2025 Reinsurance Market Update & The Agents Role In Improving it

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Things Are Better, BUT…. the work isn't done!

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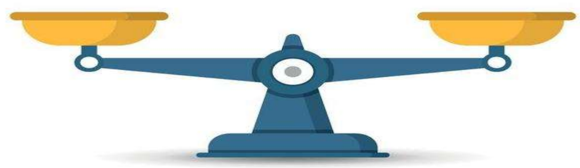
Monetary Trends Impact on Reinsurance

- **Short term-** Continue to expect moderately lower reinsurance rates/ceded margin, driven by reinsurers deployment of strong earnings and some tailwinds from reductions in interest rates

- **Longer Term-** We expect price inflation to keep pressuring industry loss costs. Cost of capital is likely to stay elevated so will reinsurance rates and retentions. This highlights the need for insurers to understand and manage its large losses, rates and inflation



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Supply vs Demand in the Reinsurance Market

- Why is Supply down?
  - Sharp rise in interest rates
  - Allocation of capital to less risky sectors-creating retro shortage
  - Strong US dollar
  - Years of underwriting losses deteriorated investor confidence
- Why is Demand up?
  - One Reason- INFLATION
    - Inflation is greater than Total Insured Values. If everything else is equal there is a need ore vertical reinsurance limit to provide the “equivalent” tail protection

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Major Disruption Has Occurred

- Reinsurance Hard Market
- Weather Frequency and Severity Increasing
- Claim Cost Inflation
- Economic Uncertainty

WHICH RESULTS IN:

Pressure on Profit margins and loss of surplus

Mergers and Liquidations of Insurance Companies

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More "Plateau than Mountain"

- Market may have reached a cyclical high point but as capacity and competition return, an acceleration in price reduction is going to take some time as reinsurers still recovering
- Even as new capital starts entering the equation, inflation, frequency of loss activity, high cost of that capital in addition to the latent demand will keep costs elevated for the foreseeable future

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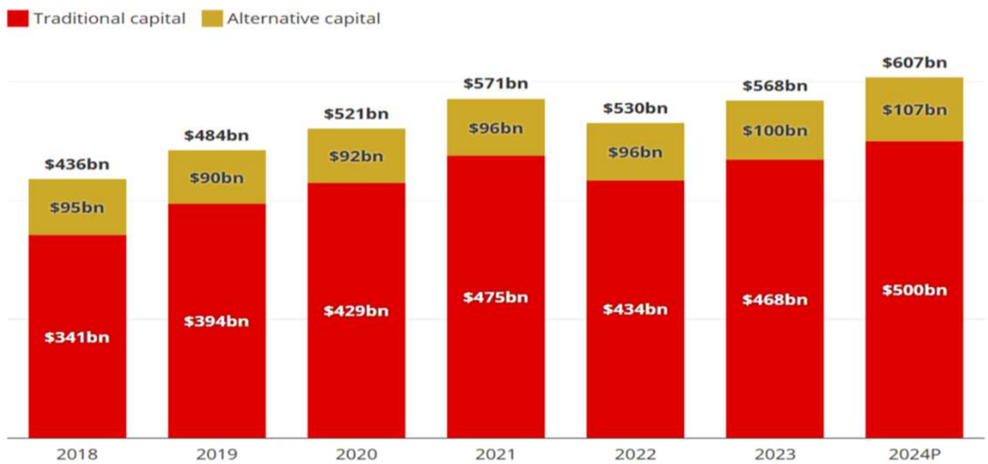
Reinsurance Market Capital

Retained earnings and investment results continue to drive growth in dedicated reinsurance capital



Source:
AM Best
1/2/2025

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Outlook for Primary Lines of Business

- **Excess and Surplus** – Both Casualty and Property E & S lines continue with their "golden age", although rate increases are showing some signs of slowing
- **Workers Comp**- This line is being watched with worries favorable claims trends could reverse. Benefit inflation and medical cost trends are being watched as well.
- **Property** – Property Reinsurance remediation is ongoing, with significant progress being made. Secondary Perils which are more prevalent in the Midwest continue to receive more attention and scrutiny
- **Casualty** – Getting more and more focus due to social inflation, increasing litigation costs, nuclear verdicts, and continued large settlements. Insurers are strengthening reserves, recalibrating pricing and reducing limit offerings

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2024 Billion Dollar Weather Events (Q3)

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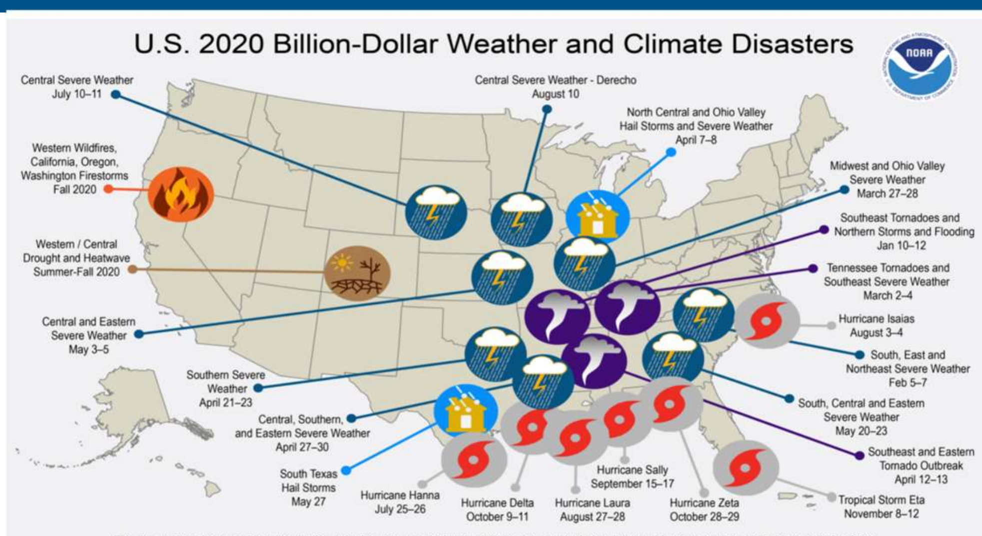
2020 U. S. Catastrophes >$1 Billion



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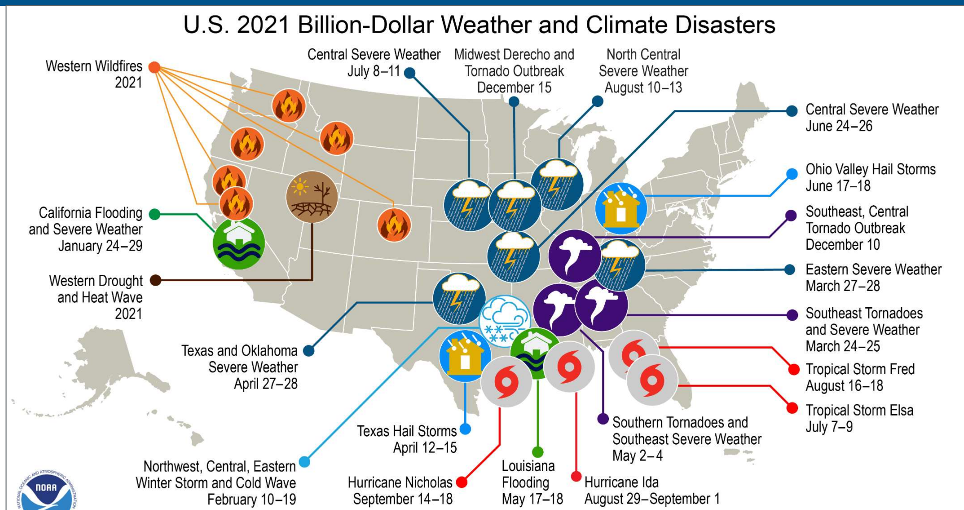
2021 U. S. Catastrophes >$1 Billion



*This map denotes the approximate location for each of the **20 separate billion-dollar weather and climate disasters that impacted the United States in 2021***

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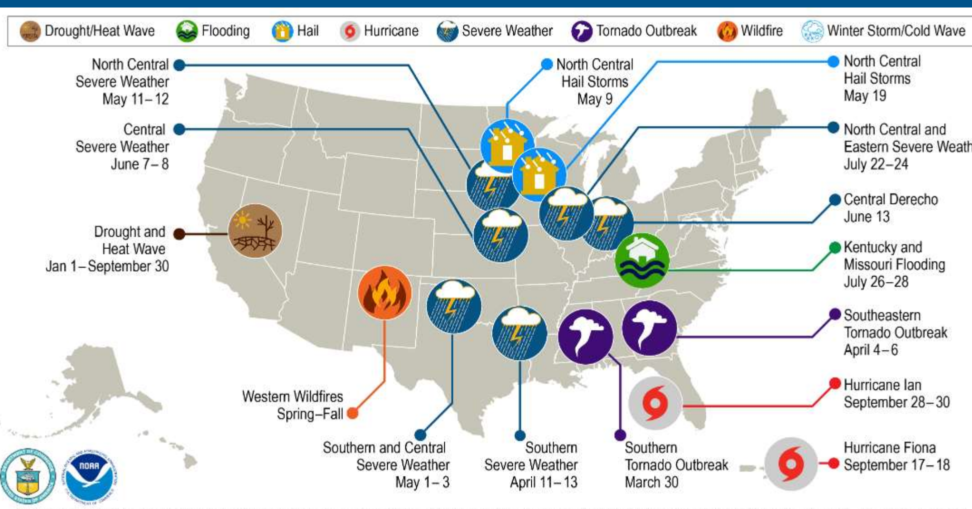
2022 U.S. Catastrophes >$1 Billion



*This map denotes the approximate location for each of the **15 separate billion-dollar weather and climate disasters that impacted the United States January – September of 2022.***

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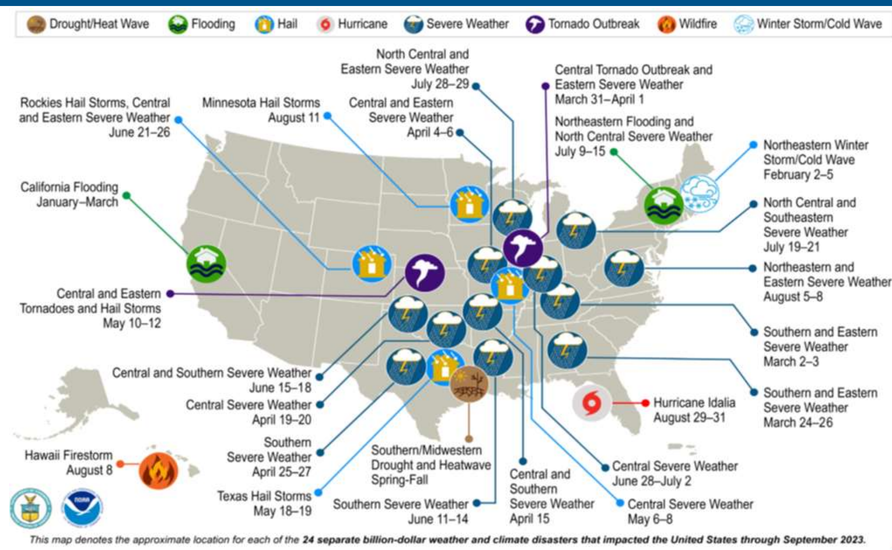
2023 U.S. Catastrophes >$1 Billion



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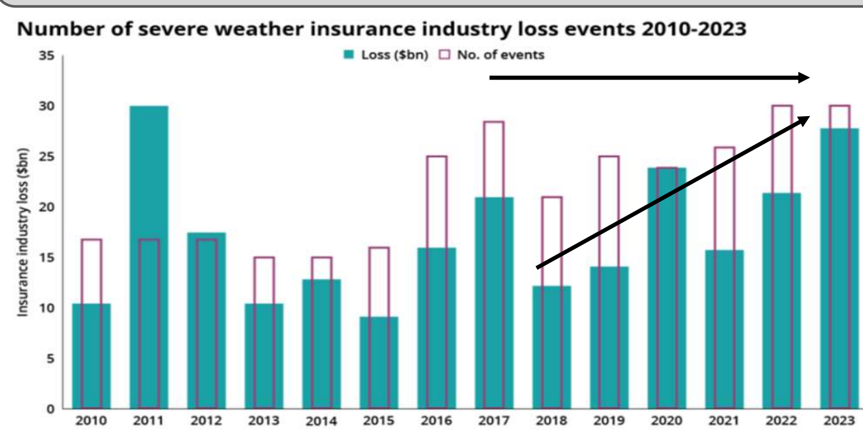
SCS Frequency and Severity Trends

SCS frequency is elevated over the last 5 years.
Average cat severity is hitting new highs annual too (inflation)



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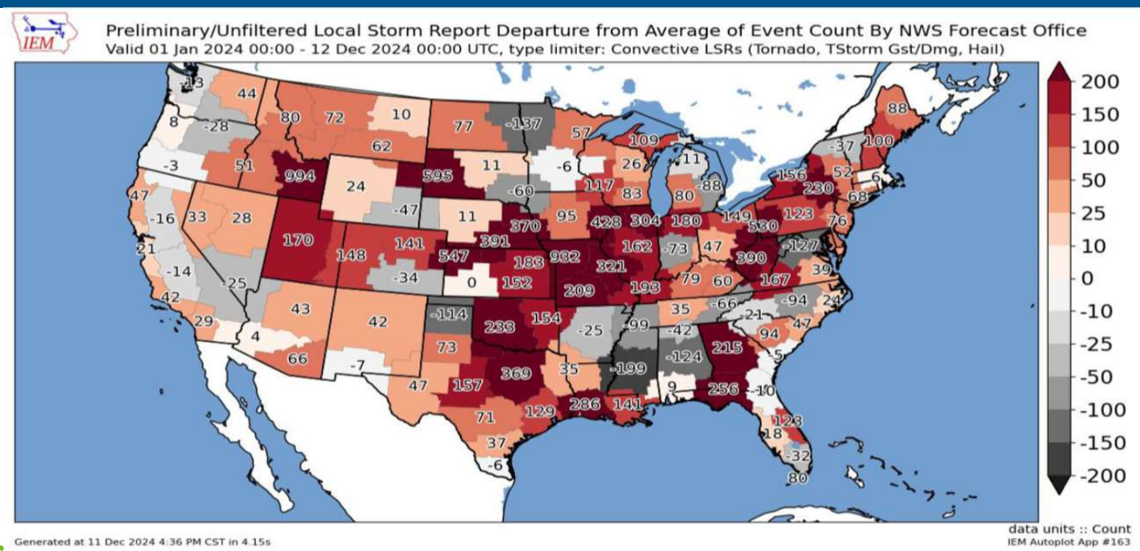
2024 SCS Activity Relative to Average



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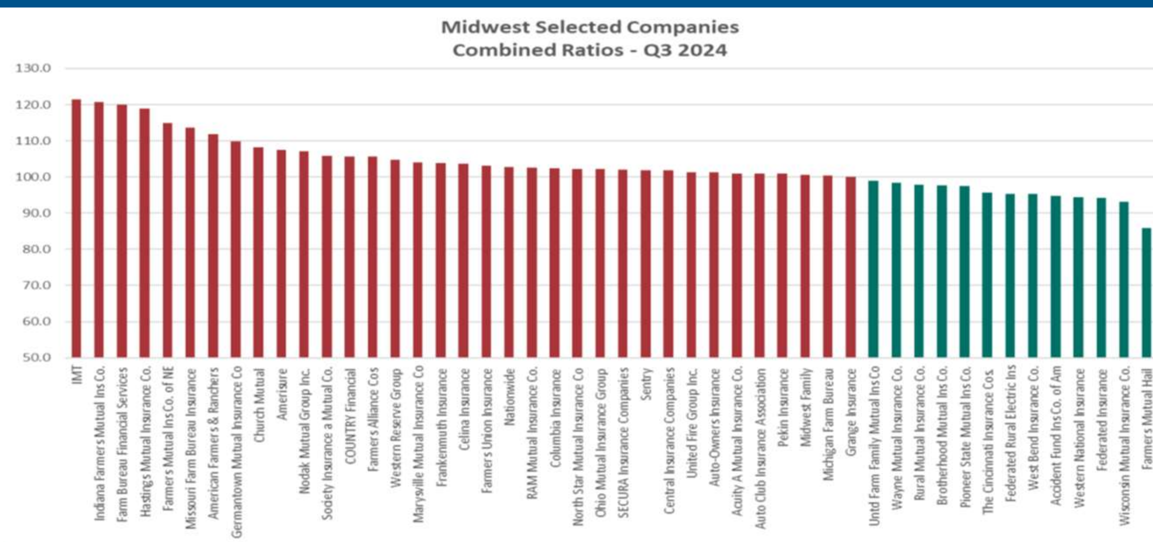
Midwest Combined Ratios through Q3 2024



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2025 Reinsurance Trends and Data

PROPERTY

- **Exposure-adjusted CAT pricing shows a preliminary decrease of 5-10%,** with larger drops for high attaching occurrence layers and some aggregates, reflecting a normalization after cyclically high expiring margins.
- **Capacity is on the rise (including for Aggregate coverage),** with some Cat layers in a sign-down position, especially up top.
- **Retentions remain steady**, with slight increases selectively in Cat, Aggregate, and Per Risk layers, especially on loss-affected programs.
- **Per Risk capacity remains robust** while Total Insured Value (TIV) growth is stretching per risk programs higher.
- **Retrocession market softened further** and more meaningfully, both in terms of price and coverage.

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2025 Reinsurance Trends and Data

CASUALTY

- **Reinsurers are becoming cautious about older-year development**, adopting conservative stances on umbrellas and larger limits, leading to **lower ceding commissions and reduced capacity.**
- However, there's **still strong interest on lower-risk and working layer programs**, including Multi-line programs (at the right price).
- **Clash (i.e., Casualty Cat) pricing is steady to down 5% year-over-year**, with some clients increasing limits to address social inflation and bad faith concerns. Capacity, however, is not expanding and, in some cases, is contracting due to reinsurers' poor results or mandated max line sizes on Clash programs.
- **Concerning trend of reinsurers selling back-books to run-off specialists (e.g., Enstar).** Holborn introduced industry-leading language to strengthen protections against loss portfolio transfers to runoff companies.

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What helped Companies Outperform the market in 2024

- Portfolios Managed to a conservative view of risk
  - Demonstrated an understanding of todays trends
- Aggressive Pricing, Coverage Limitation and Concentration Management
  - Cosmetic/Match Exclusions, ACV, less reliance on reinsurance, premium adequacy, increased deductibles, and combating inflation
- Improving Gross Loss Ratios from Reinsurers
  - Redeploying Capital from underperforming companies, SCS frequency protection, bend off quoted terms, seek out partners that are mutually profitable. Support long term relationships
- Aggressive Action within the Reinsurance Purchases

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Property Trends in the Insurance Market

- **Primary Rates:** Rates still being raised by 30-50%
- **Deductibles:** Wind/Hail at 1%+ minimum is typical, some 5% +
- **Coverages:** Implementation of cosmetic damage/matching as well as moving to ACV
- **Insurance to Value:** Large inflation guard adjustments continue, revaluation of all property
- **Concentration Management:** Non-renewing peak concentrations and new business moratoriums
- **Market Exits:** Exiting LOBs with poor performance

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Need to Return to Strong Underwriting Discipline

- Improving ITV to 100%
- Inspections
- Coverage restrictions and exclusions
- Non-renewals (De-Risking)
- Increased rates
- Tighten underwriting guidelines
- Slow new business growth
- Increase deductibles
  - Percentage deductibles
- Adopt new tools
- Reduce commissions

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Questions?

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