Willis Re 1st View

Rational Markets

April 1, 2019

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1st View

This thrice yearly publication delivers the very first view on current market conditions at the key reinsurance renewal seasons: January 1, April 1 and July 1. In addition to real-time eVENT Responses, our clients receive our daily news brief, *The Willis ReView*, as well as our global industry reports:

The Reinsurance Market Report is a biannual publication providing in-depth analysis of the size and performance of the reinsurance market. Analysis is based on the Willis Reinsurance Index group of companies. The report is issued in April covering full year results, and September covering half year results.

The Global Risk Appetite Report outlines the findings from our global survey of over 250 insurance companies worldwide. The report gives insight into global reinsurance and purchasing trends.

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Rational Markets

With the final results for 2018 now released, virtually all reinsurers have posted improved combined loss ratios for 2018, though for many reinsurers, the improvement is marginal. While results were adversely impacted by abnormal loss activity in 2018, compounded by 2017 catastrophe loss creep and diminishing prior-year casualty reserve releases, reinsurers are encouraged by improvements in primary rating levels across many classes and territories. These primary rate increases are filtering into reinsurance pricing, most obviously via proportional treaties. More conservative line-size management is driving much of the improvement in primary rates; in particular, insurers are managing their line sizes on large-commercial accounts. In addition to these efforts, primary carriers are setting minimum rate increases for some lines of business and withdrawing from a number of specialty lines.

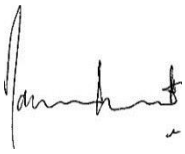
There are no emerging signs of generalized hardening rate levels and pricing remains rational across the market.

For treaty business, many reinsurers expressed hope that the April 1st 2019 renewals would see a stronger pricing increase momentum than at January 1st. In reality, buyers experienced rational rate increases from reinsurers, which were in some cases substantial, on loss-affected business. These rate increases were balanced by flat renewals on non-loss affected classes and programs. There are no emerging signs of generalized hardening rate levels across the market and pricing remains rational. Consequently, the observation from our January 1st View regarding primary rates moving faster than treaty rates still holds true.

Capacity has not been a constraint in the market, even for buyers who have sought to purchase additional limits; instead, the only restrictions in available capacity have been driven by price. The Japanese market is one of the largest buyers of catastrophe capacity outside of the US and, as in previous years, the bulk of capacity sought by buyers has been supplied by major traditional reinsurers. The involvement of the ILS markets remained small, but unchanged, with some increase in appetite from funds in a few selected areas. The long-term philosophy of many buyers undoubtedly influenced the overall flat pricing on non-catastrophe loss free classes where parties looked to produce a balanced portfolio based approach.

The ability of the market to respond in a rational manner and meet the request from buyers for increased capacity remains directly linked to the ongoing high level of capitalisation with pockets of start-up capital adding to the supply. Despite a challenging 2017 and the indifferent 2018 results, balance sheets of traditional reinsurers remain strong, and overall interest from ILS investors remains mostly undimmed albeit with some modest changes in terms of risk appetite from some ILS managers and a handful of funds with materially less capital. The continued capital overhang in the market with supply outweighing demand is undoubtedly the key driver for the ongoing balance sheet management through share buy backs of a number of the largest quoted reinsurers. The message remains clear that in the absence of more attractive opportunities to earn reasonable returns shareholders prefer capital to be returned.

At a time when some participants in the global reinsurance market are promoting the need for substantial across-the-board improvements in pricing, reinsurers delivered considered, rational price adjustments – a sign of the market's stability and maturity. As the global reinsurance market looks to address the current imbalance of supply and demand, the ability to demonstrate a stable, rational base plays a critical role in developing and promoting more solutions to new buyers and core clients.



James Kent, Global CEO, Willis Re
April 1, 2019

Property

Commentary grouped by territory

India

- After just one benign year, 2018-19 witnessed flood losses in Kerala, resulting in significant price increases on loss affected catastrophe programs.
- Some per risk programs suffered sizeable losses which drove price increases.
- GIC Re continued supporting proportional programs but took strong measures to improve the pricing and underwriting on the underlying portfolios. Foreign reinsurers also showed optimism in supporting proportional programs.
- Notwithstanding increased support for proportional treaties there continues to be evidence of a gradual shift towards non-proportional structures as exposure measurement and analysis becomes more sophisticated.

Japan — Earthquake, Wind and Flood Combined

- In spite of the 2018 natural catastrophe losses, renewals were orderly, with reinsurer capacity remaining stable.
- Buyers sought increased capacity, both on aggregate basis and for earthquake occurrence.
- Overall rate movements varied, with increased client differentiation observed.
- Loss-affected programs saw rate increases, but levels were lower than some reinsurers expected.
- Rate increases have been suppressed by capacity dynamics, as well as the economics behind overall reinsurer relationships with buyers.
- Generally loss free accounts renewed at risk adjusted flat, although some loss-free wind and flood contracts saw modest uplifts.
- The mutual sector has been differentiated by reinsurers due to the minimal impact from 2018 natural catastrophe losses.
- Aggregate excess of loss structures have received increased scrutiny from the reinsurance market following very material losses in 2018.
- Earthquake activity in 2018 had limited impact on the performance of Japanese earthquake pro rata treaties and therefore these generally renewed with very little change and remain in demand amongst reinsurers.

Korea

- The market experienced several fire losses this year which triggered increases in quoted risk pricing.
- Some clients decided to increase risk excess of loss deductible levels in order to maintain expiring reinsurance premium spend.
- The market remains competitive, but reinsurers demonstrated discipline with some reinsurers walking away on the grounds of price; however, capacity remains plentiful, so replacements for these markets were easy to find.
- There were no notable changes to terms and conditions in coverage.

United States

- Pro rata commissions responded to loss experience.
- New markets are providing competition on loss affected risk excess layers as well as loss free catastrophe programs, thus suppressing pressure for rate increases.
- Incumbents are also looking to protect their held portfolio of preferred clients by authorizing increased capacity.
- Reinsurers exhibit preference for clients who have not presented losses or loss creep, as well as companies seen as having superior track records and management teams.

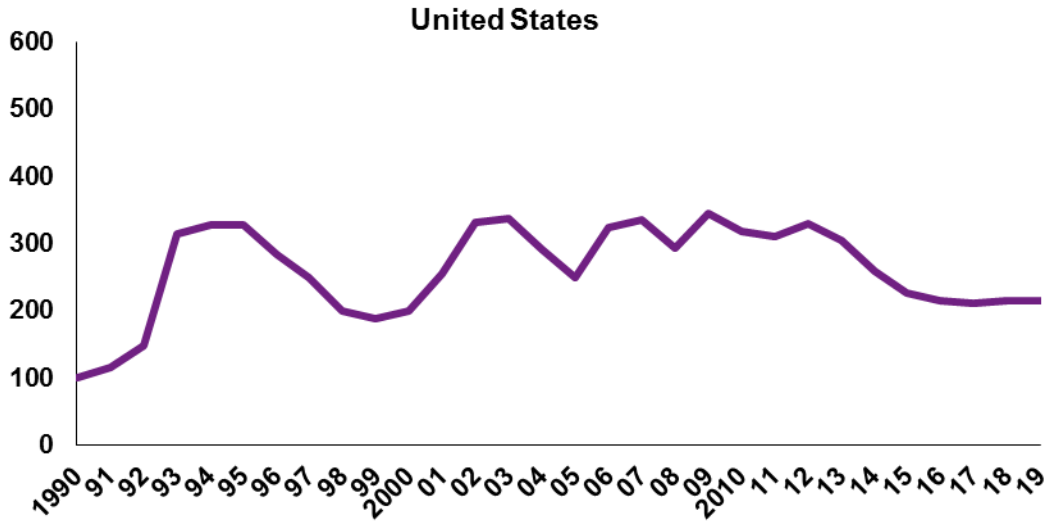
Property rate movements

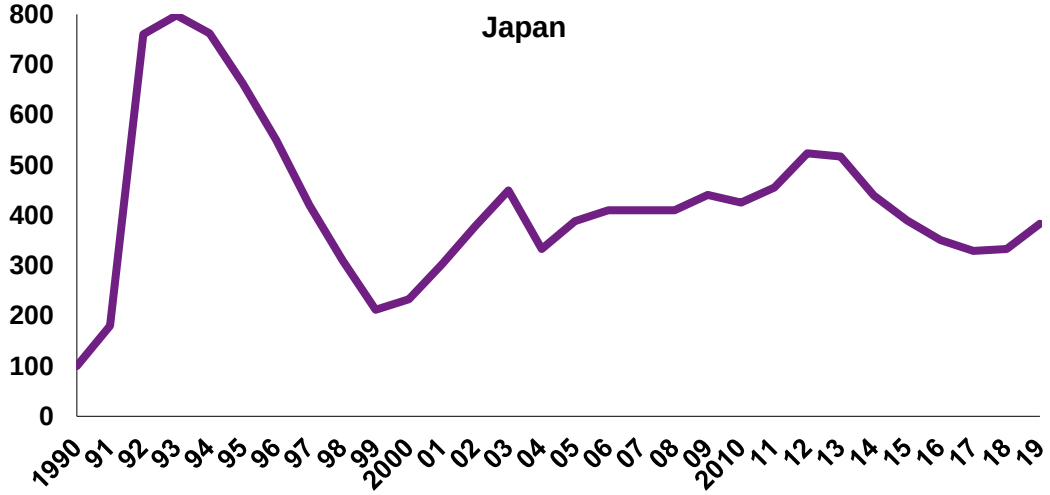
Territory	Pro rata commission	Risk loss free % change	Risk loss hit % change	Catastrophe loss free % change	Catastrophe loss hit % change
India	-5% to 0%	0% to +7.5%	+10% to +15%	0% to +2%	+15% to +20%
Japan	-2.5% to 0%	-5% to +5%	N/A	0% to +7.5%	+15% to +25%
Korea	N/A	N/A	+3% to +5%	-15% to -10%	N/A
United States	-1% to 0%	0%	+2.5% to +10%	0%	+5% to +20%

Note: Movements are risk adjusted.

Property catastrophe pricing trends

The charts on these pages display estimated year-over-year property catastrophe rate movement, using 100 in 1990 as a baseline.





Casualty

Commentary by territory

Global — Cyber

- More standalone treaties coming to market as cyber books grow and ceding commissions on multiline treaties reduce.
- As original market conditions continue to soften, some reinsurers indicate limited appetite for growth.
- Downwards pressure on ceding commissions on multiline covers has encouraged buyers to consider standalone or cyber and related lines including tech & media.
- Accumulation and aggregation concerns (both within Cyber and cross class with 'silent cyber') remains on everyone's agenda leading to increased interest in clash and stop loss solutions.
- Pressure from regulators and those charged with market oversight has led to an improvement in reducing Cyber exposure in non-Cyber classes.
- Greater focus on clarifying definitions of War and Cyber Terrorism, together with associated exclusions and carve-backs.

Japan — Personal Accident

- Most buyers maintained existing structures.
- Earthquake exposure continued to grow; however, the impact of this exposure increase on pricing was limited, as reinsurers were keen to expand their shares and were prepared to offer or accept competitive pricing.
- As in previous years, placements were over-subscribed.

Japan — General Third Party Liability

- In general, reinsurance structures renewed at expiring terms without any significant changes in coverage.
- The pricing was fairly stable, with adjustments made to reflect changes in the underlying exposures.
- Reinsurers are cautiously monitoring pharmaceutical products liability risks under treaties and some ongoing lawsuits in the U.S.
- The Abilify Products Liability litigation in the U.S. was a concern for some reinsurers during 2018; the industry has favorably received the settlement plan that was announced in February 2019.
- Japanese treaties continue to attract a growing supply of capacity.

Japan — Professional Liability

- The primary Directors and Officers Liability insurance market is still expanding, although the market has lost some momentum.
- Loss ratios remain at low levels, so primary premium rates are seeing competition.
- Buyers' demands for reinsurance have grown; buyers discussed increases of limit and/or a broadening of coverage at renewal, with some achieving broadened terms or buying greater limit.
- Reinsurance pricing generally remained stable.

Casualty rate movements

Territory	Pro rata commission	XL - no loss emergence % change	XL - with loss emergence % change
Cyber	0% to +1%	N/A	N/A
Japan – General Third Party Liability	N/A	0%	Varies
Japan – Professional Liability	N/A	0%	N/A
Japan – Personal Accident	N/A	-5% to 0%	N/A

Note: Movements are risk adjusted.

Specialty

Commentary by line of business

Capital Markets

- Risk spreads have fallen off their December 2018 peaks, but in general, they are still higher year-on-year.
- Relatively speaking, aggregate structures have fallen out of favor following 2018 loss activity.
- Back to basics occurrence structures for peak perils in cat bond form are in relative demand at the expense of other types of investments.
- Investment forms outside the cat bond market continue to evolve to address some of the complexities for both investors and cedants following recent loss activity.

Global — Aerospace

- The ongoing Ethiopian Airlines / Boeing 737 MAX Grounding Liability claim could potentially be the largest ever non-war claim the market has incurred. The claim could erode three to four years' worth of reinsurers' global excess of loss premium.
- The direct aviation market has carried its momentum from the fourth quarter of 2018 into the new year.
- Although there are few major renewals in the opening months of the year, premium rates have been increasing across all business lines. This trend is driven by M&A and some withdrawals in 2018 constricting market capacity, following a number of unprofitable years.
- In spite of headwinds, April 1st excess of loss renewals have progressed similarly to the January 1st renewals. There has been a small element of softening, driven by overcapacity.
- Many of the live renewals were already quoted when the Ethiopian/Boeing loss occurred and reinsurers have chosen not to penalize buyers for ongoing losses.
- Proportional treaty placements for regional non-major aviation business have remained stable. For international major-risk treaties, the improvement in underlying premium rates has encouraged reinsurers to grant small improvements in ceding commissions.
- It remains to be seen how severely excess of loss and quota share leaders will react to negative margins going forward.

Global — Marine

- The April 1st renewal season was dominated by Japanese renewals, which in turn were loss impacted due to Typhoon Jebi claims. All loss-affected programs experienced price increases.
- Reinsurance products placed in the direct market were significantly more challenging, with serious and committed changes being made to original business to ensure continued support from reinsurers.
- Non-loss affected territories renewed flat, with less pricing pressure than in previous years.
- The market remains well capitalized, with no new significant entrants or departures in the past 12 months.

Global — Non-Marine Retrocession

- In terms of pricing, April 1st renewals were similar to January 1st renewals.
- Reinsurers continued to differentiate cedants on past performance, depth of relationship and overall profitability across multiple lines of business.
- Buyers exhibited increased demand for tail-risk cover due to regulatory pressures, thereby materially increasing pricing at this level.
- New inflows into the ILS market have been small in Q1, therefore, overall retro capacity, particularly for aggregate covers, continues to be tight.

Specialty rate movements

Territory	Pro rata commission	Risk loss free % change	Risk loss hit % change	Catastrophe loss free % change	Catastrophe loss hit % change
Aerospace	0% to +0.5%	-2.5% to 0%	+5% to +10%	N/A	N/A
Non-Marine Retrocession	0% to +5%	0% to +10%	+15% to +35%	0% to +15%	+20% to +35%

Note: Movements are risk adjusted.

Global and local reinsurance

Drawing on our network of reinsurance and market experts worldwide, and as part of the wider Willis Towers Watson company, Willis Re offers everything you would look for in a top-tier reinsurance advisor, one that has comprehensive analytics and transactional capabilities, with on-the-ground presence and local understanding. Whether your operations are global, national or local, Willis Re can help you make better reinsurance and capital decisions, access worldwide markets, negotiate optimum terms and boost your business performance.

For more information visit willisre.com or contact your local office.

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