How reinsurance can rewire growth in a softening market

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Cedents to focus on 'right-sizing' reinsurance programs as APAC market enters new phase



The Asia Pacific reinsurance market is entering a new phase as pricing conditions are coming under pressure, capital positions are remaining strong, and cedents and reinsurers are increasingly focused on navigating market cycles with greater discipline, innovation and strategic intent, said a panel of industry experts.

Speaking at a webinar co-hosted by InsuranceAsia News and Fitch Ratings, the industry experts explored how market participants are adapting to the changes, balancing growth ambitions with profitability objectives, and identifying new opportunities in an increasingly complex environment.

Tony Gallagher, chief executive, Asia Pacific of Marsh Re, said that it is "a very confident industry".

"You've got a strong insurance industry, you've got a strong reinsurance industry as well," he said. "There's a lot of surplus capital within the marketplace at the moment."

The key question for reinsurers, Gallagher noted, is how they deliver results and solutions to clients.

"Product innovation will be topical as we go through to the renewal cycle, and that's product innovation on the insurance and the reinsurance side," he added.

Gallagher pointed to the continued frequency of losses through 2026 – primarily natural peril losses and a few risk losses – as a key concern.

"There's been no large significant natural peril losses, but there's been lots of attritional losses," he said.

A significant shift over the past two to three years, Gallagher observed, has been that frequency losses have been retained by insurance companies rather than transferred to reinsurers – a consequence of the restructuring that took place during the harder market prior to 2024.

"We'll see a shift in terms of whether these retentions are fit for purpose with the current programs, with the current exposures," he said.

For cedents, the question is if they have the right reinsurance solutions or the right reinsurance programs in place to protect earnings and capital through 2027.

"I think many insurance companies are asking reinsurers to work with them around having the right programs that protect their earnings, protect their capital through 2027," Gallagher added.

Softening pricing

Jeffrey Liew, senior director and head of APAC insurance ratings at Fitch Ratings, also said that softening pricing may lead insurers to lower attachment points to capture frequency losses.

"In the past, attachment points have been pretty high, and reinsurers were quite strict about having high attachment points," he said.

But now, as prices soften, reinsurers will lower attachment points selectively, though they are very disciplined in terms of the risk they underwrite."

He noted that for regions highly exposed to floods, arrangements with governments are needed.

"There are emerging risks related to El Nino and flooding. Insurers are looking at potentially lowering attachment points, and reinsurers may be able to accept lower attachment points as well," he added.

"Governments need to assist with flood risk management to help manage this increased frequency of events. You can't just pass the losses off to the insurance industry."

Tony Gallagher, Marsh Re





Meanwhile, Gallagher pointed to the "changing nature of risk" as the risks of todayare very different from those of five years ago.

"There are more solar panels on houses than there were five years ago," he added. Renewable energy is starting to come in, business interruption, technology, and the size of risks are becoming larger.

"With this changing nature of risk, we should look at the portfolio, look at the protection, and make sure they're fit for purpose."

Gallagher noted that flooding is becoming more frequent.

"Flash flooding in particular – you're seeing flash flooding almost every month at some location," he added.

He called for greater collaboration between government and industry.

"Governments need to assist with flood risk management to help manage this increased frequency of events. You can't just pass the losses off to the insurance industry," he said.

"It needs to be a combination between the insurance industry and governments to manage these risks, otherwise they become uninsurable at some point."

Gallagher pointed to parametric products and cat bonds as increasingly useful tools.

"These will become more relevant as we continue to move through the next few years. The pattern to me will be unchanged," he added.

Pricing environment

Liew, offering the rating agency's view on the market, said: "Overall, we see the global reinsurance market, including APAC's, still maintaining a deteriorating outlook.

"The rationale is because operating business conditions have weakened – but not sharply deteriorated – and capital is still very, very sound.

"Claims inflation has continued to escalate, narrowing the margins."

The main driver, he explained, is further price declines, particularly in property lines in some APAC markets, where double-digit reductions have been observed.

"This is quite pronounced," Liew added

Sucheng Chang, Asia Pacific managing director at Markel, offered a carrier's perspective – one informed by Markel's dual role as cedent and reinsurer.

"We're in a region which is fast growing. The economy is very strong. There's huge demand for specialty insurance," he said. "Whether the market right now is soft or hard doesn't really matter from a long-term investment approach for us."

He predicted that capital markets may play a role.

"To cover data centres, the absolute amount could be quite sizable when you have accumulation of risk. That could potentially lead to capital market developments," Liew added.

Gallagher agreed, noting that data centre insurance facilities are already emerging.

"We're already seeing very large facilities to provide protection for that. Renewable energy treaties, I think we're seeing those coming into place," he said.

He added that the industry would need to build capacity and become comfortable with the new exposures.

"As an emerging risk becomes non-emerging, it starts to become part of your overall portfolio. But in the beginning, it's having the right protections in place to enable underwriters to have the confidence to provide support to the industry," Gallagher said.

Chang noted that while data centres have been around for a long time, "the size of the data centres has gone exponential in the last two years".

He acknowledged the challenge of getting "our mind around the size of the capacity needed and the new emerging risk around that".

"Given that there's this much capacity coming into the market, if one company doesn't do it, someone else certainly will. The industry will very quickly run to catch up with the sizes of these new emerging risks," he added.

Geopolitical uncertainty

While the other important consideration for the carriers in the region has been geopolitical instability, including the conflict in the Middle East and its impact on the market.

"If someone had told me a year ago that all this was going to happen in the Middle East, I would have said that was a pretty unlikely scenario. But once that happened, marine rates obviously

"We love that market right now, and we're actually writing more and planning for more growth in that area, making big investments."

Sucheng Chang, Markel





spiked in the Strait of Hormuz, but now they've stabilised," Chang said.

He noted that the market has been reacting quickly to new developments.

"It's still a very insurable risk for us. That shows the increased sophistication of insurance providers and how well the market's been able to respond to that conflict," Chang added.

Gallagher highlighted supply chain risk as a key concern.

"Supply chain is very important for the insurance industry around claims management. With geopolitical risk, what does that do to supply chains around the world? It can drive inflation and it can drive repair costs," he said.

"It's something that I think the industry needs to be aware of and, and look at closely because there will be impacts through 2027 as well, it impacts us probably more than any other industry."

Looking ahead

As the panel looked ahead to the 2027 renewal cycle, the mood was cautiously optimistic.

In 2027, Gallagher expects a nuanced market.

"We're going to see some rate reductions, we're going to see some increases here and there depending on portfolio and portfolio performance. It's not one size fits all," he said.

Chang reiterated Markel's commitment to the region.

"We've been investing across APAC for about the last five and a half years. We've been seeing strong growth, profitability, new emerging areas that we're very interested in," he said.

"We think there's going to be a lot more demand for specialty insurance just because penetration across Asia tends to be a little lower. We're still very bullish."

Gallagher was equally positive.

"Asia's wonderful. It's a growing market, so it's very positive in terms of overall growth. Those companies that are able to identify and select areas that they can grow – there's profit to be made within the Asian region," he said.

"The surplus capacity means that there are solutions which are the right solutions, and right-sizing reinsurance programs will be very positive for cedents in 2027."

Liew offered a measured view from the rating agency perspective.

"We'll continue to see pricing softening, but not in all lines – specific lines like property and some others," he said.

"We monitor how that compares with price inflation. But reinsurers in the APAC region are very selective and disciplined in writing some lines of business. Although pricing will be softening, coupled with inflation, our ratings for those reinsurers that are disciplined and continue to grow are likely to remain stable." Gallagher also pointed to the maturation of risk management in Asia.

"There are huge advances in risk management on the original basis. There's a lot around risk selection, risk management, which is very different to what it was three to five years ago in Asia Pacific. Asia is a market which is maturing and developing," he said.

With reinsurance capital at record levels – Gallagher estimated it at over US$700 billion – the question of how to deploy this capacity efficiently loomed large.

Liew noted that capital comes with a cost.

"If you don't use it, the capital will sit there. That is a clear cost of capital to you. Some reinsurers might lower their required returns or lower attachment points to deploy capacity," he said.

Gallagher listed a range of solutions.

"There's going to be things such as lower attachment points, aggregate covers, sidecars, whole account quota shares, parametric coverages, and then around digital, cyber, there's capacity available within all those areas too," he said.

"If I was running an insurance company, I'd be looking at how I most effectively use that capital to manage my earnings. Can I use the reinsurance capacity to help me manage my earnings?"

Gallagher predicted continued M&A activity through 2027.

"M&A will probably be around growth. Growth is very important for all businesses. Do you buy or do you build? Many companies will look at either of those options to expand geographically," he said.

He noted interest from Japanese and Korean insurers in the region.

"Asia is an emerging, growing market, so there's a lot of interest in Asia from global companies. Both M&A and organic growth will be triggers," Gallagher added. ■

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Jeffrey Liew, Fitch Ratings

