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Reinsurance Market Challenges in 2024

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Executive Summary

Insurers are challenged by the reinsurance market in 2024. Reinsurers have been raising their rates, seeking higher attachment points, pulling back from aggregate cover, and offering stricter terms in conditions. This, in turn, has led to insurers retaining their risk, raising rates to cover reinsurance costs, or both.

In personal insurance lines, consumers have been self-insuring if they can afford to, switching to less-expensive coverages with less coverage, moving to geographies with lower insurance rates, or, in some cases, going without insurance altogether.

This brief examines the reinsurance market of 2024 and gives insurers suggestions about what to do about the current challenges. It is based on ongoing dialogues we are having with reinsurers and publicly available news covering reinsurance.

Key Findings

This brief covers current reinsurance market challenges, provides a brief overview of the reinsurance market, and explains how insurers can address their reinsurance challenges. The key findings from this brief follow:

- **Reinsurers are limiting their exposures:** Reinsurers have been seeking higher attachment points, offering stricter terms and conditions, and pulling back from offering aggregate cover. Insurers are retaining more risk.
- **Large reinsurers dominate the market landscape:** Reinsurance is a capital-dependent business, encouraging consolidation.
- **What insurers can do:** Use generative artificial intelligence (GenAI) large language models (LLMs) in underwriting and claims. Deploy modern reinsurance systems to take advantage of international markets, more complex treaty structures, and improved workflow of information.

Reinsurance Market Challenges

The reinsurance market hardened in 2023 and early 2024 due to heavy losses and rising costs during the pandemic years. Catastrophes, inflation, and investment losses eroded property/casualty reinsurers' capital. Reinsurers rebuilt profitability through rate increases, higher attachment points, and stricter terms. Large brokers created complex contracts to balance insurer needs with reinsurer risk appetites.

While conditions have eased somewhat, higher reinsurance costs and greater retained risk still challenge primary insurers' profitability. External factors remain problematic, with 2024 expected to have an active hurricane season. Losses from secondary perils remain volatile, though modeling is improving.

Insurers are raising rates or exiting markets to cover reinsurance costs. Consumers are responding by self-insuring, choosing less coverage, relocating, or foregoing insurance altogether. Regulatory changes may further complicate matters, for example, with California revising regulations on including reinsurance costs in rate filings and with some carriers leaving Florida due to higher reinsurance costs driven by higher-than-expected weather-related claims.

Reinsurers remain averse to aggregate cover, while higher investment income has driven up yields. Primary insurers now rely on reinsurance for earnings management. Casualty lines are stable, but concerns persist about adverse reserve development, social inflation, and litigation funding.

In the life reinsurance sector, incumbents focused on mortality reinsurance face competition from offshore entities offering annuity and asset-intensive reinsurance as well as legacy business transactions.

The Reinsurance Market in Brief

The U.S. reinsurance market consists of very large reinsurers (e.g., Munich Re, Swiss Re) of multiline insurance groups and primary insurers assuming risk on behalf of other primary insurers. Large reinsurers dominate the market.

Table A combines Datos Insights' analysis and A.M. Best's ranking of the top 50 global reinsurance groups worldwide. A.M. Best ranked reinsurers by unaffiliated gross written premium; Datos Insights' analysis ranked net written premium.

Table A: Reinsurer Landscape

Category	Number	Examples
Very large	13	Munich Re Swiss Re Hannover Re Berkshire Hathaway SCOR
Large	24	Sompo International Odyssey Re (Fairfax Financial) AXA XL Pacific LifeCorp Toa Reinsurance Company
Midsize (global and domestic)	41	Hamilton Re Dorinco Reinsurance Company Wilton Re U.S. Group EMC Reinsurance Company Shelter Reinsurance Company

Source: Datos Insights analysis; A.M. Best, Best's Market Segment Report, "World's 50 Largest Reinsurers," September 3, 2023

What Insurers Can Do

Primary insurers can't completely eliminate their need to mitigate their own risk exposure, but they do have options that can help them address rising reinsurance costs through technology and operational optimization:

- **Enhance risk modeling:** Reinsurers may offer better rates for better-quality books, so it's vital for insurers to enhance underwriting to the greatest extent possible to improve risk selection.
- **Manage books proactively:** Alongside improving underwriting, insurers may achieve lift by adjusting the overall risk profile of their books of business, for example, taking no-renewal actions as needed to offload poor risks can help limit rate increases.
- **Leverage third-party data:** Risk and book modeling both rely on having high-quality data to ensure that as much is understood about exposure as possible. Investments in third-party data and leveraging third-party analytics tools can provide strong returns.
- **Consider dedicated software support:** Reinsurance historically has received minimal IT investment from primary insurers. That may need to change, as insurers may require new software and integrations to support more complex contracts.

When we consider the list above, the application of GenAI LLMs offers opportunities to directly impact the success of risk and book modeling, lowering reinsurance cost. For underwriting, Gen AI can be used for these processes:

- **Summarization and categorization:** LLMs can analyze more data faster than a human can. They can provide the underwriter with a precurated underwriting file containing a summary of key findings from medical records and other sources based on the underwriting guidelines.
- **Incorporation of new data sources:** As well as supporting a more thorough analysis of existing submission documents, natural language capabilities allow for the incorporation of additional sources, such as social media, into the underwriting process, thereby improving decision quality.
- **Product recommendations:** Based on the application, an LLM can generate coverage/forms recommendations and a summary of coverage for the quote letter.

- **App/submission completeness check:** LLMs can be used to identify application gaps where additional data or documents are needed and generate the necessary requests to agents.

For claims, LLMs can assist with claims adjudication and fraud detection:

- **Claims adjudication assistance:** An LLM can assist in claims adjudication by providing recommendations and insights during the claims review process. This helps ensure consistent and fair decisions while reducing the time required for manual assessments.
- **Fraud detection:** An LLM can analyze claims data to highlight patterns associated with fraudulent claims. It can generate alerts for claims that exhibit suspicious behaviors, helping insurers detect and prevent fraud more effectively.

Carriers should also leverage Gen AI in combination with data to improve the quality of the books of business being reinsured. Datos Insights analysis shows that some carriers are using OpenAI's ChatGPT to extract data from historical claims to improve risk modeling. Historical claims data can be fed into the LLM to identify specific causes of loss. Prior to the introduction of LLMs, reviewing such enormous quantities of historical data would have been impractical, if not impossible.

Beyond GenAI, insurers should undertake general modernization of their reinsurance management systems. Older systems are limiting or siloing access to data and typically don't expose granular APIs that reinsurers can access. This may limit a carrier's ability to reinsure in international venues wherein foreign regulatory and financial mandates are in force. Limiting carriers to local reinsurance markets may drive up reinsurance costs.

Additionally, without deployment of granular APIs and the ability to deliver complete accounting and claims data in a format that reinsurers need, reinsurers will tend to charge more because of a perceived increase in risk. Bad data may lead to higher claims leakage and payouts, resulting in higher reinsurance payments and, ultimately, higher reinsurance charges to offset the leakage. Finally, if carriers want to take advantage of cheaper but higher complexity treaty structures, real-time, accurate, and complete data will become more and more necessary to support the treaty requirements.

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