American Property Casualty Insurance Association
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Cost of capital skyrockets

Property insurers are facing significant turbulence, which is impacting the cost and availability of insurance in catastrophe-prone markets across the U.S.

Economic inflation, social inflation (e.g., legal system abuse), supply chain constraints, and increasing catastrophic weather are contributing to increasingly hard market conditions for property (re)insurers.

Reinsurance

• ***All perils impacted*** – Coastal/wind markets have been difficult following three active hurricane seasons. However, there has also been a continued hardening across secondary perils, such as wildfire and convective storms (e.g., tornadoes and hail), as secondary perils are increasingly contributing to global losses.

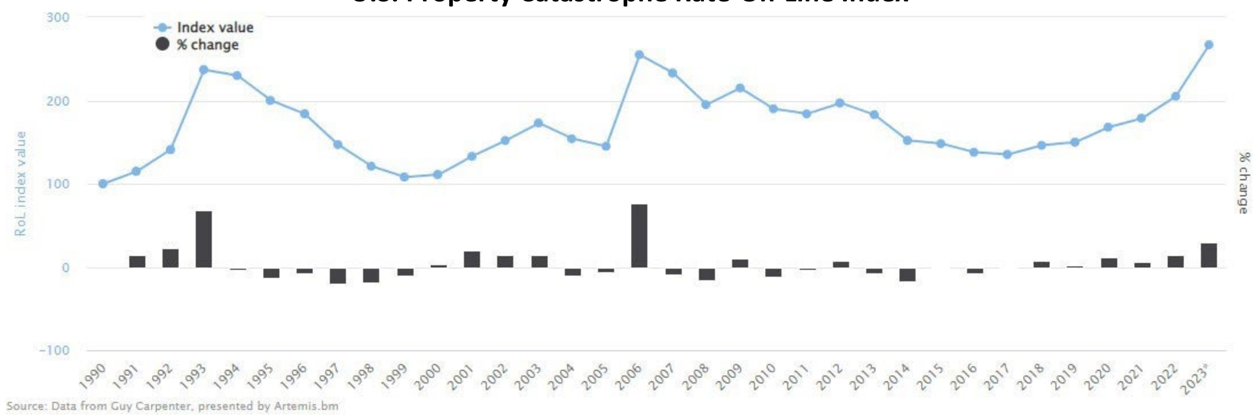
• ***Costs capacity, and terms*** – Reports indicate the cost of capital to spread risk has climbed significantly following significant natural catastrophe losses in recent years. Insurers are facing higher reinsurance prices for less coverage, increased retention, and tighter terms. Reinsurers are similarly reporting less retrocession capacity is available, reducing their ability to further spread risk among global reinsurance providers.

• ***Limited alternatives*** – After similarly suffering significant losses in recent years, broader capital markets have been pulling back, impacting catastrophe bonds and insurance-linked securities. With higher interest rates, many investors are also considering alternative investments that may provide higher investment returns, while the strong dollar is also making global reinsurance much more expensive for U.S. insurers, further constricting domestic capacity.

What this Means

• ***What others are saying*** – "The last time we saw this level of capital dislocation was during the 2008-2009 global financial crisis. At the same time, the sector is experiencing its most acute, cyclical price increases since the 2001-2006 period if not before," said David Flandro, head of analytics at Howden, in the firm's latest report. Howden separately noted, for property catastrophe reinsurance, which has been the hardest hit line this year, the global rate-on-line index rose an average of 37%, the largest year-over-year increase since 1992.

U.S. Property Catastrophe Rate-On-Line Index



• ***The bottom line*** – Insurers that cannot place sufficient coverage to spread catastrophic risk may experience financial pressure resulting in higher rate need or other adjustments to reduce catastrophic exposure.

Restoring Market Stability

To help insurers navigate current market conditions, greater stability and regulatory flexibility will be needed. States must ensure companies can manage rapidly evolving risk, including potential solvency-related threats.

Additionally, states should ensure legislation and regulation does not introduce new or higher exposure and costs, which may inadvertently exacerbate current market conditions for consumers. To promote greater affordability and availability of insurance, states should focus on strategies that help reduce overall exposure, such as pre-disaster mitigation, and increase capital to expand market capacity.