

# *Seminar on Reinsurance*

*June 5-6, 2023*

*Westin Philadelphia*

*Philadelphia, PA*

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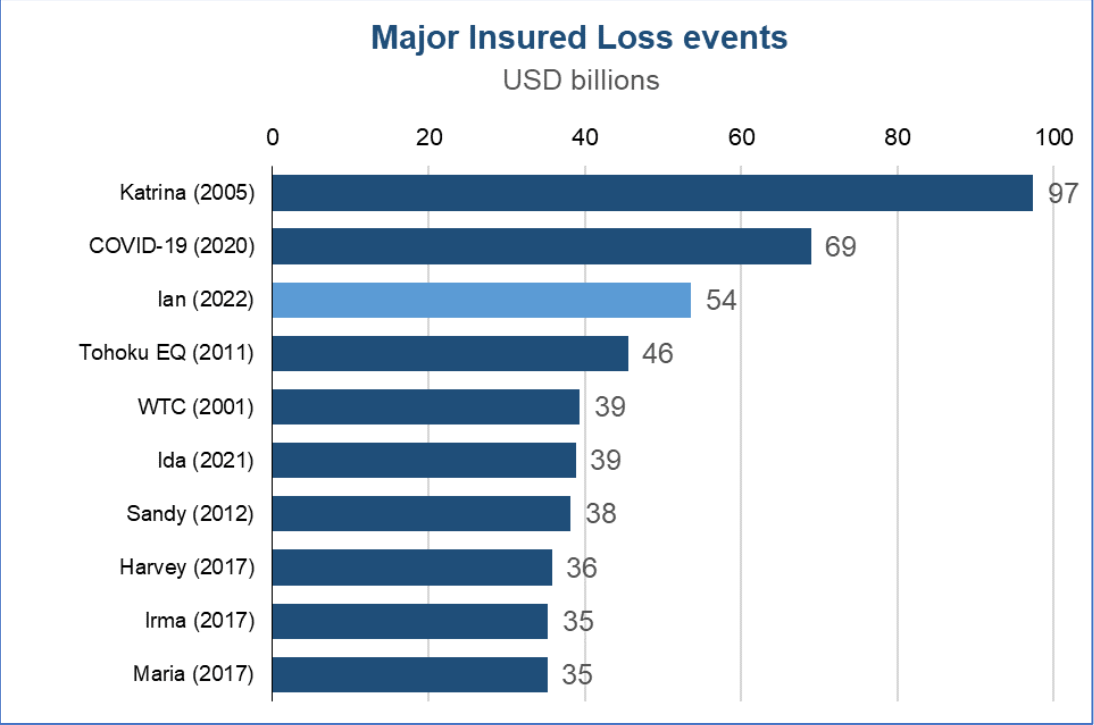
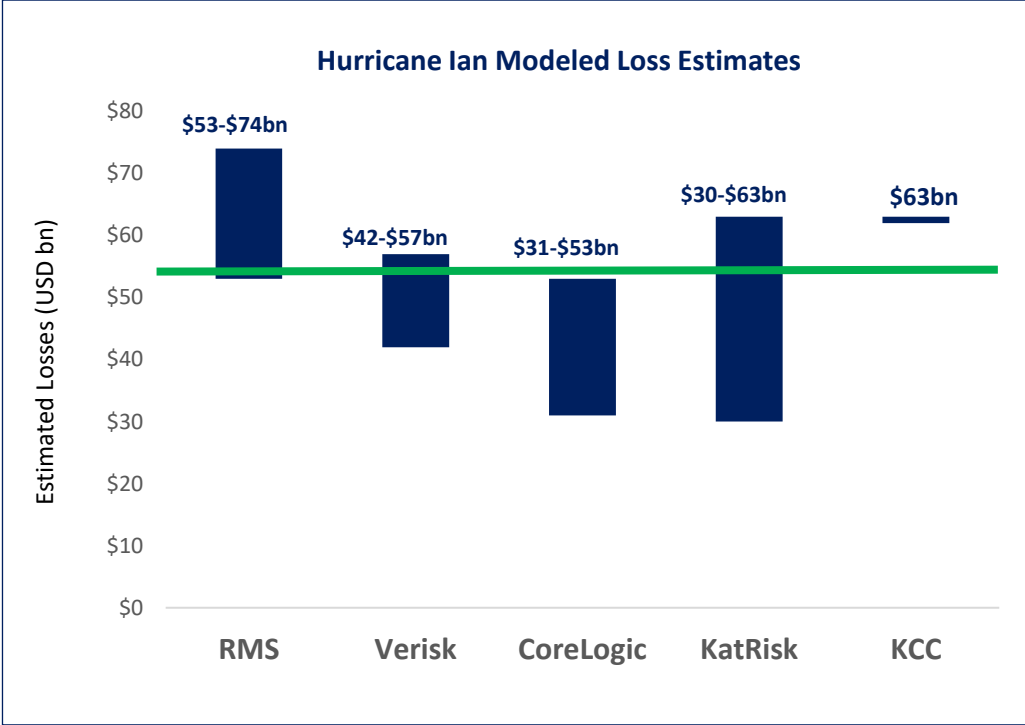


# Intro / 2022 year in review



# Hurricane Ian Impact on 2023 Property Cat Market

## Modeled v PCS v Actual – why doesn't it track?



Note: Losses are inflation-adjusted to 2022 price levels; Covid-19 losses is the average of industry estimates

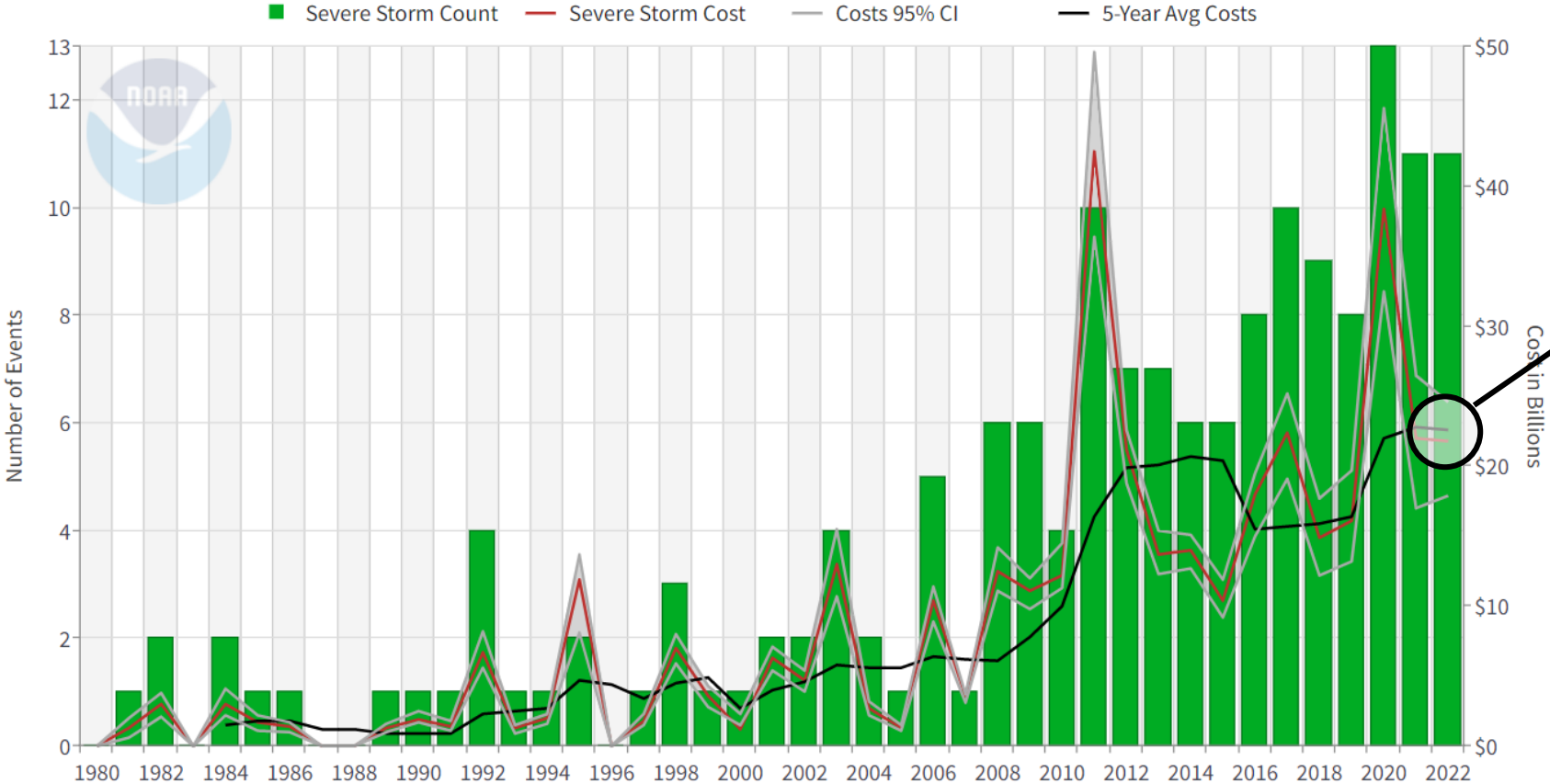
Whether a disruptor or final contributor to market stresses, this event shifted the Property Cat market



# Secondary Perils

## Increased frequency of billion dollar US SCS events

United States Billion-Dollar Disaster Events 1980-2022 (CPI-Adjusted)



**\$23B**

Five year average

Updated: January 10, 2023

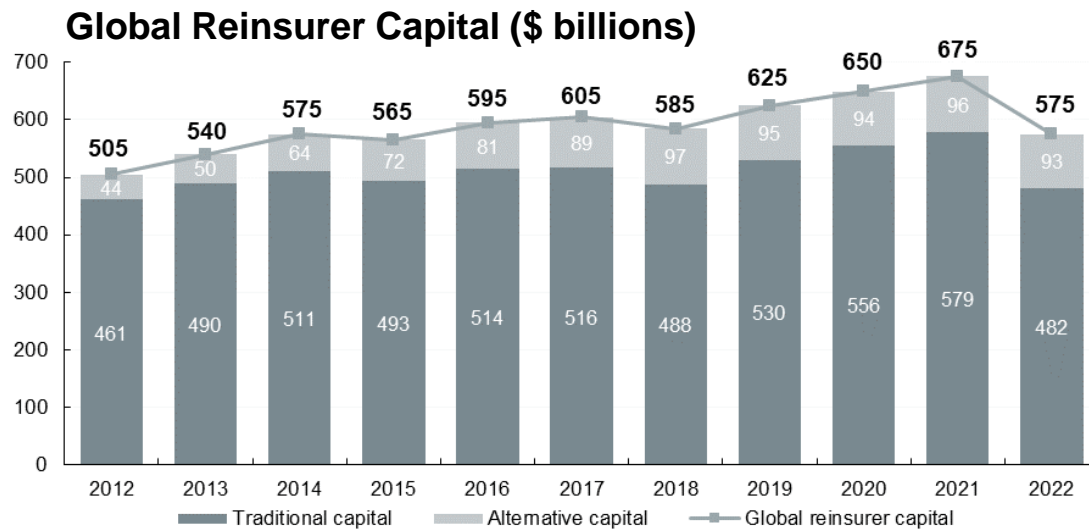
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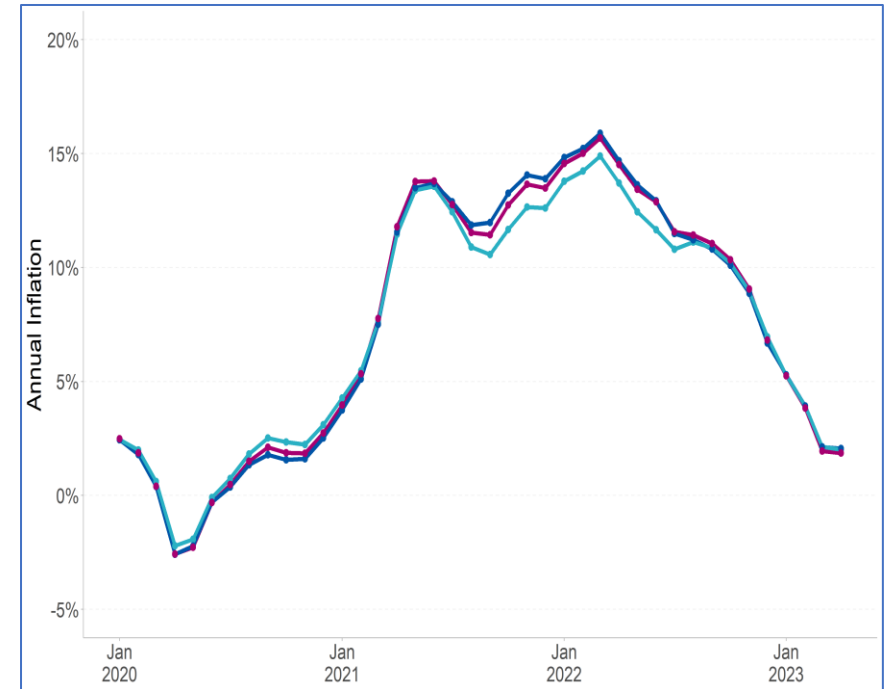
**Total costs for the last five years (\$113 billion) is nearly one-third of the \$383 billion SCS disaster cost total of the last 43-years (1980-2022)**

# Supply & Demand

- Reduced reinsurance market (GAAP) equity
- Increased demand due to inflation and exposure growth



Sources: Company financial statements / Aon's Reinsurance Solutions / Aon Securities, LLC



**Aon Property Cost Index Annual Inflation**  
For **Residential**, **Non-Residential**, and **All Construction**

Source: U.S. Bureau of Labor Statistics and Aon Analytics



# Reframing the narrative

## Prior

Unprecedented

Pandemic

Market in Flux

Climate Change

Inflation

Unresponsiveness



## Current

New Normal

Post-Pandemic

Settling In

Model Adjustments

ITV Methodology

Placement Timelines

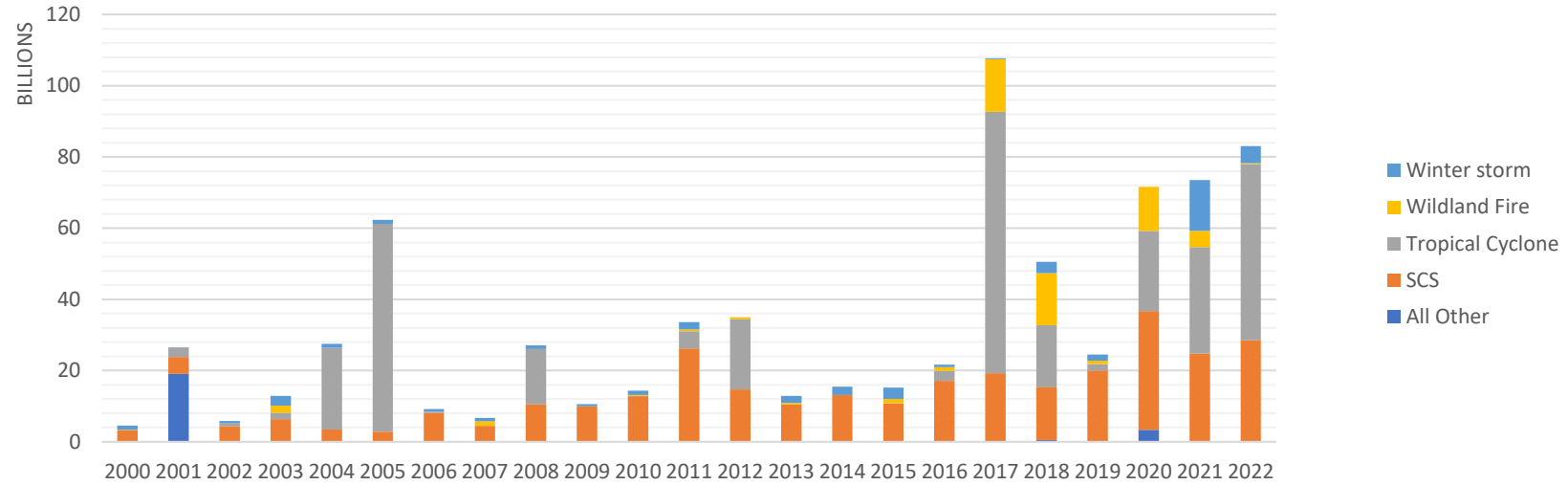


# State of the US Market

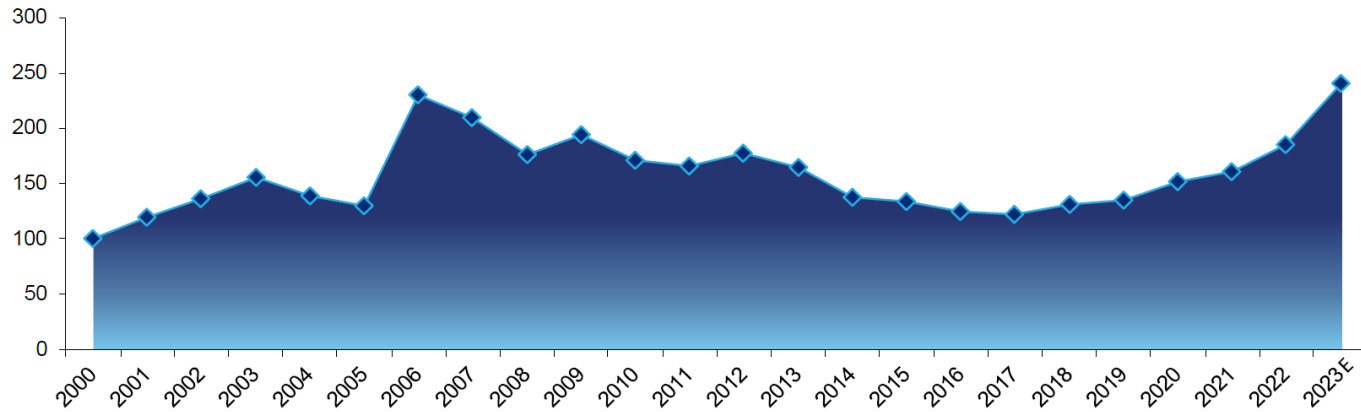




# US losses & pricing



Guy Carpenter US Property Catastrophe Rate on Line Index—2000 to 2023

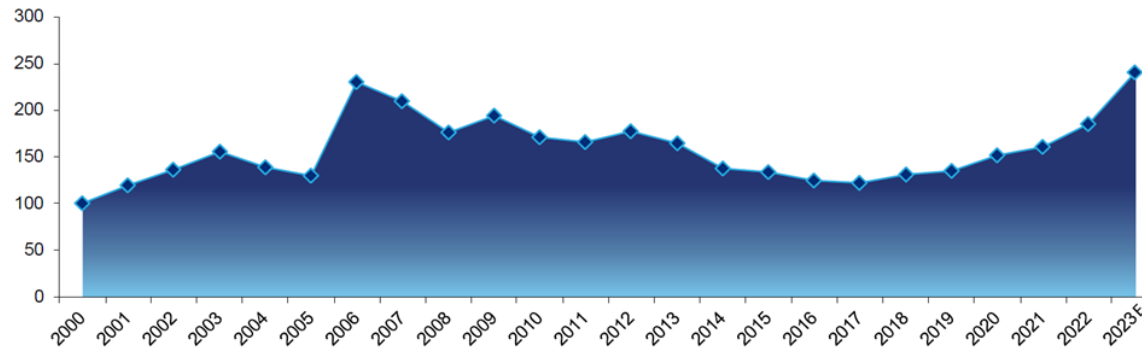


Source: Guy Carpenter



# Catastrophe pricing indices

Guy Carpenter US Property Catastrophe Rate on Line Index—2000 to 2023



Source: Guy Carpenter

- The Guy Carpenter ROL index is a measure of the change in dollars paid for coverage year on year on a consistent program base. The index reflects the pricing impact of a growing (or shrinking) exposure base, evolving methods of measuring risk and changes in buying habits, as well as changes in market conditions. Unlike risk-adjusted measurements, the index is not dependent on the model or method used to measure the amount of perceived risk in a program, which can vary widely.
- This graph depicts +31.3% increase in ROL at 1/1/23
- What is missing?
  - Across the board retention increases
  - Growth in limits purchased due to inflation (at new minimum rate on line)
  - Changes in perils covered
  - Changes in loss costs



# Catastrophe underwriting

- Experience Matters
  - Frequency
  - Severity
  - On-Level (size, mix)
  - Credibility
- Client Approach
  - ITV – where on the spectrum (inflation guard to complete re-valuation)
  - Deductibles
  - Rating Freedom
  - Alignment of Rating and Coverage with Exposure
  - Accumulation Management
  - Risk Selection
- Region and Peril
- Coverage
- Exclusions



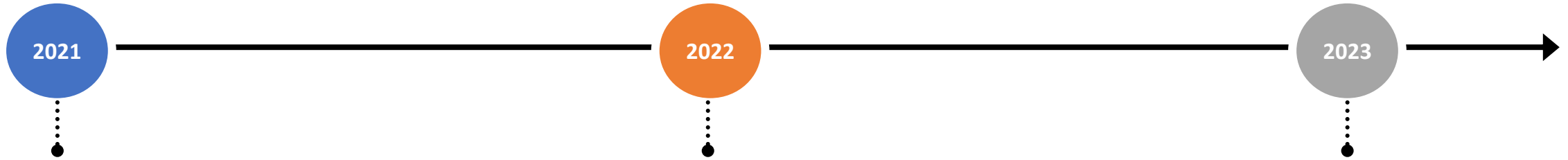
# Today's reality

- Property Dynamics vs Overall Market
  - Settling In, More Orderly
- Supply vs Demand
  - Somewhat more affordable retro available (ILW, ILS)
  - Appetite more clearly understood
- Ongoing Inflation
- Higher Reinsurer Margin/Return Requirements
- Coverage actions taken



# Managing Model Change Impact

## Model Release Timeline (2021 – 2023)



### Verisk (AIR) Touchstone v9

- New Financial Module Preview
- Terrorism
- Japan Typhoon and Earthquake

### RMS RiskLink v21

- North Atlantic Hurricane

### Verisk (AIR) Touchstone v10

- US Severe Thunderstorm

### RMS RiskLink v22

- US/Canada Winterstorm
- China Earthquake
- Central/South America EQ
- South Korea/Taiwan Typhoon

### CoreLogic RQE v22

- US Earthquake

### CoreLogic RQE v22.1

- Canada EQ
- US Wildfire

### Verisk (AIR) Touchstone 10.5

- New Financial Module Release (Technical Preview – will not support risk transfer)

### RMS RiskLink v23

- North Atlantic Hurricane

### CoreLogic RQE v23

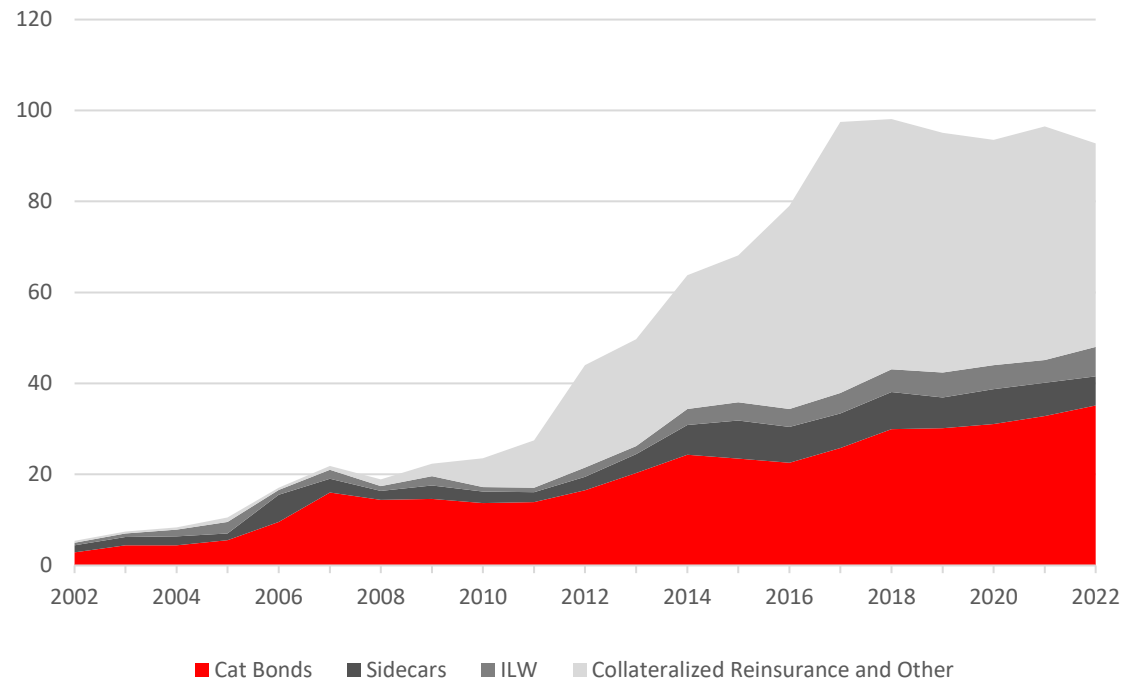
- US Hurricane
- EuroWind/Storm Surge
- EuroQuake

\*North America updates shown in blue



# Retro / ILS

Alternative Capital Deployment (Limit in \$ billions)






Source: Aon Securities, LLC



# Climate Physical Risk

## Areas of Focus for the Insurance Industry

 <p>Research, education, training</p>	 <p>Adequacy of current cat models</p>	 <p>Future climate assessment in cat models</p>
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 <p>Physical risk scores</p>	 <p>Adaptation and mitigation</p>	 <p>Incorporating climate analytics into regulatory disclosures</p>
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Q&A





# Bold predictions

