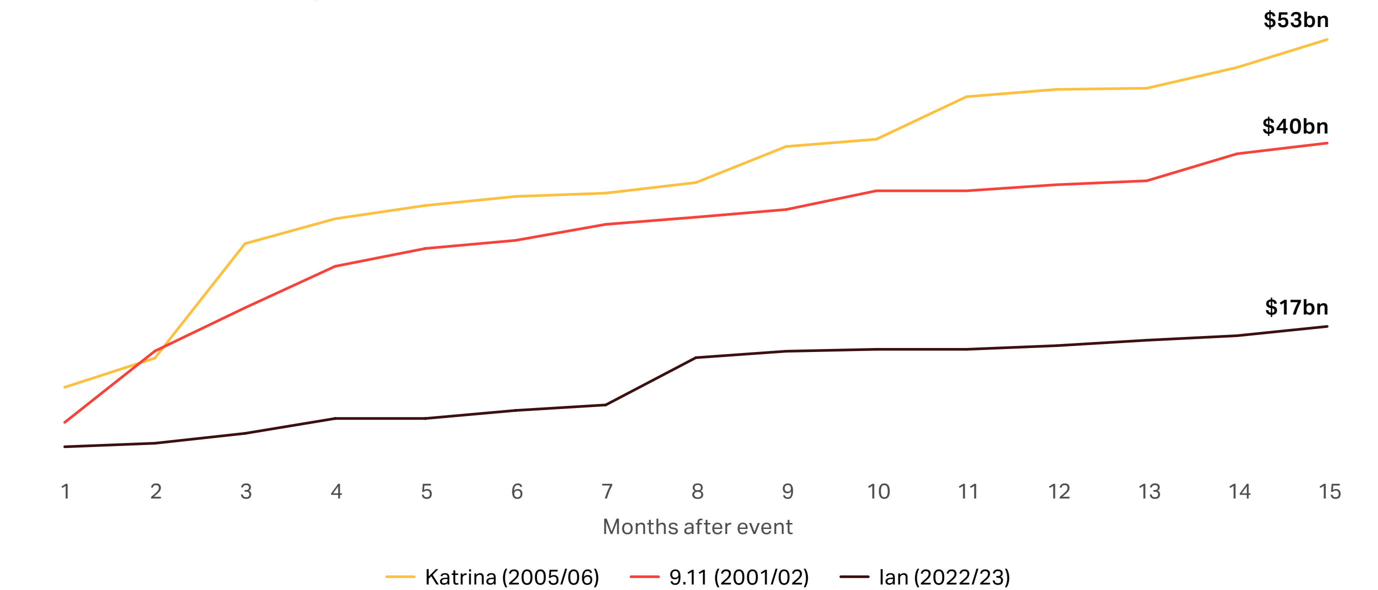
This is the moment for brokers and (re)insurers to step up and find solutions that safeguard the insurability of assets in what remains a highly dynamic risk environment.

Dedicated reinsurance capital back to 2021 levels but on a higher premium base

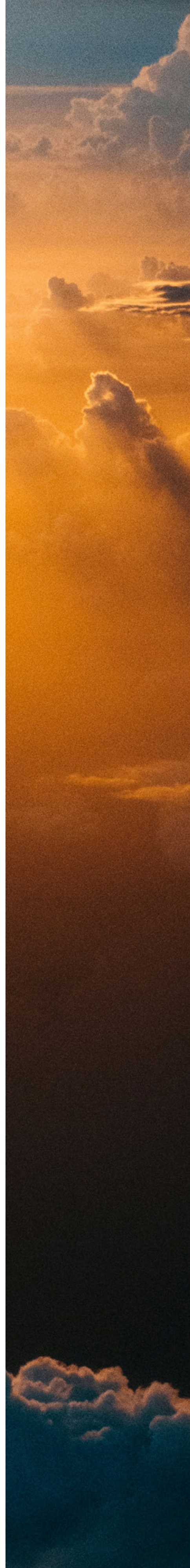


Capital raising to date and higher returns on offer bode well for future inflows

Capital inflows post-major event



A new world



Successive global shocks have already come to define the 2020s. The challenging start to the decade – giving rise to new words like ‘polycrisis’ or ‘permacrisis’ – reflects an interconnected and volatile risk landscape.

Events like COVID-19, the Ukraine war and, most recently, renewed tensions in the Middle East have brought cascading effects by resetting macro-fundamentals, dislocating financial markets and disrupting supply chains, as well as extending the current insurance cycle.

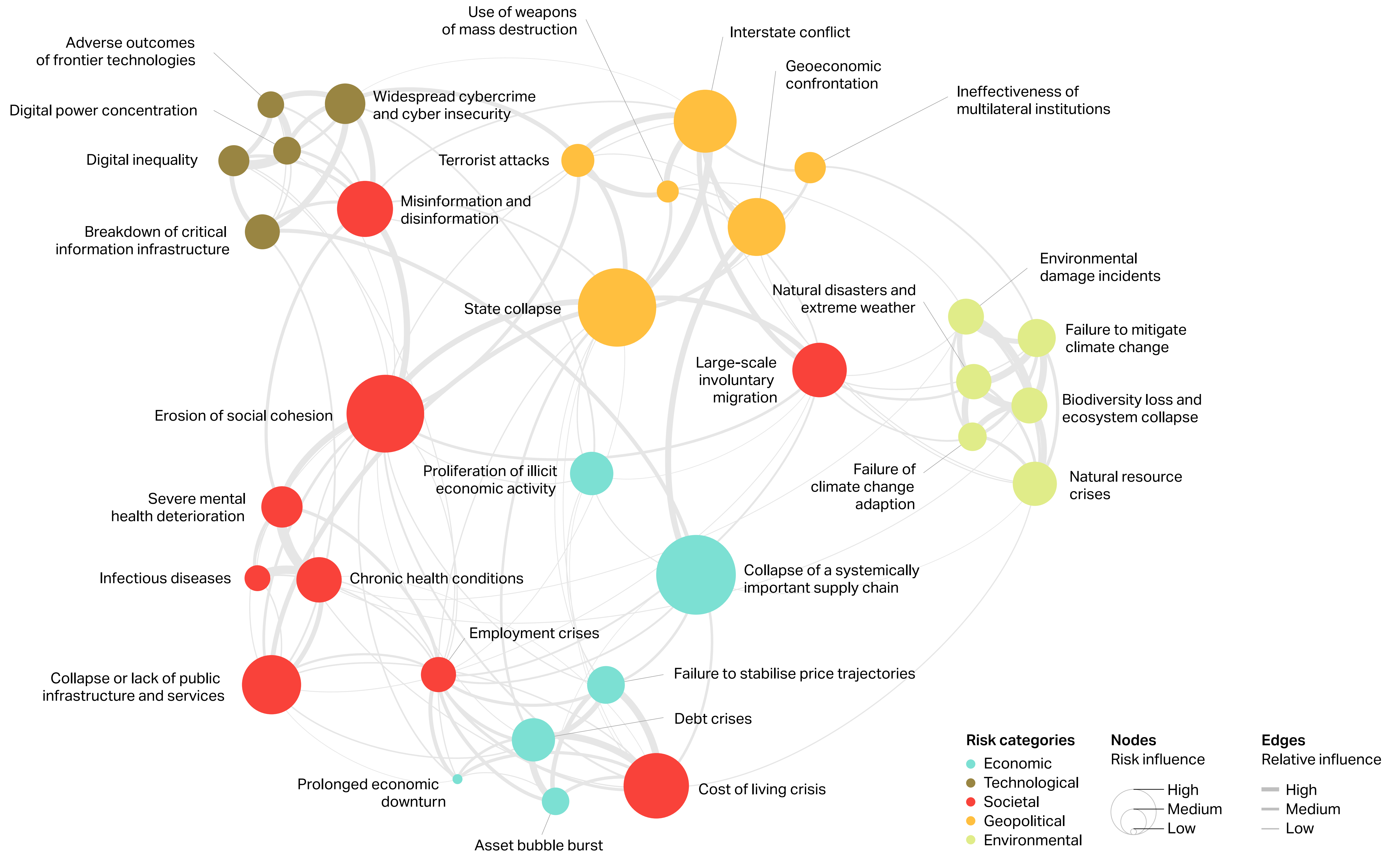
At a time of rapid technological advancement – the popularisation of generative artificial intelligence (GenAI) will forever be synonymous with 2022/23 – it is striking how ‘older’ risks like global pandemics, war, energy (in)security, inflation and interest rate spikes have interacted to dominate the decade so far. Throw into the mix recessionary risk, an extended run of elevated catastrophe losses, climate change, evolving cyber threats, GenAI, and the demand for risk transfer has never been higher.

The fallout from these megatrends is now crystallising. The higher cost of goods and capital, civil unrest, deglobalisation and heightened security threats have ended the world’s ‘holiday from history’ and transformed risk perceptions for businesses and (re)insurers. Companies are coming under increased financial strain as operational costs rise.

Such a tumultuous backdrop has created a highly nuanced (re)insurance market, characterised by line specific, mini-cycles with varying levels of sensitivity to losses and broader macro risks. Increased capacity and competition in both the reinsurance and commercial markets through 2023 has benefitted buyers, which portends well for 2024. Pockets of difficulty remain, however, including U.S. property where a number of insurers have exited high-risk areas.

Headwinds ⌄	Tailwinds ⌃
Higher loss costs	Growing demand for insurance
Higher cost of capital	Premium growth
Investor risk aversion	Sufficient supply to meet demand
Economic and geopolitical uncertainty	Sustained pricing increases (above loss trends)
Higher risk retentions	Anti-cyclical characteristics
Climate change	Higher interest rates / investment returns
Catastrophe losses of ~$750bn+ since 2017	Easing inflation
Resurgent ransomware attacks	

Figure 1: Today's complex and interconnected global risk landscape
(Source: World Economic Forum)



Direct insurance market

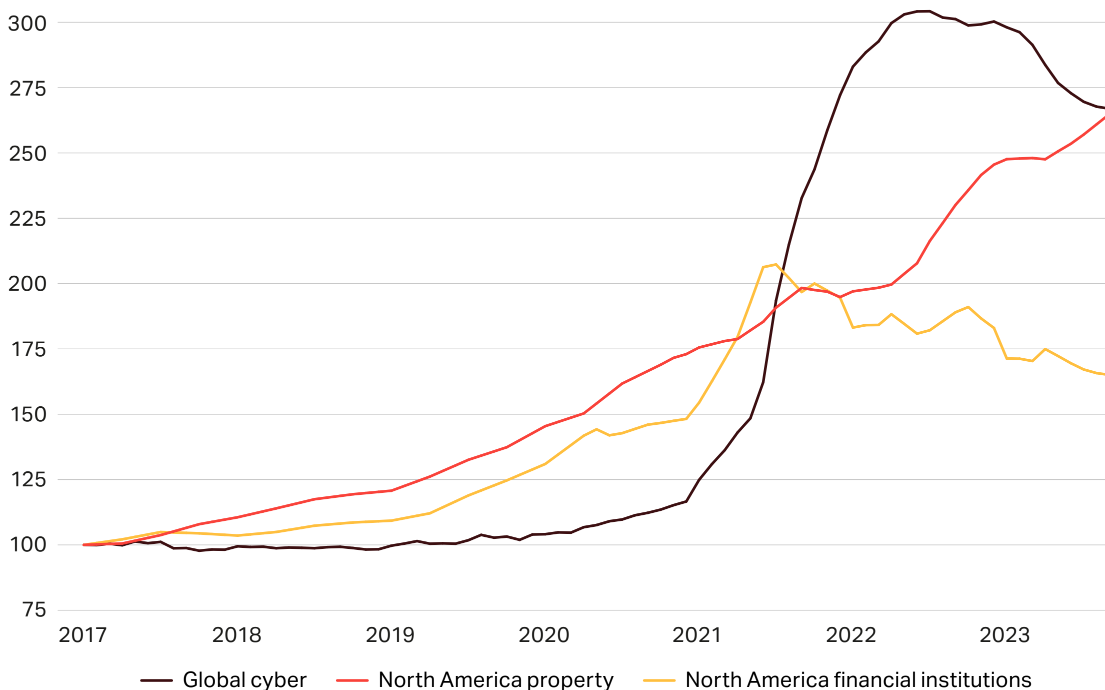
Moderating rate increases across several areas of the commercial insurance market, alongside relenting external pressures, led to more stable and predictable renewals in 2023. The substantial underwriting uplift from 24 consecutive quarters of rate gains, coupled with significantly higher investment income, fuelled competition in several non-property lines. Buyers benefitted, as healthy supply dynamics in some of the better performing areas of the market yielded flat renewals, or even risk-adjusted rate reductions for well-managed portfolios, albeit from historically high levels.

The combined effects of macro pressures, geopolitical instability, loss volatility and elevated reinsurance costs are preventing widespread softening, however. Inflation, whilst easing, has driven replacement costs (and claims) higher at a time of significant loss activity. Concerns around social inflation continue to cause uncertainty for U.S. longer-tail lines, although higher yields are providing a meaningful offset. Sustained rate increases are also supporting commercial insurers' margins by generally running ahead of loss cost trends.

According to Howden data, global commercial insurance pricing across all lines rose by a weighted average of 9.6% during the first three quarters of 2023, a deceleration from the 12% recorded for full-year 2022.

The moderation in the 2023 headline figure masks considerable variability in specific areas of the market, with cyber, financial and professional lines and worker's compensation all seeing rate decreases in 2023 whereas property recorded the highest increase of any major product line. Differences in appetite exist within specific lines of business, with competition highest in remote risk layers and discipline largely holding up in working layers.

Figure 2: Commercial insurance pricing bifurcation – 1Q17 to 3Q23 (Source: NOVA)



> “Moderating rate increases across several areas of the commercial insurance market led to more stable and predictable renewals in 2023.

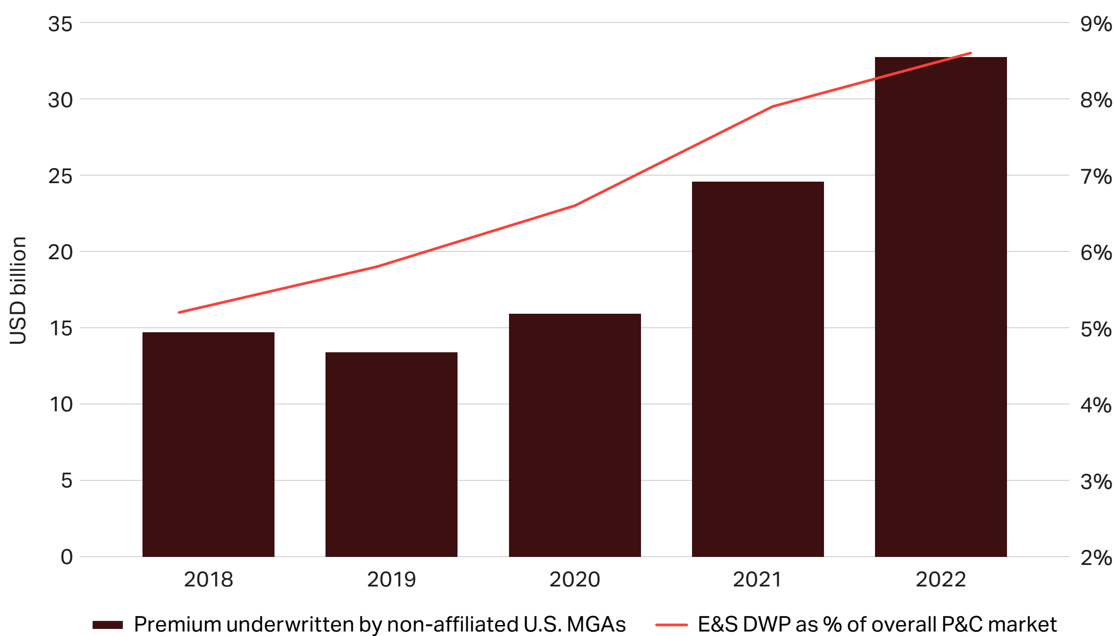
Pre-existing pressures in the direct U.S. property market, including major losses from Hurricane Ian and inflation-induced increases to loss costs, were exacerbated in 2023 by changes to reinsurance costs and structures, leading to higher retentions and greater volatility as claims from severe convective storms reached record levels. The result was not only double-digit price increases, but also significantly reduced limits and a growing number of withdrawals from high-risk areas, such as Florida and California.

Such bifurcated conditions across the market (after five years of uniform hardening) reflect different exposures to internal and external forces and distinct supply and demand dynamics. Whilst strong competition in financial and professional lines have favoured buyers over the last 12 months (driven in large part by new capacity), the degree of dislocation for U.S. property has contributed to unprecedented growth in the excess and surplus (E&S) market, where insurers have greater licence to push for price adequacy and adjust terms and conditions.

Managing general agents (MGAs) and other asset-light vehicles operating in this space are assuming a sizeable portion of this business. By developing bespoke solutions, these specialised carriers are enhancing the market's ability to address more volatile risks. Cyber and liability lines exposed to social inflation are other areas where asset-light vehicles are finding opportunities as admitted markets pullback.

Figure 3 shows that premiums underwritten by non-affiliated U.S. MGAs more than doubled between 2018 and 2022, contributing to the rapid growth recorded in the E&S market in recent years.[1] In what is likely to be a structural change, these nimble and tech-savvy businesses are now playing a pivotal role in filling capacity gaps across the (re)insurance value chain.

Figure 3: Premium underwritten by non-affiliated U.S. MGAs vs E&S market growth
(Source: Howden, Conning, Fitch)



[1] See Howden Tiger's *Travelling Light* report for a deep dive into the MGA and fronting market.

Buyers can expect stable conditions across most areas of the market to continue into 2024. Loss volatility, and questions around price adequacy in lines where rate movements have been most pronounced, point to more fluidity. Isolated pockets of stress will remain in areas affected by adverse loss experience but improved supply dynamics elsewhere are likely to see rate momentum moderate further as insurers continue to grow in lines where returns are strong.

Higher financing costs and limited supply for frequency covers in the reinsurance market, coinciding with an unbroken run of elevated catastrophe losses, have left carriers more exposed to events and losses, but the market as a whole is strongly positioned to navigate this environment.

The intricacies of current conditions require the highest level of broking experience and expertise to unlock supply. For all the challenges confronting insurance buyers, capacity is available as carriers chase growth targets. These are in the main disciplined plays designed to meet rising demand, and competition creates opportunity.

As the risk landscape undergoes structural change and supply dynamics become more favourable, creative risk management solutions and differentiated advice can make all the difference.

> “As supply dynamics become more favourable, creative risk management solutions and differentiated advice can make all the difference.

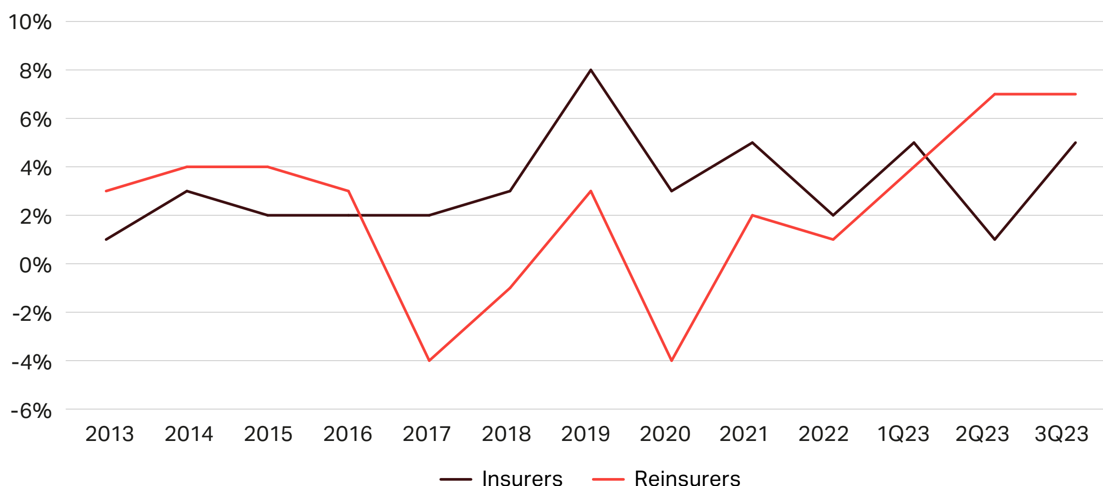
Reinsurance market

Having undergone a major correction at the 1 January 2023 renewal, there was an element of calm after the storm in the reinsurance market for the remainder of last year as insurers and reinsurers assessed the fallout and supply dynamics improved. Working within the new parameters set in early 2023, reinsurers were willing and able to support cedents through last year's mid-year renewal cycle. Strong performance and long-standing relationships remain important differentiators in the current marketplace.

Years of underperformance, combined with a confluence of macroeconomic and structural headwinds, brought about a great realignment[2] at 1 January 2023, set apart not only by price expectations but also retention increases and the withdrawal of frequency catastrophe cover as reinsurers sought to generate stronger returns. Action has also spread beyond short-tail lines, with ceding commissions on casualty programmes coming under scrutiny amidst growing focus around reserve adequacy.

The structural changes in the catastrophe market proved crucial in 2023, as insurers retained the lion's share of catastrophe losses in a year set apart by frequency. This shift in the loss burden (and the read-across for sustained profitability) sends an important signal to investors looking to deploy capital into the sector, and portends well for future inflows. Figure 4 shows that reinsurers earned their cost of capital and generated the highest levels of economic value in over a decade last year.

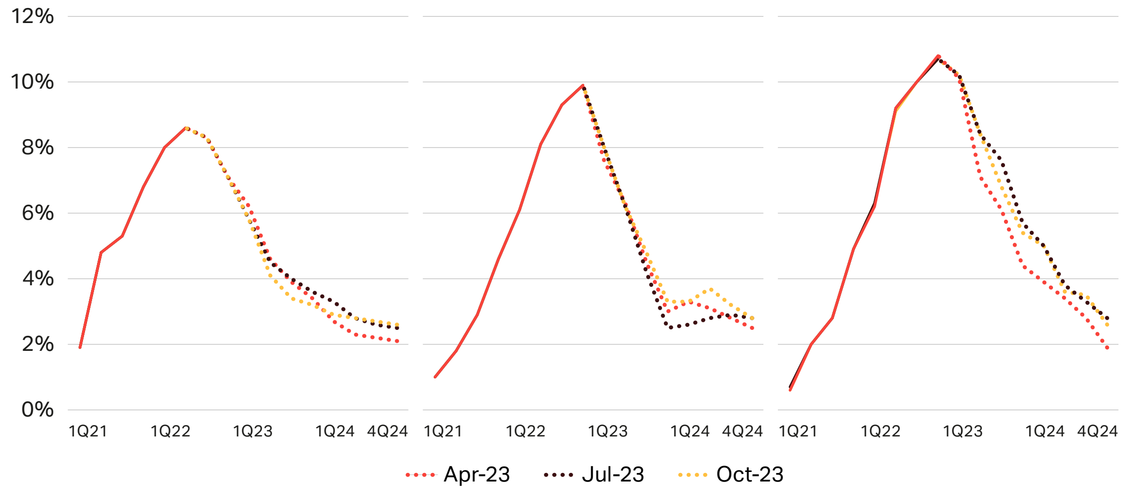
Figure 4: Recorded and projected economic value added for insurers and reinsurers – 2013 to 3Q23 (Source: NOVA)



Relatively stable market conditions through 2023 were assisted by easing inflationary pressures and a recovery in the sector's capital position. Figure 5 shows how headline inflation in the United States, Euro area and United Kingdom fell roughly in line with forecasts last year following considerable misses during the inflationary spike of 2021 and 2022 (post-COVID and Ukraine), although some projections for 2024 point to some stickiness in reverting to target.

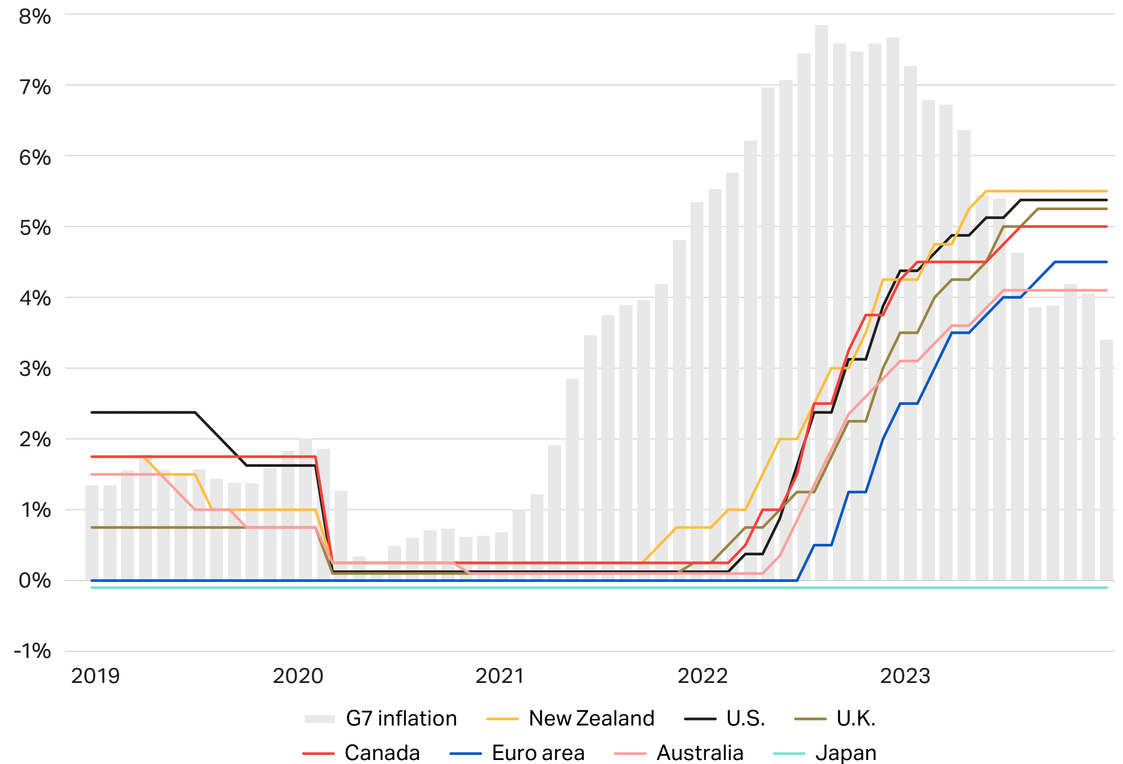
[2] Howden, *The Great Realignment*, January 2023.

Figure 5: Headline inflation forecasts in select advanced economies – 1Q21 to 4Q24
(Source: Howden, International Monetary Fund)



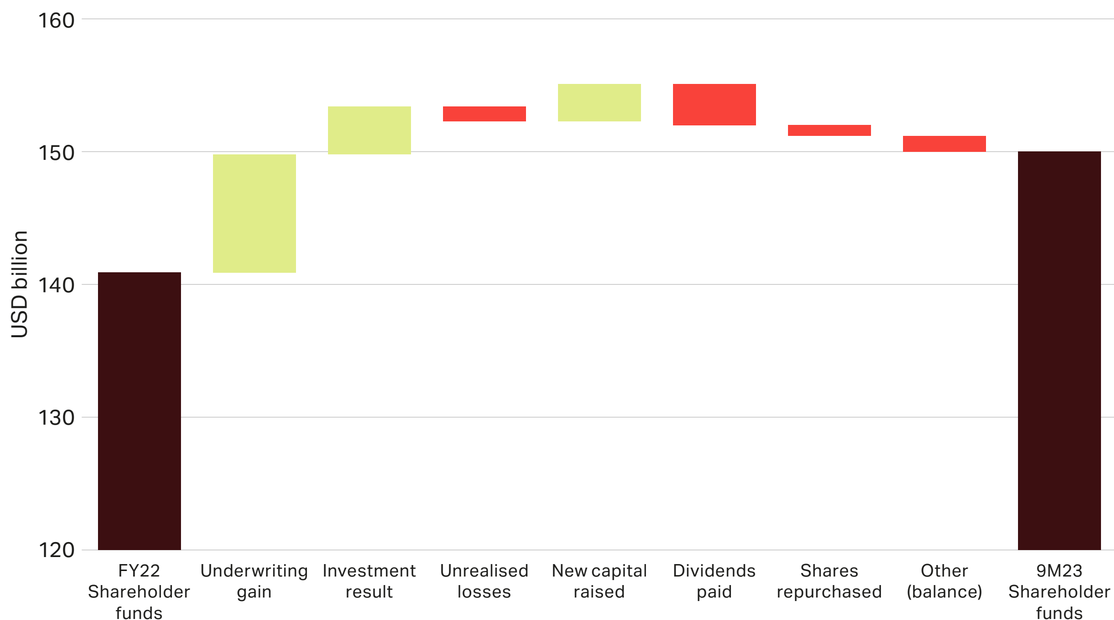
Central banks responded to the threat of inflation by raising interest rates in 2022 (see Figure 6). Having overseen the most rapid cycle of monetary tightening in recent memory that year, policymakers raised rates further in 2023, albeit at more moderate intervals. Markets are pricing in rate cuts for this year due to easing inflation expectations, relieving some pressure on asset valuations.

Figure 6: Rising interest rates and inflation in advanced economies – 2019 to 2023
(Source: Howden, BIS, OECD)



All of which has significantly impacted reinsurers' balance sheets. Following asset-side impairments in 2022, due primarily to unrealised investment losses on fixed-income portfolios, reinsurers' capital positions recovered in 2023 off the back of much improved underwriting performance and investment income (see Figure 7).

Figure 7: Breakdown of balance sheet components for reinsurance composite – YE22 to 9M23 (Source: NOVA)



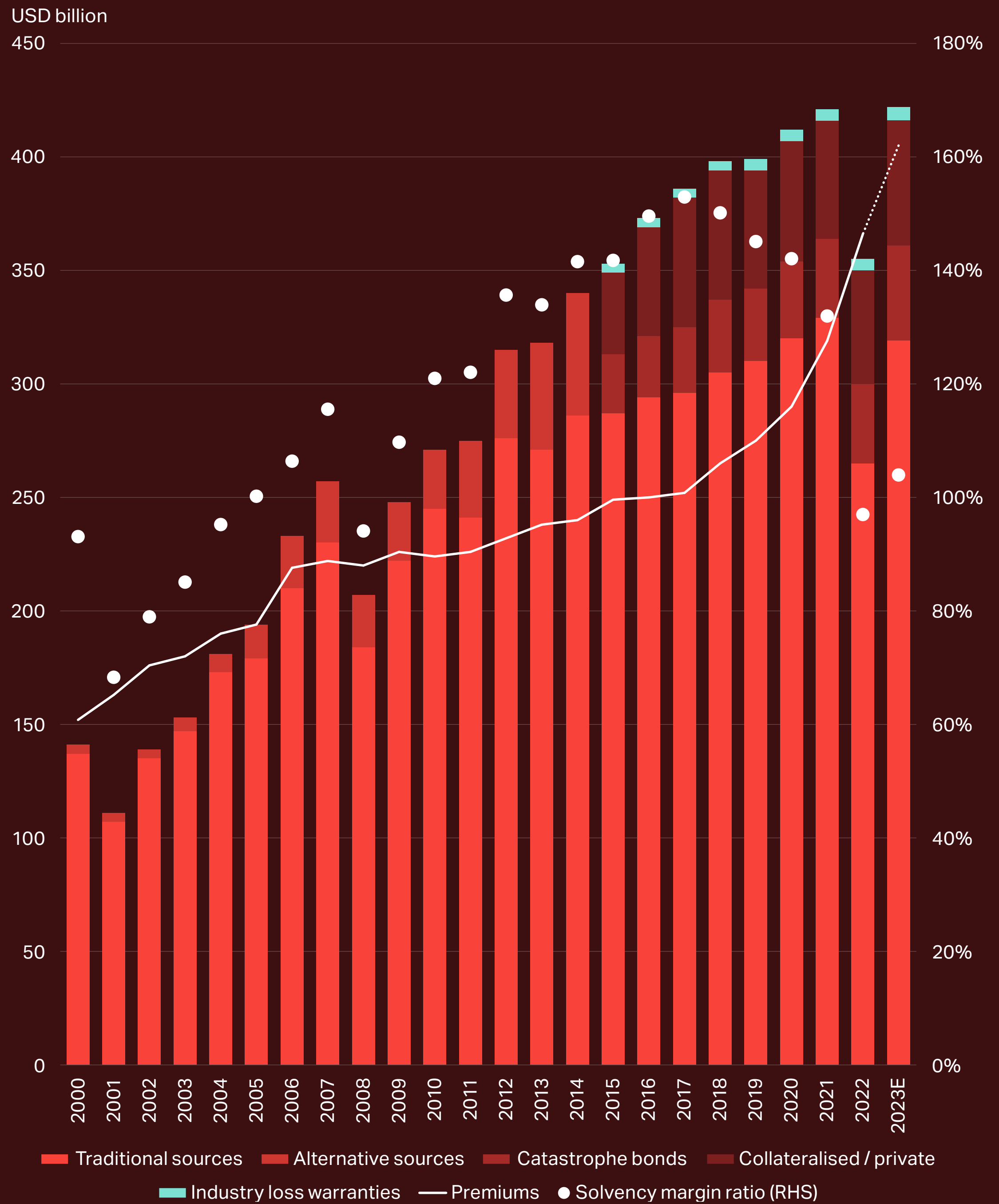
Capital raising continues to lag previous cycles amidst investor caution and higher financing costs. New inflows of USD 17 billion since Hurricane Ian made landfall in September 2022, much of which has been channelled into the catastrophe bond market, remain short of the (inflation-adjusted) USD 40 billion and USD 50 billion that entered the sector in 2001 and 2005 during similar timeframes.

Additional capital is needed to cover growing catastrophe exposures, but macroeconomic and geopolitical instability, climate change concerns, loss of confidence in catastrophe models, lacklustre returns and attractive opportunities in other asset classes contained commitments for much of 2023.

Sentiment is nevertheless starting to shift now more distributed loss sharing between cedents and reinsurers is in place and profitability has been demonstrated. Accelerating inflows into the catastrophe bond market is indicative of increased appetite across traditional and alternative capital providers and the attractive proposition offered by the sector heading into 2024. When capital is deployed, return expectations sit above cost of capital, which has risen significantly over the last year.

Figure 8 provides a snapshot of how these interacting dynamics have changed reinsurance supply and demand dynamics in the last couple of years. Despite the recovery in capital recorded in 2023, the sector's significantly higher premium base, fuelled by inflation and increased risk aversion, means the solvency margin ratio (capital divided by premiums) remains at levels last recorded during the global financial crisis, reflecting tighter (but evolving) market conditions.

Figure 8: Dedicated reinsurance capital and global gross reinsurance premiums (all lines) – 2000 to 2023 (Source: NOVA)



Reinsurance renewals

All these moving parts saw negotiations for 1 January 2024 renewals take place in an environment of more favourable supply. The result was a stable and orderly renewal overall, with supply largely sufficient to meet increased demand as a number of buyers (armed with budgets bolstered by rising underlying prices) sought additional protection to absorb higher exposures and sums insured.

Reinsurers' plans were better telegraphed in the lead up to 1 January 2024, meaning the tensions and dislocations that characterised last year's renewal were far less acute. Increased appetite from traditional carriers and capital inflows into the catastrophe bond market supported more favourable market conditions.

Pricing was stable overall, with any significant variation by territory or line of business informed by loss experience. Structures saw incremental changes, having undergone significant adjustments in 2023. Scope of peril coverage and terms also largely held steady in 2024, although there was a notable shift towards concurrency compared to last year.

Retentions remained stable as healthy levels of capacity put pressure on pricing, and over-placements led to strong signings. Capacity for frequency protection was once again at a premium. This led to stronger competition further up programmes, with some higher-attaching layers oversubscribed and competitively priced.

U.S. casualty renewals took place amidst considerable focus on the impact of social inflation and its effects on reserve adequacy. Whilst there was general downward movement on ceding commissions at 1 January 2024, renewals proceeded in a relatively orderly manner, as sufficient capacity was available to meet high demand. Concerns about rising loss costs were counterbalanced by favourable supply dynamics to yield stable renewals overall.

Several lines in specialty reinsurance remained under pressure at 1 January 2024, as reinsurers responded to heightened geopolitical risks and hot conflicts. Upward pricing pressures was most acute for war-exposed lines of business, including political violence and terrorism and aviation.

> “
> Negotiations for 1 January 2024 renewals took place in an environment of more favourable supply dynamics.

Retrocession

The absence of major losses in 2023, favourable development for Hurricane Ian and increased capital inflows towards the end of the year yielded stable retrocession renewals at 1 January 2024. Whereas last year's dislocated renewal reflected trapped capital and long-standing investor fatigue, improved performance in 2023 put pressure on price and signings.

Conditions reflected the changes imposed last year. Pricing post-1 January 2024 is near recent highs and coverage parameters imposed last year remain in place, including named-peril contracts and a dearth of aggregate cover. The majority of UNL placements continued to be occurrence-based.

Risk-adjusted retrocession catastrophe excess-of-loss rates-on-line were flat[3] at 1 January 2024. Low-attaching occurrence layers and aggregate covers continued to suffer from a lack of supply, whilst strong competition further up programmes resulted in favourable outcomes for cedents, with modest risk-adjusted reductions achieved in certain instances. Performance and historical loss experience informed outcomes.

Some traditional and alternative markets increased appetites in the run-up to renewal, which provided more stable market dynamics. Better than expected loss development from Hurricane Ian also released some trapped capital back into the market, with deployments targeted at mid-to-top layers of programmes, reflecting capital providers' strong preference for remote risk.

Catastrophe bonds

Significant growth in the catastrophe bond market was a key supply-side driver at 1 January 2024. Strong investor appetite saw catastrophe bonds pricing fall in the 10% range in the lead-up to 1 January 2024 renewals, remaining at attractive levels for both buyers and sellers, as conditions relented from those encountered at 4Q22 post-Hurricane Ian, when spreads widened significantly and transaction sizes shrunk.

Average transaction sizes increased to over USD 150 million at the end of 2023 from USD 100 million in 4Q22, catapulting the new issuance volume in 2023 to over USD 15.5 billion, which marks a new record. Catastrophe bonds continue to be the preferred ILS product due to where they transact (i.e. higher layers with specific named perils) and the liquidity provided to investors.

[3] This is a point estimate within ranges depending on loss experience, exposure, territory and other client-specific conditions.

Figure 9: Howden Risk-Adjusted Non-marine Retrocession Catastrophe Rate-on-Line Index – 1992 to 2024 (Source: NOVA)

Global direct and facultative

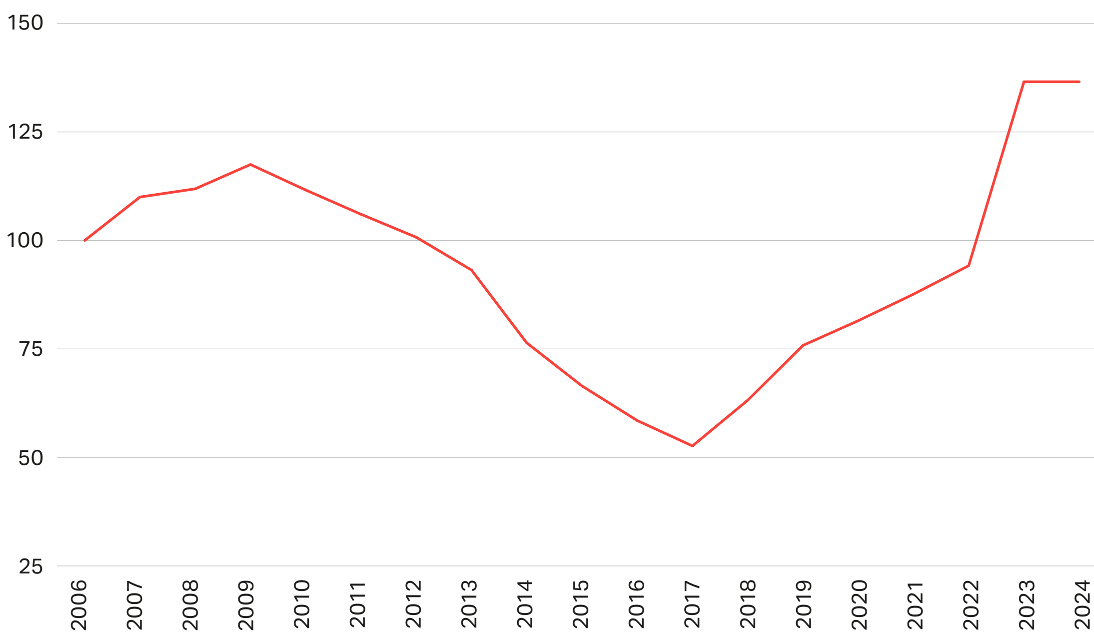
The D&F reinsurance market once again supported clients renewing programmes at 1 January following a year of strong growth and favourable loss experience, including reduced loss expectations for Hurricane Ian. Demand for D&F catastrophe cover remained robust, driven by higher rates / premium on original business, higher insured valuations on original business and the attendant need for additional limits.

Favourable pricing trends on original business, along with tightened terms and conditions and improved risk selection, continues to drive D&F underwriting outperformance. Underlying deductibles have reduced attritional losses whilst exclusions around pandemics and cyber continue to limit unpriced claims. Pricing tailwinds across primary and excess portfolios have significantly reduced aggregates and modelled PMLs for the same income.

All of which is supporting D&F reinsurance profitability. Whereas carriers operating in the regional, nationwide and retrocession spaces in the past seven years suffered several losses that breached programmes (e.g. U.S. hurricanes, Japanese typhoons, U.S. wildfires, floods, the Türkiye earthquake, convective storms), D&F reinsurers have been less exposed and escaped with low layer losses for peak perils and ran largely clean for secondary perils. For D&F portfolios that were impacted, losses have developed favourably compared to other markets, with Hurricane Ian being a notable example.

Following a major pricing correction at last year's corresponding renewal (of up 45%), rate movement in 2024 was flat on a risk-adjusted basis.[3] Outcomes varied depending on loss experience and performance. A cumulative increase of 160% since 2017 keeps pricing levels close to where they were last year and above those recorded in the aftermath of Hurricane Katrina. The underlying market has benefitted from similar pricing tailwinds during this time.

Figure 10: Global direct and facultative reinsurance pricing index – 2006 to 2024
(Source: NOVA)



Structures typically renewed as expiring at 1 January 2024 following substantial retention increases last year. Coverage and terms remained stable this year, with limited appetite for non-natural perils, SRCC particularly.

Capacity was more readily available in 2024, with increased competition in mid-to-high layers relenting pricing pressure. Reinsurers were less willing to engage lower down programmes, although certain cedents successfully leveraged access to higher layers to secure more frequency protection at the margin. Global (rated) reinsurers remained the dominant players in 2024, although some ILS sellers were willing to deploy significant capacity.

From an underwriting perspective, D&F business continues to provide significant opportunity, with rate increases sufficient to justify material portfolio expansion. From a purchasing perspective, the relative attractiveness of D&F excess-of-loss pricing and capacity availability continues to attract robust demand.

In what remains a challenging environment, the global D&F market continues to differentiate itself by finding capacity for increased business flow whilst displaying underwriting skill and delivering strong results.

“

Favourable pricing on original business, along with improved risk selection, continues to drive D&F underwriting outperformance.

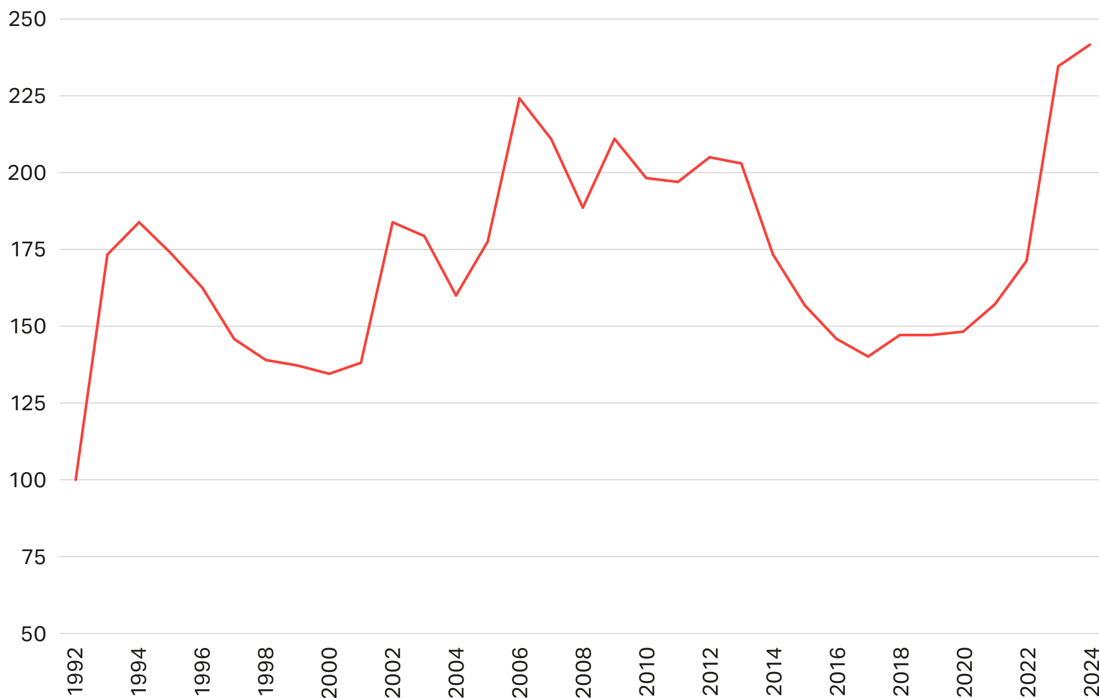
Property-catastrophe reinsurance

Earlier and more orderly retrocession and D&F renewals meant property-catastrophe reinsurers had better clarity around their net positions at 1 January 2024 compared to recent years. Markets entered negotiations generally looking to consolidate gains made in 2023, which yielded improved supply dynamics in certain territories this year. Figure 11 shows that risk-adjusted global property-catastrophe reinsurance rates-on-line rose by 3% on average.[3] This was down considerably on the +37% recorded last year.

Exposure growth drove demand higher in 2024. As pricing stabilised, cedents took the opportunity to purchase more cost effective tail coverage. Terms and the scope of coverage, both of which underwent significant tightening last year, were a core focus in the U.S. this year. This resulted in improved concurrency, with a predominant focus on SRCC and terrorism to address non-concurrencies from 2023.

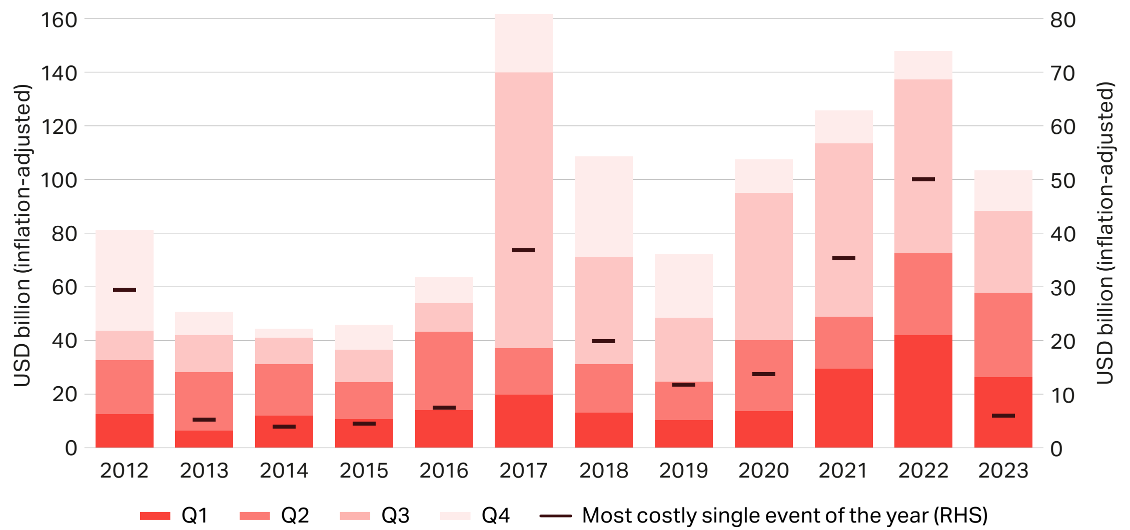
Increased appetite from most markets meant supply was able to meet demand to a degree that was lacking last year. The rebound in the ILS market was an important factor as competition increased for higher-attaching layers, which in turn encouraged new sponsors to enter the market.

Figure 11: Howden Global Risk-Adjusted Property-Catastrophe Rate-on-Line Index – 1992 to 2024 (Source: NOVA)



Much improved reinsurance performance in 2023 also supported supply dynamics at 1 January 2024. Reinsurers' structural retreat from frequency risks through 2023's renewal cycle coincided with a series of low-to-mid sized losses that were largely borne by insurers. In fact, only one event breached the USD 5 billion loss threshold in 2023, underscoring the atypical nature of losses last year.

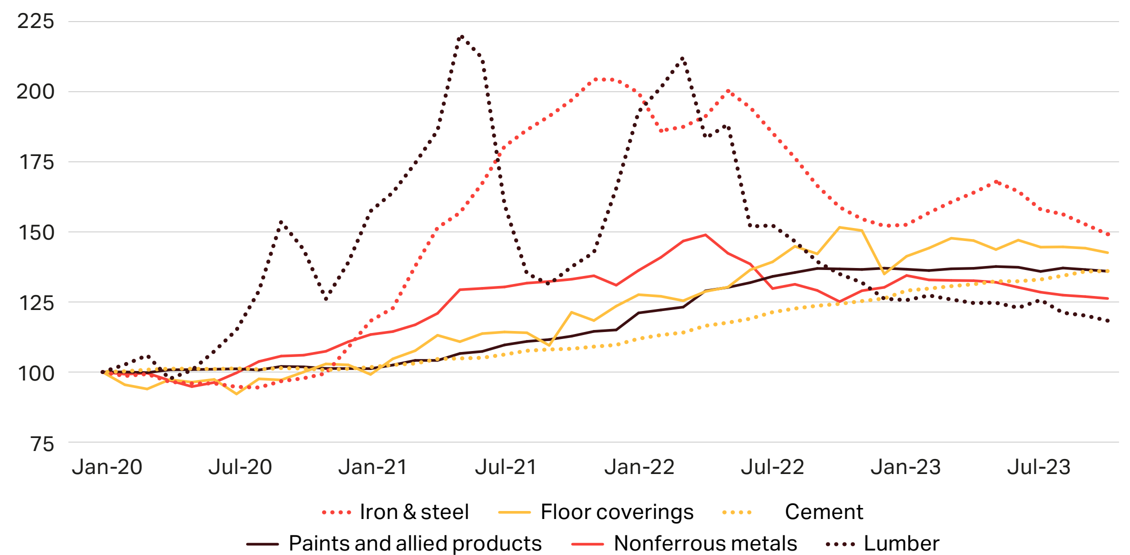
Figure 12: Global insured catastrophe losses by quarter vs single biggest annual loss – 2012 to 2023 (Source: NOVA)



The last time the market experienced such a dearth of severity (2013-2015), the aggregated (inflation-adjusted) annual loss was consistently less than USD 50 billion, as shown by Figure 12. Annual losses in 2023 breached the USD 100 billion mark for the fourth consecutive year, seemingly confirming a new normal for loss expectations. A myriad of factors are driving losses higher, including exposure changes, loss costs post-COVID (up within a range of +25% to +50% – see Figure 13), asset valuations and climate change.

Although the high frequency of low-to-mid sized losses contributed to reinsurers avoiding significant payouts in 2023, it illustrates how they have successfully distanced themselves from attritional losses and points to strong returns in low severity years going forward.

Figure 13: Rising costs for key U.S. construction materials – 1Q20 to 4Q23
(Source: Howden, BLS)



Europe

Loss experience and inflation shaped European property-catastrophe renewals at 1 January 2024. Following significant catastrophe losses in the region in 2021 (Bernd) and 2022 (EU windstorms and summer storms), a series of mid-sized events in 2023 – including the Türkiye earthquake, floods and severe convective storms in Italy, windstorms (Ciarán and Hans) and floods in Slovenia – added to loss burdens. Demand for protection was robust as several cedents looked to secure top-end cover following inflation-induced increases to insured valuations.

Efforts to restructure programmes, started in earnest at last year's renewal, were extended this year to territories that escaped adjustments in 2023 and made sizeable reinsurance recoveries during the year, including Italy, Türkiye and Slovenia. Several carriers reported adverse development for these events, as inflation, exposure changes and peril severity drove claims higher. Higher attachment points in these territories were typically accompanied by double-digit risk-adjusted pricing increases.

Improved capacity was sufficient to see most deals over the line across the region. Having secured significant changes to rates, structures and terms last year, 2024 renewal negotiations for loss-free programmes took place in far more stable conditions, yielding modest changes overall. Cedents benefitted from increased appetite for European business in 2024 as reinsurers looked to rebalance portfolios following material U.S. growth in 2023.

Although markets continued to show minimal appetite for working layers and aggregate covers, there was increased client differentiation this year. Efforts to retain market share by large European incumbents, alongside relatively strong ILS activity for the region (including several new sponsors accessing the catastrophe bond market in a meaningful way), increased competition in higher layers. More favourable supply dynamics helped to moderate overall pricing increases across Europe to low-to-mid-single-digits.

United States

U.S. renewals at 1 January 2024 reflected improved supply dynamics, with reinsurers willing to support terms and pricing levels broadly aligned to those established during last year's renewals.

Whilst capacity continued to be restricted for lower layers, increased competition further up programmes (driven by both traditional and ILS markets) brought more attractive pricing for mid-to-top layer risk. Risk-adjusted pricing remained stable as a result, moving within a range of down 5% to up 5%. Demand from a number of cedents for more top-end protection came to fruition this year having fallen away at last year's corresponding renewal. Capacity was generally sufficient to meet high demand.

Despite a relatively benign hurricane season last year, concerns around loss frequency were reinforced after U.S. severe convective storm losses exceeded USD 50 billion for the first time and no large, single large event assumed the bulk of the total.

Several Midwest mutual insurers suffered substantial losses from these events, which brought challenged renewals for exposed programmes at 1 January 2024. Devastating wildfires in Hawaii also caused substantial losses.

Casualty reinsurance

Sufficient capacity and market discipline characterised casualty reinsurance renewals at 1 January 2024. Certain markets are growing their portfolios in what they perceive to be an attractive marketplace whilst others are reducing, reflecting their view that the market continues to require underlying rate increases.

Although certain reinsurers in the lead up to negotiations talked up the need to push for wholesale action to address economic and social inflation, and the attendant risk to reserve adequacy, outcomes ultimately reflected more discerning underwriting informed by loss experience, underlying rate change and prior-year development across individual portfolios. Underlying prior-year loss development and social inflation trends have affected U.S. markets more than international carriers, which was reflected in reinsurance placements at 1 January 2024.

Despite continued decreases in pricing in the D&O market, and signs of softening in a number of other casualty classes, underlying rates for most long-tail lines remain near historic highs. Investment portfolios are also now yielding significantly improved returns following rapid interest rate rises.

Mounting pressures elsewhere are counteracting these tailwinds, however. Higher inflation has placed scrutiny on reserve adequacy from back years and claims costs going forward, whilst social inflation and nuclear verdicts are driving claims severity higher for U.S. liability exposures (international treaties with U.S. exposure received a considerable amount of attention). Several reinsurers moved to strengthen U.S. reserves in 2023 as a result.

Figure 14 shows that London market casualty reinsurance excess-of-loss rates remained constant at 1 January 2024. Outlier outcomes were driven by individual account performance rather than overriding market sentiment.

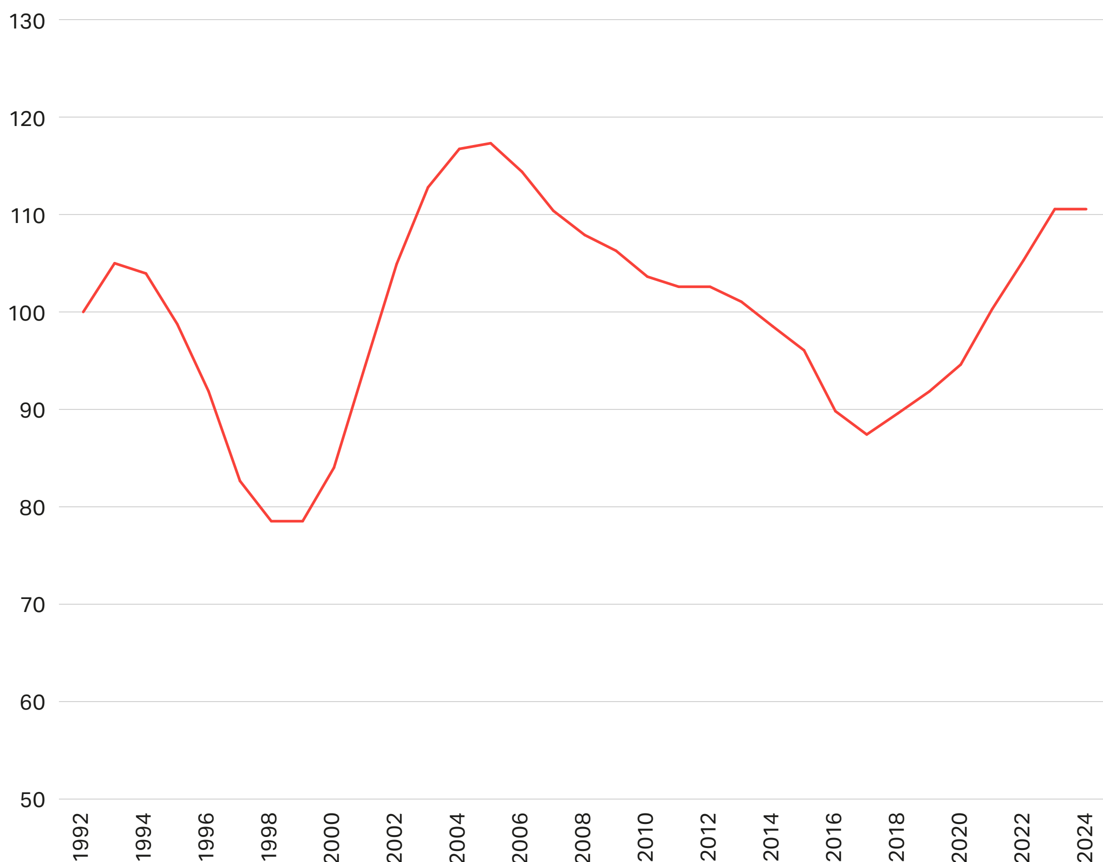
Ceding commissions came under pressure at 1 January 2024, especially for programmes with U.S. exposures, with reinsurers citing inflation, higher claims severity and deteriorating underlying economics due to price softening in some areas, financial lines specifically. Several programmes saw decreases in the range of one to two percentage points, with steeper reductions for those that have not performed so well or where underlying pricing deteriorated.

U.S. D&O commissions recorded significant decreases when original rates fell and / or unfavourable reserve development was reported. Non-concurrency of terms was a feature for some large placements as appetites and relationships came into play.

International casualty saw stable renewals, with most excess-of-loss rates and quota share commissions renewing flat. Any nuance around whether treaties carried a nominal increase or decrease can largely be attributed to the definition of risk-adjusted rate change.

Pressure has been exerted on cedents to demonstrate a robust underwriting and exposure management approach for U.S. exposures in international business, but this did not lead to increased pricing. PFAS exclusions on treaties were also mooted but not carried, although most U.S. carriers are excluding or working to exclude PFAS exposures on original policies. Pricing was more volatile for international business with U.S. exposures and associated loss volatility from nuclear verdicts.

Figure 14: Howden London Market Casualty Risk-Adjusted Reinsurance Rate Index – 1992 to 2023 (Source: NOVA)



Remaining relevant

The world has become a riskier place. With wars in the Middle East and Ukraine coming fast on the heels of COVID-19, and coinciding with the other systemic threats of our time (cyber and climate change), risk aversion is prevalent.

These economic and geopolitical shocks have created a new world (dis)order, bringing impacts like commodity crises, stagflation, interest rate spikes and global unrest back to the fore. (Re)insurance has long played a crucial role in shoring up economic resilience by creating new products and paying claims, and the sector has an opportunity to do so again during such a historical period of change.

But signals of buyer fatigue – rising self-insurance, increased use of captives – at this point of a prolonged market cycle point to (re)insurers' reluctance to underwrite challenging and emerging risks. The market must not allow enduring pricing tailwinds to stifle much needed innovation.

Market dynamics are finely balanced heading into 2024, and it is incumbent on carriers and brokers alike to apply their intellectual and financial capital to find creative solutions for the risks of today. This is the route to long-term relevance, and new possibilities.

Howden stands at the forefront of these efforts by applying differentiated insights and expertise to deliver pioneering solutions. With macro and geopolitical shocks fuelling uncertainty, and the risk landscape changing like never before, (re)insurance buyers require detailed analysis into key market drivers. Howden is leading the charge by providing cutting edge thought leadership and risk transfer advice to support clients in managing market change and maximising their potential.

> “Finding creative risk transfer solutions for the risks of today is the route to long-term relevance and new possibilities.

2023: resilience in crisis

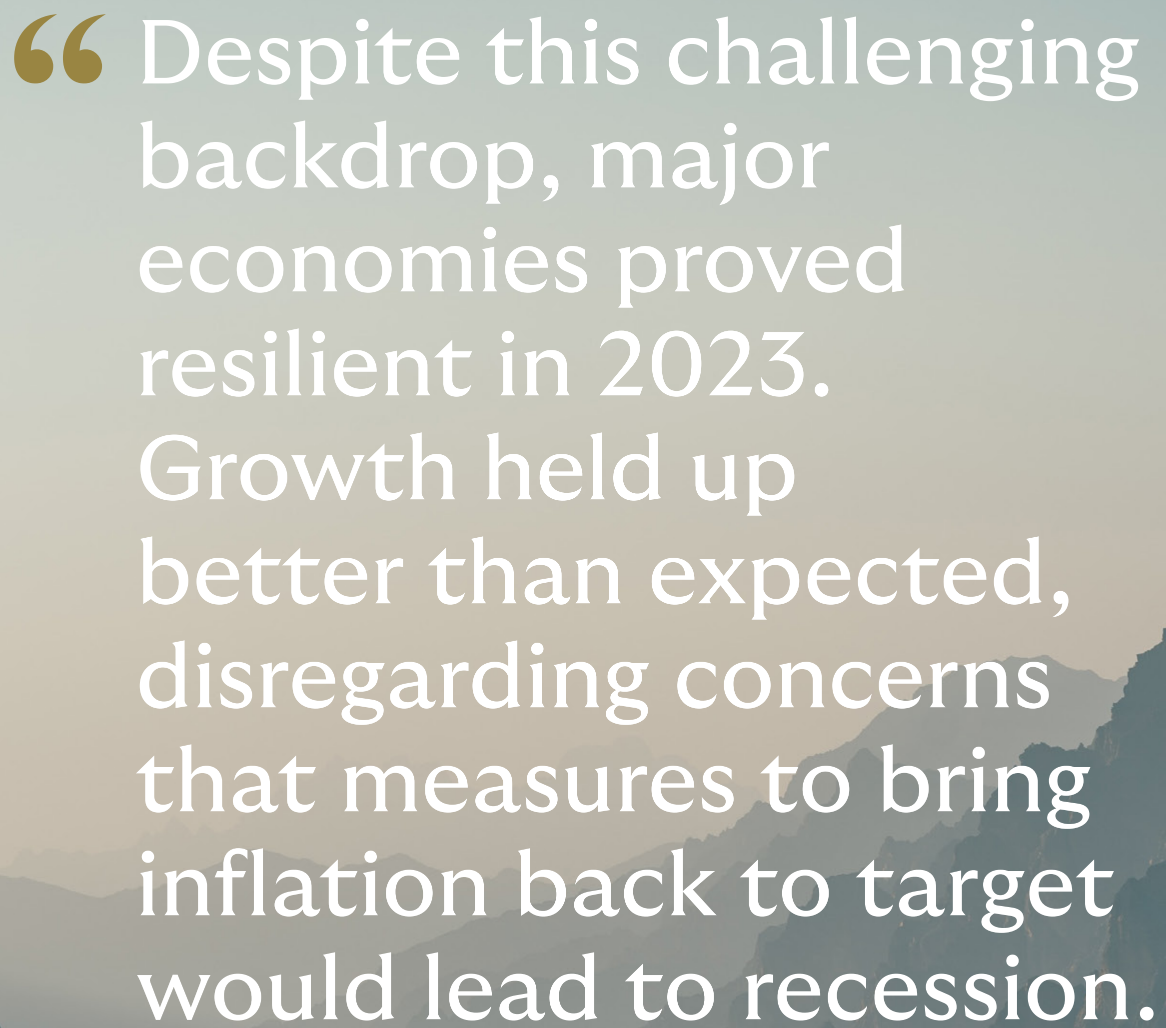
The world continues to be beset by shocks. The risk of a protracted conflict in the Middle East is the latest threat to a global economy still recovering from COVID-19 and war in Ukraine.

Increased geopolitical instability, alongside the lingering effects of the pandemic, have brought inflation, commodity spikes, higher interest rates and accelerated deglobalisation. Marked volatility in global bond markets through much of 2023 is indicative of a highly uncertain macro outlook with consensus expectations shifting perpetually.

Despite this challenging backdrop, major economies proved resilient last year. Growth held up better than expected, disregarding concerns that measures to bring inflation back to target would lead to recession.

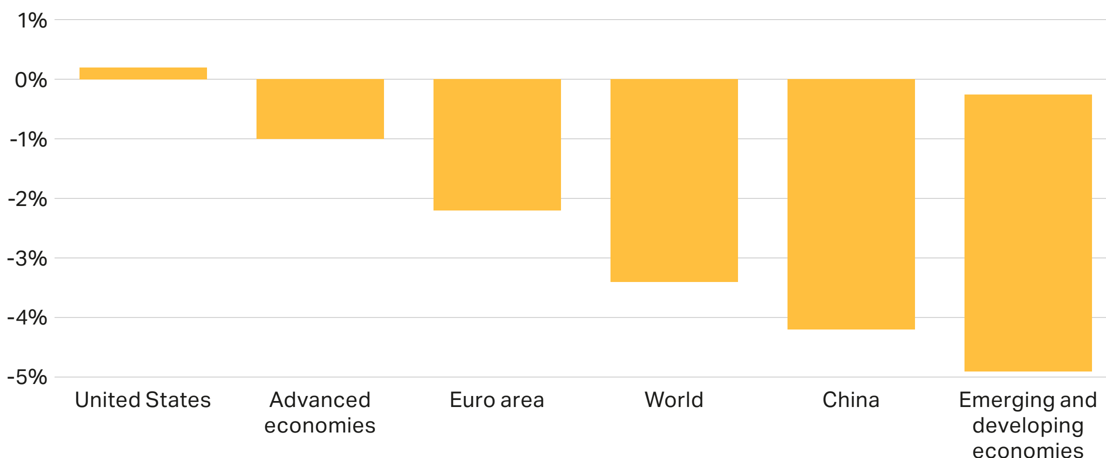
Underlying performance remains stifled, however. Figure 15 shows that economic activity in most regions remains significantly short of pre-pandemic projections, with only the United States registering a gain after another year of strong performance, growing by 5.2% in 3Q23.

Scarring has been more pronounced elsewhere, with the Euro area teetering on the brink of recession given its high exposure to the Ukraine war and the associated energy and trade impacts. China's late lifting of COVID restrictions, combined with its property crisis, has resulted in an even weaker recovery, with stalled growth expected to persist.



> “Despite this challenging backdrop, major economies proved resilient in 2023. Growth held up better than expected, disregarding concerns that measures to bring inflation back to target would lead to recession.

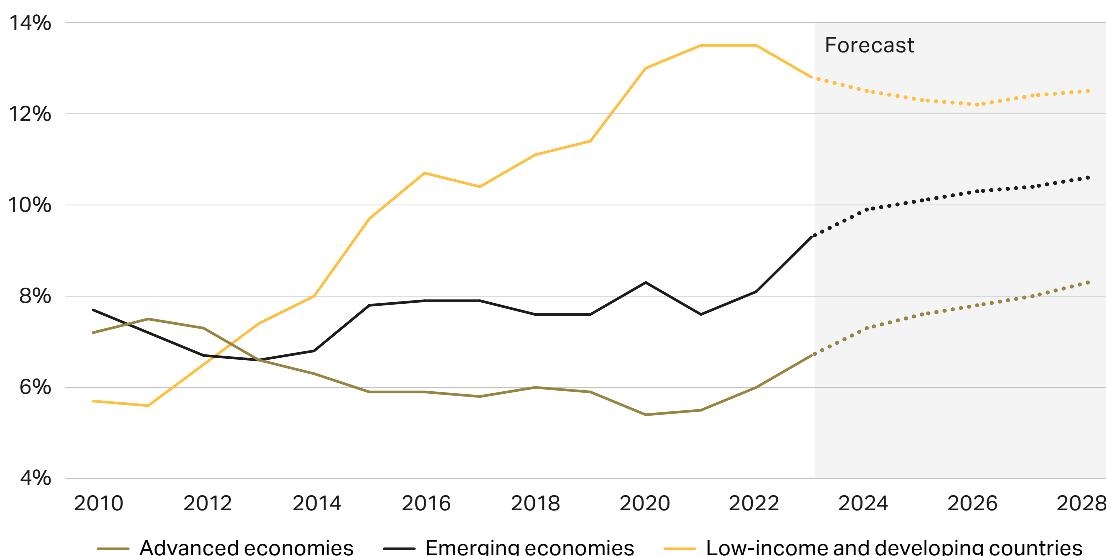
Figure 15: Real GDP deviation in 2023 from pre-pandemic projections (Source: IMF)



Heading into 2024, heightened geopolitical tensions rank as pre-eminent concerns, both from a humanitarian and economic perspective, alongside an uncertain macroeconomic landscape. Rising borrowing costs and interest payments at a time of high public debt have also curtailed policymakers' ability to use fiscal policy to support (weakening) economies, even as higher inflation feeds into government revenues (see Figure 16).

The world economy is vulnerable to further setbacks. The threat of escalation from the Israel-Hamas war – impacting commodity prices, trade routes and supply chains, for example – brings additional inflationary risks, even if the fall in energy prices late last year has allayed these concerns for now.

Figure 16: Government interest payments as % of revenues (Source: IMF)



Energy security risks and growing geoeconomic rivalries, as well as elevated losses from extreme weather events, reinforce the need for climate change and the net-zero transition to be kept at the forefront of policymaking and (re)insurance innovation.

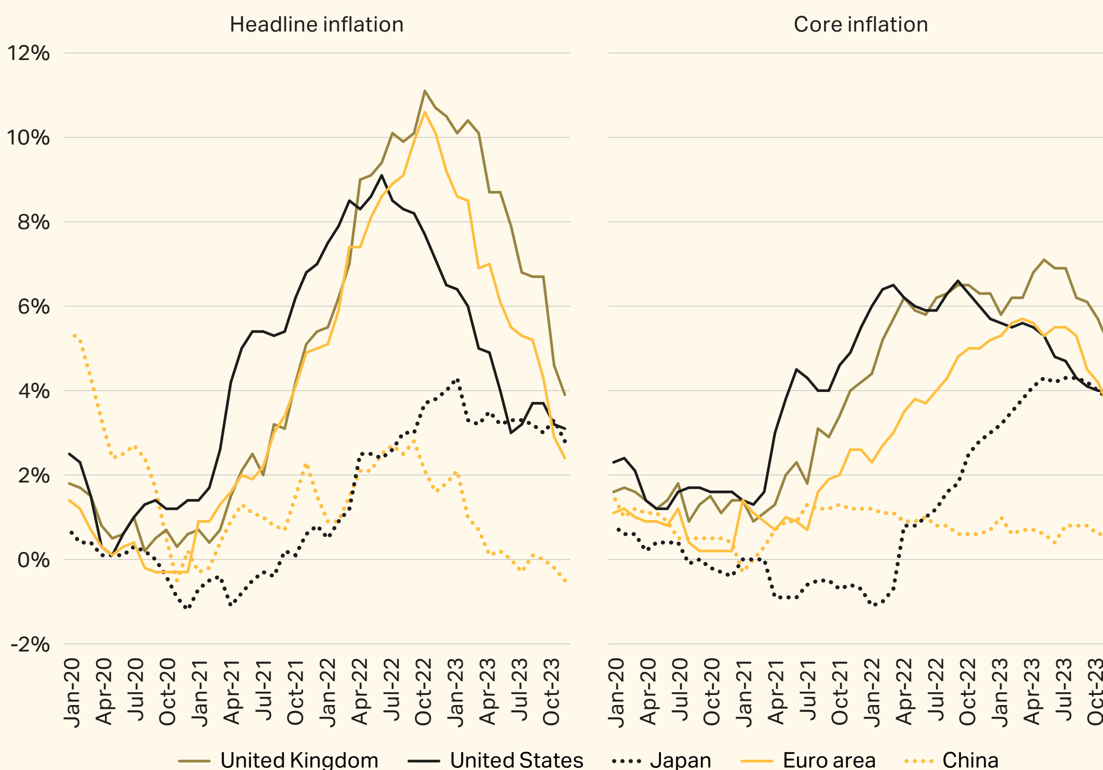
“

Rising borrowing costs and interest payments at a time of high public debt have curtailed policymakers’ ability to use fiscal policy to support weakening economies.

Inflation target in sight?

Headline inflation fell in major economies for much of 2023 after supply side drivers – the effects of the Ukraine war most prominently, but also dislocations brought about by COVID – relented. Figure 17 shows the trajectories inflation has taken in major economies since 2020, with sharp declines last year bringing headline readings down from multi-decadal highs in 2022. Deflation continues to set China apart and provide a source of relief globally given the country's influence over global energy consumption and exports of goods.

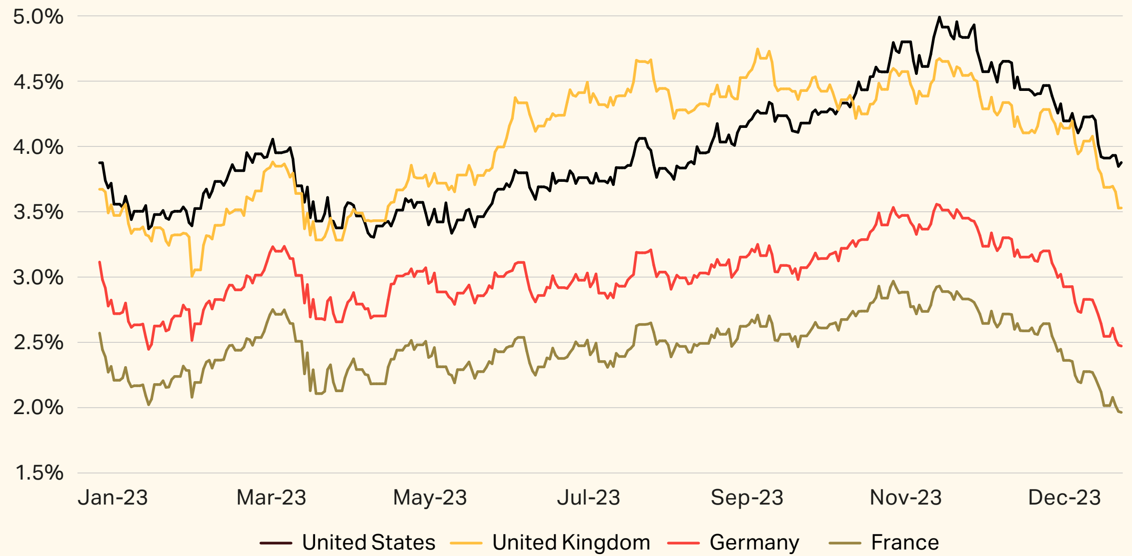
Figure 17: Headline and core inflation for select advanced economies – 1Q20 to 4Q23
(Source: Howden, government statistics)



Core inflation, which strips out energy and food costs, also fell in 2023, although movements here were less dramatic due to underlying price pressures in domestic economies. Despite tight labour markets (wage inflation) and more rigid CPI categories, lower headline inflation, increased optimism around 'soft landings' and a pivot by the Federal Reserve hinting at several interest rate cuts in 2024 pushed yields on government bonds down in November and December to reverse the gains made earlier in the year (see Figure 18).

This late rally anticipates positive economic news for 2024, maintaining the upbeat sentiment from late 2023. Markets remain vulnerable to unexpected developments, however. And non-cyclical forces like heightened geopolitical tensions (including trade impacts to shipping disruption in the Red Sea), ageing populations, higher debt levels, deglobalisation, climate change and the net-zero transition continue to present structural challenges. Even when accounting for projected cuts this year, government bond yields are set to remain high relative to post-financial crisis levels following one of the most rapid episodes of monetary tightening on record.

Figure 18: Rally in 10-year government bonds in late 2023 (Source: Howden, Bloomberg)

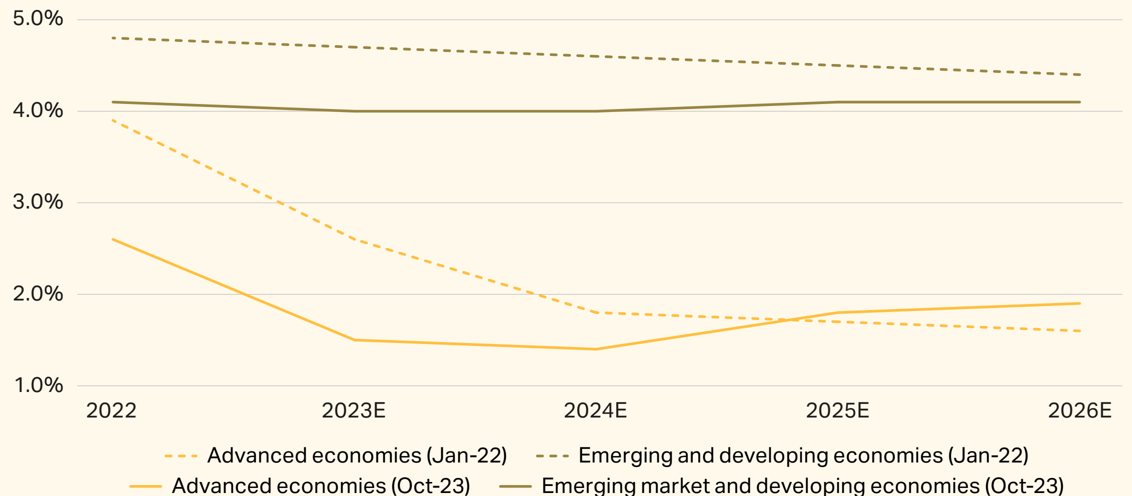


Interest rate movements work with lags – economists estimate the major effects on aggregate demand manifest the year following rate changes – meaning some, but not all, of the recent cycle of tightening has worked through economies.

Figure 19 shows how recent growth forecasts up to 2026 have trended relative to expectations at the beginning of 2022 (i.e. pre-Ukraine war). Downgrades have been sizeable for advanced nations, where a percentage point has been knocked off forecasts for 2023. Emerging economies are also expected to underperform relative to expectations in January 2022, with several countries confronting debt pressures due to the impact of higher interest rates on already fragile finances.

The U.S. economy is again expected to outperform other advanced economies, albeit at a moderated growth rate as consumer spending (a big contributor to growth in 2023) wanes.

Figure 19: Deteriorating growth outlook – 2022 to 2026 (Source: IMF)



Top line tailwinds

This macroeconomic backdrop – a weak growth outlook, easing inflation and higher interest rates – has important implications for the (re)insurance market. Despite challenging fundamentals, the sector continues to register strong premium growth overall.

Cyclical and structural factors on the demand side, including the changing risk landscape and inflation, supported by sustained price increases, saw U.S. P&C premiums surpass GDP growth last year (see Figure 20). The current market cycle stands out for its longevity, recording a sustained run of above-trend premium growth.

Limits and exposures in commercial lines correlate closely to insureds' sales, fixed assets and payrolls, items that have registered growth for several years now. This helped drive sizeable premium increases in 2023, augmented further by rate rises.

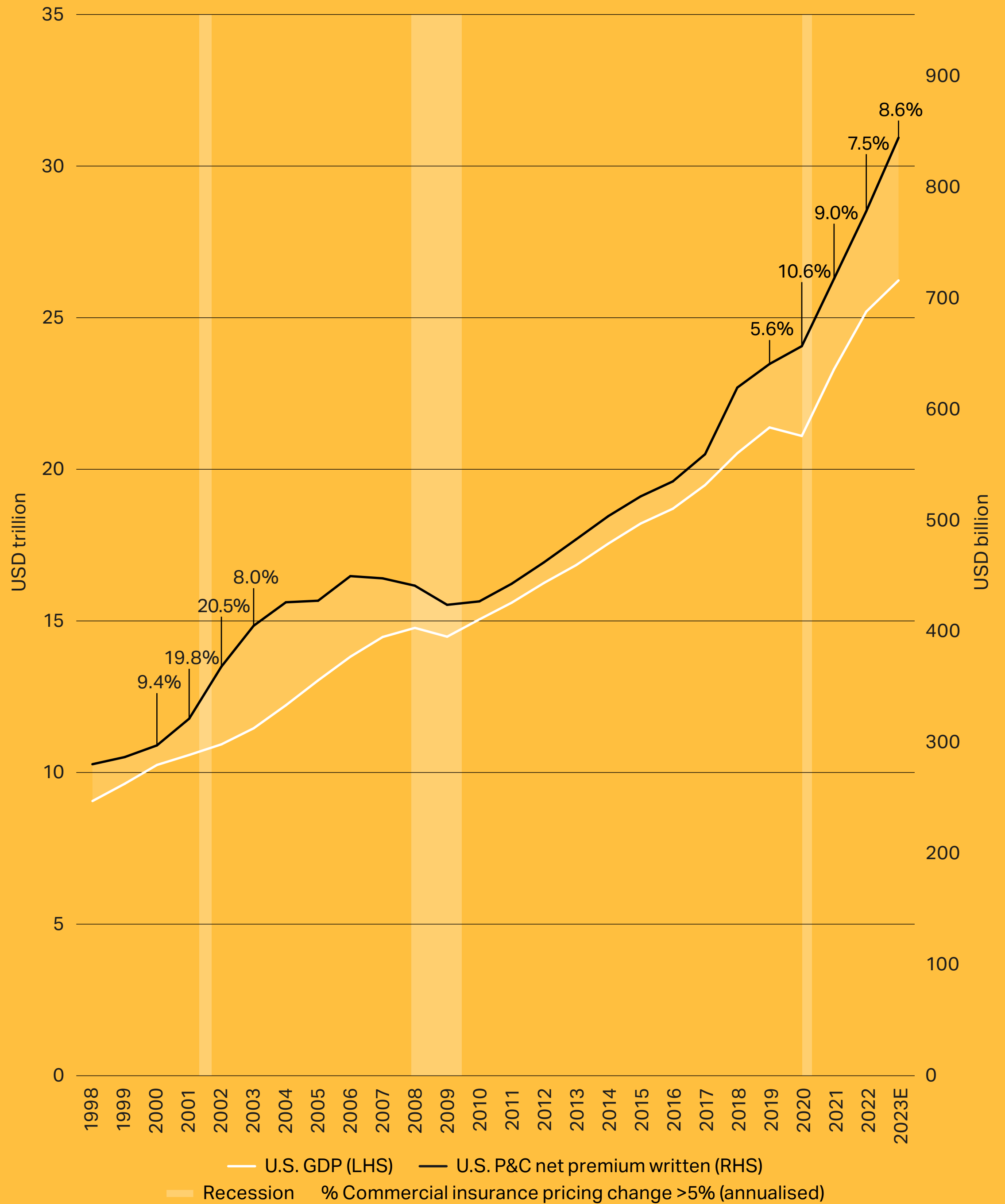
Pressures continue to mount, however. Several businesses struggling to absorb additional risk transfer costs have been forced to restructure programmes and increase deductibles in order to contain premium increases and secure additional limits. The risk of monetary policy overshoot and recession cannot yet be discounted either, given the speed and magnitude of interest rate increases.

Market hardening during recessionary or low growth periods, especially when risk aversion is high, is an important reason why insurance can be counter-cyclical to the rest of the economy. But any severe or protracted downturn that increases company bankruptcies, cuts payrolls and reduces asset values would likely constrain top line growth, particularly if it coincides with receding pricing tailwinds.

“

The current market cycle stands out for its longevity, recording a sustained run of above-trend premium growth.

Figure 20: U.S. GDP vs P&C insurance premiums – 1998 to 2023
(Source: Howden, U.S. Bureau of Economic Analysis, S&P Global Intelligence, CIAB)



Inflation

Macroeconomics have changed the claims and investment environment too. Alongside economic inflation, and its implications on claims costs, reserving and pricing, considerable positive offsets from higher investment income have started to manifest. There are also legacy-pandemic impacts to consider, which continue to affect supply chains, loss experience and claims behaviours.

Shorter-tail lines have been most impacted by inflation, as elevated costs (materials and labour) and replacement values, in addition to supply chain issues and longer repair times, exacerbated claims severity. Figure 21 shows how these dynamics pushed up construction-related costs higher than headline inflation in the United Kingdom and Germany through 2021 and 2022, before moderating last year.

Figure 21: Construction costs vs overall CPI in Germany and the U.K. – 1Q20 to 4Q23[4]
(Source: Howden, ONS, Destatis)

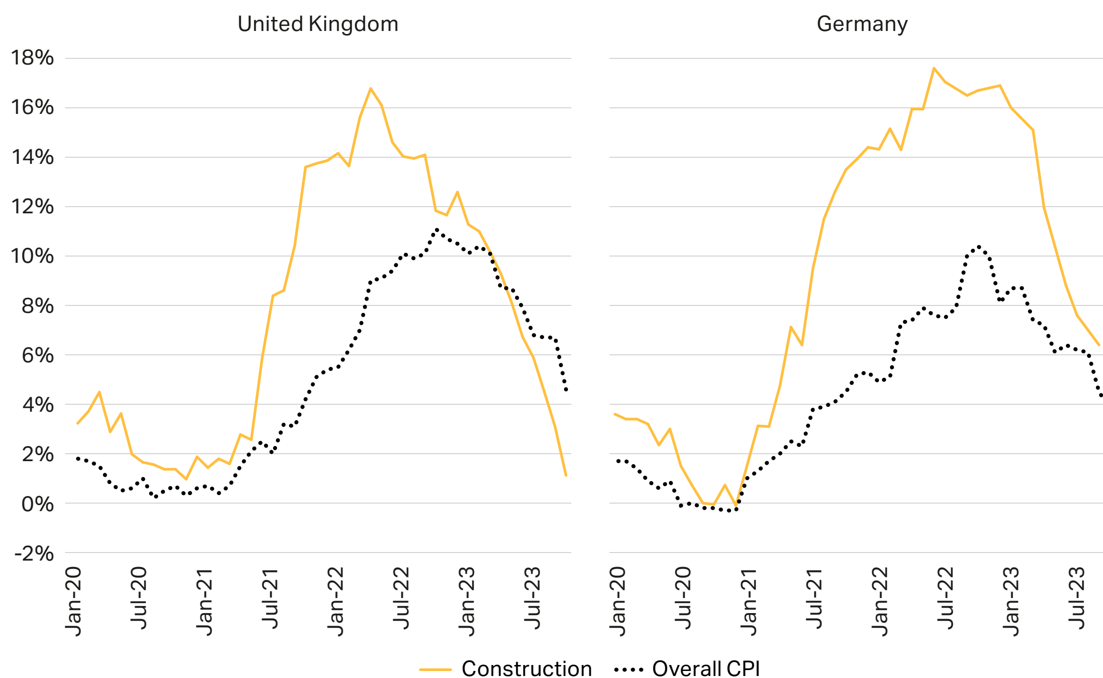


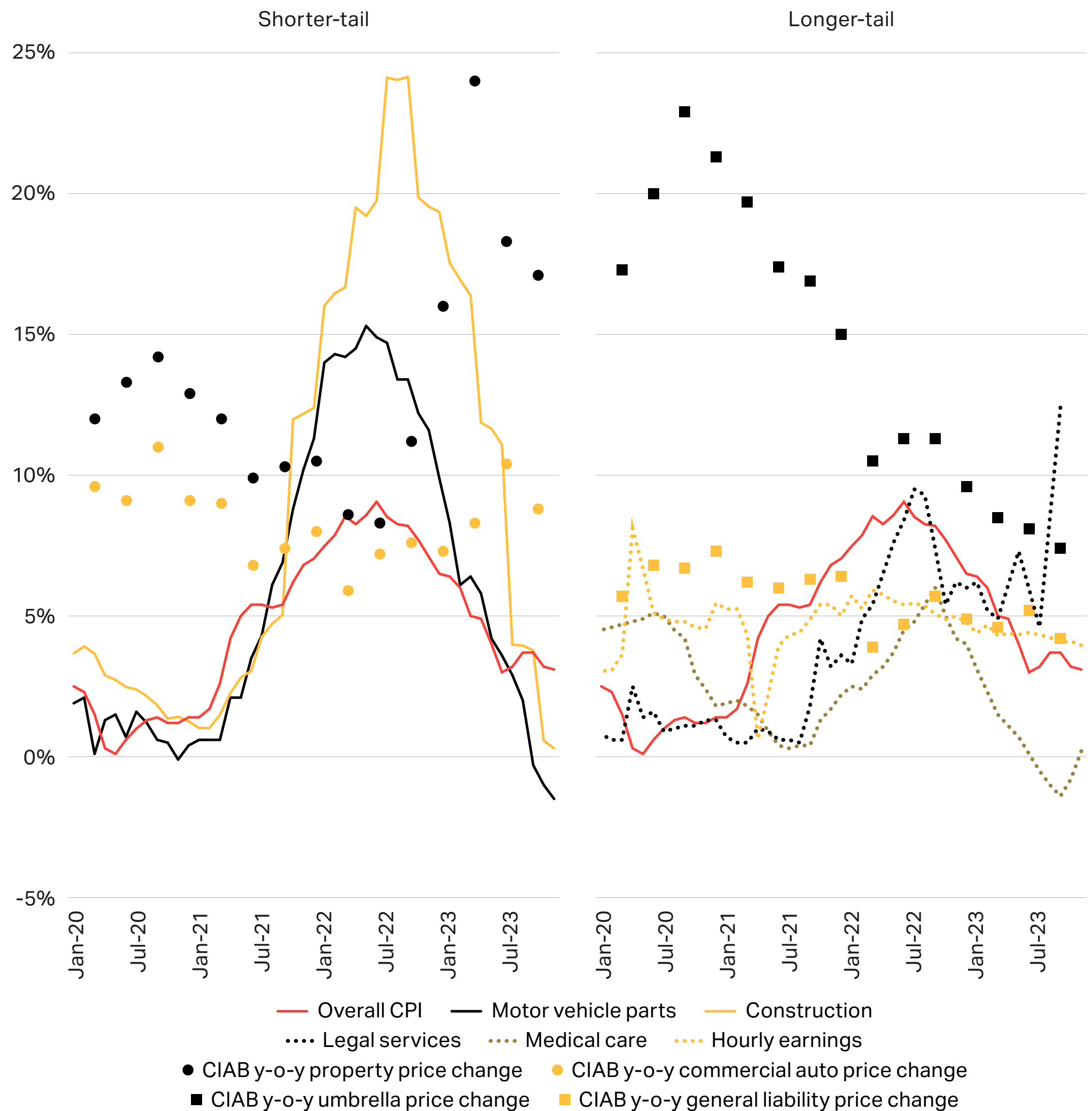
Figure 22 breaks down loss cost inputs further by analysing U.S. CPI data relevant for both shorter-tail and long-tail lines. The left hand chart shows U.S. construction costs rose above those in Germany and the U.K. for much the timeframe, peaking close to 25% in 2022. Higher claims costs, combined with heavy losses from Hurricane Ian, triggered a pricing correction in the U.S. property market that was sustained through much of 2023. The motor market likewise experienced stark inflationary headwinds for physical-damage components, from high vehicle values to rising labour and parts costs, causing claims severity to rise significantly above historical averages.

[4] UK = ONS 'materials for maintenance and repairs' vs CPI and Germany = Destatis 'construction price index for residential buildings' vs CPI.

Liability lines are more exposed to subsets of medical, wage and legal costs, areas that can transcend economic forces. The right hand chart in Figure 22 shows that relevant CPI values have mostly lagged headline inflation since 2021. Medical-related costs, an important loss indicator for an array of long-tail lines such as worker's compensation, general liability, medical malpractice and umbrella, remain benign whilst wage growth in the U.S. was relatively sable in 2023, with a modest downward movement.

Even with the shift in inflationary pressures from goods to services last year, long-tail lines have generally been less impacted by economic inflation. Legal services costs, however, rose to their highest levels since COVID in 3Q23, indicative perhaps of increasingly adverse litigation trends (although no legal services CPI readings were available for 4Q23).

Figure 22: U.S. CPI for categories relevant to shorter-tail and liability lines vs year-on-year price changes – 1Q20 to 4Q23 (Source: Howden, BLS, CIAB)

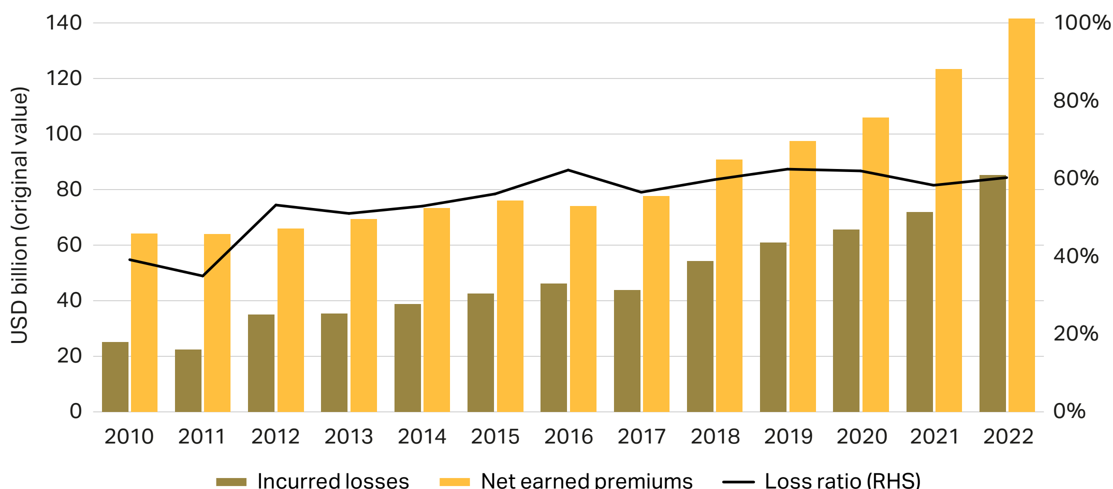


Sting in the (liability) tail?

Loss development for U.S. liability exposures continues to be an area of uncertainty for the industry, as the reprieve provided by COVID gives way to litigation risk and more normalised experience. Emerging liability risks – per- and polyfluoroalkyl substances (PFAS) and climate change most prominently – are adding to an overriding sense of caution.

Social inflation and reserve development were topics of considerable debate in the lead up to renewals, as several carriers moved to strengthen reserve buffers in response to higher claims. Industry data in Figure 23 shows how U.S. liability lines have performed since 2010,[5] with the most recent five-year period (of available data from the National Association of Insurance Commissioners) seeing a rise in both premiums (as rates have increased) and losses, with the loss ratio ticking up slightly but remaining relatively stable.

Figure 23: Performance of select U.S. liability lines – 2010 to 2022[5]
(Source: Howden, National Association of Insurance Commissioners)

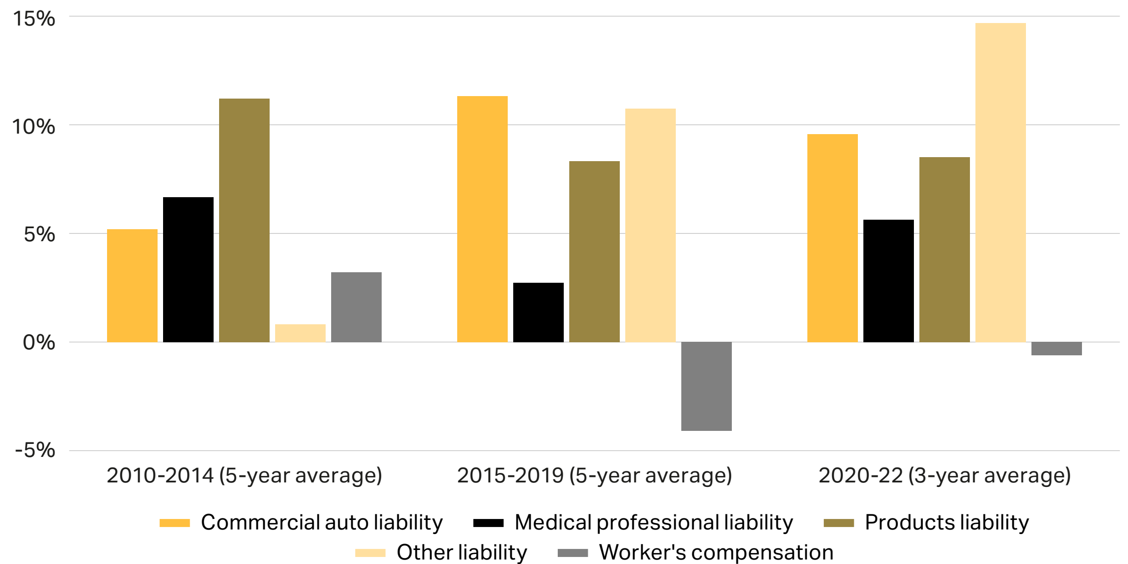


Reserve strengthening for liability exposures reported last year by certain carriers were both experience and assumption-driven, and often accompanied by sizable offsets from positive development in other areas, including property and speciality lines. Strong results for worker's compensation, aided by improvements in workplace safety and strong U.S. employment, also continue to be a consistent (albeit slowing) source of redundancies, helping to sustain a run that has seen the U.S. P&C market register favourable reserve development for the best part of 15 years.

This, along with COVID distortions to litigation activity, may have masked deteriorating claims experience in the commercial liability market. Figure 24 shows how average annualised percentage changes to incurred losses for individual U.S. liability lines have increased in recent years (counteracted by favourable experience for worker's compensation), raising reserve adequacy concerns for carriers that grew in these areas during the height of the soft market.

[5] Lines of business included = commercial auto, medical professional liability, products liability and other liability.

Figure 24: Annualised change to incurred losses for select U.S. long-tail lines – 2010 to 2022 (Source: Howden, National Association of Insurance Commissioners)

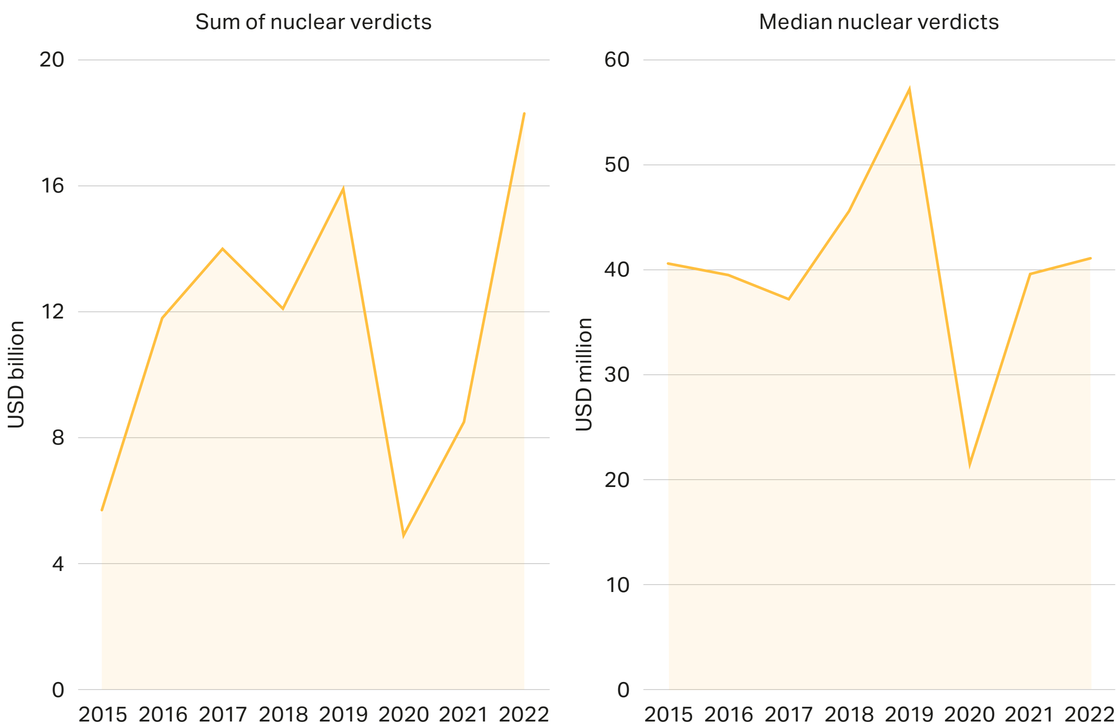


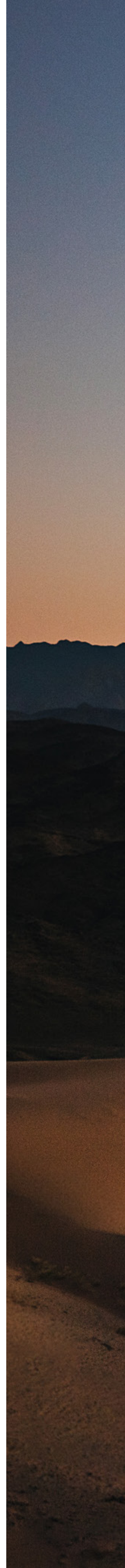
The trends that underpin social inflation – an active and aggressive plaintiffs' bar (where auto is increasingly becoming a focus), higher litigation costs, increased attorney involvement in the claims process, growth of third-party litigation funding (see Figure 25), anti-corporate sentiment – are driving claims higher as many of these non-economic factors move in an unfavourable direction.

Figure 25: Growth of U.S. litigation funding industry (Source: Howden, Westfleet Advisers)

Figure 26 shows how 'nuclear' verdicts in the United States have trended in recent years. According to data from Marathon Strategies, the sum of nuclear verdicts (defined as awards greater than USD 10 million) reached a recorded high in 2022, increasing by 15% compared the previous (pre-COVID) peak in 2019. The respite provided by COVID was clearly a temporary distortion, with both charts in Figure 26 showing verdicts up significantly in 2022 compared to 2020. Median verdicts in 2022 nevertheless remained below pre-COVID levels (2019) and largely in line with prior years.

Figure 26: Nuclear verdict data in United States – 2015 to 2022 (Source: Marathon Strategies)





These trends have increased reserving uncertainty for long-tail lines, with (soft) accident years 2016-19 causing particular concern. Specific areas of the U.S. market are more challenged than others, with professional lines, D&O specifically, under particular scrutiny as carriers compete over a substantially reduced premium base following double-digit rate decreases and reduced demand in the last couple of years.

Reserving for other lines exposed to social inflation, such commercial auto and umbrella, are also in focus for these accident years. Business written in later (harder market) years, on the other hand, looks set to perform well for most lines, reflecting significant rate increases from 2019 that have enabled carriers to rebuild reserve strength and mitigate quicker payment patterns that are potentially emerging for those years.

Adverse impacts have so far been contained to subsets of carriers overweight in exposed areas and show little sign at this stage of becoming systemic, which tallies with reserve development disclosures for individual U.S. carriers and diverging commentary from insurers and reinsurers around the performance of the market.

Those quick to respond to deteriorating loss experience with conservative loss picks and attendant pricing and limit corrections continue to record strong results and are well positioned to take advantage of opportunities. Outside of financial lines, casualty rates continued to increase in most areas last year and remain at historical levels after several years of cumulative increases.

Performance was a key differentiator at 1 January 2024 renewals, providing top-tier cedents with an effective defence against reinsurers' attempts to push for lower commissions as they were able to demonstrate underlying profitability in spite of economic and social inflation.

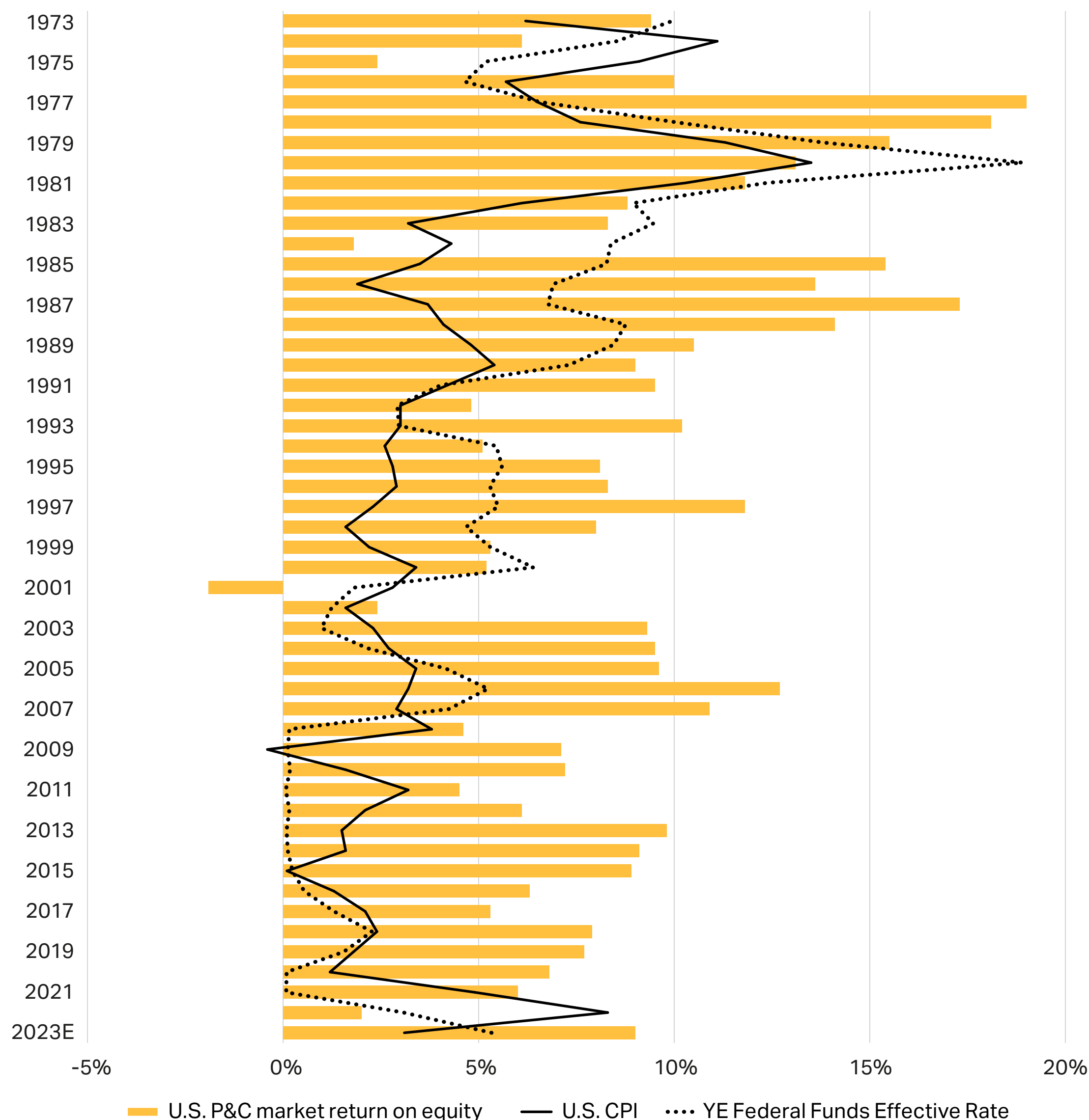
Carriers quick to respond to deteriorating loss experience with conservative loss picks and attendant pricing and limit corrections continue to record strong results and are well positioned to take advantage of opportunities.

Investment boost

Resilient earnings reflect not only years of compounded rate increases but also much improved investment returns as reinvestment yields rise. The boost to results from net investment income is an often-ignored tailwind in the macroeconomic discussion but one that has strong historical precedence.

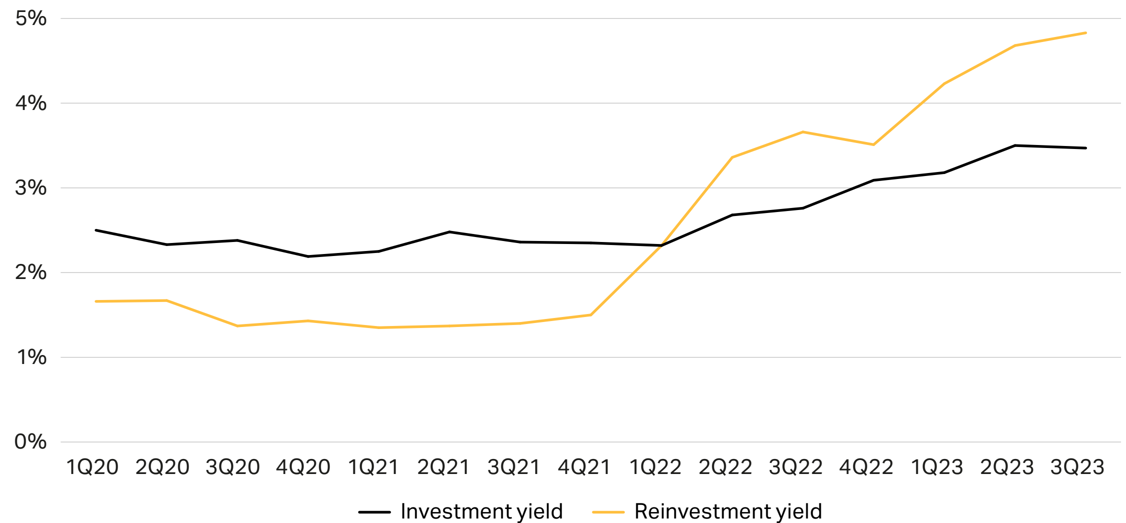
Figure 27 shows that the U.S. P&C insurance market has on balance performed better during macroeconomic conditions of high interest rates, particularly for periods where yields rose above 5%. Note the latest data points for 2023, which show a sharp dip in U.S. inflation and interest rates at their highest since the late 1990s, even if expectations for yields heading into 2024 are for reductions.

Figure 27: U.S. P&C sector return on equity vs U.S. consumer price inflation and interest rates – 1973 to 2023E (Source: Howden, BLS, Swiss Re, Insurance Information Institute)



Higher interest rates have changed the profitability equation for long-tail writers. Figure 28 shows reinvestment yields at 3Q23 across a composite of large insurers and reinsurers have more than doubled since 1Q22. The corresponding (but lagged) increase to overall investment yields saw a weighted average of 3.4% being recorded in 2023, significantly higher than the range of 2.3% to 2.7% in prior years. Most carriers reported higher net investment income in 2023 as a result, with positive contributions from shorter duration fixed-income investments supporting earnings.

Figure 28: Average investment yield for (re)insurance composite – 1Q20 to 3Q23
(Source: NOVA)



And there is more to come. Even accounting for sizeable reductions in yields late last year, interest rates are expected to remain relatively elevated for the foreseeable future (see Figure 29 for 10-year government bond yields in select advanced economies), providing a boost to future earnings as maturing assets are reinvested at higher rates. This point is visualised by Figure 30, which shows how a 200bps increase in yields could generate a 500bps improvement to return on equity if underwriting performance is maintained.

> “
> # Higher net investment income is an often-ignored tailwind.

Figure 29: 10-year government bond yields – 2010 to YE23 (Source: Howden, Bloomberg)

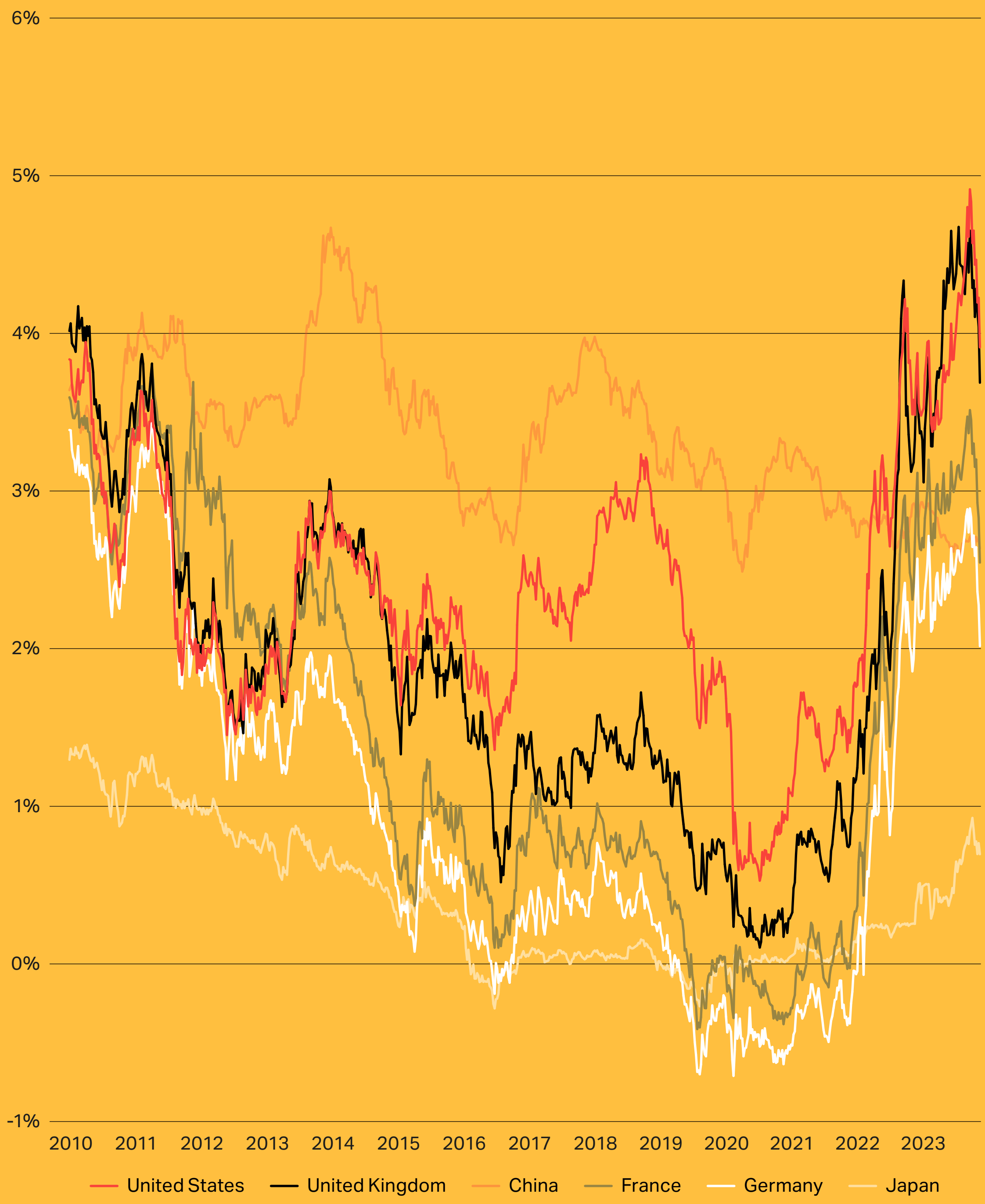
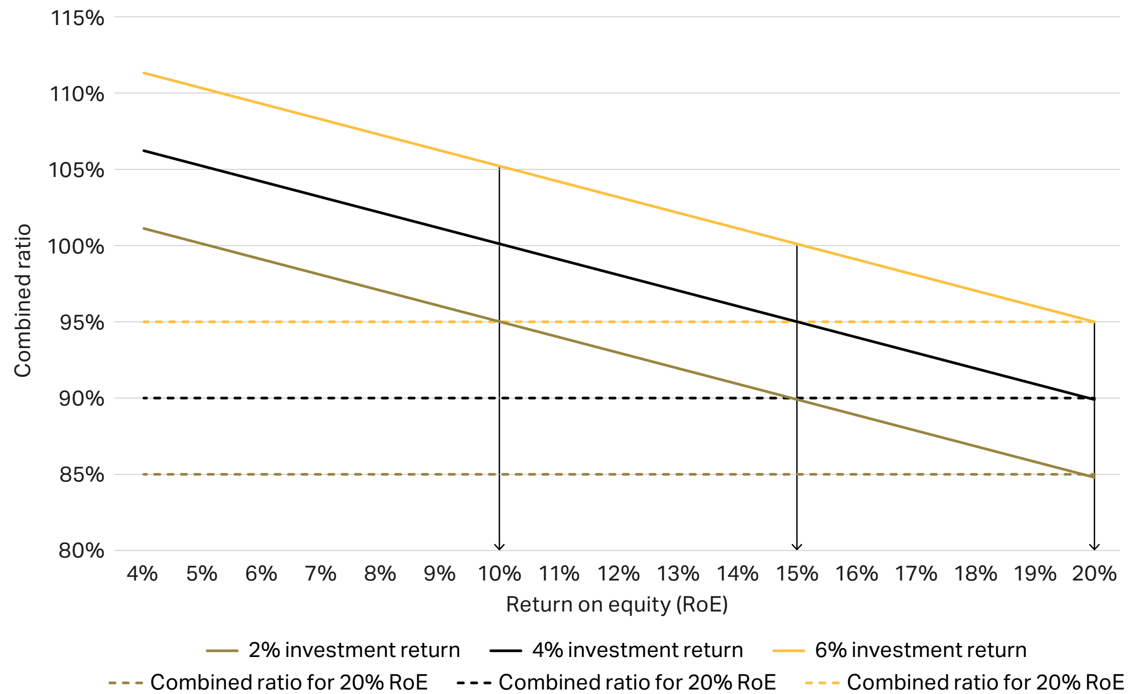


Figure 30: Impact of investment returns on return on equity (Source: Howden)



Impacts will vary depending on carriers' business mix, but this is a source (and quantum) of income that will alleviate pressures as carriers are able to underwrite at higher combined ratios and still earn or exceed cost of capital.

> "Higher interest rates have changed the profitability equation for long-tail writers.

2023: a world of risk

The volatile risk landscape came to the fore once again last year, as a high frequency of natural catastrophes pushed insured losses over the USD 100 billion mark for the fourth consecutive year.

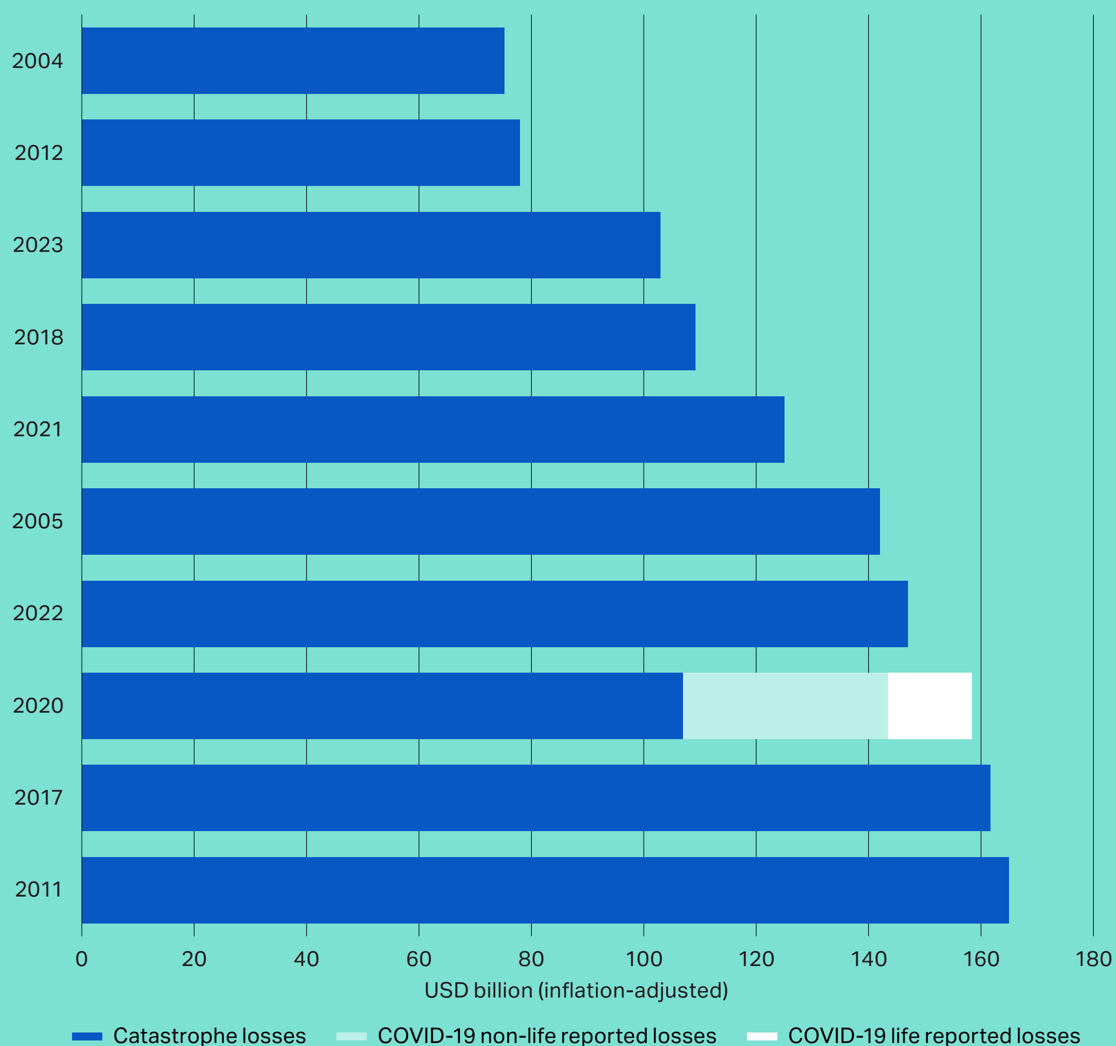
An already febrile geopolitical environment in the wake of Russia's invasion of Ukraine has been exacerbated by war in the Middle East and persistent tensions across the Taiwan Strait, prompting certain insurers to reduce exposures in hotspot areas. Such a tense geopolitical climate carries considerable threats, as demonstrated by rising civil unrest and resurgent cyber activity.

Risks are escalating as the world lurches from one crisis to another. COVID-19, Ukraine and now the Middle East have reset loss expectations, with war, cyber, PV and supply chain disruption becoming increasingly intertwined and coinciding with extreme weather events as climate change intensifies.

An analysis of the industry's largest loss years on record – as shown by Figure 31, with National Flood Insurance Program (NFIP) claims excluded – underscores the painful run sustained by insurers and reinsurers in recent times. Despite no major individual loss in 2023, it still ranks as the eighth most expensive on record.

> “The tense geopolitical climate has exposed considerable risks.

Figure 31: Top 10 largest loss years on record[6]
(Source: NOVA, Swiss Re, Insurance Information Institute)



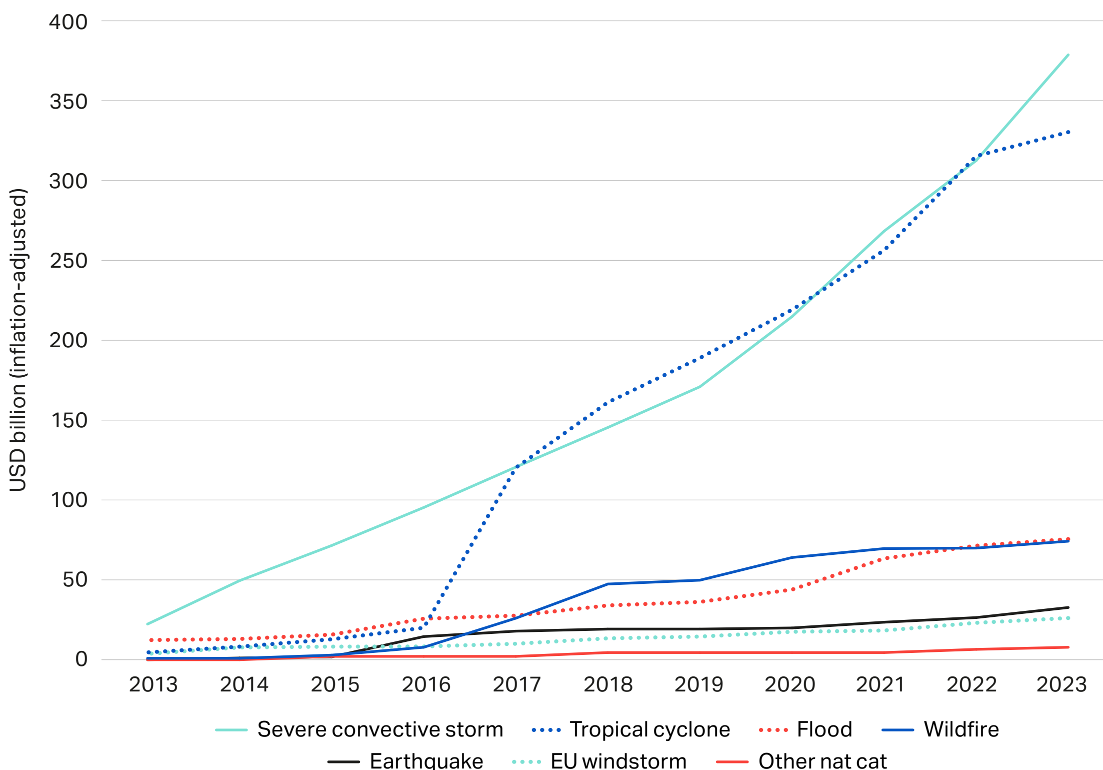
[6] Includes natural and man-made catastrophes, as well as COVID-19 losses for 2020, but excludes losses from the National Flood Insurance Program in the United States.

Climate: elevated risk and retentions

Climate risk has once again been the catalyst for market change. Losses caused by extreme weather events in recent years have been notable not only for their mix but the quantum of what were once considered to be high frequency, low severity perils such as severe convective storm, flood and wildfire.

Figure 32 shows cumulative losses by peril over the last decade or so. Following benign activity during the early phases of this timeframe, the market has paid more than USD 750 billion of insured natural catastrophe losses since 2017, with severe convective storm the biggest contributor.

Figure 32: Cumulative global insured natural catastrophe losses by peril – 2013 to 2023
(Source: NOVA)

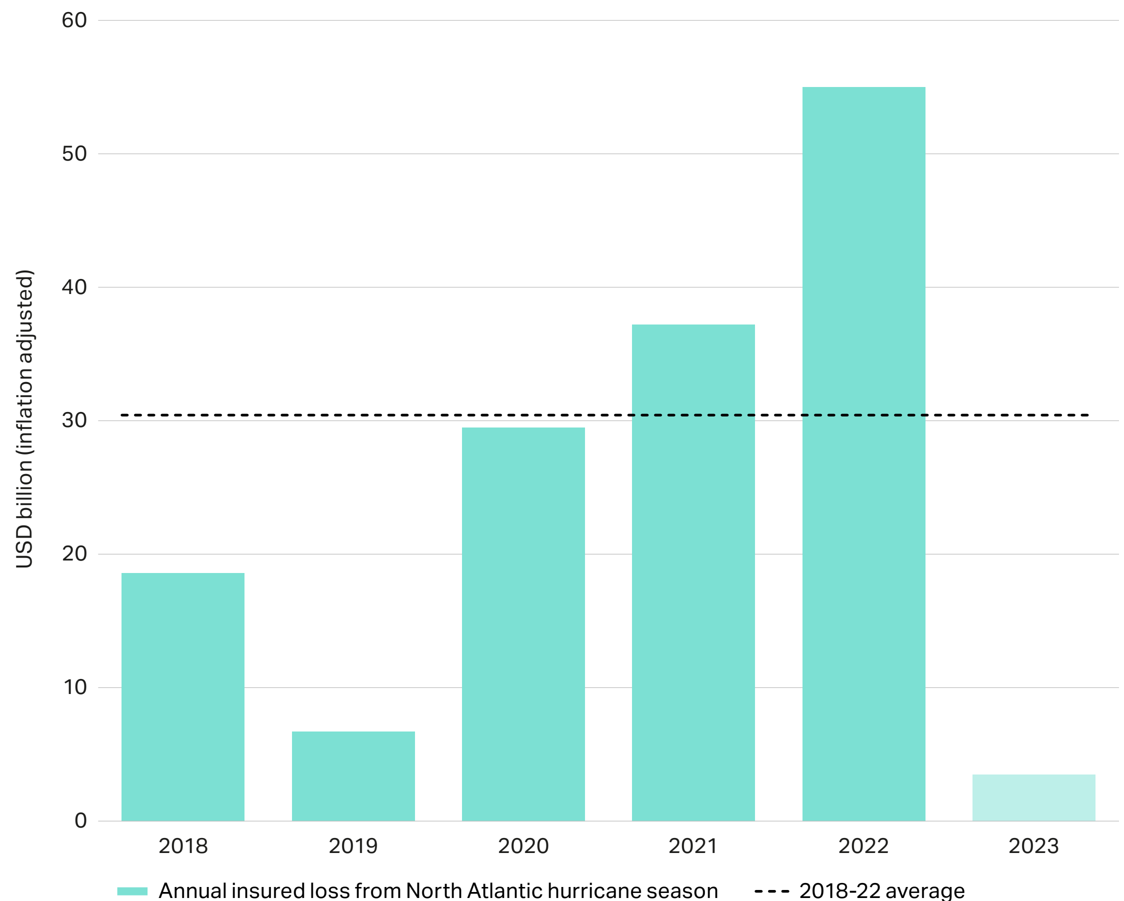


Climate risk has once again been the catalyst for market change.

2023 stood out for the high number of low-level catastrophe losses. This reflected a relatively quiet North Atlantic hurricane season (from a claims perspective at least – see Figure 33) and losses being driven by smaller-scale atmospheric events.

A succession of severe convective storms in the U.S. pushed related losses above USD 50 billion for the first time whilst activity in Europe, Italy particularly, added to loss burdens for this peril. Other devastating events in 2023 occurred in territories where protection gaps remain high, including Türkiye (earthquake), Slovenia (floods) and Mexico (Hurricane Otis).

Figure 33: Insured losses from North Atlantic hurricane season – 2018 to 2023 (Source: NOVA)



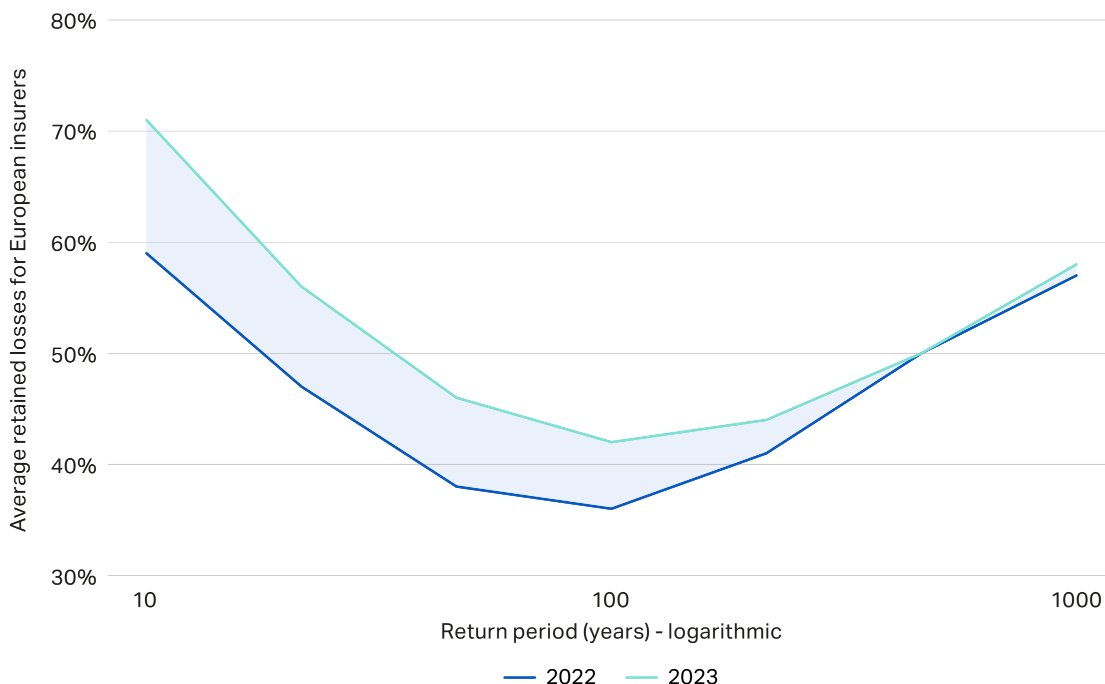
The return of the El Niño climate pattern played an important role in driving loss activity in 2023. In addition to substantially reduced North Atlantic hurricane losses, an extremely active season in the Eastern Pacific, where El Niño typically enhances storm development, produced eight major hurricanes, including Hurricane Otis, which made landfall near Acapulco as a category five storm.

Other major Pacific hurricanes to make landfall in Mexico over the last decade all occurred during El Niño phases, including Odile (2014), Patricia (2015) and Lidia (2023). Otis is thought to have caused insured losses of up to USD 5 billion, and is the latest in a series of hurricanes in the Atlantic and Pacific to undergo rapid intensification pre-landfall (100mph+ in 24 hours in the case of Otis).

Luck was a factor in limiting large loss activity last year, as Hurricane Idalia came ashore as a category 3 storm along one of the least populated areas of the Florida coastline. Landfall close to Tampa, which at one point fell within Idalia's projected cone, would have likely resulted in a double-digit billion insured loss.

The frequency-led nature of loss activity in 2023, combined with the attachment changes made to reinsurance treaties at the turn of the year, saw insurers retain the vast majority of losses. The latter point represents a structural shift in loss distribution, leaving cedents with increased earnings volatility. According to analysis carried out by Howden Tiger,[7] insurers are now retaining an average of 10 percentage points more in expected losses than they did prior to 2023 renewals. Data from Moody's also shows that insurers are bearing more losses than previously, especially for lower return period events - see Figure 34.

Figure 34: Retentions for European insurers by return period – 2023 vs 2022[8]
(Source: Moody's)



This has brought cascading effects across the entire value chain of the property market. Insurers, reeling from some of the worst U.S. personal lines losses in decades, pulled out of high-exposure, high-volatility states like Florida and California last year, compounding the shortage of supply in the direct market at a time of high demand.

Whilst mitigated at the margins by new MGA and fronting capacity, businesses with risks in catastrophe-exposed areas look set to continue to encounter insurability challenges this year. Those with assets in less exposed areas can expect more favourable conditions, although carriers will continue to focus on portfolio remediation and price adequacy.

[7] Howden Tiger, *Today's Natural Catastrophe Portfolio: A Balancing Act*, September 2023.
[8] European insurers' average net PML / gross PML for various natural catastrophes (defined by their return period) in 2022 and 2023. Results from Moody's *Catastrophe Risk Management Survey*.

“

Luck was a factor in limiting large loss activity last year, as Hurricane Idalia came ashore as a category 3 storm along one of the least populated areas of the Florida coastline.

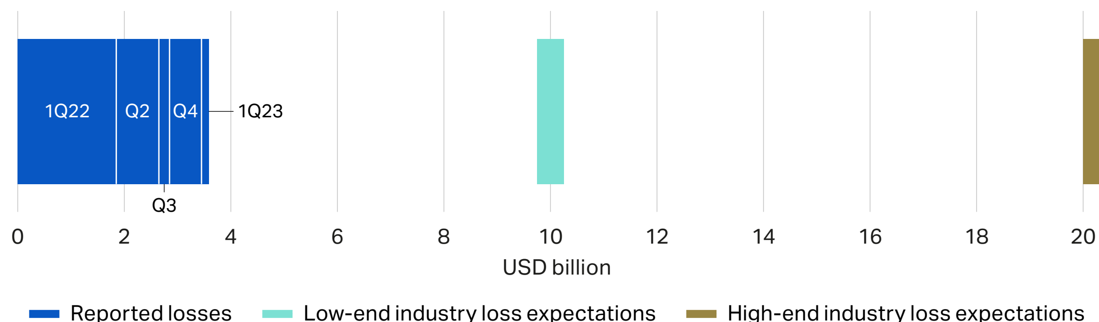
Geopolitics: a world in flux

Geopolitics has played a dominant role in shaping the risk and loss environment in recent years. Escalating tensions in the Middle East (including recent shipping disruption in the Red Sea) come as war continues to rage in Ukraine. A number of speciality lines have been affected, including PV, aviation, marine and energy, all of which are concentrated in the Lloyd's market. Heightened geopolitical tensions globally are expected to result in additional price increases and tighter terms across a number of specialty lines this year.

The fallout from the Ukraine war continues to play out, with some positive signals in the aviation market following settlements between lessors and Russian airlines raising hopes that market losses could fall towards the low-end of early expectations.

Figure 35 shows Ukraine war-related losses reported by individual (re)insurers since the outbreak of hostilities in 1Q22. Most carriers did not add to reserves in 2023, as access for loss adjustors continues to be difficult and visibility around how losses will develop remains unclear. Direct insured losses from the Israel-Hamas war currently look set to be more contained, although escalation would see exposures increase significantly and poses a risk to recent global disinflationary trends.

Figure 35: Reported (re)insured losses for Ukraine war vs ultimate industry loss estimates
(Source: Howden, company reports)



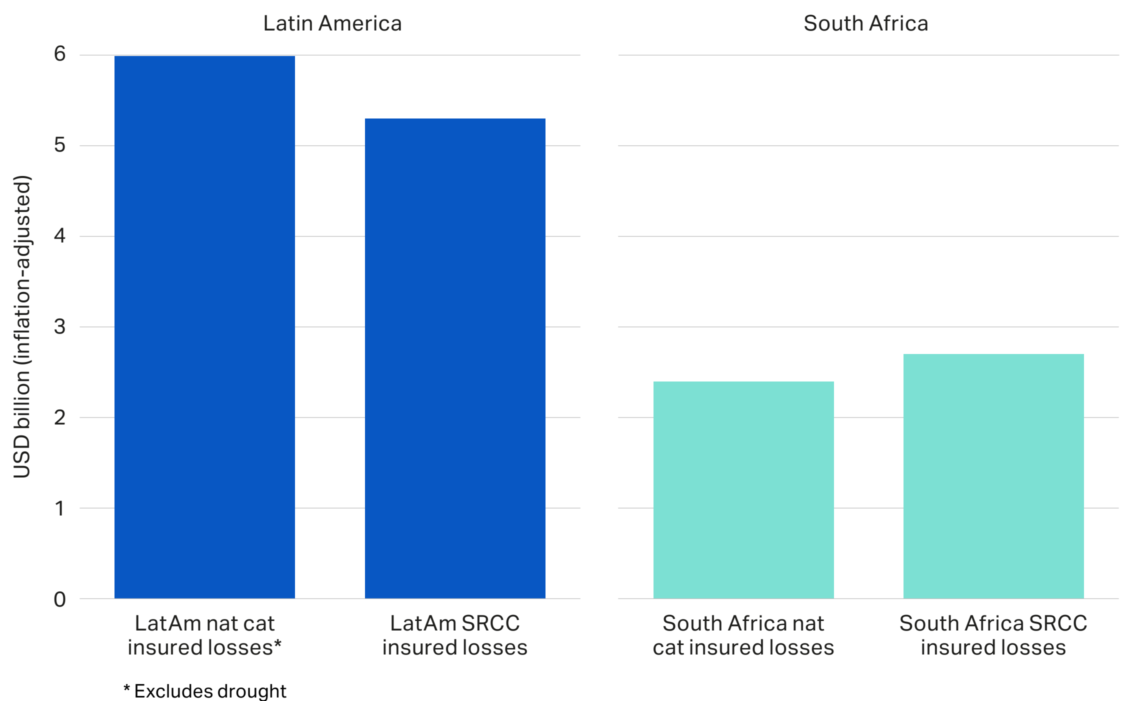
Recent events have shown how perils once viewed as distinct or independent – risks such as conflicts, social unrest, commodity price shocks and supply chain failures – can in fact be linked and strike simultaneously. The scale of events has moved loss scenarios from the theoretical to the real world and, in doing so, caused a marked shift in risk perceptions.

Widespread economic and political instability – fed by legacy-COVID-19 impacts, reset macro-fundamentals, growing rivalries between major powers and the tactical use of new technologies – was already generating more frequent acts of violence, only to be compounded further by increased instances of war and civil disorder.

Intensifying SRCC risks are a reflection of these megatrends, as well as long-standing grievances such as the rising cost of living, food and energy insecurity, falling real incomes, populism, polarisation, high levels of debt and perceived poor governance and corruption. The proliferation of social media is an additional complication, as the reach and near real-time information provided by platforms has seen incidents spiral quickly to affect multiple locations and increase the likelihood of loss aggregation.

The shift in loss profile has been stark. Increased frequency of severity has propelled the quantum of SRCC claims in certain territories, such as South Africa and Latin America, to rival or even surpass natural catastrophe losses (see Figure 36). That business leaders now see SRCC as the pre-eminent PV-related threat is testament to the scale of civil unrest, especially given the prevalence of active conflicts in Ukraine, Africa and the Middle East.

Figure 36: Natural catastrophe insured losses vs SRCC insured losses – 2015 to H123[9]
(Source: NOVA)



The (re)insurance market has absorbed big PV losses at 12 to 18 month intervals for successive years now. A number of property carriers have withdrawn SRCC cover, as a result. Risk appetite in the standalone market – still reeling from the unprecedented rise in SRCC losses, as well as the Ukraine war (which looks set to be one of the biggest PV losses ever) and now the outbreak of war in the Middle East – has also reduced significantly in hot-spot areas. Pressures are unlikely to relent this year, as more than 40 countries prepare to hold national elections.

Another challenged reinsurance renewal at 1 January 2024, where markers looked to increase pricing and further limit aggregation exposures, could see insurers facing multi-retention losses if damage occurs in multiple locations.

With PV insurers now holding significantly higher net positions, questions are being asked whether terrorism treaty products (created after the 9.11 attacks in 2001 to provide large vertical limits rather than sideways cover) are fit for purpose in today's threat environment. The need for new products that reflect the shifting threat spectrum has never been greater.

[9] Latin America = Central and Southern America (excludes the Caribbean).

Cyber: coming of age

Cyber insurance continued to live up to its dynamic reputation in 2023, as improved market conditions off the back of strong 2022 underwriting results coincided with resurgent ransomware activity and ongoing discussions around potential systemic losses.

Having navigated the early phases of development that often come with new, fast growing lines of business – cautious approaches initially, growing confidence off the back strong profitability, market changing losses and capacity withdrawals (leading to the cost of cyber insurance more than doubling between 2020 and 2022) – competition is now returning to the market.

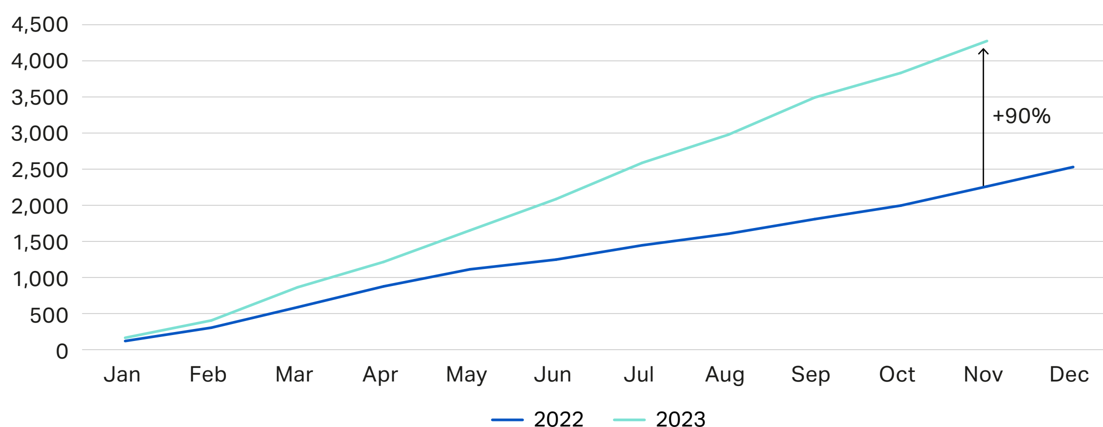
In addition to price decreases, usually in the single- to low-double-digit range, insurers are also willing to increase limits, remove cover restrictions (ransomware-related) and lower retention levels. Easing conditions reflect the underwriting actions taken by carriers during the hard market, alongside considerable investments made by businesses in improving their risk postures, especially for ransomware.

Hardened cyber defences have left companies less vulnerable to prolonged disruption or outsized losses in the event of a cyber attack. Businesses are taking advantage of more favourable market conditions by increasing limits (existing buyers) or purchasing cover for the first time (new buyers).

Strengthened cyber resilience is paying dividends for policyholders now attacks are ramping up. After a relative lull in 2022, ransomware activity returned to dominate the cyber threat landscape in 2023. Established gangs, starved of funds following the drop in revenues last year, along with the emergence of new groups, are driving the acceleration in frequency. There has also been a steady increase in U.S. privacy claims due to increased biometric breaches and pixel litigation.

Figure 37 compares cumulative ransomware activity in 2022 and 2023, with the latest data from NCC Group in November showing frequency up 90% compared to the corresponding period last year. Companies across a wide spectrum of sectors and geographies (albeit U.S. predominantly) are being targeted.

Figure 37: Cumulative global ransomware activity by month – 2023 vs 2022[10]
(Source: Howden, NCC Group)



[10] NCC Group tracks ransomware groups operating the hack and leak double extortion tactic by monitoring leak sites and scraping victims' details as they are released.

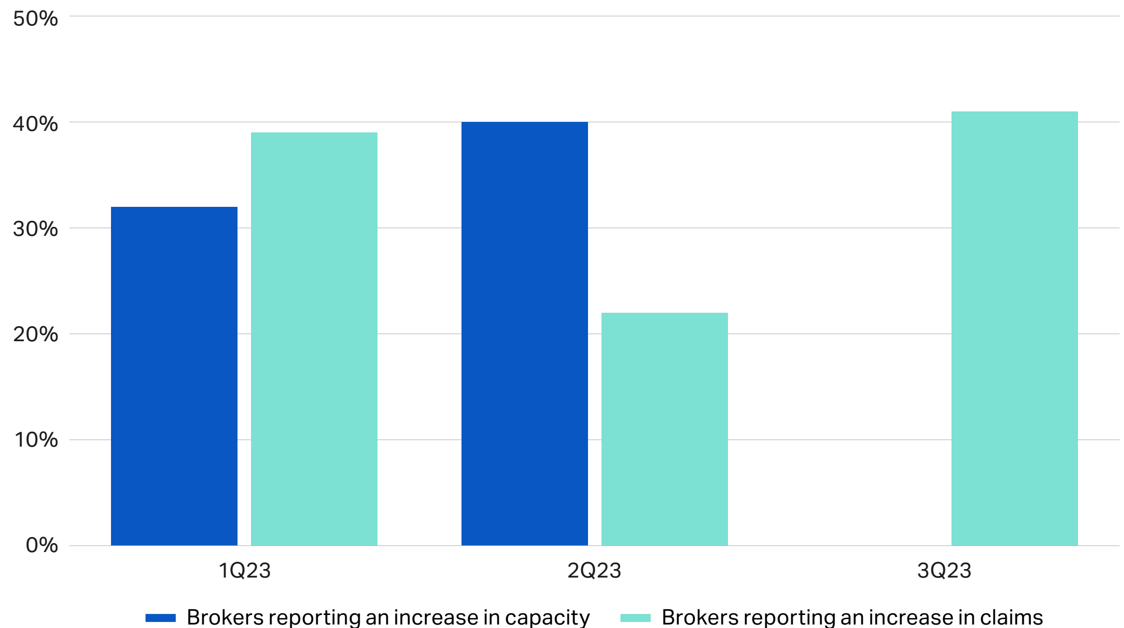
Risk aggregation and the spectre of systemic attacks also continued to be areas of focus last year. War exclusions took centre stage, as rising geopolitical tensions prompted certain markets to look to clarify their positions around what is insurable. The MOVEit attack in May was another reminder of how companies need to manage supply chain risk, even if losses look manageable at this stage.

Investment in cyber security is crucial in this environment. Improved risk management not only makes organisations more resilient to financially motivated cyber attacks, but it also means that they are better prepared to navigate a volatile geopolitical climate that carries considerable cyber risks.

Indeed, the number of new significant wiper malware attacks detected in 2022 exceeded the combined number recorded during the previous 10 years, with most activity linked to the Russia-Ukraine war. Risks have become even more acute following the sudden breakout of war in the Middle East. The reach and duration of both conflicts are likely to have profound effects on global cyber security.

Bringing all this together, cyber insurance is at a decisive moment in its growth journey. More capacity is entering the market – traditional carriers predominantly, but also InsurTechs focussing on the SME market – and underwriting performance remains strong. Despite the uptick in cyber activity, it has not (yet, at least) been accompanied by claims (severity) akin to what was experienced during 2020 and 2021. Figure 38 charts trends around capacity and claims in the U.S. through the first nine months of 2023.

Figure 38: Capacity and claims trends in U.S. cyber market – 1Q23 to 3Q23
(Source: Howden, CIAB)



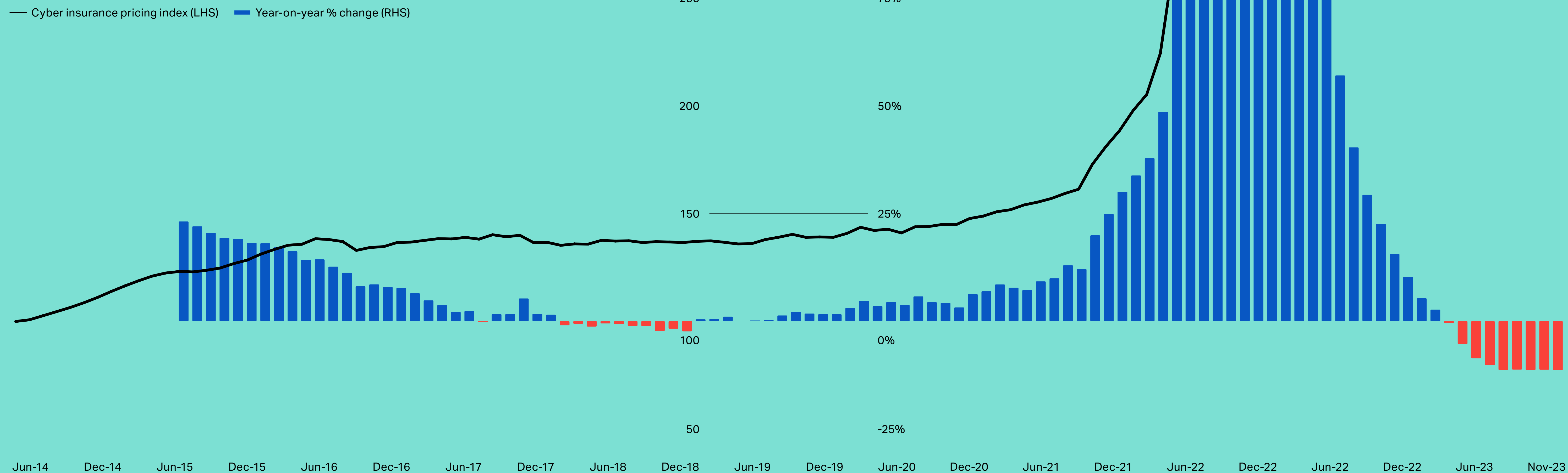
All of which puts price adequacy front and centre for 2024. With new and existing carriers striving to hit their (ambitious) growth targets, rate decreases were recorded for the first time in five years in 2023.

Howden's Global Cyber Insurance Pricing Index in Figure 39 shows how pricing levels decreased through much of 2023 following accelerated year-on-year reductions before stabilising towards year-end. Outcomes varied significantly by sector, region and risk profile, with competition highest in remote risk layers. Discipline was largely maintained in primary layers, and pricing overall remains at historically high levels (as shown by Figure 39). Certain risks received more substantial decreases as insurers remedied overcorrections made during the hard market.

The buyer-friendly environment is likely to persist into 2024 with single- or low-double-digit decreases in premium, although upward adjustments may be necessary should the elevated threat environment translate into higher claims activity.

Prospects for cyber insurance look strong in 2024. Additional capital is entering the market following strong and broad support from investors for a number of cyber catastrophe bond transactions last year. The end of the hard market cycle is also seeing insurers adapt products to meet clients' needs across all segments and geographies. By simplifying the underwriting journey for middle market clients and unlocking capacity for larger risks whilst growing into new territories, U.K. (retail) and Europe particularly, the market is well positioned for further growth.

Figure 39: Howden's Global Cyber Insurance Pricing Index – 2014 to 4Q23
(Source: NOVA)



2024: risk brings opportunity

2023 ended on a strong note from a macroeconomic perspective as resilient growth, steeper than expected falls in inflation and lower yields coalesced to drive a robust rally in financial markets.

The S&P 500 ended the year just shy of its all-time high, reflecting growing optimism that a 'soft landing' for the U.S economy and easing prices have brought an end to the cycle of rate rises. The U.S. bond market (as per the Bloomberg U.S. Aggregate Bond Index) recorded its best monthly performance for decades in November 2023.

Despite some improvement in financial market conditions, headwinds persist. Expectations heading into 2024 are for modest growth across advanced economies, with downside risks linked to a rebound in inflation and any further geopolitical shocks. Figure 40 plots projected growth for the top 20 economies in 2024 and 2025 against recorded performance between 2014 and 2019, a period of relative economic underperformance. Most major economies look set to register lower growth this year and next compared to pre-COVID years, with China likely to experience a marked deceleration

Figure 40: Projected 2024-25 GDP growth vs recorded performance in 2014-19 for top 20 economies (Source: Howden, OECD, Bloomberg)

Macro outlook

Political turbulence in what has been termed by some as the 'biggest election year in history', alongside the risk of escalation from ongoing wars (including the elevated threat to shipping in the Red Sea) and any attendant inflationary spike, pose elevated risks in 2024.

Tighter financial conditions in advanced economies will likely keep economic activity below trend this year. China faces challenges of its own as waning growth momentum reflects a property crisis, deflation, weak demand (domestic consumption and services) and a mixed external environment (trade tensions countered by the structural shift to electric vehicles).

Inflation in other major economies is expected to continue to fall in 2024, although the route back to target could still be bumpy as disinflationary forces fade. Figure 41 reveals the sharp slowdown recorded for headline inflation across select economies last year (left-hand chart), but also persistent pressure from items such as labour costs and service prices that kept core inflation much closer to its peak in most advanced economies (right-hand chart).

Figure 41: Peak vs current levels of inflation in select economies
(Source: Howden, government statistics)

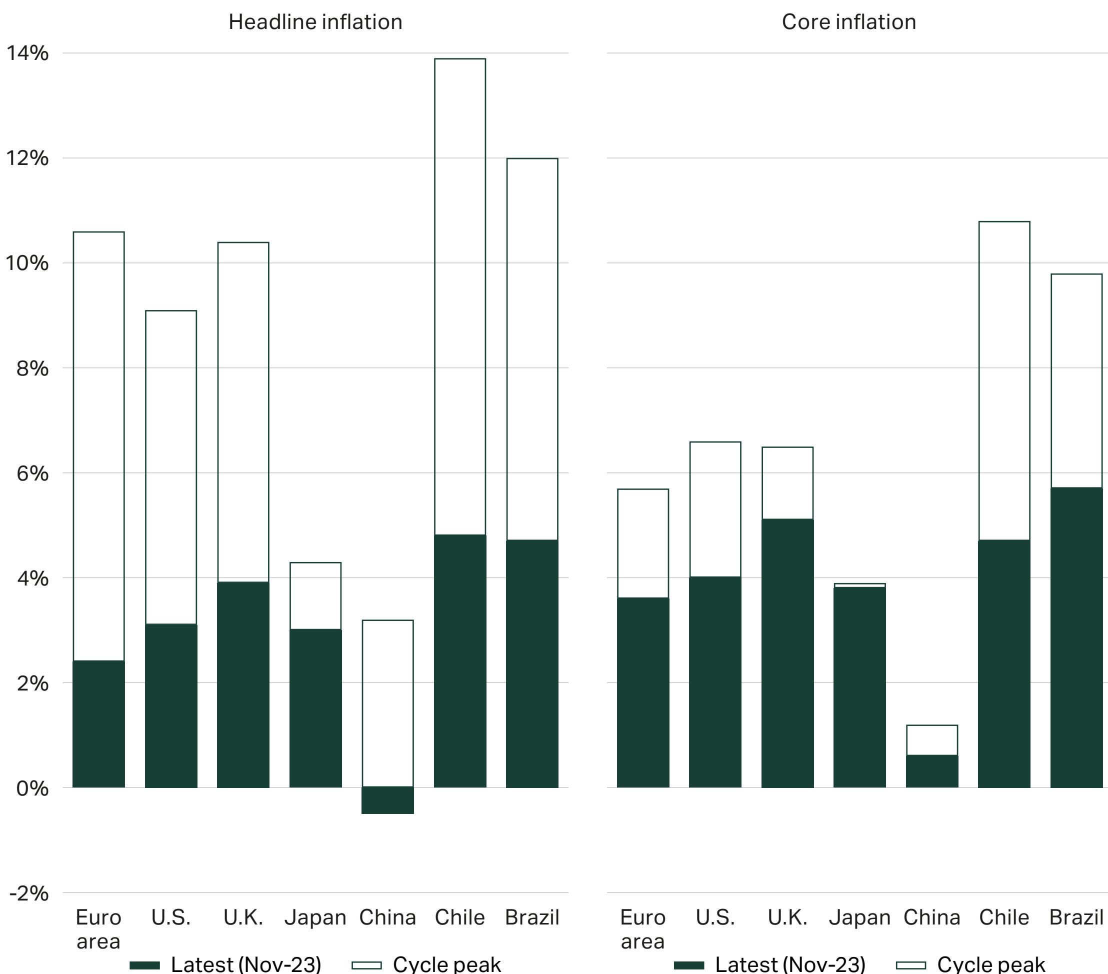
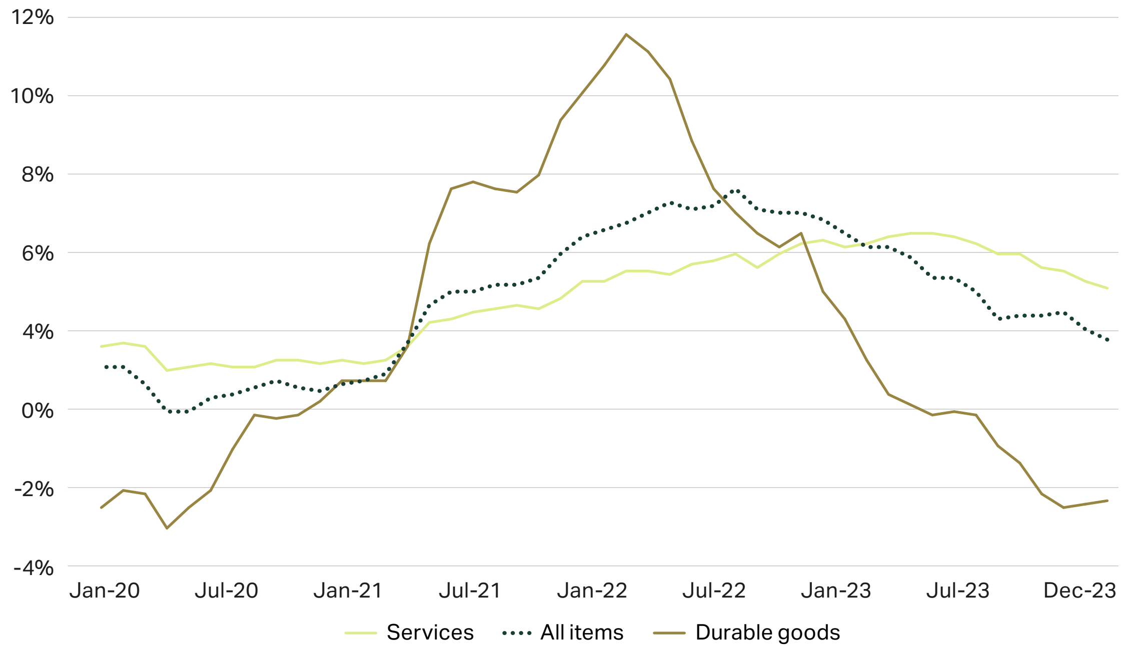


Figure 42: U.S. Personal Consumption Expenditures Price Index – 1Q20 to 4Q23
(Source: Howden, Bureau of Economic Analysis)



"

Inflation is expected to continue to fall in 2024, although the path back to target could still be bumpy as disinflationary forces fade.

Services inflation in the U.S. remains elevated following a sharp reversal in goods inflation, which fell into deflation territory in the latter half of last year (see Figure 42). Bond market-based measures of forward inflation have long-term expectations anchored close to target. Following the peak of 5-year and 10-year U.S. breakeven rates in the immediate aftermath of Russia's invasion of Ukraine in 2022, they have since fallen back to the top-end of more normalised ranges (see Figure 43).

The course of inflation this year will be a key input into (re)insurance demand, loss cost inflation and investment income.

Figure 43: U.S. breakeven rates for 5-year and 10-year inflation-linked Treasury securities – 2010 to 2023 (Source: Howden, Bloomberg)

“

Inflation volatility, climate change, the net-zero transition, civil unrest and war are difficult to predict, and the (re)insurance market has a crucial role to play in indemnifying losses when they occur.

Rising to the challenge

The macroeconomic backdrop is just one of several factors that will shape market developments from here. Others, such as social inflation, climate change, the net-zero transition, civil unrest and war, are more difficult to predict, whilst elevated levels of debt and higher interest payments mean governments are less willing and able to backstop risk.

(Re)insurers have long played a crucial role in indemnifying clients when losses occur and there are now opportunities to support mitigation and adaptation initiatives by offering risk reduction incentives to policyholders and rewarding positive measures.

Development of new solutions in areas like this will be crucial to safeguarding the insurability of assets in catastrophe-exposed zones. Reality must match the rhetoric around creating new products and driving exposure growth (in addition to rate growth). The supportive pricing environment cannot be allowed to breed complacency where underwriters accept rate on renewals but shy away from new risks.

(Re)insurers are in a strong position to step up and deliver. Even after the effects of inflation and another USD 100 billion plus loss year, the sector recorded much improved profitability in 2023 (see Figure 44). Future prospects look equally positive, as investment income will continue to benefit from higher reinvestment yields and underwriting performance is sustained by favourable pricing.

This is especially true for the reinsurance market, following adjustments to programmes through last year's renewal cycle. These tailwinds in the round are likely to be sufficient in offsetting higher claims inflation.

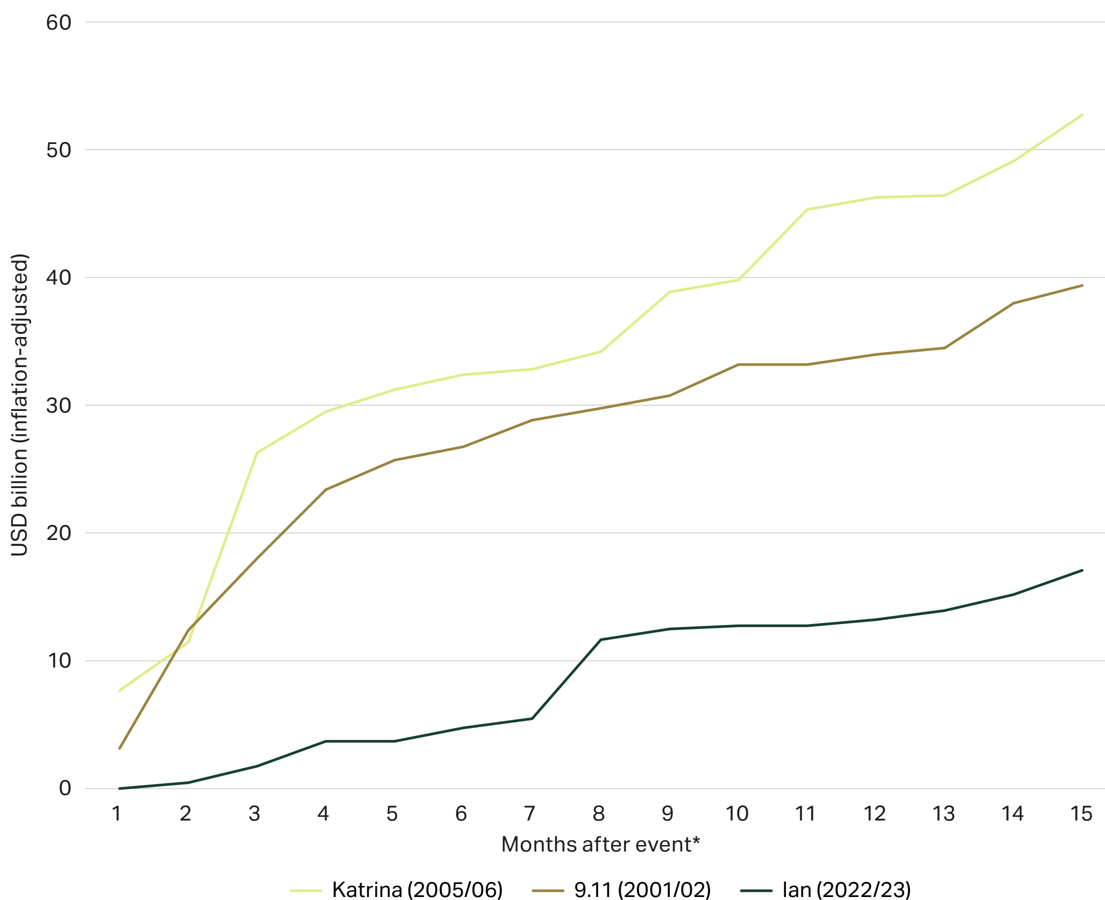
Figure 44: Drivers of net income for (re)insurance composite – 9M21 to 9M23 (Source: NOVA)

Risks are escalating as the world lurches from one crisis to another. This is the moment for brokers and carriers to step up and find creative solutions that safeguard the insurability of assets exposed to a myriad of risks.

Capital inflows

Capital will be crucial to servicing growing demand for (re)insurance protection. Whilst the reinsurance sector has previously attracted substantial amounts of capital following major events to compensate for the loss of capacity and leverage attendant pricing opportunities, muted investor appetite has contained inflows since Hurricane Ian hit Florida in September 2022 (see Figure 45).

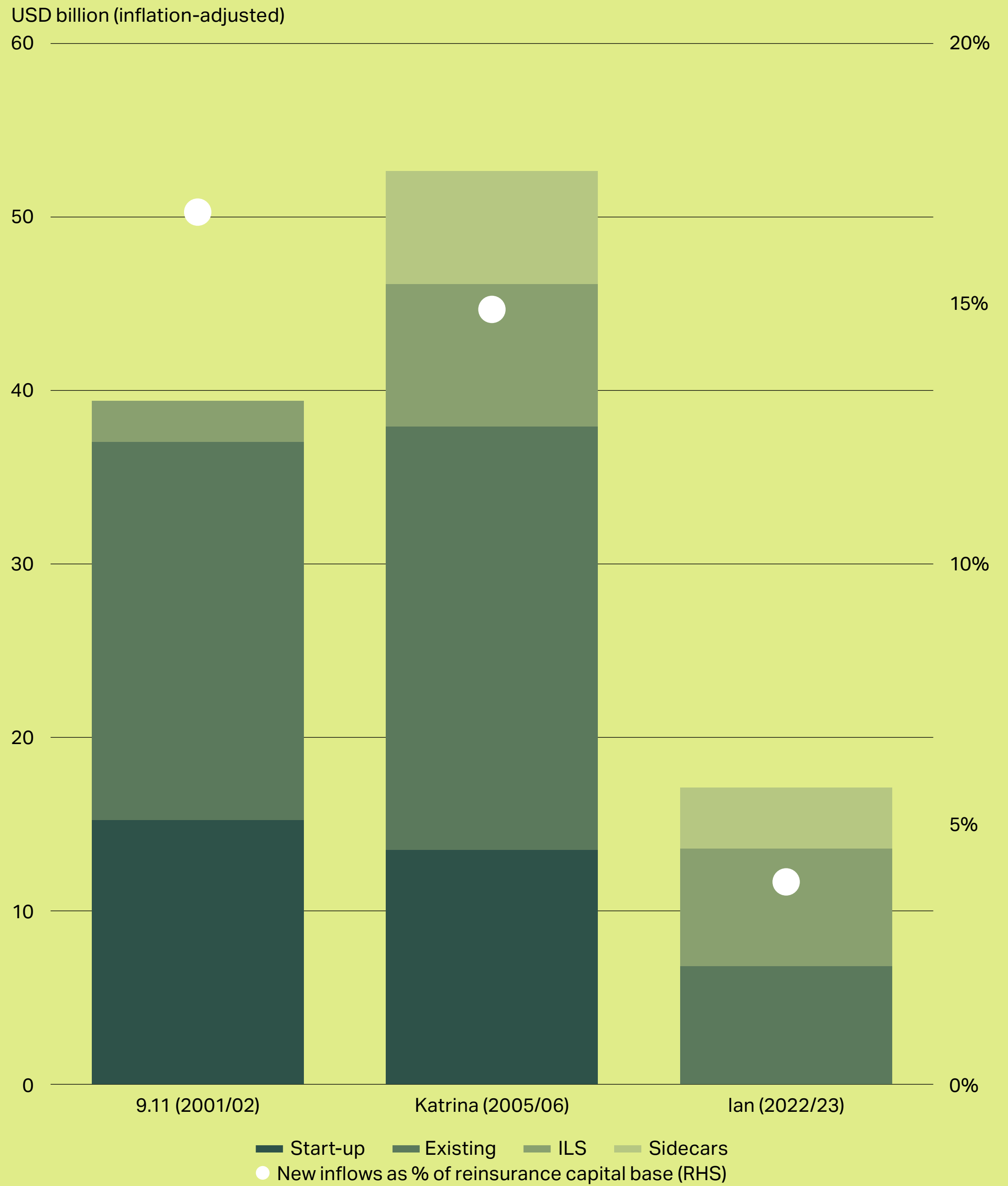
Figure 45: Quantum and timeline of cumulative capital inflows following 9.11, Hurricane Katrina and Hurricane Ian[11] (Source: Howden, S&P, Artemis)



Whereas inflows in 2001/02 and 2005/06 accounted for close to 15% of the sector's capital base at the time, the equivalent figure for 2022/23 is less than 5% (as shown by Figure 46). This may reflect in part better loss outcomes for reinsurance and retrocession for Ian compared to those that followed Katrina and 9.11. Of the USD 17 billion of capital to enter the market in the last 15 months, 40% was channelled into ILS vehicles, with the remainder committed to existing players and sidecars. No start-ups got off the ground, although some could emerge this year.

[11] Includes publicly available data on capital raises by new and incumbent carriers, as well as new capital allocated to catastrophe bonds and sidecars.

Figure 46: Breakdown of capital inflows following 9.11, Hurricane Katrina and Hurricane Ian[11]
(Source: Howden, S&P, Artemis)

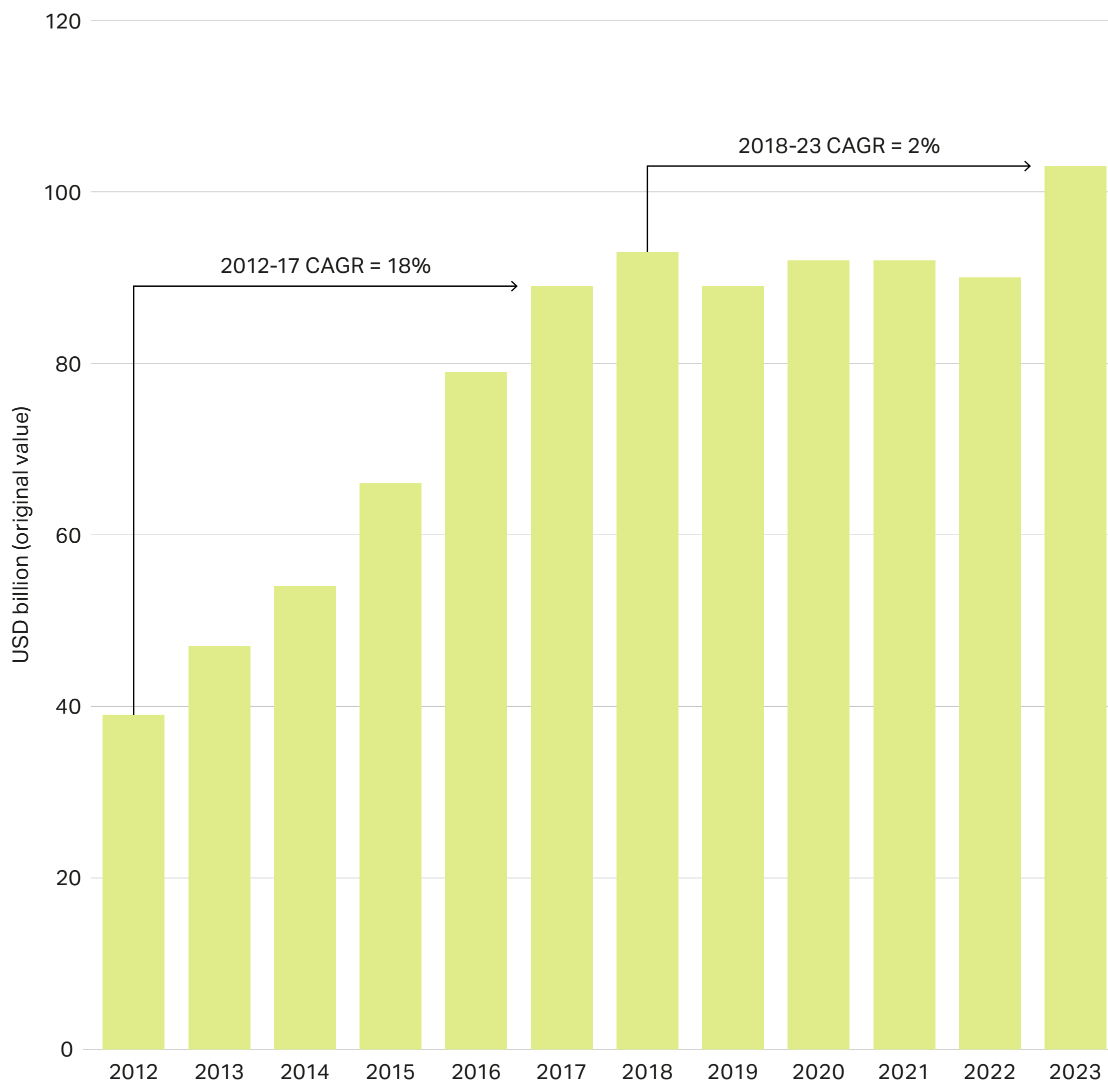


Interest rate normalisation was a major factor in moderating inflows last year, as returns in other asset classes became more attractive. Lacklustre performance pre-2023, alongside concerns about climate change and the credibility of catastrophe models, also influenced investment decisions, particularly after a succession of losses since 2017.

This is reflected by growth dynamics in the alternative market, which have plateaued since 2018 (see Figure 47). The catastrophe bond market nevertheless saw strong transaction activity in 2023, as cedents tapped into capital markets' appetite for clearly defined and higher-attaching layers of property-catastrophe risk.

Heightened investor interest in catastrophe bonds accelerated the rotation away from collateralised reinsurance and sidecar structures as the attraction of high returns and coverage clarity led to record 144A issuance.

Figure 47: Size of the alternative reinsurance market in real terms – 2014 to 2023
(Source: NOVA)



Improving prospects

Sentiment appears to be shifting, as reflected by plentiful supply and over-placements at 1 January 2024. Higher returns on offer in what is the best underwriting environment for decades makes reinsurance an attractive proposition for 2024. Capacity providers, whilst cautious in light of recent experience and conscious that price adequacy is not static, look set to deploy more capital in 2024.

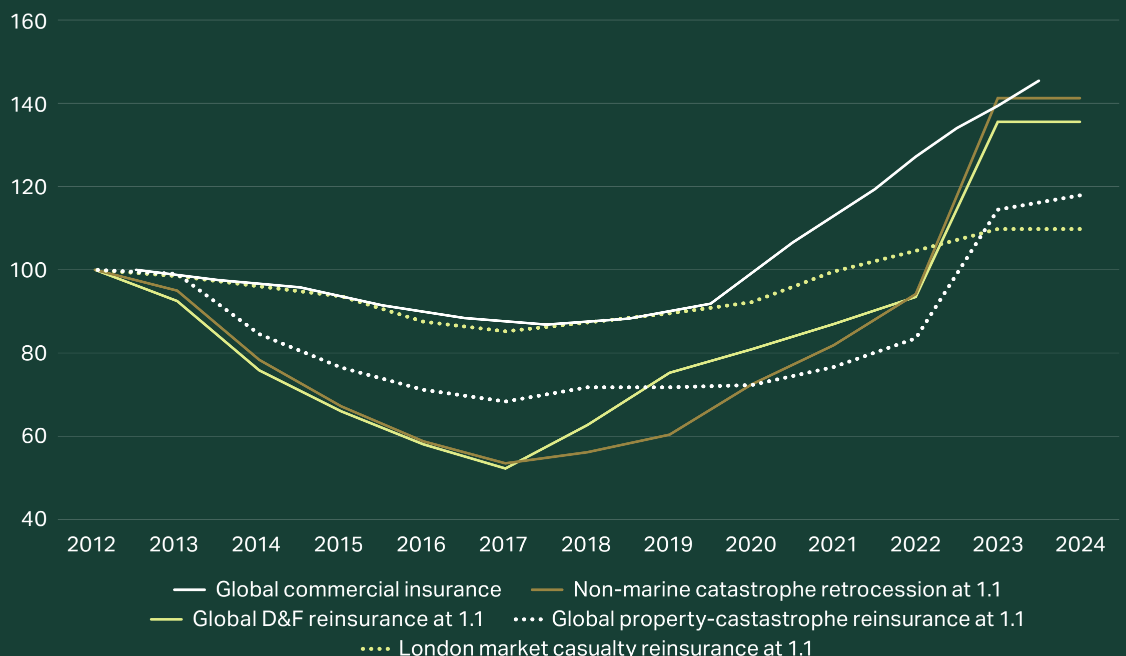
The ability to demonstrate profitability over the long-term will be crucial to securing commitments: expected returns need to become realised returns. Given the backdrop of elevated catastrophe losses, growing populations in high-risk areas, climate change and broader geopolitical and inflationary trends, capital providers are looking for evidence of strong underwriting performance over a sustained period and across cycles.

Results in 2023 and another round of favourable renewals in 2024 portend well for the foreseeable future. Figure 48 shows how differing rate momentum across commercial and reinsurance lines has partially reversed the long-standing lag for reinsurance. Market appetite is likely to increase in the next year as margins improve, and reinsurers are receptive to working with clients to find new solutions in the current environment of increased retentions.

Securing access to capital will be a key differentiator for (re)insurers, ILS funds, MGAs and hybrid structures, as a broad spectrum of investors weigh up opportunities beyond property-catastrophe reinsurance. This plays to the strategic investments Howden has made in these areas in order to facilitate inflows, create capacity and find solutions for clients across the (re)insurance value chain.

Current market conditions demand a new approach to broking that is cycle-savvy, innovative, aggressively entrepreneurial and home to the sector's strongest talent. Welcome to Howden.

Figure 48: Howden pricing index for primary, reinsurance and retrocession markets – 2012 to 2024 (Source: NOVA)



Expert advice in extraordinary times

The 2020s have brought profound change for businesses and risk carriers, heralding an era of higher interest rates, heightened geopolitical tensions, elevated catastrophe losses, supply chain vulnerability, cyber risks, civil unrest and potential loss aggregation.

Global crises are following each other in rapid succession, and the value and importance of (re)insurance comes to the fore during such volatile times.

Unlocking capital in order to find solutions for rapidly changing risks will be crucial to maintaining relevance and offering clients coverage that meets their needs. The megatrends driving extraordinary change reinforce the need for access to original insights and research.

As an intermediary, we are conscious of our position in the market and our responsibility to inform the discussion in the interests of clients. This paper attempts to do just that. By bringing important sector trends to the fore, Howden is leading the discussion, enabling us to facilitate the most innovative client solutions.

We look forward to working closely with insurance and reinsurance companies in this endeavour, and supporting clients in managing change and securing the best coverage available in the marketplace.

Meet the experts

Julian Alovisi
Head of Research

julian.alovisi@howdengroup.com

Tim Ronda
CEO, Howden Tiger

tim.ronda@howdentiger.com

Bradley Maltese
CEO, UK & Global Specialties

bradley.maltese@howdentiger.com

Elliot Richardson
Chairman of Reinsurance

elliot.richardson@howdentiger.com

David Flandro
Head of Industry Analysis and Strategic Advisory

david.flandro@howdentiger.com

Michelle To
Head of Business Intelligence

michelle.to@howdentiger.com

Contact us at info@howdenbroking.com
or call us on 020 7623 3806.

One Creechurch Place, London, EC3A 5AF

T +44 (0)20 7623 3806
F +44 (0)20 7623 3807
E info@howdenbroking.com

howdenbroking.com

Howden Group Holdings Limited is registered in England and Wales under company registration number 2937398.
Registered office: One Creechurch Place, London, EC3A 5AF. Calls may be monitored and recorded for quality assurance purposes. 01/23