



# Review & Preview

**AM Best's 31<sup>st</sup> Annual *Review & Preview* Conference**  
**March 18-20, 2024 • San Antonio, Texas**



# **De-risking and Rate Increases Finally Pay Off but Paucity of Reinsurance Capital Still Pronounced**

Manny Modu – Managing Director, AM Best  
Carlos Wong-Fupuy – Senior Director, AM Best

This session has live Q&A – please submit questions via the “Ask A Question” icon in the session navigation bar



# Global Reinsurance – Outlook Stable

## Positive and Negative Drivers

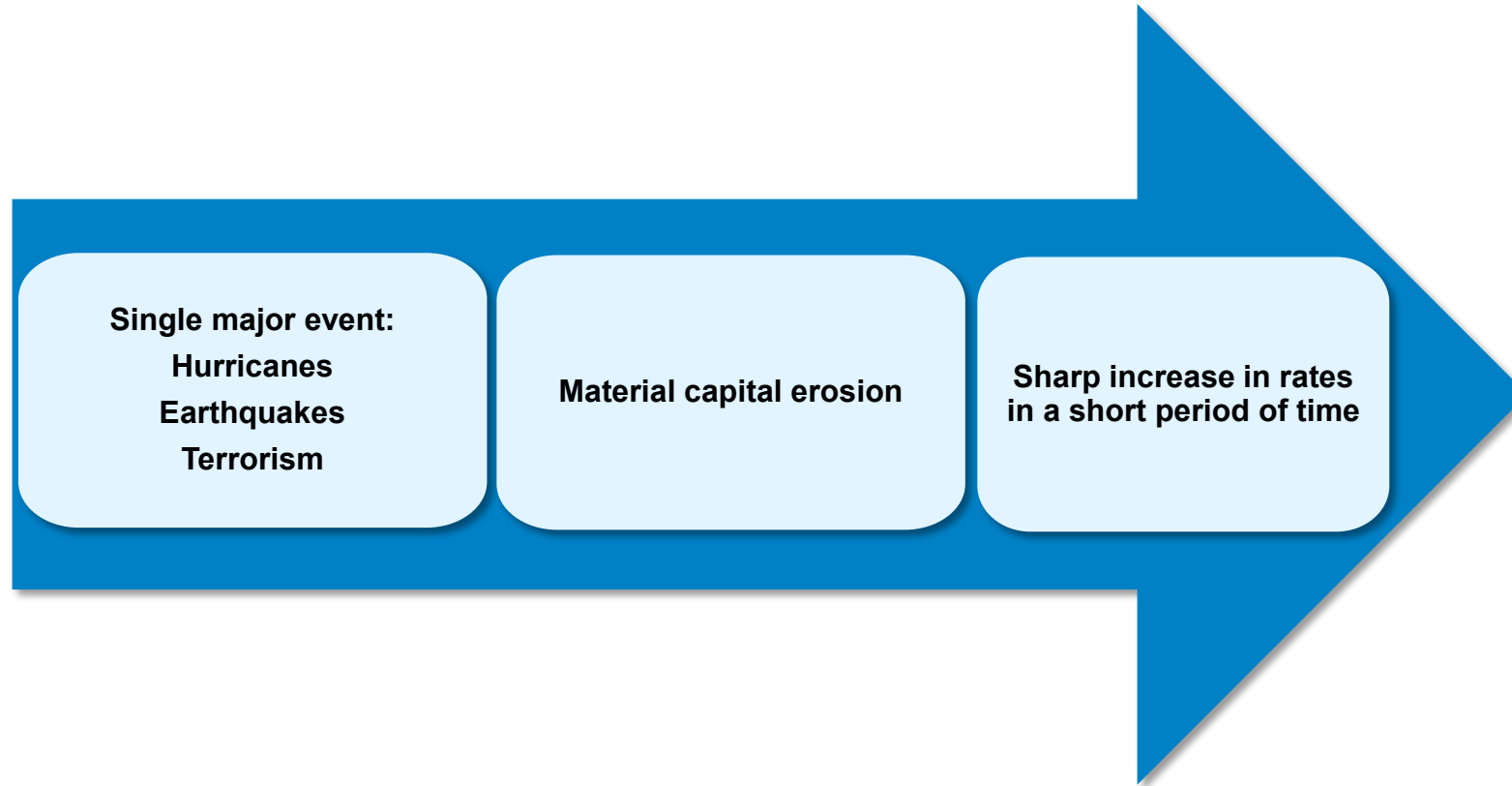
- Renewals maintained favorable pricing, terms and conditions
- Increased demand for coverage due to catastrophic loss activity but supply remains disciplined
- Strong demand for life and annuity reinsurance
- Rising investment income
- Available capital  $\neq$  deployed capacity
- New capital still hesitant; increased flight to quality
- Reserves strengthening actions on casualty books
- Concerns about economic and social inflation

# Global Reinsurance – Outlook Stable

## Economic/External Environments Have Changed

- Reinsurers remain well capitalized but cautious
- Technical results continue to improve
- Demand remains strong – established reinsurers at an advantage
- Higher cost of capital may be a challenge
- Complex and evolving risk environment

# Why Is This Cycle Different?



**New 202x class?**

**Rising interest rates only  
since 2022**

Higher cost of opportunity  
Gradual rate increases before 1/1/23

**Alternative Capital**

Plateaued since 2018

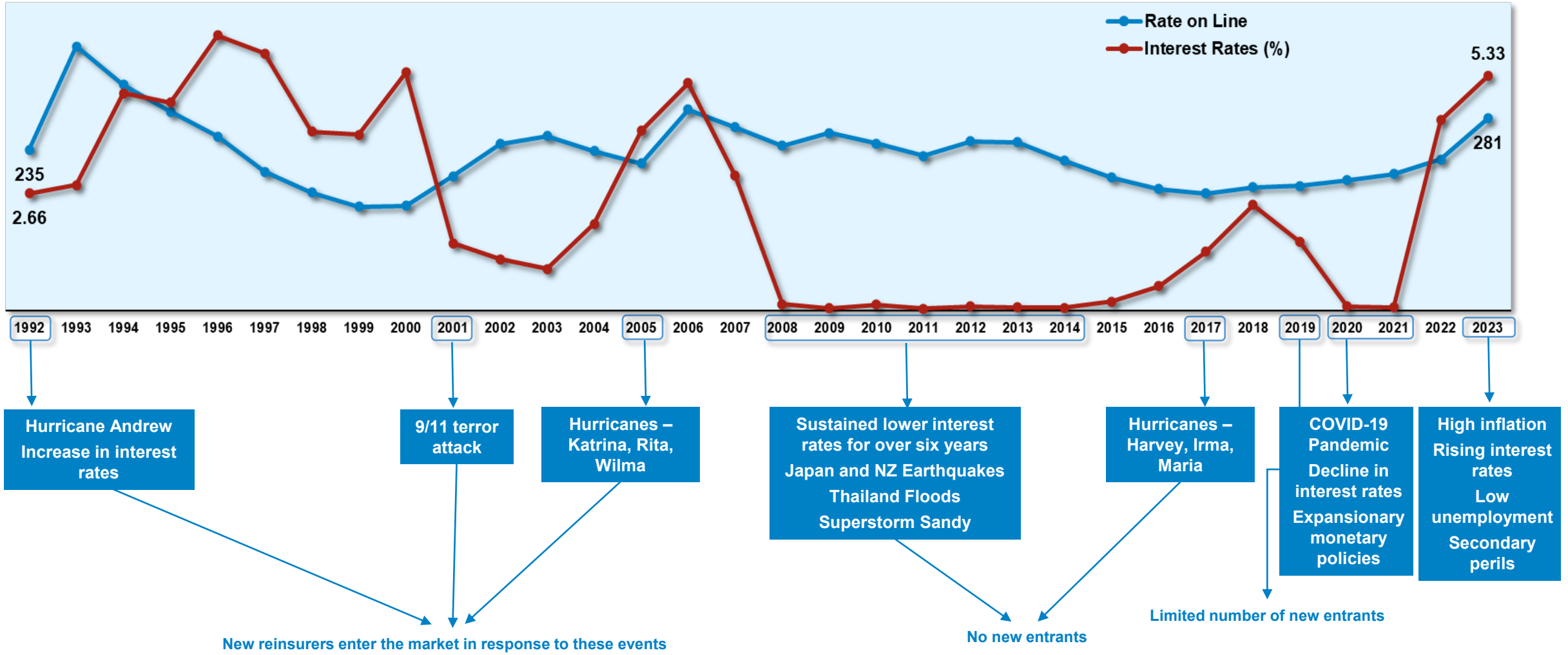
**No single major  
catastrophe event**

Accumulation of more frequent  
secondary perils

**Global reinsurers remain  
well capitalized**

Leading indicators for historical reinsurance company formations

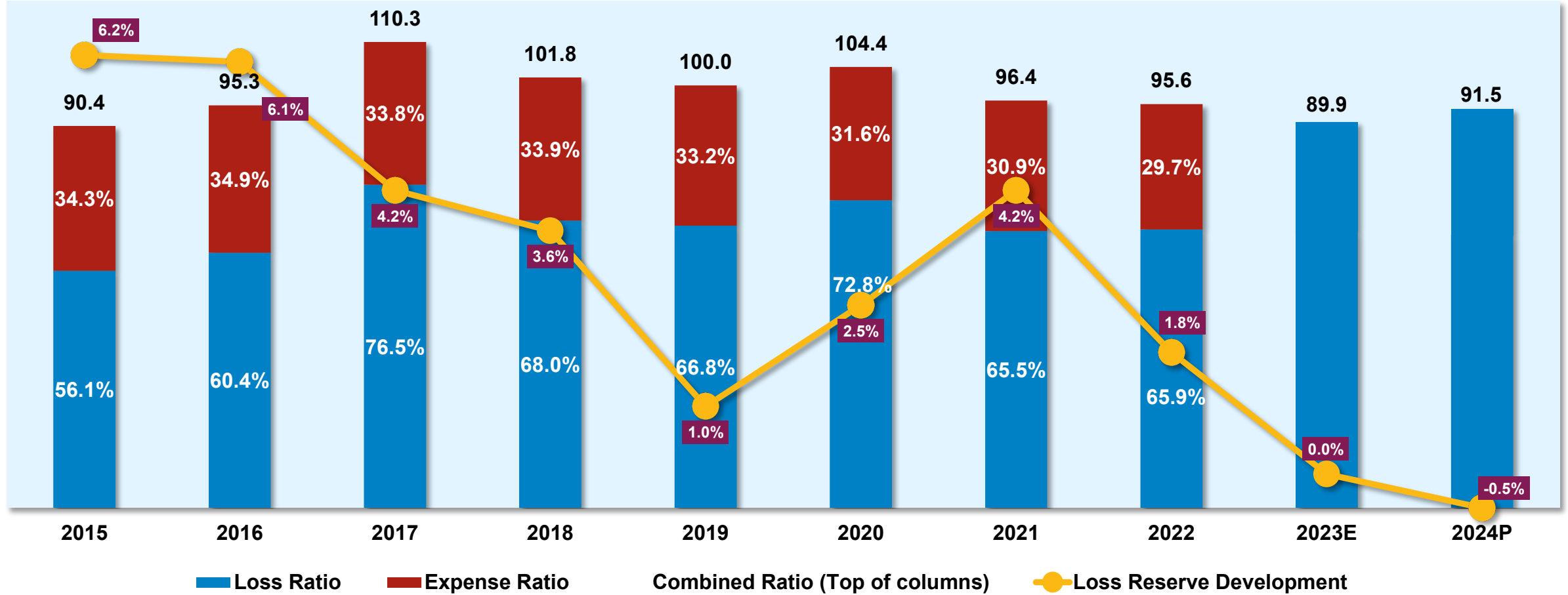
# Why Is This Cycle Different?



Sources: Estimates by Guy Carpenter and AM Best

# Global Reinsurance Market Performance

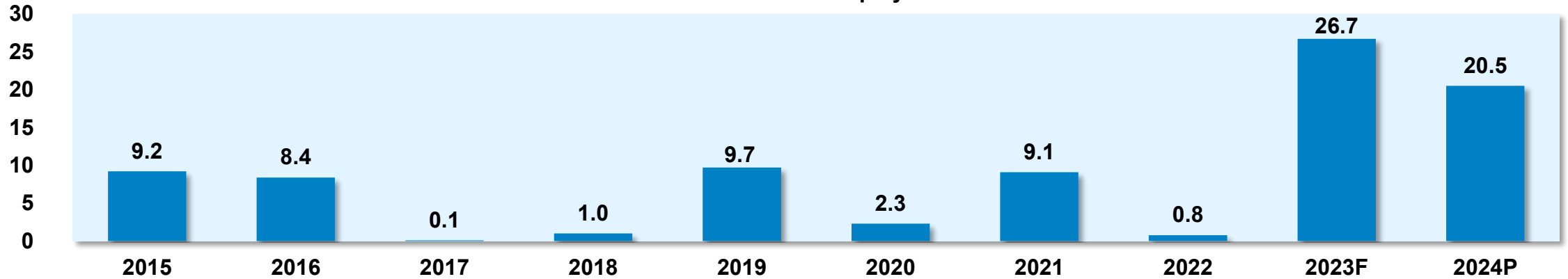
## Loss and Expense Ratios and Positive Loss Reserve Development



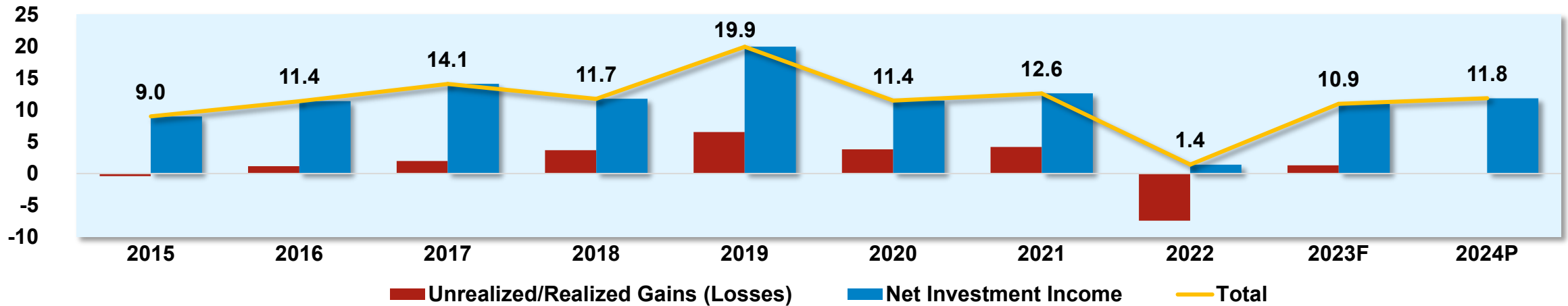


# Global Reinsurance Market Trends

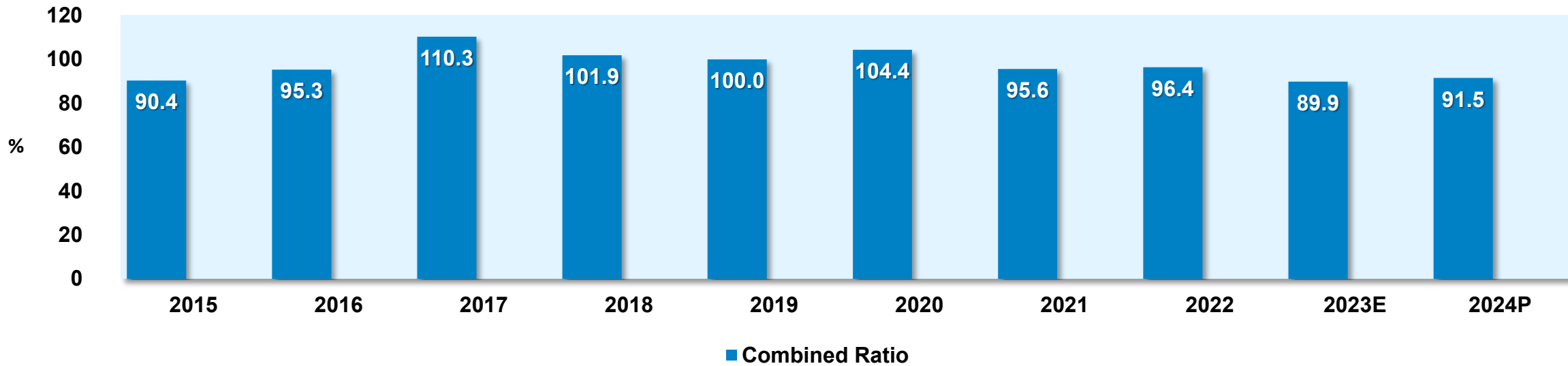
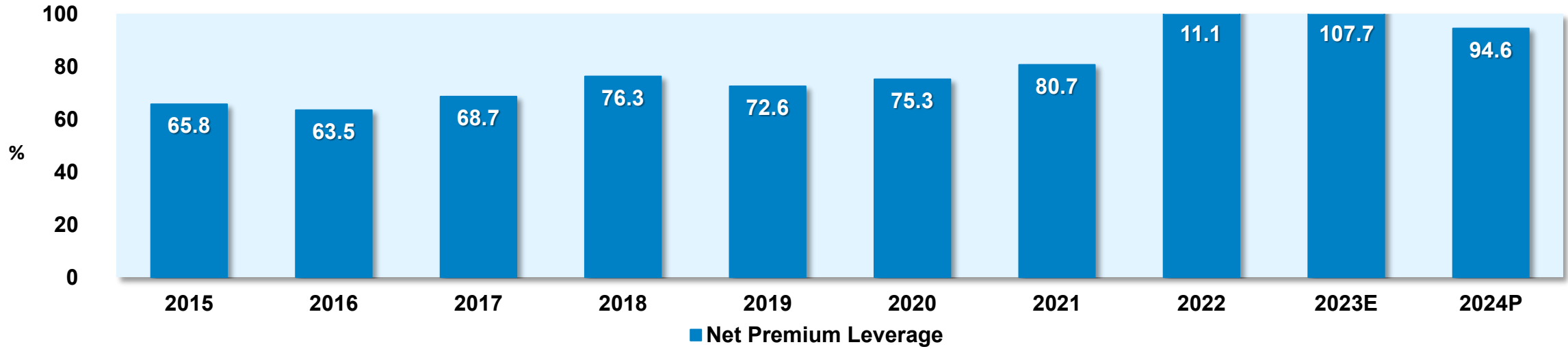
Return on Equity



Net Investment Income & Realized / Unrealized Gains (Losses) as a % of Avg PHS

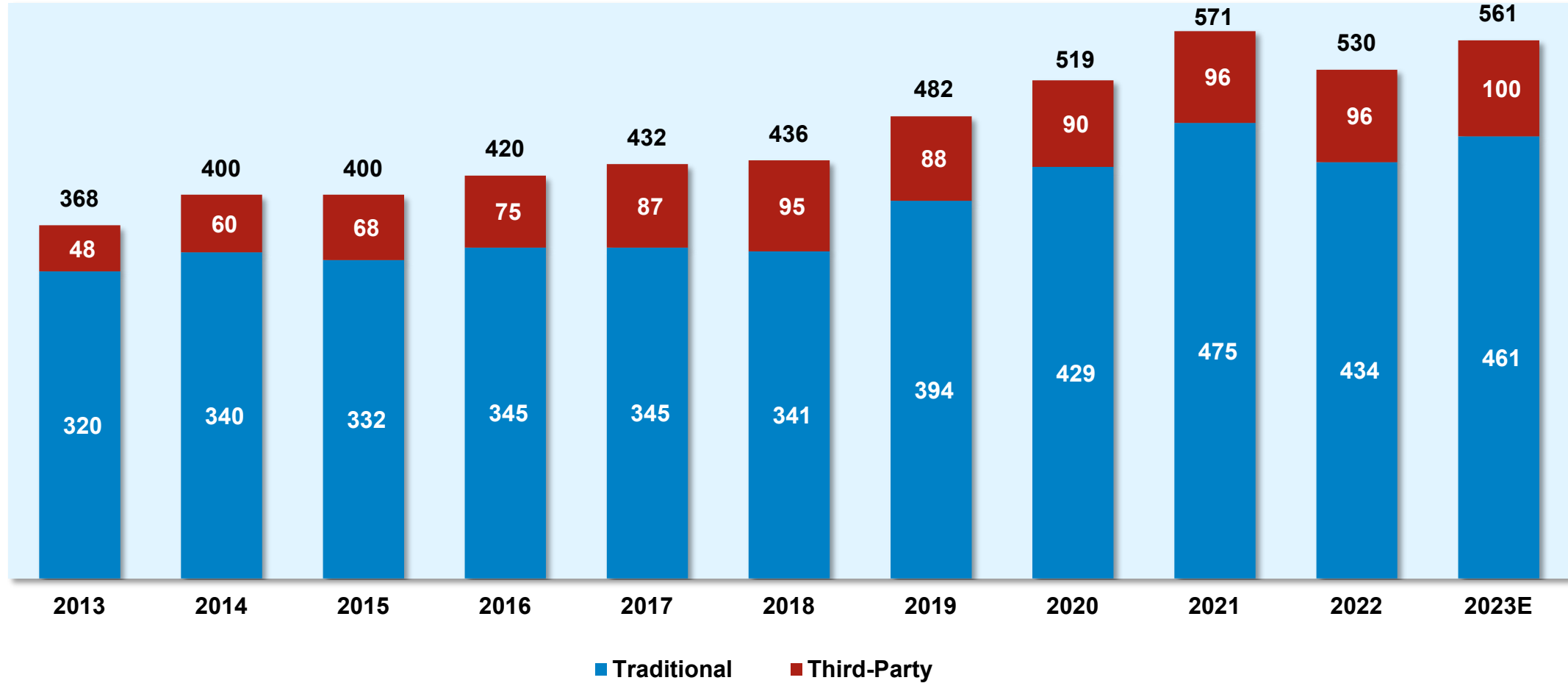


# Global Reinsurance Market Trends



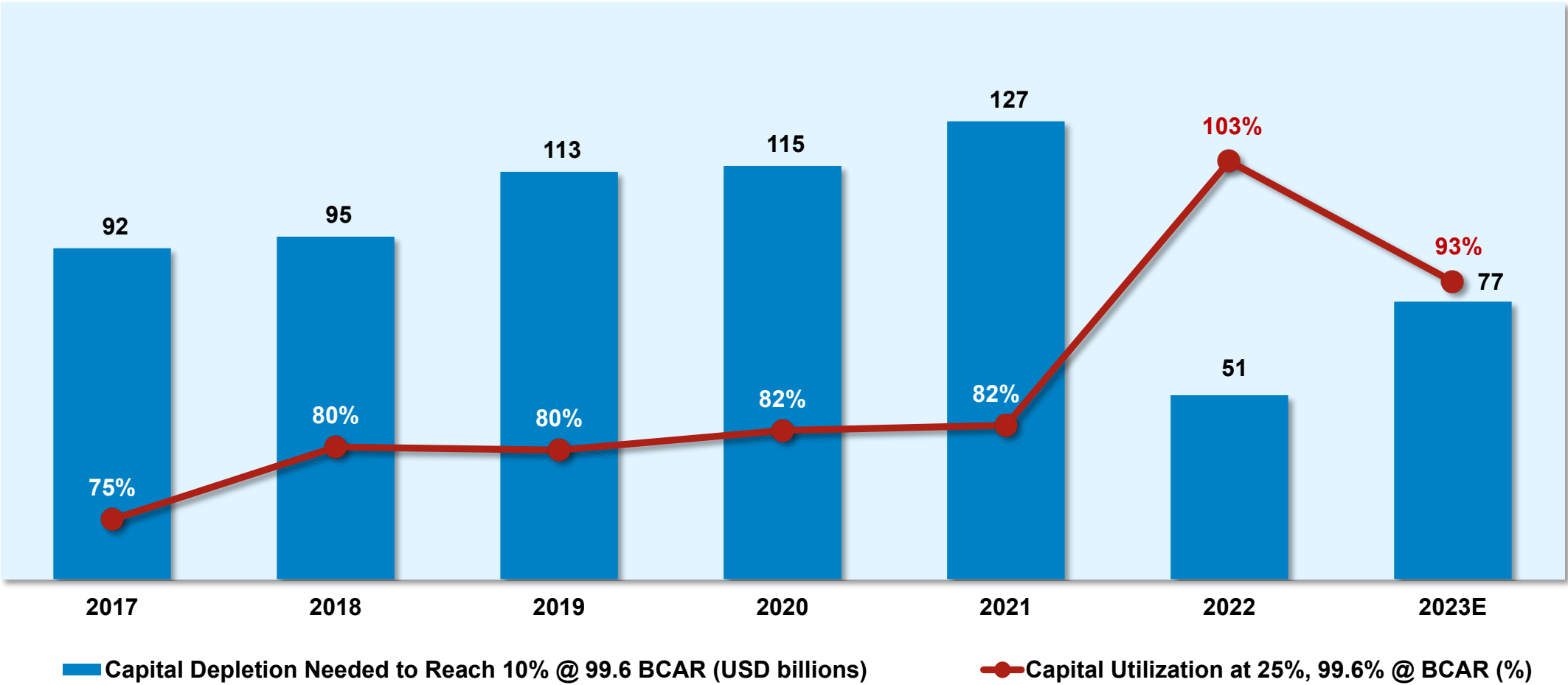
# Global Reinsurance Market Capital

Estimate – Total Dedicated Reinsurance Capital (USD billions)



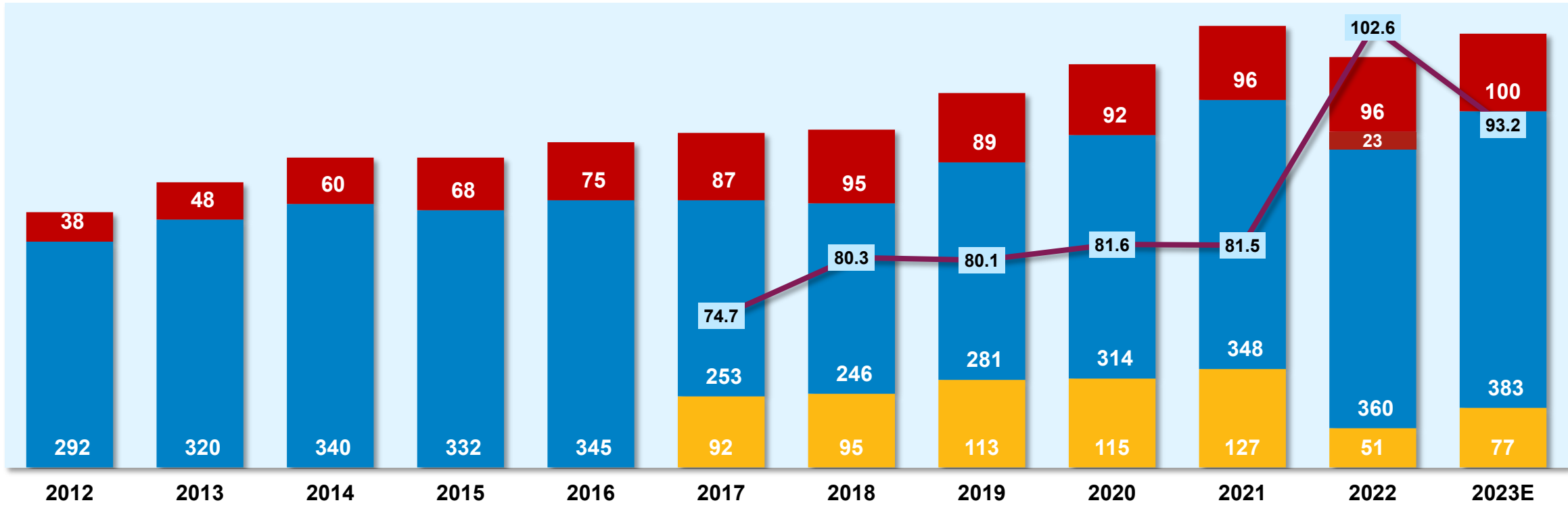
Sources: Estimates by Guy Carpenter and AM Best

# Global Reinsurance Market Capital



# Global Reinsurance Market Capital

Estimate – Total Dedicated Reinsurance Capital (USD Billions)



- Third-Party Capital
- Fixed Income Equity \*
- Traditional Capital Less Excess Capital
- Excess Capital (Over 10% BCAR)
- Capital Utilization (At 25% BCAR)

Notes and Sources: Estimates by Guy Carpenter and AM Best

\*For reinsurers that have ample cash liquidity to support their potential shock losses, the “fixed-income equity” adjustment captures the amount of capital that AM Best anticipates will be recovered as bonds mature over time.

# Global Reinsurance – Looking Ahead

**Mid-year renewals: Continued underwriting discipline expected**

**Non-catastrophe lines: Growth focused on specialty lines;  
concerns about development of casualty books**

**Economic and political backdrop increasingly uncertain**

**Incoming capital: Is there a class of 202x?**

**Innovation and relevance in a more complex risk  
environment where insurability may be challenged**

## Current Trends in the ILS Market

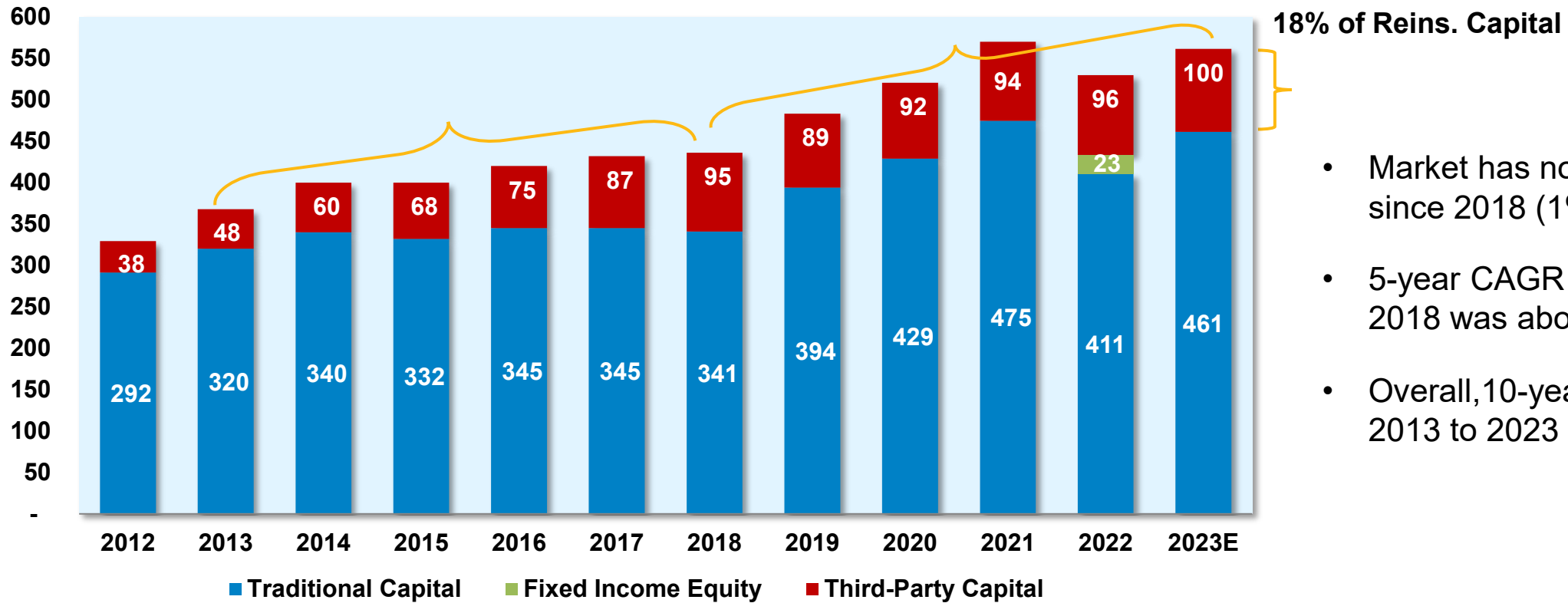
# Broad ILS Performance in 2023

- 2023 was a great year for the ILS market
- Returns achieved by virtue of \$100 billion insured losses retained by insurers due to higher attachments, avoidance of secondary perils
- ILS market capacity up by about 4% to \$100 billion, but overall ILS market capacity stagnant since 2018



# Reinsurance Capacity in 2023

Estimate for Total Dedicated Reinsurance Capital  
(USD Billions)



- Market has not grown much since 2018 (1% CAGR)
- 5-year CAGR from 2013 to 2018 was about 15%
- Overall, 10-year CAGR from 2013 to 2023 is about 8%

# Some Prominent Withdrawals from the ILS Market

Entity	Type	Year	Estimated Amt.	Comment
Markel Catco	ILS Fund	2019	~\$3b	In Runoff Since 2019
Abu Dhabi Investment Authority	Abu Dhabi Wealth Fund	2023	>\$2b	Full Exit
Pennsylvania Public School Employee Retirement System	Pension Fund	2021	~\$800mm	Full Exit
PIMCO	Investment Management	2023	~\$774mm	Full Exit
Temasek	Singapore Wealth Fund	2021	~\$500mm	Full Exit
Future Fund	Australian Wealth Fund	2023	~\$300mm - ~\$500mm	Partial Exit?
Sussex Diversified Fund	Bermuda Coll. Reinsurance Platform	2023	~\$300mm	Partial Exit?

# ILS Managers (Top 10 \$billions)

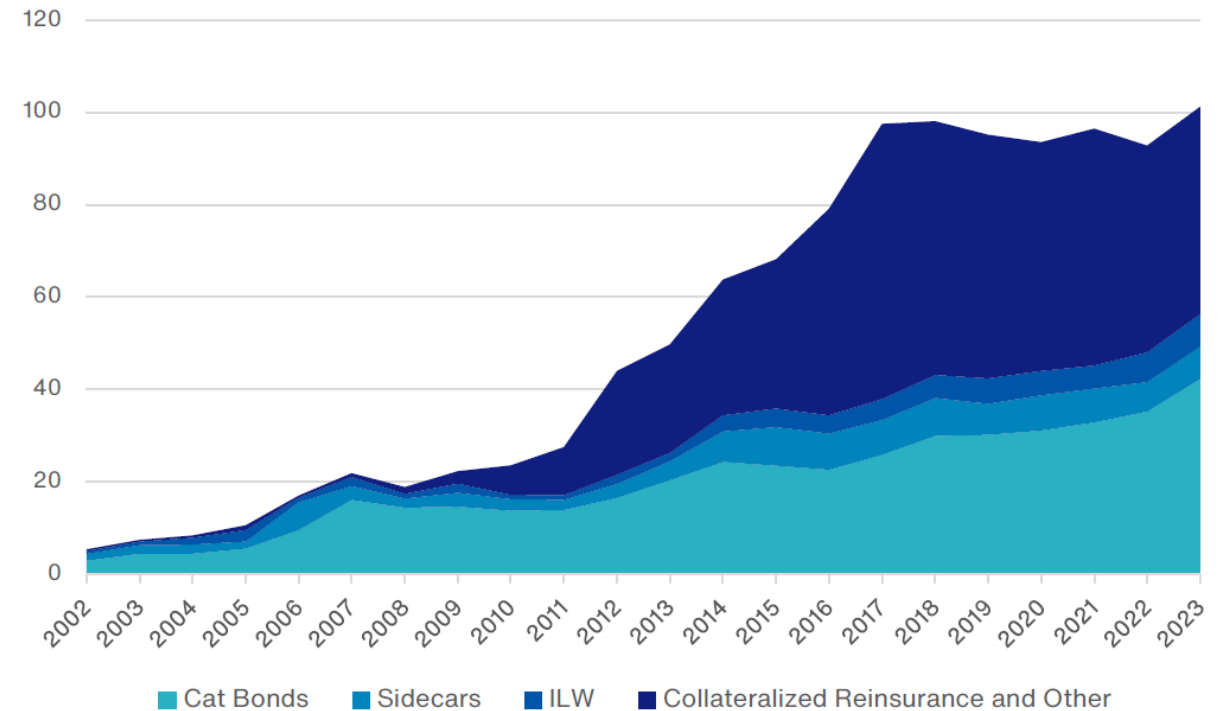
		Jan-24	Jan-23	Jan-22	Comment
1	Fermat Capital Management	9.6	8.6	8.2	Independent – cat bond-focused
2	Renaissance Re Capital Partners	7.0	6.2	5.6	(Re)insurer affiliated – Ren Re
3	Nephila Capital	6.8	7.4	8.8	(Re)insurer affiliated – Markel
4	Aeolus Capital Management	5.5	3.3	3.3	Independent
5	LGT ILS Partners	5.1	6.1	7.6	Independent
6	Leadenhall Capital Partners	4.7	5.5	6.2	(Re)insurer affiliated – MS&AD
7	Schroder Investment Management	4.6	4.3	4.0	Independent
8	Pillar Capital Management	4.4	3.1	3.0	(Re)insurer affiliated – Trans Re
9	Elementum Advisors	3.9	3.7	4.3	Independent
10	SCOR Investment Partners	3.9	3.2	3.0	(Re)insurer affiliated – Scor
	<b>Total</b>	<b>55.3</b>	<b>51.3</b>	<b>53.9</b>	

- Clear decline in 2023 as a result of Hurricane Ian
- Fermat, which invests heavily in cat bonds, remains #1
- Trapped capital considerably less this year than last year
- 5 of the 10 top companies are affiliated with (re)insurers

Source: Insurance Insider ILS

# ILS Capacity 2023

- ILS market capacity: \$100B (GC/AM Best); \$103B (AON)
  - Collateralized reinsurance: approximately \$42-\$50 billion\*
  - **Catastrophe bonds: \$42 billion**
  - Sidecars: \$5 - \$7 billion\*
  - ILWs: approximately \$5 - \$7 billion\*

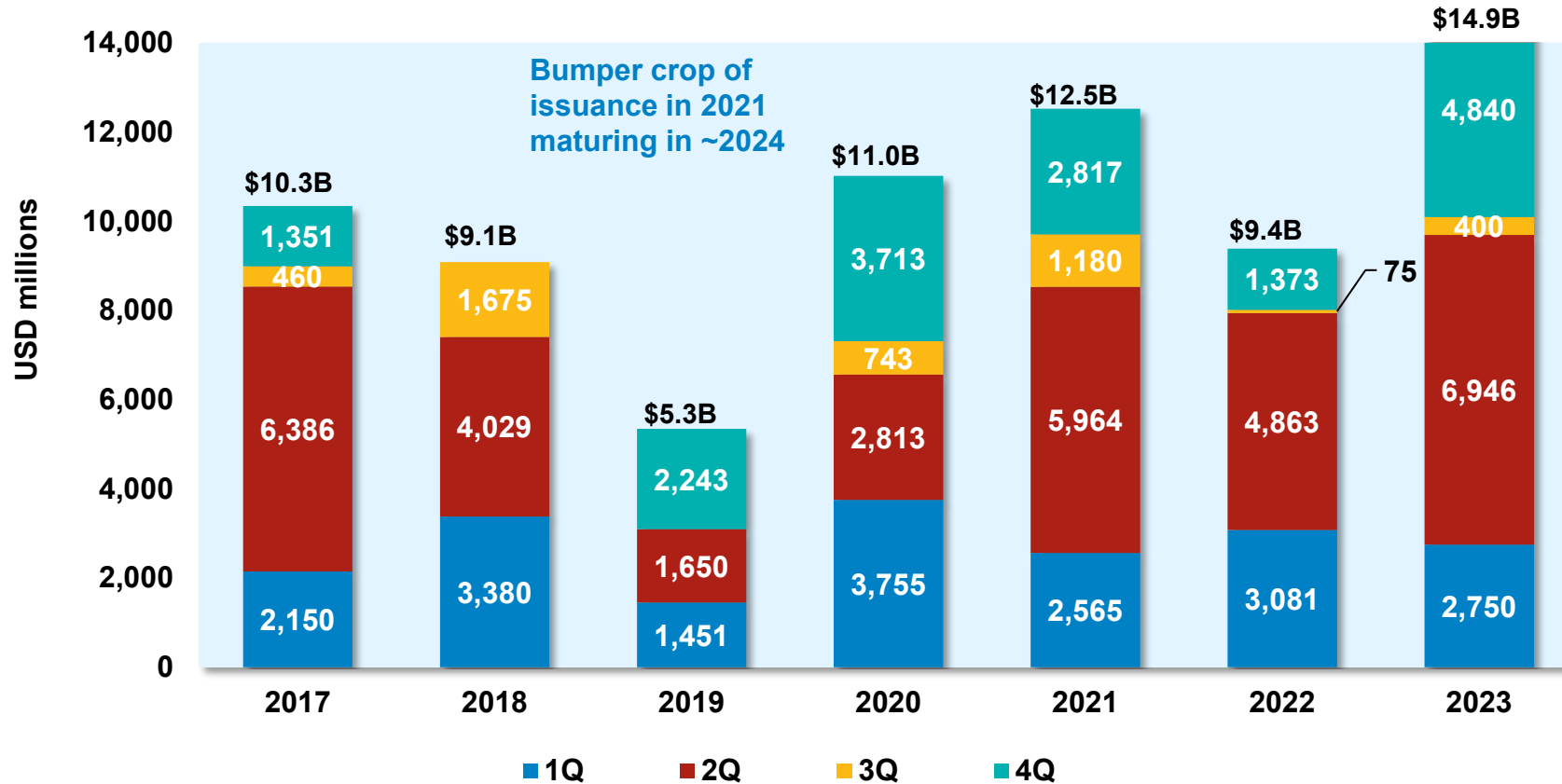


Source: SEC form ADVs, asset manager marketing materials and websites, company quarterly reports, Artemis and Trading Risk / Aon Securities, LLC

\* Ranges based on AM Best's conversations with ILS managers.

# Cat Bond Issuance

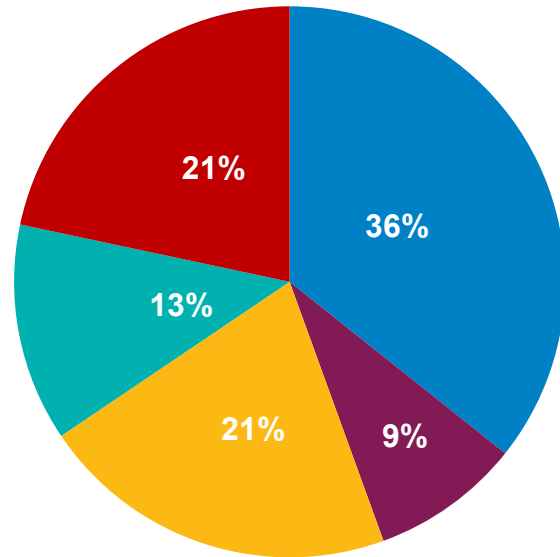
144A Property Cat Bond Issuance by Quarter, 2017-2023



- Record issuance of ~\$15B
- The cat bond market has hit 3 peaks over the past 5 years
- Issuance in 4Q hit a record
- 2024 projected to be a year of high issuance

Source: Artemis, AM Best data and Research

# 2023 Natural Cat Bonds by Sponsors



- Government-backed
- Japanese, European & Bermuda Primary Carriers, & Others
- Large nationwide US primary insurers
- Retro
- Small to medium-sized US domestic insurers

- Issuers remain diverse
- \$2B of the ~\$15B were sponsored by completely new issuers
- Returning past issuers after a hiatus

# Notable Catastrophe Bonds in 2023

Sponsor	Issuance	Size (USD MM)	Notes
CEA	Ursa Re Ltd. (Series 2023-1) (Series 2023-2) (Series 2023-3) and Sutter Re Ltd. (Series 2023-1)	1,500	High issuance
VKB	King Max Re DAC 2023	175	1 <sup>st</sup> domestic German issuer
Selective Insurance Company	High Point Re Ltd. (Series 2023-1)	325	First time issuer
The Hartford	Foundation Re IV Ltd. 2023-1 A	200	Hiatus since 2011
Beazley	Fuchsia 2023-1 (London Bridge 2 PCC Ltd.)	100	Lloyd's vehicle

Source: Artemis

# Reasons for Spike in Cat Bond Issuance

## Demand Side

- (Re)insurers seeking to shore up their balance sheets after cat losses and inflation
- Also seeking diversity of reinsurance capital, so the ILS market is the perfect source
- Finally, seeking multi-year coverage

## Supply Side

- Appetite for more remote risks
- Loss multiples increased significantly from 2021 to 2023
- High maturities in 2023 helped record issuance
- Stellar overall performance



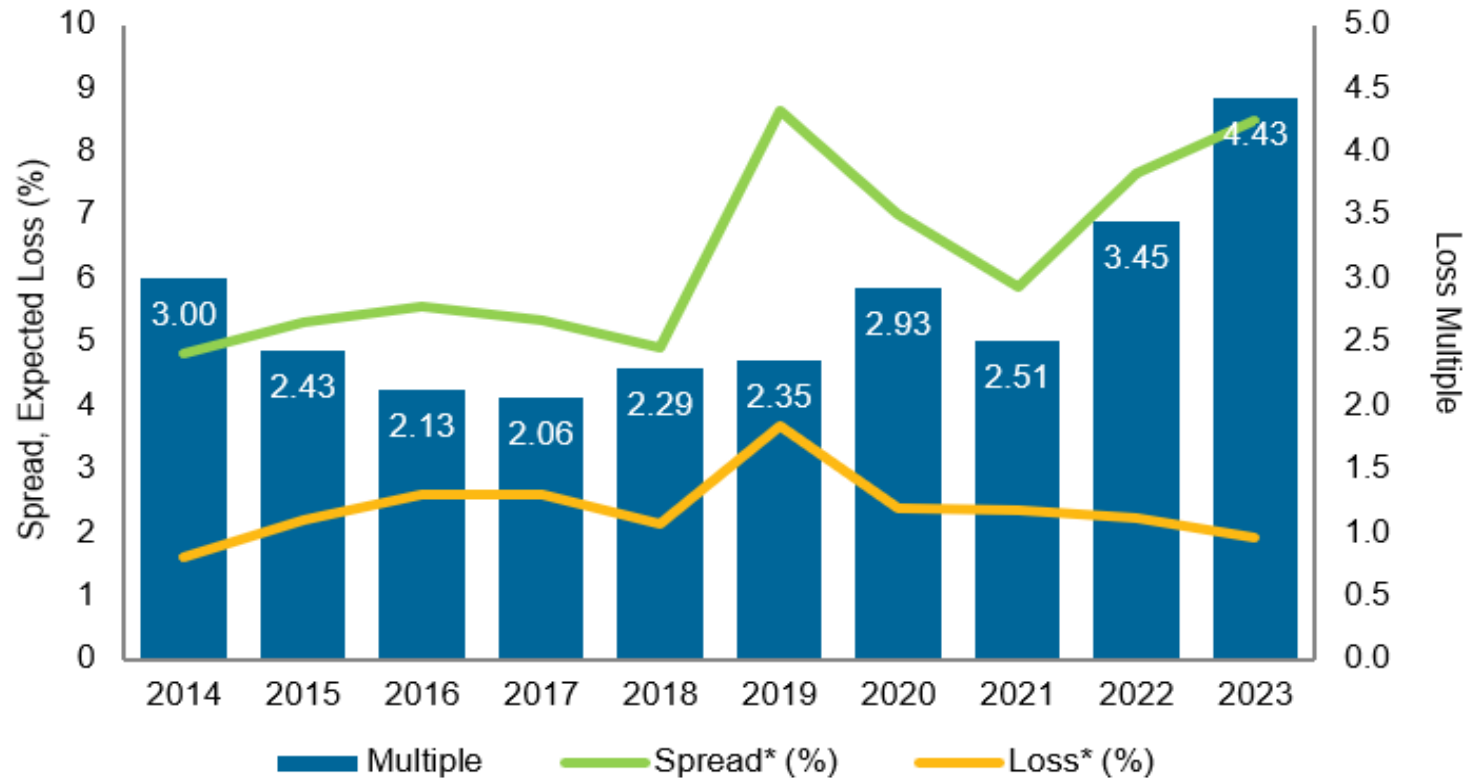
# More Remote Risks

<b>Weighted Average</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
<b>Spread</b>	<b>5.88%</b>	<b>7.67%</b>	<b>8.50%</b>
<b>Expected Loss</b>	<b>2.34%</b>	<b>2.22%</b>	<b>1.92%</b>

Increase in attachment points is reflected in movement of expected loss of cat bonds from 2.34% to 1.92%

# Loss Multiples – Annual

Loss Multiple = Spread to Expected Loss, 2014-2023



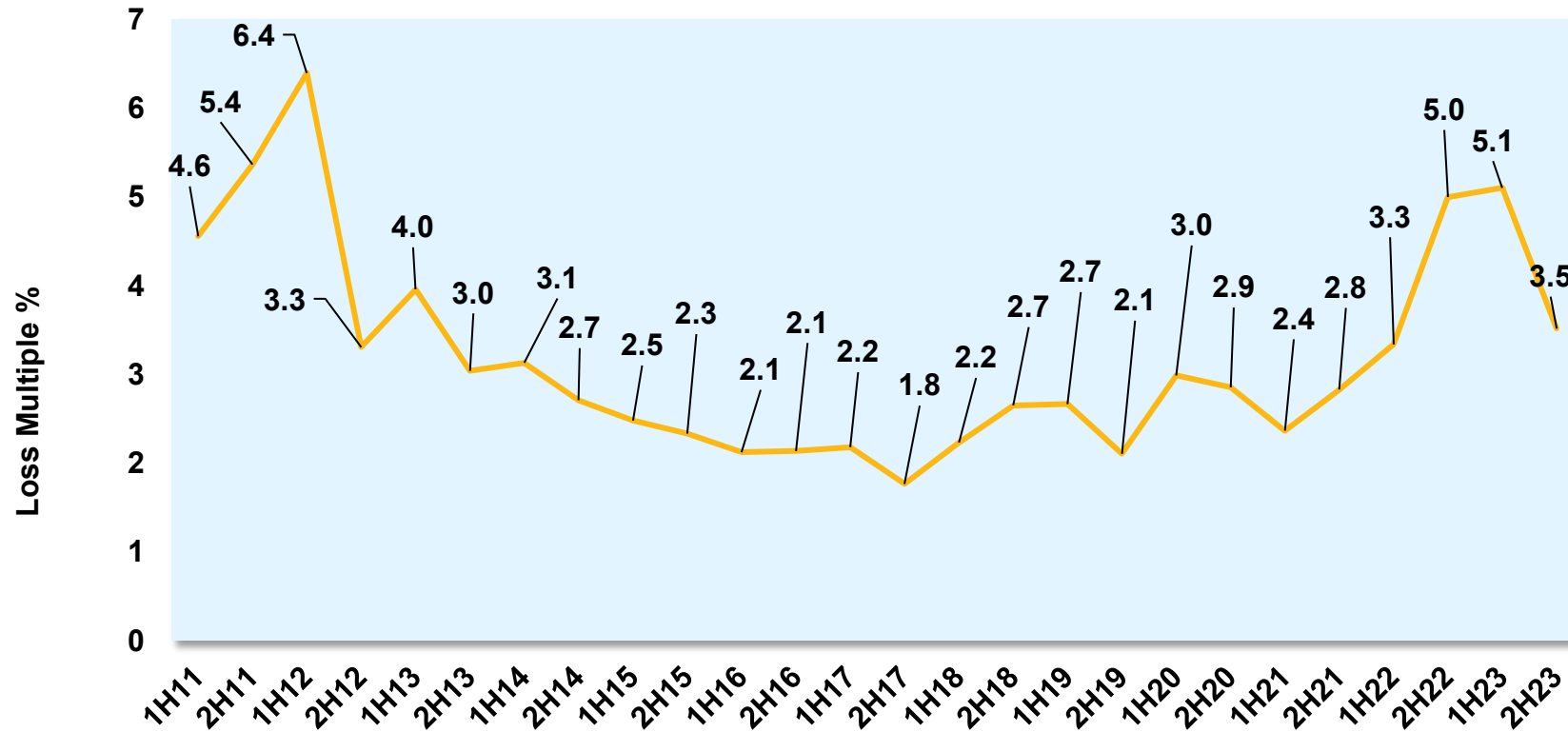
- Loss multiples represent risk-adjusted spread
- Loss multiples have not been this high since around 2011-2012

\* Spread and expected loss are dollar-weighted.

Sources: Artemis, AM Best data and Research

# Loss Multiples – Semi-Annual

ILS – Cat Bond Loss Multiple, 1H14-2H23



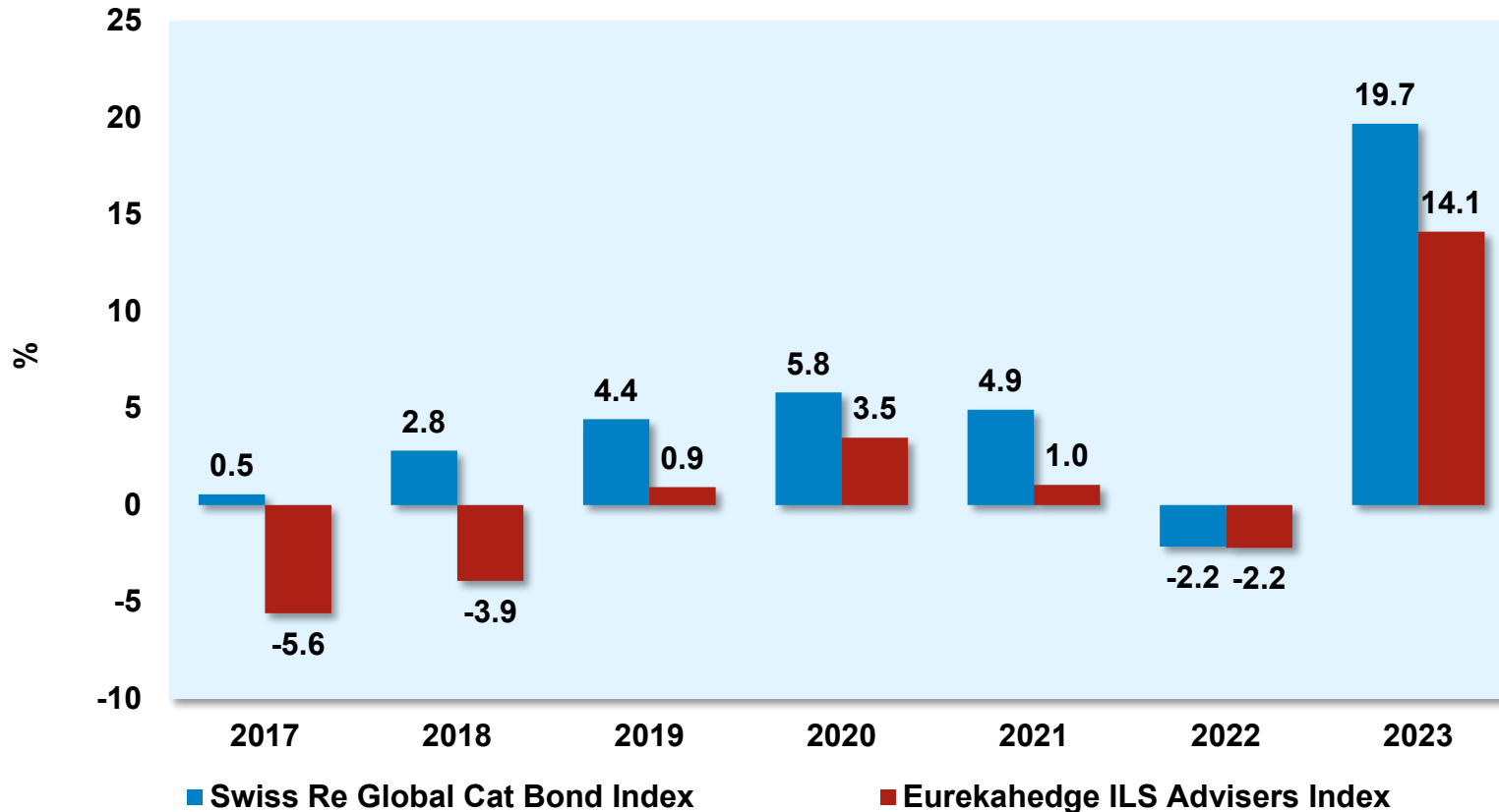
- Reinsurance peak in 1H 2023: Loss multiples ballooned to 5.10 in 1H 2023. Pricing peak probably in 1Q 2023 (5.5).
- Increased cat bond capital in 2H 2023 led to reduction in multiple
- 2H 2023 loss multiple still notably higher than other points in last ten years

Loss Multiples	
1H23	5.10
2H23	3.52

Sources: Artemis, AM Best data and Research

# Stellar Overall Performance

Annual Returns, 2017-2023



- Swiss Re Index and Eureka Hedge Index surpass previous records set in 2007 (15.43% and 13.22%, respectively).

10-Year Return	
Swiss Re Cat Bond Index	5.2%
Eureka ILS Advisers Index	2.1%

# Retro Market Rebound

- XOL retro market skewed to the ILS market – 70% to 80% of a \$15B-\$20B market
- Capacity was constrained on 1/23 – prices accelerated and retentions increased, aggregate contracts unavailable
- 1/24: Capacity loosened but market remains hard on lower layers and aggregate contracts, but higher layer pricing has come down

# Hot Topic: Cyber Cat Bonds

	Face Amount (USD \$mm)	Sponsor	Issue Date	Maturity	
144A Bonds	East Lane Re VII Ltd. (Series 2024-1)	150	Chubb	12/28/2023	3/31/2026
	Matterhorn Re Ltd. (Series 2023-1)	50	Swiss Re	12/28/2023	1/8/2026
	PoleStar Re Ltd. (Series 2024-1)	140	Beazley	12/20/2023	1/7/2026
	Long Walk Reinsurance Ltd. (Series 2024-1)	75	AXIS Capital	11/28/2023	1/30/2026
	<b>Total: 415</b>				
Private Placement	Cairney I			1/1/2023	1/8/2024
	Cairney II	81.5	Beazley	5/1/2023	1/8/2024
	Cairney III			9/1/2023	1/8/2024

- Four 144A bonds totaling \$415mm issued in 2023
- Movement from private placement to 144A issuance significant
- Some bonds were upsized due to demand
- Matterhorn uses a cyber index – triggers at \$9b of US cyber event; spread of 12%

# Hot Topic: Cyber Cat Bonds

	Issuer	Balance (\$mm)	Loss Multiples (4Q 2023)
<b>Natural Cat Bonds</b>	<b>20 Issuers</b>	<b>4,840</b>	<b>3.37</b>
East Lane Re VII Ltd. (Series 2024-1)	Chubb	150	6.67
Matterhorn Re Ltd. (Series 2023-1)	Swiss Re	50	6.97
PoleStar Re Ltd. (Series 2024-1)	Beazley	140	10.32
Long Walk Reinsurance Ltd. (Series 2024-1)	AXIS Capital	75	4.95

Avg. Multiple = 7.6

- All modeled by CyberCube except for PoleStar Re, modeled by RMS
- Considerable risk premium to get the market to digest the bonds

# View of the Overall ILS Market Going Forward

- Peak has already been hit
- Years of elevated cat losses, climate change, inflation – all have hurt investors
- Higher interest rate produced more attractive easier to understand alternatives
- Supply is sure to increase – higher retained earnings that need to be deployed
- Question: Source of new capital? Family offices or hedge funds vs. pension funds and sovereign wealth funds coming back



# Q&A



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