

Capital Rising

Dedicated reinsurance capital hit a record \$463 billion in 2024, with year-on-year capacity increases in the double digits.

By Alex Wright



Natural disasters, such as the Los Angeles wildfires, create a quandary for reinsurers. They must remain cautious, especially since primary layer property insurers are in a competitive price environment.

The reinsurance market endured one of its toughest years in recent history. In 2023, a record 142 insured natural catastrophes hit reinsurers' balance sheets, with losses topping \$108 billion.

As a result, reinsurers across the board hiked rates, pulled back on coverage, and tightened terms and conditions.

Fast-forward two years, though, and it's a completely different picture.

The June 1 renewals were largely positive, with property-catastrophe pricing continuing to moderate and capacity starting to return as new entrants join the market.

Meanwhile, dedicated reinsurance capital hit a record high of \$463 billion at the end of 2024, up 10% year-on-year, according to Howden, fueled by higher asset values and catastrophe bond growth.

Last year was also among the most profitable for many reinsurers in recent times, while Swiss Re estimates solvency ratios of more than 250%, on average, for leading reinsurers.

Yet, despite its undoubted progress of late, the reinsurance market continues to be challenged by a host of traditional and emerging risks, including cyber.

"Most areas of the industry, including reinsurance, began a disciplined response to the soft market years of 2014-2019," said Emil Issavi, CEO and president of Ryan Re.

"Excluding some of the professional lines and cyber, the market has had its longest underwriting disciplined cycle.

"Perhaps somewhere along the line, we sensed the increasing and ever-changing risk environment which certainly become more complicated by the effects of the COVID pandemic. Yet, the largest development to me is the growing uncertainty created by the possibility that the industry simply kept up with the evolving world of risk, natural or otherwise, and the recent years are not like the past hard market cycles," Issavi said.

PROPERTY MARKET

The property reinsurance market has become increasingly more challenged by risk and volatility as a result of natural disasters caused by climate change.

Following the high losses from the 2023 U.S. hurricane season and the rise in secondary perils such as floods, wildfires and hailstorms, reinsurers sought to reduce their exposures, however, now that the market is starting to return to some stability.



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"The whole industry — not just reinsurers — is facing a future where we are seeing insured losses from natural catastrophes rising, on average, five to seven percent each year," said Monica Ningen, CEO P&C reinsurance U.S., Swiss Re.

"The industry paid out more than \$137 billion in natural catastrophe claims alone last year, according to the Swiss Re Institute. Of those losses, nearly 80% of them stemmed from the U.S.

"That really highlights how exposed the country is to natural disasters like hurricanes, floods, wildfires and earthquakes. It's usually climate change that makes the headlines as to why these losses are increasing and, while it is playing a role, the main factor driving losses is growing populations and accumulation of assets, as well as inflation."

Reinsurers are looking for underwriting discipline from primary carriers.

"Exposure growth continues to drive a demand for increased reinsurance purchase. Broadly

SUMMARY

- **Risk transfer capital** being made available from reinsurers is at an all-time high.
- **Rates for casualty** reinsurance remain pricey.
- **Losses in the U.S.** produced the vast majority of reinsurance payouts related to natural catastrophes in 2024.



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speaking, reinsurance supply has met the increased demand and the property CAT market is competitive, yet this is dependent on structure, terms and historical performance,” Ningen said.

“We’re looking for underwriting discipline from primary carriers, notably in commercial property, as competition has been driving decreasing rates, despite significant nat CAT activity.”

RISE IN CASUALTY COSTS

While property reinsurance had become more restricted, casualty capacity has remained relatively consistent and even increased in some areas such as workers’ compensation as investors have turned away from more volatile property lines.

In recent years, casualty claim costs have started to mount, driven by adverse reverse development caused by social inflation, as U.S. funding litigation grew by 39% between 2019 and 2023, according to Westfleet Advisors.

Subsequently, rates have risen by as much as 15% to 20% in some areas.

“In terms of general and auto casualty lines, we are now in our sixth year of positive rate change with a tremendous amount of what I call limits management and re-underwriting,” said Issavi.

“I anticipate we will continue to see positive rates into the foreseeable future driven by uncertainty created by post-COVID increased litigation abuse including growth of litigation funding.”

Indeed, litigation abuse will likely continue to put upward pressure on rates.

“We could point to uncertainties due to changes in expected patterns emerging in recent ‘hard market’ years, but the main growing culprit is litigation abuse, period,” Issavi said. “It has become a heavy tax on society and the industry should push for more disclosures on both funding and award distribution.”

“The biggest challenge right now is the overall risk environment, said James D’Onofrio, executive vice president and general manager at Liberty Mutual Reinsurance, U.S.

“Whether it’s macroeconomic, geopolitical or the weather, there’s just more risk, uncertainty and volatility out there.

“It’s key for reinsurers to understand the pricing adequacy of the different areas of the market and their profit potential. There’s still plenty of demand for reinsurance, especially on the catastrophe side, but reinsurers need to ensure that they’re providing value beyond



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simply capacity to their clients through having the right knowledge and expertise, and products to serve them.”

Despite the multiple challenges that reinsurers face, opportunities abound too.

Chief among them is the need for reinsurance in an increasingly complex global risk environment.

By investing in and developing

the right talent and technology, and leveraging strategic alliances with key insurance and broker partners, reinsurers can capitalize on these opportunities.

It’s also paramount for reinsurers to maintain strong underwriting discipline, particularly during these times of heightened risk.

Another key trend that has become increasingly prevalent in the



Bermuda’s Wildfire Response

The Association of Bermuda Insurers and Reinsurers (ABIR) has announced that its members expect to provide almost \$10 billion in gross claims payments to U.S. policyholders and cedants in response to the January wildfires in Southern California.

The Easton and Palisades fires, which have been classified as the costliest in American history, caused extensive property damage, loss of life and economic disruption.

Data from the Bermuda Monetary Authority shows that Bermuda-based insurers and reinsurers may contribute as much as 30% of the estimated insured losses from the event.

Additional funding may also be sourced from the island’s insurance-linked securities and catastrophe bond market.

Industry estimates put the total insured losses from the wildfires at least \$30 billion, with total economic losses reaching up to \$275 billion.

“For more than 30 years, Bermuda reinsurers have been there for American families, businesses and communities in their darkest hour,” said Mark Cloutier, executive chair of Aspen Insurance Group and ABIR chair.

Domestically, ABIR members reported a record-breaking contribution of more than \$1 billion to Bermuda’s economy in 2023.

reinsurance industry is the use of data to gain greater insights, and make more accurate and better decisions. Even the process of data exchange is yielding improved results.

For example, Swiss Re improved its allocated cash by 70%, SCOR achieved 80% data accuracy by using digital data exchange

and standards, and MAPFRE RE reported 50% efficiency in processing and queries.

“Certainly we’re seeing a massive trend in terms of digital data exchange around three core components — pre-bind and post-bind, placing and accounting, and claims, and really that’s a key upward trajectory and is gathering pace as well,” said Chris Newman, global business leader and president international at ACORD.

“Of all the transaction types, placing is very much the hot topic at the moment.

“Ultimately, it’s about replacing email-based transactions with more contemporary APIs, newer technologies and standard payloads that enable data to be exchanged in real-time.”

There has also been an increased adoption of artificial intelligence to identify critical risks at greater speed and scale. This enables reinsurers to better understand and underwrite individual accounts.

“AI does a really good job of helping reinsurers understand the ‘unknown unknowns’ or the questions they don’t know to ask,” said Shawn Ram, chief revenue officer, Coalition.

“It can look at a portfolio and understand where critical risks are, where most concerns aggregate and what the cat load that should be applied on a particular portfolio versus an attritional loss aspect.”

Moving forward, the reinsurance market looks set to continue on its current stable trajectory. As it continues to evolve, AI and other cutting-edge technology will be critical in identifying key trends which will drive quicker and better responses to any opportunities that may arise.

“It’s a more challenging world in terms of risk than ever before,” said D’Onofrio. “But, as it evolves, the industry is well positioned to meet all these challenges.” &

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