

Dave:

Welcome, Laura, big hand for Laura.

Lara:

Thanks everybody.

Dave:

Thanks for joining us.

Lara:

Yeah, thanks for having me. This is fantastic.

Dave:

Glad you enjoyed it. So Laura and I have known each other forever. We're dear friends, we're colleagues for a long time. But in addition to that, Laura is the go-to person for guy carpenter as to what's going on in the reinsurance world, gets to travel the world a lot, talk to lots of reinsurers and capital markets and lots of different companies. And so that aerial view that reinsurers get, whether we're talking about reinsurance price or capacity or something more macroeconomic, it's nice to have that aerial view. So thank you for providing that to us.

Lara:

Absolutely.

Dave:

So I thought I'd have a couple of questions and then if we have time, we'll open it up to people, but to get it going, so we have an April 1st renewal, and so we are pretty much done with that and it's felt a lot better this year than it did last year. We had some certainty around capacity and kind of knew what we were going to get for price, and actually price was a little better than what we thought it might be.

Lara:

Glad to hear that.

Dave:

Thank you. So are we alone in this? Are other people feeling it? And just in general what's driving the current state?

Lara:

Yeah, definitely. Other people are feeling it. There's been a really amazing shift in the last 12 months and maybe to take one step back, I won't take too long, Dave. Dave knows I can talk about this stuff all day long, so I won't take too long. But to take a little step back and give some color around how we got to the conditions in 2023 and why they were so painful and then how we've now started to reverse out of that a little bit. There is a glimmer of light at the end of the tunnel that you're feeling and other people are feeling. So if you think about the way that reinsurance works, it is really dependent on supply

demand to economics. So if we look at from 2006 to 2017, 2006, we had elevated pricing because we'd just come off two years of having eight hurricanes and that affected the entire market.

A lot of capital came out of the market because of those hurricanes and capital wasn't as dynamic and wasn't as fluid at that point. So took a while for capital to start coming back in. But the pricing environment at that point was pretty interesting. And then you had an environment that developed of really low interest rates for a long time. So you have investors out there who are trying to find things to do with their capital. Reinsurance is a tiny corner of the world. There are very few people that know anything about it. But it started to come to the attention first of hedge fund managers and then of pension fund managers to think about the reinsurance space as a viable alternative to making some pretty good returns. And what we call alternative capital started to come into this space in a fairly robust way.

So if you look for example, between 2013 and 2016, you went from about 45 billion of this alternative capital to 75 billion of this alternative capital we're now at a hundred billion. So this capital's come in. That was a period of relatively moderate catastrophe loss activity. And so pricing continued to get better and better. And this alternative capital coming in operated very efficiently. And this created an environment where pure and others could buy reinsurance at a very economical price point. And the structures that insurance companies could buy tended to stay very stable through this period, because there was a lot of capital, there was a lot of capacity. People didn't have to adjust their retained amount of risk upwards because they could continue to buy at a level even when valuations were going up and their own surplus was going up. So all of this led to this very stable, very well capitalized space.

2017 happens, it was only the third time in history, we'd hit over a hundred billion dollars of global catastrophe loss hadn't happened in a while. It was a big shock to the system, but this is what we're all here for, these kinds of things, making people whole after unexpected events. So that was okay. And we got through 2017 relatively well, except that 2018 was also elevated loss. And we'll get more into the losses in a little bit. Investors used to ask in the sort of mid-teens when a lot of this capital was coming in, are we ever going to see a truly hard reinsurance market again? And we would say, well, there's a couple of things that could drive that. One losses is happening in a very unexpected way. So when investors are thinking about putting capital in the space or insurance companies are thinking about how they best utilize their capital to serve their members and their insureds, it's dependent on this view of what makes sense in the broader economics that are going on out there in the world.

And so losses happening in a very unexpected way or something bigger happening with the economy. Right? We'd been very stable, very low interest rates for a long time. Losses started to pour in, not just in one year, not just in two years, but over a multiple year framework. At the same time, interest rates started to move. So now investors have other more interesting things that they can do with their capital. And this really created conditions where in 2022, going into 2023, we'd had another loss year excess of a hundred billion dollars of global cat loss capital had come out of the sector interest rates are moving. That interest rate movement did a couple of things. It gave investors other things to do with their money. It created competition for that capital. But it also impacted insurer and reinsurers own capital adequacy on their balance sheets.

So when interest rate prices go up, insurance companies and reinsurance companies have to hold money in fairly liquid form. Those assets actually decreased in value on their balance sheet because if they have to liquidate in the short term, they have to reflect that on paper. Even though the value of those things long-term really wasn't going away. A whole bunch of capital came out of this space through these mechanisms. View of risk changed. We got 2023, which was one of the most painful, most difficult reinsurance markets, just it created an incredible amount of angst for everybody in the space. So now we get to where we are now, interest rates are starting to come back down. Some of that

inflationary pressure that was also having an impact is starting to moderate. We've seen almost a complete rebounding capital. So we're almost back to where we were call it 18 months ago.

23 billion of that last year was just a correction that am best made in the way that companies were accounting for capital in our reinsurer composite index. So that was sort of a paper reversal of what had happened before to take capital away. So now all of a sudden you've got 23 billion of capital you didn't have before, and even though it's on paper, it impacts the way reinsurers are able to give you reinsurance coverage. So we are in much better capital conditions. There is more of a desire to be able to use that capital and deploy it. Reinsurers and their investors have seen the adjustments you had to go through in pricing in attachment points of where that coverage fell and all the other really globally companies had to go through this last. They've seen all of those changes. They're starting to feel more comfortable. There's much more capital now allocated and things are normalizing a bit more.

Dave:

It's good to feel it being more stable. So it's good that there's more capital, more capacity pricing, not moving a lot, but maybe a little bit here and there still at a fairly high level as we think about different regions or different perils though it's a different story if you think about the Midwest or California or others.

Lara:

Very much.

Dave:

Do you want to pick one region and just touch on it, Laura?

Lara:

Yeah. Well, we've touched on the way that cat losses have impacted the way that reinsurers and insurers have to view risk right now and long-term, if we just take California for a minute, I know everybody here who does work in California loves California and the insurance department. So let's just take California for a minute. View of risk has undergone a dramatic shift in the state, and unfortunately we're never going to be able to go back. So going into 2017, California wildfire was one of the things that drove 2017 to be over a hundred billion dollars loss year. There was over 10 billion of wildfire risk that happened in California that year. The exact same thing happened the next year in 2018. So back to back years of let's just call it 10 billion of loss. That's as much loss in one year in California and wildfire as they had experienced in any previous 10 year window combined.

And it happened in two years back to back. Now, there are a lot of reasons you can get into as to why those wildfire losses happened, and that's part of what insurers and reinsurers work to unpack as we think about how to move forward out of this, right? Because once you know that 10 billion of wildfire loss can happen in a year, and we've got the same issue going on right now with SCS in the Midwest. Martin touched on it in his opening comments yesterday. When you look at what's going on with SCS 2023 set a record for billion dollar SCS events, we're going to be at another a hundred billion loss year in 2023 based on the, sorry, based on the way we measure it, we're not quite there yet, but we're going to be once the numbers settle out, and it's a really, really different loss year than we've seen with those other a hundred billion years.

So in every other a hundred billion year, you have some kind of key event driving the ability to get to that number. In 2023, the largest event was the Turkish earthquake at about \$5 billion. The next three largest events were North American tornado hail events. That's unheard of in terms of historical loss

trends. If you look at the total a hundred billion dollar number, just under 80% of it was driven by North American losses. And if you look at those North American losses, about 80% of those were severe convective storm. So it was death by a thousand cuts last year.

Reinsurance retentions adjusted at the beginning of 2023, and then as people were going through their renewals in the year. So the dynamic between what insurance companies had to retain of that loss and what ended up being taken on by reinsurers was very, very different than if we had just seen a 50 billion hurricane. So all of these dynamics play into how companies and you, when you're thinking about how your reinsurance supports your ability to offer coverage, think about what that now looks like going forward and the fact that for a number of years, pure and others could get access to pretty attractively Bryce Reinsurance at pretty attractive coverage levels. But now we all know a lot more because we've experienced things very differently in the last five, six years.

Dave:

Is there anything that brokers can do or individuals can do to harden their homes or protect from wildfire apparels more in order to have more solutions effectively instead of just waiting on others to create a solution?

Lara:

And I'm so glad you asked that question because mitigation is so near and dear to my heart. And the way that I think about catastrophe reinsurance and where we're going as an industry mitigation absolutely has to be at the center of the conversation. We can't just keep having losses that get bigger and bigger and bigger and have to charge more premium. And the only way to really start to get a handle on that is to think about how you mitigate that loss in the first place. I mean, there's been amazing amount of discussion about mitigation when you are thinking about your members, right? It's constantly on your minds. There's a bigger conversation to be had around that relative to catastrophe mitigation. It's really interesting. So IBHS Institute for Business and Home Safety is a nonprofit that's funded by the insurance industry to think about these exact issues.

And they have amazing facilities where they can put a life-size house through cat five hurricane winds, and they can light it on fire and simulate wildfire conditions and see what you can do to that house to mitigate that amount of damage from wildfire, right? So they know there are things that you can do if you're building a house in California to make it wildfire resistive. The crazy thing is you can do those things if you're building the house right now for exactly the same price as building the house without them. But people just don't know, right? Insurance companies don't necessarily think of it when they're thinking about the rebuild process. Contractors don't necessarily understand that, and consumers don't know what to ask for. And so if we have better education broadly around how truly effective some of these measures are, you talk about vegetation control around your house.

I saw an interview with a woman after one of the wildfires who had vegetation grown right up to the walls of her house, and they were talking to her about why she didn't have it paired by. She said, why would I do that? I love my vegetation. It's beautiful. Well, okay, but that's what you can have vegetation a bit further out, and there are things you can do on a broader scale. This whole idea in California of people moving further and further into the wooley, right? I dunno if everybody's familiar with the wooley, but the wildlife urban interface, that barrier between where people should live and nature happens. Well, there's now giant houses sitting in that, probably some of yours. And it's much, much harder to defend those houses when they're in places like that. So yeah, there's a whole range of things around mitigation that I think really can be done. And a lot of it starts with just educating people.

Dave:

Yeah, I agree with all of that. And the other thing I would add is that from the reinsurers perspective, and we have some reinsurers in the room who might say something differently for their individual company, but in aggregate, the insurers were saying wildfire risk was this big five years ago. And then they said, oh no, it's this big. And so now even if you risk mitigate, you might be somewhere in the middle, but it's way higher than it was. And so there's just so much more apprehension and more cost and not a lot of certainty in the way that it gets modeled these days. So is the emotion in reinsurers, is it changing? Do they have more of a partnership? And we are just about out of time. So if you don't mind answering that question and then letting people know how they can access reinsurance information, we'll end at that.

Lara:

Okay. So yes, we absolutely are seeing a difference in reinsurers. Thinking about individual portfolio characteristics, delving deeper into the business that you're writing, how you're thinking about your own mitigation strategies, what is this portfolio comprised of? How much of mitigation are individual policy holders actually reflecting within the data itself? I think at the January 1st, 2024 renewals, we probably saw more interaction and a deeper dive and providing more data than we ever had. And it does differentiate companies. You can speak from what you see, but we feel like somebody like Pure gets more interest from more reinsurers, and that leads to more capacity and competition to want to be part of your program. So yeah, it's a great question. But that's definitely going on as far as learning more about reinsurance, keeping abreast of what's going on in the reinsurance space as we all learned yesterday. You can just ask chat GPT, and it will tell you everything you ever wanted to know.

If that doesn't work or doesn't work to your satisfaction, there's so much information put out. So January one's a huge renewal date, about 50% of the world's global reinsurance renews at January one. There's a lot of publications and analysis put out after that. Guy Carpenter has, if you go to [guy carp.com](http://guycarp.com), we have a link there that actually takes you to a hub page that'll give you a whole bunch of analysis on what happened and what market conditions are. Other brokers have similar things, I'm sure probably not as good, but you could look at those too. And you can Google me or Chad, GPT me, I'm out there. I'm always happy to answer questions. We

Dave:

Appreciate it. Laura. Thank you so much for being on stage with us.

Lara:

Thank you for having me. Of course.