

# NCOIL Discussion

Paul Martin  
VP, State Relations  
Reinsurance Association of America

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# Elements of Reinsurance



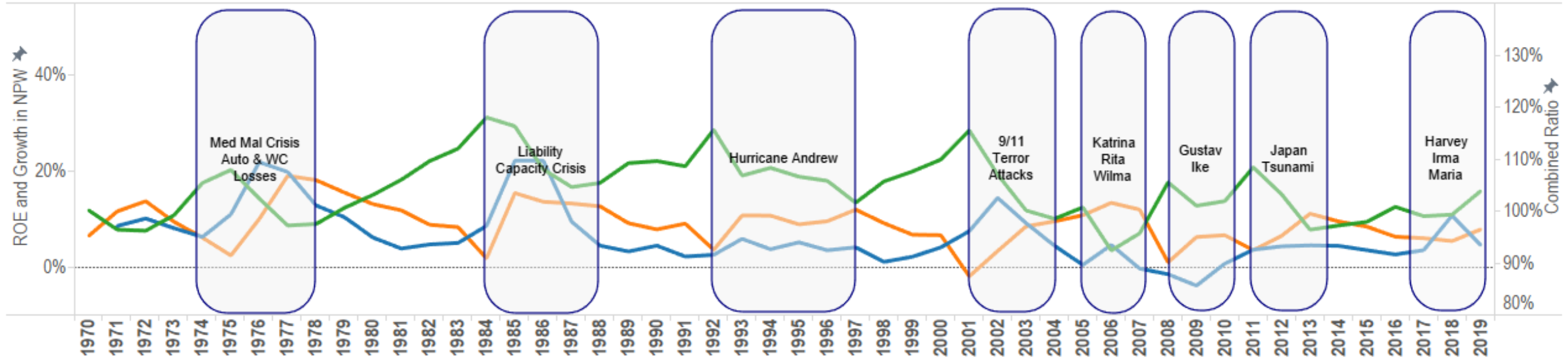
- Reinsurance is a form of insurance.
- There are only two sophisticated parties to the reinsurance contract - the Reinsurer and the Reinsured - both of whom are insurers, **i.e. sophisticated, regulated,** commercial entities empowered to insure.

# Elements of Reinsurance

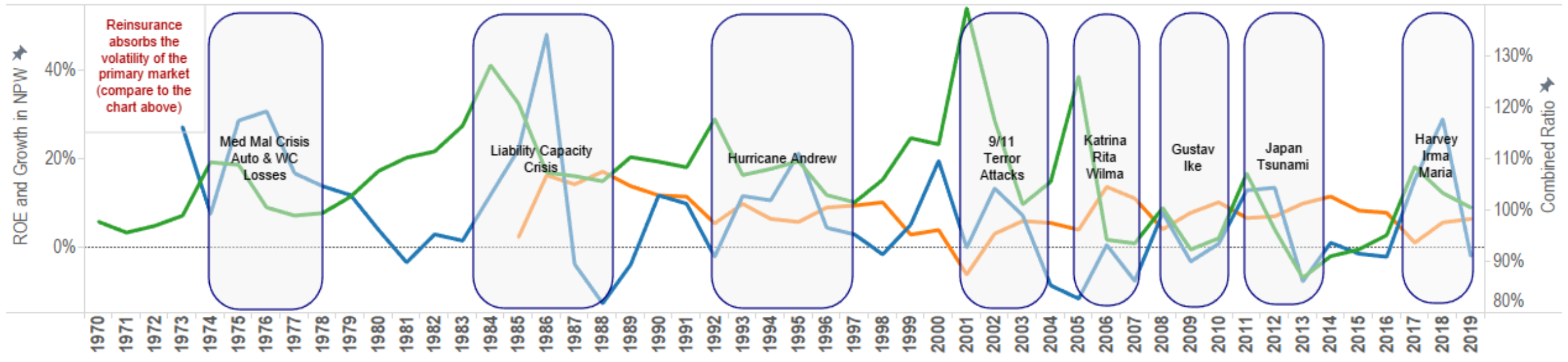


- Insurers buy reinsurance because it's a good business decision to do so.
- Insurers could also issue stock or debt to raise capital needed for solvency requirements.
- **Reinsurance is less expensive than those options.**

## U.S. P&C Industry Market Cycle



## U.S. Reinsurance Industry Market Cycle

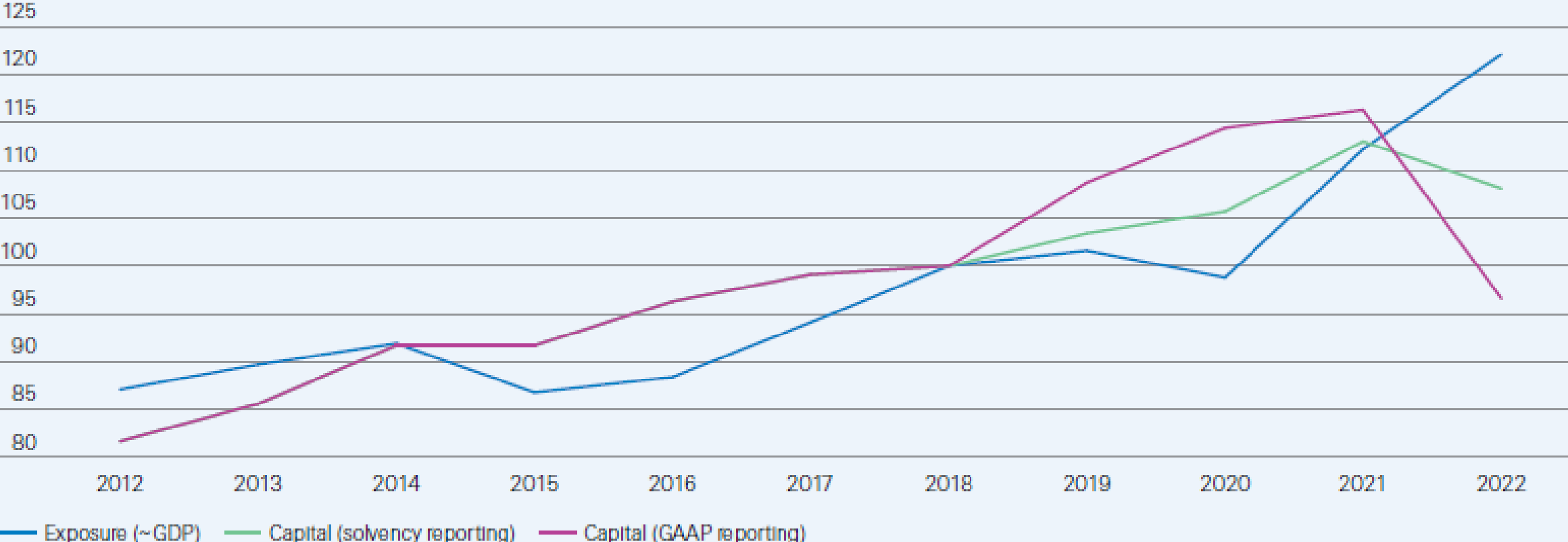


■ CR     
 ■ % Chg NPW     
 ■ ROE

# Global reinsurance capital vs exposure growth: a mismatch that looks set to stay

Demand for coverage for natural disasters had risen on evidence of increased catastrophe activity, and because of higher insurable values of buildings and other fixed assets. At the same time, catastrophe claims pay outs have reduced the supply of re/insurance capital. Rising interest rates and lower financial asset values have also contributed to supply constraints. Risk appetite has further decreased due to poor property re/insurance underwriting results in recent years, and widely held perceptions that risk assessments are underestimating actual loss experience. This is leading to hesitation on the part of capital providers to commit new funds to re/insurance risks and replenish the industry capacity.

Global reinsurance capital vs exposure growth, 2018= 100



Source: AM Best, Swiss Re Institute

# From the Previous Chart



Demand for reinsurance going up because of increasing cat activity and property values

“At the same time, catastrophe claims pay outs have reduced the supply of re/insurance capital.”

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“This is leading to hesitation on the part of capital providers to commit new funds to re/insurance risks and replenish industry capacity.”

# Gallagher Re 2023 Report



- “Six of the top 10 costliest [global] insured events of 2023 were severe storms in the US”
- “...a record 34 individual billion-dollar events in 2023, surpassing the previous record set in 2020 (32).”
- “The 32 weather/climate-related billion-dollar events tied with 2020 as the most recorded in a single year.”
- “The US accounted for 24 of the 34 billion-dollar insured events.”
- “A remarkable 11 US events resulted in a multi-billion-dollar insured loss.”

# AM Best Revises Outlook on Homeowners



September 19, 2023

“Given three consecutive years of net underwriting losses in the U.S. homeowners insurance segment owing to elevated natural catastrophes that have continued in the first half of 2023, combined with other ongoing market challenges, AM Best has revised its outlook on the segment to negative from stable.”



# 5 Things Policymakers Need To Know



Thing #1



Insurers and reinsurers are impacted  
by the same events

# Thing #1



- Reinsurers assume a share of insurer losses for a premium.
- By transferring potential losses to the reinsurer, an insurer can then write more policies.

Thing #2



Many challenges are happening simultaneously.

# Thing #2



- Increased frequency and severity
- Construction cost inflation
- Interest rates – both real and nominal
- Social inflation
- Supply chain

Thing #3



Focus on what you can control.



Building Codes/Land Use

Mitigation Funds

Underwriting/Rating Flexibility

Fair Claims Handling

Thing #4



Catastrophe funds are not a solution.





## A government reinsurer which:

- Collects similar risks
- In a similar area
- Requiring investment from the same people it's reinsuring.

## Thing #5



Will this *encourage* or *discourage*  
new insurance capital into your  
state?

# The Five Things



- Insurers and reinsurers are impacted by the same events.
- Many challenges are happening simultaneously.
- Focus on what you can control.
- Catastrophe funds are not a solution.
- Will this encourage or discourage capital?



[Martin@reinsurance.org](mailto:Martin@reinsurance.org)

(512) 267-4817