



## Talisman Report January 2022

The start of a New Year is a time to reflect on the events of the previous year and review the important January reinsurance renewals together with the prospects for the year ahead.

With trading conditions having improved every quarter since the end of 2017, a profitable 2021 was always envisaged, assuming a relatively normal claims experience, and that continues to be the expectation.

However the level of global insured losses in 2021 was above average at around \$120Bn with hurricane Ida being the most costly at around \$36Bn. Other significant events were the Texas deep freeze in February, known as storm Uri, at around \$15Bn and the European storm Bernd and associated flooding, although Talisman should not be significantly exposed to the latter. In comparison the global cost of insured losses in 2020 and 2019 were \$57Bn and \$82Bn respectively. On current information, a high single digit profit is still anticipated for the 2021 year of account.

In the July 2021 report we indicated that the 2019 underwriting year of account would close near to breakeven and that remains our view. Similarly the 2020 year of account continues to have a forecast profit of 1% of capacity although we would be disappointed if 2.5% was not achieved at closure. It should not be forgotten that these projections would be considerably better if it were not for claims related to Covid-19 that masked the underlying improvement in trading conditions.

The improvement in profit expectation is not just about rates but also about terms and conditions and most importantly, risk selection. The remediation process at Lloyd's, known as "Decile Ten", has been ongoing since 2017 and continues. The poorer business has been replaced with risks with better profit potential and this is clearly reflected in the loss ratios. In H1 2021, Lloyd's underwriters removed 6% or £1.1bn of this underperforming business but were still able to grow their top line income by 8%.

Talisman continues with a programme focused on some of the best of the 89 syndicates at Lloyd's, with 77% of its capacity supporting just six syndicates that are rated A\*, A or B\* by Argenta Private Capital Limited. Talisman also continues with a below average exposure to catastrophe business.

The January 2022 reinsurance renewal season concluded as expected with property catastrophe rates up by around 10% on average, but with a wide range within that. It was a rational renewal season in that clean programmes did not subsidise those that had suffered losses. This trend is expected to flow into the equally important US renewals in June and July.

Given the cost of insured losses in recent years these increases in property catastrophe reinsurance are hardly surprising as capital providers require a potential return commensurate to the risk taken. The impact of climate change cannot be ignored nor can that of inflation. Even though capital remains abundant it will walk away if the rates, terms and conditions are not considered adequate. Insureds should expect this experience to continue each year whilst the evidence of changing weather patterns is so clear, demonstrated by the frequency and severity of so-called secondary losses such as wildfires and tornadoes, which leads to a

greater uncertainty in outcomes. As a consequence, some syndicates are reducing their appetite for catastrophe risks which has reduced the realistic disaster scenarios for Talisman, as a percentage of capacity, from 2021 into 2022.

With the capital requirements of Lloyd's syndicates reducing, as trading conditions improve, Talisman has, in part, been able to increase its underwriting capacity to £33.8m for 2022, from £30m in 2021.

The cost of claims relating to Covid-19, that affected the years 2018 to 2020, took away the profits that would otherwise have been delivered. Despite claims being above average in 2021, there will be a return to profitability for the year and the statistics that are received from syndicates evidence the underlying improvement in trading conditions since 2017. The business plans of the syndicates supported by Talisman target, on average, a 10% return on capacity for 2022.

A full update and revision of forecasts will be included in the July 2022 report.