



Talisman Report January 2021

In spite of what seems at times like the 'encircling gloom' of Covid-19, we and many in the insurance and reinsurance world are justifiably looking forward to a better year. When examining the 1st January reinsurance renewals the upward momentum in rates continues and we expect this to be maintained through the important reinsurance renewals of April, June and July 2021.

Looking back at 2020, although rating levels ran well ahead of business plan and underwriter expectations, it also saw reductions in key economic activity, with lower turnover in businesses, lower energy prices, and few (if any) passengers on cruise liners and commercial aircraft.

There was a fair degree of catastrophic activity during 2020. Estimated global insured catastrophe losses are around US\$80 billion, which is close to the average over the past decade. There was no single large event but North Atlantic hurricane activity went all the way through the alphabet from Arthur to Wilfred and went on to the Greek alphabet from Alpha to Iota. In all, there were 30 named storms, of which 13 were hurricanes. Of the storms, 12 made landfall on the mainland of the USA. Further, the first two storms arrived before the official start of the season; Arthur formed on May 16 and Bertha on May 27. The last storm, Iota, on 18 November, was the strongest of the year with sustained winds of 160mph (260km/h).

Apart from losses arising from Covid-19, insurers also experienced claims emanating from a derecho in the state of Iowa. Derecho is from the Spanish for straight and is a fast moving storm associated with a line of severe thunderstorms accompanied by hurricane strength winds. There were extensive wildfires in Australia and the western USA and an explosion at the port of Beirut, Lebanon.

Without a doubt, the year will be overshadowed by and remembered for the Covid-19 related losses. An important reminder: policies at Lloyd's are allocated to the year in which the policy incepts, so if the attachment date is 1st December 2019, the premium and claims are accounted for in the 2019 year of account. This means that the majority of Covid-19 related claims are on years earlier than 2020.

Quarter 3 data, the latest we have, shows a small increase in the overall estimated cost of Covid-19 claims to syndicates, reflecting the fact that lockdowns and cancellations are lasting much longer than first estimated. Across all underwriting years combined, estimated losses for clients of Argenta Private Capital Limited such as Talisman, amount to an average of 8.6% of allocated capacity. The losses tend to fall 14% to the 2018 year of account (including any exposure to closed years up to and including 2017), 61% to the 2019 year and 25% to the 2020 year of account. In capacity terms, the impact on 2018 is 1.2%, 2019 is 5.3% and 2.0% on the 2020 year of account.

A high degree of uncertainty remains as to the ultimate cost of Covid-19 related claims. Only 13% of ultimate estimated claims had been paid by the end of September 2020. The impact of the judgement handed down by the UK Supreme Court this month, if not already factored in, will not be reflected in the figures we receive until the quarter 1 data at the end of May.

The quarter 3 data of 2020 show the 2018 year of account for Talisman closing with a mid-point loss of 2.0% of capacity. That may improve if there are additional releases of redundant reserves.

The 2019 year of account is showing a mid-point loss of 2.7% of capacity. This figure is expected to improve but the account is subject to much more uncertainty than normal due to the ultimate cost of Covid-19 claims and the degree to which claims are mitigated by reinsurance.

The 2020 year of account has been affected by the number of natural catastrophes and like 2019, but to a lesser degree, is subject to the uncertainties of Covid-19 claims. Nevertheless, it still looks profitable. The first formal estimates will be received at the end of May 2021.

As can be seen the cost of Covid-19 has taken its toll for, without the related claims, 2018 would be marginal and a profit clearly forecast for 2019, having benefitted from the compounding rate increases since 2017.

A large degree of caution was layered into syndicate 2021 plans. Rate increases agreed by Lloyd's were smaller than those that most syndicates were reporting, and only part of this rate increase has been passed through to lower loss ratios in the planning process.

The better performing syndicates were allowed to grow for 2021, which is much to the benefit of Talisman's portfolio, further details of which will be included in the July report.

Insurance remains a risk business and there can be no knowing what Mother Nature may have in store during the year. However, Talisman has achieved its largest Premium Income Capacity to date, at just over £30M for 2021, and almost all underwriters believe that this should be a good year with profits of in excess of 10% being achievable, given a reasonable loss experience.