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Market Segment Outlook: Global Non-Life Reinsurance

The outlook remains Stable as property reinsurance margins, investment income, and reinsurance capital improve, but elevated catastrophe activity and geopolitical and economic uncertainty cause concern

AM Best is maintaining its outlook for the global non-life reinsurance segment at Stable, owing primarily to the following factors:

- Improved property reinsurance margins, driven by increased rates and attachment points in 2023, which are not anticipated to soften through the 2024 cycle
- More robust investment income, driven primarily by higher new money yields on fixed-income instruments
- Reinsurance capital, estimated to have improved materially at year-end 2023, aided by strong underwriting results and partially countered by capital distributions to investors
- More orderly renewal cycles

Counterbalancing factors include the following:

- Elevated catastrophic activity, stressing cedents' capital positions
- Adverse reserve development for casualty business, especially for 2019 accident years and prior
- Elevated geopolitical and economic uncertainties

One factor that has both positive and negative implications is that no significant reinsurance startups have been funded to date.

Underwriting Margins Expand as Property Risk Realigns

Reinsurers entered 2023 renewals with a clear objective to improve underwriting margins and remained persistent throughout the year to achieve it. The January 1, 2023, renewals brought about wide-scale underwriting reforms, with notable increases in attachment points, higher rates, and tightened conditions in the property reinsurance market. This was driven by a multi-year run of lackluster underwriting returns in which reinsurers failed to meet their cost of capital and mitigate the underlying volatility of their business. Underwriting actions have shown promising results thus far, with many reinsurers reporting operating returns on equity (ROE) in the low- to mid-20% range. The underwriting actions appear to have helped improve margins, but the increase in attachment points appears to be the industry's main focus.

Primary insurers have recently had robust access to working layer catastrophe reinsurance. However, as the market turned in late 2022 and throughout 2023, working layer and aggregate covers were practically eliminated. The market has generally adapted to the new norms, which has stressed the capital positions of many property insurers. Catastrophe activity remained elevated in 2023, with global catastrophe losses once again estimated at more than USD 100 billion, driven by the growing frequency of smaller catastrophes. With the dramatic increase in average retentions on property reinsurance programs, primary insurers took on most of these losses.

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The imbalance of losses in the property market favored reinsurers throughout 2023, but we do not expect this to result in significant shifts in 2024. Reinsurers were on the losing end of the imbalance for roughly five years, dating back to the 2017 market shifts. That prolonged stretch of inadequate returns requires more than one strong underwriting year to overcome. Additionally, the precipitous rise in risk-free rates also increases the return reinsurers must achieve to justify the assumed volatility of property business to their stakeholders.

Social Inflation Resumes

Many reinsurers targeted lower volatility casualty reinsurance for growth in recent years, as they also scaled back on higher volatility property exposures. As a result, various casualty lines had experienced multi-year strong growth trends leading into 2023. However, as COVID-19 pandemic concerns waned, reinsurers once again felt the impact of social inflation. A number of reinsurers reported adverse development at year-end 2023, almost all from accident years 2019 and prior, relating to longer-tailed lines of business such as excess casualty.

The market does not anticipate social inflation slowing down in the near term. Litigation financing continues to drive frequency up, with nuclear verdicts impacting severity trends as well. Despite these concerns, most reinsurers believe that much of the casualty reinsurance line is tracking close enough to rate adequacy to avoid significant underwriting changes.

Reinsurance Capital Rebounds

AM Best projected a 12.2% increase in traditional reinsurance capital for 2023, versus the 13.5% decline in 2022. However, as the 2023 North American hurricane season ended, reinsurers were on pace to nearly double the projected increase. Returns for 2023 appeared to warrant a revision of the original 12.2% projected growth. Some reinsurers, however, are still determining their capital strategies, while others have elected to pay special dividends out of their regulated balance sheets, most notably Berkshire Hathaway's National Indemnity's special USD 83 billion dividend in third-quarter 2023.

Other carriers may pay out large dividends as well. Despite the considerable unrealized losses in 2022, the regulatory capital of many carriers improved owing to higher discount rates on liabilities. With still high discount rates and significantly improved operating results, reinsurers need to determine whether to release capital or double down in the hard market. Regardless, our original 12.2% projection appears adequate, albeit with some potential variation if reinsurers avoid deploying the new capital generated in 2023.

Startup Capital Remains Sidelined

Hard markets have historically resulted in new reinsurers partially filling the capital shortfall in the market. Even though the current hard market is influenced more by operating trends than overall market capital, conditions remain optimal for new entrants. Although many high-profile management teams have announced plans to launch new reinsurers, none have been funded thus far. Furthermore, private equity investors appear to lack interest in deploying capital to newly formed reinsurers.

The reason private equity investors lack interest varies. Higher risk-free rates of return have increased hurdle rates to sometimes excessive levels. Additionally, some investors have decided to focus more heavily on service providers/agencies than traditional reinsurance carriers. Although market interest in new carriers remains, it's more unlikely that one of material size will be formed in the near future.

For more information, please see *Market Segment Outlook: Global Reinsurance*, November 29, 2023.

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A Best's Market Segment Outlook can be Positive, Negative, or Stable.

Best's Market Segment Outlook	
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