

Global Trends & Performance

March 8, 2023



Our global perspectives on the P&C reinsurance industry are drawn from the feedback of more than 2,000 insurance executives and reinsurance brokers (P&C Re Study 2022; February-June 2022) as well as our broader industry activity and networks. Repricing at the 1/1/2023 renewal, as anticipated by insurers (although not in its extent), has produced something for a reset for the industry heading into 2023.

Key themes

[A perfect storm](#)

[Rising temperatures, rising awareness](#)

[Reinsurance partners continue to demonstrate their worth](#)

[A restructuring reinsurance landscape](#)

[Resilient partnerships, commercial nous](#)

[A return to growth for insurers](#)

[Brokers anticipate revenue growth as well as rising competition](#)

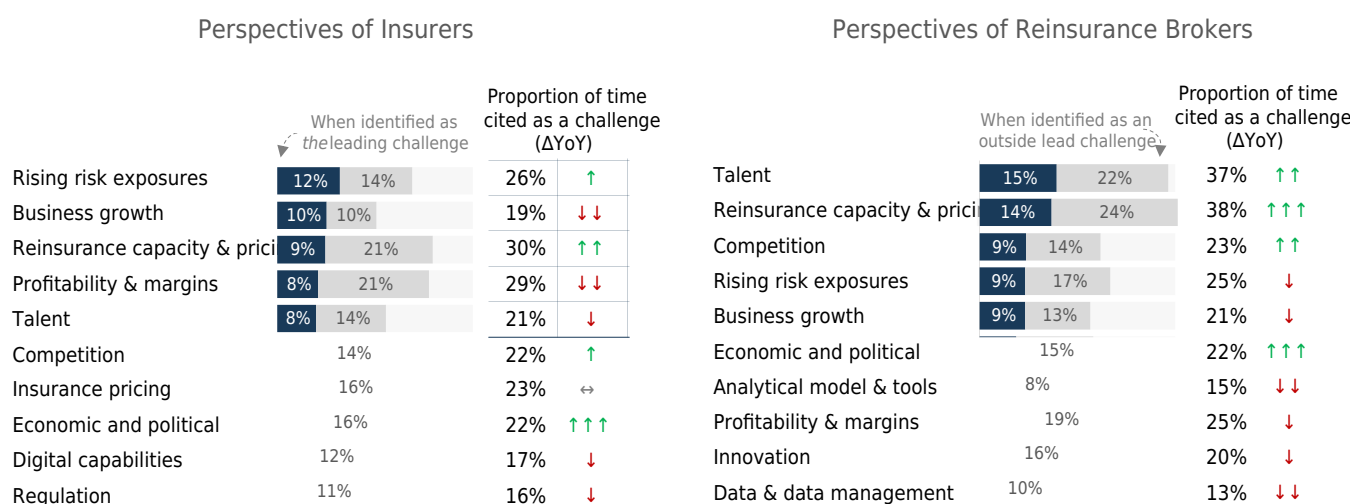
A perfect storm

As if modernising technology platforms and going digital were not themselves sufficient challenges, the insurance industry currently faces a particularly uncertain environment, involving:

- Rising risk exposures, both incidence and severity as well as increased volatility
- The rapid return of inflation post pandemic, and continuing 'social inflation'
- Escalating geo-political instability, a war in Ukraine, and major supply chain disruptions
- Significant rises in reinsurance costs, with questions now surfacing about capacity availability
- A 5-year hardening cycle of reinsurance rates that is showing signs of *accelerating*

Exhibit 1: Growing uncertainties, higher risk premia

Proportion of respondents indicating as a leading challenge. Maximum of 3. Feb-June 2022



Source: NMG Consulting Global P&C Re Study 2022

"What do you consider to be leading challenges for your company and competitors?"

Globally, insurers now most often consider 'rising risk exposures' to be the *leading* challenge faced by their company, while 'talent' continues to be the defining challenge faced by reinsurance brokers. Adjacent concerns about the stability of reinsurance programmes are also elevated, as an extended run of low returns for reinsurers has resulted in a genuine 'hard market'.

The combined effects of rising geopolitical tensions and a rather late switch in monetary policy from stimulus to restraint in the world's mature economies, have contributed substantially to the return of inflation and rising risks of recession in mature economies. Developing markets have – so far – done a better job of keeping inflation under control, including those in Asia.

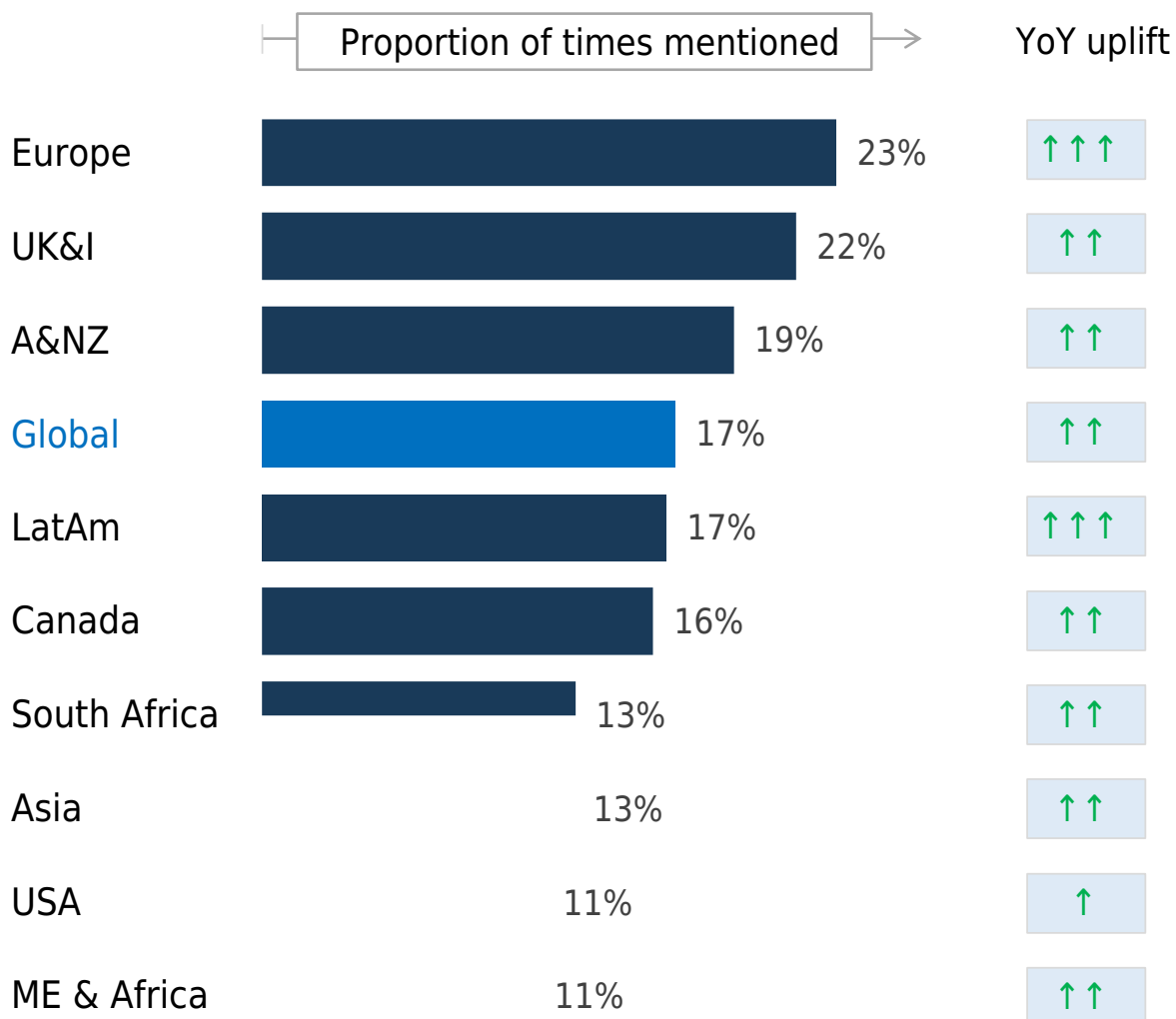
Rising temperatures, rising awareness

Climate change dominates ESG considerations within the insurance industry, with interests closely aligned in areas from claims through to affordability and even insurability. Most recently, the industry has increasingly begun to recognise the leading role it is to play in the drive towards a low-carbon future.

2022 saw more insurance executives identify the risks associated with climate as being among the leading challenges faced by their company, resulting in **a new peak for 'climate awareness'** within the insurance industry globally.

Exhibit 2: Climate risks grow in relevance

Proportion of respondents citing climate change as a leading challenge



Source: NMG Consulting Global P&C Re Study 2022

European nations continue to lead the way in terms of climate sensibilities, with nearly 1-in-4 practitioners citing it as one of the leading challenges for their company and industry.

'Down under', record rainfalls on the East Coast of Australia have sharply lifted awareness, having followed record bushfires the year before. ESG has grown substantially in importance in reinsurance partner selection as a result.

Perhaps long-standing exposure to volatile weather events has respondents in America somewhat hardened to the phenomenon of climate risk. Rising awareness across Latin America in 2022 is positive, but risk awareness must also translate into action.

Looking ahead, strategies and propositions driving the transformation to low-carbon economies is set to become an important area of competition between re/insurers, the monetisation of which could contribute to accelerated progress environmentally. For more analysis, please read [here](#).

Reinsurance partners continue to demonstrate their worth

Despite a turbulent 2022, reinsurers did well to demonstrate their partnership values and ease of doing business, evidenced by a lift in ratings from insurers globally. Ratings for visibility & engagement, however, have yet to recover to pre-pandemic levels, with ratings falling further in 2022 (although the extent of decline showing some signs of deceleration).

The hardening market proved to be particularly challenging for reinsurance brokers, with the added pressure on placement to meet rising expectations and deliver satisfactory renewal outcomes. Reinsurance broker ratings generally declined, including those for partnership approach, timeliness and core broking & analytics advice. Nevertheless, reinsurance brokers continue to come through on their innovation capabilities, with ratings in this area continuing to trend upwards in 2022.

Exhibit 3: Trends in reinsurer and reinsurance broker performance

Average ratings of the 15 most-used reinsurers and 10 most-used reinsurance brokers globally, as evaluated by insurers

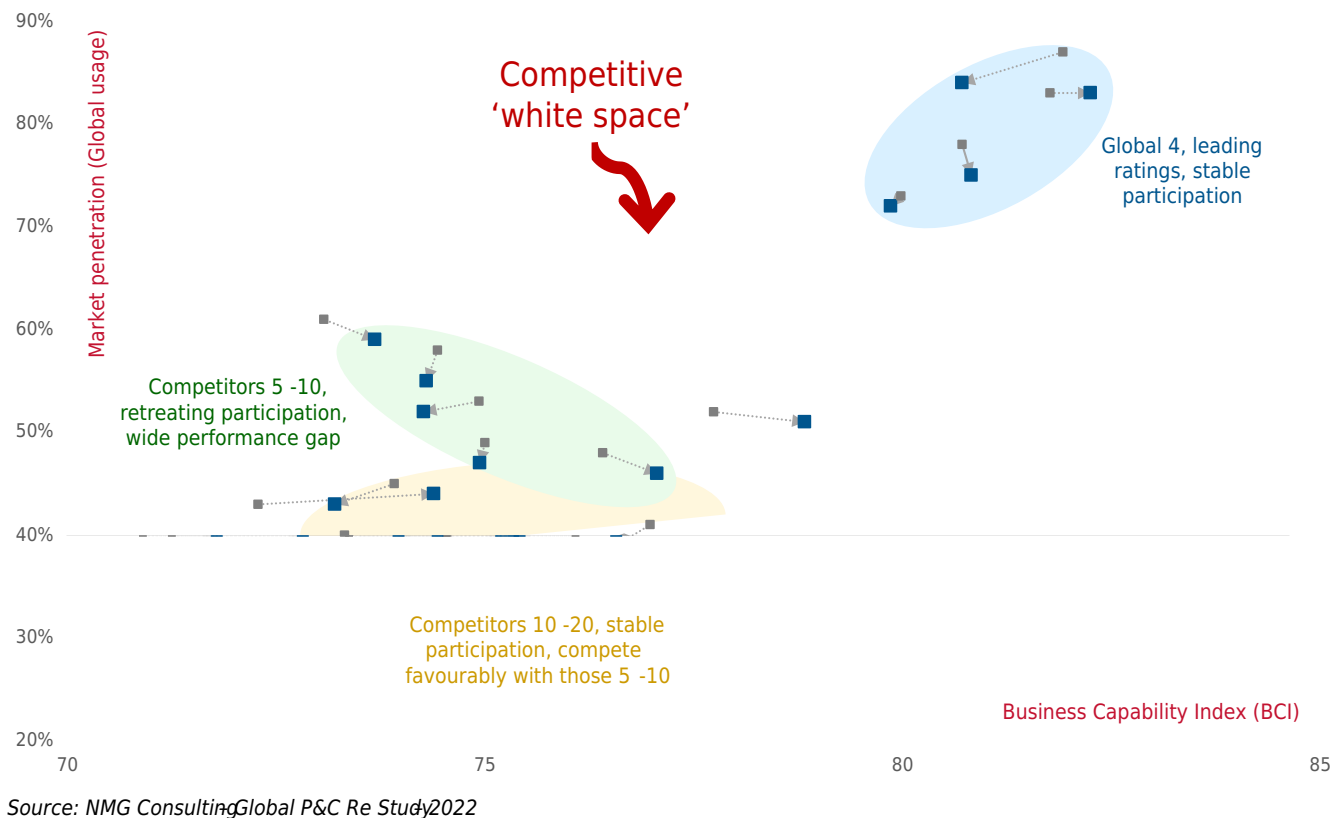


A restructuring reinsurance landscape

A significant observation from the P&C Re Study (2022) is the increasingly distinctive competitive position of the biggest four (global) reinsurers, and how those that make up the next tier (shown in green) have been in retreat in terms of usage and performance (BCI, as evaluated by insurers globally). This competitive gap has become accentuated over several years.

Exhibit 4: Reinsurer competitive positioning in 2022

As evaluated by insurers globally



The graphic begs the question: Does the gap present an opportunity for a sustained expansion (tiering up) for 3-4 (yellow) competitors or will it be the greens that pivot and recapture past glories? Alternatively, is it possible this is actually a competitive 'no-go zone' between scale competitors and specialists, and thus rationally vacant?

Resilient partnerships, commercial nous

Insurer requirements understandably extend well beyond competitive pricing, capacity and financial security, although these are minimum requirements (or 'table stakes') for participation.

A strong customer orientation drives reinsurer selection/usage, particularly around ease of doing business and good partnerships. This holds true across all major markets and regions.

Underwriting expertise has risen in importance as a selection factor over the past two years, as reinsurers have become much more reticent about risk acceptance, and appetite and capability have become key sources of differentiation.

Somewhat equivalently, reinsurance broker selection criteria now place greater weighting on negotiation effectiveness, symptomatic of a hardening market. Overall customer experience delivered by brokers – including timeliness and ease of doing business – remains key in selection and (continued) usage.

Exhibit 5: Leading drivers for reinsurer partner selection (and usage)

'Top 6' factors for selecting reinsurer and reinsurance broker partners. Ratings by insurers. Grey shading indicates 'table stakes'



Source: NMG Consulting Global P&C Re Study 2022

A return to growth for insurers

Insurer growth expectations remain positive for both personal and commercial lines on a global basis, with the anticipated impact of claims inflation mostly assumed to be passed on to customers. For the time being, at least.

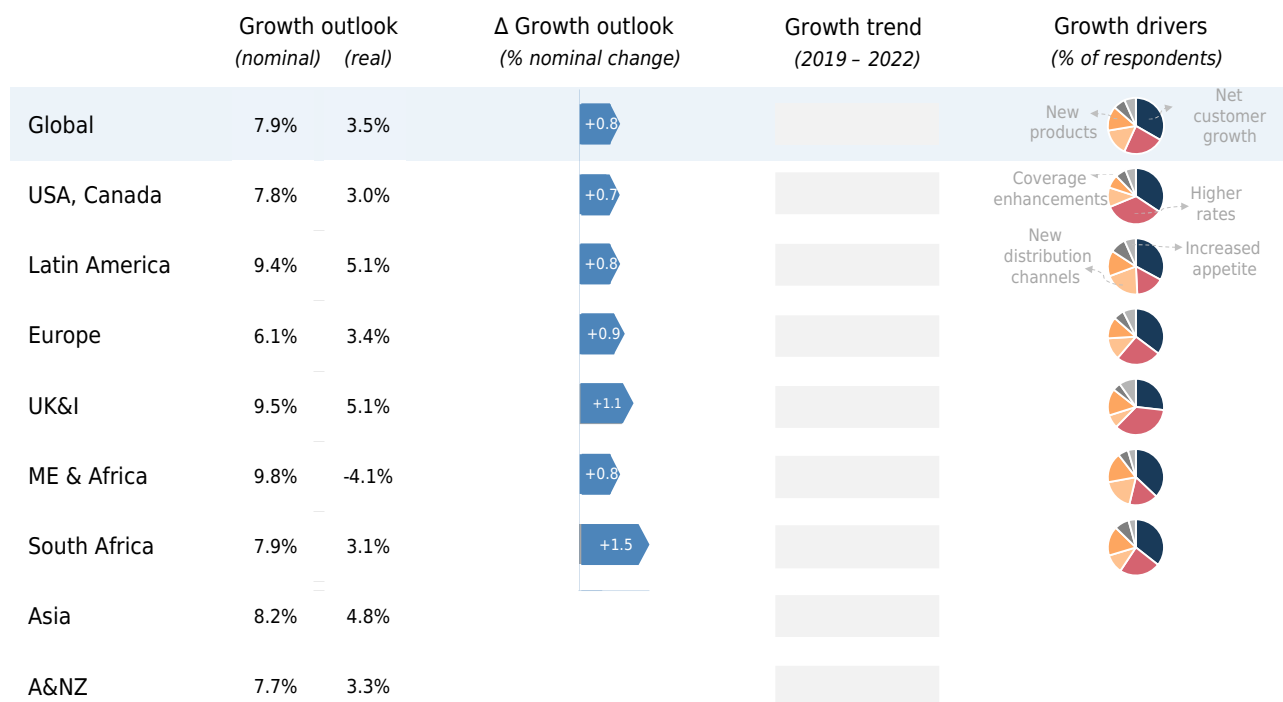
Growth expectations for commercial lines portfolios (+8.2%) are again higher than those for personal lines (+7.2%), where lower rate increases mean more dependence on customer growth.

Rises in core inflation during the course of 2022 will mean that real increases will look less impressive, and that insurers would be wise to allocate resources for accelerated settlements.

Insurers cannot continue to pass on increases to customers indefinitely however, and likely are nearing an affordability threshold beyond which the insurance gap will begin to widen. Higher underlying inflation will make this even more challenging.

Exhibit 6: Growth outlook - insurers

12-month growth outlook. ~1,500 views of executives and practitioners at insurers



Source: NMG Consulting Global P&C Re Study 2022

Brokers anticipate revenue growth as well as rising competition

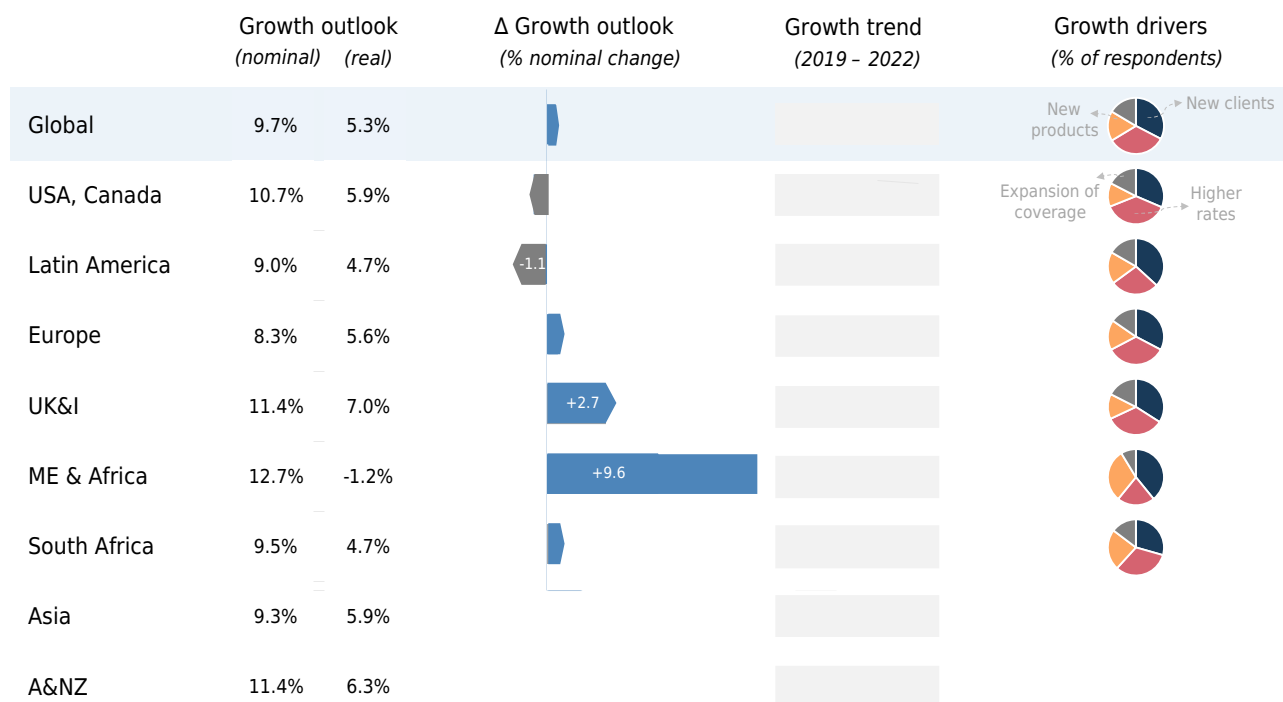
Higher reinsurance premiums usually translate to higher broker commissions in most markets and is thus an opportunity for revenue growth for reinsurance brokers. Growth in reinsurance premiums will not entirely find its way to broker bottom lines however, as increased rebating and higher internal retentions may limit revenue prospects while the competition for talent continues to drive costs higher. Furthermore, risk placements in hard markets are usually more time intensive, so reinsurance brokers may not experience tailwinds to the extent anticipated.

Gallagher Re's acquisition of Willis Re has firmly entrenched Guy Carpenter and Aon as the two dominant global reinsurance brokers, and has also expanded the set of competitors investing ambitiously in growth. The coming together of the segment's most aggressive participants in Howden Re (by acquisition) and TigerRisk Partners (organic), makes the third and fourth ranked competitors distinct.

Harder markets will test broker skillsets and client patience, and may be expected to result in a higher frequency of broker tenders in 2023.

Exhibit 7: Growth outlook - reinsurance brokers

12-month growth outlook. >500 views reinsurance brokers



Source: NMG Consulting Global P&C Re Study 2022

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