



## **Talisman Report January 2023**

Market trading conditions have been improving every quarter since the end of 2017, and that trend continues. The January renewals for reinsurance risks saw significant increases with some direct insurers struggling to buy the protections they wanted and consequently having to amend their business plans. This is an interesting development in so far as, historically, reinsurers have led the market into and out of hard markets. In this underwriting cycle direct insurers led the market out of the soft part of the cycle. Reinsurers have now caught up and are beginning to squeeze direct insurers with a combination of limited underwriting capacity and rate increases.

The net result is that pricing is good for just about every class of business in 2023 and so it needs to be. The world is full of uncertainties including climate change, inflation, supply chains and the ongoing impact of the unjustified war in Ukraine. The pricing structure for risks must take these factors into consideration and target an achievable and realistic loss ratio. Capital providers require a profit across the cycle commensurate with the risks they take. Some insurers have come out of various classes of business and with capital in short supply and not naïve, the basic rules of supply and demand are in force. Some say trading conditions are now the best for a generation but in the end it will be the cost of losses that will decide the results.

Talisman supports some of the very best syndicates at Lloyd's in whom we have confidence in all aspects of their business models. For 2022 the support of syndicates rated A or B by Argenta Private Capital Limited was 77%; for 2023 that figure is now 91%, with 82% of Talisman's portfolio on the top 6 syndicates by rank. Talisman continues to have a lower than average exposure to natural catastrophes.

Talisman has also increased its underwriting from £33.8m to £39.5m, much in line with the growth of the major syndicates and augmented by the acquisition of three other corporate members.

The 2020 underwriting year of account will close as at 31 December 2022 and we will receive final numbers in March. A return of around 2% on capacity is expected but, in the final analysis, the impact of inflation on claims reserves will be relevant as will the actual mark to market valuation of investments (primarily short-dated corporate and government bonds) at the year-end. It should be remembered that bond prices fall inversely to interest rate rises. While unrealised investment losses should be expected, as bonds mature and are rolled forward at higher yields, 2021 and 2022 should benefit from increasing investment returns.

While 2020 was the last year to be impacted by Covid-19 claims (bearing circa 30% of the total cost), it was also affected by a series of natural catastrophes in the US; notably a derecho (severe thunderstorms accompanied by high sustained winds) hitting Iowa in early August and Hurricane Laura making landfall in Louisiana later that month. There were Californian wildfires too although these were not as destructive or costly as those in 2018.

The 2021 year is showing improved results and a return of over 5% on capacity is anticipated. This is despite losses from an unusual winter freeze in Texas at the start of the year (Storm Uri), European floods, political unrest in South Africa and Hurricane Ida that made landfall in Louisiana in late August. The lion's share of syndicates' exposure to losses arising from Russia's invasion of Ukraine in February 2022 will fall to the 2021 year. Reserves for potential losses stemming from the complicated issue of aircraft leased to Russian operators but owned by Western leasing companies have been established on a probability weighted basis. There could be substantial movements over time as exposures potentially fall to one of a number of policies or possibly none at all. As at the third quarter 2022, incurred loss ratios for the 2021 year are amongst the best in fifteen years.

The numbers for the 2022 account at this early stage are better still. While 2022 will be affected by some losses from Ukraine, the most significant natural catastrophe was Hurricane Ian which made landfall in Florida in late September. Some catastrophe modelling agencies have predicted that Ian will be the largest loss ever sustained by the reinsurance industry, with an upper estimate of \$70 billion. By comparison, Hurricane Katrina in 2005 caused an estimated \$42 billion of insured losses (\$63 billion in 2022 dollars) and even after two further hurricanes, Rita and Wilma, Lloyd's still produced an overall profit. Although Ian will be a substantial loss, given Lloyd's syndicates' smaller than average footprint in Florida, losses should be comfortably absorbed by the market. As mentioned previously, Talisman, with its lower than average exposure to property reinsurance business, has a lower than average exposure to natural catastrophes.

Almost all underwriters have reported that rates achieved during 2022 surpassed their expectations and feel that their business plans will be achieved, if not exceeded. The compounding effect of rate increases and improved terms and conditions over the past 5 years means that the market is much better placed to absorb large losses. Attritional (small but numerous) losses which are symptomatic of a soft market have materially reduced, further improving prospects for bottom line profitability. The first formal forecast for 2022 will be in May this year.

Remediation has been a key word in recent years and much good work has been undertaken by syndicates to focus their businesses on the most profitable parts of their account and reduce or drop those parts that have not performed. Some difficult and meaningful decisions have been taken. This is a continuing process and changes have to be made each year to keep in step with the market. There can never be guarantees but the Directors believe that Talisman is in a good position for the benefit of its shareholders in 2023.