

# NEW HORIZONS OF INSURANCE

2nd MONTENEGRO INSURANCE DAYS  
Budva, Montenegro



# Guy Carpenter at a Glance

Guy Carpenter is a leading global risk and reinsurance specialist. We deliver unique expertise and perspectives to help clients achieve profitable growth. We do this through a powerful combination of:



## Reinsurance Broking

Unmatched expertise, global reach, and a profound commitment to the success of our client partners.

- Treaty and Facultative
- Lines of business/segment expertise



## Capital Solutions

GC Securities helps clients determine the best strategy and portfolio from the full range of capital solutions.

- Insurance-linked securities
- Collateralized reinsurance vehicles
- Catastrophe bonds
- Debt and equity issuance
- Mergers and acquisitions



## Global Analytics and Advisory

Industry-leading quantitative expertise and insights in the areas of capital, growth, and volatility, delivered via customized analytic solutions.

- Advisory, capital, and growth initiatives
- Analytics, actuarial, and catastrophe modeling
- Business and market intelligence



## Client Support Services

A global team dedicated to claims and premium processing, relationship management, and industry-leading claims consulting.

- 950+ people in 20 offices worldwide
- ~\$85 billion in claims collected over the last five years



**3,500+**  
Colleagues Worldwide



**70+**  
Offices in  
**37**  
Countries and  
Territories Worldwide



**\$61B+**  
in ceded premium in 2023



**100+**  
years of leading  
groundbreaking innovations  
across the industry

# GC CEE: Highly experienced team with global expertise and local presence

~€568m RI premium (2023)

~223 treaties & facultative contracts placed with 200+ reinsurers

## Strategic network

- ✓ 38 members @CEE team strategically distributed across hubs in **London**, **Prague** and **Warsaw**
- ✓ close to clients & markets
- ✓ intensive cooperation across offices

## Comprehensive expertise

integrating **broking**, **actuarial** services, **cat modeling** & technical **accounting** under one roof we deliver **comprehensive solutions** and service



Accross CEE  
+ 17 colleagues  
Analytics: 7  
Accounting: 4  
Broker support: 6

London  
5 brokers

Warsaw  
8 brokers

Prague  
8 brokers (incl. 3 facultative)

Munich  
biggest GC operation in Europe with Analytics, Strategic Advisory, broking and other competences

# 1<sup>st</sup> January Renewal 2024

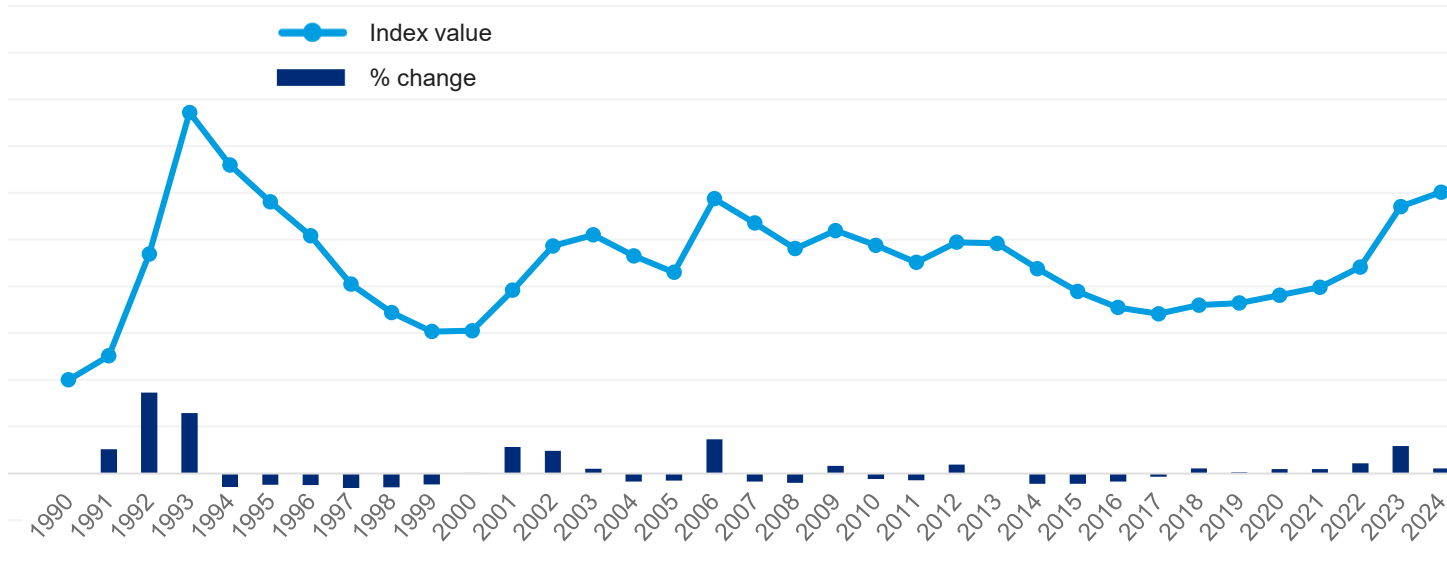
The Index of global property catastrophe reinsurance pricing is up 76% since its last low in 2017 and has risen every year since then



## Property Catastrophe Reinsurance ROL Index

### Global Property Catastrophe Reinsurance ROL Index

Source: Guy Carpenter



The Guy Carpenter ROL index is a measure of the change in dollars paid for coverage year on year on a consistent program base. The index reflects the pricing impact of a growing (or shrinking) exposure base, evolving methods of measuring risk and changes in buying habits, as well as changes in market conditions. Unlike risk-adjusted measurements, the index is not dependent on the model or method used to measure the amount of perceived risk in a program, which can vary widely.

Global **+5.4%**

US **+5.25%**

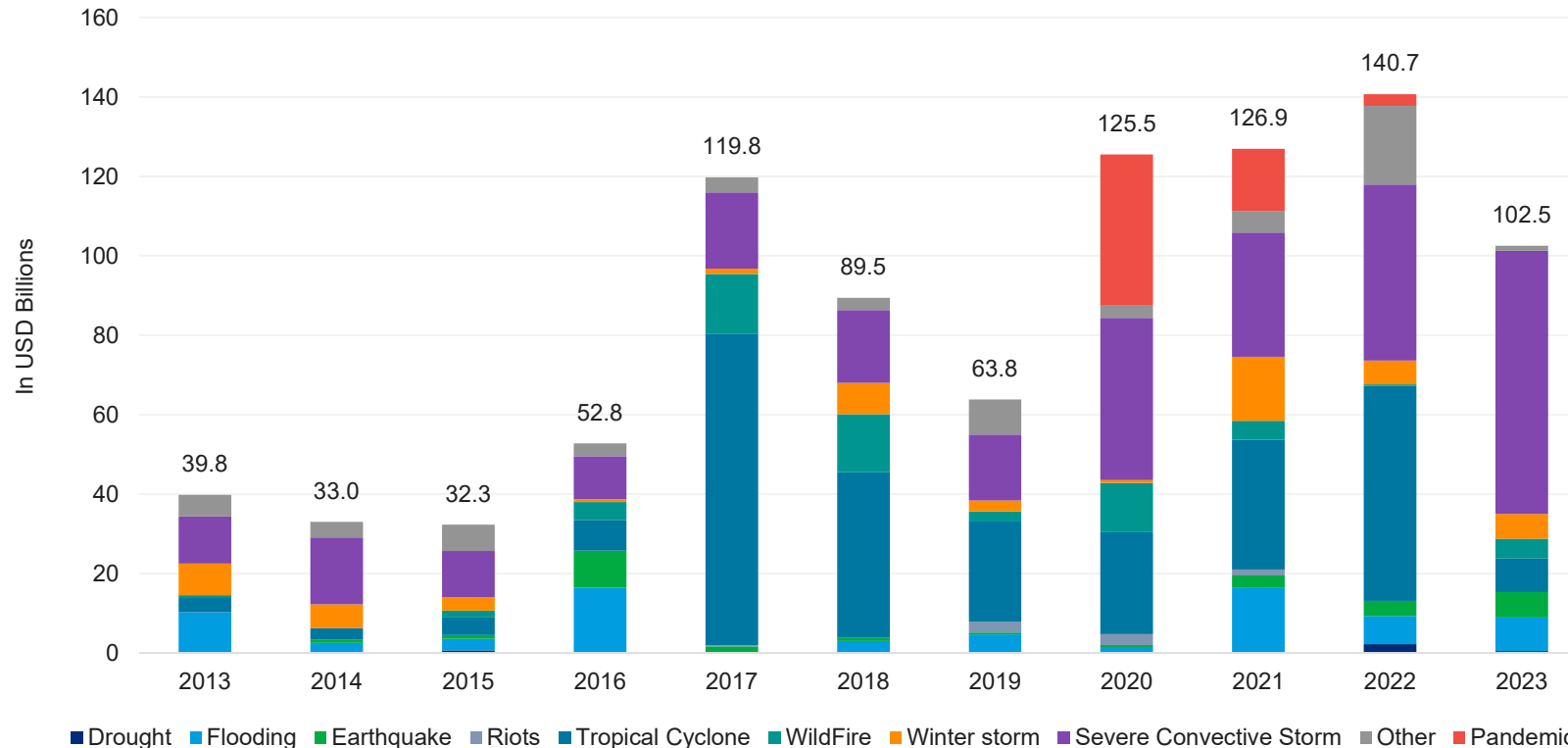
Europe **+7.6%**

# Global Large Losses Top \$100B Again, but No Single Event Over \$10B

## Severe Convective Storms Drive the 2023 Losses



Significant Insured Losses by Peril – Global

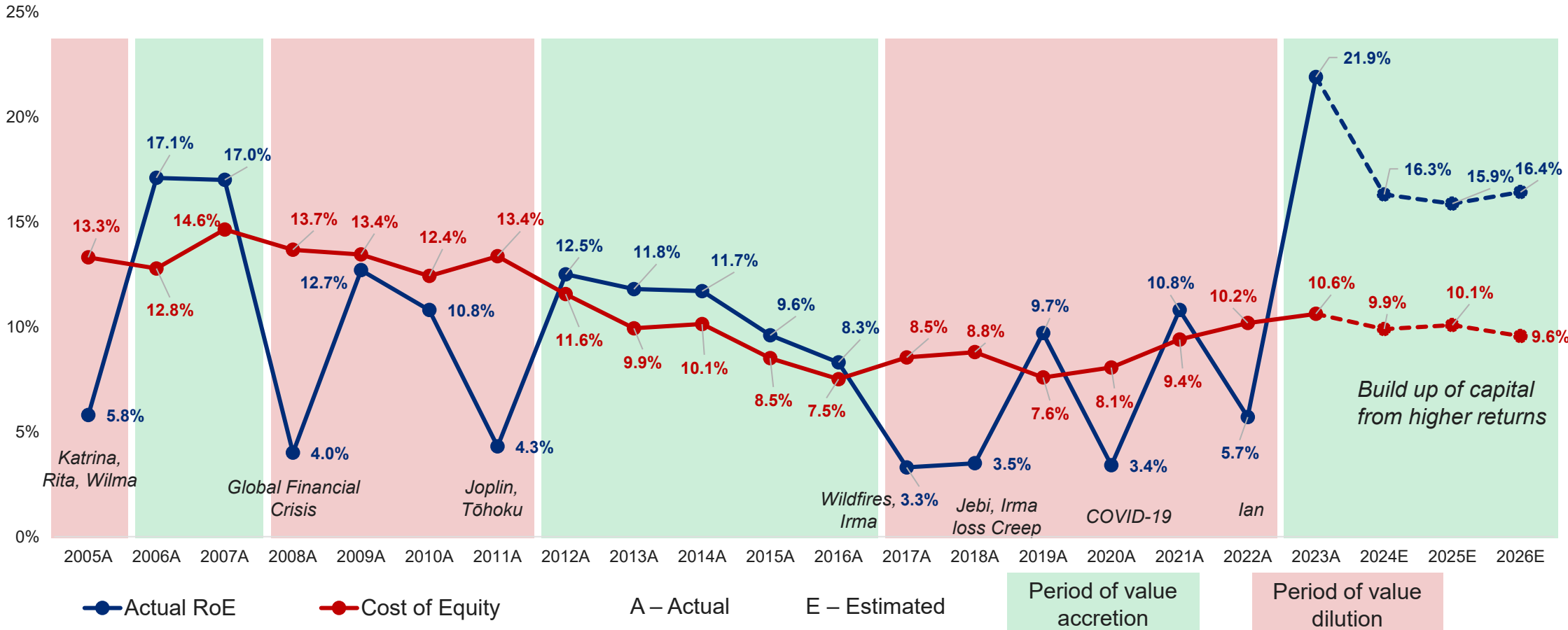


\*Significant Insured Losses (Est. losses > USD 100M) – Not adjusted for inflation

- The 2023 total insured industry large losses, an aggregation of events in excess of USD 100M of insured loss, currently exceeds **USD 102.5B**. Loss drivers include the Turkey earthquake, global wind/hail events, the Hawaii wildfire, New Zealand floods and cyclone and Hurricane Otis.
- The **top five insured loss events for 2023** are currently estimated to be:
  - Turkey Earthquake USD 6.2B
  - Q3 Italy Hailstorms USD 4.8B
  - Q2 Wind and Thunderstorm Event in Central US USD 4.5B
  - Q1 Wind and Thunderstorm Event in Central US USD 4.4B
  - Q1 Wind and Thunderstorm Event in Central and Eastern US USD 4.3B

# Reinsurers achieve their best return in at least 20 years

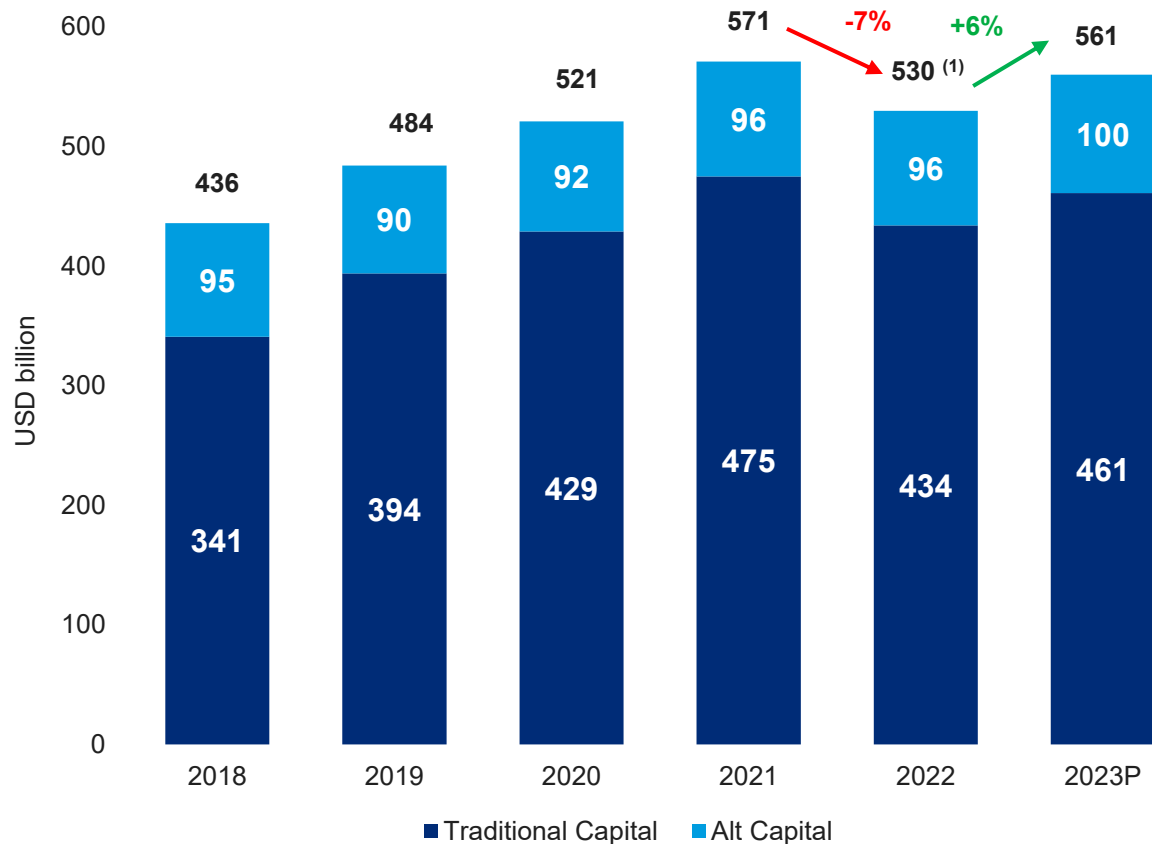
## Return on Equity vs Cost of Equity



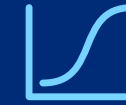
... hardening rates and tighter terms and conditions have contributed to the market's improved profitability

Note: All calculations are based on the GC Reinsurance Composite; 2024-2025 estimates @ 26 March 2024 and subject to change. Prior version on 25 February 2024 included RoE forecasts (2024-2025E) 16.4% and 15.8%. The forward looking estimates of Cost of Equity for 2024-26 are adjusted to their implied end-2024 values. Source: S&P Global, Visible Alpha, Guy Carpenter calculations. 2022A RoE restated from 4.2% to 5.7% reflecting IFRS 17 companies' restatements and the addition of Hamilton and Fidelis to the constituents of the GC reinsurance composite.

# View on Markets | Reinsurance Capital Restored



(1) 2023/22 YoY change excluding 2022 Fixed Income Capital Adjustment +10%, Traditional Capital +12% and Alternative Capital +4%.



## Capital Trends

- Not a “capital constraint” issue, more “willingness to deploy”
- Existing reinsurers driving capital rebound not new entrants
- Regulatory solvency capital ratios reached record highs
- 1/1 property capacity ample outside of frequency-exposed layers and more heavily loss-impacted segments



## Alternative Capital

- Cat bonds represent ~42% of alternative capital
- Record 69 cat bonds issued in 2023 (USD15bn) taking total notional outstanding to a record high USD42bn (+21% YoY)
- Expect investors to maintain activity in cat bonds
- Reinsurers continue to manage volatility

# STRUCTURED REINSURANCE SOLUTIONS

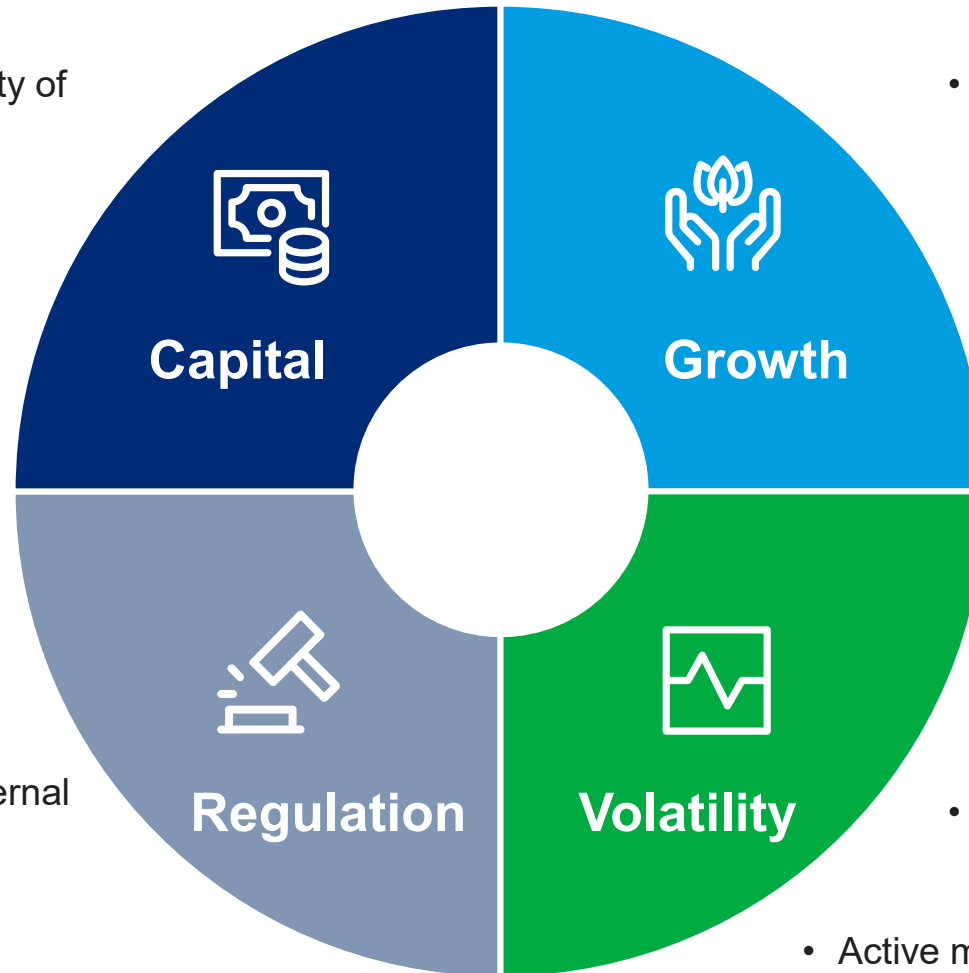


# Motivations for structured reinsurance solutions

## Strategic use cases for reinsurance beyond traditional risk transfer

- Enhance efficiency and flexibility of capital structure
- Overcome short term capital constraints
- Manage capital constraints from reserve risk or discontinued LoBs

- Managing capital requirements (Solvency)
- New legislation or regulation
- Risk appetite management (internal regulation)
- ORSA



- Financing growth (in the market, one line of business)
  - M&A
  - Growth ambitions
  - Regional expansion

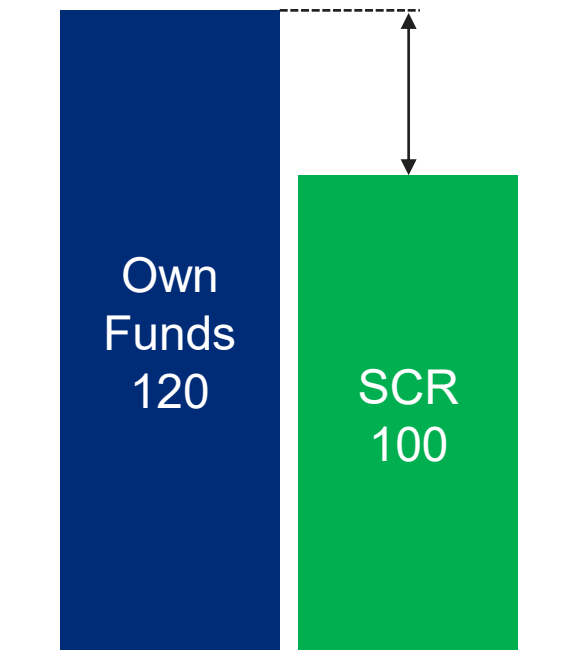
- Mitigating volatility caused by Increased retention due to hard market
- Support achievement of KPIs
- Protection of P&L and dividend policy from earning volatility

- Active management of risk retention to gain independence of the market cycle

# Solvency Relief Quota Share

Initial position with 120% Solvency ratio

$$\text{Solvency ratio} = \frac{120}{100} = 120\%$$



Implementation of Capital Relief Quota Share:



Under Solvency II, a Quota Share solution has an efficient impact on the premium risk (immediate) and reserve (progressively) risks, possibly on catastrophe risk, allowing a substantial capital relief.



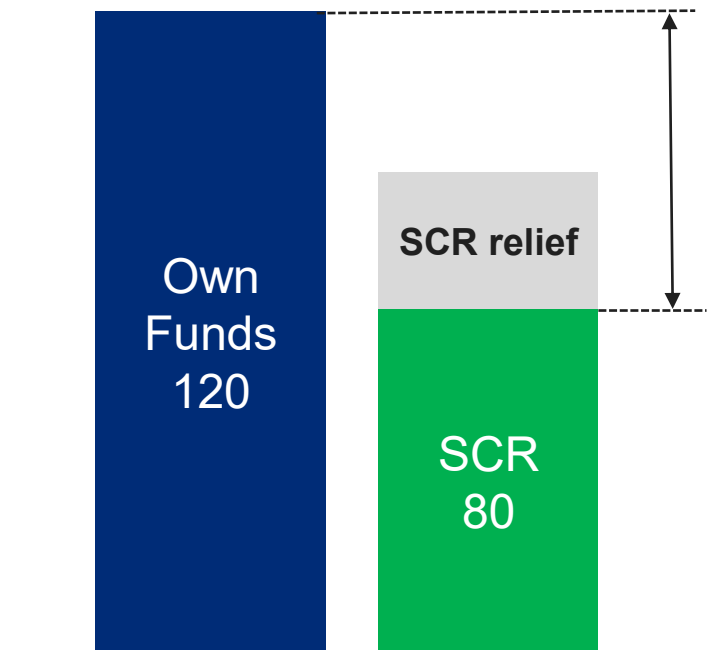
A traditional Quota Share may not be convenient as the client may end up ceding more profit than desired. However, with a sliding scale commission cedant effectively pays only fixed fee/margin.



The funds withheld feature avoids cash outflows

Improved position with 150% Solvency ratio

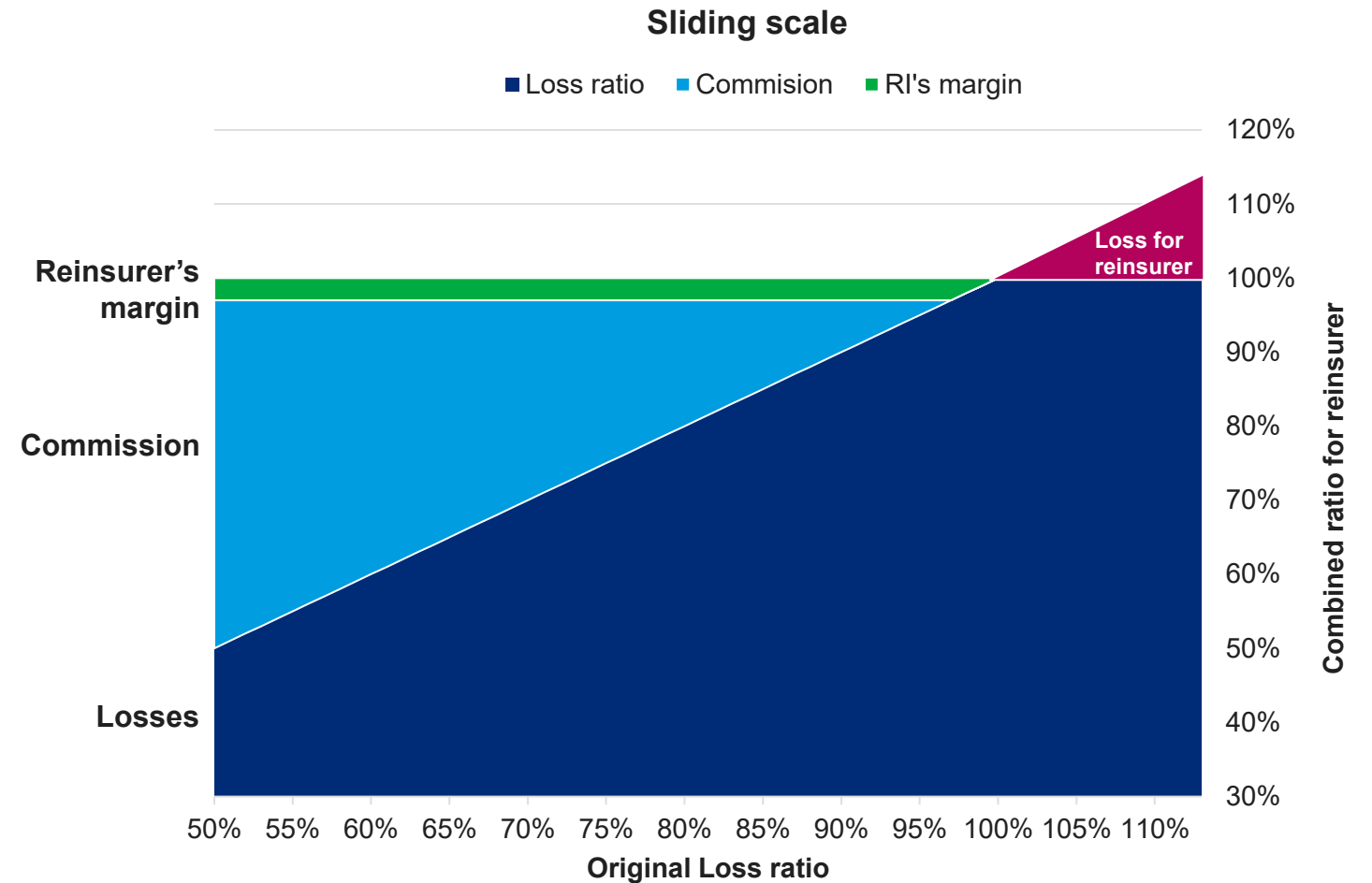
$$\text{Solvency ratio} = \frac{120}{80} = 150\%$$



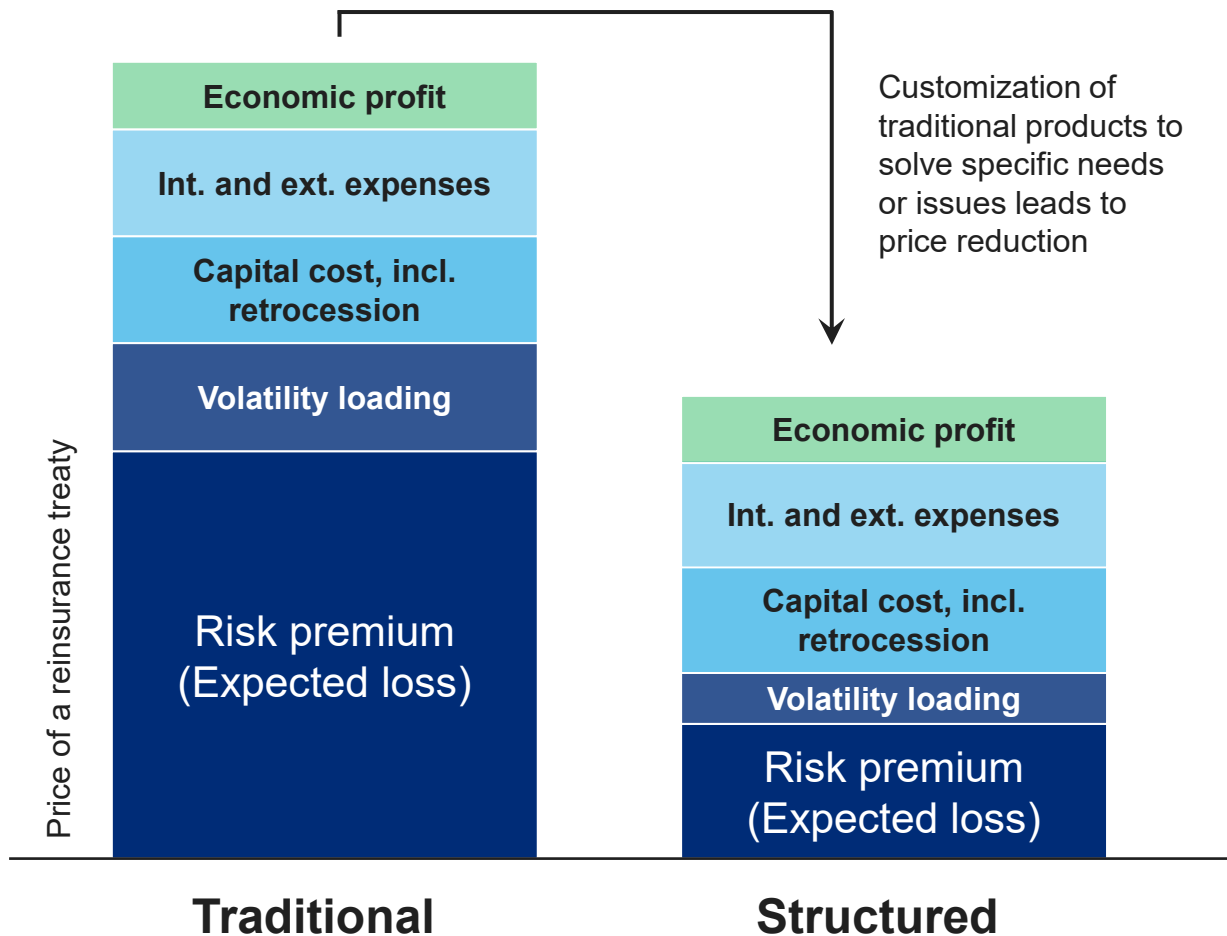
# Sliding scale commission securing fixed ceded margin

Sliding scale implying ceded margin of 3%  
(47% at 50% LR and 0% at 97% LR)

Loss ratio	Commision ratio	Combined ratio	RI's margin
50%	47%	97%	3,0%
51%	46%	97%	3,0%
52%	45%	97%	3,0%
53%	44%	97%	3,0%
54%	43%	97%	3,0%
55%	42%	97%	3,0%
....	...	...	...
96%	1%	97%	3,0%
97%	0%	97%	3,0%
98%	0%	98%	2,0%
99%	0%	99%	1,0%
100%	0%	100%	0,0%
101%	0%	101%	-1,0%
102%	0%	102%	-2,0%
103%	0%	103%	-3,0%
104%	0%	104%	-4,0%



# Limiting risk transfer to optimize ceded profit and cost



## Structured features to tailor risk transfer:

- Loss participation
- Loss corridor
- Loss cap
- Loss carried forward
- Tailor-made broad sliding scale on 1:1 basis
- Fixed commission with profit commission
- Variable cession
- Funds Withheld Account

**WIN – WIN situation: by limiting risk transfer and volatility reinsurer is able to provide cover with same margin and lower upfront premium, as pricing is dominated by cost of capital component**

# Comparison with alternative capital relief tools

	Traditional Quota Share	Solvency Relief Quota Share	Raise of capital
<b>Flexibility</b>	Medium	High ✓	Low
<b>Costs</b>	“Unknown”	Fixed ✓	Fixed
<b>Risk Transfer</b>	High	Tailored-made ✓	n/a
<b>Ceding Commission</b>	Fixed / narrow sliding scale	Broad sliding scale ✓	none
<b>Implementation</b>	Normal	Fast ✓	Slow and complex
<b>Exit</b>	Simple	Simple	Complicated
<b>Cash flow</b>	full	Minimum ✓	n/a



Guy Carpenter & Company, LLC provides this report for general information only. The information contained herein is based on sources we believe reliable, but we do not guarantee its accuracy, and it should be understood to be general insurance/reinsurance information only. Guy Carpenter & Company, LLC makes no representations or warranties, express or implied. The information is not intended to be taken as advice with respect to any individual situation and cannot be relied upon as such. Please consult your insurance/reinsurance advisors with respect to individual coverage issues.

Statements concerning tax, accounting, legal or regulatory matters should be understood to be general observations based solely on our experience as reinsurance brokers and risk consultants, and may not be relied upon as tax, accounting, legal or regulatory advice, which we are not authorized to provide. All such matters should be reviewed with your own qualified advisors in these areas.

Readers are cautioned not to place undue reliance on any historical, current or forward-looking statements. Guy Carpenter & Company, LLC undertakes no obligation to update or revise publicly any historical, current or forward-looking statements, whether as a result of new information, research, future events or otherwise.

This document or any portion of the information it contains may not be copied or reproduced in any form without the permission of Guy Carpenter & Company, LLC, except that clients of Guy Carpenter & Company, LLC need not obtain such permission when using this report for their internal purposes.

The trademarks and service marks contained herein are the property of their respective owners.