Hyperion X

Reinsurance renewal briefing

Reinsurance and retrocession markets experience differing outcomes at 1 January 2020

January 2020

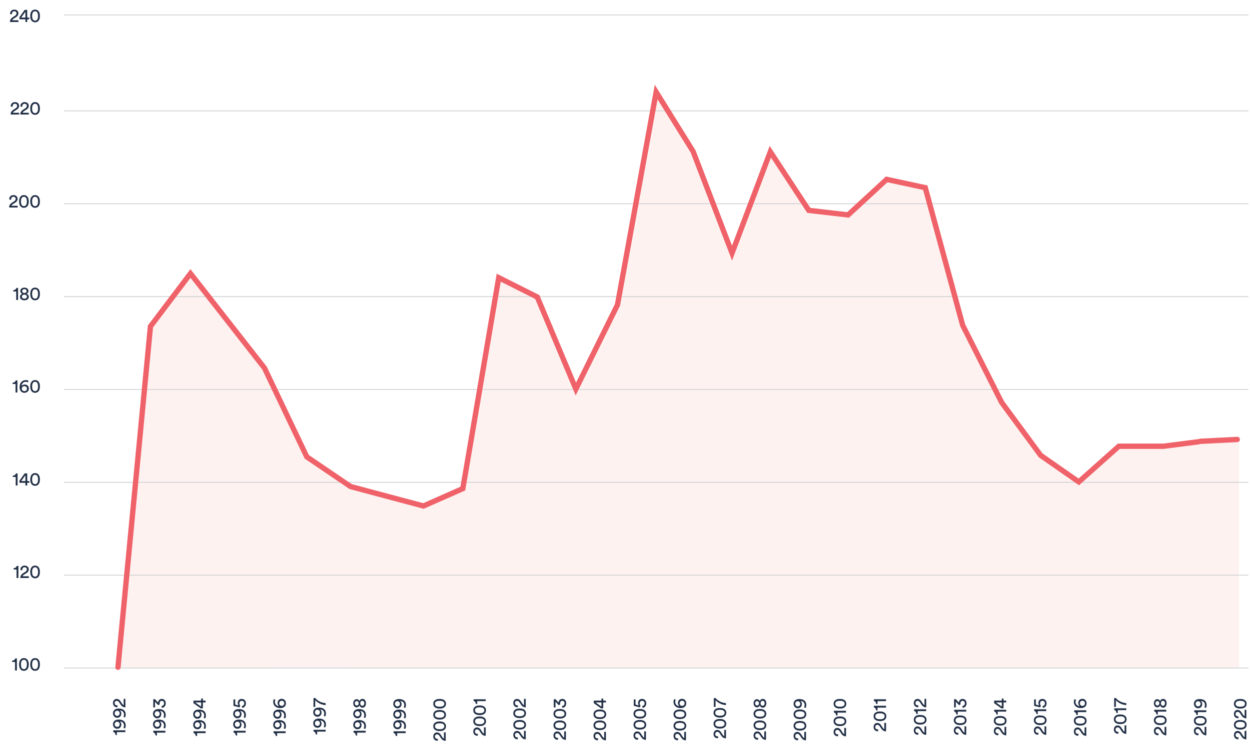
Market trends were varied at 1 January 2020 with relative price stability in property-catastrophe reinsurance, significant volatility in US-exposed retrocession, and mounting inflationary pressures in casualty reinsurance. The sector as a whole benefited from plentiful, albeit volatile capital and below-average insured catastrophe losses. Countering this were diminished investor appetite for some products, a manifest change in reserving trends, and rate adequacy concerns.

Property-catastrophe reinsurance

Risk-adjusted property-catastrophe reinsurance rates-on-line rose by 0.8% on average globally. The average increase was 2% in North America, where insured losses fell markedly in 2019. Pricing was flat to marginally down in Europe, Asia and elsewhere. These are point estimates within ranges depending on loss experience, exposure, and other client-specific conditions, and mask pockets of significant challenge in terms of price and availability, notably US wildfire-exposed cover. Figure 1 indexes global average, risk-adjusted property-catastrophe reinsurance pricing changes from 1992. Rates-on-line have now been stable at cyclically low levels for four years. The market litmus test may be to come in 2020. 1 April renewals are set to be affected by significant consecutive accident year losses in Japan; 1 June renewals by a Florida market disproportionately served by third party capital.

Figure 1: Hyperion Global Property-catastrophe Rate-on-Line Index (risk-adjusted)

Source: Hyperion X

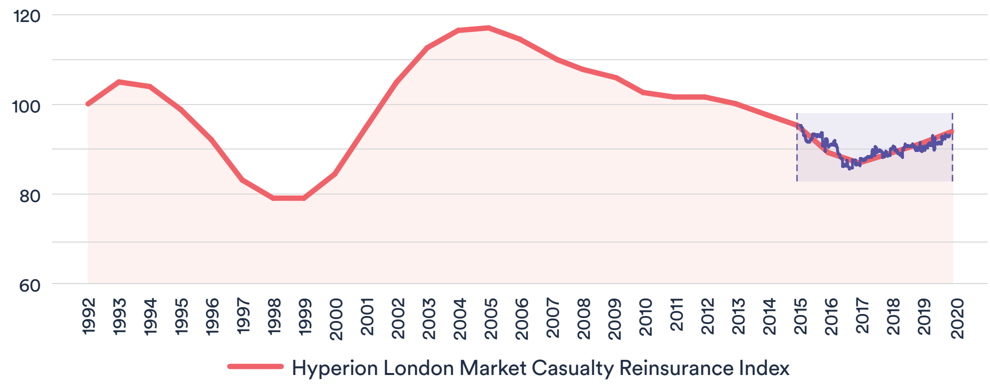


Casualty reinsurance

Casualty reinsurance rates-on-line including adjustments for exposure changes and ceding commissions rose by 3% on average over the same period. The increase was driven by a range of factors including rising jury awards in the United States, social inflation, and a manifest change in calendar year reserving trends in 2019. Hyperion X's Casualty reinsurance pricing data, including daily averages from 1 January 2015, are indexed in Figure 2.

Figure 2: Casualty Reinsurance Rate-on-Line Index (risk-adjusted) with daily indicative price changes from 1 January 2015

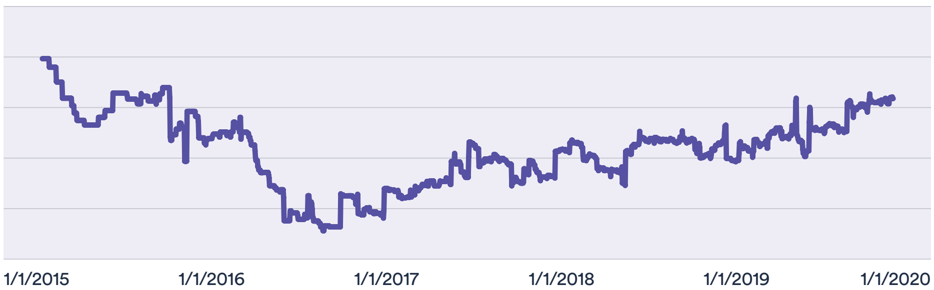
Source: Hyperion X



A closer look is now available with Hyperion X's exclusive international casualty reinsurance dataset which shows early signs of the market's turn beginning in the third quarter of 2016. The trend has been sustained and continued at 1 January 2020, and is consistent with previous analyses of long-term cyclical reserving trends. Hyperion X data can now be used to anticipate global and regional market trends in reinsurance and other classes of business. This is an innovation on how pricing trends have been analysed in the past. It gives a prospective view; an improvement to traditional, periodic retrospective analysis.

Figure 3: Casualty Reinsurance Risk-Adjusted pricing 2015 - present

Source: Hyperion X

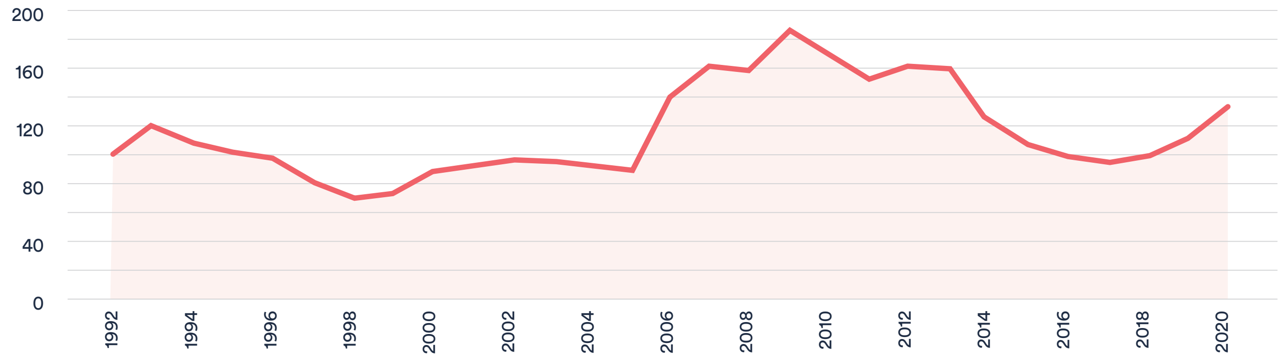


Non-marine retrocession markets

The highest levels of volatility were observed in non-marine retrocession markets, where risk-adjusted catastrophe excess-of-loss rates-on-line rose by 20% on average. There was wide variation around this figure, with prices ranging from flat for certain regional retrocession covers ex-US and Japan, to up to 40% for loss-affected aggregate cover where available. Diminishing ILS investor appetite at the margin compelled buyers increasingly to seek coverage on a per occurrence basis, fuelling rate increases in that segment. Figure 3 shows non-marine retrocession catastrophe excess-of-loss rate changes.

Figure 4: Non-marine retrocession catastrophe excess-of-loss index (risk-adjusted)

Source: Hyperion X

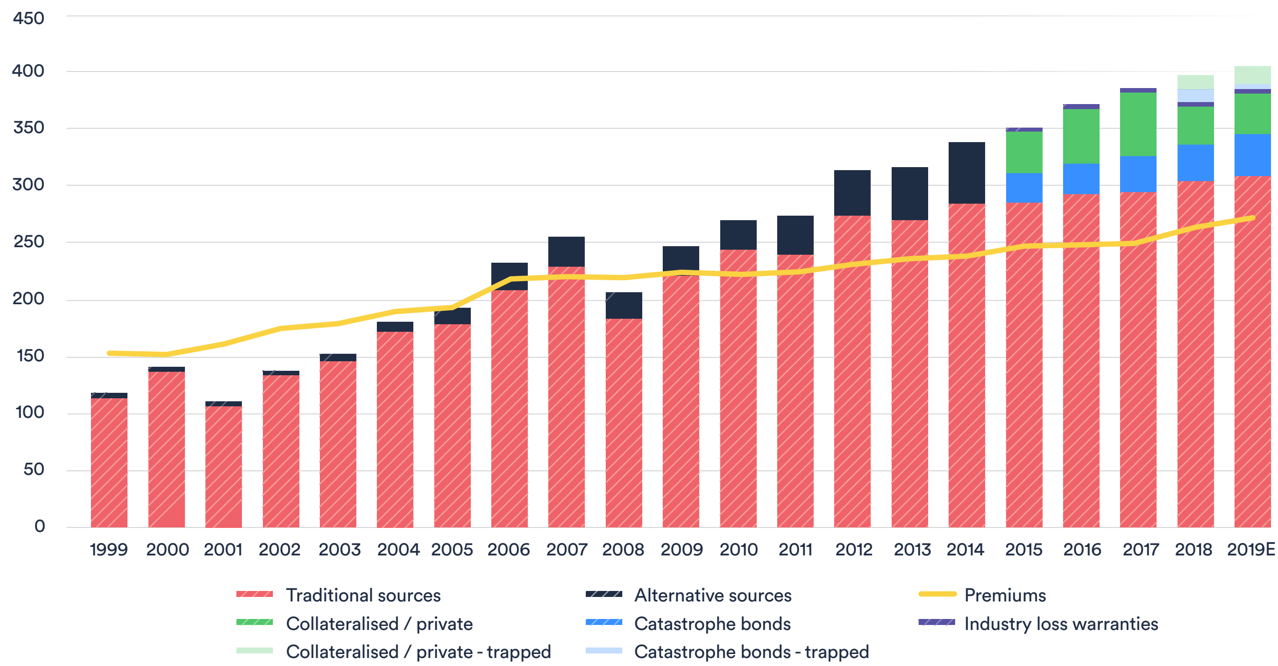


Capital and capacity

The reinsurance sector's dedicated capital position was stable and in excess of historical levels, given risks assumed, although the sector's premiums to surplus ratio reached its highest level since 2015. There was continued volatility at the margin with the amount of 'trapped' capital ultimately falling only slightly year-on-year. Capacity was freed in the catastrophe bond market but more capital was locked in collateralised structures. This created considerable uncertainty for investors and drove most of the aforementioned supply constraints. Figure 5 shows the progression of dedicated reinsurance capital as calculated by Hyperion X from 1999 as well as gross written reinsurance premiums for all lines of business including life reinsurance.

Figure 5: Dedicated reinsurance capital and global gross reinsurance premiums – all lines (USD billions)

Source: Hyperion X, Swiss Re Sigma, Artemis



Outlook

Hyperion X will continue to assess the likelihood of a continuing cyclical reinsurance market upturn in 2020. It is significant that retrocession, property-catastrophe, and casualty reinsurance rates-on-line are all increasing, albeit on very different trajectories. Reserving trends, investor appetite, and catastrophe experience will all be important determinants of outcomes at the global level, as well as trends in the primary market, where Hyperion X monitors pricing and claims across multiple business lines daily.

'The market has continued to show its resilience in an environment of increasingly evident risk factors,' said Elliot Richardson, Chairman, RKH Reinsurance Brokers. 'Given the significant catastrophe losses of 2017 and 2018 and the ensuing capital constraints, our brokers in conjunction with the market have proven their value this year by securing capacity to complete placements at the most favourable terms possible on behalf of our Global clients.'

David Flandro, Managing Director, Analytics, Hyperion X added, 'The market continues to shift from an environment of redundant reserves and abundant capital to one of increasing reserve deficiencies and investor caution. During this phase of the cycle, it is more important than ever that market participants and investors have access to the best information, insights and especially data in order to inform their decision making. Hyperion X are pleased to be able to provide unique access to the most accurate and insightful market data in the business.'

Notes to Editors

Hyperion X is part of Hyperion Insurance Group, it consists of two main areas; Know How, focusing on the collection and analysis of data, and; xTrade Digital Marketplace, a digital development resource with a sole focus on digital insurance distribution platforms. Hyperion X also provides a natural home for Hyperion's third-party technology joint-ventures and investments.

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