

CASUALTY · LOSS · RESERVE · SEMINAR

CLRS

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# The State of the Reinsurance Market

September 14, 2021

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# Agenda

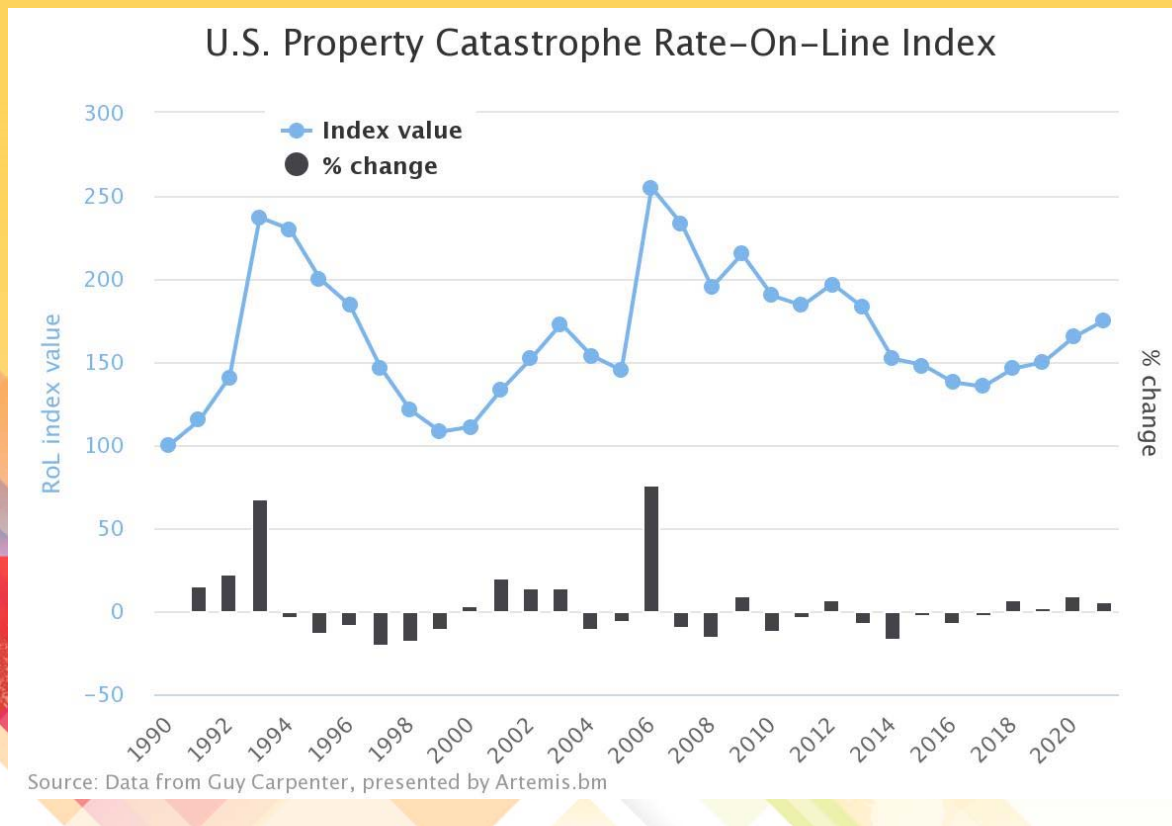
- Reinsurance Cycles
- State of the Market - Property & Florida Homeowners
- State of the Market - Casualty
- Q&A

# Reinsurance Cycles

The background of the slide is a vibrant, abstract composition. The top half is a solid, bright yellow. The bottom half is a complex, layered pattern of overlapping geometric shapes, primarily triangles and circles, in a variety of colors including purple, red, orange, yellow, green, and blue. The shapes are semi-transparent, creating a sense of depth and movement. The overall effect is a modern, artistic design that complements the title.

# The Reinsurance Market Cycle

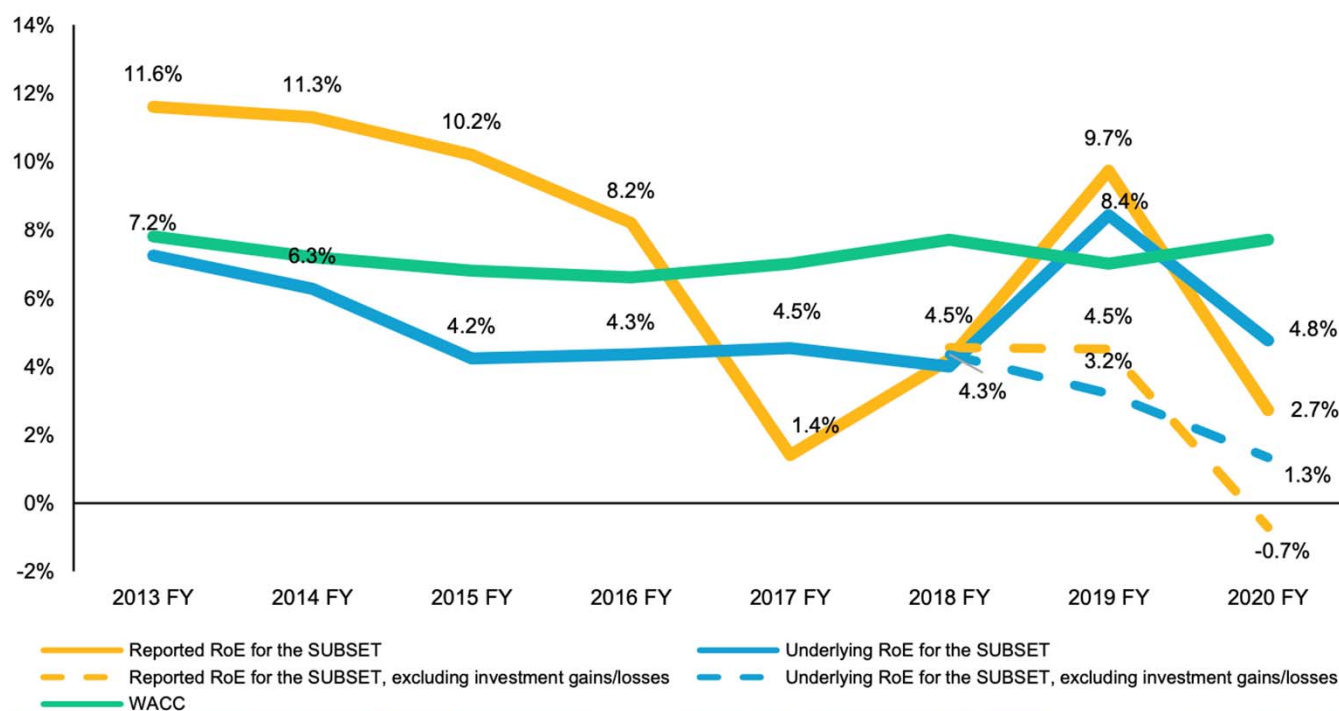
- “Hardening, not hard”





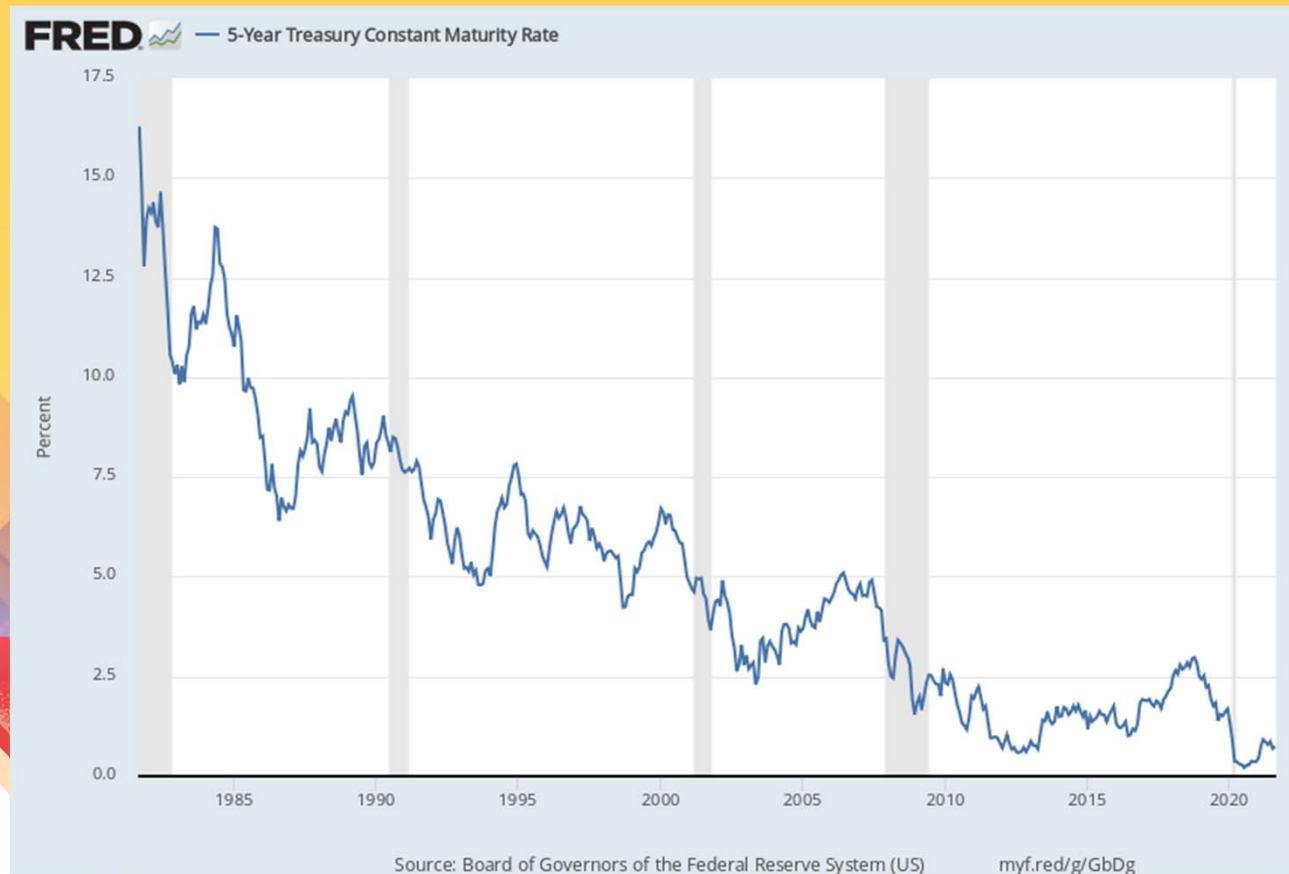
# Reinsurer Returns Well Below Cost of Capital

Chart 9: RoE time series for the SUBSET<sup>18</sup>



Source: Willis Re, <https://www.reinsurancene.ws/reinsurer-returns-still-well-below-cost-of-capital-willis-re/>

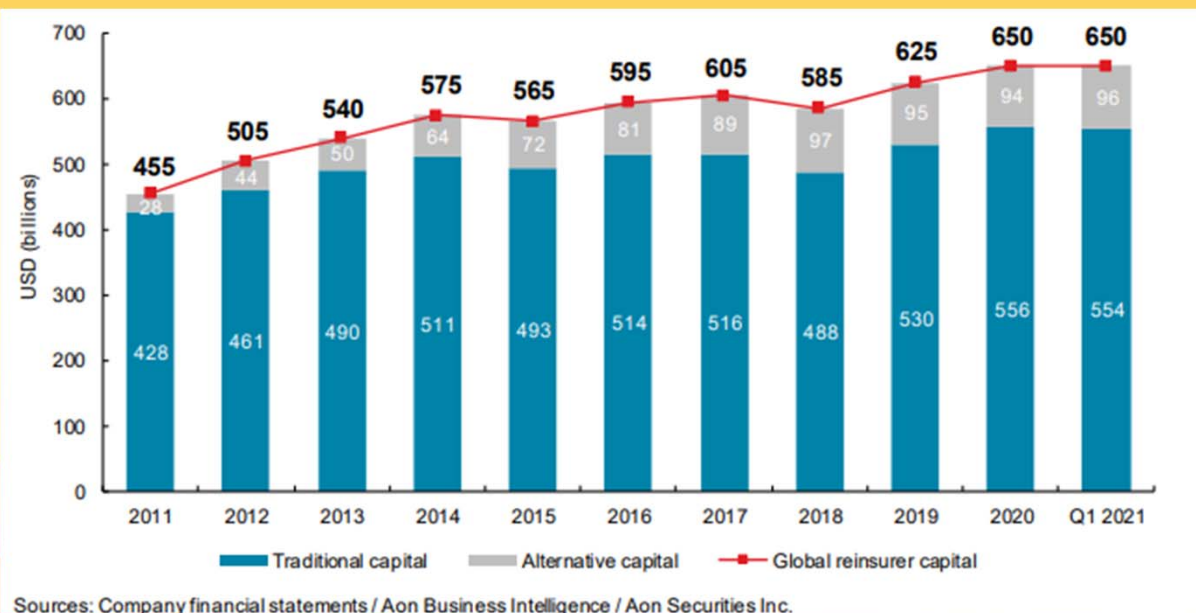
# Low Investment Yields Puts Pressure on UW Performance



# Global Reinsurer Capital Has Been Resilient

- \$650B at end of 2020 - Aon

- <https://www.reinsurancene.ws/global-reinsurer-capital-grows-4-to-new-high-of-650bn-aon/>



# Alternative Capital

- Insurance Linked Securities (ILS) provide attractive, non-correlated returns
- “Coca-Cola pension fund ILS allocation grew 5% to \$362m in 2020”

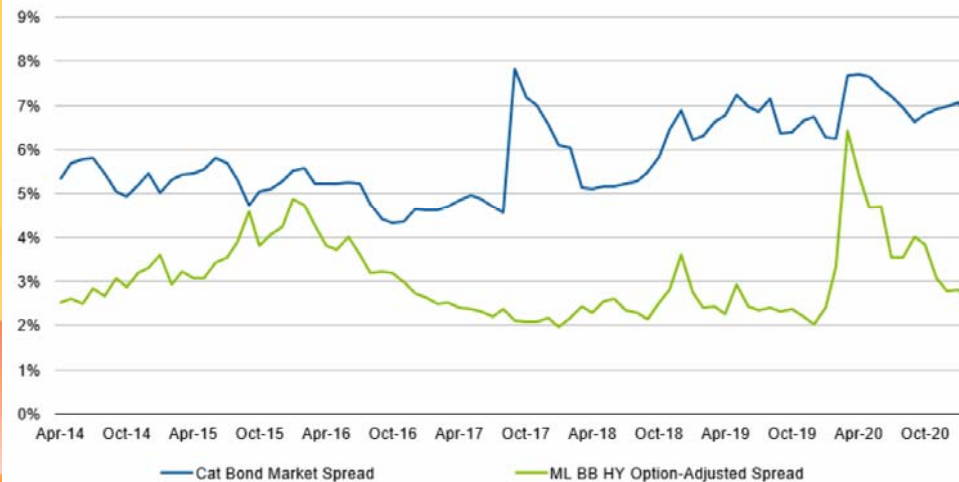
• <https://www.artemis.bm/news/coca-cola-pension-fund-ils-allocation-grew-5-to-362m-in-2020/>

- \$50 Trillion in Pension funds globally

• <https://www.oecd.org/daf/fin/private-pensions/globalpensionstatistics.htm>

## Catastrophe Bond Market Spread vs. High-Yield BB Spread

April 2014–February 2021



Source: Citigroup, Bloomberg. Important data provide notices and terms available at [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com). Indices are unmanaged and one cannot invest in them. They do not include fees, expenses or sales charges. **Past performance is not an indicator or a guarantee of future results.**



# State of the Market - Property

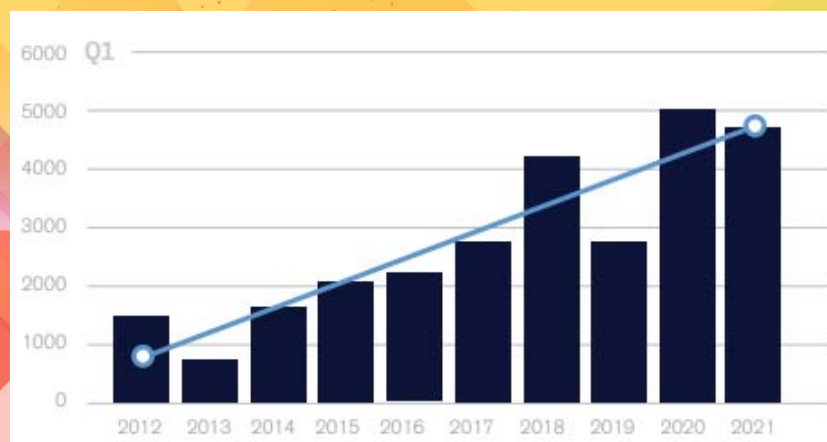


# State of the Market - Property

- Perils



- Capital



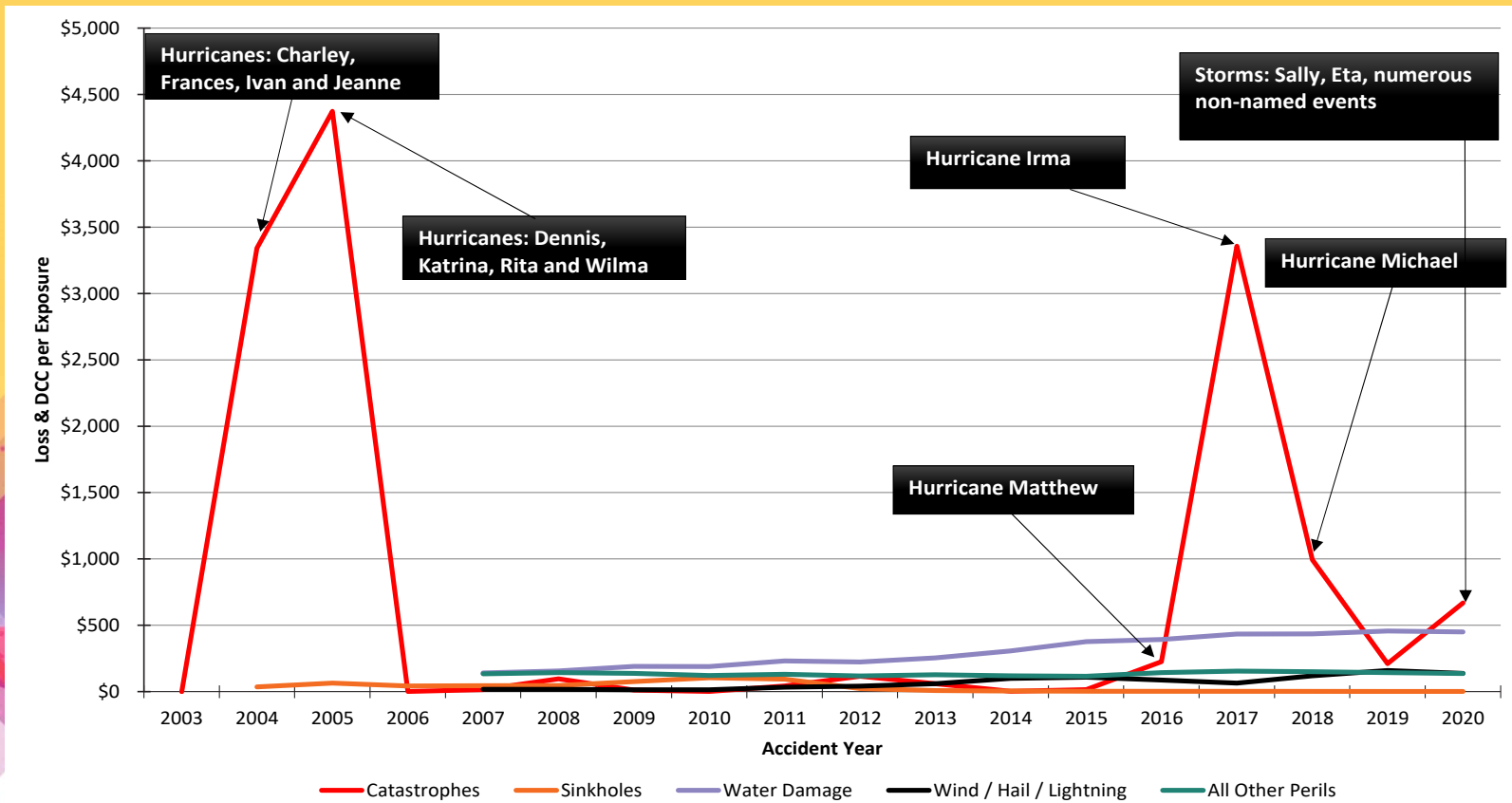
Source: Artemis Deal Directory – Q121



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# Florida Market - Loss Cost by Cause of Loss

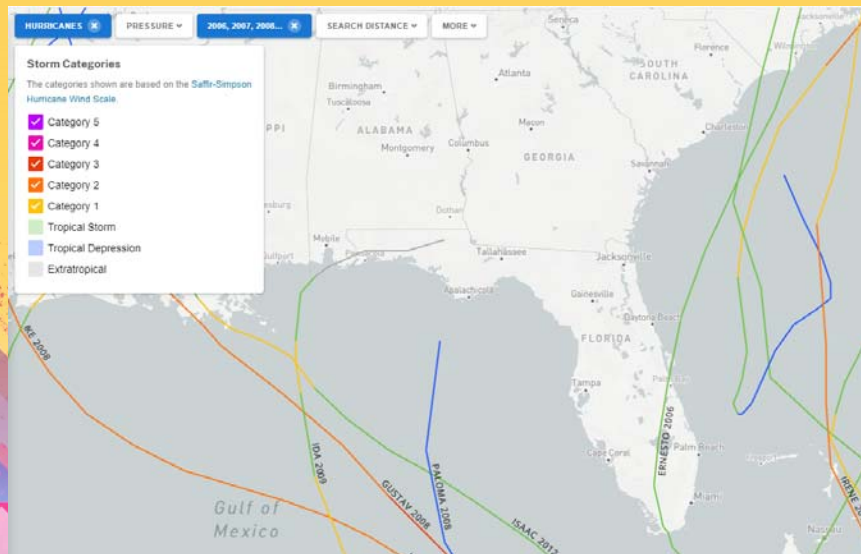


From sample of Florida homeowners writers

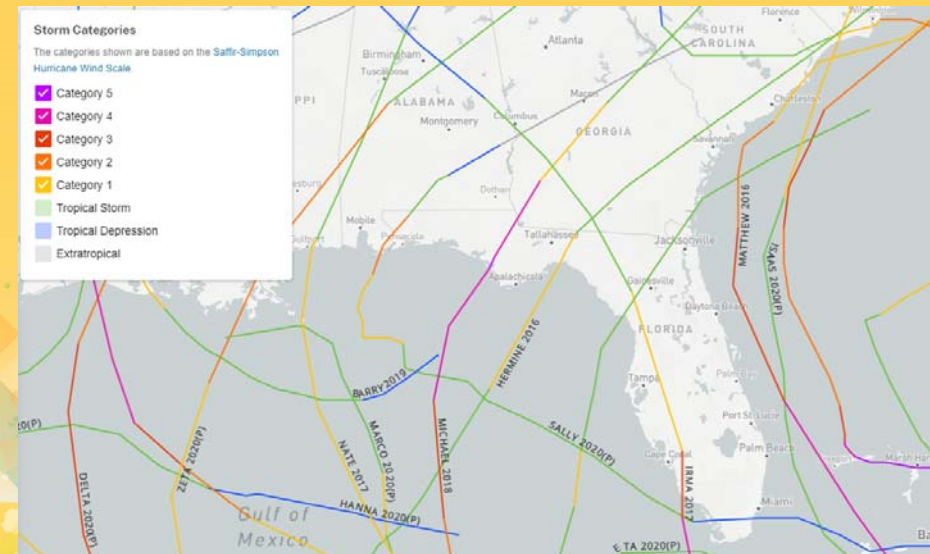


# Florida Market - Weather

## Hurricanes - 2006 - 2015



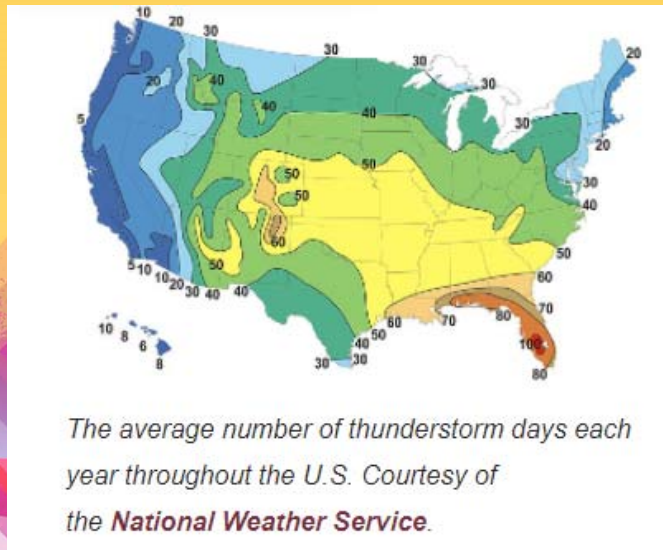
## Hurricanes - 2016 - 2020



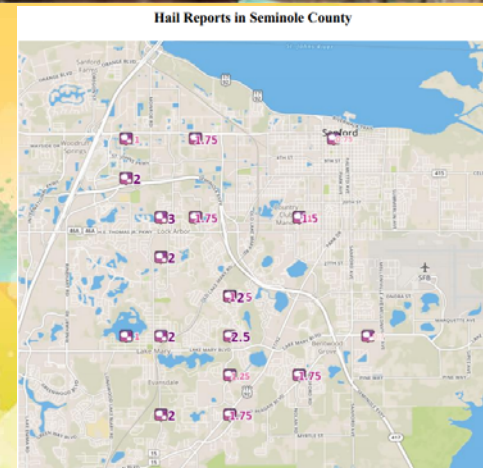
Source: NOAA – Historical HU Tracks

# Florida Market - Weather

## Severe Convective Storm Activity

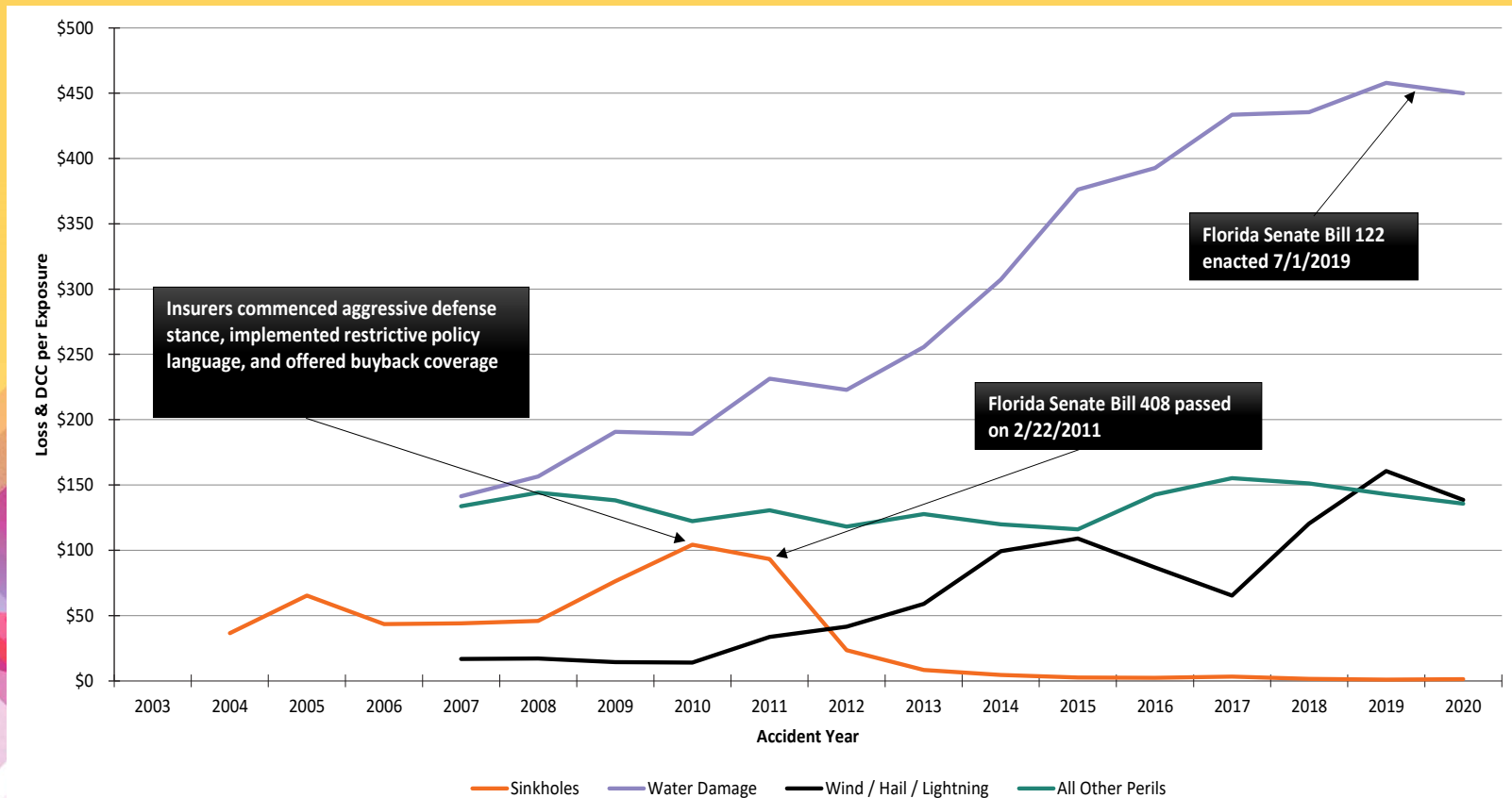


Source: Florida State University – Florida Climate Center



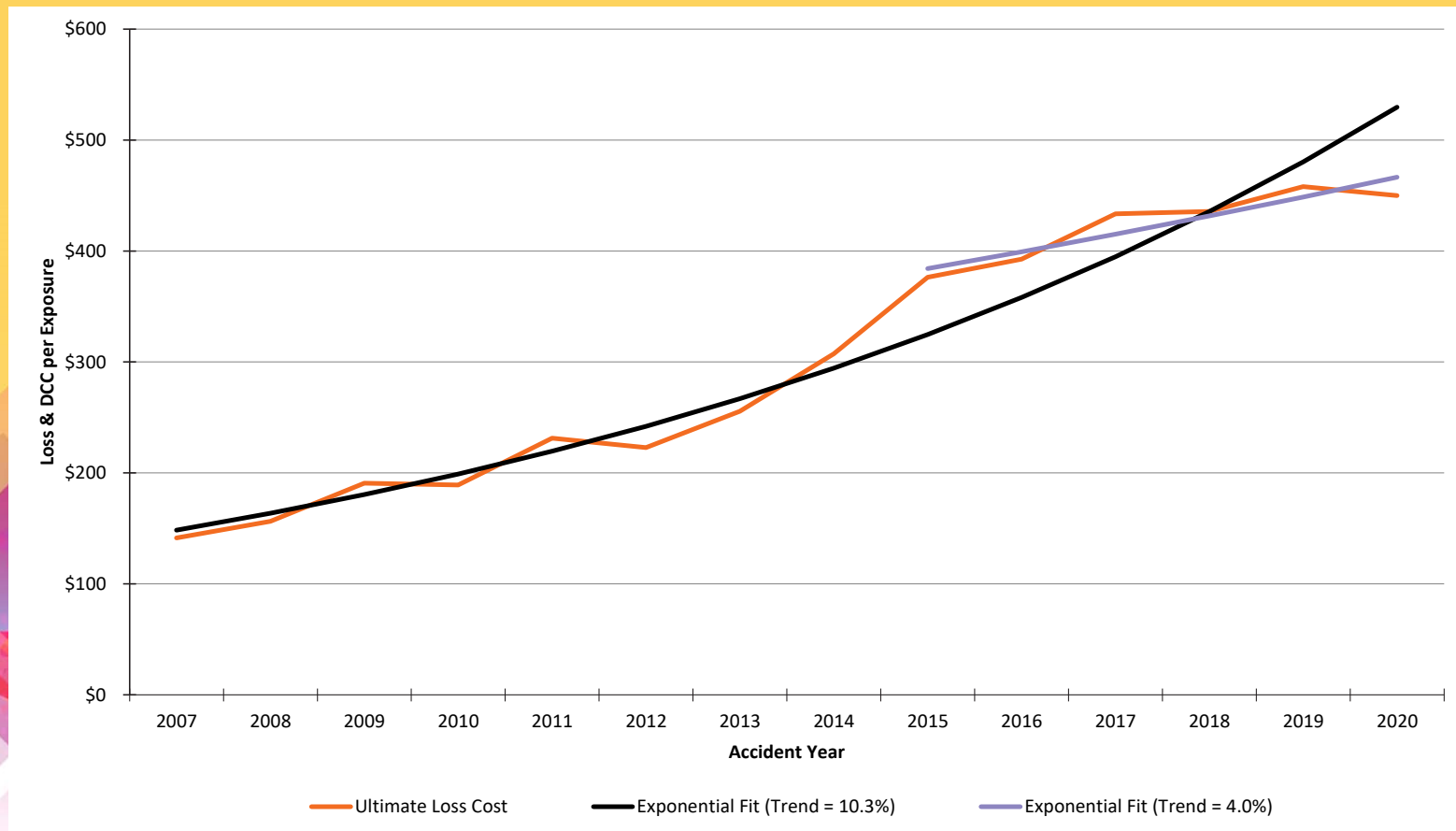
Source: weather.gov – 5/12/20 Hailstorm Report

# Florida Market - Ex-CAT Loss Cost by Cause of Loss



From sample of Florida homeowners writers

# Florida Market – Water Damage Loss Cost



From sample of Florida homeowners writers



# Florida Market - Litigation

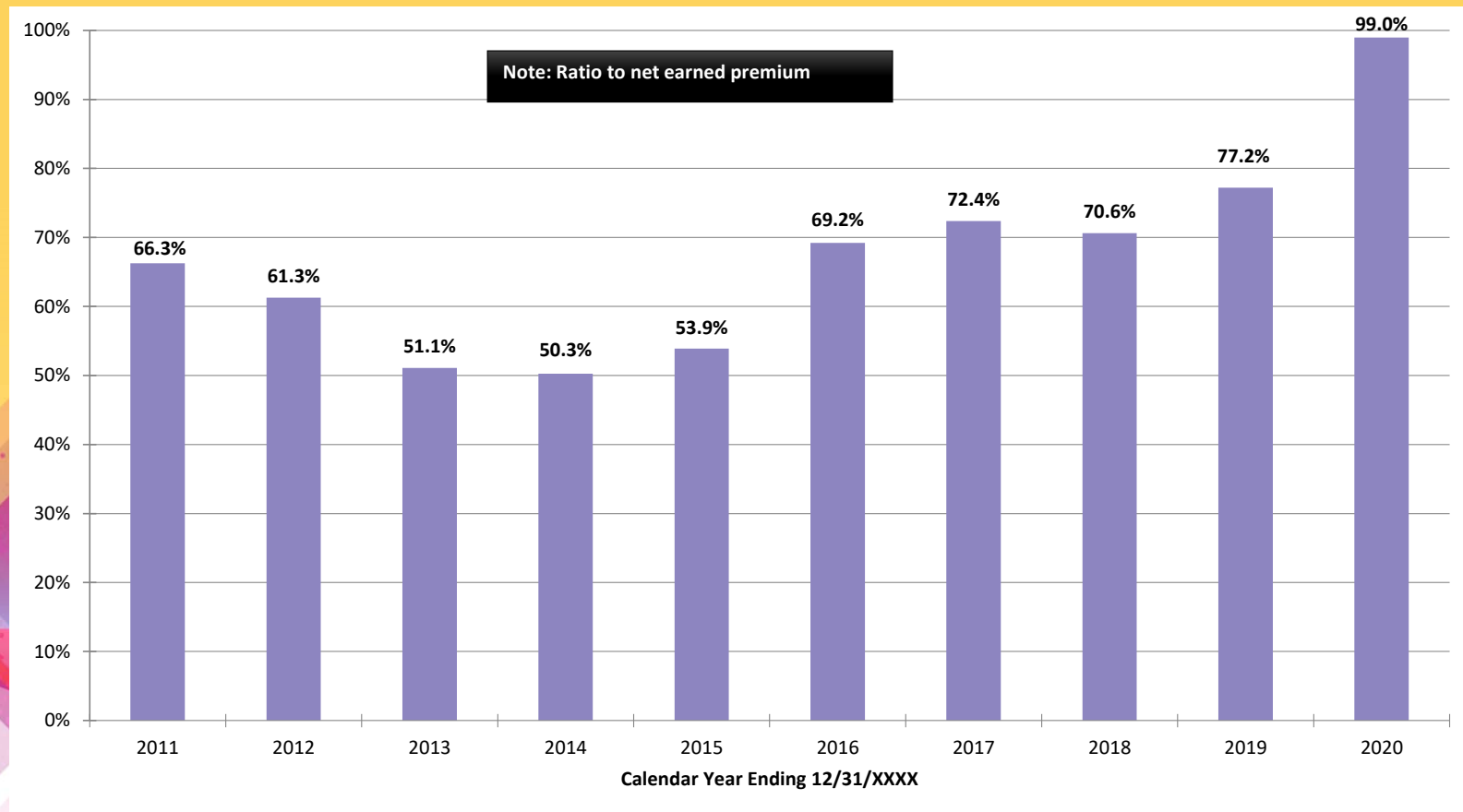
- Litigation frequency and severity represents an additional expense load of 17% (and rising) on all earned premiums for insurers in Florida compared with other catastrophe-prone states.
- Claims unrelated to catastrophes account for approximately 60% of all litigation.
- Florida consumers are paying a “hidden tax” to fund the litigation that averaged about \$680 per family in 2020.
- In 2019 alone, Florida insurers paid almost \$3 billion in lawsuit costs that translated into higher premiums for insureds.
  - Only 8% of this paid to insureds. 71% to plaintiff attorneys.

# Florida Market - Litigation

Year	Percent of Nationwide Homeowners' Claims Opened in Florida	Percent of Nationwide Homeowners' Suits Opened in Florida
2016	7.75%	64.43%
2017	16.46%	68.07%
2018	11.85%	79.91%
2019	8.16%	76.45%

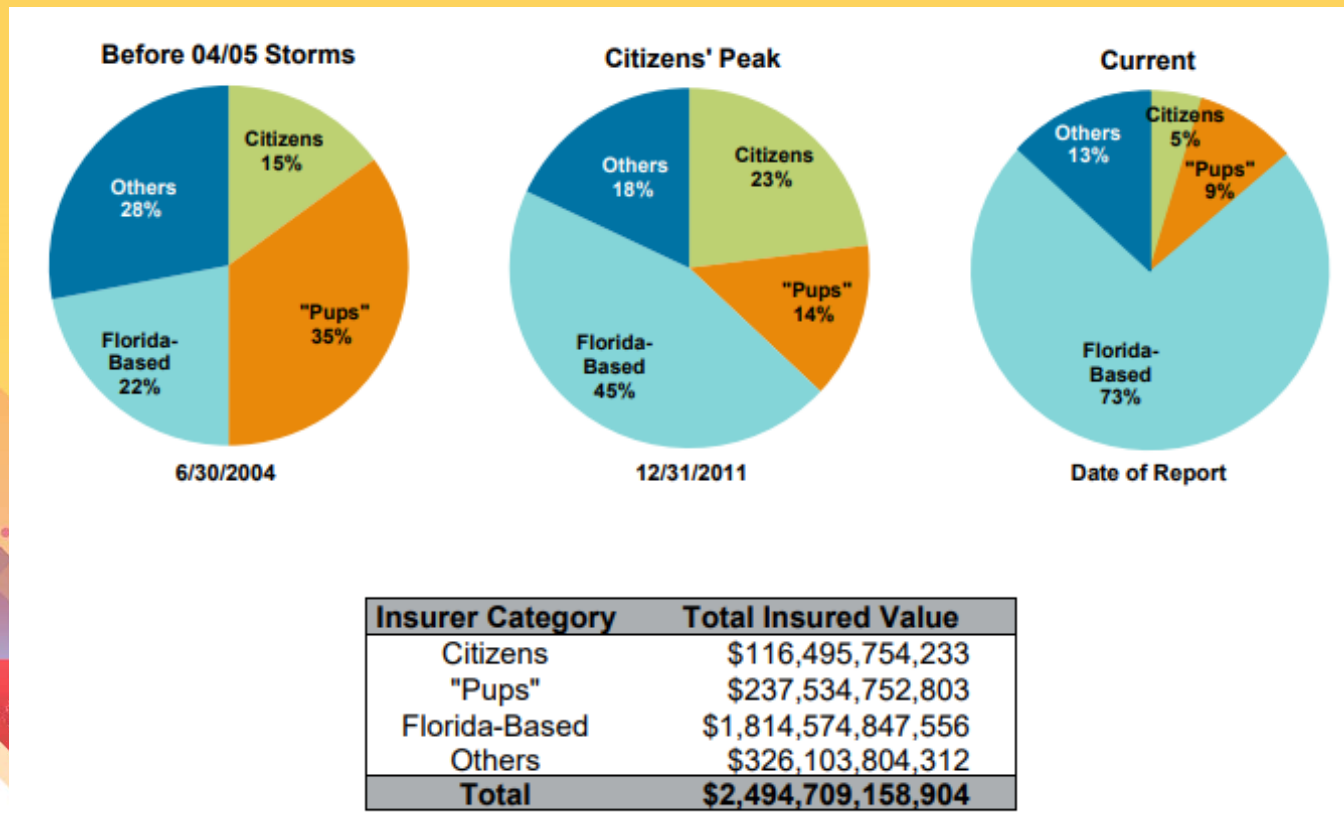
- AOB – Assignment of Benefits is routinely cited as the source of litigation, but there are a multitude of other avenues for litigation.
- Recently passed SB76 makes some headway on legislative reform, but final impacts are unknown.

# Florida Market – CY Net Loss & LAE Ratio



*From sample of Florida homeowners writers*

# Florida Market - Makeup

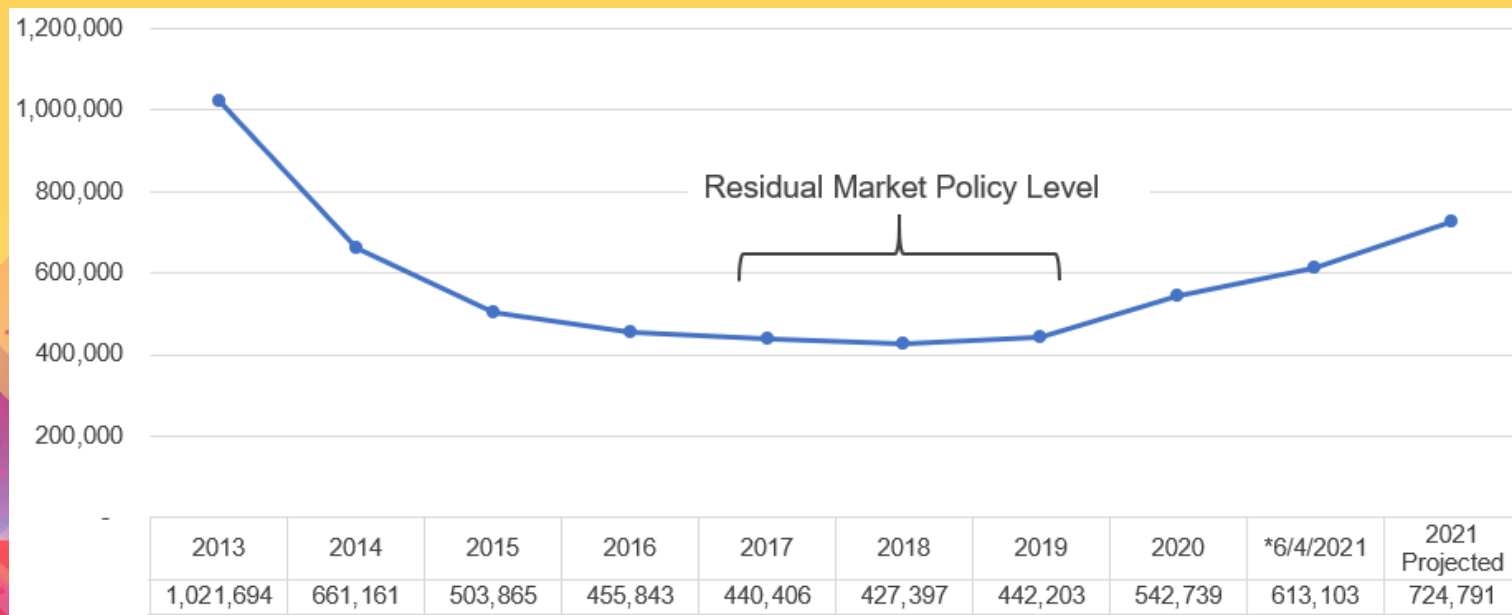


Source: Florida Citizens – Market Share Report – 6/30/20



# Florida Market – Citizens Policy Counts

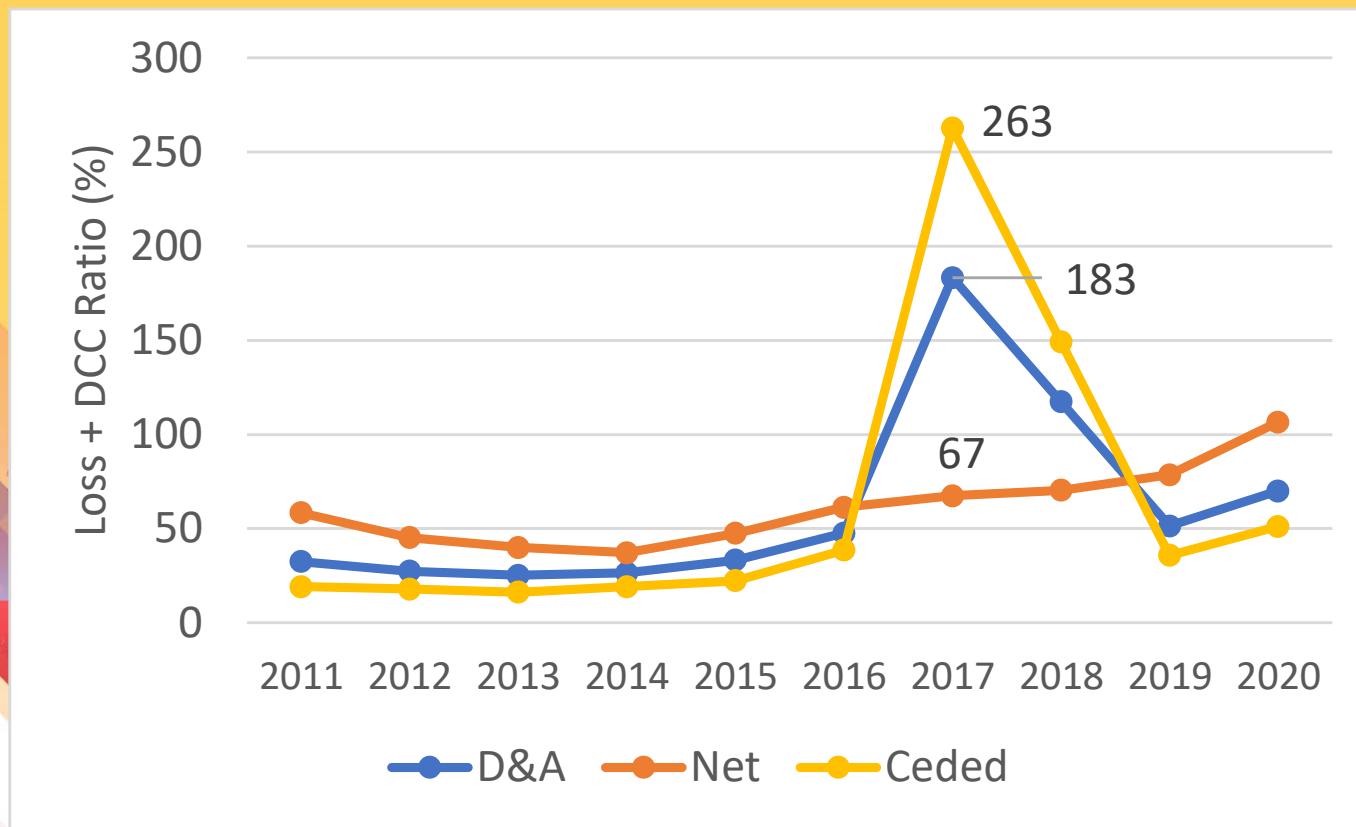
## Historical Policy Count



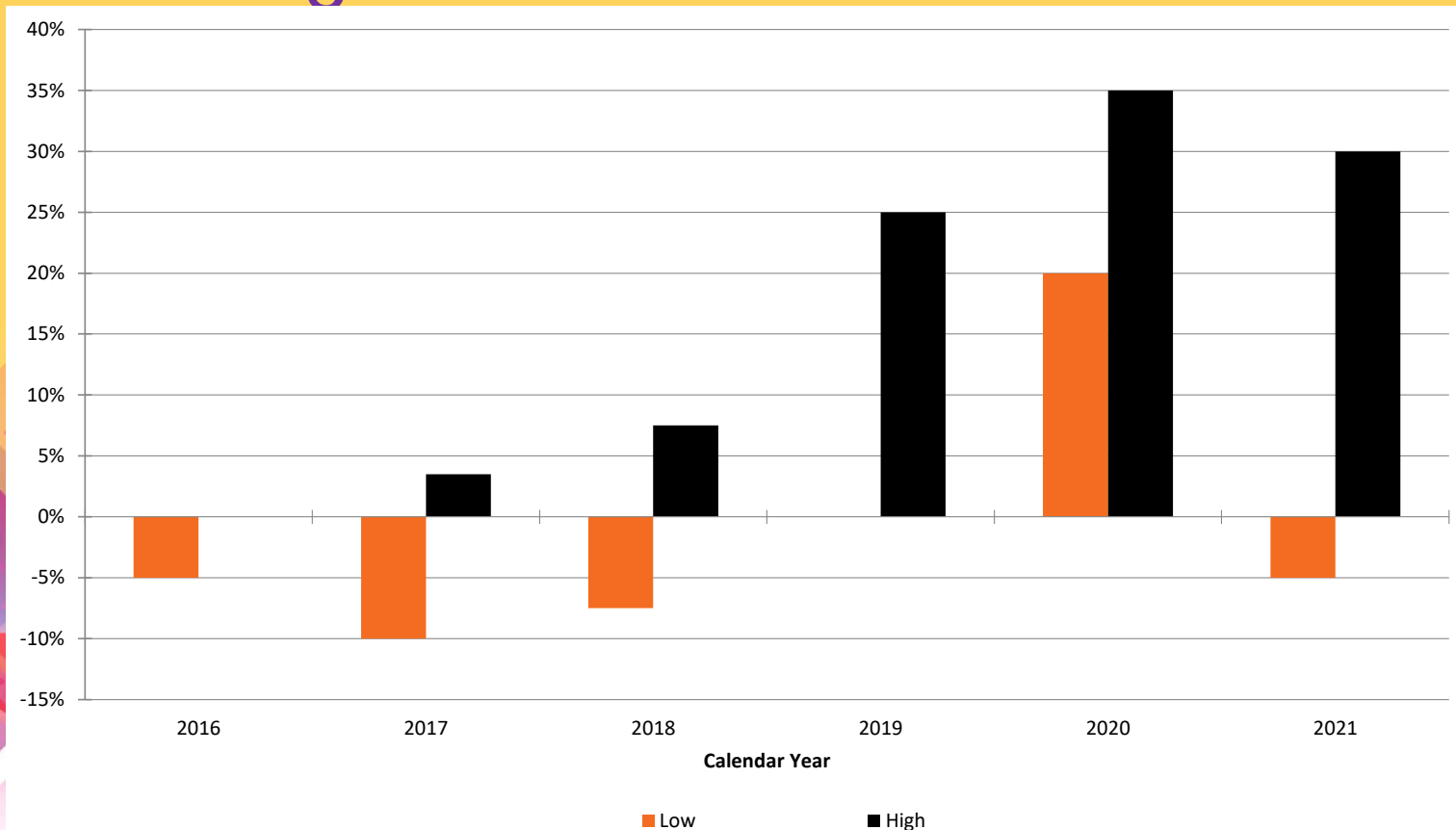
Source: Florida Citizens

\*All other years is as of December 31<sup>st</sup>

# Florida Market – Loss Ratios by Layer



# Florida Market – Property Reinsurance Rate Changes



# State of the Market - Casualty





# COVID-19 Impact on Reinsurance

- Market segments affected: event cancellation, business interruption, credit and surety, excess mortality
  - Olympics - up to \$3B if 2021 canceled
    - UPDATE - \$300M - \$400M from spectator ban
  - Wimbledon 2020 ~\$150M
  - NCAA March Madness 2020 ~\$270M
- Business Interruption ambiguous policy language favors policyholders in UK/Europe
- Court decisions and policy language favor insurers in the US
- \$37B in reserves at the reinsurance public company level

- <https://www.reinsurancene.ws/covid-19-insurer-reinsurer-loss-reports/>



# Social Inflation & Nuclear verdicts

- Social inflation: “rising costs of insurance claims that are a result of societal trends and views toward increased litigation, broader contract interpretations, plaintiff friendly legal decisions, and larger jury awards.”

<https://www.acadiainsurance.com/social-inflation-a-concerning-and-costly-trend/#:~:text=Social%20inflation%20generally%20refers%20to,decisions%2C%20and%20larger%20jury%20awards.>

- Concentrated in Commercial Auto, Medical Malpractice, D&O, Umbrella and Excess
- Nuclear verdicts: Jury awards \$10M or greater



# Social Inflation & Nuclear verdicts

- The average verdict size for a lawsuit above \$1 million involving a truck crash has increased nearly 1,000% from 2010 to 2018, rising from \$2.3 million to \$22.3 million

- <https://www.cnbc.com/2021/03/24/rise-in-nuclear-verdicts-in-lawsuits-threatens-trucking-industry.html>

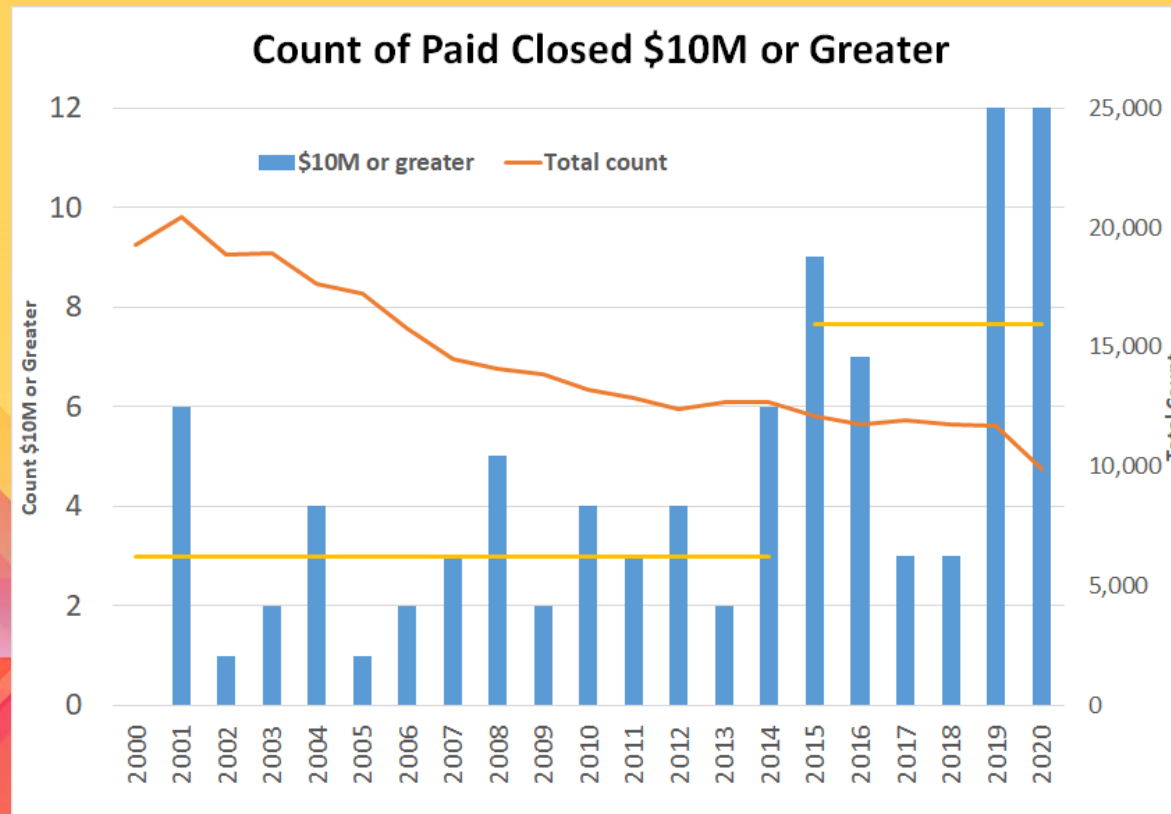
- Third party litigation financing by hedge funds
  - \$10B market and growing



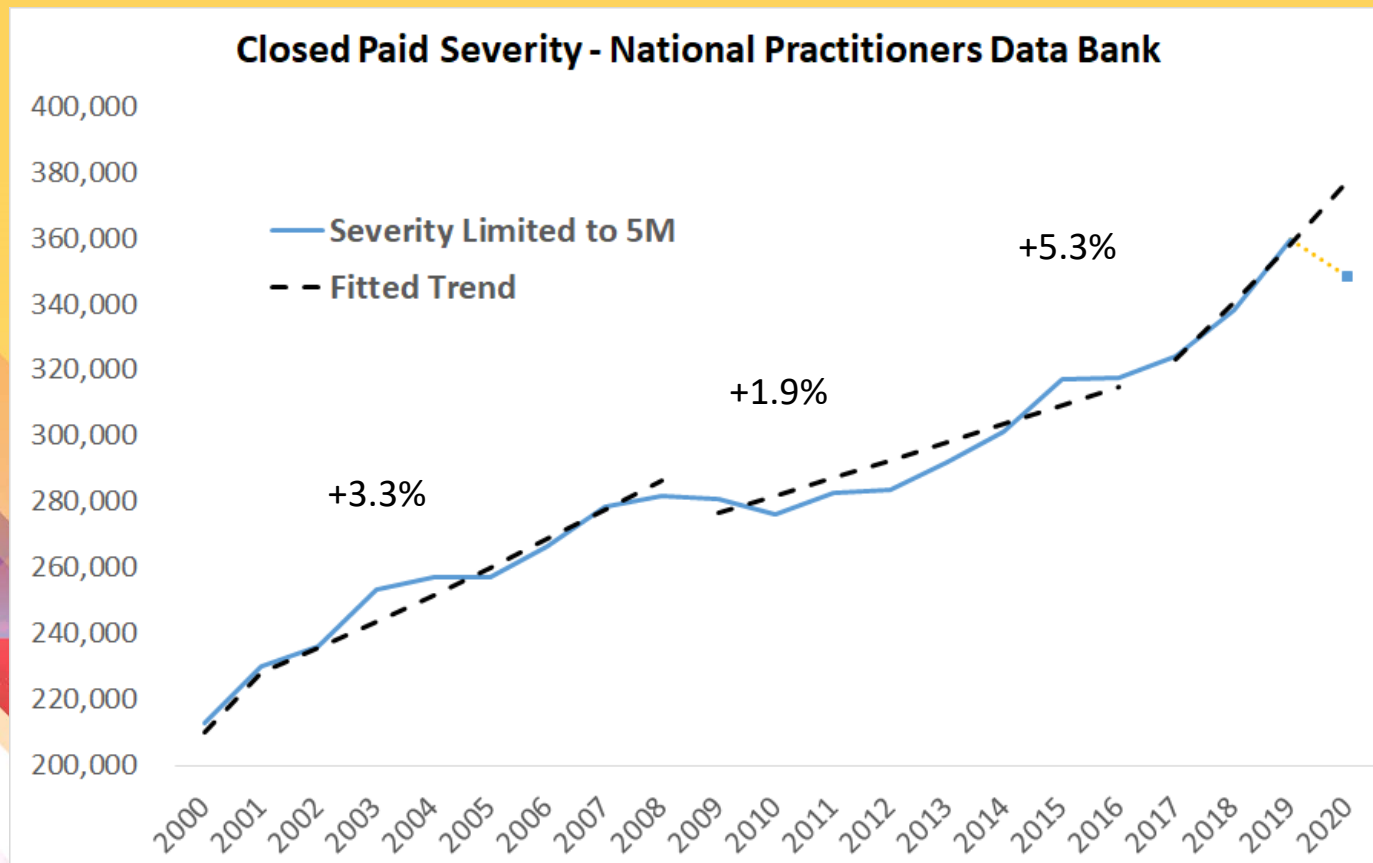


# Count of Medical Practitioner “Nuclear” Verdicts

- National Practitioner Data Bank



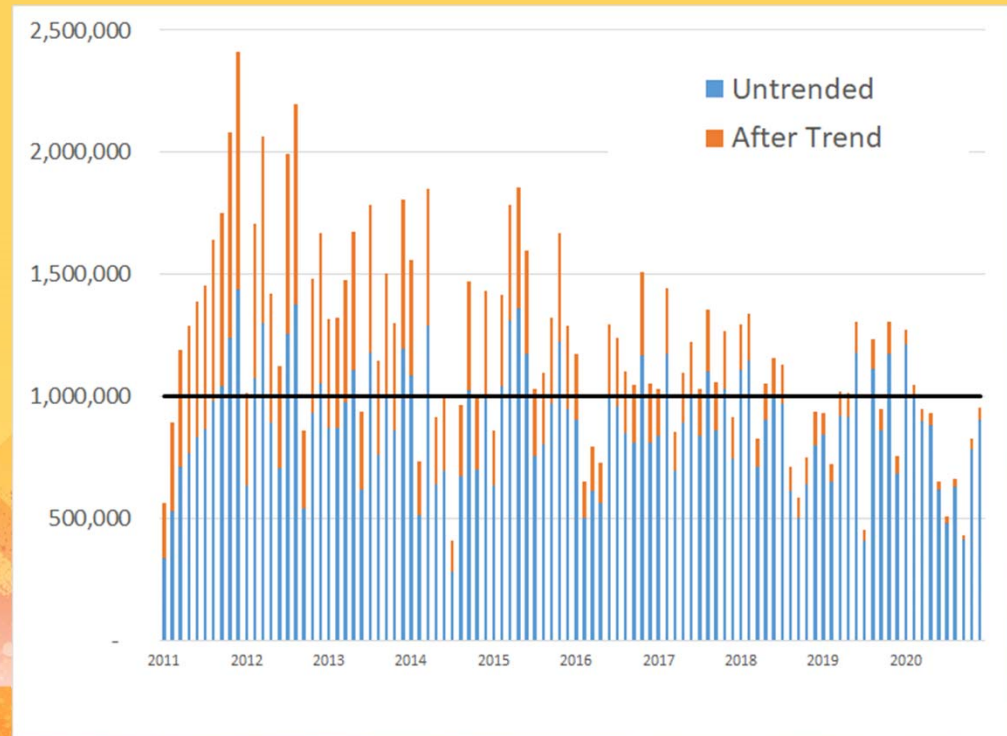
# Medical Malpractice Severity Increasing





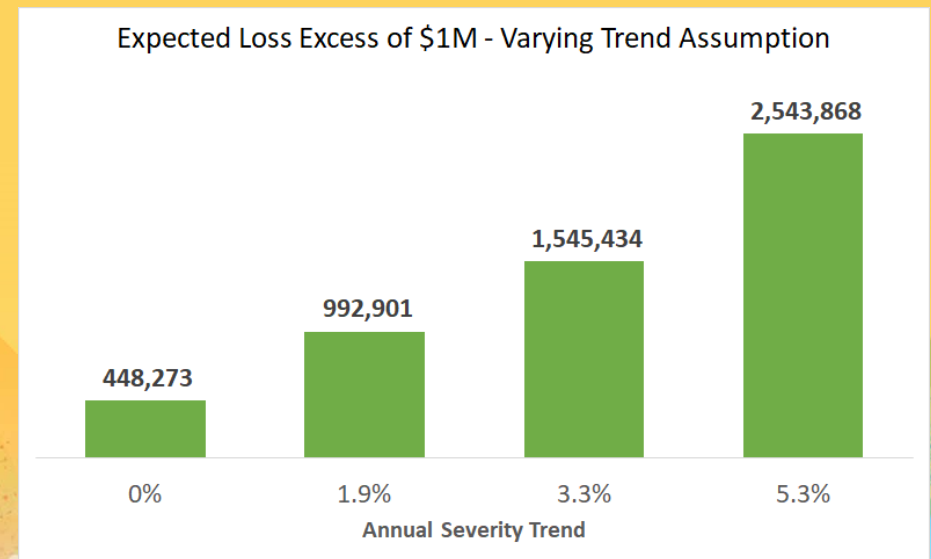
# Reinsurance Pricing Sensitive to Severity Assumption

- Excess of Loss Experience Pricing - Leverage Effect of Trend
- Use historical large claim experience, but trend historical losses as if they would occur during upcoming reinsurance treaty year



# Reinsurance Pricing Sensitive to Severity Assumption

- Excess of Loss Experience Pricing - Leverage Effect of Trend
- Actuary using 5.3% trend assumption will estimate a reinsurance price that is 2.6x higher than an actuary using a 1.9% trend assumption



100 randomly generated losses NORM.INV(rand(),900000,300000)

Q&A

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