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Further Premium Increases Of Between 5% And 10% In 2024 Due To Reinsurance Hikes

By Miguel Díaz Román

Consumers should not expect reductions in insurance premiums this year, especially in property insurance premiums, and should at least be prepared to face further increases that, while not as high as those recorded last year, will have an effect on the budgets of citizens and businesses.

The increases will range from 5% to 10%, which means that consumers' pocketbooks will be inevitably impacted, which will not be as dramatic as last year's increases, which in some cases represented increases of between 40% and 50%.

This was anticipated by the president of Antilles Insurance Company, Jaime González Portilla, who indicated that this year there is still limited capacity in the reinsurance market.

"What we've seen and heard is that we're seeing an increase of 5 to 10 percent. All of this is due to the fact that catastrophic reinsurance capacity is limited and especially for Puerto Rico," Gonzalez Portilla said.

The executive said that insurers that had to renew their catastrophic reinsurance contracts in January have already experienced an increase, which will translate into an increase in premiums of between 5% and 10%. He indicated that the other renewal period for catastrophic reinsurance contracts for insurers will occur in the months of April and May.

"If more new reinsurers were coming into the market, there would be more supply at low prices and premiums could go down. But that's not the case," Gonzalez Portilla said.

"We renewed in May. Last year, the increase in reinsurance represented an increase of up to 40% in our case. This is not going down. We must continue to talk about the issue of increasing premiums and it is all due to the limited capacity of reinsurance," insisted the president of Antilles Insurance Company.

Reinsurance is a mechanism used by insurers to spread their risks and limit the financial liabilities they could face in the event of a catastrophic event. Reinsurance contracts make an insurer an insured of a reinsurer.

This implies that insurers must share with the reinsurer a substantial part of the premium they charge to ensure the protection of those risks (properties) that are included in the reinsurance contracts.

González Portilla explained that reinsurance companies always have the alternative of making passive investments in investment vehicles (such as short- or medium-term bonds) that do not represent any risk to their investors.

He said the Federal Reserve's 2022-2023 interest rate hike has increased pressure on investors in reinsurance companies to make substantial returns on catastrophic reinsurance contracts.

"Remember that these reinsurance companies at this time and because of the rise in interest rates, they can invest their money and ensure good returns (profits) of between 5% and 6% without any risk. So why expose that capital in the reinsurance market? And the companies that are doing it (staying in the reinsurance business) their investors are demanding that their returns be very favorable. Obviously, that's why reinsurance prices aren't falling. They're going up 5% to 10%," he said.

The executive added that those customers who, for the purposes of the premium, their properties were not estimated at adequate rates should expect increases between 5% and

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The executive added that those customers who, for the purposes of the premium, their properties were not estimated at adequate rates should expect increases between 5% and

10%. However, those clients whose properties were estimated at appropriate rates may experience a slight increase or even no increase in their premiums this year.

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S&P Global has raised its view of the global reinsurance sector to stable from negative, due to higher reinsurance rates and increasing investment income, while Moody's kept its outlook for the sector stable.

Contents:

> **The COVID-19 pandemic, war, inflation and climate change-fuelled natural catastrophes have put upward pressure on reinsurance rates in recent years.**

As per a new report from Fitch Ratings, reinsurance rate increases for property catastrophe business are likely to slow to below 10% on average when contracts are renewed in January 2024, though underlying profitability for the sector is still expected to improve throughout the year.

Fitch forecasts the sector's combined ratio to be 94% for 2024 and expects its near-term return on capital to exceed its 8%-10% cost of capital.

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Traditional reinsurers' have greater appetite

should result in less upward pressure on prices than during the January 2023 renewals.

U.S. property catastrophe reinsurance rates rose by as much as 50% at July renewals, broker Gallagher Re said in a report, with states such as California and Florida increasingly hit by wildfires and hurricanes.

> **Price increases, and better terms and conditions in 2023, and to a lesser degree in 2024, will continue to support underwriting margins.**

Normalised for major losses, we expect margins to peak in 2024, Fitch says. Investment income will continue to bolster earnings as reinvestment yields are still above average portfolio yields.

Ahead of the Jan. 1, 2024 reinsurance renewals, reinsurers' overall appetite for US regional property catastrophe coverage remains healthy, but carriers are proving less willing to provide aggregate covers for regional property Cat risk, preferring instead to deploy capital through occurrence excess of loss (XOL) programs.

Jan. 1, 2024, reinsurance renewals look set to be less contentious and economically painful for cedents than last year, with ample property and property catastrophe capacity available, but coverage is still expected to come at a higher price

The findings are significant, as half of respondents said that from 40% to 60% of their US book renews at Jan. 1, 2024. And for 59% of reinsurer respondents, regional clients made up at least 40% of their Jan. 1, 2024 renewals.

Reinsurance pricing for natural catastrophe risks

Analytics believe reinsurance pricing for natural catastrophe risks will better reflect the impact of climate change on claims, particularly as several reinsurers are cutting back on cover for medium-sized natural catastrophe risks, making pricing less competitive.

According to Natural Disaster Trends, most natural disaster databases show a significant decline in the number of annual global events prior to 1980.

3 global drought events were among the 10 costliest disasters, which underlines the growing significance of the peril on a global scale. These occurred in the United States, Europe and China. But data analysis has not completely removed the data gap, it has made major progress in identifying a large portion of events.

S&P Global pointed in a note to rising rates and tighter terms and conditions when policies in reinsurance – insurance for insurers – were renewed during 2023. This resulted in the hardest market in decades in some lines of business.

Fitch has updated its global reinsurance forecast and anticipates the calendar-year combined ratio to improve by 5.5pp in 2023, driven by reduced cover for catastrophe losses.

"The insured natural catastrophe claims are likely to exceed $100 bn again in 2023, however, global reinsurers have been far less affected than in 2022.

However, analytics forecasts the combined ratio to increase by about 2pp in 2024 as the return of more large natural catastrophe events would push the ratio up although underwriting margins excluding catastrophe losses should marginally improve.

Reinsurance rates are likely to continue to rise in all lines of business next year, according to a Moody's survey of global property and casualty reinsurance buyers released this week, partly due to claims inflation.

Buyers see percentage reinsurance rises in

Analysts at S&P Global and Moody's expected rates to rise further in 2024, after reinsurers took the brunt of catastrophe losses in recent years.

Moody's said healthy balance sheets also supported its stable view on reinsurers, though it said reinsurers remain vulnerable to large catastrophe losses.

"Insured losses stemming from natural catastrophes rose to $50 bn in the first half of 2023, the second-highest reading since 2011, Swiss Re said.

Challenges such as elevated natural disasters, increasing cost of capital, financial market volatility, and inflation risk persist.

Fitch therefore forecasts an improvement in underlying profitability for the global reinsurance sector in 2024, and is maintaining its improving fundamental sector outlook.

"Negotiated attachment points for reinsurance cover are higher, and aggregate covers less available, meaning that reinsurers bear a lower share of medium-sized natural catastrophe claims, and cedents a higher share, Fitch said.

The firm noted that it does not expect this to change much in 2024 as reinsurers' appetite for lower layers of property catastrophe risk remains limited.