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GLOBEX UPDATE
PROPERTY & CASUALTY

globex BROKER SERVICES

Events, developments, and opportunities in the international marketplace.

Recent Success Stories

- **Placed local Property & General Liability policies in China, Malaysia, Mexico and Singapore as part of a Controlled Master Program on behalf of a leading global manufacturer of custom precision metal stampings.**
- **Remarketed and bound General Liability, Umbrella and Contractors' Pollution policies for a North American company engaged in cross-border transportation and distribution of chemicals.**
- **Placed local Property & General Liability policies in Mexico as part of a coordinated international program on behalf of a US-based digital media company.**
- **Quoted and bound a Personal Lines Automobile policy in Dominica for Comprehensive, Collision and Third Party Liability coverage.**

Global

After a turbulent 1 January renewal season, which saw a major shift in reinsurer appetite, a sense of order returned to renewals at the mid-year. Building on 1 January, property catastrophe pricing and retentions at mid-year increased compared to the same period in 2022, although pressure on pricing and terms and conditions eased somewhat compared with 1 January. Capacity was more readily available and some reinsurers showed a greater willingness to grow. Major factors driving reinsurer behavior at 1 January have receded and property catastrophe pricing is now attractive for markets even without securing retro coverage. Despite headwinds, the insurance market is in good shape, following the re-pricing of risk and higher interest rates, which are beginning to work their way through to improved results. The more orderly renewal also reflected the preparations of insurers, which anticipated reinsurers' requirements and adjusted their portfolios and reinsurance strategies accordingly. Having reset its risk appetite at 1 January, the catastrophe reinsurance market has also found a new equilibrium. Catastrophe losses in the first half of this year suggest the burden of high-frequency catastrophe events has now shifted toward insurers, with fewer ceded losses for the reinsurance market. Bolstered by rate increases and higher interest rates, reinsurer return on equity in the first quarter of 2023 averaged around 17.5%, compared with a six-year average since 2017 of just under 6%. Property catastrophe capacity at mid-year was ample, with top layers on some US national programs oversubscribed. While capacity has not returned to 2022 mid-year levels, reinsurers are showing a willingness to support current terms and grow in target areas. Casualty remained broadly attractive for reinsurers, with ample capacity and only single-digit increases, despite signs of rising claims costs and adverse prior-year development. Demand for property catastrophe reinsurance protection for 2023 is now expected to increase by high single digits globally or as much as 10% for US catastrophe as insurers look to reduce net exposure and/or secure capacity ahead of 2024. Inflation remains a key factor driving demand, with increased claims cost now being felt across property and casualty lines. Combined with anticipated updates to vendor catastrophe models, inflation is likely to support increased demand for reinsurance protection into 2024. At current pricing and retention levels, the reinsurance market has found a new level where it can make sustained returns and provide volatility protection for insurers. However, catastrophe losses in the second half of the year, and changes in demand and supply, will be key to renewals in 2024.

Japan

The credit fundamentals of Japanese non-life insurance groups are expected to maintain their resilience throughout the financial year ending in March 2024. Despite facing profitability challenges in FYE23, the three major insurers in Japan, namely MS&AD Insurance Group Holdings, Inc. (Mitsui Sumitomo & Aioi Nissay Dowa), Tokio Marine Holdings, Inc., and Sompo Holdings, Inc., are expected to weather the storm and regain stability. FYE23 saw the profitability of the major Japanese non-life insurers dampened due to weather-related losses resulting from mid-sized natural catastrophes such as hailstorms and typhoons. Moreover, claims related to “deemed hospitalizations” for the Omicron variant of Covid-19 further impacted their performance. The average combined ratio of these insurers rose by 6 percentage points year-on-year to 100% in FYE23. Japanese non-life insurers opted to increase their domestic catastrophe risk retention. This decision was prompted by the anticipation of higher reinsurance expenses from April 2023 onwards. However, a recovery in domestic underwriting profitability is anticipated for these insurers, reaching pre-pandemic levels from FYE24 onwards. Credit challenges persist, however, due to equity risk stemming from high strategic shareholdings and interest rate risk associated with the life insurance business.

United Kingdom

A recent report suggests that in the UK, 84% of property owners, both private and business, are underinsured, meaning that in the event of a claim for damage sustained, the settlement will not cover all of the costs of reinstatement, leaving owners vulnerable. When agreeing on an insurance amount, building owners should be looking at what it would cost to entirely rebuild including adequate provision for debris removal and professional fees to avoid a potentially significant shortfall, especially after recent spikes in construction costs. Data shows that on average, buildings are covered for just 66% of their rebuild costs. These soaring costs would put even more financial strain on most businesses and homeowners with many unable to make up the deficit, especially during the cost of living crisis. Not only is the cost of energy increasing rapidly, which has a major impact on production costs, there is also huge demand for building materials and ongoing supply chain issues. Amid concerns that alerting their insurers to the higher rebuild cost of their property will increase their insurance premium, the rise will be negligible in comparison to the shortfall in coverage should the property be damaged. Up-to-date property valuations are key.

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