



# Adapting to an evolving market

## Future reinsurance trends

# Contents



Foreword



Executive summary



Part one: Three forces



Part two: Reinsurance evolution



Part three: Impact on industry



Acknowledgements



Authors



Contacts



Endnotes

CONTENTS

FOREWORD

EXECUTIVE SUMMARY

PART ONE

PART TWO

PART THREE

ACKNOWLEDGEMENTS

AUTHORS

CONTACTS

ENDNOTES



# Foreword

In recent years there have been events on an unprecedented scale, driven by natural catastrophes, the COVID-19 pandemic and the war in Ukraine. Current uncertainty in the macroeconomic environment will lead to medium-term opportunities and challenges for the reinsurance sector.

When we published our last report on the future of reinsurance, “This time is different”, in early 2020 we could not have predicted the changes and level of uncertainty around the world that were on the horizon. Many aspects of life have been transformed by the global impact of the COVID-19 pandemic, increases in the number and scale of natural catastrophes and the invasion of Ukraine. As we publish our 2022 report, we believe that continuing uncertainty will in the medium term create significant opportunities as well as challenges for market participants. We have already seen consolidation in the distribution space, along with a renewed focus on building data and analytics capabilities. There has been an increase in the numbers of Managing General Agents backed by participants across the value chain including brokers, risk carriers and alternative capital. There have also been significant headwinds for innovators and would-be disruptors, many of whom have failed despite industry support and collaboration.

To understand these trends further, Deloitte has interviewed several senior reinsurance executives and also hosted the *Future of Reinsurance* CEO roundtable at the 2022 Rendez-Vous de Septembre in Monte Carlo. This report reviews six key trends predicted in our 2020 report, to assess developments, look at how firms have adapted to the changing market environment, and at initiatives for giving them a competitive edge.

We expect that the next five to ten years will be shaped by a number of themes, including a better understanding of customer needs in areas such as cyber risk and climate change, the growing analytics capabilities of providers and capital return requirements. For example, there has been a retrenchment of capacity in the natural catastrophe market, with persistent losses driving a decline in alternative capital. This trend is magnified by the inadequacy of current pricing models to reflect the full impact of climate change. Nevertheless, demand for reinsurance across lines has been buoyed up by the severe pressure primary insurers are under to manage volatility and surging claims inflation.

While the industry continues to evolve and adapt, the ways in which market participants respond will vary, causing a gradual bifurcation into two different types of firm. Large firms will need superior analytics capabilities to address the risks they are taking on to their balance sheets. Smaller firms will need to be clear about the value they add and to utilise capital effectively to participate in their niche areas of expertise and geography. Given their relatively small size, these firms will also need to focus on volatility management.

Against this backdrop the industry continues to push for change, with carriers and brokers investing in strategic capabilities, innovating products, as well as collaborating with technology providers to seize potential opportunities. Alternative capital will also be available for new market offerings, such as cyber and casualty. However, there are potential risks from unknown loss experiences, as well as uncertainty about the level of demand due to the wider macroeconomic environment. Firms need to maintain a sharp focus, and be clear about what differentiates their offerings from the competition. How firms combine talent and technology to achieve this will also be key.

We would like to thank all those who took part in our research and interviews. We look forward to discussing and debating the future trends with you.



**Guru Johal**  
Global Specialty and Reinsurance Leader,  
Deloitte

CONTENTS	<b>FOREWORD</b>	EXECUTIVE SUMMARY	PART ONE	PART TWO
PART THREE	ACKNOWLEDGEMENTS	AUTHORS	CONTACTS	ENDNOTES



# Executive summary

In this report we analyse the three major forces that have influenced the reinsurance market since the publication of “This time is different”, our previous report in 2020. In collaboration with senior market participants, we have also revisited our six 2020 predictions to assess how things have progressed since, and we highlight emerging trends that will impact reinsurance over the coming years.

Our report consists of three parts. Part one analyses the three forces that are currently impacting the reinsurance market. Part two examines our previous predictions and how the future will evolve. Finally, part three evaluates the impact of these forces on the size, profitability and dynamics of the market.

Three forces that are having a big impact on the reinsurance market are:

- **Macroeconomic forces**

To date, reinsurers have sought to counter inflation with increased rates to maintain profitability. However, there are challenges to the sustainability of rate increases, and many firms are reviewing existing terms, pricing models and contract structures to establish sustainable models. Elsewhere, differing growth rates among Western economies and certain regions of the Middle East and Asia Pacific continue to challenge existing orthodoxies.

- **Environmental forces**

The importance of environment, social and governance (ESG) issues will grow, in step with increasing pressure from activists. The industry is also grappling with difficult choices regarding policies and underwriting criteria.

- **Competitive market forces**

Competition to attract capital and opportunities for capital to invest in different parts of the value chain will continue.



CONTENTS	FOREWORD	<b>EXECUTIVE SUMMARY</b>	PART ONE	PART TWO
PART THREE	ACKNOWLEDGEMENTS	AUTHORS	CONTACTS	ENDNOTES

Our previous report highlighted six key trends, which have evolved to varying degrees since 2020:

**1. Pivoting to a risk transfer plus model**

While larger carriers and brokers are investing heavily in new capabilities to diversify their access to risk, smaller firms are looking to strengthen their core propositions and become niche providers.

**2. Hollowing out the middle market through consolidation**

Since our previous report in 2020 consolidation has taken place mainly in the reinsurance broker market. Consolidation between carriers has been relatively limited, with uncertain economic conditions decreasing appetite. We believe that this will continue.

**3. Ongoing influx of alternative capital**

While the availability of alternative capital in certain lines has been dampened by the poor performance of natural catastrophe bonds, flows are expected to continue unabated. Insurance-linked Securities (ILS) propositions are gaining traction in new lines of business, for example in cyber risk, and innovation continues in alternative capital structures. Examples of these are transformer platforms, such as London Bridge Risk PCC.

**4. Blurring value chain boundaries**

Not every firm will be well equipped to succeed at entering new markets through diversifying offers and additive services. The key to success will be the ability to rebalance strategies in line with established distribution models, pricing sophistication and capital access.

**5. Rise of automated placement**

Although automated placement could be a game changer for reinsurance, driving greater confidence in technology, scepticism remains. If successful, reinsurers will turn to further use cases across the value chain where technology can deliver value, for example in underwriting, pricing, operations and claims handling.

**6. Rise of exchange-based secondary markets**

The reinsurance industry must also exploit the growth of independent platform offerings that provide investors direct access to insurance investments. This will create transparency and help to rebuild investor confidence in making positive returns.

Taking all these themes into account, we anticipate a range of outcomes for the market, in terms of its future growth, profitability and dynamics:

**Market size**

After a short-term period of volatility, increased demand and innovation in alternative capital are expected to deliver a steady CAGR of 4.3 per cent for the reinsurance market over the period 2022-32.

**Market profitability**

Profitability in the short term will be affected by the hurricane season and secondary perils. Hurricane Ian in September 2022 is going to be one of the deadliest and costliest in our recent history and will have a significant impact on market profitability for the exposed lines of business. In the medium term however, reinsurers investing in more sophisticated pricing models to account for climate change and unmodelled secondary perils can expect improved profitability.

**Market dynamics**

Market bifurcation will accelerate as firms reposition themselves to service more diverse markets and products. Larger carriers will continue to grow, becoming more diverse as balance sheets strengthen and pricing becomes more sophisticated. Meanwhile, smaller firms will focus on remaining relevant through greater specialism. Consolidation will continue.

“The reinsurance market has seen more change in the past five years than in the 50 years previously.”

**CEO, Global Reinsurance broker**

CONTENTS	FOREWORD	<b>EXECUTIVE SUMMARY</b>	PART ONE	PART TWO
PART THREE	ACKNOWLEDGEMENTS	AUTHORS	CONTACTS	ENDNOTES

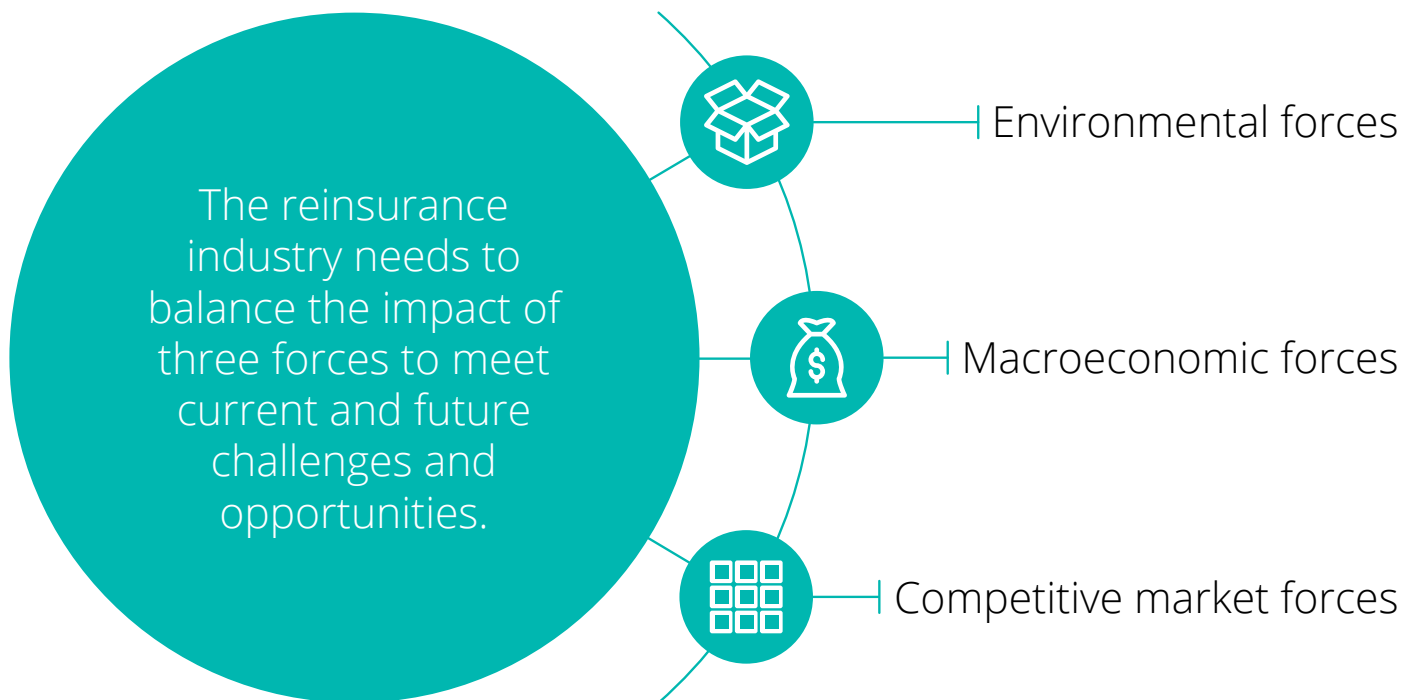
# Forces behind evolution in the market

The world has seen a huge amount of change since our previous report, "This time is different", was published in February 2020. The past two years have brought more turbulence and uncertainty than in the whole of the previous decade. The COVID-19 pandemic, the war in Ukraine and increased natural catastrophe losses have all had a major impact on supply chains, energy prices and overall inflationary pressures.

These events have resulted in **environmental, macroeconomic** and **competitive market forces** that reinsurers need to consider as they respond to difficult market conditions in the short term and devise strategies to remain relevant and competitive over the next five years.

"There is a need to look beyond the next few months to 'widen our horizon' and for market participants to consider the trends influencing their business in the medium to long term to ensure they are prepared to meet the upcoming opportunities and challenges."

**Future of reinsurance CEO roundtable participant<sup>1</sup>**





# Forces behind evolution in the market

## Environmental forces



### Overview

In recent years the reinsurance industry has been more attuned to ESG issues. The environmental aspect of ESG, specifically climate change, has dominated the headlines due to a significant rise in the number of catastrophe losses in the past few years.

Reinsurers are under public and political pressure to transition to net zero emissions. This has intensified following two key events: the US re-joining the United Nations Paris Agreement in February 2021, and commitments made by a number of countries to achieving net zero emissions.

While climate change is getting widespread coverage, the social and governance aspects of ESG have received much less publicity. However, social elements are slowly gaining attention, with growing public interest in reinsurers' internal social policies and obligations.

“ESG is on top of everyone’s list as regulators force it. But there is a difference between ‘E’ and ‘SG’ that sometimes gets lost.”

CEO, Global reinsurance broker



### Industry progress

In addition to efforts by individual firms to tackle climate change, major firms across the reinsurance industry have joined forces and formed the Net-Zero Insurance Alliance, launched in July 2021. The group, which includes participants such as Munich Re, SCOR and Swiss Re, has made a commitment to transitioning to net zero underwriting portfolios by 2050 in support of the Paris Agreement.

However, the war in Ukraine has created a significant risk to progress towards climate goals. It has resulted in an acute energy crisis, triggering an increase in demand for both coal and oil as alternatives to Russian gas. Some countries that began decommissioning nuclear power plants and supporting the transition to renewable energy sources are now looking to slow or even reverse this trend, with energy security a key consideration. This shift will affect the ability of reinsurers to decarbonise their books.

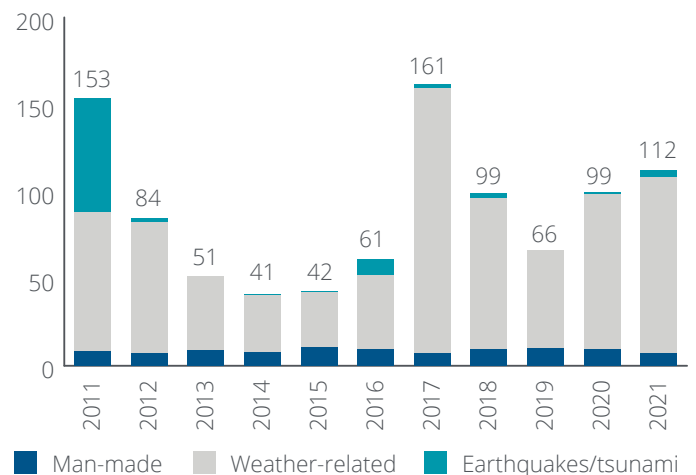


### Impact on the industry

Climate change has resulted in increased severity and frequency of natural catastrophes (see Figure 1). According to the most recent forecasts from reinsurers compiled by S&P Global Ratings, natural catastrophe losses for the top 21 reinsurers are expected to reach \$15.5 billion in 2022, \$2.5 billion more than in 2021.<sup>2</sup> This estimate is going to increase significantly following Hurricane Ian in September 2022, leaving the reinsurance industry to battle with increasing losses and unable to deliver expected returns on investment.<sup>3</sup>

The industry also needs to consider the public perception of its activities as well as its financial performance. In response many reinsurers have invested in revised risk management strategies to align with ESG principles. But more is required to embed ESG considerations across the entire reinsurance value chain. This includes taking decisions about which risks to underwrite, through to developing more sophisticated underwriting models which take climate change risks into account.

Figure 1. Insured losses by peril type (\$bn, 2021 prices)



Source: Swiss Re.

# Forces behind evolution in the market

## Macroeconomic forces



### Overview

In 2022, inflation has climbed to its highest levels since 2012, for the UK, US, Germany and France. Consumer price indices have risen faster than during the 2008 financial crisis, with the UK seeing annual inflation of over ten per cent in July 2022.<sup>4</sup> There has been worse news still for reinsurers in the area of building costs, where annual inflation has reached more than 17 per cent.<sup>5</sup>

There has also been significant disruption in global supply chains that were already under strain due to rising trade tensions between China and the US. Russia's invasion of Ukraine has caused further instability: sanctions have meant that firms once reliant on Russian and affiliated suppliers have had to find alternative sources. The war has shifted focus from 'reliability' to 'availability', with firms willing to sacrifice efficiency for stability of supply.

“For markets such as the US and UK, this is tough, as reinsurers have not had to have supply chain discussions since the 1970s.”

Senior Economist, Deloitte LLP



### Industry progress

Significant losses resulting from global events have had a detrimental impact on reinsurers' profitability compared to the previous few years. This has caused hard market conditions, with increased premiums and an overall decline in market capacity.

Discussions at the recent Rendez-Vous de Septembre (RVS) indicated that the hard market will continue at least throughout 2022 and into early 2023, with continued increases in premiums. There is still uncertainty surrounding predictions for the rest of 2023 and beyond.



### Impact on the industry

Hard market conditions follow what had been a long-term soft market in which there were broad coverages, low rates and quite generous terms and conditions. This hardening, combined with insurers changing appetites for reinsurance in response to uncertainty, creates a need to balance increased demand for reinsurance with a decline in capacity.

Supply chain issues are also impacting both the time and cost of settling insurance claims, leading to reduced profitability of the book. Reinsurers are also taking an action to redefine their risk management strategies over the longer term to avoid future shocks.

“[The] economy will generally have to deal with longer wait times, as decisions are taking time due to a balancing act between risk of delays and price advantage.”

President (Reinsurance), Global (re)insurer

CONTENTS	FOREWORD	EXECUTIVE SUMMARY	<b>PART ONE</b>	PART TWO
PART THREE	ACKNOWLEDGEMENTS	AUTHORS	CONTACTS	ENDNOTES



# Forces behind evolution in the market

## Competitive market forces

### Overview

The reinsurance industry has benefitted from an increase in available capital to fund mergers and acquisitions, and support new entrants. Capital has come from investors, pension funds, private equity, trade buyers, stock exchange listings and family offices.

With the availability of capital, larger firms have focused on acquisitions to achieve greater diversity and growth. In contrast smaller firms, either existing or new, have gravitated towards becoming more specialised in their business lines to provide more tailored services to their customer bases. While the market has seen several new entrants, not all of them have been successful in establishing their strategic relevance in the market.

“Quite a few new companies, [their] results were not brilliant, but they were not a disaster. It shows how much capital is out there and how much people want to invest.”

**President (Reinsurance), Global (re)insurer**

### Industry progress

Mergers and acquisitions have happened predominantly on the broker side. In June 2022 Howden Group acquired TigerRisk Partners, creating what has been described as the “fourth global player in the reinsurance market”.<sup>6</sup> Another high-profile instance of broker M&A activity was Arthur J. Gallagher acquiring Willis Re for \$3.25 billion in December 2021.<sup>7</sup> On the carrier side, few deals have made it over the line. Of note was Berkshire Hathaway’s acquisition of Alleghany Corporation for \$11.6 billion in March 2022. Part of the Alleghany business included TransRe.<sup>8</sup> Another was Covéa’s purchase of PartnerRe, a Bermudian reinsurer controlled by the Agnelli family, for \$9 billion in July 2022 after its unsuccessful attempts to buy SCOR<sup>9</sup> and AXA XL Re.<sup>10</sup>

New entrants to the market include Conduit Re and Vantage Risk, launched in December 2020, each raising around \$1 billion capital, Conduit through an IPO<sup>11</sup> and Vantage through private equity.<sup>12</sup> There has also been a surge in new business for Managing General Agents (MGAs), backed either by traditional brokers and carriers or by alternative capital, including secondary risk exchanges. How long this trend continues will depend on the ability to align the interest of the MGA with the capital provider.

The current view in the market, confirmed to us during numerous discussions at the 2022 RVS event, is that MGAs will continue to attract capital investments from a variety of sources.

The market has also seen greater activity in the Asia Pacific region due to increasing risk awareness and continued market demand, prompted by more frequently occurring natural catastrophes in the area.

### Impact on the industry

The focus for mergers and acquisitions will continue to be on securing distribution channels, through acquisition of either brokers or MGAs. This is already reflected in the number and price multiples of these deals. In contrast, the price and multipliers for risk carriers is significantly less. Some participants question the longevity of smaller pure-play reinsurers, particularly in the less than \$5 billion premium category.

The race to acquire distribution channels is also causing a shift in reinsurers’ distribution strategies. Some feel that they are starting to be dominated by three or four large brokers, as opposed to their previous portfolio of many more mid-to-small brokers offering more targeted and specialised books of business.

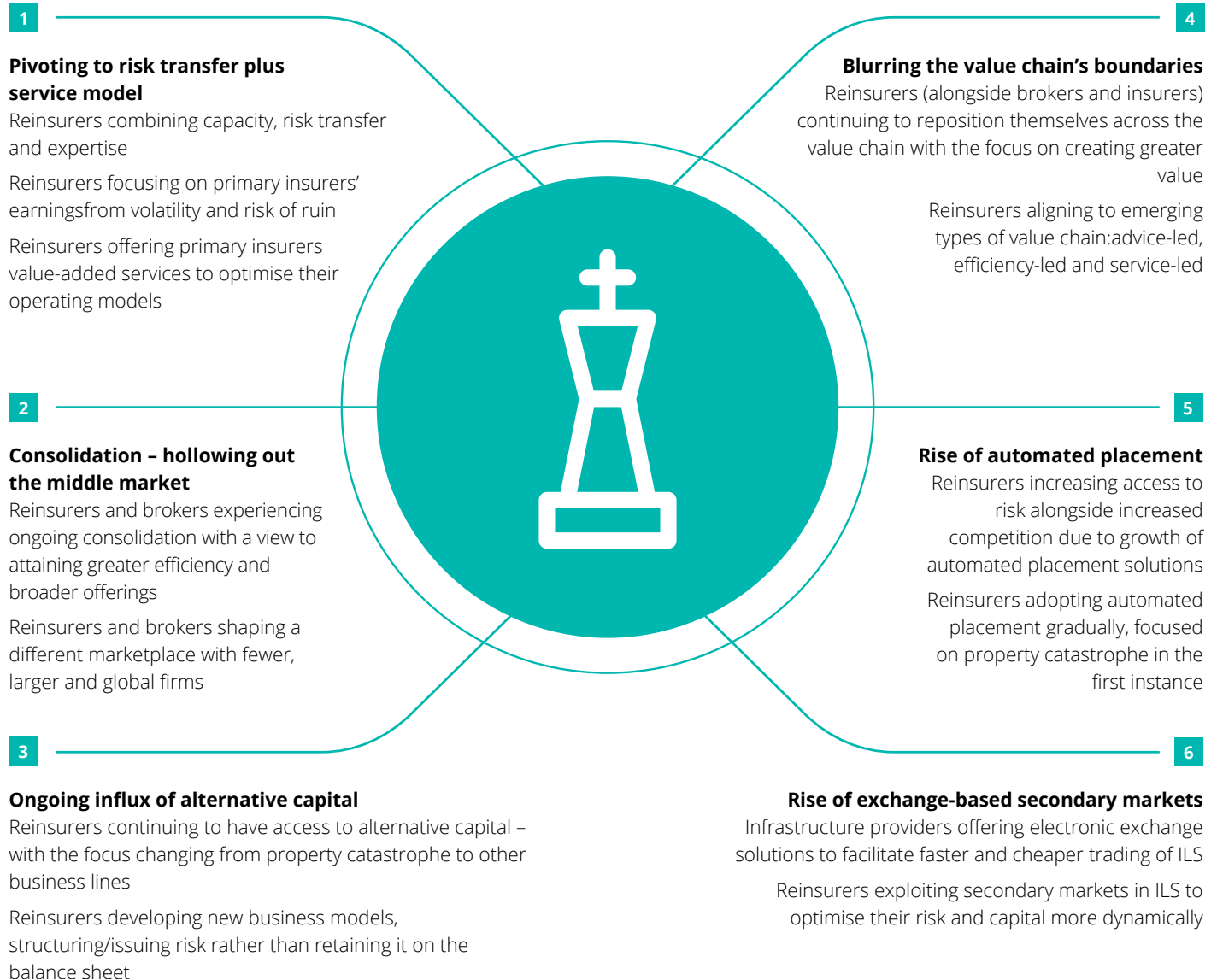
“There has been an explosion in Fronting Carriers and MGAs, and the competitive pull of MGAs has also been creating a talent war... will this be another ‘MGA bubble’?”

**President, Bermudian reinsurer**

CONTENTS	FOREWORD	EXECUTIVE SUMMARY	<b>PART ONE</b>	PART TWO
PART THREE	ACKNOWLEDGEMENTS	AUTHORS	CONTACTS	ENDNOTES

# Recap of our 2020 predictions

Back in 2020 we identified six core trends that we predicted would shape the reinsurance industry in the coming years are summarised below:

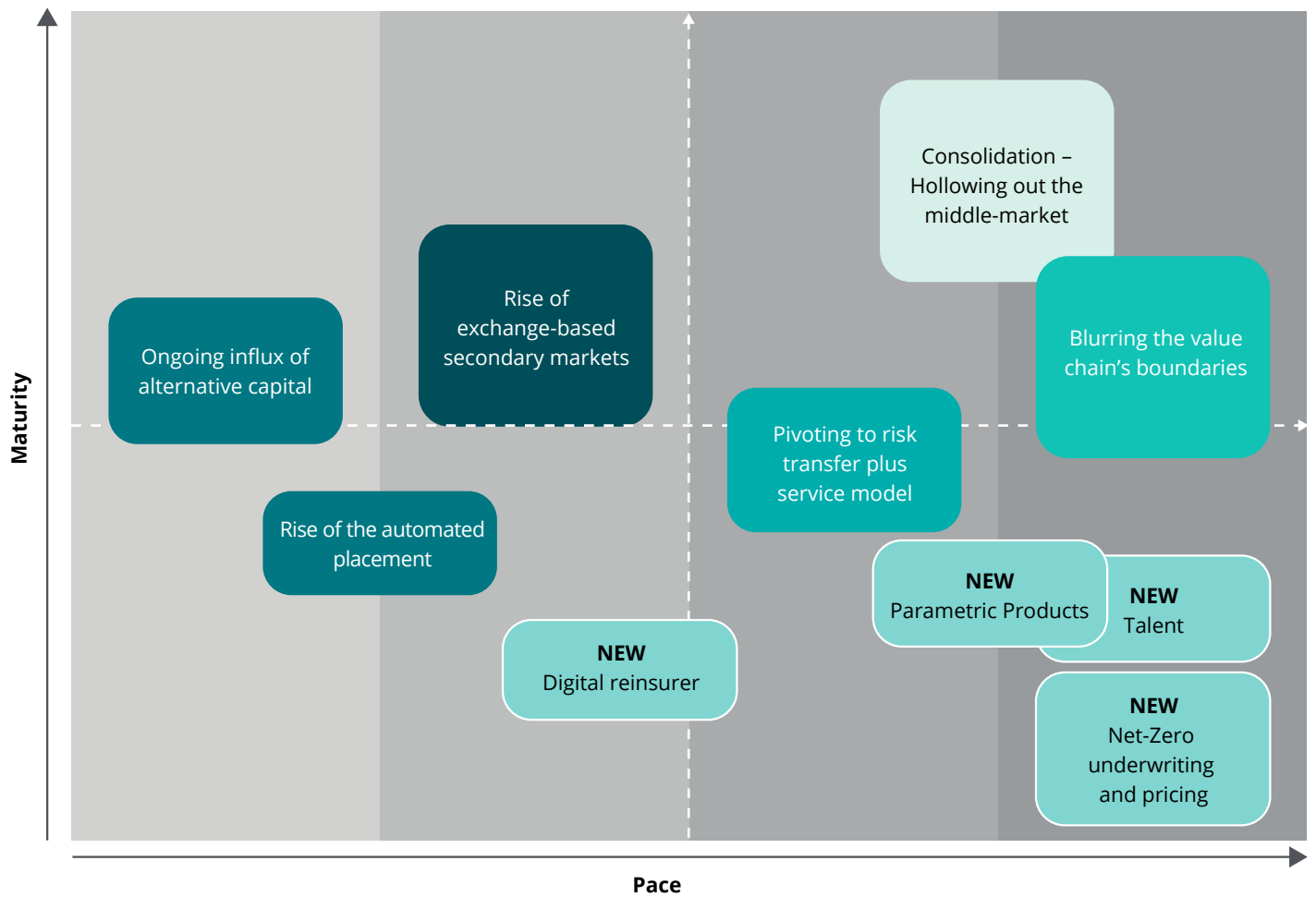


CONTENTS	FOREWORD	EXECUTIVE SUMMARY	PART ONE	<b>PART TWO</b>
PART THREE	ACKNOWLEDGEMENTS	AUTHORS	CONTACTS	ENDNOTES

We have reviewed these predictions together with emerging trends since they were made to understand what has changed and what we now expect in the future.

We found that the Trends 1, 2 and 4, which are linked to the role of the reinsurer and the structure of the industry, have developed further.

The trends that have not developed as far as predicted are mostly related to the global economy and/or how reinsurance is transacted (Trends 3 and 5), with the development of Trend 6 slowed by losses in the natural catastrophe market leading to reduced demand. What follows is a detailed examination of each trend.



Pace: has the trend developed as quickly as expected?

Maturity: has the trend matured and evolved with the changing market over time?

CONTENTS	FOREWORD	EXECUTIVE SUMMARY	PART ONE	<b>PART TWO</b>
PART THREE	ACKNOWLEDGEMENTS	AUTHORS	CONTACTS	ENDNOTES



# Recap of our 2020 predictions

## Trend 1: Pivoting to a risk transfer plus service model

While larger carriers and brokers are investing heavily in new capabilities to diversify their access to risk, smaller firms are looking to strengthen their core propositions and assume the position of 'niche' provider.



### Industry insights

Reinsurers have been evolving their business from pure play capacity to a more diversified and scaled model over a long period of time. The largest reinsurers, such as Munich Re, Swiss Re, Berkshire Hathaway, Hannover Re and SCOR, have already been successful in using their size and capital to diversify and introduce new revenue streams, solutions and services.

Swiss Re for example now offers flood risk management services (in partnership with ICEYE, a satellite monitoring company), which can also be used to assist disaster response and loss assessment.<sup>13</sup> AXA XL has partnered with SpaceAble, a French space start-up, to provide services supporting satellite operators to increase the safety of operations in low orbit.<sup>14</sup>

Many smaller reinsurers will not be able to compete with this level of spending or resources to build new value-add services. This poses a significant risk for them: should their core reinsurance business become more commoditised, they will be less able to protect their margins and de-risk their book of business.



### Our market research

Our research has revealed that, compared to carriers, brokers have made most progress in 'pivoting to the risk transfer plus service model'. According to our research participants, some brokers are investing more than 15 per cent of their revenues in data and analytics to differentiate their advisory services and establish a privileged position in the value chain.

*The Insurer* referred to brokers' investments as an "analytics arms race that took place between the big three brokers at the turn of the century".<sup>15</sup> For example, Aon already have over 400 analytics specialists,<sup>16</sup> and Guy Carpenter, Marsh McLellan's reinsurance business, employs around ten per cent of its workforce in data and analytics services.<sup>17</sup>

"There are no reinsurance pure players of note. [The] focus is on making the best of reinsurance and complementing this with insurance, alternative services and more."

**CEO, Reinsurer**



### Overcoming challenges

Without the ability to provide leading value-add services, smaller reinsurers will be required to differentiate themselves in the market in other ways, for example by building a reputation for expertise in particular business lines, or pursuing a business model centred on the ability to transact quickly.

In the short term, some clients will still prioritise traditional services, such as capital availability, over value-add to navigate the current uncertain times. Both carriers and brokers will need to strike the right balance between growing value-add services and strengthening their core offerings.

"If you give insurers the option of an add-on service or general capacity, most clients say 'leave us alone, we know what to do with [the] business, we want capacity!'"

**President (reinsurance), Global (re)insurer**

CONTENTS	FOREWORD	EXECUTIVE SUMMARY	PART ONE	<b>PART TWO</b>
PART THREE	ACKNOWLEDGEMENTS	AUTHORS	CONTACTS	ENDNOTES

# Recap of our 2020 predictions

## Trend 2: Hollowing out the middle market through consolidation

We expect consolidation to continue particularly in the middle market. In addition to continued consolidation on the broker side, we expect this to include more consolidation of carriers which so far has been limited.

### Industry insights

As identified earlier in our *Competitive market forces* section, consolidation since our previous report has focused mainly between brokers while carrier deals have been limited. Market shares of carriers have therefore remained largely the same, with the mid-tier reinsurers retaining their market positions and premium shares (see Figure 2).

The increased volatility since 2020 may have reduced the appetite of both incumbents and outside investors to be involved in reinsurance underwriting. The abandoned sale of AXIS Re, followed by its subsequent withdrawal from property treaty business illustrates this trend.<sup>18</sup>

### Our market research

In our research of the market, several participants pointed to the cyclical nature of mergers and acquisitions. Their view was that in the shorter term consolidation would continue for brokers, but less so for reinsurers. In the longer term, however, they felt that interest in reinsurance deals will pick up again as the market stabilises after years of continued losses.

It has also been noted by Insurance Advisory Partners LLC that macroeconomic conditions could have a “dampening effect on valuations” for potential deals.<sup>19</sup> This is not to say that there will be a plethora of deals conducted by firms with strong capital positions. It should, however, prevent valuations from growing beyond “rational budgets”.<sup>20</sup>

“I have little doubt that in a future cycle reinsurance will be more attractive again than insurance.”

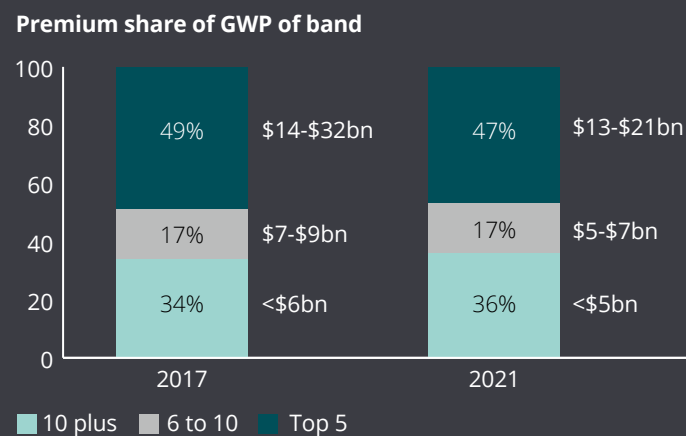
**CEO, Global reinsurance broker**

### Overcoming challenges

While broker consolidation will continue, we believe that until reinsurers’ performance improves it is unlikely that consolidation will return on a great scale for carriers. Instead, we are seeing investor interest being diverted into growth of MGAs.

We have also observed operational obstacles to mergers and acquisitions by reinsurers. The largest reinsurance carriers operate very differently from mid-sized firms, which tend to focus on specific areas in a targeted manner rather than focusing on diversity and scale. Bringing together firms that operate in such different ways may not provide the necessary efficiencies and economies of scale to promote mid-size firms into the highest tier.

**Figure 2. Global non-life reinsurance gross written premium (GWP) market share, by size of reinsurer**



Source: Reinsurance News.

CONTENTS	FOREWORD	EXECUTIVE SUMMARY	PART ONE	<b>PART TWO</b>
PART THREE	ACKNOWLEDGEMENTS	AUTHORS	CONTACTS	ENDNOTES

# Recap of our 2020 predictions

## Trend 3: Ongoing influx of alternative capital

While the availability of alternative capital in certain lines has been reduced by the poor performance of natural catastrophe ('nat cat') bonds, alternative capital is expected to continue to flow into the market. ILS propositions are gaining traction in new lines of business, for example cyber, and innovation continues in alternative capital structures such as transformer platforms like London Bridge Risk PCC.

### Industry insights

Analysis by Howden Group shows that at half-year 2022 dedicated reinsurance market capital had fallen by 10.7 per cent, to \$375 billion.<sup>21</sup> This was driven primarily by the greater frequency of natural catastrophes and associated investment losses over the past few years.

The decline in traditional capital has also had an impact on investors' appetite to participate in alternative capital provision. The rate of growth in alternative capital has flattened over the past few years, as shown in Figure 3.

“Capital markets are looking to diversify away from credit risk. Reinsurers are looking to diversify away from 'nat cat' risk.”

**CEO, Reinsurance platform for institutional investors**

### Our market research

The majority of market participants believe that high natural catastrophe losses have harmed the prospects of alternative capital, though they also see promising markets outside natural catastrophe bonds, particularly in cyber. Some think that cyber will eventually become one of the largest markets, though it may be slow to develop.

Our research also highlighted that the natural catastrophe market has become more complex and that existing models will need greater sophistication to assess exposure accurately. Data on risk factors such as precise geolocation, peril and climate impact will need to be gathered at an individual risk as well as portfolio level to ensure accurate underwriting.

While this need is fully acknowledged in the context of natural catastrophes, the focus for investors is also shifting on to modelling for non-catastrophe lines. For many of them, granularity and sophistication of pricing models are becoming key considerations in their alternative capital decision-making.

### Overcoming challenges

We believe that while data-driven models should and will become more sophisticated to support underwriting decisions, further research is required to ensure that the right data is being used in the right ways. Our respondents highlighted the volatile nature of natural catastrophe losses, where large losses can vary hugely with little observable pattern (as displayed by Figure 1 earlier).

The growth and availability of alternative capital is heavily dependent on re-establishing investor trust, through transparency, product innovation and use of alternative solutions. An example of this is parametric triggers, which are discussed later.

**Figure 3. Global reinsurer alternative capital (\$bn)**



Source: Aon.

CONTENTS	FOREWORD	EXECUTIVE SUMMARY	PART ONE	<b>PART TWO</b>
PART THREE	ACKNOWLEDGEMENTS	AUTHORS	CONTACTS	ENDNOTES



# Recap of our 2020 predictions

## Trend 4: Blurring the value chain's boundaries

Not every firm will be equally equipped to succeed in entering new markets, diversifying businesses, and creating suites of value-add services. The key to success will be to rebalance strategic positions in line with established distribution channels, pricing sophistication and access to capital.

### Industry insights

Brokers, carriers and MGAs are all looking for opportunities to expand their services and play bigger roles in the reinsurance value chain. For example, the top four largest reinsurers have branched out to the wider insurance market through dedicated investment programmes that provide capital to insurtech start-ups.

Some firms have gone one step further and partnered with non-insurance firms to diversify outside financial services. For example, Munich Re has partnered with a major manufacturer to create a validation technology that measures the trustworthiness of artificial intelligence (AI) in any new products and/or solutions.<sup>22</sup>

The global MGA market has grown to around \$100 billion, of which around 70 per cent is in the US,<sup>23</sup> and incumbents have been reviewing their market positions and operating models. For example, Fidelis has split its existing business into a \$3 billion Managing General Underwriter and a \$2 billion balance sheet management company to allow each entity to focus on its core services and customers.<sup>24</sup> In September 2022, Howden Group and TigerRisk Partners announced what they said would be the industry's largest global MGA/programme intermediary, SabRE, advising on the placement and structuring of \$6bn of GWP.<sup>25</sup>

### Our market research

While insurtech investments have allowed some reinsurers to enter the insurance space, we do not think that this signals a shift at scale through the value chain. Our research confirms that major carriers and brokers perceive high regulatory capital requirements, and in particular their impact on profitability, as barriers to deter reinsurers from moving through the value chain closer to the risk.

MGAs are currently seen as key to innovation in the reinsurance market: through current strong investment levels, they are attracting some of the best talent and entrepreneurship. However, the market participants we interviewed were still sceptical about the evolution of their role beyond fronting.

"I've been through too many MGA bubbles in the past: one really can't have the risk takers' best interest at heart if you're being compensated by volume and profit commission."

**CEO, Reinsurer**

### Overcoming challenges

As reinsurers look to expand into adjacent value chains, they should also keep an eye on other players coming into their core territory. For example, Alphabet (Google's parent company) has recently issued its own catastrophe bonds directly to the capital markets, bypassing reinsurers.<sup>26</sup> We expect more large global corporates to explore alternative risk transfer mechanisms, utilising their own capital reserves and expertise.

To combat threats such as this, getting deep insights into evolving customer needs will be key for reinsurers to enhance their position within the value chain. Insights will provide an early view of the potential solutions that will be in great demand, for instance cyber and ESG.

"It is being specific about what is going to give you the competitive edge. It is understanding how to access your customers, understand their needs and provide the right solutions."

**Guru Johal, Global Specialty and Reinsurance Leader, Deloitte LLP**

CONTENTS	FOREWORD	EXECUTIVE SUMMARY	PART ONE	<b>PART TWO</b>
PART THREE	ACKNOWLEDGEMENTS	AUTHORS	CONTACTS	ENDNOTES

# Recap of our 2020 predictions

## Trend 5: Rise of automated placement

Automated placement could be a major development for reinsurance, as its success would help overcome the current scepticism about technology. Reinsurers could then focus on other use cases such as underwriting, pricing and claims to deliver increased efficiency and operational savings.



### Industry insights

Automated placement is not new. Multiple attempts have been made to address the challenges associated with this process, such as building market trust or delivering automated placement at scale. However, not all attempts have been successful.

For example B3i, despite assembling an industry consortium comprising Aegon, Allianz, Munich Re, Swiss Re, Zurich and others, was ultimately unable to generate enough business volume. The firm was established to utilise blockchain technology to enable easy exchange of information, and automated premium calculation and claims handling. B3i filed for insolvency in July 2022, citing a lack of volume and insufficient profitability.

Even so, the reinsurance industry recognises that there is a major opportunity to streamline the placement process to achieve greater operational efficiencies. One key initiative is the London Market modernisation programme, which will deliver a core set of platforms, along with data and technology standards, to enable market-wide automated placement. February 2023 is the expected delivery for the Placing Platform Ltd.'s (PPL) NextGen 1.0 platform, and PPL's NextGen 2.0 platform will follow by the summer. However, the scope of the PPL initiative is limited to the London Market.<sup>27</sup>



### Our market research

Our research found that market participants remain sceptical about the future of market-wide automated placement. This scepticism stems from a number of challenges that remain unanswered.

“We’re talking about millions, not just insuring your car or house. You want to know who your counterparty is, that everything is clear. There are so many things where you have grey zones, you need a person to trust to come to a conclusion.”

**President, Bermudian reinsurer**



### Overcoming challenges

First, there is an issue with data rekeying. Since many organisations have their own proprietary platforms, reinsurers have to re-enter the data into both the market-wide placement platform and their own/other's proprietary systems, causing duplication of work and reduced efficiencies.

Second, many are doubtful that the reinsurance market will ever achieve the scale required for automation to be truly beneficial. They point to the example of B3i which, despite being backed by some of the world's largest reinsurers and tens of millions of dollars in funding, could not create a sustainable model.

Third, the biggest concern seems to be related to trust and human interaction. Many reinsurance deals are unique, and there is much uncertainty around terms and conditions.

Coupled with the high values of the contracts under consideration, this requires a clear understanding and a degree of trust between the parties. Such trust has traditionally come from developing relationships through negotiations. To access the benefits of automation, contracts will need to become more standardised, and the relationship between insurer and reinsurer may become more transactional. So the key question that reinsurers must consider is: 'are the benefits of automation worth it'.

Finally, there is an issue of price leadership. Despite the success of some algorithmic-driven syndicates, such as Brit's Ki, many respondents remain sceptical about the viability of this model given the reliance on the leader's pricing decisions and terms and conditions.

CONTENTS	FOREWORD	EXECUTIVE SUMMARY	PART ONE	<b>PART TWO</b>
PART THREE	ACKNOWLEDGEMENTS	AUTHORS	CONTACTS	ENDNOTES

# Recap of our 2020 predictions

## Trend 6: Rise of exchange-based secondary markets

The reinsurance industry needs to exploit the growth of independent platform offerings that provide investors direct access to insurance investments, to provide transparency and rebuild investor confidence in positive returns.

### Industry insights

Since our previous paper was published in 2020, the expected losses of multiple catastrophe bonds across established ILS funds have risen by 50 per cent, after several years of decline.<sup>28</sup> In terms of results, following above average losses in 2017 and 2018 the market is now in recovery. Figure 4 shows the monthly index returns over the past years.

Nevertheless, ILS investors are still cautious about their capital allocation and therefore want greater underwriting transparency, refined pricing models and alternative technology solutions. For example, recent market entrant Vesttoo has been gaining some traction by offering institutional investors direct access to property and casualty insurance investments, facilitating closer interaction between carriers and investors.

### Our market research

With traditional capital already stretched, our research has found that there is an appetite for growth in exchange-based secondary markets. Market participants felt that this might span not just traditional geographies, but also developing markets. For example, Peak Re believes ILS to be “an integral part of [their] retrocession strategy” and therefore aims to bring more capacity into Asia Pacific and beyond.<sup>29</sup>

Our research has also revealed that newer investors, who have experienced only unfavourable performance, have less appetite to participate in the exchange-based secondary markets compared to investors who have been in the market for a while and have been through a number of similar cycles.

“[I’ve] seen cycles before... [it is a] 20-year journey to get ILS from start to where it is today.”

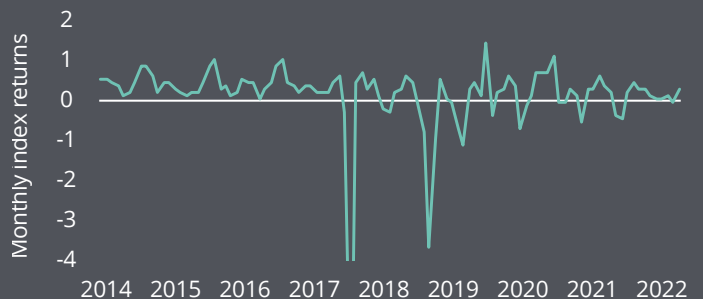
**CEO, Reinsurance platform for institutional investors**

### Overcoming challenges

Product innovation will be key to fuelling continued growth across the exchange-based secondary markets.

Historically, such innovations have taken a long time to materialise, but the reinsurance industry has already started to look for alternatives. Many reinsurers are currently considering cyber as the next main area for growth after the natural catastrophe bonds. So far market deals have been limited. Aon have gone on record, however, to state that it expects to complete a cyber ILS deal in 2023. This would be the first in such scale and complexity to hit the market, setting a positive trend.<sup>30</sup>

**Figure 4. Eureka hedge Advisers Insurance ILS Fund Index**



Source: Eureka hedge.

“[Reinsurers] need market innovation to capture long tail exposure in ILS.”

**President, Global reinsurer**

CONTENTS	FOREWORD	EXECUTIVE SUMMARY	PART ONE	<b>PART TWO</b>
PART THREE	ACKNOWLEDGEMENTS	AUTHORS	CONTACTS	ENDNOTES



# Our new trends

Our research into our predictions and the developments in previous trends highlighted a number of emerging areas that are shaping the reinsurance industry:

## 1. Parametric products

Parametric products have been making headway in the market.

Parametric insurance moves away from the traditional model of indemnity and acts more like a benefit policy by paying a set amount when a pre-defined trigger event occurs.

## 2. ESG commitments

Reinsurance activities are affected by climate change and environmental issues.

Public and political pressures are forcing reinsurers to revise their existing coverage and also review inherent underwriting models to include the wider environmental impacts.

## 3. Talent war

Even before the so-called “Great Resignation”, when many workers quit the labour market following the COVID pandemic, the reinsurance industry faced a shortage of talent which continues to date.

Firms that can prioritise diversity, equity and inclusion are likely to succeed better at attracting scarce market talent.

## 4. Digital enablement

Over the past few years, the industry has been investing in digital technologies to improve core business capabilities and/or modernise legacy systems. Whilst some innovations have made it to the market, they have achieved only limited adoption and success. Reinsurers will need to continue to invest in innovation and collaborate with insurtechs, where this makes sense.

CONTENTS	FOREWORD	EXECUTIVE SUMMARY	PART ONE	<b>PART TWO</b>
PART THREE	ACKNOWLEDGEMENTS	AUTHORS	CONTACTS	ENDNOTES

# Our new trends

## 1. Parametric products

### Industry insights

Parametric products, which provide pre-defined payouts based on an event trigger rather than indemnities to losses, have been gaining ground across the reinsurance market. For events such as cargo shipments, secondary perils such as floods and natural catastrophes, an event-based payout structure may seem an appealing concept. Rather than having to wait after the event to assess losses, or model impacts that can vary massively in scale, parametric products offer greater certainty in the outcomes of insurable events.

Yet the concept is not new to the market. Reinsurance leaders Swiss Re and Munich Re created parametric propositions in the early 2000s, and the first parametric policies were launched even earlier, in the late 1990s. Today, parametric policies make up around 15 per cent of the \$100 billion catastrophe bond market, and 12 million farmers have been insured through weather-index schemes since 2018.<sup>31</sup>

### Our market research

There is uncertainty about the future of parametric solutions. Some market participants expect them to grow, but others are more cautious and predict that they solutions will remain on the fringe of the market.

The certainty that comes with parametric insurance is seen by some market participants to have a potential secondary benefit in the ILS market. Given the past performance of the natural catastrophe market, investors may be more likely to come back provided that there is greater use of parametric triggers and more precise exposure modelling based on the certainty provided.

The predictability of parametric insurance has already succeeded in attracting more capital. The Caribbean Catastrophe Risk Insurance Facility (CCRIF), founded in 2007, attracted capital from both traditional and capital markets. The scheme uses parametric policies to assist 22 Caribbean and Central American governments with short-term liquidity when triggers are activated. Covering tropical cyclones, earthquakes and excess rainfall, the CCRIF has made 54 payouts, totalling about \$245 million.<sup>32</sup>

“Parametric is taking off a lot more; the market is moving to more small and medium size carriers.”

CEO, Alternative reinsurance platform

### What's next?

While there are differing views about the future of parametric products, we anticipate that the market will grow. Allied Market Research predicts a market size in 2031 of \$29.3 billion, up from \$11.7 billion in 2021.<sup>33</sup> This growth will be driven by the relative affordability of parametric policies, and the certainty for all parties involved.

Parametric solutions will thrive if combined with Internet of Things (IoT) and external data sources to monitor and learn more about global patterns and/or specific geographies. This will enable reinsurers to provide more tailored solutions as well as set more precise triggers and payout structures. We believe the most popular parametric solutions initially will be 'cat in a box', where an event (catastrophe) must take place in a certain area (box). Other offerings will include power outage, renewable energy and damage to crops.

CONTENTS	FOREWORD	EXECUTIVE SUMMARY	PART ONE	<b>PART TWO</b>
PART THREE	ACKNOWLEDGEMENTS	AUTHORS	CONTACTS	ENDNOTES

# Our new trends

## 2. ESG commitments

### Industry insights

ESG topics have become much more prominent in the past two years. Our interviewees had much to say on the subject.

### Our market research

Our research has found that reinsurance brokers and carriers are faced with difficult choices, as firms are under increasing political and social pressure. Reinsurers and brokers are having to be selective about which risks and firms they choose to work with (or not). Market participants we interviewed felt that governments should be setting clear agendas, rather than giving guidance and leaving it to interpretation by private firms.

Despite the challenges, the industry has made substantial investments in sustainable practices. For example, Lloyd's are in the process of delivering commitments made as part of its 2020 Sustainability and ESG Report, which pledged to end new investment in thermal coal-fired power plants, thermal coal mines, oil sands and new Arctic energy exploration activities from 2022.

Furthermore, the industry has made specific commitments across its day-to-day operations. Munich Re has developed a set of strict underwriting guidelines to regulate the phase-out of oil, gas and thermal coal from its facultative, direct and primary insurance business by 2050.<sup>34</sup> On the investment side, France's SCOR has set out nine key ESG principles for firms they invest in, requiring them to pass checks on topics such as sustainable and ethical business practices, and inclusive working environments.<sup>35</sup>

Reporting will be another key area where reinsurance companies will need to revisit their processes, as they will have to quantify their carbon emissions for activities outside of their direct control – so-called 'Scope 3' emissions, which include emissions generated by all users of insurance contracts along with supply chains and investments. As yet, reinsurers have not been able to identify a suitable technology solution to quantify these emissions.

“Should it be up to a reinsurer to decide one day not to insure a particular company or sub-industry?”

**CEO, Reinsurer**

### What's next?

While great strides have been made to improve firms' ESG reputations, this does not come without risk. Our research indicates that it will be necessary for reinsurers to balance ambition and realism in their climate aspirations. By placing themselves as experts in managing ESG risk, there comes added pressure on reinsurers to deliver effective solutions to firms both in and outside the insurance sector.

In addition, climate change has accelerated the pace of changes in risk. This means that reinsurance firms will need to keep up with increasing complexity. However, it will also enable the market to grow in this area. For example Swiss Re predicts that green energy infrastructure investments could generate \$237 billion new insurance premiums by 2035.<sup>36</sup>

“[The] world is a riskier place. We had risk before, but [it developed] at a much lower pace. We can create risk and build in much bigger piles at much bigger pace [now].”

**CEO, Reinsurer**

CONTENTS	FOREWORD	EXECUTIVE SUMMARY	PART ONE	<b>PART TWO</b>
PART THREE	ACKNOWLEDGEMENTS	AUTHORS	CONTACTS	ENDNOTES



# Our new trends

## 3. Talent war

### Industry insights

Across both insurance and reinsurance, 23,000 new jobs were advertised in 2021 (up by 74 per cent on the previous year), and record volumes have continued in 2022.<sup>37</sup> The Deloitte 2022 Insurance Sector report, 'From Great Resignation to Great Reimagination', explores the battle for talent in the sector.

The combination of strong growth and industry digitisation are driving changes across reinsurance, making it an exciting industry to join. Nevertheless, the industry is still experiencing challenges with competition to acquire and retain talent. Digitisation has increased the demand for more highly skilled workers in IT, cybersecurity and data science, putting reinsurance directly in competition with other industry sectors. The impact of the COVID-19 pandemic has also exacerbated the problem, requiring a reinvention of the industry's approach to recruitment, retention, training and the future of work.

### Our market research

Our interviewees had mixed views about the scarcity of talent within the industry. Areas such as data, analytics and cyber are amongst those with a significant shortage of experienced and skilled resources. There was clear agreement that the industry needed to do more to develop existing employees to meet changing dynamics.

Large reinsurance brokers and carriers have also highlighted the challenges with attracting the best talent as candidates become more discerning in a competitive labour market, with firms needing to balance the lack of need for physical presence with established office footprints. Smaller firms have used remote working and an associated lower cost base to offer a better value proposition to employees, combining flexibility and higher pay. All our interviewees highlighted a significant migration of talent from reinsurance to MGAs, driven by the growth in investment in this area.

"Historically, risk carriers recruited and developed technical talent, which given the nature of the business was not surprising. There is a desire to get more talent that is customer-focused, and emphasising the "growth mindset" requirement in recruiting and developing talent."

CEO, Global reinsurer

### What's next?

The future of the reinsurance sector rests on its ability to attract and retain talent, rethink talent strategy to keep pace with business strategy, reconsider where and how to source talent and offer compelling work experiences.

Firms are responding by reviewing their processes to create capacity for high value 'human' activities, upskilling/reskilling to complement technology, attracting under-utilised talent (for example, working mothers, neurodiverse candidates) and in general shifting perceptions of the industry to attract and retain talent.

CONTENTS	FOREWORD	EXECUTIVE SUMMARY	PART ONE	<b>PART TWO</b>
PART THREE	ACKNOWLEDGEMENTS	AUTHORS	CONTACTS	ENDNOTES

# Our new trends

## 4. Digital enablement



### Industry insights

The reinsurance industry has traditionally adopted a business model built on personal relationships and interactions, with a technical focus on risk analysis. While this is an acknowledged modus operandi, there is also an appreciation that this model will need to evolve as clients, insurers and the marketplace change. Accelerated by the pandemic, along with pressures on margins as well as inadequate loss ratio performance, digitisation, data and technology innovation have all made it to the top of the corporate agenda for reinsurers.

Over the past few years, the largest reinsurers have been driving innovation through a range of initiatives. For example, Munich Re has invested \$280 million to 36 insurtech firms through its subsidiary Munich Re Ventures.<sup>38</sup> Swiss Re is pursuing a different approach, establishing its own start-up iptiQ. Hannover Re has also launched an initiative to support insurtech collaboration.



### Our market research

We have identified three top priority areas where reinsurers are actively investing in technology: in operations, underwriting and claims.

Operational efficiencies and streamlined processes are at the heart of the technology transformation with many reinsurers investing in automation (robotics, AI). For example, Swiss Re has partnered with UiPath to automate manual processes and free up skilled employee's time.<sup>39</sup> This is a common theme among many participants across the industry.

Underwriting has been under pressure to improve loss ratios, forcing reinsurers to become more sophisticated in their analysis of risk and portfolios. For example, some global reinsurance companies are digitising their rating process to obtain more and better data insights and improve loss ratios. Another example of delegated underwriting is SCOR's implementation of a new MGA Bordereaux technology, Alpha, to streamline MGA partner onboarding and reduce the process from days to hours.<sup>40</sup>

On the claims side, the focus is on speed and accuracy of claims settlements. Swiss Re has partnered with the insurtech Claim Genius to deliver superior claims management capabilities to its cedent clients, helping them lower settlement time and costs.<sup>41</sup> Prevention of fraud is another area of claims that is gaining traction. Munich Re was an early adopter of an anti-fraud solution through its partnership with FRISS.<sup>42</sup>



### What's next?

It is widely acknowledged that insurtechs are facing quite a challenging period. A large number of these start-ups have failed in the past decade.<sup>43</sup> This may be due to the large number of start-ups, their value proposition, or the industry's resistance to change. Most likely, it is a combination of all three reasons.

Despite this, the reinsurance industry cannot ignore the fact that the world is changing and reinsurance brokers and carriers will need either to adapt and innovate or to accept gradual competitive decline.

In addition, our conversations at 2022 RVS highlighted that traditional reinsurers and brokers feel that insurtechs have a lot to offer. They bring client focus and decisiveness, along with operational efficiencies and the ability to attract talent from outside traditional reinsurance recruiting grounds.

We believe that trends to transform the front office will carry on, as reinsurers continue to invest in capabilities that deliver immediate financial return. Amongst such, IoT will be an area of growth in determining risk assessment, processing claims, reducing claims leakage and supporting product pricing.

CONTENTS	FOREWORD	EXECUTIVE SUMMARY	PART ONE	<b>PART TWO</b>
PART THREE	ACKNOWLEDGEMENTS	AUTHORS	CONTACTS	ENDNOTES

# Impact on market size



The decline in reinsurance capital will continue through to early 2023. With the increase in demand for reinsurance, this inevitably means further hardening of the market in the short term.

## Overview

The first half of 2022 saw the steepest decline in reinsurance capital since the financial crisis in 2008. At the halfway point of 2022 composite capital was down by 23 per cent compared to the same position in 2021 while dedicated capital was down by ten per cent.<sup>44</sup> In both cases, the decline was driven mainly by unfavourable performance on the investment side. Most market participants believe that this trend will continue into early 2023.

## Re-balanced portfolios

The longer-term outlook is expected to improve with non-life reinsurance revenues forecast to grow at a steady compound annual growth rate of 4.3 per cent for 2022-32.<sup>45</sup> This will be driven by re-balanced reinsurance portfolios that will de-risk performance, taking advantage of emerging underwriting opportunities and attracting back investors with more appealing returns.

We are already seeing reinsurers following this trend. For example in the past 12 months Beazley, Arch Re and Everest Re has diversified their portfolios away from property coverage, growing their casualty, professional and specialty lines by 20 per cent.<sup>46</sup>

## Increased demand

Recent global events have caused a noticeable increase in firms' appetite for increased insurance cover.

As clients are reassessing their insurance and risk management strategies, insurers are re-balancing their ceding strategies to account for the heightened uncertainty. Reinsurers are seeing an increase in demand, in terms of both increased level of coverage and geographical expansion. With increased demand, there has also been influx to the market of new companies, attempting to seize the opportunities and drive growth.

"A riskier world should mean more margin. Worried people will get more cover and pay more margin."

CEO, Bermudian reinsurer

## Alternative capital

With new products emerging beyond natural catastrophe bonds, alternative capital is expected to drive further reinsurance market growth. Some market observers believe that investors would be willing to participate in 'low-risk low-reward' opportunities if it meant a more stable and predictable return on investment.

## Conclusion

In the short to medium term, the market will experience a reduced amount of capital. However, in the medium to longer term, the market will grow with a fresh inflow of capital due to re-balanced portfolios, increased demand and innovation in alternative capital.

CONTENTS	FOREWORD	EXECUTIVE SUMMARY	PART ONE	PART TWO
<b>PART THREE</b>	ACKNOWLEDGEMENTS	AUTHORS	CONTACTS	ENDNOTES



# Impact on market profitability

Short-term profitability in the market is currently under pressure, with weather and the macroeconomic environment impacting margins. The recent Hurricane Ian losses show just how much pressure profitability continues to be under.

## Overview

The first half of 2022 has seen lower losses than in previous years, although overall profitability trends remain uncertain, especially given recent losses in quarter three of 2022.

## Increased demand

While some lines of business, such as property catastrophe, have seen diminished capital deployment, the overall appetite for specialty lines, such as marine and aviation, has remained stable. In addition, the industry has seen increased demand for emerging coverage in areas such as cyber.

With the exception of property catastrophe, reinsurers are anticipating stable and even increased demand and similar levels of profitability, but the impact of claims inflation threatens to eat into the benefits from rate rises.

## Product innovation

Many reinsurers are looking to expand their range of offerings to diversify their income stream and protect profitability levels. The growth in the market for parametric products is an example of this. Cyber products have also seen rapid growth in recent years. These products are still evolving, as the industry balances their appeal with potential unknown exposures and associated losses.

“[The] industry might decide cyber for some companies is uninsurable, but [it] is still a market.”

**CEO, Global reinsurance broker**

## Increased rates

Messages we received from September 2022's RVS were clear: reinsurance rates are expected to go up in the short term. However not everyone is expected to get a fair share of the increase in margins.

For example, following broker consolidation, the market is expected to have fewer but larger firms, which exert greater influence across the marketplace. This will enable them to defend their fees and/or commission rates. However this may be a challenge for reinsurers as with continually rising premiums, they might find it difficult to pass such additional charges on to their clients. Carriers, therefore, might be forced to take a hit to their profits unless they respond.

## Conclusion

Short term uncertainty is likely to give way to a more optimism in the medium term. In the longer term, reinsurers should expect profitable earnings provided that there is disciplined underwriting to address the evolving demand and focused investment in product innovation.

CONTENTS	FOREWORD	EXECUTIVE SUMMARY	PART ONE	PART TWO
<b>PART THREE</b>	ACKNOWLEDGEMENTS	AUTHORS	CONTACTS	ENDNOTES



# Impact on market dynamics

The reinsurance market is evolving rapidly, with all players participating in a race to build new capabilities and expand existing offerings.

## Overview

There are major shifts across the entire industry value chain.

Brokers are leading the way, expanding their advisory services including ILS, M&A and data and analytics services. There is continuing investment in this area.

## Market bifurcation

With brokers and carriers dividing into large and smaller scale operators, this bifurcation of firms will impact market dynamics. Competition will intensify as firms battle with their peers for market share.

Bifurcation will also see the competition through differing strategies for adoption of digital technologies. On the one hand the market wants real-time data and fast turnaround, but on the other many participants still value the element of human interaction.

Balanced 'digital human' approaches will be key to success. However, firms will differ in their approach. For example, smaller scale firms could use 'personal touch' as a comparative advantage, or aim to run a lean and efficient model to compete on price. New larger scale entrants, unencumbered by legacy systems, could offer more technology-based solutions that can operate at scale and size.

"Technology should be there to help make things easier and simple – however brokers and reinsurers agree over phone/email then have to enter everything again."

**President, Global reinsurer**

## Relationships

Reinsurance brokers will continue their quest to deepen relationships with clients. This will provide opportunities for new and improved offerings that they could bring to market.

It is also anticipated that brokers will expect faster and more efficient interactions with carriers. A number of carriers are continuing to invest in building out their e-trading and self-service capabilities to improve broker services.

Reinsurers are also building their own alliances across the market to provide a more diverse set of products and offerings, sometimes even outside insurance. For example, Swiss Re has partnered with automotive firms to provide an alternative insurance product that is based on real-time vehicle performance as opposed to traditional scoring.

## Conclusion

Evolution in the reinsurance market is already a reality. Market participants are building new capabilities and setting up new collaborative arrangements to remain relevant and grow their revenues and market share.

Firms will need to make strategic choices early on to secure their place in the value chain and remain successful in this bifurcated market.

CONTENTS	FOREWORD	EXECUTIVE SUMMARY	PART ONE	PART TWO
<b>PART THREE</b>	ACKNOWLEDGEMENTS	AUTHORS	CONTACTS	ENDNOTES





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CONTENTS	FOREWORD	EXECUTIVE SUMMARY	PART ONE	PART TWO
PART THREE	<b>ACKNOWLEDGEMENTS</b>	AUTHORS	CONTACTS	ENDNOTES

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CONTENTS	FOREWORD	EXECUTIVE SUMMARY	PART ONE	PART TWO
PART THREE	ACKNOWLEDGEMENTS	<b>AUTHORS</b>	CONTACTS	ENDNOTES

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CONTENTS	FOREWORD	EXECUTIVE SUMMARY	PART ONE	PART TWO
PART THREE	ACKNOWLEDGEMENTS	AUTHORS	<b>CONTACTS</b>	ENDNOTES



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CONTENTS	FOREWORD	EXECUTIVE SUMMARY	PART ONE	PART TWO
PART THREE	ACKNOWLEDGEMENTS	AUTHORS	CONTACTS	<b>ENDNOTES</b>

# Endnotes continued



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CONTENTS	FOREWORD	EXECUTIVE SUMMARY	PART ONE	PART TWO
PART THREE	ACKNOWLEDGEMENTS	AUTHORS	CONTACTS	ENDNOTES





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