Reinsurance Market Dynamics

January 2024

Contents

About the Report

Aon's Reinsurance Market Dynamics report provides a comprehensive assessment of the key market trends observed during the January 2024 renewals period. Commentary on global reinsurer capital, alternative capital and rating agency perspectives on the macroeconomic environment offer insights on the potential direction of the global re/insurance industry and future renewals.

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Executive Summary: Differentiation Yielding Results in a Challenging Market

The January 1, 2024 treaty renewal proceeded relatively smoothly, as a rebound in profitability, rebuilding capital positions and greater availability of retrocession capacity encouraged many reinsurers to display increased appetites at the enhanced terms established in 2023. Higher primary insurance pricing provided support in most areas, offset by continued uncertainty around the impact of climate change, inflation, litigation funding and geopolitical risk on ultimate loss costs. These unknowns are keeping potential new investors on the side-lines, despite the expectation that most reinsurers will easily cover their cost of capital in 2023.

For many cedents, it was a challenging year. Capital buffers had already been eroded by unrealized investment losses going into 2023 and many were carrying less reinsurance coverage principally in the form of higher retentions forced by reinsurers in 2023. As it turned out, insured losses from natural catastrophe events were again at elevated levels relative to historic averages, driven mainly by an unprecedented impact from severe convective storm activity in the US and Italy, windstorm Ciaran in France, flood losses in New Zealand, flood and wildfire losses in Greece, a major earthquake in Turkey and Hurricane Otis in Mexico. There was also adverse loss development from the 2022 hailstorms in France. These loss events were partially retained by insurers which further eroded capital, introduced more volatility into underwriting results and resulted in increased rating agency scrutiny for many insurers which has driven some increased demand for reinsurance protection going into 2024.

These dynamics generated ample opportunity for Aon's treaty, facultative, investment banking, capital advisory and analytics teams to work closely to support insurers at 1/1, helping to differentiate their portfolios, navigate reinsurers' differing risk appetites and explore all options from both traditional and alternative markets. This approach is viewed as critical to achieving optimal outcomes in the current environment.

Broadly speaking, reinsurers were actively trying to achieve their desired signings at 1/1 given the level of returns at current pricing, terms and conditions. This was especially true for the mid and upper catastrophe layers for peak perils. But even beyond the property catastrophe segment, reinsurance pricing was flat to modestly up on a risk adjusted basis across most lines of business. Reinsurers were eager to improve their relationships with cedents and many strategically targeted key clients with whom to grow as they sought to secure broader diversification of their global reinsurance portfolio. This was not the experience for programs, segments and regions that ceded significant losses to the market in 2023 and from whom reinsurers demanded significant price increases for 2024.

Property Treaty: Growing Supply Meets Increased Demand

Demand for property coverage remained robust at the January 2024 renewals. Catastrophe limit purchased globally was up by low to mid-single digits year-on-year, with inflation still a contributory factor. Insurers recognize the opportunity to purchase additional capacity at the top of their programs but are generally constrained by the reality of budgets and current pricing levels. Earnings protection is highly prized in the current environment but remains difficult to secure on cost-effective terms.

Generally, insurers looked to reward reinsurers that were most supportive during the challenging 2023 renewals but also took into consideration those reinsurers that exhibited constructive behavior during the quoting process, responded in a timely manner and provided broad support across programs.

In a marked change from a year ago, most reinsurers entered the renewals with ambitions to grow in property catastrophe reinsurance and the market was therefore more consistent in its approach to pricing and terms. Appetite for peak perils and upper layers was generally strong, with a vibrant catastrophe bond market providing further competitive tension in certain markets. Some reinsurers were also more flexible in more challenging areas, such as peril-specific lower layers and aggregate covers, particularly where insurers were able to offer potentially profitable participations elsewhere.

Pricing pressure on upper layers was generally downward in the US, but upward in the EMEA region, areas with ceded loss activity in 2023, notably Italy, Greece and Turkey. Thanks to the increase supply, European Insurers were able to align the pricing on their panel and limit the differences in conditions from the previous year. Deductibles were generally stable, having undergone significant adjustments a year ago, but loss-affected regional insurers and European markets saw further increases. Discussions around other terms and conditions were more consistent and constructive across programs than a year ago, when reinsurers sought to narrow coverage for natural catastrophes. In Europe, the capacity for strikes, riots and civil commotion (SRCC) was available but with further territorial restrictions for the aggregation of losses. Some insurers were able to expand coverage again at the January 2024 renewals, while others were able to achieve broader consistency in wordings across their full reinsurer panel.

Property per risk renewals remain challenging due to loss activity, but structural changes, including increased retentions, are expected to attract more reinsurers to support the segment going forward, following the withdrawal of some markets in recent years.

Casualty Treaty: Favorable Outcomes Despite Varied Reinsurer Risk Appetites

Some reinsurers adopted a tougher stance ahead of the January 2024 casualty treaty renewals, against a backdrop of prior-year reserve deterioration and concern for adverse litigation trends. Others recognized the earnings potential of improving primary casualty pricing and higher interest rates. Appetites therefore varied, but ultimately capacity was ample. The main concern outside of the US was international general liability policies containing US exposures. Discussions were otherwise focused firmly on risk-adjusted rate and insurer differentiation. Generally, programs were completed in line with, or better, than expectations.

General casualty excess of loss business renewed, on average, at mid-single digit risk-adjusted rate increases. There were no significant changes to program structure or conditions. Retentions were stable, although recent positive underwriting results gave casualty insurers options and room to push for concessions from reinsurers. With adequate capacity available, quota shares were flat to slightly down. Insurers who experienced outsized adverse development saw more significant reductions in commissions, but they rarely outpaced the increase in projected loss ratios.

For professional lines, quota share commissions were scrutinized, with a general downward trend being the outcome, dependent largely on prior-year loss emergence and rate change miss. Excess of loss treaties needed to be risk-adjusted rate change positive; the range varied from very-low single digit to high single digit increases. Loss-affected accounts were dealt with on a bespoke basis.

Interest and deal activity in the alternative reinsurance and legacy space remains strong.

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We provide additional detail on the property and casualty segments as well as the alternative, facultative and specialty markets in this report.

Regional Insurers: Similar Challenges across Regions

While last year was challenging for many insurers, US regional carriers bore the brunt of record severe convective storm losses throughout meaningful portions of their portfolios. Between 1990 and 2022, severe convective storm losses increased at an annual rate of 8.9 percent, according to Aon's analysis. In the first half of 2023 alone, US severe convective storms caused $38 billion of insured loss, breaking the record of $33 billion set in the first half of 2011.

US regional insurers are currently navigating the most challenging segment of the reinsurance market. Following a difficult 2023 renewal for property reinsurance, renewals for regional insurers at this 1/1 were more settled, with discussions focused on finding a market clearing price rather than capacity at any price. However, renewal outcomes still varied greatly, reflecting a range of individual insurer performance, financial stability, reliance upon reinsurance and an ability to quantify the impact of ongoing and evolving underwriting actions. The working layers which are often purchased in the form of multi-line excess of loss programs were challenging negotiations that required thoughtful balance in achieving support across a client's entire reinsurance program. Reinsurers continued to use the current market conditions to revisit their portfolio construction and carrier partners. All else being equal, regional insurers with the ability to clearly demonstrate a business plan that is addressing current loss trends, improving policy terms and conditions and rate adequacy, generated the most capacity and competition amongst their reinsurance panels.

Regional insurers in EMEA and Canada faced similar challenges to US regional carriers. Loss experience varied greatly by country with many carriers also struggling to absorb increased reinsurance costs and higher catastrophe retentions.

Navigating the Future

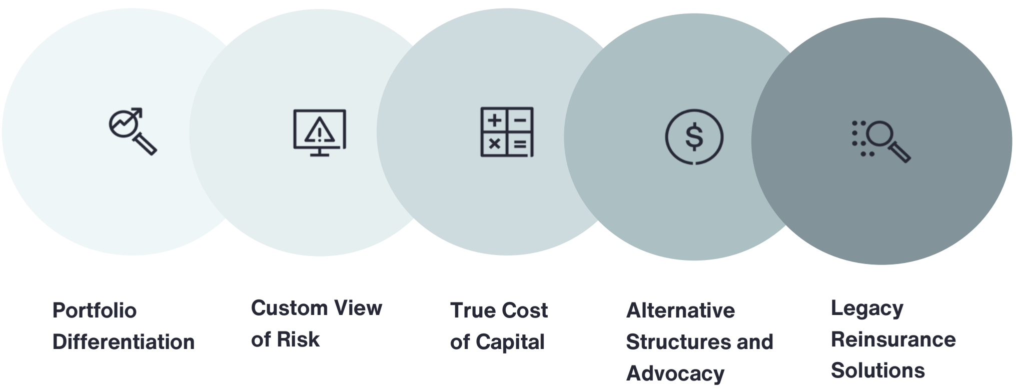
During 2023, Aon's teams including our Strategy and Technology Group, worked with many clients to identify and implement improvements necessary to create sustained profitability. This included rate adequacy analyses, catastrophe pricing optimization using our CatScore™, portfolio optimization studies, rating agency engagement, and strategic realignment studies. While clients have always sought advice on these subjects from our broker teams, there was an increased demand throughout 2023 for these capabilities as many clients struggled to navigate much higher retained loss post 1/1/2023 renewals. The impact of the hard work our clients achieved in 2023 will create a stronger foundation for profitability across the industry in 2024.

Clients that demonstrate with credible data the important steps they took to improve profitability should be rewarded by more favorable reinsurance pricing and terms going forward. Reinsurers must also work to differentiate clients and adjust their assumptions around frequency and severity for those insurers that have made the investments to achieve improvements across their portfolios.

In September, Aon published a list of key considerations for a successful renewal, upon which we have expanded following the January 2024 renewal:

1. Consider alternative capital for optimal placement results.
2. Access facultative facilities for capacity when risks are removed from treaty programs.

3. Leverage strategic consulting and data analytics to refine risk appetite, adjust investment and underwriting strategies, or review business lines, as well as differentiate your portfolio at renewals.
4. Explore structured reinsurance covers and legacy reinsurance solutions to manage volatility and free up capital for growth opportunities.
5. Articulate clearly how you underwrite for inflation and its impacts on your risk profile.
6. Develop a custom view of risk to de-risk and reduce exposure concentrations, as well as to improve understanding of secondary perils and emerging risks.
7. Understand your true cost of capital, including volatility of returns, which is critical to optimizing the long-term return on capital.
8. Partner with a true client advocate that can provide advice and analytics to ensure your portfolio is best positioned across capital providers to achieve your capital optimization goals.



Positive Outlook

The January 2024 property reinsurance renewal sets the stage for an interesting year ahead.

Demand for property catastrophe reinsurance remains strong at the start of 2024, supported by inflation and exposure trends. As capacity continues to build, there will be opportunities for insurers to buy additional limit at the top of programs, and for reinsurers to work with brokers and clients to share the burden of secondary perils more equitably.

The increases in retentions a year ago have mitigated reinsurer losses and contributed to their positive returns in 2023. But this has come at the expense of increased retained losses for insurers many of whom are struggling to achieve the improvements in primary pricing and underwriting which are often slowed by regulatory approval process quickly enough given their limited sources of capital to sustain increased catastrophes.

We must work collectively to create the solutions necessary to sustain re/insurance symbiosis.

Joe Monaghan

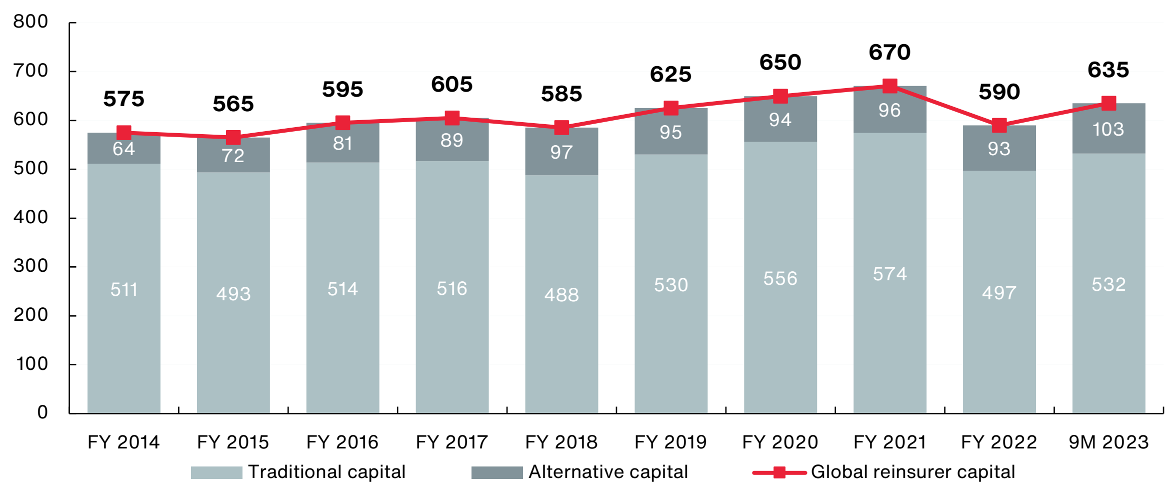
Joe Monaghan
Global Growth Leader
Reinsurance Solutions, Aon

Global Reinsurer Capital: Strong Results Drawing Investor Interest; Catastrophe Bonds a Hot Spot

By: Mike Van Slooten, Head of Business Intelligence
Richard Pennay, CEO of Insurance-Linked Securities

Aon estimates that global reinsurer capital rose by $45 billion to $635 billion over the nine months to September 30, 2023. The increase was principally driven by retained earnings, recovering asset values and new inflows to the catastrophe bond market.

Exhibit 1: Global Reinsurer Capital (USD Billions)



Sources: Company financial statements / Aon's Reinsurance Solutions / Aon Securities Inc.

Traditional Capital: Willingness to Deploy is the Constraint

Aon estimates that shareholders' equity reported by global reinsurers rose by $35 billion to $532 billion over the nine months to September 30, 2023. The sector is viewed as well capitalized relative to the risk currently being assumed, as confirmed by strong regulatory and rating agency capital adequacy ratios. However, much more capital will be required if current unmet needs are to be addressed over time.

Traditional reinsurers generally performed well in the first nine months of 2023, despite a continuing frequency of medium-sized natural catastrophe events, suggesting that the recent reset in property pricing, retentions and other terms and conditions has created a path to more sustainable earnings.

A modest amount of new capital has entered the market, but new start-ups remain absent, reflecting continuing investor concerns around the impact of climate change, inflation and heightened geopolitical risk on ultimate loss costs.

Reinsurer Results for the First Nine Months of 2023

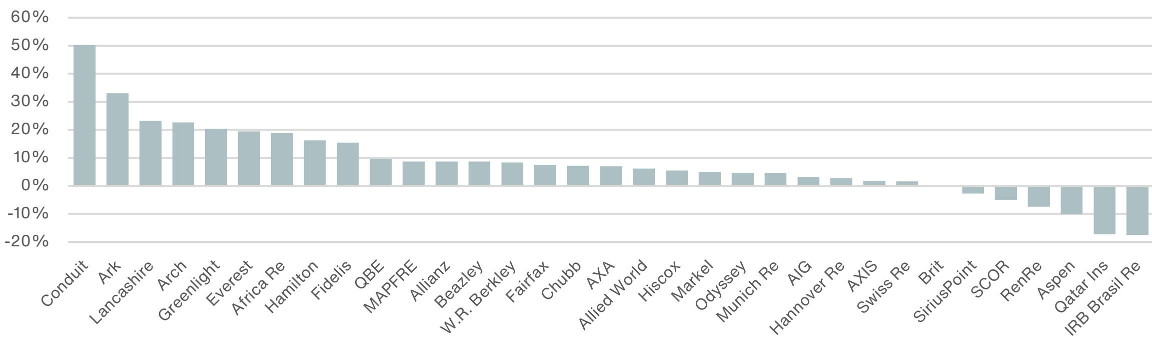
Introduction of IFRS 17

Analysis of the global reinsurance sector has been complicated by the implementation of IFRS 17 in some areas of the world from January 1, 2023. The new regime diverges significantly from U.S. GAAP, meaning, for example, that it is now more difficult to directly compare the operating performance of European reinsurers with their counterparts based in the United States and Bermuda.

Premiums/insurance revenues

Exhibit 2 shows the reported growth/contraction of the property and casualty (P&C) insurance and reinsurance business written by selected companies in the first nine months of 2023. The average movement was an increase of 8 percent, driven by pricing and exposure, particularly in the property segment. Selective underwriting approaches resulted in some companies reporting reduced volumes.

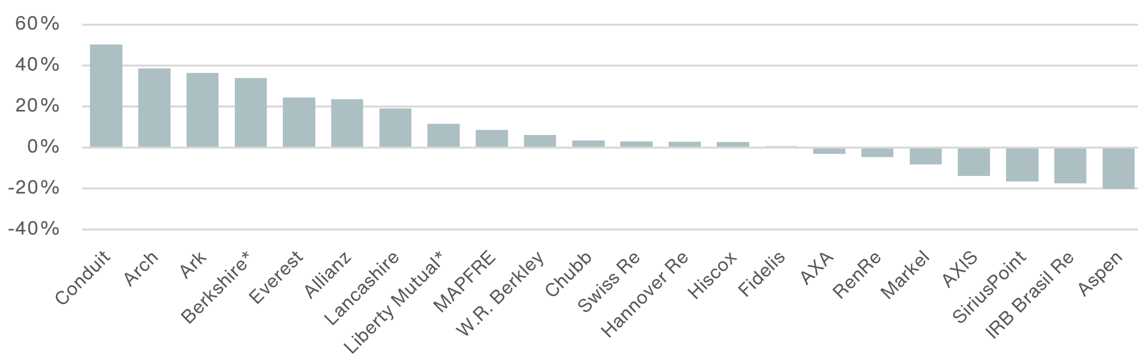
Exhibit 2: 9M 2023 Changes in Total P&C Gross Premiums Written / Gross Insurance Revenues



Source: Company financial statements

Specific growth/contraction of P&C reinsurance portfolios, where disclosed, is shown in Exhibit 3. The average movement was an increase of around 8 percent, with a wide spread of results reflecting the variation in risk appetites across the market. A shift in business mix from proportional to non-proportional covers was a headwind to premium/revenue volumes in many cases.

Exhibit 3: 9M 2023 Changes in P&C Reinsurance Gross Premiums Written / Gross Insurance Revenues



Notes: *Change in P&C reinsurance net premiums written
Source: Company financial statements

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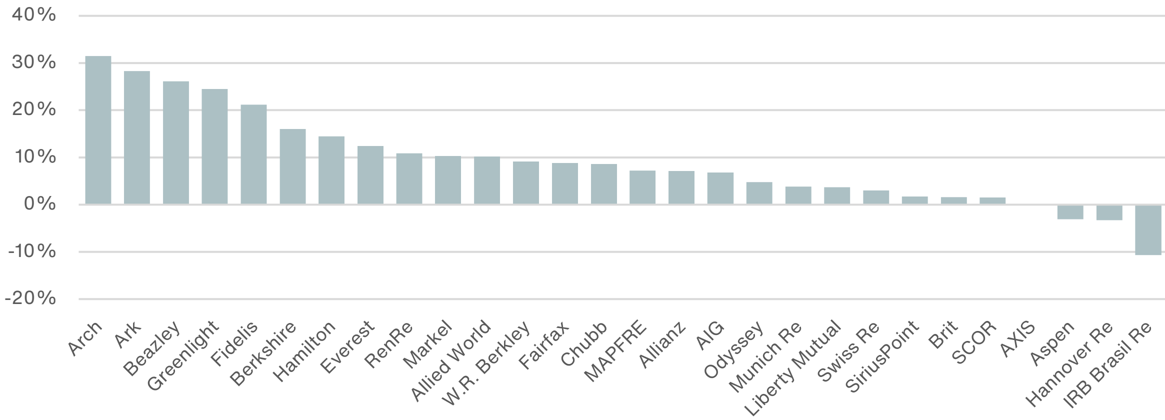
The chart below shows reported changes in total P&C net premiums earned / net insurance revenue in the first nine months of 2023. The average movement was an increase of around 10 percent, providing strong support to reported underwriting results.

Exhibit 4: 9M 2023 Changes in Total P&C Net Premiums Earned / Net Insurance Revenue



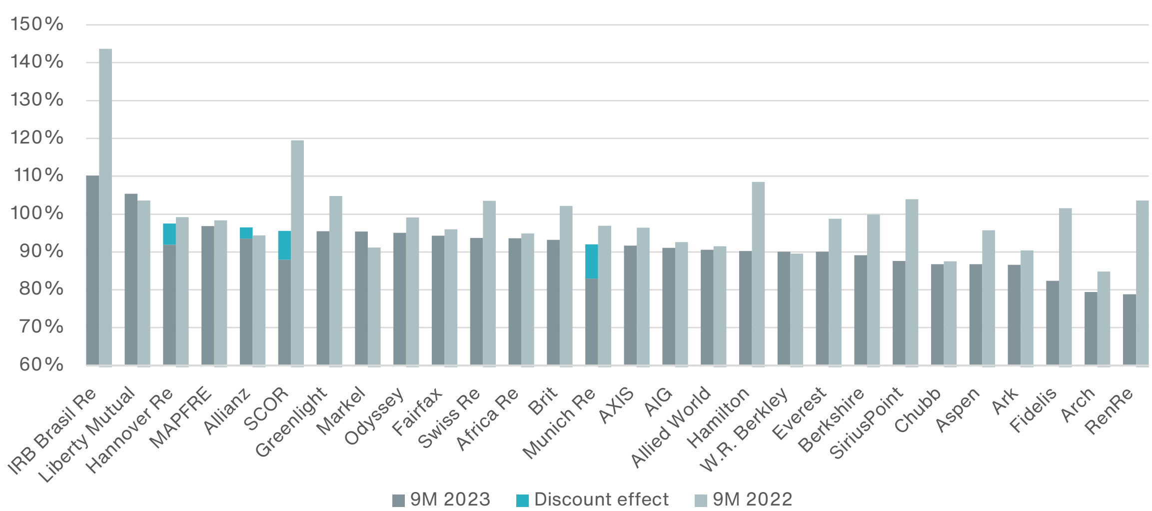
Source: Company financial statements

P&C underwriting results

Insured losses from natural catastrophe events were again above long-term averages in the first nine months of 2023, driven by relentless severe convective storm activity in the U.S. However, most reinsurers still posted strong underwriting results, driven by the recent shift in pricing and coverage and the relatively low level of peak peril losses.

The average net combined ratio across the companies shown in Exhibit 5 stands at 92.0 percent, down from 99.7 percent in the first nine months of 2022 (affected by Hurricane Ian).

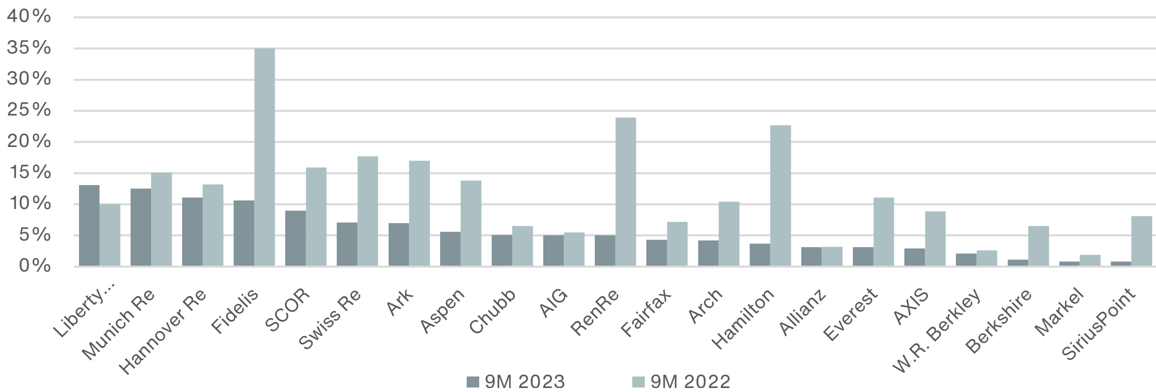
Exhibit 5: 9M 2023 Net Combined Ratios



Source: Company financial statements

Disclosed major losses from natural catastrophes and man-made events, net of reinsurance and reinstatement premiums, are converted to combined ratio points in Exhibit 6, noting that reporting thresholds vary across the industry. The average major loss ratio across the companies shown is 5.6 percent, down from 12.2 percent in the prior year period (impacted by Hurricane Ian).

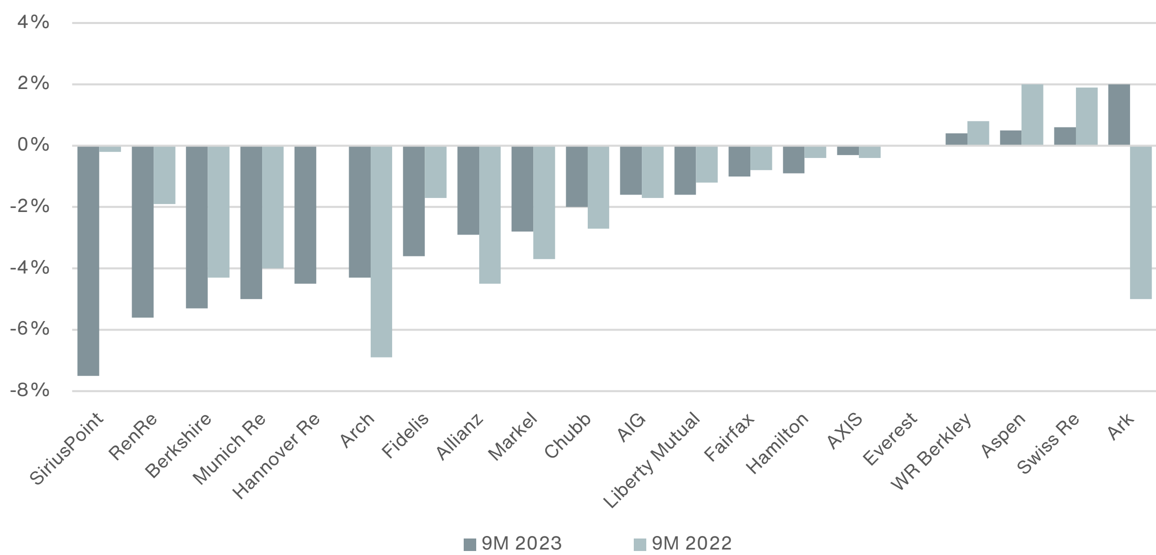
Exhibit 6: Net Major Loss Ratios



Source: Company financial statements

Disclosed movements in prior year reserves are converted to combined ratio points in Exhibit 7. Most companies continue to report overall redundancies, despite a growing headwind from U.S. general liability reserves for the 2015-2019 period. In many cases, the momentum is slowing, reflecting caution around the future direction of loss cost trends.

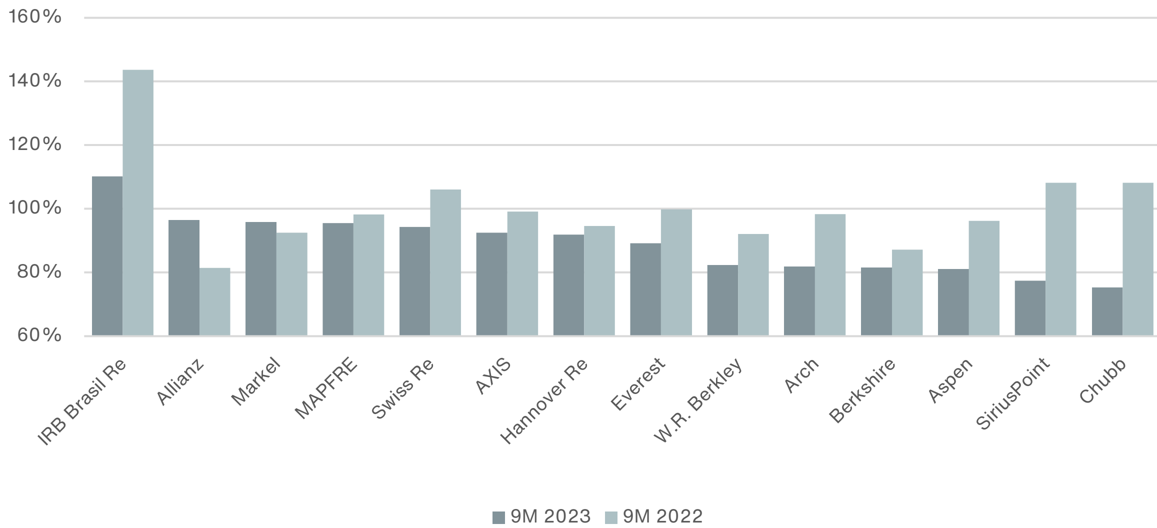
Exhibit 7: Prior Year Reserve Development



Source: Company financial statements

P&C reinsurance net combined ratios in the first nine months of 2023, where disclosed, are captured in Exhibit 8. The average outcome across the companies shown is 89.0 percent, an improvement from 100.4 percent in the prior year period (impacted by Hurricane Ian).

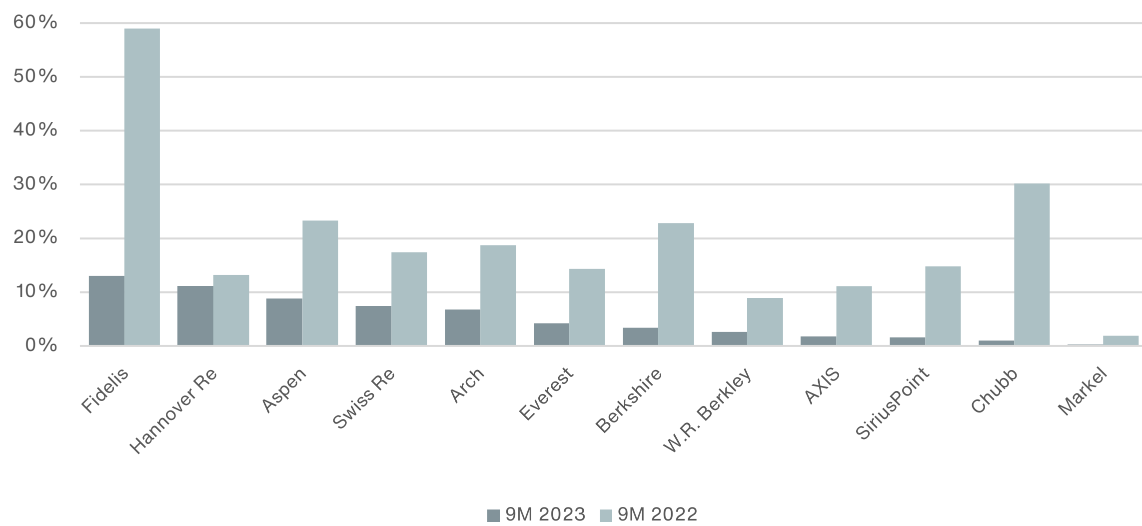
Exhibit 8: P&C Reinsurance Net Combined Ratios



Source: Company financial statements

Exhibit 9 shows the net major loss ratios reported specifically in respect of P&C reinsurance portfolios in the first nine months of 2023. The average outcome was 5.2 percent, down from 19.6 percent in the prior year period (impacted by Hurricane Ian and the conflict in Ukraine).

Exhibit 9: P&C Reinsurance Net Major Loss Ratios

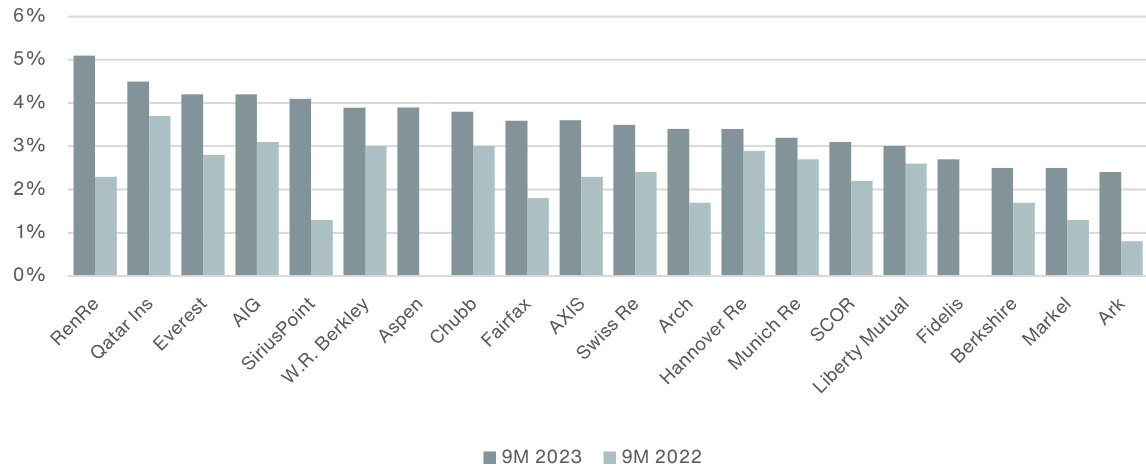


Source: Company financial statements

Investment returns

Investment results are benefiting from higher interest rates and resilient stock markets. The ordinary yields achieved in the first nine months of 2023 are up by around 1 percent on average, relative to the prior year. The yield on new investments now exceeds 5 percent, suggesting further upside in 2024.

Exhibit 10: Ordinary Investment Income Net Yields

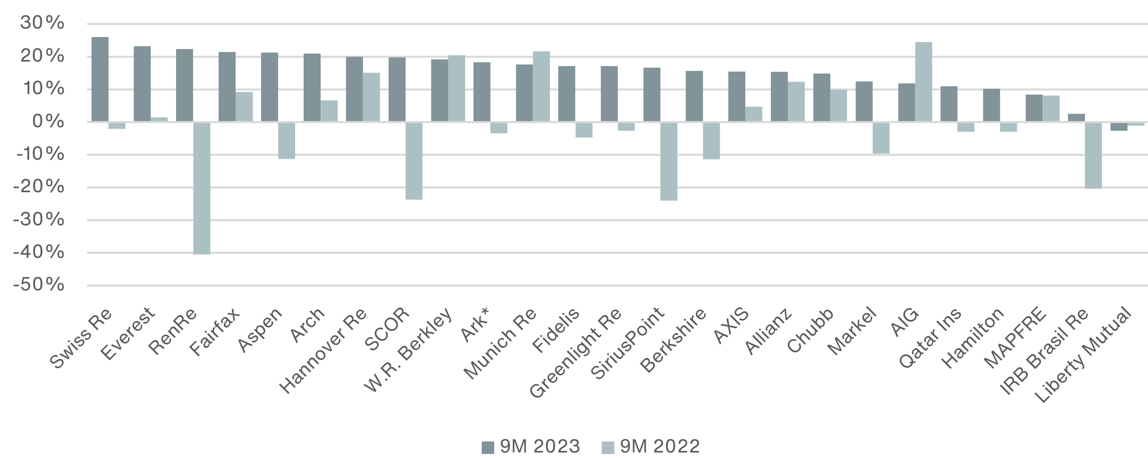


Source: Company financial statements

Return on equity

Strong underwriting results and improving investment yields combined to deliver robust earnings for most reinsurers in the first nine months of 2023. The average annualized return on common equity across the companies shown in Exhibit 11 was around 16 percent, albeit on a diminished capital base, following the significant reductions in equity seen in 2022.

Exhibit 11: 9M 2023 Annualized Return on Common Equity

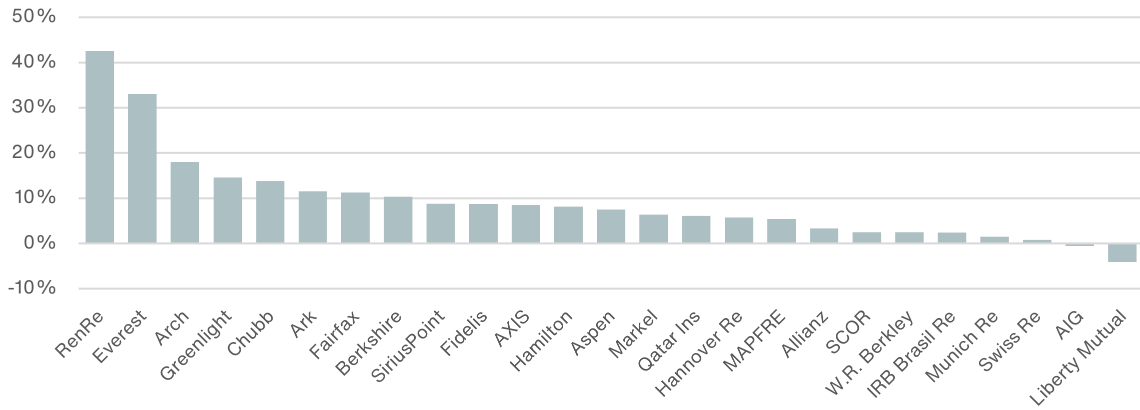


Note: * Pre-tax
Source: Company financial statements

Capital

Significant unrealized losses on bonds continue to weigh on reported equity positions, but strong earnings and recovering asset values have supported a partial recovery in 2023. On average, total equity across the companies shown in Exhibit 12 rose by around 9 percent in the first nine months, with RenRe and Everest leading the way, following issuances of new equity in the second quarter.

Exhibit 12: 9M 2023 Changes in Total Equity



Source: Company financial statements

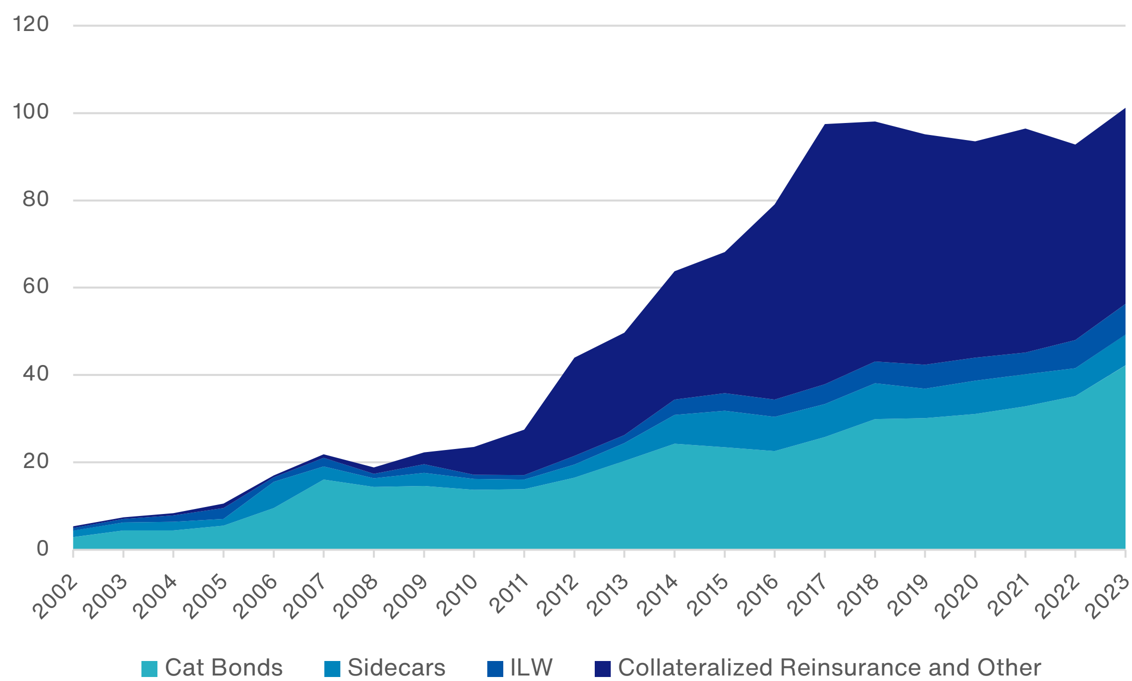
Outlook

Most reinsurers will perform well in 2023, building capital among the incumbents and potentially encouraging investors to back new company formations in 2024. However, a rapid shift in industry dynamics is not expected, given the ongoing uncertainty around the impact of climate change and inflation on future loss costs.

Alternative Capital:
Best Performance in 20+ Year History

Insurers and reinsurers leveraged alternative capital in 2023 more than any year in the history of re/insurance market. In 2023, alternative capital crossed the $100 billion threshold for the first time, representing an increase of over 7 percent from the year prior. As property reinsurance pricing exceeded levels not seen in several years, insurers and reinsurers were grateful for the opportunity to diversify their purchase with insurance-linked securities. ILS investors benefited from the highest risk-adjusted margins in over a decade, offering well-priced capacity to cedents during a year in which the North Atlantic hurricane season resulted in muted losses, further enhancing returns. Elevated risk-adjusted margins along with strong collateral returns has provided for one of the best performing years in the market's twenty plus year history.

Exhibit 13: Alternative Capital Deployment (Limit in $ billions)

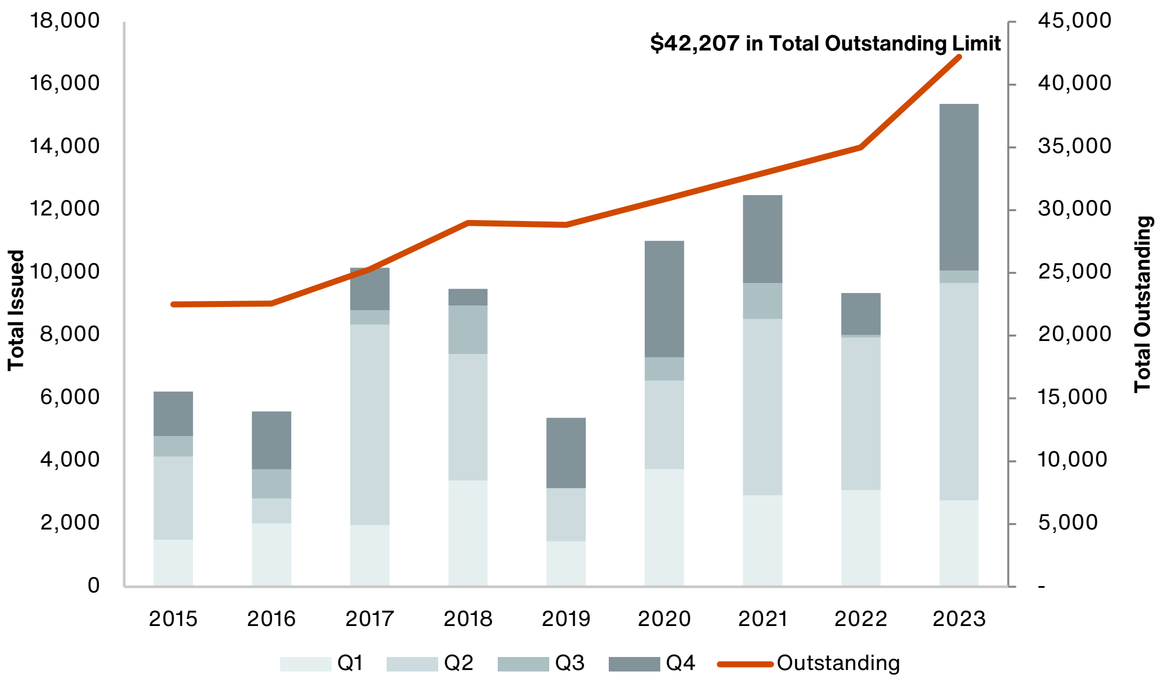


Source: SEC form ADVs, asset manager marketing materials and websites, company quarterly reports, Artemis and Trading Risk / Aon Securities, LLC

Much of the growth has been directed to the catastrophe bond market. In 2023, the catastrophe bond market grew by over $7 billion, a 21 percent increase the outstanding issuance amount in 2022. The current outstanding catastrophe bond market at year-end 2023 stands at over $42 billion, an all-time high. 2023 broke the record for the largest-ever level of catastrophe bond issuance, at $15.4 billion. The market serviced 30 issuing insurers and 14 issuing reinsurers, with a combined amount of $10.1 billion. Government entities were also very well supported with $4.8 billion issued. Of note, the California Earthquake Authority issued $1.505 billion of catastrophe bonds, a record amount for any issuing entity over a calendar year period since the market's inception. And 2023 was also a year during which several entities came to market for the first time—11 new sponsors in total, and several others returning to the market for the first time in many years, like for example, Chubb and The Hartford.

The fourth quarter was a significant part of this growth with $5.2 billion of total issuance volume. This exceeds the second largest fourth quarter (2021) by $2.4 billion.

Exhibit 14: Total Outstanding Catastrophe Bond Issuance ($ millions)



Source: Aon Securities, LLC

Catastrophe bond pricing tightened throughout the course of 2023. By June, for example, industry loss index catastrophe bond pricing tightened by up to 40 percent. Pricing however stabilized during the fourth quarter, due largely to an overwhelming supply of new transactions brought to market coinciding with some ILS investors handing back capital to their allocators as they looked to rebalance their profitable 2023-year allocation to ILS. Those pursuing capacity in the catastrophe bond market were rewarded with meaningful capacity at terms that proved beneficial relative to traditional reinsurance, with many issuing companies' primary objective being a diversified source of multi-year capacity.

The fourth quarter was significant in terms of peak peril issuances both on an industry index and indemnity basis. The market welcomed a number of new sponsors to market, such as Selective Insurance and Beazley; The Hartford, back to market for the first time since 2011, successfully issued their first-ever indemnity-triggered catastrophe bond. Notably, all these transactions included material commercial exposure, which was ultimately welcomed by investors.

The market also saw more diversifying transactions come to market in Q4 than we had seen throughout the previous three quarters. Nearly, £600 million of European paper came to market including a transaction for Versicherungskammer Bayern Versicherungsanstalt des oeffentlichen Rechts' ("VKB"), the market's first domestic German insurance company. The take-up of European transactions illustrates how European insurers are seeking out additional reinsurance capacity in the wake of a tighter reinsurance market. Overall spread levels for European risk are at wider levels than seen previously, in part reflecting uncertainty with respect to secondary perils.

The most significant catastrophe bond market development during the fourth quarter has been the pioneering of cyber catastrophe bonds. AXIS placed the market's first-ever 144a cyber catastrophe bond, an occurrence indemnity-triggered transaction, giving coverage to AXIS for losses from "systemic cyber events" over the span of a two-year risk period. Both Beazley and Chubb followed close behind with Chubb achieving the largest size ($150 million) for this new class of risk. In total, over $400 million of cyber notional has been placed with catastrophe bond investors. ILS investors are now leading the way in further developing a catastrophe market for cyber. Aon is optimistic this market will continue to develop and provide insurers with much needed capacity to further enable the growth of the cyber insurance market. Simultaneously, the emergence of this new class of risk creates an opportunity for catastrophe bond investors to diversify their portfolios which are currently concentrated in natural catastrophe risk.

Finally, sidecar investors have been handsomely rewarded for their commitment to the product in 2023. Given strong underlying reinsurance margins and the absence of major global natural catastrophes in 2023, sidecar investors have in some cases achieved returns of more than 30 percent. Renewals have therefore been relatively straight forward as investors have been willing to commit to another year of similarly well margined underlying reinsurance business.

Rating Agencies: Insurers Shift Focus to Best's Capital Adequacy Ratio

Pat Matthews, Head of Americas Capital Advisory

On November 15, 2023, after two years and two request for comments (RFCs) issued, S&P released its new insurance capital model criteria. S&P also published a list of 63 insurers that are Under Criteria Observation (UCO), which means they could be impacted by the new criteria. The new capital model represents a dramatic change versus the prior model. While the rating changes are minimal, the impact on an insurer's approach to capital management is likely to be more significant. Aon's view is that the new model points toward improved capital adequacy. However, there are some business segments that are impacted differently, either in a positive or negative way. The recent upgrade announcement by S&P raising its financial strength ratings on the Society of Lloyd's from 'A+' to 'AA-´ is one example supporting a stable outlook and robust underwriting discipline. We also believe many insurers will look beyond S&P as the capital model regime that drives their ultimate capital decisions.

Two reasons support this view:

1. Best's capital adequacy ratio (BCAR) model might replace S&P's new insurance capital model as the most constraining rating agency capital standard for insurers.
2. The impact from the qualitative aspects of S&P's general insurance criteria is expected to increase which makes managing to the new S&P capital model via cost/benefit analysis challenging (at least for the next year or two).

US Insurers Impacted from Multiple Fronts

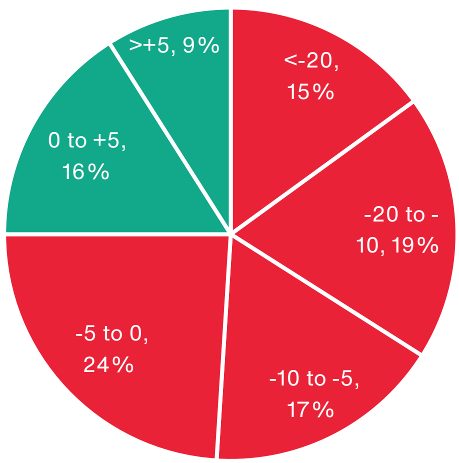
Entering 2023, insurers were already facing pressure from the financial market volatility that characterized the marketplace in 2022. Unrealized investment losses eroded the capital cushion—relative to rating agency, regulatory and economic capital requirements—that many in the industry had previously enjoyed. Rating agencies have generally taken the view that the strong liquidity resources of most insurers meant that insurers would be able to hold depressed assets to maturity, and positively adjusted available capital estimates accordingly. However, with increased reinsurance costs and market capacity constraints at the beginning of the year, many insurers were exposed to a larger share of the severe convective storm losses that have occurred in 2023. These losses further eroded capital and introduced increased volatility into underwriting results.

Rating agencies are increasingly scrutinizing insurer performance, which has faced a series of headwinds in 2023. A turbulent renewal season at the start of the year led many insurers to increase their retentions. With insured losses during the first half of 2023 as the fourth highest on record (only behind 2011, 2022 and 2021, respectively), rating agencies have taken rating action, with downgrades so far significantly outpacing upgrades. Most often insurers have experienced negative rating pressure in their operating performance assessment, although for some insurers the volatility has also resulted in a weaker view of capital adequacy.

The P&C industry's capital strength has been a bedrock of ratings stability over a significant number of years, and for most companies it remains solid despite recent challenges to profitability. However, some companies' capital positions have been eroded due to underwriting losses, among other factors, leading to negative rating actions. The effects of capital and operating performance deterioration will continue to pressure some insurers, making it crucial for them to push for rate adequacy, improve risk management practices and diversify their sources of capital.

As of mid-December, 220 rating units (representing roughly 40 percent of US P&C ratings) had their AM Best ratings updated since August 2023, with 75 percent of those companies experiencing a decline in their BCAR score. Over this time, the median BCAR score is down eight points year-over-year and we expect it to continue to trend down as more company ratings are reviewed over the coming months.

Exhibit 15: BCAR Score Changes for 220 Rating Units



Source: Aon's analysis of AM Best data

With ratings under increased scrutiny, demand for reinsurance protection increased in the latter half of 2023. Meanwhile, with an increasing frequency of 'secondary' peril events coupled with elevated catastrophe retentions and weakened (but still strong) balance sheets, we expect insurers will seek to diversify their capital sources to include innovative reinsurance solutions and debt or surplus notes to manage capital needs. For some companies, the focus will be to maintain minimum capital adequacy standards while other companies will use this additional capital to lean into the market and grow in a strong rate environment. Either way, 2024 will provide an opportunity for creative reinsurers and lenders to differentiate themselves.

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Demand-Supply Dynamics:
By Line of Business and Segment

By: Tracy Hatlestad, Head of Global Property
Dave Nicholson, Head of Global Clients; Pat Abbe, Head of US Regional Clients
Andrew Laing, Head of Global Facultative
Nigel Light, Head of Global Casualty, and Amanda Lyons, Head of US Casualty
Tom Murray and Richard Wheeler, co-CEOs of Global Specialty

Property: Competition Heats Up for Peak Perils

In a marked change on a year ago, the supply of property catastrophe reinsurance capacity at the January 1 renewal was more than adequate to meet demand, resulting in a competitive environment for peak perils and upper layers. Towards the end of the renewal season, discussions focused on reinsurer signing activity as supply increase outstripped demand year on year. Expected returns remain a key hurdle for reinsurers as underwriting remained front and center for renewals, but capacity was available where return thresholds were met.

With ample capacity, the upper layers of property catastrophe programs experienced downwards pressure on pricing at the January 1 renewal. EMEA treaties saw mild upward price pressure except in areas with ceded losses from natural catastrophes in 2023.

This year's January renewal proceeded in a timely manner, with most reinsurers taking a more constructive and open approach. Differentiation in insurer and reinsurer behavior mattered at the January 2024 renewal. Insurers that did not have loss experience in 2023 and/or those that were able to articulate positive changes to underwriting portfolios achieved the best possible outcome. At the same time, reinsurers that were timely and constructive in quoting, authorized broadly on a program, and were regarded as valued partners over the past 12 months were rewarded by insurers at 1/1.

Following the resetting of the property market and much improved results in 2023, many reinsurers are now keen to grow. As a result, some reinsurers were more accommodating at the renewal when it came to meeting the needs of individual insurers in more challenging areas, such peril specific lower layers and aggregate covers, as well as reinstating certain terms and conditions.

While a more stable reinsurance market is to be welcomed, 2023 was tough for many insurers, especially smaller regional players and mutuals that bore the brunt of record severe convective storm losses and other secondary perils. The increases in deductible levels a year ago have helped mitigate reinsurer losses, and reinforced necessary changes in the insurance value chain that should ultimately result in a much healthier and more sustainable market. In the meantime, reinsurers that want to grow in the segment should look to support insurers with flexibility in lower layers, aggregate covers and structured solutions.

Topic	Commentary
Inflation contributed to property cat demand	Demand for reinsurance remained robust at the January 2024 renewal, with property catastrophe limit purchased globally up low to mid-single digits year-on-year. Albeit to a lesser extent as rates fall back in major markets, inflation continues to contribute to a rise in demand for property catastrophe limit. Insurers recognize the opportunity to purchase more limit at the top of their programs but are generally constrained by the reality of budgets and current pricing levels.
Capacity ample for peak US perils	Capacity for property catastrophe reinsurance was readily available at the January 1 renewal, especially for peak perils and upper layers, although the market was more nuanced for regional insurers in the US and Europe. Record issuance and attractive pricing in the catastrophe bond market has provided additional competitive pressure for peak perils, while reinsurers were generally more willing to deploy capacity and increase line sizes on structures that maintained adequate retentions. Several traditional reinsurers raised capital in 2023 to capitalize on improved market conditions.
Retro supply edges upwards	Retro property specialty renewals proceeded smoothly with market leaders being engaged early and providing quotes in a timely manner. Available supply across all retro segments is generally up, with a particular focus on excess of loss products, from both rated and non-rated markets looking to consolidate positions with key clients and capture market share early in the renewal period. Since demand is generally stable, clients have been focused on achieving the broadest possible coverage with more syndication across all placements. Overall, pricing was within target levels, and renewals through 2024 will benefit from the behavior of retro markets through 1/1 renewals.
Reinsurer growth appetite returns	Most reinsurers entered the renewal with ambitions to grow in property catastrophe reinsurance, in particular for peak perils and upper layers. Insurers were able to utilize participation on upper layers and profitable specialty portfolios to garner reinsurer support for lower layers and aggregate covers. Reinsurers that were most supportive during the challenging 2023 renewal were rewarded by insurers at the 2024 renewal.
Retentions generally stable	Deductible levels were generally stable, having undergone significant adjustments for property catastrophe covers last year. However, regional insurers and European markets with loss activity had further retention increases this year. As reinsurers evaluate top line positions and signings post-January 1, we anticipate supply will push to support some needed capacity at lower retentions.
More flexibility on T&Cs	With the return of a more competitive environment, the reinsurance market was more consistent in its approach to pricing and terms. Discussions around terms and conditions were more constructive than a year ago. At January 2024, some insurers expanded coverage while others achieved broader consistency in wordings with their full reinsurer panel.

Topic	Commentary
Appetite for E&S quota share	Reinsurers appetite for catastrophe-exposed quota share business in the US excess and surplus lines market increased at the January renewal, reflecting the improved rate environment in this market, which is subject to fewer constraints in pricing and policy form. Increased appetite was driven by the expansion from current quota share markets and new reinsurers entering the space given current market dynamics.
Per Risk	While recent treaty years are still green, results indicate improving profitability for reinsurers in this line at a portfolio level. Terms have tightened over last three years, with pressure on price, retentions, cat coverage and reinstatement provisions. Average retentions have increased over last five years, with many larger carriers dropping first layers. Structural changes, improved pricing, and improved terms and conditions on the underlying business should bring additional reinsurers to support this product segment going forward.
Aggregate covers back on the table	The January renewals presented an opportunity for some insurers to revisit property catastrophe aggregate covers, which were largely unavailable a year ago due to reinsurer concern for frequency losses. According to Aon's Impact Forecasting team, insured losses in 2023 again exceeded $100 billion, with severe convective storms accounting for almost two-thirds of the annual total. Following the resetting of the market in 2023, some reinsurers were more willing to consider aggregate reinsurance deals at the right price and terms during the 2024 renewal.
European secondary perils in focus	Broadly, pricing in the EMEA region saw mild upward pressure, although adjustments were particularly sought by reinsurers in markets impacted by recent catastrophe loss activity, notably Italy, Greece, Norway, Slovenia and Turkey. Storms and flooding in Italy this year generated insured losses of nearly $4.76 billion[1], the costliest natural catastrophe-related insured losses ever in Italy. The devastating earthquake in Turkey and Syria in February, which led to insured losses of almost $6 billion, triggered discussions on the distribution of excess loss cover versus quota share reinsurance for quake cover in Southern Europe.

[1] Aon's Impact Forecasting analysis

Global Insurers: Renewed Focus on Reinsurer Behavior

January 1 is a significant renewal for global insurers, with many of the largest European and US-based entities renewing at 1/1. Following a challenging 2023, global insurers have renewed their focus on trading relationships, reinforcing the value placed on consistent reinsurer communication and the breadth of trading relationships.

Topic	Commentary
Attractive partners	Reinsurers displayed an appetite to grow with global insurers at the January 1 renewal by taking a proactive position and communicating their appetite early. This segment purchased a variety of treaties across multiple classes of business, offering reinsurers the opportunity to access a diversified pool of exposure and significant premium volume. The increased catastrophe retentions pushed in 2023 meant many global insurers retained significant losses which might have otherwise been ceded to reinsurers during an active cat year. As a result, global carriers sought to hold the line on further retention increases and reestablish concurrent terms and conditions. As original insurance market rates continue to increase, most insurers were willing to reduce pro rata cessions rather than agree meaningful reductions in ceding commissions.
Focusing on the value of reinsurance	Reinsurers were willing to enter discussions around the value of the reinsurance partnership and how appropriate levels of frequency protection can be reintroduced. At January 1, global insurers strived to improve frequency coverage and reinsurers met those needs where they felt to attachment points and coverage were at an appropriate levels. Global insurers purchased or renewed bespoke frequency covers for property exposure, typically through a collaborative structuring process with targeted counterparties. Reinsurers remained committed to responsible retention levels as they sought to avoid unsustainable frequency losses and encourage appropriate discipline on original risk pricing.
Constructive dialogue on coverage	Reinsurers engaged positively with global insurers around coverage terms and conditions, including named perils and important aspects of coverage like strikes riots and civil commotion and terrorism. While reinsurers were more flexible at January renewals, price remained a key feature of the discussions as the market sought a balance between the value of the cover to the client and reinsurer return expectations.
Leveraging profitable portfolios	Global insurers were able to push terms to reflect their overall performance and differentiation from their competitors. By taking a holistic view of their reinsurance purchasing and trading balances across segments, insurers were able to leverage more profitable lines of business to gain support on more challenging reinsurance cessions.

US Regional Insurers: Weathering the Storm

US regional insurers navigated the most challenging segment of the reinsurance market. Following a difficult 2023 renewal for property reinsurance, renewals for regional insurers at this 1/1 were more settled, with discussions focused on finding a market clearing price rather than capacity at any price. However, renewal outcomes still varied greatly, reflecting a range of individual insurer performance, financial stability, reliance upon reinsurance and ability to quantify the impact of on-going and evolving underwriting actions. Reinsurers continued to use the current market conditions to revisit their portfolio construction and carrier partners. All else being equal, regional insurers with the ability to clearly demonstrate a business plan that is addressing current loss trends, improving policy terms and conditions and rate adequacy generated the most capacity and competition amongst their reinsurance panels.

Topic	Commentary
Challenging timing and the impact of record catastrophe activity	Regional and mutual insurers face a unique combination of challenges. Last year saw a record number of $1 billion losses[2] in the US, mostly from severe convective storms, which accounted for almost two-thirds of all global insured losses from natural catastrophes. Faced with significantly higher net retentions in 2023, this aberration in storm losses impacted large segments of the country at a time when many regional insurers were still navigating the impacts of the macro-economic environment and how to adequately respond to changes in their reinsurance programs. With portfolios that are generally more concentrated, regional insurers have turned to rigorous underwriting actions to restore stability to their portfolios including adjustments to rates, deductibles, and primary terms and conditions. With significant action underway, especially in personal lines, the inherent lag in these underwriting initiatives earning through portfolios means the heightened frequency of severe weather in 2023 impacted many regional insurers at a very vulnerable time. Some regional insurers are implementing new business moratoriums or exiting certain segments altogether to hinder the market volatility impact on their exposure profiles and results.
Underwriting performance	The dramatic push for higher reinsurance retention levels implemented throughout 2023 renewals resulted in improved returns for reinsurers. This change has created a significant divide in the overall results of many US regional insurers and their reinsurance partners. With the reinsurance market producing returns that exceed the cost of capital, the US property and casualty industry produced its worst six-month underwriting performance in H1 2023 in more than a decade. Almost 20 percent of US regional insurers reported double digit reductions in policyholder surplus through the first three quarters of 2023. For some, the financial strain has proved too high, with several long-standing US regional insurers being forced to take more drastic measures to re-establish capital positions or seek mergers/affiliations to continue serving policyholders.

[2] Aon's Impact Forecasting analysis

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Reinsurer support	Reinsurers continue to use current market unrest as an opportunity to reshape their portfolios, which has specifically impacted smaller mutual insurers in 2023. Some states are altering insurance laws to give these smaller insurers more flexibility when it comes to reinsurance products and solutions. While this stands to offer slight relief, many of the impacted insurers are now facing major reinsurance program changes while underwriting actions work their way through to results. That timing delay is partially driven by state rate filing requirements limiting insurers' ability to quickly adapt their products and portfolios. In the meantime, it is incumbent on the reinsurance market to support these smaller regional insurers, a foundational part of the US insurance market, as they adjust to the new market reality. Having implemented recent, favorable underwriting actions, some regional insurers have already presented a more attractive proposition to reinsurers at January 1, 2024, forming new reinsurance partnerships through that effective differentiation. With the long-term evolution in portfolios, and changes in reinsurance structure and pricing, the US regional segment will provide reinsurers with a more attractive place to deploy capital with insurers that will value the relationship.
Alternative solutions	As many US regional insurers continue their journey back to financial stability and more sustainable profitability, a growing number are exploring alternative reinsurance options to manage volatility in challenged, lower catastrophe layers or to address financial leverage concerns. Aon witnessed an uptick in inquiries and transactions for alternative solutions including structured quota share arrangements, legacy reinsurance transactions and non-traditional, multi-limit multi-year catastrophe covers. To address these emerging concerns, we completed a number of new treaties for regional insurers that proved a good solution in managing capital as they navigate current market environments. Product innovation and a broader education of the market on these solutions remains a core investment that Aon continues to make on behalf of our clients.
Working program headwinds	Beyond property catastrophe reinsurance, US regional insurers also face a difficult market for working programs as reinsurers react to property loss trends, the continued (but tempering) impact of inflation and concerning litigation trends. These multi-line, excess per-risk and casualty excess of loss placements are as important to US regional insurers as their property cat placements, enabling them to compete with similar policy limits and product offerings to their larger competitors. Aon has been working with US regional insurers throughout the past several years to garner material support from a smaller pool of reinsurers participating in the working program market. Going forward, these programs will offer reinsurers a compelling opportunity to build out underwriting teams and business plans that will offer stable, consistent returns on business that is generally less volatile than other parts of reinsurers' portfolio. The exposure profile of US regional insurer working programs will see meaningful, positive impacts of the ongoing underwriting and pricing initiatives over the coming year.

Optimistic outlook	As the US regional insurer segment looks to the future, there are reasons for a relative level of optimism. Broadly speaking, local markets are accepting the necessary rating and terms changes necessary for insurers to re-establish the needed balance in their risk and capital frameworks. Regional insurers facing capital challenges have numerous solutions available to support their position as they find ways to manage their portfolios for long term stability. For those with greater financial resources, allowing time for their ongoing underwriting actions to earn through their portfolios will remain a primary area of focus over the coming quarters. As that footing is being re-established, these insurers will look for diversifying growth in markets positioned to generate adequate returns now and into the future.

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US Facultative: Managing volatility and facilitating growth

2023 was a strong year for the US facultative reinsurance market, with increased demand and activity. Insurers are making increased use of facultative solutions to support their growth ambitions and to mitigate the impact of changes in the treaty reinsurance market. While demand is currently elevated, capacity in the facultative market remains stable.

Topic	Commentary
Valued tool to manage volatility	Over the past 12 months, facultative reinsurance has become a highly valued tool to manage frequency and severity volatility. Insurers' higher net retentions are driving strong demand for facultative reinsurance to protect attrition and natural catastrophe risk. We are seeing higher demand for secondary perils including tornado, hail and non-named wind. Facultative solutions continue to be beneficial in providing coverage that is excluded in treaty programs and/or within net retentions. Overall, facultative reinsurance is an integral part of an insurer's portfolio management including cat aggregations and portfolio performance.
Supporting primary growth	Insurers' growth ambitions are driving increased demand for facultative reinsurance as a tool to offer more capacity and increased line sizes. However, with more carrier competition in the insurance market, pricing pressure is likely to increase for facultative reinsurers. If insurers are under pressure to grow, facultative reinsurers will need to provide more competitively priced solutions to support this growth and fronted opportunities.
Facilitating higher casualty limits	Interest in facultative covers continues to grow in the casualty market with an increase in requests for higher primary limit support. Insurers, captives and risk retention groups are approaching the facultative market for alternative solutions for challenges in the casualty market. For example, facultative reinsurance is being used to write larger primary limits where excess insurers attach higher than the typical limit of $1 million or $2 million. It can also provide solutions in areas like auto liability, where re/insurers have pulled back from writing in certain states due to concern for adverse litigation trends and nuclear verdicts.
Consistent demand increases for fac facilities as the market evolves	We have seen a consistent increase in client demand since Aon created a dedicated facultative team in 2016, and the market has evolved amidst that growth. The property market has the strongest appetite for high excess (outside attritional losses) per risk layers that exclude critical cat (named storm, earthquake and flood) and shared/layered business. When those elements are present, our facultative team can build significant limit below minimum ROL prices. Aon has also created unique, automatic solutions in the facultative market for treaty retentions. Critical cat peril-specific solutions have also been explored and accepted by the market. The casualty market has the strongest appetite for $500k xs $500k auto liability, umbrella auto carve-out and commercial umbrella solutions. However, inconsistent with property, casualty facultative facilities are not well positioned to build significant capacity with premium to limit imbalance.

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Casualty: Reinsurance Supply Offsets Loss Trends

Casualty insurers achieved a fair outcome at the 1/1/2024 renewal, driven largely by sufficient reinsurance capacity despite reinsurer concerns around prior-year reserve development and adverse litigation trends. While the renewal cycle began with many reinsurers making strong statements regarding casualty market dynamics, the 1/1 renewals were ultimately completed in an orderly manner compared to prior years.

Overall, the casualty market remains strong. Underlying primary casualty rates continue to be positive, while interest rates, currently at their highest level in 15 years, increases the present value operating margins for casualty reinsurance. Investment yields on five-year US Treasuries, for example, have increased from under 0.36 percent to 3.8 percent over the past two years, an important driver for re/insurer returns.

During renewal negotiations, reinsurers were again focused on prior year development, underlying rate change, and inflation (both social and economic.) Given that most metrics measuring inflation are showing a significant decrease from the peak in summer 2021, reinsurers pivoted to citing concerns around social inflation rather than economic inflation which is a stark contrast to last year's renewal cycle.

Reinsurers demonstrated a mixed appetite for growth amid concern around loss trends, broadly dependent upon their respective positions during the 2015-2019 years. Reinsurers with less exposure to those soft market years were poised for growth at 1/1; many markets who were not generally thought of as large casualty supporters five to seven years ago have now established themselves as meaningful partners this year.

With adequate capacity available, quota share ceding commissions were flat to slightly down. Insurers who fared best at 1/1 shared several common characteristics: actual development in-line with expected, meeting or exceeding targeted rate change, and clear articulation of value propositions that create differentiation in the market. Insurers with outsized loss development or rate miss saw more significant reductions in terms. However, in most cases, the increase in subject loss ratios outpaced the decrease in ceding commissions resulting in generally favorable outcomes for insurers. Casualty excess of loss business renewed, on average, at low single digit risk-adjusted rate increases. There were no significant changes to program structure or conditions.

Reinsurers behaved similarly in international casualty, with strong initial messaging at the outset of the cycle along with unfavorable initial quoting. Ultimately the reinsurers who did quote high authorized at FOTs markedly lower than quotations, however some reinsurers reacted to this by reducing the shares of reinsurers who quoted poorly.

For professional lines, quota share commissions again were scrutinized with a general downward trend as the outcome, dependent largely on prior-year loss emergence and rate change. Excess of loss treaties needed to be risk-adjusted rate change positive; the range varied from very-low single digit to high single digit increases. Loss affected accounts were dealt with on a bespoke basis and outcome.

Topic	Commentary
Adequate supply	Capacity was adequate at the 1/1 renewal. A small number of reinsurers cut back their casualty books while others sought more significant increases. Despite strong messaging and aggressive quotes by some reinsurers, reinsurer demand for casualty business overall meant programs were completed in line with, or better, than expectations.
Differentiated market	Casualty insurers entered the 1/1 renewal in a strong position and were well prepared, given changing reinsurer behavior and concern for adverse US litigation and loss development trends. The industry under-estimated planned loss ratios during the soft market years 2014-2019, while uncertainty regarding the impact of inflation and development patterns due to COVID-19 has led to uncertainty for more recent underwriting years. Reinsurers continue to differentiate between individual insurers rather than apply a broad approach. Reinsurers that attempted to broad brush the market did not succeed.
US casualty	Ceding commission on casualty quota share reduced slightly, a positive outcome given the larger increases in ceded loss ratios. Excess of loss casualty business saw low single digit increases.
Workers' compensation	Working layer excess of loss was responsive to loss experience and with low rate increases generally yielding stable reinsurer margins. Catastrophe layers were generally renewed at flat rates on line.
International casualty	Demand for international casualty reinsurance was broadly stable, although buyers were more considered at the January renewal, working with brokers to test the market and understand the available options. Reinsurers continued to push for the reduction of US operations exposure from international casualty programs at 1/1 renewal. Capacity continues to be made available for US operations, but capacity is being deployed more diligently and for a price.
D&O remains the exception	With heathy primary rating, most liability reinsurance classes were stable at 1/1, capacity, program structures and terms largely unchanged. The one exception is directors and officers, where lower direct rates have led to reinsurers becoming more cautious and risk selective. Aon's public D&O pricing index for Q3 2023 dropped 16.3 percent year-over-year, representing six consecutive quarters of pricing decreases.
Alternative solutions in demand	Interest and deal activity in the alternative reinsurance and legacy space remains strong. A growing number of insurers are exploring portfolio loss portfolio transfer products as they look to efficiently manage their capital base and deliver earnings protection, while smaller insurers are using structured quota share reinsurance to release or provide capital. Reinsurers appetite for legacy business remains strong, buoyed by higher interest rates. Reinsurers will reward insurers that provide good quality data and that demonstrate emerging risks have been considered in reserving.

Topic	Commentary
US auto	Insurance rates for US commercial auto experienced double digit rate increases at 1/1, marking more than 10 years of price increases. Loss ratios for US auto remain problematic with ongoing concern for nuclear verdicts and litigation trends. In 2023, the US private auto insurance market posted its worst incurred loss ratio for a first quarter in more than 20 years, according to S&P Global. For the full year 2022, the net combined ratio for the sector was 111.8 percent, topping the previous high of 110.4 percent as seen in 2000. As a result, reinsurance terms were under pressure.
UK motor	The average cost of motor insurance in the UK hit a new record in the third quarter of 2023 as rates increased 29 percent year on year, according to the ABI. UK motor insurers reported a net combined ratio in 2022 of 109.5 percent, driven by the rising cost of vehicle repair and natural catastrophes. Reinsurer behavior was mixed at 1/1, with some looking to grow at or below quoted terms, while others were more challenging, but willing to work towards solutions. Excess of loss reinsurance terms were unchanged and rates were significantly lower, albeit the reinsurance cost per car on the road has increased as the rate decreases in reinsurance were not as significant as the increases in original rates. Quota share structures have held steady on margin, but buffers increased as reinsurers demand higher and variable interest credit.
German motor	Motor reinsurance capacity was unchanged in Germany although reinsurers were very vocal on original pricing and pushed clients towards further increases. Original motor insurance rates for third party liability and physical damage have increased by more than 10 percent due to high loss ratios from increased repair costs and hail losses. Excess of loss treaties saw few structural changes, with risk-adjusted rate increases in the low single digits. Quota share commissions came under pressure as combined ratios exceeded 100 percent.
French motor	At 1/1, French motor insurers were looking for stability after an unexpected increase a year ago. The withdrawal of the historical leader in the French reinsurance market resulted in limited options for insurers when it came to securing a lead reinsurer at 1/1. However, following capacity was plentiful and there were no major issues in terms of placement. Broadly, motor reinsurance prices experienced low double digit increases at 1/1 for lower layers, with higher rate rises for unlimited layers. Re/insurers continue to experiment with motor parametric covers, and while there is demand for motor aggregate solutions, reinsurer appetite is thin for these products.

Specialty: By Line of Business

Agriculture: More orderly renewal

Renewals for the agriculture segment are often completed after January 1. However, signs indicate that it should be a relatively disciplined and fair renewal for all parties. The hardening witnessed during the 2023 renewal was slightly offset by average reinsurer financial results, limiting their ability to achieve modelled margins.

Expected profit margins were reduced by variable weather in the United States during the growing season (a wet spring followed by high temperatures and dry conditions in the summer) and a major fall in commodity prices. China has been affected by inclement weather along with livestock results suffering from disease losses and a fall in pork prices. Italy had a huge flood event early in the season and a massive hailstorm event late July. Spain also had a massive drought this year which caused dramatic yield reductions. These events did not heavily impact the reinsurance market, compared to the 2021 Brazilian and Canadian losses, therefore their effect on renewals should be minimal. We expect most territories to renew as expiring, although those that experienced 40 percent increases or greater in 2023 could see modest rate reductions if programs remain loss free.

Topic	Commentary
Capacity changes meet client demand	It is expected that there will be enough capacity to meet client demand in 2024. The reduction in commodity prices should bring overall capacity down for US placements. The US will see some multi-year deals unwinding this year, so those are expected to harden in line with the rest of the domestic stop loss pricing. India renewed at April 1 with the first year of three-year deals. The market overall had surplus capacity and the majority of the original insurance business was capped. In some territories there might be a shortage of pro-rata capacity unless insurers can tell a good underwriting story. However, if the business is desirable with sound underwriting, all treaties will be placed and we might see increased commissions, a point or two, from the punitive levels seen in 2023.
Crop loss activity	2023 saw the return of the El Nino phenomenon, which can bring adverse weather for crops. The worst events this year did not have a dramatic effect on the crop insurance industry. The Italian floods early in 2023 were devastating for property and crop risks alike. However, the underwriting measures taken over the past few years and the severe limitation of catastrophe peril exposure, meant this event added only a few points to crop loss ratios. The hail events were more devastating, but since there is not much pro-rata placed in Italy, losses were mostly felt on smaller stop loss programs. The massive drought in Spain caused huge losses, the greatest in Spanish history, but the structure of their crop re/insurance meant the bulk of these losses will be paid by government entities. Only small parts of this loss entered the international reinsurance market. There is also some evidence to suggest that farming techniques and seed technology improvements are making crops more resilient to extreme weather events

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Opportunity for 2024	The market correction in 2023 is not expected to change much. Original insurance rates may reduce slightly in certain territories but should remain higher than 2022 renewals. There are growth opportunities for crop insurers with expansion in new territories and new product innovation with remote sensing advancements. The corporate sector could also be increasing demand for crop insurance, driven by legislation to become more sustainable.

Aviation: A push for packaged deals

The aviation reinsurance market remained challenging at the 1/1 renewal, albeit more stable than a year ago, which followed a major loss deterioration in the last quarter of 2022 and uncertainty surrounding claims from the Russia-Ukraine conflict. The market's exposure to losses arising from the conflict is ongoing, with coverage litigation due to be considered in various legal jurisdictions during 2024. Russia-Ukraine claims, aside, the market did not experience major losses in 2023.

Topic	Commentary
Reinsurance capacity stable	While demand for aviation reinsurance remains largely stable, the supply of quota share capacity reduced, reflecting reinsurers view that rating levels within the direct market need to improve. The supply of general XL capacity has increased as a major reinsurer re-entered the market, and with some new markets. Capacity has also grown as reinsurers have increased their written lines to protect their shares on current business. However, if pricing is below a threshold, capacity drops off sharply and placements can become distressed.
War capacity in demand	Demand for aviation war reinsurance has increased, both for war excess of loss and quota share, as a number of insurers look to enter the class, and as some current war writers seek to expand their portfolios. War exclusions under wider aviation policies have also led to an increase in demand for war specific products. Supply of war reinsurance capacity is, however, largely unchanged, while quota share capacity is particularly challenged, with premium income being the main driver of reinsurer appetite. Excess of loss capacity is available at the right price.
Restrictions on war cover	All forms of hull war cover are now excluded from general protections and third-party war liability is sub-limited to the reinsured's share of $350 million original market loss. Grounding cover is now sub-limited to the reinsured's share of primary $250 million original market loss. Further coverage restrictions in 2024 are not expected.
Push for packaged deals	A move to push for packaged deals was observed at the January renewals, with insurers buying multiple products and where reinsurers favored excess of loss and general placements over quota share and war. Certain reinsurers are trying to link signings across quota share and excess of loss business, in addition to linking signings across war and general business.

Cyber: Pioneering innovation with first cyber cat bond

Demand for cyber catastrophe reinsurance protection is at an all-time high, as the market's first cyber cat bond and talk of a US federal cyber backstop signal an exciting new phase for the market.

After a period of rapid and intense hardening in 2021, the cyber insurance market is now in positive territory, despite an uptick return of ransomware activity in 2023.

Having stabilized in the second half of 2022, the cyber insurance market started to give rate reductions in 2023, especially in higher excess layers where new capacity has entered the market. Overall, there is ample capacity in the cyber insurance market to meet current demand with most insurers demonstrating increased appetite for cyber risk.

The frequency and severity of ransomware attacks, the main driver for cyber insurance claims in recent years, started to tick upwards in 2023, following a reduction in activity in 2022 as ransomware groups were affected by the Russia-Ukraine conflict and an increase in law enforcement. While 2022 underwriting performance was profitable from improved underwriting discipline by insurers, 2023 faces relative headwinds due to uptick in ransomware and the competitive pressures on pricing. The average loss ratio for the largest 20 cyber insurers in the US in 2022 was just under 44.6 percent, down from 66.4 percent in 2021, according to the NAIC.

While competition has undoubtedly increased, metrics from Aon's CyQu3 risk assessment show that the cyber security posture of organizations seeking cyber insurance continues to improve, especially for large commercial cyber risks. Also, the improved underwriting discipline made by insurers in 2023 cannot be discounted since the large spike in ransomware claims experienced by the market in 2020. This activity was driven by frequency, and subsequent attritional loss across a large spectrum of policyholders. In the aggregate, it pushed loss/combined ratios to an unsustainable place. We observed over a 1,100 percent increase from 2022 to 2023 in cyber event reporting, yet loss ratios have improved or, at minimum, held. The economics are favorable due to pricing corrections from 2020 through 2022, but the stability of loss ratio performance despite the massive uptick in reporting in 2023 also suggests security control improvement seems to be improving the attritional aspect of portfolio management down market. Less events are developing poorly. The counter argument is the recent uptick of severity issues merit attention, insureds have invested in cyber security, improving access management controls and backup strategies. Cyber risks are becoming better risks, while at the same time an insurer's ability to understand cyber, select risks and manage exposures, is continually improving.

Topic	Commentary
Buyers' market for cyber reinsurance	The return to heathy results in the cyber insurance market affected the demand-supply balance at the 1/1 renewals, to the benefit of cyber reinsurance buyers. As long-term confidence in the cyber market continues to build, insurers are looking to reduce the amount of business ceded to reinsurers, putting quota share ceding commissions under upwards pressure at the January renewal, which sees a significant number of large cyber quota share portfolios renewing.

[3] The Cyber Quotient Evaluation (CyQu) is Aon's proprietary eSubmission platform that helps clients identify, measure and manage their cyber risk exposure.

	Discussions on war language in cyber re/insurance policies were again a major focus at the January renewal. Reinsurers have taken divergent views and approaches to cyber war, although there was sufficient capacity and flexibility from some players in the market to get complete programs without the need to implement any changes to war clauses. War exclusions are, however, only part of the bigger issue, of how the industry mitigates the potential risks of catastrophic and systemic cyber events. Critical infrastructure exclusions, which limit insurers' exposure to a major power outage or disruption to an internet service provider, are a significant source of systemic exposure for the market. There is wide acceptance in the US commercial insurance market for critical infrastructure exclusions, although these may have to broaden with developments in cyber risk and deepening digitalisation. The potential for a catastrophic and systemic cyber event is understandably a real concern for the insurance sector. A cloud outage or a massive contagious malware attack that has a widespread impact across the economy could result large losses for the industry. Consequently, cyber catastrophe loss aggregation is also a key area of protection need for insurers. When looking at occurrences of cyber events with widespread impact in recent years, there have been a number of small events and "near misses" (e.g. Solarwinds, MOVEit). Aggregation of losses from these events is a significant source of loss volatility for individual insurers. According to Aon's Cyber Threat Intelligence team's analysis, recent history suggests approximately 2.2 widespread cyber events with potential to impact the cyber insurance market, in any 12-month period.
Federal backstop	There is also encouraging progress on a potential federal backstop for catastrophic cyber risk in the US, which would build on a similar public-private sector solution for terrorism. Aon has been supporting the US Treasury Department's Federal Insurance Office, helping to define, model and quantify systemic cyber-events. If the backstop is enacted to complement capital participation on catastrophic cyber risk, much needed coverage clarity and protection against tail events will help to free up capital to support growing demand for cyber insurance. Improving coverage certainty and developing a market for cyber catastrophe protection at scale is critical if the industry is to unlock the huge growth potential in the cyber insurance market. Some estimates predict the annual global cyber insurance premium could reach between \$25-\$30 billion by the end of 2027, up from an estimated \$15 billion today. With digitization and rapid advances in technology like artificial intelligence, demand for cyber insurance solutions can only grow and evolve in the kinds of risks it protects.
Pioneering cyber cat bond	The catastrophe bond market is spearheading the development of a catastrophe-based cyber reinsurance product. In November 2023, Aon Securities structured and distributed a cat bond issuance from Long Walk Re, the market's first 144A cyber catastrophe bond, for the benefit of AXIS Capital.

	The pioneering bond provides AXIS with $75 million of fully collateralized indemnity reinsurance protection for systemic cyber events on a per occurrence basis. The transaction received broad investor support, and demonstrates catastrophe bond investors' ability to work with insurers to provide meaningful catastrophe-based cyber protection. Long Walk Re marks an important milestone for the insurance-linked securities market, and for the wider global cyber insurance market. It demonstrates there is both demand from insurers, and appetite from investors, for event-based catastrophe cyber protection. Three additional cyber catastrophe bond transactions are expected to be placed by the end of 2023, including East Lane VII Re, which was placed by Aon Securities in December 2023 and will provide $150 million of protection for Chubb. Aon Securities projects that over $400 million of cyber limit will have been placed into the catastrophe bond market at the end of 2023. With a total cat bond market value of approximately $42 billion, there is significant runway for growth in the cyber cat bond space.
Cyber reinsurance	The cyber reinsurance market is entering an exciting new phase. As demand for cyber insurance continues to grow, insurers will have a comprehensive suite of reinsurance and alternative products to address their protection needs, quota share, excess of loss, catastrophe reinsurance, and cat bonds. In line with the developments on cyber cat bonds, Aon placed a record number of catastrophic event reinsurance contracts at the January renewals and sees these products as the fastest growing product type within cyber reinsurance. This is driven by increased market maturity around the key challenges of developing catastrophic cyber event definitions and modelling of catastrophic cyber risk.

Marine, Energy, Political Violence and Terrorism (PVT) and Renewables: War coverage complicates renewal

Reinsurer appetite for marine and energy increased at the January renewal, leading to a significant increase in supply at a time of relatively flat demand. War and political violence risks, however, remain challenging due to ongoing regional conflicts and broader volatile geopolitical environment.

Topic	Commentary
Marine & energy	The marine, energy and composite 1/1 renewals were characteristically late, and for the second year in a row complicated by discussions on the appropriate coverage for a live war event. Pure marine and energy deals were relatively orderly, with price and coverage equilibriums established quickly, helped by significant increases in reinsurer appetite for the class. There were minimal changes in marine and energy structures were made at the January renewal.
War and political violence	Where war, political violence and terrorism classes were included, placements were much more complicated. Coverage for Israel and the surrounding region was uncertain until late into the renewal season, with reinsurers looking to increase price and reduce coverage in a meaningful way for the second year in a row. With 50 percent of the world's population living in a country facing an election in 2024, reinsurers were particularly cautious around coverage for strikes, riots and civil commotion perils. Demand for political violence and terrorism quota share and industry-loss warranty (ILW) products increased at 1/1 as ultimate net loss products become less effective based on the price and event definitions.
Renewable energy	The re/insurance market continues to explore ways to support decarbonization and the energy transition. While there has not been a meaningful change in approach or appetite to fossil fuels over the last 12 months, there is a desire to expand the energy offering to include renewable lines. The approach remains cautious, with most markets preferring to access the business through either consortium or as reinsurance, deferring to underwriters with greater levels of experience in the developing technologies involved.

Trade Credit, Structured Credit and Political Risk, and Surety: Growth continues amid economic and political uncertainty

Despite continued global economic uncertainty, the credit insurance market remains relatively stable, although concerns continue from potential economic market fluctuations and further impact from possible political events in 2024.

With largely sufficient capacity in the market, proportional pricing is stable, although there has been evidence of some profit related improvements. Excess of loss pricing, however, is seeing a repeat of 2022/2023 with increases predominantly due to increased exposure levels as well as a repricing of risk to reflect the macro-economic uncertainty. Surety business is the most challenged segment, especially in the US, as there has been an increase in claims activity impacting reinsurers.

Across the market, loss ratios have increased in 2023, although this was very much expected given the low loss ratio scenario that has existed since COVID-19. Loss ratios in the trade credit and structured credit areas remain positive leading to the stability of terms.

Topic	Commentary
Growing exposure	Exposures in the market are increasing, both in terms of the size of individual risks and in the overall aggregate due to inflation's impact and, in certain areas, increased demand from banks. Where insurers have sought to purchase higher limits, reinsurers have been accommodating, where requests are reasonable and correspond to program structures. However, given current levels of capacity usage, brokers and insurers resisted some reinsurers' efforts to raise attachment points on excess of loss covers.
Structured credit & political risk	Insurers and reinsurers continue to closely monitor exposure to emerging market debt, most notably African sovereign debt. Claims have materialized in the last 18 months, notably in Ghana and Zambia, although losses appear to be manageable at this time. This segment has also seen claims related to the Ukraine-Russia conflict crystalize in 2023, although these also remain manageable in relation to the overall market.
Trade credit	The (whole turnover) trade credit reinsurance market is stable, with ample capacity. Despite current economic and geopolitical uncertainty, increasing default rates in the wider economy, and growing exposure levels, trade credit insurance losses have been below normal levels, a reflection of government support for economies during COVID-19 and insurers continuing to exercise prudent risk selection.
US surety	The US surety market continues to grow supported by ongoing GDP growth, continued post-COVID increases in infrastructure investment and construction activity, and inflation's impact. Overall, the market remains profitable, with loss ratios in the low 20 percent range for the first nine months of 2023; however, claims with increased severity have impacted some reinsurance programs. This is viewed as the most problematic area in the global credit market causing tightened capacity during the 1/1 renewal, with some firming of rate and pressure on retention levels.

International surety	Reinsurer scrutiny of international surety has increased due to challenges in the global construction sector, which resulted in increased insolvencies and claims especially in Europe, Asia Pacific and Africa. Reinsurers adopted a more cautionary approach to business with this background.

US Mortgage: A return to normalcy?

Demand in the US mortgage reinsurance line of business is driven primarily by the government sponsored enterprises (GSEs) Fannie Mae and Freddie Mac as well as the six US mortgage insurers (US MIs). After a record volume of $18 billion of mortgage reinsurance was purchased in 2022, limit purchased in 2023 was reduced by over 50 percent to levels more similar the recent pre-COVID years. Pricing, which hardened in 2022 for several reasons, started to soften in late 2023 due to both an improved housing outlook as well as increased competition. Next year should bring the opportunity to innovate on new reinsurance structures and concepts to help maintain reinsurance's position as a unique offering to mortgage reinsurance buyers.

Topic	Commentary
Constrained capacity in 1H 2023	After a record 2022 regarding limit placed in mortgage reinsurance, capacity was constrained to start 2023 as certain reinsurers were faced with internal constraints. Several factors contributed to the capacity challenge: (1) Record 2022 volumes, (2) Slowing home price growth reduced the rate at which borrowers gained home price equity, and (3) Higher interest rates reduced the speed that borrowers prepaid their mortgages. Both (2) and (3) reduced the speed at which prior deals de-risked and made aggregate exposure to loss remain higher for longer. As the year progressed and since new volumes reduced in 2023, the aggregate capacity for mortgage reinsurance improved.
Changes in GSE buying behavior	In 2020 the GSEs became subject to a new capital regime referred to as the Enterprise Regulatory Capital Framework (ERCF). The GSEs also recently have been allowed to rebuild some of their own capital base through retained earnings and given more flexibility on the magnitude of credit risk transfer (CRT) they need to purchase. This has led to a focus on the capital efficiency of CRT structures. Both GSEs have raised their retentions this year and we have seen the introduction of several deal features designed to align CRT more closely with the ERCF framework.
Softening prices in 2H 2023 as reduced demand became apparent	In 2022 mortgage reinsurance prices rose throughout the year due to a record amount of demand, significant price increases in the competing capital markets execution, and uncertainty in the housing outlook. Those prices remained elevated for most of 2023. However, as reinsurer capacity constraints eased and the housing outlook improved, there has been some softening of price and increase in reinsurance supply of available. We expect this trend will continue into early 2024.

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