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## Specialty treaty charts a path through Baltimore uncertainty

*Despite potential claims stretching into the billions, the events are not expected to shift the dial on pricing*

**The marine and specialty reinsurance market will kick off negotiations for 1 January renewals amid a cloud of uncertainty.**

The spectre of two major claims hangs over the market: the Baltimore Francis Scott Key Bridge collapse and aviation losses from stranded aircraft in Russia.

However, by the time stamps come down on contracts in the New Year, there is little prospect that either issue will be close to resolution.

Meanwhile, the CrowdStrike

incident also caused a ripple of fear in the cyber market over summer, although loss expectations quickly settled towards a manageable level (see pp14-15 for more on cyber reinsurance dynamics).

Within traditional specialty lines, the threat of unconfirmed claims likely stretching into the multiple billions of dollars might be expected to add firepower to a hardening market.

However, a canvass of senior executives in the space shows that, as renewal discussions commence in

earnest, the most likely outcome at this stage is a stable renewal.

"You have got to go back to the fundamentals of any market, and that is supply and demand," said Gallagher Re's head of marine, energy and aviation Nick Croxford. "And we are in a market that has got a surfeit of capacity."

While it is still likely that the Baltimore claim results in the largest-ever loss for the marine

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## COMMENT

# Reinsurance disconnects are opening in specialty lines

*In cyber and political violence, getting the right reinsurance protection directly impacts ongoing relevance to clients*

**If anything is predictable for the (re)insurance industry at the moment, it is that the world is becoming increasingly unpredictable.**

Society is more connected than ever, but equally it is more volatile, and instability seems to escalate from 0 to 100 more quickly than ever before.

And while this is an opportunity for an industry focused on risk, it also requires that the industry radically rethinks the way it provides (re) insurance protection.

Specialty reinsurance is a broad church and, as our lead article suggests, there are some classes – such as marine reinsurance – where a shock loss as big as the Baltimore bridge collapse still fits within the type of event which reinsurance is designed to cover.

However, the same is not true of the political violence and terror (PVT) market, where the changing nature of violence and warfare means reinsurance structures are not fit for purpose.

For strikes, riots and civil commotion in particular, the propensity for unrest to occur in multiple locations at once has

turned the focus to aggregations and whole-country exposures, rather than blast-zone regions.

At the 1 January 2024 renewals, it was clear that a mismatch in the inwards and outwards coverage for PVT meant insurers were running far more risk net than previously. It is not clear this will be resolved at these coming renewals.

**“IN CYBER AND POLITICAL VIOLENCE, GETTING THE RIGHT REINSURANCE PROTECTION DIRECTLY IMPACTS ONGOING RELEVANCE TO CLIENTS”**

In the virtual world, a similar conversation rumbles on the adequacy of cyber reinsurance protection.

The Microsoft/Crowdstrike outages may generate a manageable loss for the class – but underwriters cannot get away from what a global outage *could* have meant for the industry.

And in a cat loss scenario, quota share coverage – the mainstay of the cyber reinsurance market – doesn't fully meet the requirements for the need to hedge tail risk at scale.

Again, it is the aggregation risk inherent in the class which is proving the challenge in providing more appropriate XoL protection.

In both of these classes, getting the right protection to pay out at the right time is not just a question of being able to take net losses – it is a question of ongoing relevance to clients.

The outcome of the coming 1 January renewals will be key for both the PVT and cyber markets in rising to the predictably unpredictable.



**Catrin Shi**  
Editor-in-Chief  
Insurance Insider

## THE INSURANCE INSIDER TEAM AT MONTE CARLO

Editor | Fiona Robertson  
fiona@insuranceinsider.com

Deputy Editor | Stephanie Denton  
stephanie.denton@insuranceinsider.com

Editor-at-Large | Adam McNestrie  
adam@insuranceinsider.com

Lead Reporter | Rachel Dalton  
rachel.dalton@insuranceinsider.com

Senior Reporter | Samuel Casey  
sam.casey@insuranceinsider.com

Senior Reporter, Insurance Insider US |  
Kyoung-son Song  
kyoungson.song@insuranceinsider.com

Editor, Insurance Insider ILS | Liz Bury  
liz.bury@trading-risk.com

VP, Marketing & Product | Liz Donovan  
elizabeth.donovan@insuranceinsider.com

Product Director, Events | Chris Edwards  
chris.edwards@insuranceinsider.com

Delivery & Projects Manager, Client  
Solutions | Celine Frost  
celine.frost@delinian.com

Head of Account Management |  
Adam Krise  
adam.krise@insuranceinsider.com

Production Coordinator | Tasnim Hossain  
tasnim.hossain@insuranceinsider.com

## Production

Senior Copy Editor UK | Simeon Pickup

Senior Copy Editor US | Jamie Gallagher

Sub Editor | Steve Godson

Sub Editor | Pablo Gainza

4 Bouverie Street, London, EC4Y 8AX, UK

Tel main: +44 (0)20 7397 0615,

Editorial: +44 (0)20 7397 0618

Subscriptions: +44 (0)20 7397 0619

## LEAD

# Specialty treaty charts a path through Baltimore uncertainty

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## Key points

market, it was suggested that this would probably put the brakes on any emerging rate softening, rather than reignite a hard market.

"We probably had the beginning of a bit of a softening at 1 April, maybe it was already visible at 1 January," said Christian Silies, head of global aviation, marine and energy reinsurance at Sompo International.

"So, I generally agree that this will prevent further softening, and there's a reminder here about how sizeable these claims can be. It wasn't a wake-up call – it's a well-understood exposure – but it's a reminder what these claims can look like, and that they can be sizeable."

The ongoing appetite is driven by optimism from reinsurers about the rating adequacy of their specialty books, following a substantial correction in pricing and terms at 1 January 2023, when the war in Ukraine sent shockwaves through the market.

"Not so long ago, we had a very big market correction post the Ukraine invasion, and we saw wholesale changes to structures, pricing and coverage," said Olly Goodwin, Aspen's global head of specialty reinsurance.

"Specialty reinsurance is a good place to be at the moment. It's attracted a lot of new capacity."

The market's dramatic response to the Ukraine situation was driven by the unexpected nature of the loss and the unmodelled aggregation of assets, with the market stung by a clash loss across marine war, political violence and terrorism (PVT) and aviation.

Meanwhile, the Baltimore bridge loss – even in the worst-case scenario of a \$3bn+ claim – is a modelled and clearly understood P&I exposure.

"The International Group P&I product is so well understood," said Sompo's Silies.

- > Specialty reinsurance renewals are kicking off with material uncertainty around the scale of claims from the Baltimore bridge and aviation war in Ukraine
- > The overhang of potentially large losses is expected to put a stop to widespread softening, although capacity is high
- > Reinsurers are looking to defend achievements made on terms and pricing following significant remediation at 1 January 2023
- > Political violence and terrorism wordings are expected to remain a prominent theme of discussions

"It's not like the aviation war exposure in Ukraine, where it was somewhat of a black swan event. This wasn't a black swan event."

In fact, one of the most prominent areas of discussion for the specialty market is expected to be around PVT coverage and wordings, a conundrum that has not been fully resolved since the chaotic 2023 renewal.

"The most important conversation to be had with clients is on the terror and political violence side," said Silies.

"A lot has happened over the last two years. We had the outbreak of the war in Ukraine, the attacks in Israel, and prior to that the riots in South Africa.

"We moved into 2024 with a lot of political instability, and reinsurers and insurers had to find a new common ground on how they wanted to trade."

### Searching for a Baltimore quantum

One dramatic morning in March, when the *Dali* containership drifted into the Francis Scott Key Bridge and brought it crashing down, has prompted discussion and speculation in the marine market that has lasted ever since.

The degree of uncertainty around the overall scale of the Baltimore P&I loss quantum cannot be overstated –

and will take years to determine.

The owner and manager of the *Dali* have filed for limitation of liability under 1851 legislation known as the Titanic Law.

The law was originally designed to encourage the growth of the shipping industry by limiting the liability faced by shipowners.

If successful, the filing would limit liability to a maximum of \$43.7mn, resulting in a loss which would barely register with reinsurers.

At the other end of the spectrum, a worst-case scenario has been painted where every associated contingent BI claim filters through to the P&I policy, inflicting a loss that could exceed the IG's \$3.1bn reinsurance protection.

"In that circumstance the retro market would be most heavily impacted, and that would probably start to drive rate through retro and then reinsurance and then insurance," Aspen's Goodwin said.

The more pessimistic loss scenarios would make Baltimore the largest claim in the marine market's history, surpassing the ~\$1.5bn from the 2012 *Costa Concordia* disaster.

However, such a scenario does not necessarily spell disaster from a point of view of results, given the improvements reinsurers have implemented to rate and retention.

“If the rest of the year is benign, we still think that a large portion of the marine reinsurance market will make money,” Gallagher Re’s Croxford said.

Thus, the position of reinsurers looks likely to be adopting mechanisms to deal with the uncertainty.

“We cannot ignore the potential for a significant loss. However, we intend to deal with the uncertainty,” said Chaucer’s head of global reinsurance Chris Baker.

“There may be things like loss additional premiums that come in, maybe some structural changes to the reinsurance programmes if costs become prohibitive,” added Aspen’s Goodwin.

“Ultimately we need to sell a product that people can buy and [which] helps their risk transfer.”

#### Aviation situation unresolved

Equally uncertain is the ultimate loss quantum from Ukraine aviation claims, with court cases ongoing.

Aircraft worth an estimated \$9bn are still stranded in Russia, and it is unclear where liability will ultimately fall.

“We might not have any further clarity before 1 January but I still see this as an ongoing discussion point,” said Chaucer’s Baker.

In this case, as with Baltimore, the market will have to find a position on rate while accounting for the uncertainty.

#### **“WE MOVED INTO 2024 WITH A LOT OF POLITICAL INSTABILITY, AND REINSURERS AND INSURERS HAD TO FIND A NEW COMMON GROUND ON HOW THEY WANTED TO TRADE”**

“The outcome of a lot of those reserves is unknown,” Aspen’s Goodwin said.

“People are holding big numbers on some of those claims that could swing up or down.”

#### Political violence scrutiny persists

Meanwhile, there is expected to be no let-up on the focus on political violence wordings and the breadth of coverage.

Given the complexity of the issues, it seems unlikely that the market will

reach a unified landing point.

“Every client buys their political violence reinsurance slightly differently. I don’t believe that a broad-brush solution really works here,” said Sompso’s Silies.

“As much as one standard wording for everyone might appear desirable, I have some doubts that approach would really do the complexity of the topic justice. Our process has been working with our clients individually to come together to create a tailored solution.”

The market largely abandoned composite structures at 1 January 2023 (although some remain) and this new set-up is likely to continue.

“I think splitting out the coverage makes it a bit more equitable, and facilitates the proper rate you can receive for the exposures that sit in the towers,” said Aspen’s Goodwin.

As with the situation more broadly on specialty terms and pricing, the focus for reinsurers skews towards protecting the improvements that have been achieved, while retaining market share in an increasingly competitive space.

