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# Reinsurance Market Dynamics

July 2024

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## About this report

Aon's Reinsurance Market Dynamics report provides a comprehensive assessment of key market trends in the context of the June 1 and July 1, 2024 renewals. Commentary on global reinsurer capital, alternative capital and the macroeconomic environment offer insights on the potential direction of the global (re)insurance industry and future renewals. This report is heavily focused on the United States, Latin America, and Australia and New Zealand as these regions renew a large portion of its business at mid-year ahead of the hurricane season.

# Executive Summary: Favorable renewal in a dynamic reinsurance market

Mid-year renewals have further consolidated the positive trends at 1/1 and 4/1, setting the stage for a more competitive reinsurance market in 2025. However, the market emerging from last year's global reset is more dynamic so the ability to make informed decisions quickly, supported by data and analytics, will be key to navigating the market going forward.

June 1 and July 1 are significant renewals for the U.S. especially Florida, Latin America as well as Australia and New Zealand. Coming at the start of the Atlantic Hurricane season, and at a critical stage in the reinsurance market cycle, these catastrophe-focused renewals are also of global significance. Overall, insurers achieved positive renewal outcomes at mid-year renewals, with property catastrophe risk-adjusted rate reductions and improvements in terms and/or coverage.

## U.S. Nationals, Florida and Latin America

In contrast to renewals of 2023, capacity for U.S. catastrophe exposed property business was more than ample to meet increased demand, with upwards of $10 billion of additional limit purchased by U.S. insurers at mid-year along with insurers that elected to secure additional capacity following January 1 renewals. Renewals on June 1 and July 1 continued to build on the positive momentum of 1/1 and 4/1, with increased appetite from traditional reinsurance and ILS markets resulting in downwards pressure on pricing for both U.S. nationals and Florida specialist insurers.

Competition remained fiercest at the top end of programs, but reinsurer appetite broadened at the mid-year renewal, with a renewed willingness to support programs across the board. There were also signs of growing flexibility around secondary perils at the mid-year, although reinsurers appetite for traditional aggregate covers remains limited. Overall, U.S. insurers experienced risk-adjusted price reductions ranging from mid-single digits to low-double digits.

Florida marked a notable change in its fortunes. Following several years of significant reinsurance rate increases, relatively low catastrophe activity, and improved results for both insurers and reinsurers, Florida's insurers experienced rate reductions at mid-year for the first time in three years. Capacity was more than adequate to support the circa $2 billion of additional reinsurance purchasing, reflecting continued exposure growth, the end of temporary state-reinsurance support and additional purchasing by Florida's insurer of last resort, Citizens Insurance Property Corporation.

Renewals in Latin America and the Caribbean were also broadly positive for insurers at mid-year. For the first time in two years, there was ample capacity to meet demand, while risk-adjusted rate was flat to single digit increases. However, losses from Hurricane Otis, the strongest landfalling hurricane in the Eastern Pacific on record, placed additional pressure on pricing and retentions at renewals in Mexico, while devastating floods in Brazil earlier this year brought catastrophe exposures into sharp focus for Brazil's insurers.

## Australia and New Zealand

Insurers in Australia and New Zealand also saw the return to stable market conditions at the mid-year, a key renewal date for the region with around 80 percent of property catastrophe reinsurance renewing. Relatively benign catastrophe losses in Australia and New Zealand over the past 12 months enabled a

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more predictable renewal at the mid-year 2024, with reinsurers clearly signaling renewed appetite for catastrophe risk in the region.

As a result, capacity at mid-year 2024 was more than adequate to meet demand, with pricing anticipated to be flat on a risk-adjusted basis, with many insurers experiencing reductions in the low-single digits.

## Casualty holds steady

U.S. and international casualty renewals at the mid-year were broadly stable and in line with those at 1/1. Casualty rates were generally flat to single-digit increases on a risk-adjusted basis, although casualty accounts with prior-year loss development, D&O and U.S. exposed international casualty business, all came under increasing pressure. The market's stance on the frequency of severity losses and U.S. social inflation has undergone a notable shift, and this topic is now a central focus of renewal discussions. That said, capacity remains sufficient, and underlying casualty rates and underwriting actions are heading in a positive direction.

## Cautious optimism

With the hurricane season yet to unfold, the outlook for renewals in 2025 is promising. At a new high of $695 billion total reinsurance industry capital at Q1 2024 is above peak levels seen back in 2021, driven by retained earnings, recovering asset values and new inflows to the catastrophe bond market.

Compared to last year, reinsurers are clearly more confident in pricing levels and structures, which is reflected in the market's appetite for catastrophe business. Reinsurers are now generating healthy returns by historical standards with annualized ROE averaging around 20 percent in the first quarter, which (catastrophe losses in the second half of 2024 allowing) should flow back into the market, further bolstering capital levels and driving competition.

That said, the market remains disciplined and capacity price sensitive. Retention levels, which increased substantially at last year's renewal, have helped drive reinsurers improved results over the past twelve months, were largely unchanged at the mid-year. The dynamic risk environment - particularly the volatility in secondary peril losses in property, and social inflation and adverse reserve development in casualty – is likely to preserve discipline going into 2025.

## Hurricane season jitters

Natural catastrophes in 2024 have yet to test reinsurers' results following the significant increases in insurer net retentions last year. Catastrophe losses in the first half of this year are on track to be lower than in recent years; however, insurers are retaining a higher proportion of this loss following catastrophe retention increases. This means insurers are retaining more volatility and creates an opportunity for reinsurers to deploy excess capital. Natural catastrophe insured loss trends will be discussed in more detail in Aon's First Half 2024 Global Catastrophe Recap report in July. The full year position may yet change with the Atlantic hurricane season now underway.

In April and May, seasonal forecasts – including those from the U.S. National Oceanic and Atmospheric Administration (NOAA) and Colorado State University - predicted an extremely active Atlantic hurricane season in 2024, driven by near-record warm sea temperatures in the Atlantic Ocean and the development of La Niña conditions in the Pacific. The forecasts triggered a tightening of pricing and capacity in the later stages of the mid-year renewal, as well as greater scrutiny of hurricane exposures by ILS investors. The next few months will be critical to the outlook for renewals in 2025. One outsized hurricane loss, or a series of U.S. landfalls, this season may yet see a revision to more challenging market conditions.

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## Surplus capital creates opportunities

Today's healthy reinsurance market presents opportunities for insurers to leverage reinsurance capital to support growth plans, manage volatility and/or alleviate capital constraints. Aon's recent Capital Poll found that 60 percent of respondents believe they would benefit from additional reinsurance to support growth, while just under 40 percent were feeling pressure to increase capital levels.

At the mid-year renewals, reinsurers were more open to discussions on how to meet the needs of insurers' property portfolios, with increased flexibility around attachment points and ancillary covers. On a selective basis we are also seeing opportunities in property to address aggregate exposures, with growing interest in traditional sideways cover, as well as quota share. and multi-year coverages in the structured solutions market.

For reinsurers, there are growing opportunities to support insurers. For example, in the fast-growing excess and surplus lines market, as insurers turn to the non-admitted market to find solutions for more challenging perils. Reinsurance demand in Florida's expanding homeowners' property market is also expected to grow following 2023 reforms to curb frivolous claims litigation, and the shedding of policies by Citizens.

U.S. national and super-regional insurers may look to purchase additional cover in the second half of 2024 and into 2025 to help manage volatility from increased retentions and/or support growth. There are also good opportunities for reinsurers to support regional insurers, where conversations are turning to strategic growth opportunities, future affiliations and potential mergers and acquisitions.

Inflation is trending down in all major markets, however, reaching the U.S. Federal Reserve's target of 2 percent has proven difficult. The market now expects the Fed to cut rates once or twice this year. Lower lending rates could rejuvenate the mortgage market, which in turn would stimulate increased demand for mortgage reinsurance, which has provided the market with an attractive diversifying growth opportunity in previous years. There is also growing demand for reinsurance capital - and room for new players - in the credit and surety space, driven by regulatory changes and growth in underlying business across several product lines and regions.

## Differentiation and data key in a dynamic market

Differentiation remains critical to achieving optimal renewal outcomes in both property and casualty markets. Capital continues to be selective and price sensitive, while insurers are mindful of natural catastrophe volatility and emerging loss trends in casualty lines. The ability of an insurer to communicate their needs and strategy clearly, and demonstrate actions taken to improve the quality of portfolios, has never been as relevant.

The reinsurance market emerging from the 2023 reset is more fluid, and susceptible to changes in appetite. Insurers that went early at the mid-year, for example, experienced higher levels of pricing competition and over placement, as capacity tightened towards the end of the renewal following predictions for an active hurricane season. Should these predictions not translate into large insured losses, reinsurers could have additional capital to deploy later this year.

Mid-year renewals also demonstrated the growing importance of year-round communication and engagement with the market and advisors. Buyers that are well prepared, and that can make informed decisions quickly based on data and analytics, will be best positioned to capitalize on market tail winds and fluctuations in reinsurer appetite going forward.

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Aon continues to publish key considerations for a successful renewal to achieve optimal outcomes.

1. Clearly articulate your pricing and underwriting strategies, and its impact on your risk profile to differentiate your portfolio.
2. Develop a custom view of risk to de-risk and reduce exposure concentrations, improve your understanding of secondary perils and emerging risks, and optimize your placement strategy.
3. Leverage strategic consulting and analytics to refine risk appetite, adjust investment and underwriting strategies, or review business lines.
4. Consider third-party and alternative capital for optimal placement results.
5. Explore structured reinsurance covers and legacy reinsurance solutions to manage volatility and free up capital to support growth opportunities.

We actively support insurers over the long term, not just the next renewal, to achieve your strategic objectives and sustain a healthy re/insurance market. We look forward to the fall renewal season to strategize ahead of January renewals.

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# Global Reinsurer Capital: New Peak Reached, Deployable Capacity Continues to Grow

By: Mike Van Slooten, Head of Business Intelligence
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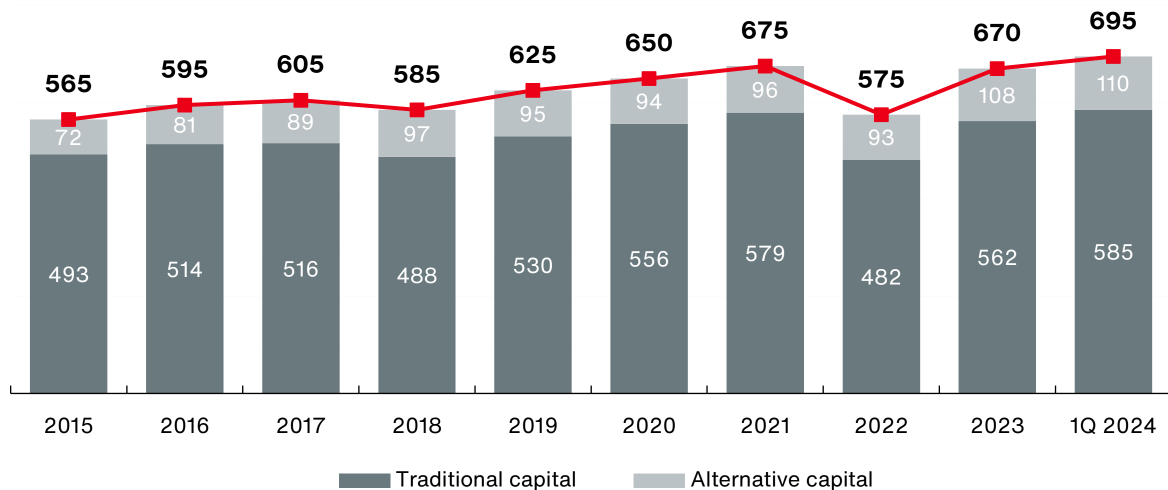
Aon estimates that global reinsurer capital rose by $25 billion to a new high of $695 billion over the three months to March 31, 2024. The increase was principally driven by retained earnings, recovering asset values and new inflows to the catastrophe bond market.

**Exhibit 1: Global Reinsurer Capital (USD billions)**



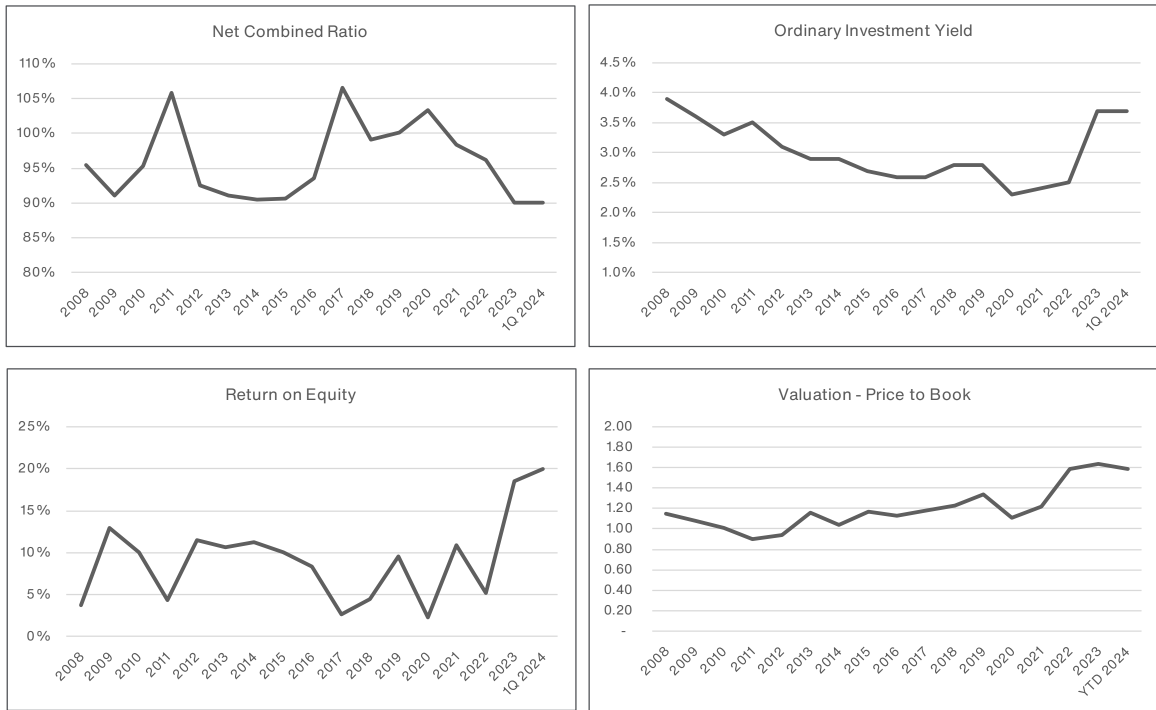

Sources: Company financial statements / Aon's Reinsurance Solutions / Aon Securities Inc.

## Traditional capital: equity at record levels and building

Aon estimates that shareholders' equity reported by global reinsurers increased by $23 billion to a new high of $585 billion over the three months to March 31, 2024. The main drivers were robust underwriting results and improved total investment yields, which combined to deliver very strong returns on equity.

High level indicators of reinsurance sector performance in the first quarter of 2024 are displayed in Exhibit 2.

**Exhibit 2: Reinsurance Sector Performance**




Sources: Company financial statements / Aon's Reinsurance Solutions

## Reinsurer results in the first quarter of 2024

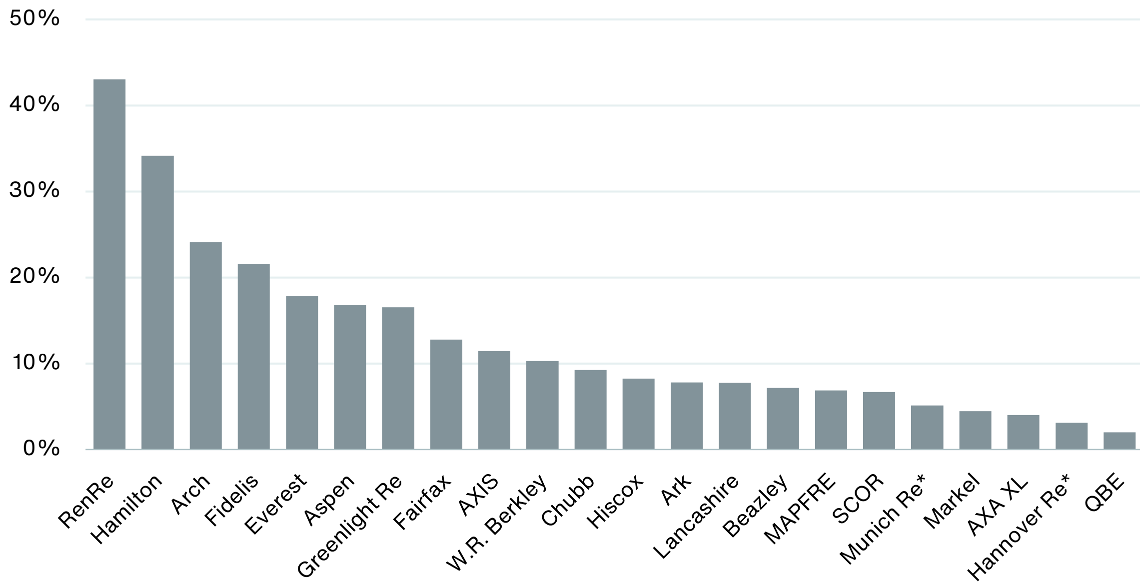
All companies tracked showed top line growth in property and casualty insurance and reinsurance in the first quarter of 2024, as shown in Exhibit 3. RenRe led the way, following the acquisition of Validus.

Pricing was generally viewed as remaining ahead of loss cost trends, albeit with rate reductions in cyber, directors' and officers' liability and workers' compensation.

Strong margins and good growth opportunities continued in the excess and surplus lines market, particularly on the casualty side.

Most companies increased their focus on growing short-tail lines.

**Exhibit 3: Q1 2024 Top Line Growth in P&C Insurance and Reinsurance**

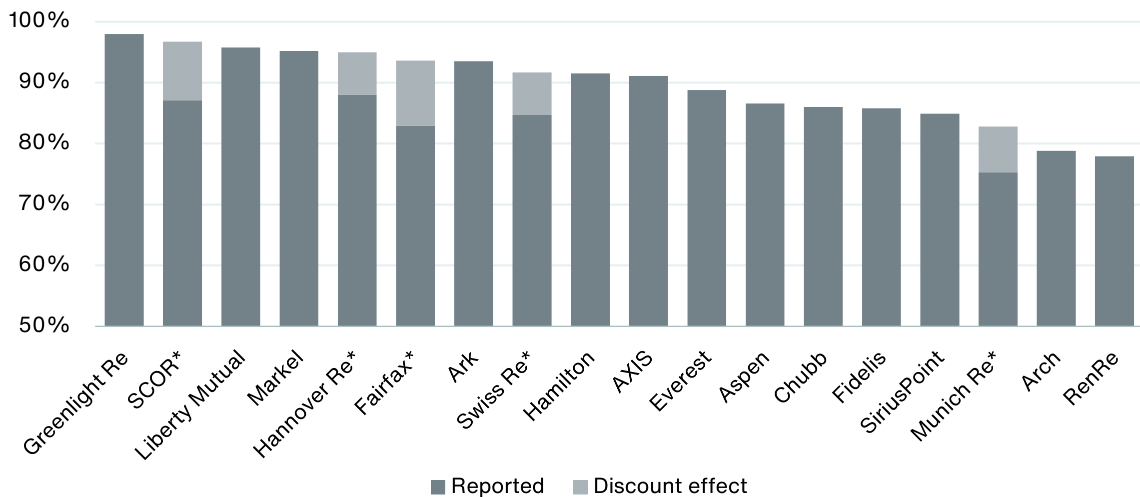



Notes: * Reporting under IFRS 17
Sources: Company financial statements / Aon's Reinsurance Solutions

No marked change in attritional claims activity was reported in the first quarter and natural catastrophe losses were generally well below budget, although some deterioration of 2023 events was noted.

The Baltimore bridge collapse was a manageable loss, but the uncertainties around quantum were highlighted. There was some evidence of resilience being built into long-tail reserving positions.

**Exhibit 4: Q1 2024 P&C Whole Account Net Combined Ratios**




Notes: * Reporting under IFRS 17
Sources: Company financial statements / Aon's Reinsurance Solutions

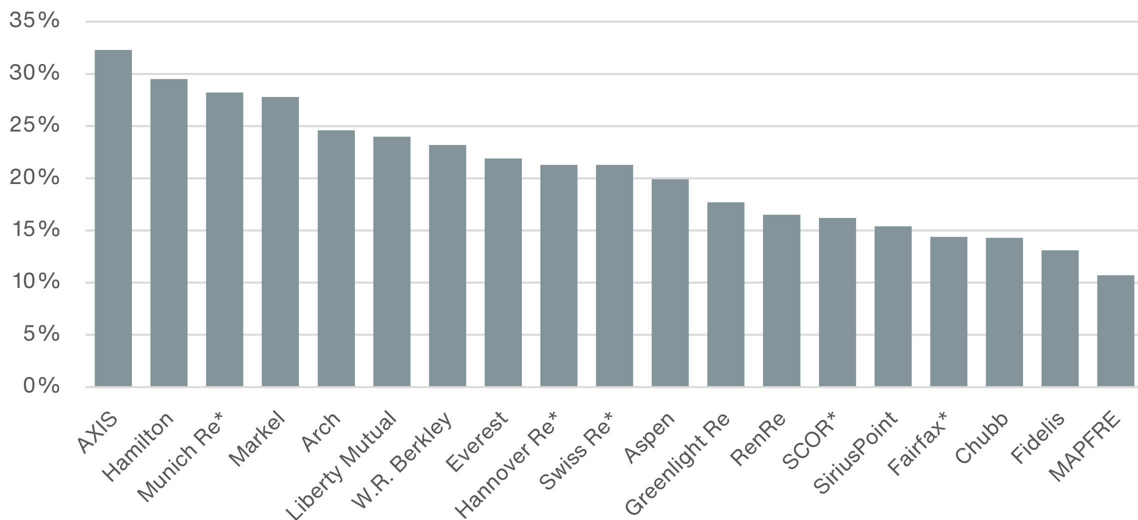
Investment returns are making a growing contribution to overall earnings. Strong operating cashflows are boosting assets under management and higher interest rates are now feeding through.

Ordinary yields were up by around one percentage point relative to a year earlier, while recovering bond values and strong stock markets are providing support to total returns.

Interest rates look set to remain higher for longer and ordinary yields are expected to move up from here, given current reinvestment rates.

Overall, business growth, moderate major losses and favorable capital markets combined to generate strong returns on equity, as shown in Exhibit 5. Some companies reported record quarterly results.

**Exhibit 5: Q1 2024 Return on Common Equity (Annualized)**




Notes: * Reporting under IFRS 17

Sources: Company financial statements / Aon's Reinsurance Solutions

Retained earnings are supporting continued recovery in reported equity positions from the lows in 2022, with most companies now in a stronger position than they were at the end of 2021.

Across the companies tracked, the average growth in total equity was around 4 percent in the first quarter of 2024, as shown in Exhibit 6.

New start-ups continue to be notable by their absence, despite the attractive returns currently achieved, suggesting investors remain concerned about the challenging risk environment.

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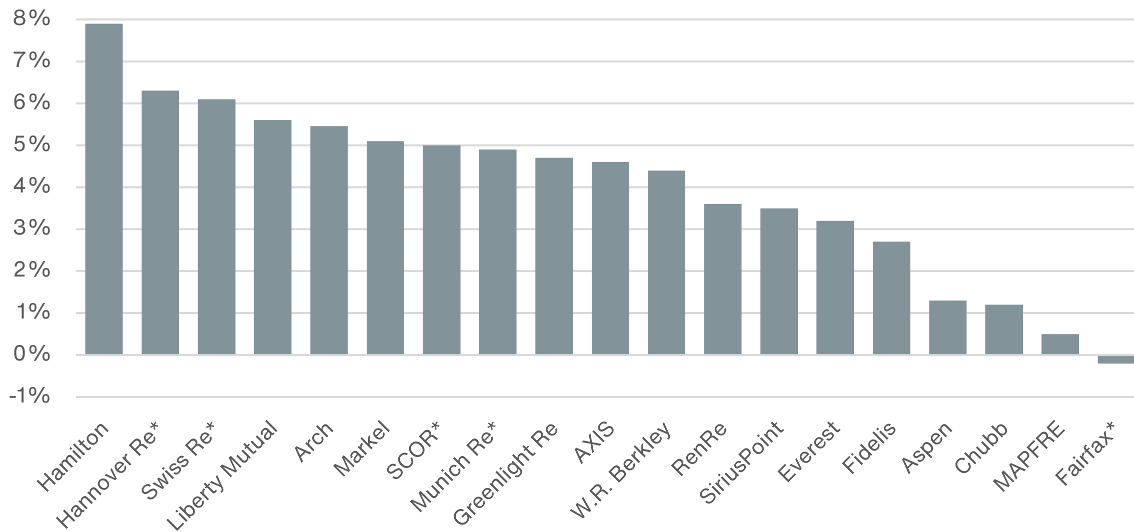
**Exhibit 6: Q1 2024 Change in Total Equity**




Notes: * Reporting under IFRS 17
Sources: Company financial statements / Aon's Reinsurance Solutions

Capital is building quickly, prompting questions around deployment.

Given growth and diversification in recent years, most management teams have a range of options on the underwriting side, including in direct insurance and life business.

Risk appetite for property catastrophe business has generally been stable-to-up in 2024, but the focus has mainly been on higher attaching layers, given continuing loss activity from secondary perils.

Some companies with less exposure to soft market years also see an opportunity to grow in casualty reinsurance, despite continuing concerns around the impact of social inflation.

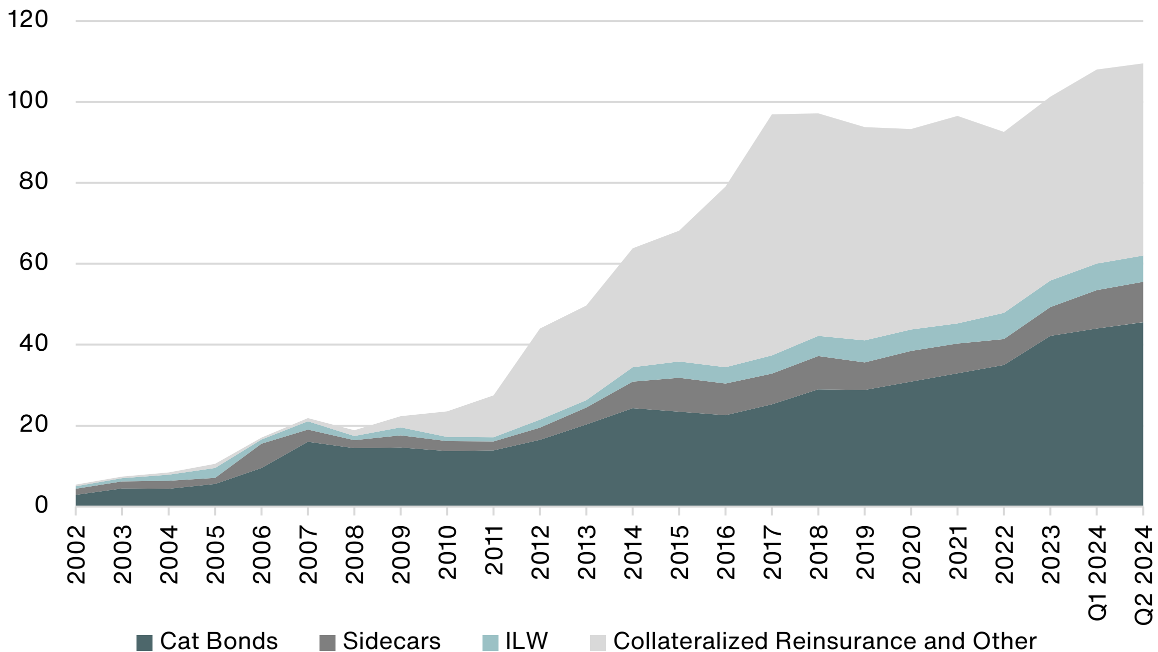
There are competing alternatives for newly generated capital, notably increasing rewards to investors and franchise-building, via mergers and acquisitions. Activity can be observed in both areas.

Nevertheless, in the absence of very large primary peril losses (noting forecasts of a very active Atlantic hurricane season), we would expect an easing of underwriting conditions at the 2025 renewals.

## Alternative capital: issuance volume continues to break records

The second quarter of 2024 followed the ongoing theme of major growth for the overall ILS market. Aon Securities estimates that overall ILS capital grew to an all-time high of $110 billion. Throughout the quarter, ILS investors remained focused on allocating capital ahead of the North Atlantic hurricane season. For the first time, over $8 billion of catastrophe bonds were issued in a single quarter, resulting in the total outstanding catastrophe bond issuance volume growing from $41 billion to $46 billion. Additionally, the sidecar market continues to expand as investors look to realize returns from the strong underlying expected margins currently being offered across proportional structures. Aon estimates ILS capital is up roughly 2 percent for the quarter—this in addition to the significant growth seen over the prior 15 months is noteworthy.

**Exhibit 7: Alternative Capital Deployment (Limit in $ billions)**

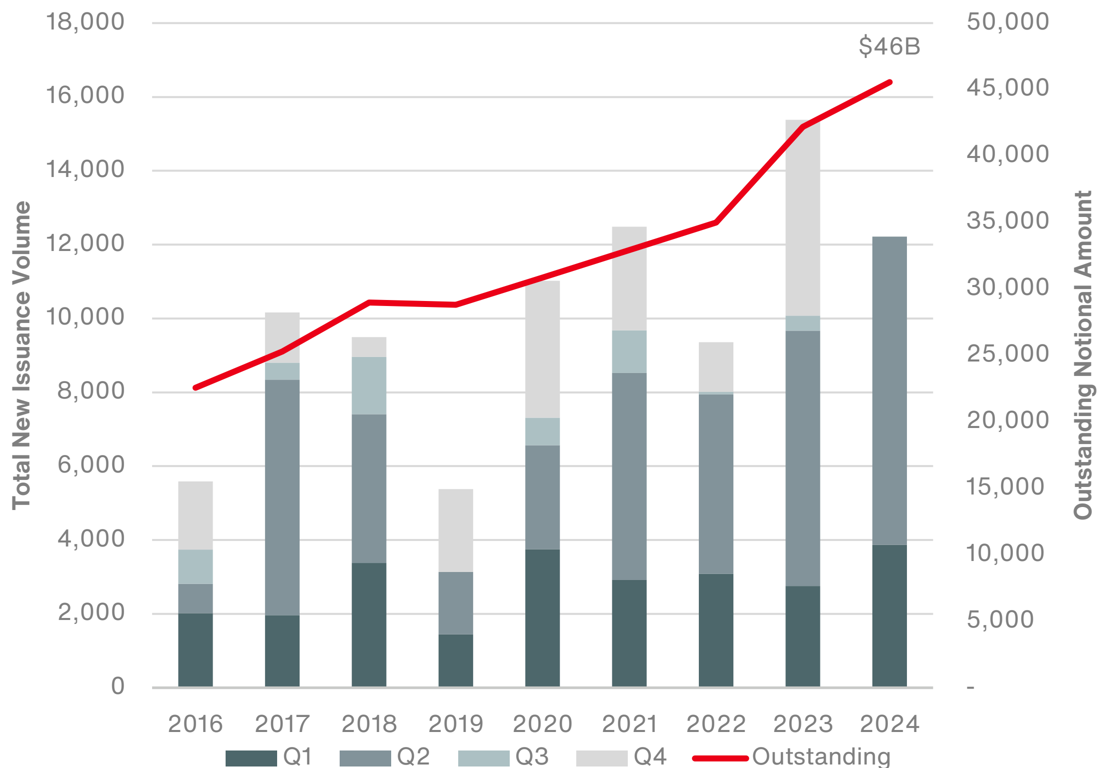



Source: Aon Securities, LLC

Each of the last three quarters of catastrophe bond issuance volume has broken quarterly issuance records (for those respective quarters); Q2 2024 was by far the largest quarter, up $1.42 billion to $8.34 billion from last year's Q2 at $6.92 billion. Growth was driven by several variables on both the supply and demand sides of the equation. On the demand side, insurers continued to pursue new issuances prior to the hurricane season with 27 new issuances from 24 different sponsors including 6 that are new to the market. This increasing demand for catastrophe bond capacity reflects sponsors' need for capacity beyond the traditional reinsurance market. The catastrophe bond market benefited from three Japanese insurer sponsored transactions earlier this year, though the clear focus has been U.S. hurricane. Insurance companies executed $5.78 billion of new issuance during the first six months of 2024.

Reinsurers were also intent on issuing industry index-based catastrophe bonds the first half of this year. During the first quarter of 2024, the capital supply for these products exceeded demand with secondary spreads tightening by upwards of 14 percent by March 31. Reinsurers in the second quarter sought to extract similar pricing from investors, however the favorable price environment for index buyers was short-lived. The market quickly reversed course with some very significant spread widening throughout the quarter, and by mid-May the market was back to levels seen in Q4 2023. Primary insurers also paid increasingly higher spreads as the pricing dynamic which first impacted industry loss transactions spread more generally across the market. Fundamentally, reinsurers hoped for investors to continue growing this part of the market, however investors lacked the capacity to meet demand, resulting in significant spread widening. The $10.64 billion record issuance since the beginning of March 2024 is impressive, though reinsurers would have printed even greater volumes if investors had more capital to deploy for industry-based index catastrophe bonds.

**Exhibit 8: Property Catastrophe Bonds Issued and Outstanding By Quarter ($ millions)**




Source: Aon Securities, LLC

Investors also worked closely with governmental institutions to execute a number of significant transactions. On the heels of significantly sized transactions from FEMA ($575 million) and the North Carolina Insurance Underwriting Association (NCIUA) ($450 million) in the first quarter, the Texas Windstorm Insurance Association (TWIA) came to market with an indemnity annual aggregate transaction, securing $1.4 billion of capacity in what was ultimately the second largest catastrophe bond transaction of all time. The governments of Mexico and Jamaica both came back to market with parametric transactions via the World Bank to replace capacity which had recently matured—cumulatively, those issuances reached $745 million. Louisiana Citizens and the North Carolina Joint

Underwriting Association (NCJUA) each came to market with indemnity-triggered transactions covering U.S. named storms, securing $275 million and $145 million, respectively. Florida Citizens, in keeping with prior significant issuance volumes, brought a total of $1.1 billion to market prior to the start of the North Atlantic hurricane season.

Finally, the market saw the issuance of the first-ever catastrophe bond to benefit the Commonwealth of Puerto Rico, a $85 million parametric-triggered bond, protecting the island from the impact of significant named storms and earthquakes.

In addition to the growth in the cat bond market, the sidecar market has increasingly drawn the interest of investors, with several significant transactions closing in the second quarter, and well over a $1 billion of capital entering the market over the last year. Opportunistic investors have allocated across a range of strategies as historic reinsurance rate hardening has generated multiple opportunities and encouraged creative structuring. Expected returns are highest in property catastrophe portfolios, and investors have gravitated towards partnerships based on alignment, track record and collateral efficiency. Casualty investors consider these factors important as well but are more focused on investment guideline flexibility, leverage and transaction duration as they establish bilateral arrangements where investors can manage the underlying collateral. Specialty portfolios have also captured the attention of investors as (re)insurers seek growth capital and investors value the diversification benefits combined with reduced volatility (compared with cat-driven investments) offered via specialty portfolios.

With the catastrophe bond market wrapping up its busiest quarter ever, and the sidecar market resurgent, all eyes turn towards the North Atlantic hurricane season. While many have forecasted this season to be active, it’s been promising to see strong investor fundamentals drive continued growth of the ILS market.

# Demand-Supply Dynamic: By Region and Segment

By: Paul Anderson, U.S. Property Leader; Dustin Oltman, Head of Nationwide Clients; Chris Dittman, Florida Strategy Leader; Pat Abbe, Head of U.S. Regional Clients – Reinsurance Solutions
Laura Hunt, U.S. Facultative Leader, Reinsurance Solutions
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Paul Grasso, Head of Treaty, Australia and New Zealand, Reinsurance Solutions
Nigel Light, Head of Global Casualty, and Amanda Lyons, Head of US Casualty, Reinsurance Solutions
Tom Murray and Richard Wheeler, co-CEOs of Global Specialty, Reinsurance Solutions

## United States: reinsurer appetite and competition broadens at mid-year

Coinciding with the start of the Atlantic hurricane season, the mid-year is the key reinsurance renewal for U.S. national insurers and Florida business, and one of global significance. Renewals on June 1 and July 1 continued to build on the positive momentum of 1/1 and 4/1, with increased competition resulting in downwards pressure on pricing and greater consensus on terms.

| Topic | Commentary |
|---|---|
| **Capacity ample for increased demand** | In contrast to renewals in 2023, capacity for U.S. catastrophe exposed property business was more than ample to meet increased demand, with approximately $5 billion of additional limit for U.S. insurers purchasing at mid-year that contributed to upwards of $10 billion for the market purchased by U.S. insurers year over year, a high-single digits percent increase. Both U.S. nationals and Florida insurers benefited from strong catastrophe bond activity, which added to growing competition among traditional reinsurers for property business. The demand-supply dynamic also benefited from the healthy capital position of affiliated captives, which gave insurers options to absorb more risk net. |
| **Lower layers supported** | As per the 1/1 and 4/1 renewal, competition was fiercest at the top end of programs, but reinsurers also demonstrated a renewed willingness to support lower layers at this renewal with reinsurer panels on these layers broadening. A notable feature of the mid-year renewal was the widening of market support across programs, reflecting reinsurers increased appetite and desire to grow at today's attractive pricing levels. |
| **Coverage flexibility** | Overall, buyers experienced risk adjusted price reductions, improvements in terms and coverage as well as consistency across reinsurer panels. That said, capacity remains price sensitive and the market disciplined. Retention levels, which increased substantially at last year's renewal, were largely unchanged, although reinsurers were more amenable to adjustments in attachment points. There was also some flexibility around cover for secondary perils at the mid-year, although reinsurers appetite for traditional aggregate covers is still limited. Interest in traditional sideways cover, as well as aggregate protection in the structured |

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|---|---|
| | solutions market, was evident, while the growing Excess and Surplus lines market continues to offer reinsurers with additional opportunities. |
| **Advice for dynamic reinsurance market** | Preparation and differentiation paid off at mid-year renewals. Successful buyers were those that clearly communicated their needs to reinsurers and were targeted in their requirements. Mid-year renewals also demonstrated the growing importance of year-round communication and engagement with the market and advisors. Buyers that understood their portfolios, and that were able to make informed decisions quickly based on data and analytics, were best positioned to respond to changes in reinsurer appetite and take advantage of what is now a much more dynamic and evolving reinsurance market. |
| **Active hurricane forecast** | In late May, the U.S. National Oceanic and Atmospheric Administration (NOAA) predicted an 85 percent chance of an above-normal Atlantic hurricane season in 2024, driven by near-record warm sea temperatures in the Atlantic Ocean, development of La Nina conditions in the Pacific, and reduced Atlantic trade winds, conditions that all favor tropical storm formation. NOAA's forecast followed that of Colorado State University, which predicted an extremely active 2024 hurricane season with 23 named storms, of which 11 reach hurricane strength during the season. Predictions of an active hurricane season caused a tightening of pricing in the later stages of the renewal, with insurers going early experiencing higher levels of pricing competition and over placement. Forecasts also led to increased scrutiny of hurricane risk by ILS investors. |

## U.S. nationals: building on positive 1/1 and 4/1 renewals

The mid-year sees the vast majority of U.S. national insurers renew their annual property catastrophe reinsurance contracts at June 1 and July 1. As a particularly attractive segment of the market for reinsurers, U.S. national insurers were able to attract significant reinsurer support, resulting in a successful renewal outcome and more favorable pricing.

| Topic | Commentary |
|---|---|
| **Increased appetite** | U.S. national insurers were able to build on the positive momentum seen at previous renewals in 2024, with traditional and ILS capacity more than adequate to meet increased demand from higher values and inflation. While retentions levels held steady, increased competition for U.S. national business yielded improved pricing and some positive movement on coverage and terms. Average risk-adjusted catastrophe pricing for the segment decreased from mid-single digit to low-double digits at renewals in 6/1 and 7/1. |
| **Broader support** | Support for national insurers broadened at the mid-year, and buyers were in a much-improved position to negotiate improved terms and conditions and ancillary coverage. For example, reinsurers were more willing to include secondary perils at mid-year renewals compared with a year ago, when many reinsurers pushed for peril specific covers. Reinsurers appetite for full scale aggregate protection remains limited, although we have seen growing reinsurer interest in sideways cover and structured aggregate covers. Buyers were also in a good position to |

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| | review reinsurer panels and select the strongest and most supportive counterparties at the top of programs. |
| **Strong demand** | Demand from U.S. insurers increased significantly, with some insurers taking the opportunity to purchase increased limit at the top of programs, as well as expand cover in lower layers. Inflation was of less concern to the market than in 2023 (U.S. inflation fell to 3.3 percent in May), although it continues to support increased demand. Upcoming updates from catastrophe modelling vendors are also likely to put pressure on demand for hurricane exposed accounts as we head into 2024 renewals, in particular for commercial property business. |

## Florida: return to more favorable market conditions

With around 90 percent of Florida catastrophe business renewing, mid-year is a key renewal for the state's specialist property insurers. Following several years of significant reinsurance rate increases, relatively low catastrophe activity, and improved results for both insurers and reinsurers, many of Florida's insurers experienced rate reductions at mid-year for the first time in three years.

| Topic | Commentary |
|---|---|
| **Buoyant capacity** | With ample capacity, Florida renewals were favorable, with average risk adjusted pricing down by mid- to high-single digits. Traditional and alternative capacity was more than sufficient to complete Florida programs and support additional demand at mid-year renewals. Pricing competition continued at the top end of programs, but appetite notably increased for lower layers, including below those covered by the Florida Hurricane Catastrophe Fund. Retention levels were unchanged given improved surplus levels from underwriting profits in 2023, but pressure on retentions and attachment points subsided, while there was much greater consensus on terms and conditions compared with 2023 renewals. |
| **Heightened demand** | Anticipated demand by Florida insurers increased by more than $5 billion year over year, driven by multiple factors, including the retirement of government sponsored reinsurance programs, namely the Reinsurance to Assist Policyholders Program (RAP) and Florida Optional Reinsurance Assistance Program (FORA). A desire for additional limit was also indicated by Florida's insurer of last resort, Citizens Insurance Property Corporation earlier in the season, but did not fully materialize. With a more positive outlook for the Florida's homeowners' insurance market build on the back of legislative changes made in 2022, we anticipate that additional depopulation from Citizens and a shift back to organic growth will lead to further demand increases for the 2025 renewal season. |
| **Improved operating environment** | Legislative reform in late 2022 aimed at tackling frivolous claims and lawsuits provided increased reinsurer confidence and appetite for the Florida property market. Combined with insurers' underwriting actions (average homeowner rates in Florida doubled last year), underwriting results improved significantly in 2023. Florida insurers are now beginning to look to the future with many now looking to grow their top line, while eight new players have entered the Florida property market. While appetite for Florida business has increased, reinsurers will want to |

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| | see that improvements from legislative reform and rate increases are sustainable before giving full credit. |
| **Quota share strength** | The improved trading environment and insurers increased balance sheet strength was reflected in more favorable conditions for quota share reinsurance for both U.S. national insurers and Florida. Quota share reinsurance terms improved slightly at mid-year in comparison to excess of loss, as insurers were able to retain more business at a time of stable supply. |

## U.S. regionals: preparation key to catching tailwinds

U.S. regional insurers were among the hardest hit by the resetting of the property catastrophe market in 2023. Generally smaller in scale and less well-diversified geographically, regional insurers have been particularly affected by higher net retentions clashing with catastrophe volatility, especially from secondary perils like severe convective storms, tornadoes and wildfires.

| Topic | Commentary |
|---|---|
| **Growth opportunities ahead** | The U.S. regional market remains challenging, with insurers at differing stages of their journey to a more sustainable footing. However, the outlook is now looking brighter. Changes to underwriting portfolios, including significant rate adjustments, are beginning to positively impact results, and a growing number of insurers are starting to look to the future with a greater amount of optimism. Conversations are turning to strategic growth opportunities, future affiliations and potential mergers and acquisitions. |
| **Future renewals** | While few U.S. regionals renew at mid-year, there are emerging grounds for optimism in terms of reinsurance capacity, not least the more favorable market conditions experienced by global and U.S. national insurers at renewals since January 1. However, regional insurers will need to continue to compete for and attract the support of reinsurers at future renewals, structuring their programs to align with their strategic plans and capital needs, while at the same time appealing to reinsurer appetite. |
| **Compelling value proposition** | While the market is becoming more competitive, insurers with the most compelling proposition will be best positioned to benefit from market tailwinds, being at the front of the pack when it comes competing for new reinsurer support at their next renewal. |

## U.S. facultative: adapting to a more competitive property market

The facultative reinsurance market is responding to the changing needs of insurers in an increasingly competitive property insurance market, and ongoing challenges around catastrophe exposures.

With increasingly dynamic and fluid insurance and reinsurance markets, insurers require experienced advisors with longstanding connections across the facultative market. More than ever, providing complete bespoke reinsurance solutions that meet the evolving needs of individual insurers requires close alignment between treaty, facultative and retail advisory.

| Topic | Commentary |
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| **Stable capacity** | Capacity in the facultative market remains stable. Reinsurers continue to support facultative placements, and we are starting to see an increase of London market facultative support. We continue to develop innovative facultative solutions to meet the changing needs of insurers as they look to grow, manage increasingly complex property exposures, and minimize volatility from catastrophe losses. |
| **Shifting demand dynamic** | Demand for facultative reinsurance remains strong, although increased competition in the primary commercial market is changing how insurers use facultative. According to Aon's [Global Insurance Market Overview](), the property insurance market showed material improvement in the first quarter, with capacity generally available and with targeted rate decreases by quarter's end. Competition in the commercial property insurance market increased further in the second quarter as insurers sought to grow and capitalize on current attractive pricing levels. As a result, insurers are seeing meaningful changes to upfront placements and are looking to retain more net, reducing the need for facultative support. |
| **Evolving need** | With ample capacity at a primary level and more competitive pricing, demand for facultative reinsurance to support fronting and to fill capacity gaps at a primary level has fallen back. However, there are good opportunities for facultative reinsurance markets to support mid to high excess layers as well as captives, which have grown significantly in the hard market. Insurers are also looking to use facultative reinsurance to navigate the more competitive property market, increasing line size, protect attritional layers and reduce catastrophe exposure. We also expect to see an increasing need for builders' risk facultative capacity to support increased infrastructure development.<br><br>Furthermore, insurers continue to seek reinsurance for unproven technology in the power sector (e.g., 7FA gas turbines), as well renewable energy with continuously evolving associated risk. |
| **Managing cat exposures** | We are seeing growing demand from insurers for facultative solutions to manage net retentions and catastrophe exposures especially for secondary perils like tornado, hail and severe convective storm. Particularly in the renewable energy space, secondary perils have been a big loss driver and traditionally absorbed by the primary markets, therefore, insurers are now increasingly trying to find reinsurance. Insurers are also exploring options to use facultative reinsurance to address catastrophe exposure aggregation and capture growth opportunities. For example, insurers are using facultative to reduce earthquake and terrorism aggregation and to support new insurers writing U.S. catastrophe exposed insurance in the excess and surplus market. Appetite for secondary perils in the facultative market has increased, with reinsurers at the mid-year demonstrating more willingness to deploy capacity for these perils than a year ago. |
| **Casualty solutions** | Interest in facultative covers in the casualty individual risk and facilities market continues to be robust, with a specific focus on the commercial automobile liability sector. This interest is paired with the use of facultative reinsurance to enhance primary limits in primary casualty, meeting the demands for higher attachment requirements in umbrellas/excess policies. Despite this enthusiasm, markets continue to be mindful of adverse loss development, litigation patterns and the geographical exposure of specific risks such as auto and construction. |

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## Latin America and the Caribbean: ample capacity despite losses

Renewals in Latin America and the Caribbean were broadly positive for insurers at mid-year, despite recent catastrophe losses in Mexico and Brazil. For the first time in two years, there was ample capacity to meet demand, while reinsurers demonstrated a renewed willingness to grow.

Risk-adjusted rate was flat, with some insurers experiencing single digit increases, or more for loss affected regions. Market conditions have improved, but reinsurance capital is still selective, and favors insurers that can tell a good story, supported by quality data.

| Topic | Commentary |
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| **Mexico** | Property catastrophe renewals in Mexico were dominated by Hurricane Otis, which made landfall as a powerful Category 5 storm near Acapulco in Mexico in October last year. The strongest landfalling hurricane in the Eastern Pacific on record, Otis caused an estimated $15.6 billion in economic damage and insured losses of $2.1 billion according to Aon's Impact Forecasting inflated data, making it the costliest individual catastrophe event in the Americas (non-U.S.) last year. In the wake of Otis, property catastrophe rates increased moderately at the mid-year renewals, although insurers with high concentrations of catastrophe exposed business faced additional pricing pressure and adjustments to retention levels. The gap between insurers reported losses and the market aggregate, has raised questions for the quality of data in the Mexican market. |
| **Brazil** | Two large weather events in recent years have significantly changed reinsurers perception of Brazil as a catastrophe exposed region. In April, devastating floods hit southern Brazil, including the Brazilian state of Rio Grande do Sul, an important agricultural region for the country. According to the National Confederation of Municipalities, Aon's Impact Forecasting latest estimates put economic losses at more than $2.25 billion, although insured losses are far less as flood insurance is not widely purchased in Brazil. The floods followed a period of extreme drought in South America, that is estimated to have caused 2024 economic losses of $18.2 billion and insured losses of $1.3 billion across Brazil, Argentina and Uruguay. The two events have been a game changer for Brazil's insurers, raising awareness of the need to manage catastrophe accumulation and event limits. |

# Australia and New Zealand: back to business-as-usual at mid-year renewal

Following challenging renewals a year ago, the mid-year 2024 renewal saw the welcome return to stable market conditions in Australia and New Zealand.

Mid-year is a key renewal date for Australia and New Zealand, with around 80 percent of property catastrophe reinsurance renewing June 1 and July 1, including the New Zealand state-backed natural hazard insurer EQC Toka Tū Ake. The resetting of the property catastrophe reinsurance market in 2023, and relatively benign catastrophe losses in Australia and New Zealand over the past 12 months, paved the way for a more predictable renewal at the mid-year 2024, with reinsurers clearly signaling their renewed appetite for catastrophe risk in the region.

Capacity at mid-year 2024 was more than adequate to meet demand from Australia and New Zealand insurers. Programs broadly renewed as expiring, and with no discernible changes to terms and conditions or retention levels. Pricing was anticipated to be flat on a risk-adjusted basis, with many insurers experiencing reductions in the low-single digits.

| Topic | Commentary |
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| **Broadening of capacity** | Reinsurance capacity at the mid-year renewal was ample, with the market indicating an increased willingness to deploy capacity for property catastrophe risks at current structure and pricing. In 2023, catastrophe capacity was somewhat constrained, especially for lower layers. At this renewal, however, capacity was readily available across the board, with reinsurers more willing to support lower layers in addition to the top of programs. We expect appetite for Australia and New Zealand catastrophe risk to grow further in 2025, catastrophe losses aside. |
| **Stable demand after Cyclone Pool implementation** | Reinsurance demand was broadly stable at the mid-year renewal, with increased purchasing in line with portfolio growth and inflation (inflation in Australia fell to 3.6 percent in April). The launch of the state-backed Australian cyclone reinsurance pool in 2023 tempered demand for property catastrophe reinsurance in the country by AU$3 billion to AU$4 billion at last year's renewal. Large insurers with gross written premiums (GWP), for Householders class, of AU$300 million joined the cyclone pool in 2023, while small insurers with GWP under $300 million for Householders class, have until December 31, 2024. Now in place, the pool is well understood by the market and the cover has been integrated into insurers catastrophe programs. |
| **Benign cat losses aid renewal** | Catastrophe losses over the past twelve months (ending June 30) have been relatively benign compared with recent years. The largest insured loss in the 2023/24 period was the AU$1.3 billion Christmas and New Year storms, which affected Queensland, New South Wales and Victoria between December 23, 2023 and January 3, 2024. Losses from these storms, along with those from Tropical Cyclone Jasper (AU$354 million), were largely borne by insurers, in part due to the higher net retentions imposed during the 2023 renewals. |
| **New Zealand cat focuses on the future** | In January and February 2023, New Zealand insurers recorded their most costly weather events on record with two back-to-back billion-dollar plus loss events occurring within three weeks of each other. These unusual severity events, which |

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| | coincided with the resetting of the global property catastrophe market, led to significant program and rate adjustments at the 2023 mid-year renewal. Twelve months on, the market has since stabilized, and insurers have been able to demonstrate their learnings and how they are viewing and handling these perils going forward. |
| **EQC Toka Tū Ake buys record cover** | New Zealand's state-backed natural hazard insurance scheme EQC Toka Tū Ake purchased close to NZ$1 billion of additional reinsurance, securing a record level of reinsurance of NZ$9.2 billion on June 1, 2024 – demonstrating strong appetite for New Zealand earthquake risk and reflecting the market's confidence in the scheme. |
| **Structured solutions** | While reinsurers are more willing to support lower layers, the market's appetite to write traditional aggregate reinsurance covers remains limited. However, alternative solutions are being more readily discussed. Some reinsurers have been exploring how to make aggregate covers available via structured solution options during mid-year renewal discussions. We expect interest in this product will develop over the next twelve months. |
| **Quota Share and Per-Risk** | Capacity and commissions increased for whole account quota share business at mid-year, with growing appetite from both domestic and overseas markets, attracted by the strong underlying rate in the primary property market. Whilst more challenging than previous years, capacity for per risk reinsurance was adequate to meet supply, but the segment is under more scrutiny from reinsurers following losses in recent years at a global level. Attachment points for per risk contracts increased slightly at the mid-year renewal, reflecting exposure growth and inflation. |
| **Casualty supply and demand stable** | Supply and demand for casualty reinsurance in Australia was broadly stable at the mid-year renewals, with accounts renewing at terms and rates as expiring. PFAS continue to be an area of focus for reinsurers who want to understand insurers strategies for addressing potential exposures to forever chemicals. |

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## Casualty: stable market despite claims trends

Casualty renewals at the mid-year were broadly stable. Ample capacity and the underlying strength of the primary casualty market helped partially offset the market's ongoing concern for loss development trends and nuclear verdicts. Notwithstanding, we are seeing a 'second round' of further notable loss emergence on U.S. casualty in particular.

| Topic | Commentary |
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| **Stable capacity** | In line with renewals at 1/1, capacity for casualty business renewing at the mid-year was adequate to meet demand, although reinsurers demonstrated a mixed appetite for growth amid concern around loss trends, broadly dependent upon their respective positions during the 2015-2019 years. With ample capacity in the market, and good underlying pricing, general casualty quota share ceding commissions were flat to slightly down in cases of outsized loss emergence, while excess of loss reinsurance continued the trend of 1/1 with rates ranging from flat to mid-single digit increases on a risk adjusted basis. Workers' compensation rates were flat, reflecting general profitability in the line offset by the downwards trend for primary pricing. |
| **Loss development** | The casualty market continues to see loss development on U.S. exposures written in the soft market 2014-2019, mostly related to large corporate and auto liability. U.S. casualty accounts with significant prior-year loss development came under increased pressure at mid-year renewals, although insurers were able to adjust program structures and retention levels to counter the effect of higher pricing. Differentiation was particularly important at the mid-year, especially where loss development is concerned. Where insurers were able to demonstrate that loss development was in line with expectation, renewal outcomes were flat. |
| **Adverse litigation trends** | Reinsurers perspective on the frequency of large losses has shifted. In the context of pricing discussions, the market is increasingly focused on claims frequency, claims inflation, and the trend for large legal verdicts and settlements in the U.S., a trend that shows no signs of abating. The median top 50 U.S. verdicts have rebounded and approaching pre-COVID levels. 2022's median value was $48.7 million compared to 2019's $49.7 million. At renewals, reinsurers want to understand the key loss drivers within a portfolio and the mitigating actions an insurer is taking, such as pricing, limits, attachment points and claims processes. In particular, reinsurers are keen to understand the steps insurers are taking to address severity claims, such as claims triage to flag notifications that require special treatment. |
| **Underlying market strength** | On the positive side, casualty insurance rates continue to be robust, while high interest rates increase the present value of operating margins for casualty reinsurers. Casualty results have been broadly positive with insurers focused on sustainable pricing, placement structure and coverage terms. Rate increases in Q1 continued, alongside deductible increases and a tightening of coverage, particularly on claims-impacted risks. Umbrella and excess insurers continue to increase minimum premiums, reduce their |

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| | capacity deployment, and add terms and conditions to make risks more palatable. |
| **Diversification** | While capacity in the casualty market is ample in the aggregate, reinsurers are mindful of line sizes as they manage exposure to outsized claims and nuclear verdicts. At the same time, casualty insurers increased their focus on reinsurer diversification at the mid-year renewals, with some increasing the number of players on their panels to help drive competition and price discovery. Relationships with core trading partners, however, remain as important as ever. |
| **International Casualty** | Capacity for international casualty business remains adequate, although reinsurers are increasingly differentiating between portfolios. Insurers need to demonstrate that they understand the dynamics of the U.S. casualty market and have an appropriate underwriting rationale for U.S. exposures. Broadly, rates have increased slightly for international casualty reinsurance in response to loss development, with significant pressure on accounts with heavy U.S. exposure and/or those impacted by losses. |
| **Terms and conditions** | Synthetic chemical substances known as PFAS, or forever chemicals, remain an ongoing focus for the casualty reinsurance market. While broad exclusions have not been accepted, reinsurers focus on the clients' approach to understanding and underwriting exposures not only to PFAS but more broadly how clients are thinking about and measuring emerging risks overall. |
| **Financial/Professional lines (FinPro) and Transactional Liability** | Reinsurance for FinPro continues to face headwinds from underlying rate decreases and adverse prior year development leading to rising reinsurance costs that began in Q1 2023 and continued through mid-year renewals. Capacity remains sufficient to meet demand. Reinsurance for transactional insurance, also known as mergers and acquisition or warranty and indemnity insurance, has come under increasing pressure in 2024 following a slowdown in M&A deal volumes, flat primary pricing and loss emergence for contingent risk cover. As a result, some reinsurers have pulled back, resulting in a tightening of capacity and increased scrutiny of terms and conditions. |

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## Specialty: growth opportunities in credit and surety

Specialty reinsurance continues to offer reinsurers an attractive source of diversified business. Capacity for most specialty lines is ample, although pockets of the market remain more challenging. Demand for reinsurance is broadly stable, although there are growth opportunities to be had, especially in credit and surety.

| Topic | Commentary |
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| **Aviation** | Aviation renewals in 2024 have been more orderly than 2023, with client's purchasing requirements and reinsurer appetites generally stable. Significantly, the supply of capacity has increased following the retraction by a core market on their positioning around exclusionary language relating to Russia, Ukraine and Belarus, as well as new players entering the market, and a more stable retro landscape.<br><br>Quota share capacity, particularly for airline portfolios, is more challenged due to the current rating environment within the direct and facultative market, although some proportional writers have leveraged this to secure excess of loss positions. Excess of loss minimum attachment levels have remained broadly consistent, but some insurers are exploring options to protect earnings and, in addition, focused on vertical limit requirements driven by a trade-off between significantly increased minimum rate on line levels and limit utilization.<br><br>Airline insurance rates continue to come under pressure with most clients predicting risk-adjusted rate reductions to continue for 2024 in absence of significant loss activity. Direct markets are now looking for growth in the general aviation and non-critical aerospace segment, where they see more rate adequacy than for major airline risks. As with previous renewals, ongoing uncertainty around Russia-Ukraine aircraft leasing exposures and prior year loss deterioration, remain key themes. |
| **Cyber** | Cyber renewals in the first half of 2024 have consolidated the progress made at 1/1, as ample capacity and increased competition for cyber reinsurance led to improved outcomes for the majority of insurers. The April and July renewals signaled further improvements in conditions for buyers and set the stage for a competitive reinsurance market looking ahead into 2025.<br><br>After a period of rapid and intense hardening in 2021 and 2022, the cyber insurance market continues to see new capacity enter the market, hastening the emergence of soft market conditions, despite increased ransomware activity and claims emergence. Rate reductions have continued in 2024, especially in higher excess layers where new capacity has entered the market. That said, the performance of cyber insurance portfolios remains solid: The average loss ratio for the largest twenty U.S. cyber insurers in 2023 was just under 43 percent, according to the NAIC.<br><br>While competition has undoubtably increased, underwriting discipline has held, and the changes made by insureds who have invested in cyber security, improved access management controls and backup strategies has demonstrably reduced both frequency and severity of claims. Cyber risks are becoming better risks, while at the same time an insurer's ability to understand cyber, select risks and manage |

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| | exposures, is continually improving. Penetration levels for cyber insurance remain very low – particularly outside of the U.S. and in the small and medium-sized enterprises (SMEs) market.<br><br>Following a successful 1/1, and now mid-year renewals, Aon achieved favorable outcomes for clients in a transitioning market. As insurance market conditions continue to show signs of softening, careful preparation, and the ability to differentiate and demonstrate a strong track record of performance, will be key to achieving optimal renewal outcomes. |
| **Marine, Energy and Political Violence** | Marine reinsurance capacity continues to be at unprecedented levels, with average written lines on placements at the 1/1 2024 renewal at 120 percent to 150 percent, with some placements around the 200 percent level. Marine continues to be viewed as an attractive specialty class which brings diversity beyond the typical property and casualty lines. However, supply is tighter for marine and energy lines when combined with political violence.<br><br>The collapse of the Baltimore Bridge on March 26 has the potential to be a relatively large loss for the marine insurance sector. However, the collapse has not changed the market's view of the marine product, although it is expected to stabilize pricing, with retro being the most price impacted.<br><br>Reinsurer appetite for political violence and war remains cautious given the broader geopolitical environment. Demand is relatively stable, but despite robust balance sheets and high levels of rate adequacy, there is little appetite to retain more. As event definitions in political violence and terrorism excess of loss have become tighter, we have seen an increased appetite to use quota share, despite the low loss ratios. |
| **Retro** | Supply remains robust with sufficient retro capital available from both traditional and ILS providers through Q2 renewals. A number of Q1 buyers sought to expand their purchasing strategy with additional products and layers in the approach to U.S. wind season. The market noted a handful of new and returning buyers accessing products to mitigate their concerns and hedge positions in light of forecasts for the upcoming 2024 Atlantic hurricane season. Several major ILS markets successfully raised additional capital for mid-year deals and in general executed their capacity at acceptable returns to support a positive impact to their existing 2024 portfolios. As a result, risk-adjusted rate change broadly tracked 2024 averages. |
| **Trade Credit, Structured Credit and Political Risk, and Surety** | Results in trade credit, structured credit and political risk remain benign, resulting in a softening in reinsurance terms and conditions which has continued to trend favorably for cedants over the last 18 months. Surety results, however, have been more challenging for reinsurers, particularly in North America. As a result, terms and conditions for North American surety have moved in favor of reinsurers.<br><br>Across all credit and surety, the level of exposure covered in treaties has continued to increase, driven by changes to bank capital requirements, which are set to change later this year with the implementation of the latest iteration of the Basel rules. To date, the reinsurance market has been able to absorb the general increase in business volume. |

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| | The market is also seeing pressure to increase peak limits for certain names, particularly in whole turnover trade credit and Brazilian surety. As such, reinsurance capacity for some peak limits is under pressure in these markets. Capacity for non-traditional credit insurance, remains limited but is growing.<br><br>Across the market credit and surety continues to be a profitable class of business for reinsurers, yet the number of players is largely unchanged. Given expected growth in the underlying business we believe there is scope for new entrants to take advantage of the opportunities to come. |

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