



# HOWDEN

2024: a turning point?

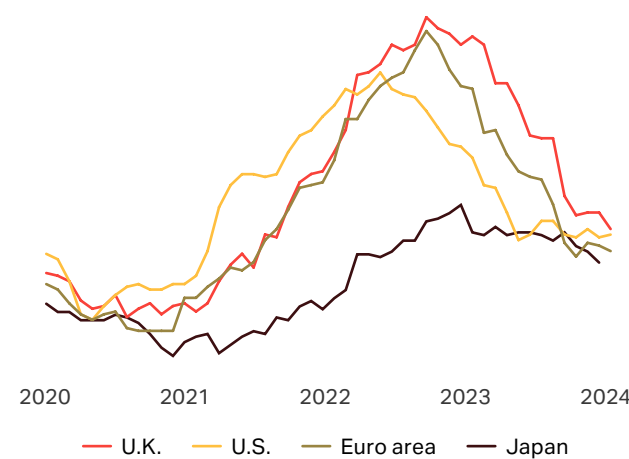
# Key takeaways

A heightened and changeable risk landscape led by a global macro reset brings major implications for security, investment, trade, supply chains and political stability.

Economic uncertainty, an upsurge in armed conflict and the 'biggest election year ever' present elevated risks for 2024.

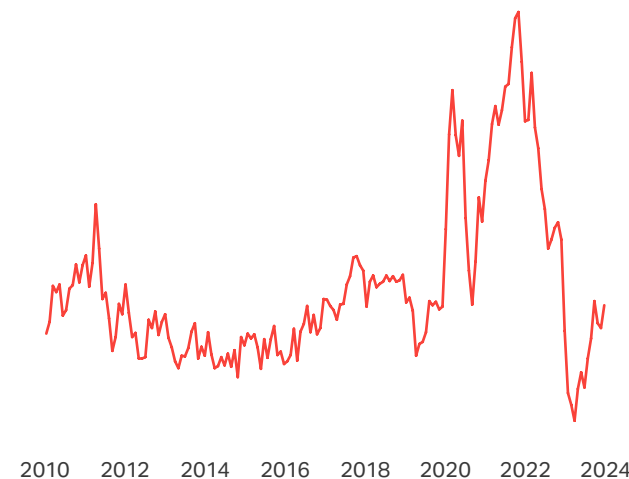
## Uncertain future direction of inflation

Source: Howden, government statistics



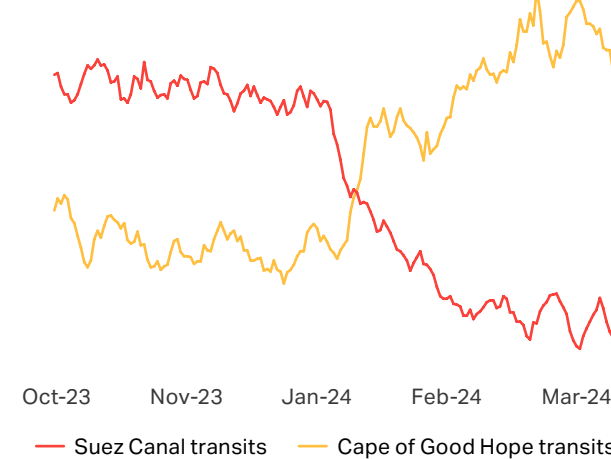
## Supply chain disruption

Source: Federal Reserve Bank of New York



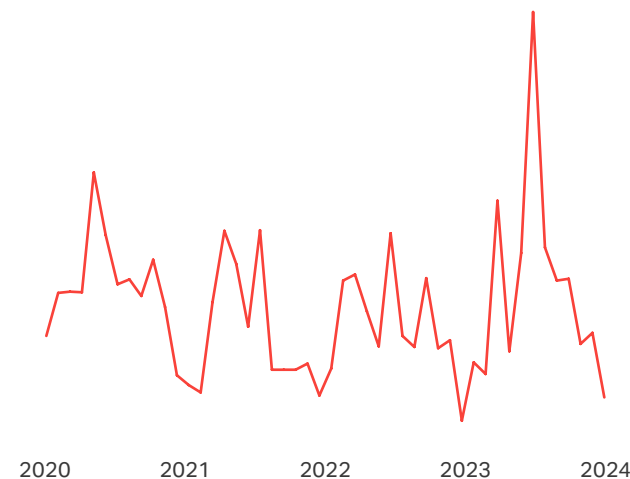
## Red Sea threat to global shipping

Source: Howden, IMF Portwatch



## Elevated levels of civil unrest

Source: Howden, ACLED

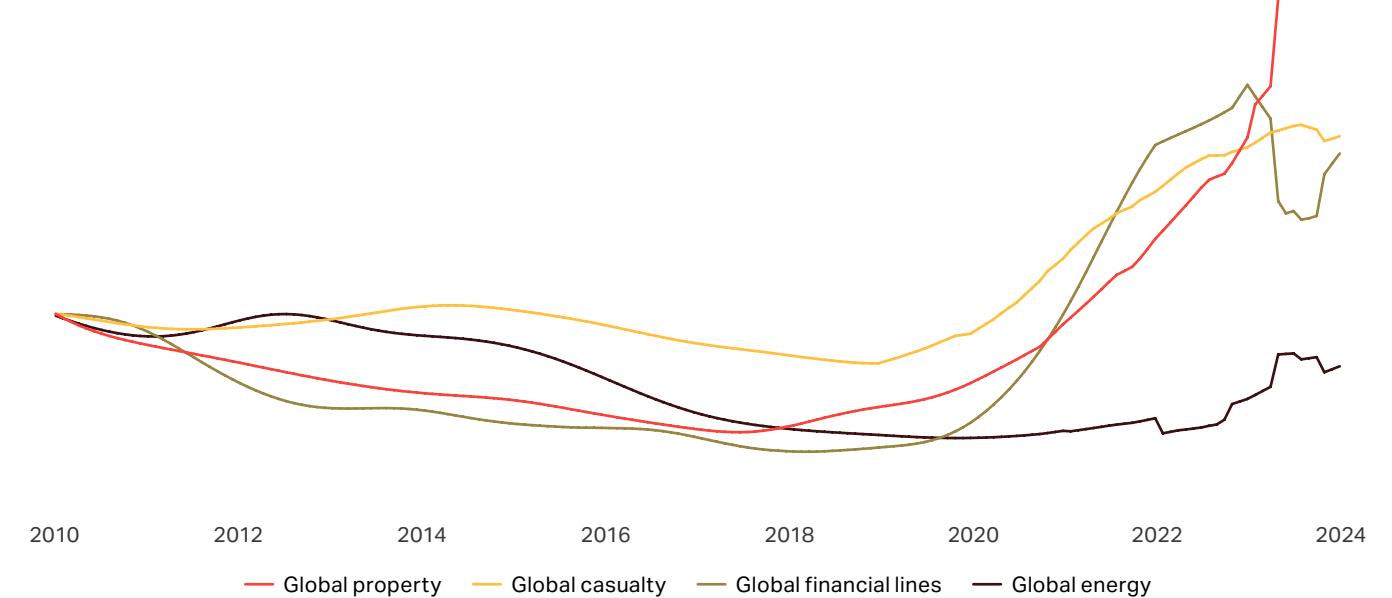


With little prospect of the threat environment relenting, businesses need to prepare for, and protect themselves against, escalating risks that traverse macroeconomics, geopolitics and technology.

In doing so, they are encountering a receptive insurance market as competition yields more favourable conditions.

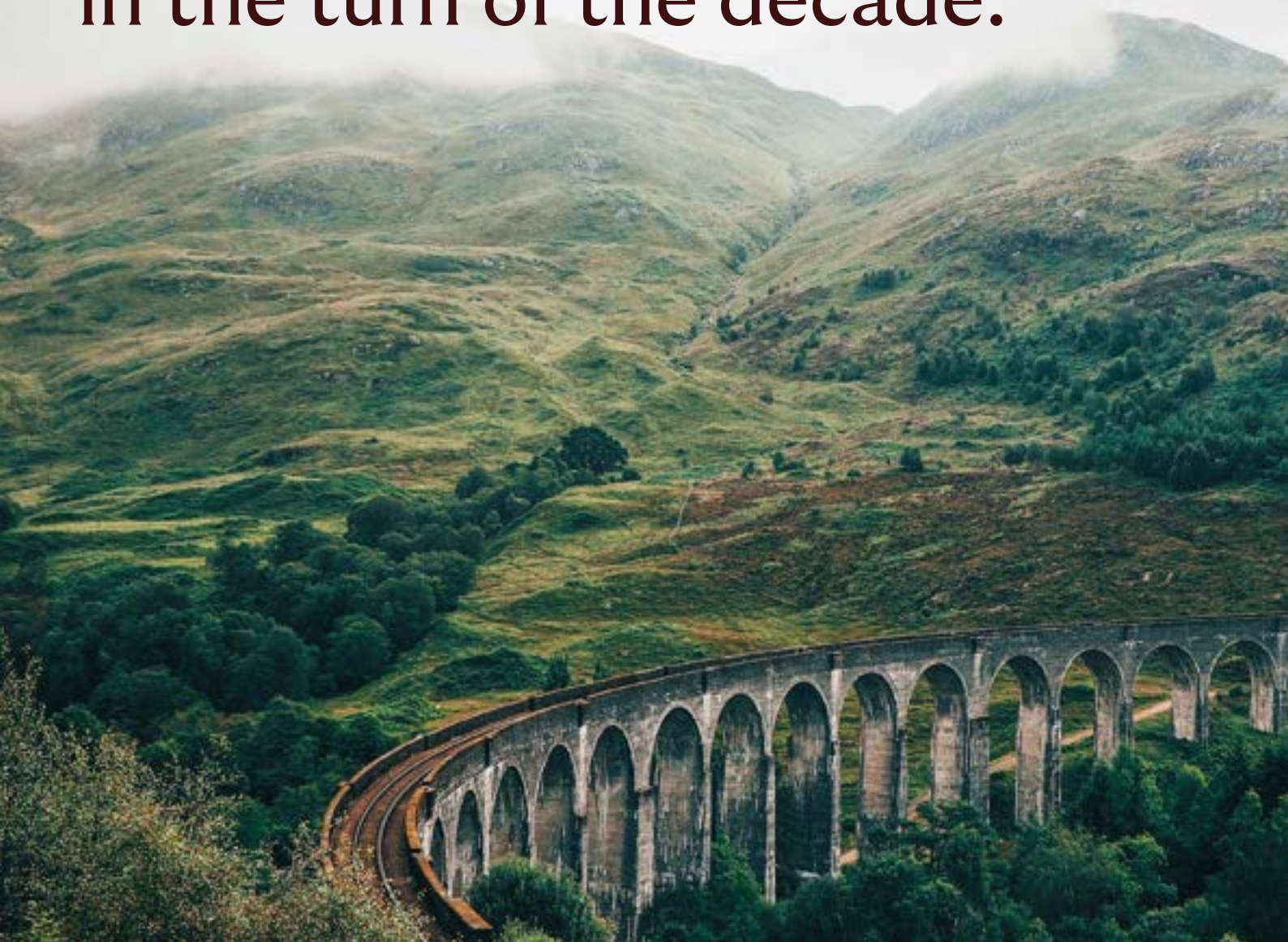
## Trajectory of global commercial insurance pricing by major line of business

Source: Howden, NOVA



By stepping up at this time of instability, and maintaining coverage in high-risk areas, insurance is enabling trade worldwide. Expert advice can make all the difference in securing protection at the best possible terms. Howden exists to support clients in managing market change and maximising their potential.

The world today is radically different to the one that saw in the turn of the decade.





Long-held consensus around the demise of inflation and everlasting cheap capital has been ended by a series of shocks that not only culminated in the sharpest rise in prices and interest rates for a generation but has also brought a geopolitical reset that carries considerable global implications for security, investment, trade, supply chains and political stability.

The global economy has proved to be surprisingly resilient to these transformative changes. Despite navigating significant volatility and uncertainty in the wake of COVID-19, Russia's invasion of Ukraine and now shipping disruption in one of the world's most crucial trade routes due to war in the Middle East, growth has held up better than expected and defied widespread predictions of recession.

## 2024: a turning point?

Expectations for the year ahead are positive, with upward revisions to growth indicative of the optimistic mood that has propelled equity markets to record highs in several countries. Sticky inflation (driving claims higher), elevated interest rates and heightened geopolitical tensions continue to hang over the global economy, however, and with the 'biggest election year in history' taking place in 2024, businesses and (re)insurers continue to operate in a high-risk environment.

The analysis that follows in the pages ahead portrays a highly complex and changeable risk landscape that traverses macroeconomics, geopolitics and technology. Tensions are high as more than 40% of the world's population vote against a backdrop of economic uncertainty and an upsurge in armed conflict, as well as the proliferation of social media and artificial intelligence.

The risk of escalation in hot spot areas is ever present. The war in Ukraine is now in its third year and the danger of intensification continues to pose a threat to global security. Contagion or prolonged disruption to shipping in the Middle East could likewise see risks escalate and reverse recent global disinflationary trends.

Civil unrest remains at elevated levels in 'stable' countries due to underlying grievances tied to inequality, the cost-of-living crisis and broader disenfranchisement. There are also broader power dynamics at play as world powers look to establish dominance in areas where materials crucial to the energy transition are sourced.





## Insurance: stepping up

All of which is impacting decision-making around investments, supply chains and operations. With little prospect of the macro-environment relenting, businesses need to prepare for, and protect themselves against, escalating risks. In doing so, they are encountering an insurance market receptive to supporting clients as competition yields increased capacity and relatively stable pricing.

By stepping up at this time of instability, and maintaining coverage in high-risk areas, insurance is enabling commerce worldwide that allows ships to sail and businesses to invest. More work nevertheless needs to be done for under-insured exposures that are particularly relevant today, like supply chains and non-damage business interruption. Advances in data and analytics, alongside creative thinking around traditional structures and parametric triggers, will yield mutual benefits to buyers (new products) and carriers (new growth opportunities despite waning price momentum).

Howden stands at the forefront of these efforts by applying differentiated insights and expertise to deliver pioneering solutions. With macroeconomic and geopolitical shocks fuelling uncertainty, (re)insurance buyers require detailed analysis into key market drivers. Howden is leading the charge by providing cutting edge thought leadership and risk transfer advice to support clients in managing extreme volatility and maximising their potential.

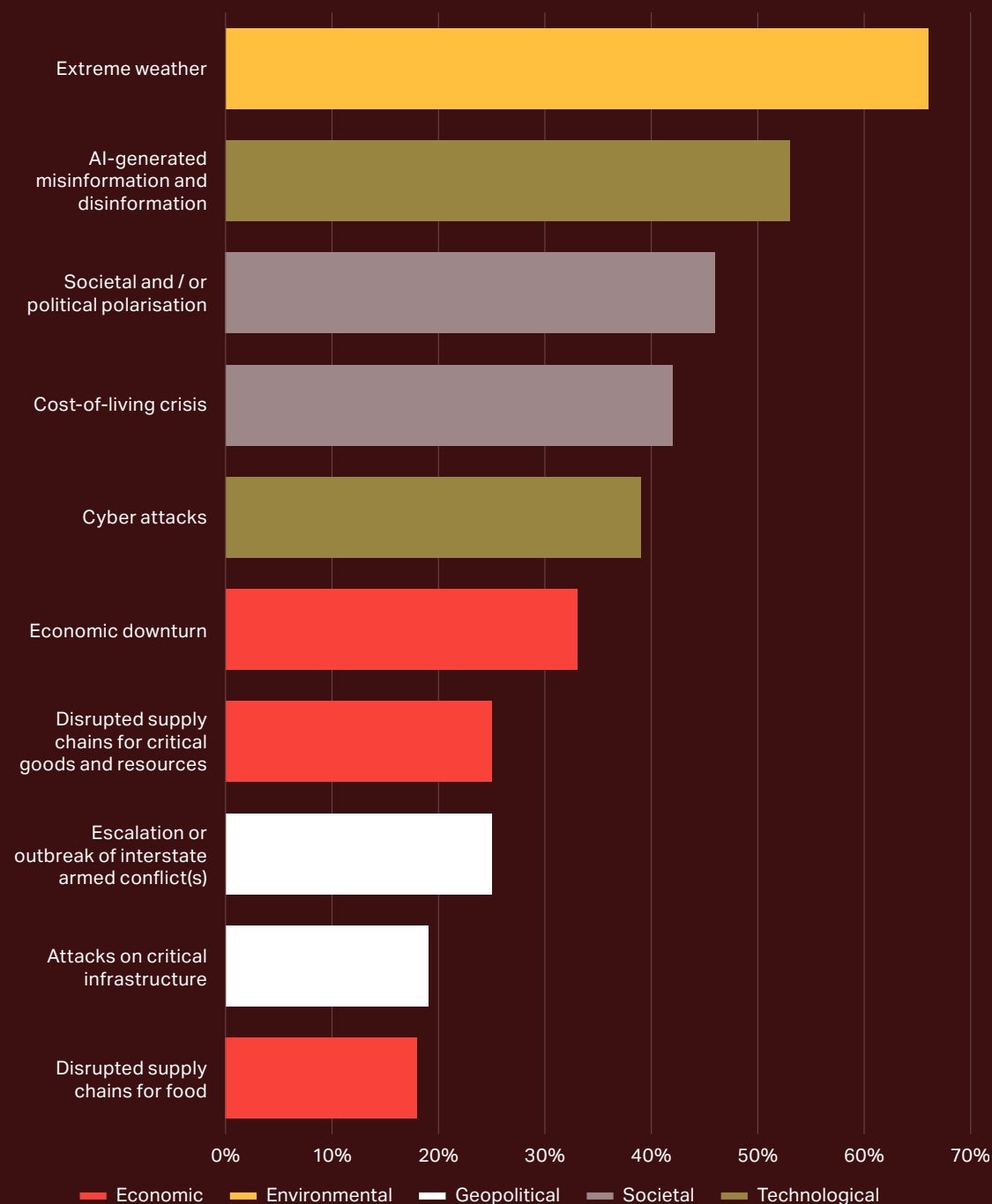
# The polycrisis era

The concept of risk and resilience has been transformed by accumulating and intersecting crises. A global pandemic, devastating wars, price shocks and weakening global trade have ended the world's 'holiday from history' to bring heightened security threats, higher inflation, tighter monetary policy, volatile commodity prices, geoeconomic fragmentation, supply chain disruption, tapered economic growth...the list goes on.

Events have also demonstrated how perils once viewed as distinct or independent – risks such as wars, civil unrest, commodity crises and supply chain failures – can in fact be linked and strike simultaneously. The scale of events has moved loss scenarios from the theoretical into the real world and, in doing so, caused a marked shift in risk perceptions for businesses and (re)insurers.

Little surprise then that an array of societal risks (polarisation and cost-of-living), economic risks (supply chains and growth concerns) and geopolitical risks (conflict and critical infrastructure attacks) feature alongside climate and cyber in the World Economic Forum's list of top global risks for 2024 (see Figure 1).

**Figure 1: Top 10 risks most likely to present a material global crisis in 2024<sup>1</sup>**  
 (Source: World Economic Forum)



<sup>1</sup> Respondents asked to select up to five risks from 20 pre-selected risks.

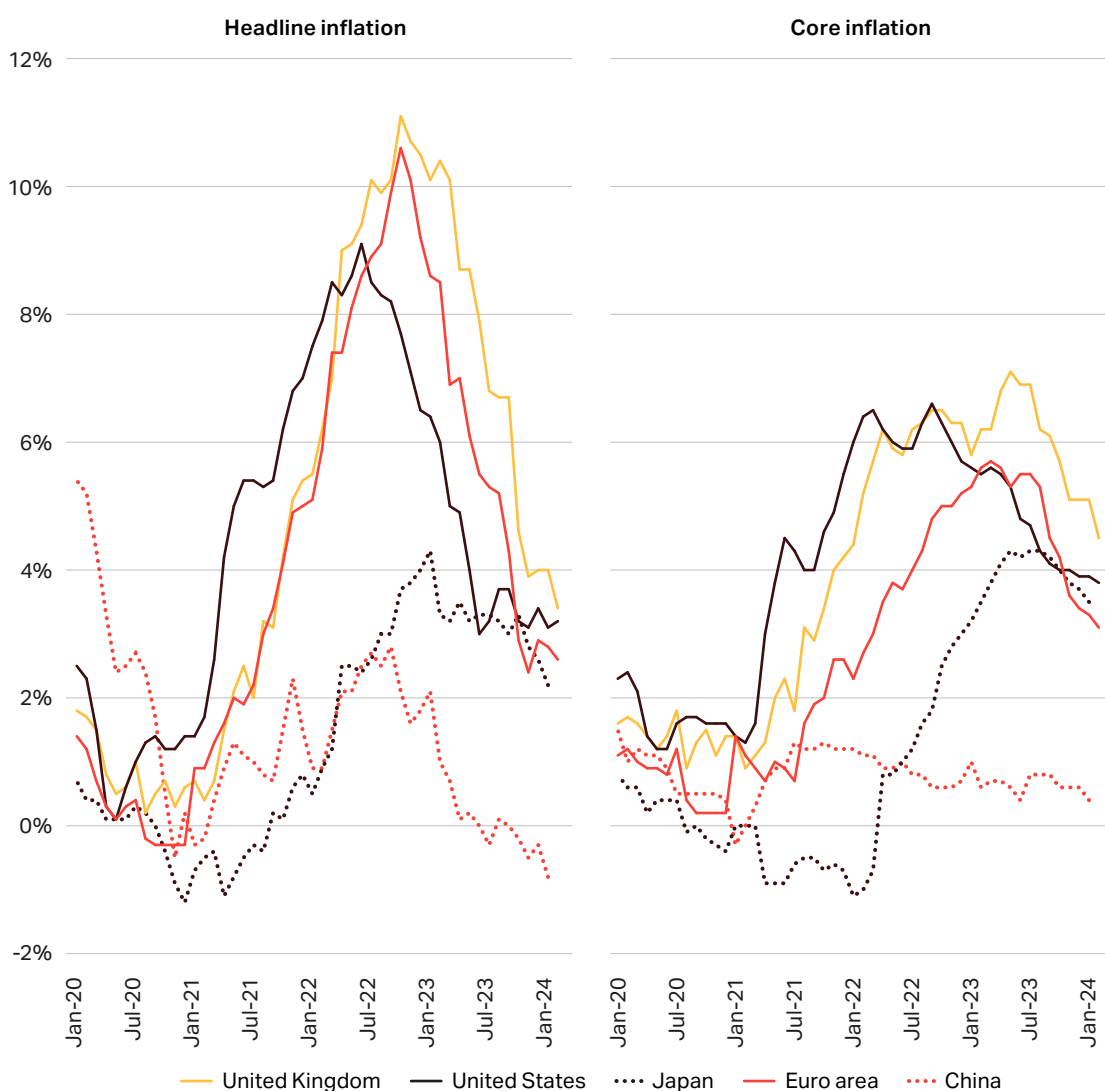
## Rise and fall of inflation

This new macro regime has brought structural change, with higher inflation fuelling the cost-of-living crisis and weighing on economic growth, as well as driving insurance claims higher at a time of significant loss activity. Figure 2 shows how inflation has trended in major economies since 2020, with headline readings last year falling rapidly from multidecadal highs (China apart). However, core inflation, which strips out volatile food and energy components, remains sticky.

Having navigated a perfect storm in 2021 and 2022 of surging post-COVID demand, limited supply and a commodity shock following Russia's invasion of Ukraine, last year's disinflation was driven by sharp reversals in energy costs, along with the unwinding of pandemic-related supply chain bottlenecks and decelerating goods inflation. The course and cause of inflation from here will be key inputs into asset valuations, (re)insurance supply and demand, pricing and claims inflation.

**Figure 2: Headline and core inflation for select advanced economies – 1Q20 to 1Q24**

(Source: Howden, government statistics)



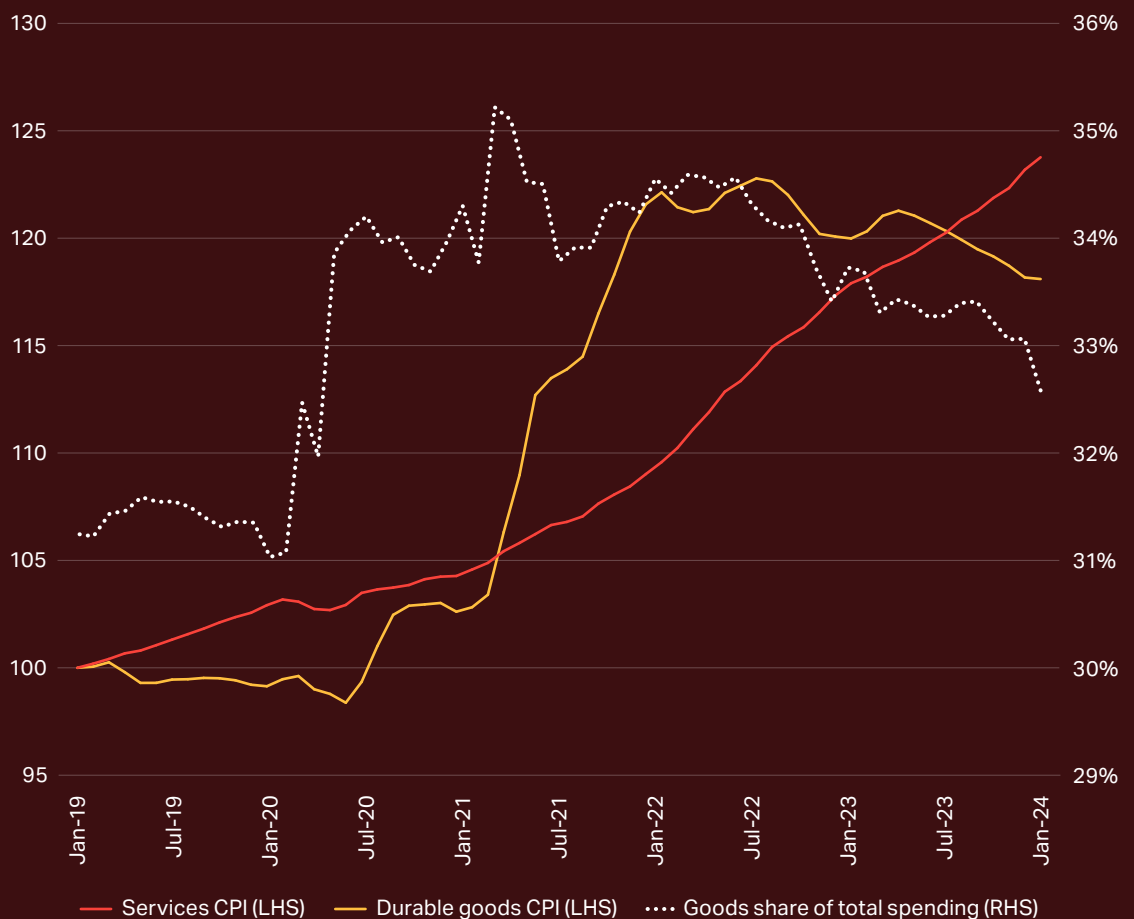
# 01

## Goods vs services

Figure 3 charts the rapid rise in the cost of U.S. goods through 2021 when supply was unable to keep up with demand. This was due to sudden changes in consumer spending patterns brought about by waves of pandemic-induced economic shutdowns and restarts, alongside increased disposable incomes off the back of fiscal and monetary stimulus in advanced economies.

Easing supply-side pressures in 2022, coupled with softening demand, were key factors in stemming and then reversing the surge in goods inflation. Shifting drivers of inflation recorded in recent CPI reports (from goods to more rigid services) point to some stickiness in 2024 and an uneven route back to target, especially as services inflation persists and goods deflation is now showing signs of easing (one to watch in relation to shipping disruption in the Red Sea).

**Figure 3: Goods vs services: U.S. sectoral CPI index and spending patterns – 1Q19 to 1Q24**  
(Source: Howden, BLS, BEA)



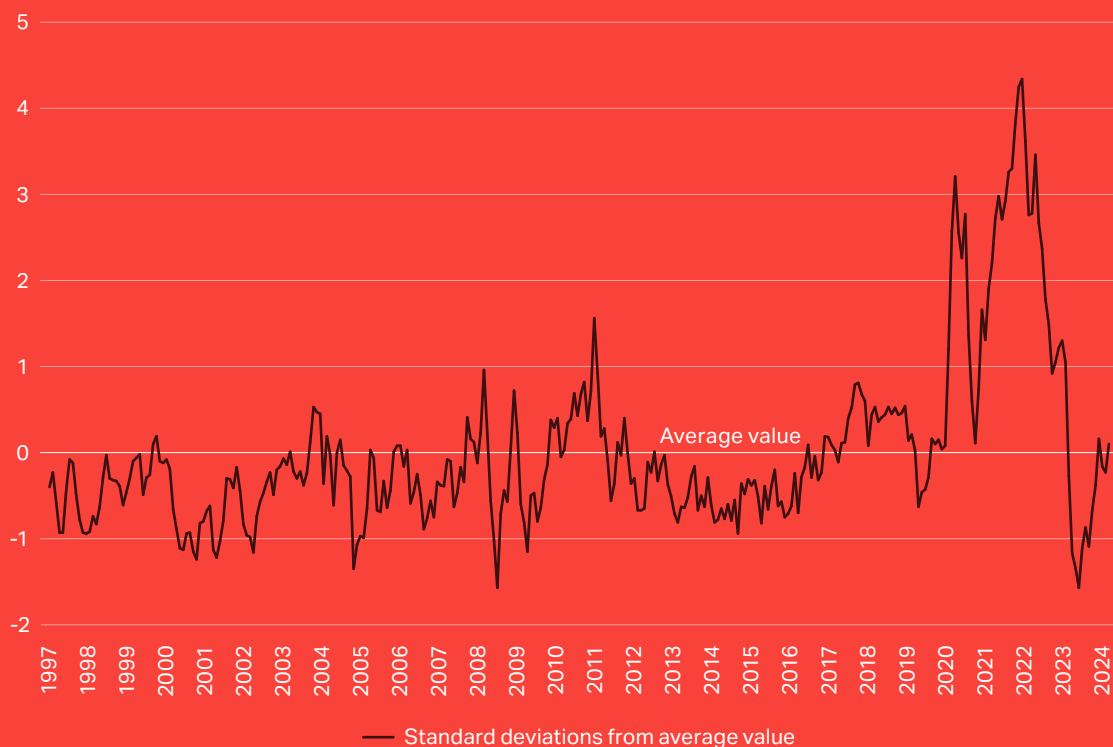
## 02

## Supply chains

The unwinding of COVID-related supply chain dislocations assisted disinflationary forces last year, although ongoing disruption to shipping in the Red Sea has rekindled concerns about resilience. One indicator of supply chain disruption, the Global Supply Chain Pressure Index (shown in Figure 4), underscores the shock caused by COVID (exacerbated by the Suez Canal blockage in 2021) as factory closures, rising shipping costs, disrupted logistic networks and longer delivery times stretched 'just in time' production models to breaking point.

The current situation in the Middle East has not had such far-reaching effects, although escalation remains a real threat. The most recent reading of the Global Supply Chain Pressure Index is just above its long-term average. Prolonged disruption to shipping in the Red Sea nevertheless poses a risk to recent global disinflationary trends, especially when traffic in the Panama Canal (another important shipping route) is currently restricted by low water levels due to drought.

**Figure 4: Global Supply Chain Pressure Index – 1997 to 1Q24<sup>2</sup>**  
(Source: Federal Reserve Bank of New York)



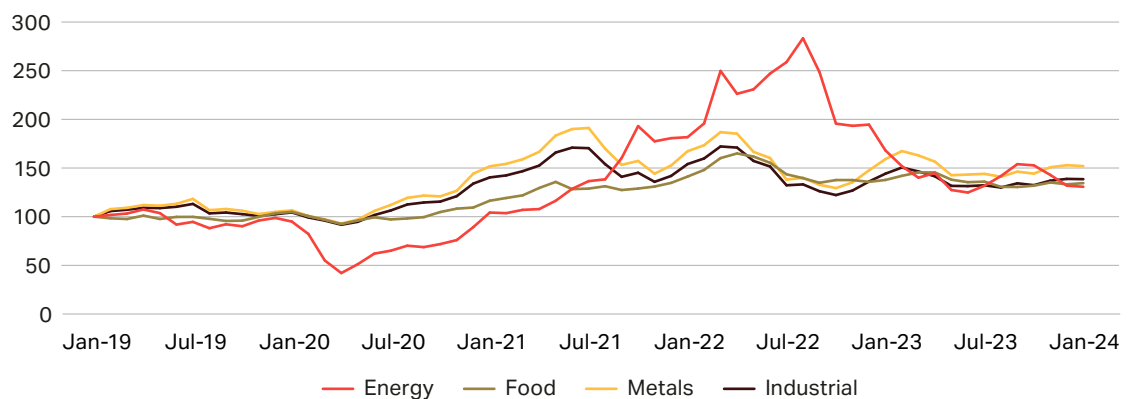
<sup>2</sup> Federal Reserve Bank of New York, Global Supply Chain Pressure Index, <https://www.newyorkfed.org/research/policy/gscpi>.

# 03

## Commodity prices

Energy prices have been the single most important factor in driving (dis)inflation over the last three years. Figure 5 shows that prices for various commodities were already on an upward spiral in 2021, only for Russia's invasion of Ukraine in February 2022 to trigger an energy shock not seen since the 1970s.

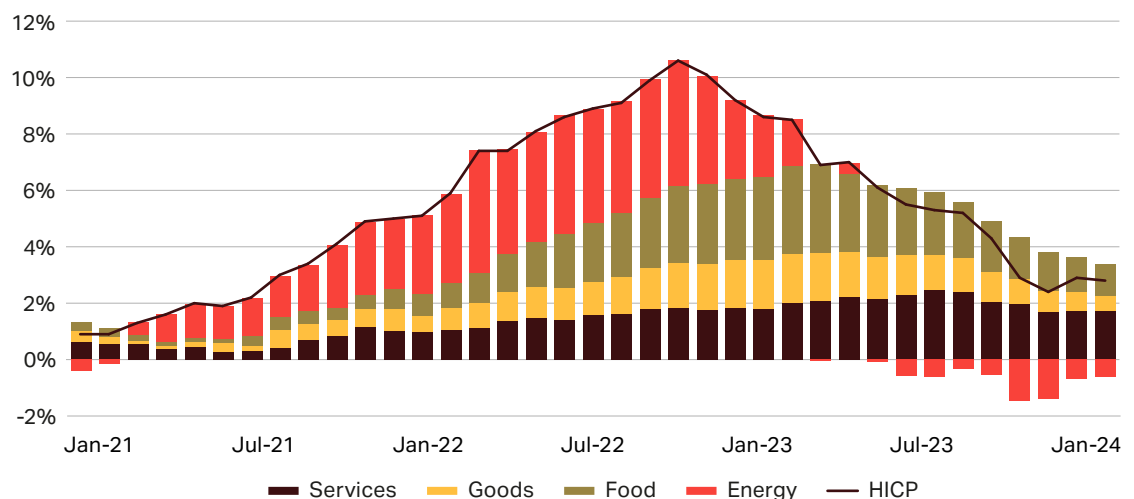
**Figure 5: Global Commodity Price Index – 2019 to 1Q24** (Source: Howden, IMF)



This immediately fed into broader inflation figures (food prices are also closely correlated to energy costs), in Europe especially given its heavy reliance on Russian energy supplies. Natural gas prices in Europe rose 11-fold in the immediate aftermath of the invasion and accounted for more than 40% of overall inflation at the height of the crisis.

Since then, energy prices have not only stabilised but turned negative, driving headline inflation down to pre-Ukraine war levels in several countries (as shown by European data in Figure 6). Events in the Middle East have so far had a negligible effect on energy prices but carry considerable escalatory risks.

**Figure 6: Components of annual inflation in Europe – 2021 to 1Q24**  
(Source: Howden, Eurostat)

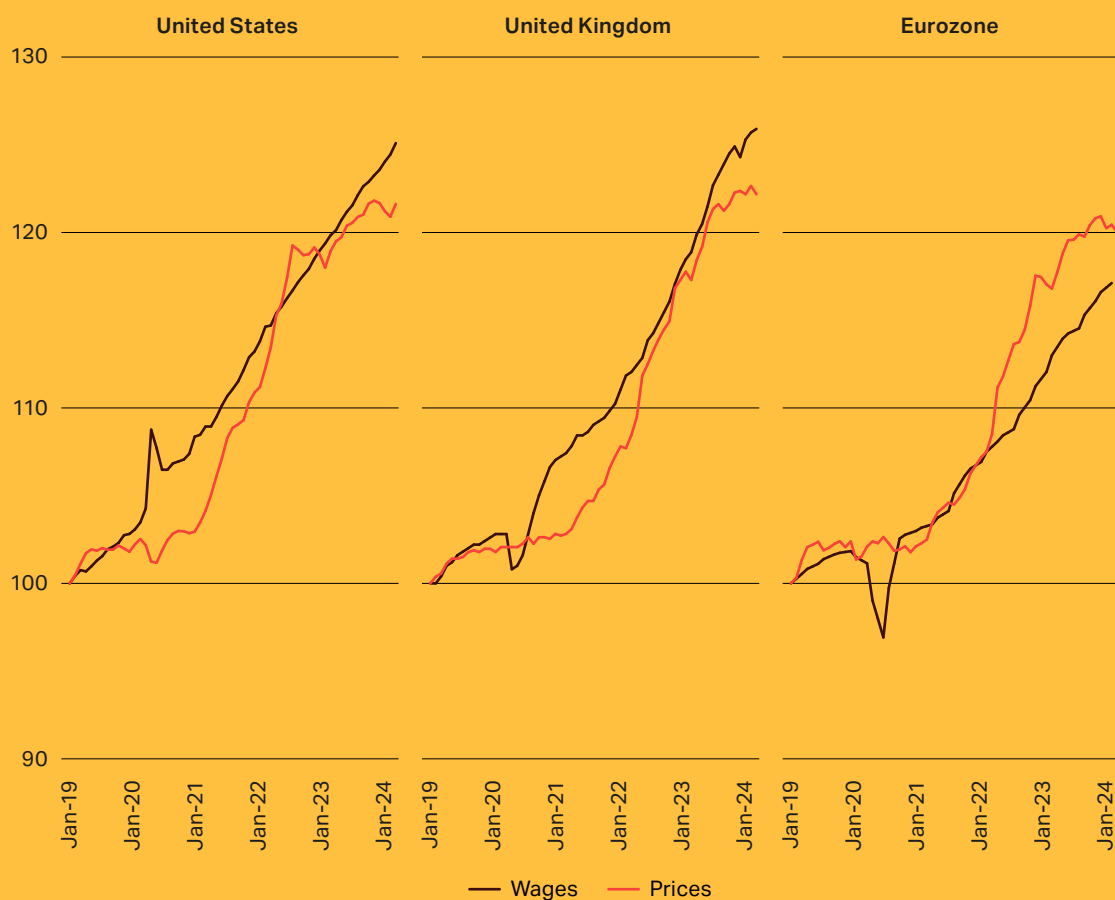


# 04

## Labour market

Persistent underlying price pressures associated with tight labour markets and high wage inflation are often cited as the (hard) 'last mile' in bringing inflation back to target. Figure 7 illustrates this in the United States and United Kingdom in particular where wages have generally exceeded prices during a period of rapid increase.

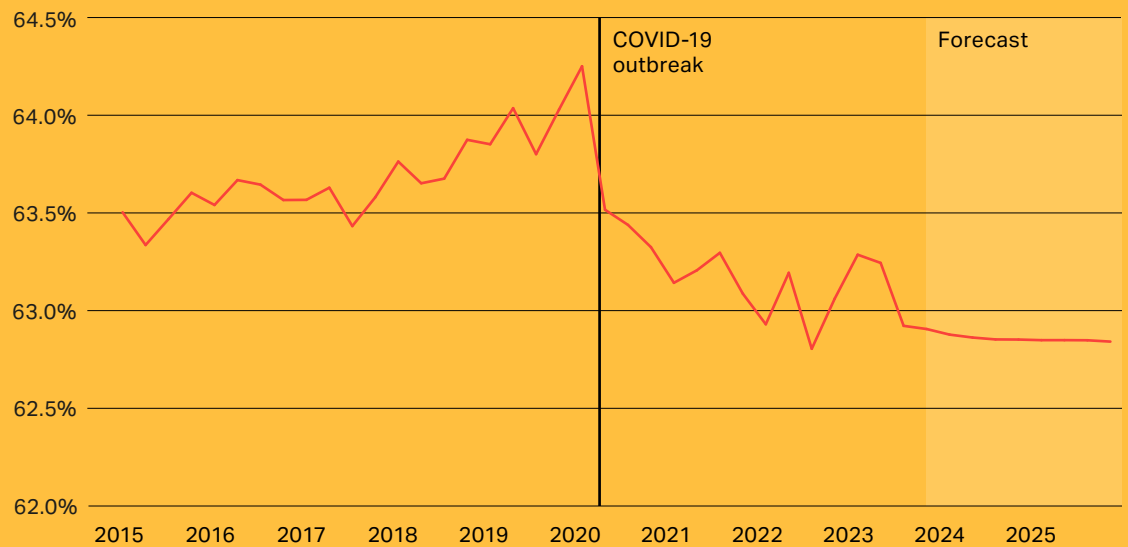
**Figure 7: Wages vs prices in United States, United Kingdom and Eurozone – 1Q19 to 1Q24<sup>3</sup>**  
(Source: Howden, BLS, ONS, ECB)



Changes to labour supply appear to have added to inflationary pressures in certain economies. Figure 8 on page 15 shows how the economic activity rate for people of working-age (indicative of labour supply) in the United Kingdom has fallen since COVID, with seemingly little prospect of returning to pre-pandemic levels over the next couple of years.

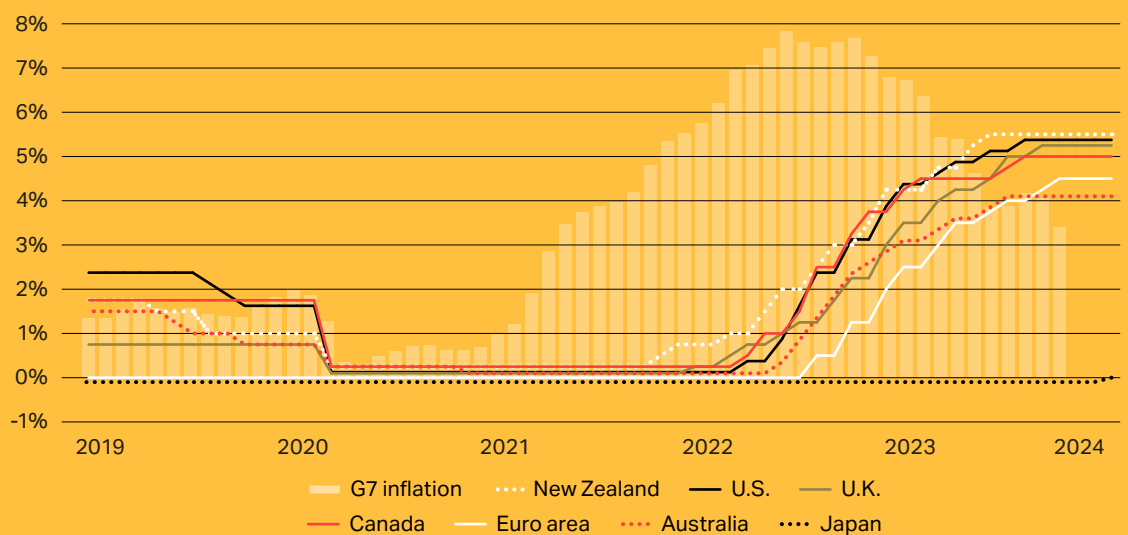
<sup>3</sup> Wages = hourly earnings for U.S., regular pay for U.K. and compensation per employee for Eurozone.

**Figure 8: Workforce participation rate in United Kingdom – 2015 to 2025F**  
(Source: Howden, LFS, OBR)



Policymakers will be closely monitoring labour and wage data through 2024 to determine the path of interest rates, which remain at post-financial crisis highs after the most rapid cycle of monetary tightening in recent memory in 2022 and early 2023 (see Figure 9). Sticky inflation and the resilience of advanced economies have pushed back expectations for interest rate cuts deeper into 2024.

**Figure 9: Rising interest rates and inflation in advanced economies – 2019 to 2024**  
(Source: Howden, BIS, OECD)

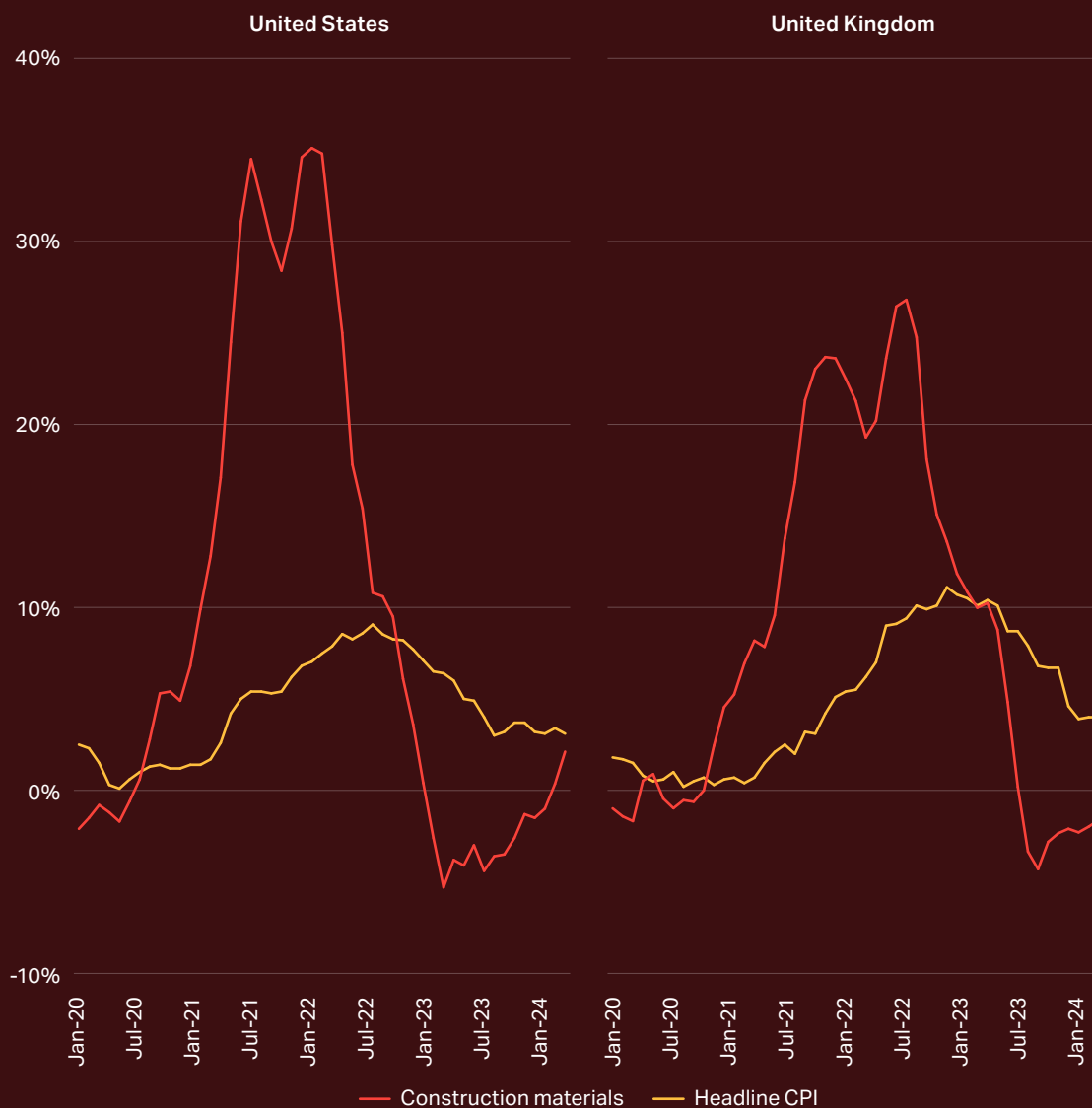


## CPI vs claims inflation

Inflation has driven a significant increase in insured valuations and changed the underwriting environment by impacting claims costs, reserving and pricing. Shorter-tail lines have been most impacted by inflation so far, as elevated costs (materials and labour) and replacement values, in addition to supply chain issues and longer repair times, have exacerbated claims severity.

Figure 10 shows how these dynamics pushed up construction material costs higher than headline inflation in the United States and United Kingdom through 2021 and 2022, before moderating last year.

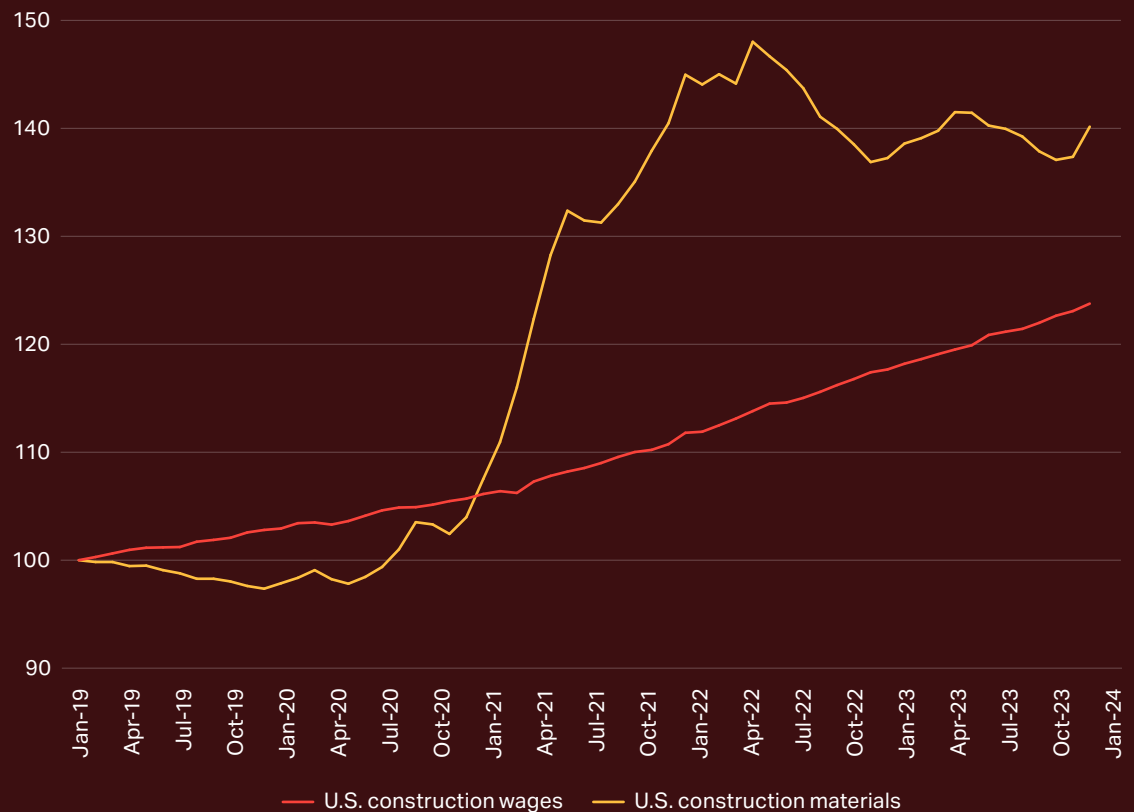
**Figure 10: Construction material costs in United States and United Kingdom vs headline CPI – 1Q20 to 1Q24<sup>4</sup>** (Source: Howden, BLS, ONS)



<sup>4</sup> U.S. = PPI by Commodity: Construction Materials and U.K. = Construction Material Price Indices (All Work)

Wages are another important input into claims inflation, and pressures here have been less acute, albeit up significantly on prior years. Figure 11 compares U.S. wage data in the construction sector with the cost of materials (indexed back to 2019). Materials are up close to 40% during this timeframe, compared to a more modest 23% for wages.

**Figure 11: Wages vs cost of materials in U.S. construction sector – 1Q19 to 1Q24**  
(Source: Howden, BLS)



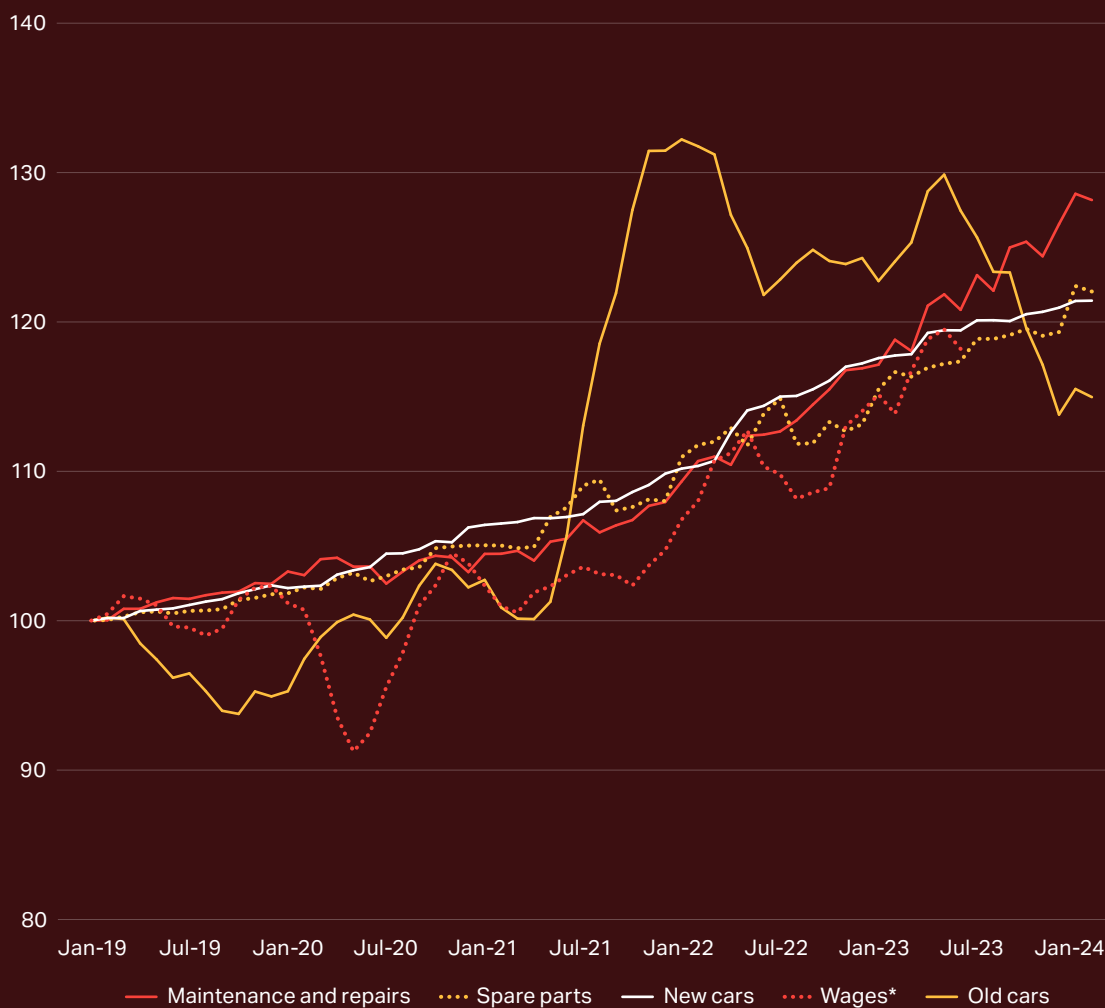
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Inflation has driven a significant increase in insured valuations and changed the underwriting environment.

This is indicative of significantly higher claims costs for property risks in what has been a particularly active period of loss activity – the previous 5-year timeframe of 2014-18 saw materials increase by 12.5% and wages by 15%.

Whilst wage inflation's higher weighting for claims development has provided some mitigation against the more headline-grabbing inflationary effects from materials, substantially higher costs in the round have been a major factor in sustaining rate momentum in the property market (alongside increased reinsurance costs). This correction has seen pricing reach sufficient levels to absorb higher inflation and replacement costs.

The motor market has likewise experienced stark inflationary headwinds for physical damage components. High vehicle values and rising labour and parts costs (as shown by U.K. data in Figure 12) caused claims severity to rise significantly above historical averages, triggering a market correction as carriers have pushed up prices substantially to catch up.

**Figure 12: Wage and loss costs components for United Kingdom motor market – 2019 to 2023** (Source: Howden, ONS)

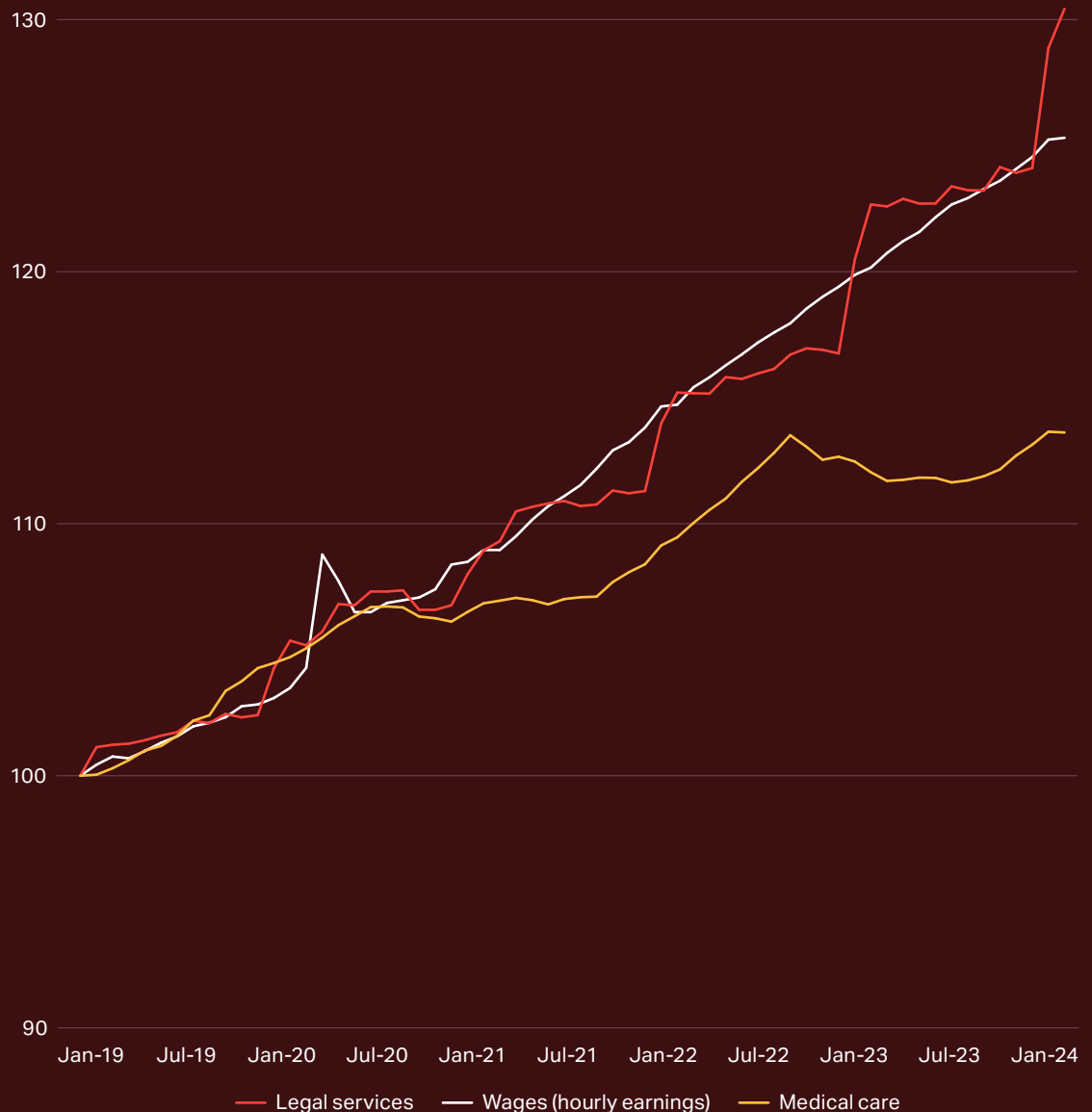


\* Wages = 3-month rolling average for maintenance and repair of motor vehicles and motorcycles

Long-tail lines are typically more sensitive to inflation, given impacts accumulate over a longer period. Medical-related costs, an important loss indicator for an array of casualty classes, remain relatively benign but legal costs have increased more significantly. Sustained wage growth in recent years has provided a significant premium boost for certain casualty classes such as employers' liability and workers' compensation.

Whilst economic inflation will continue to have an important bearing on loss severity, much of the concern centred around the U.S. liability market currently stems from non-economic factors linked with social inflation – an active and aggressive plaintiffs' bar, higher litigation costs, increased attorney involvement in the claims process, growth of third-party litigation funding, anti-corporate sentiment – prompting several (re)insurers to strengthen reserves during 4Q23 earnings season.

**Figure 13: CPI for categories relevant to liability lines in the United States – 1Q20 to 1Q24**  
(Source: Howden, BLS)



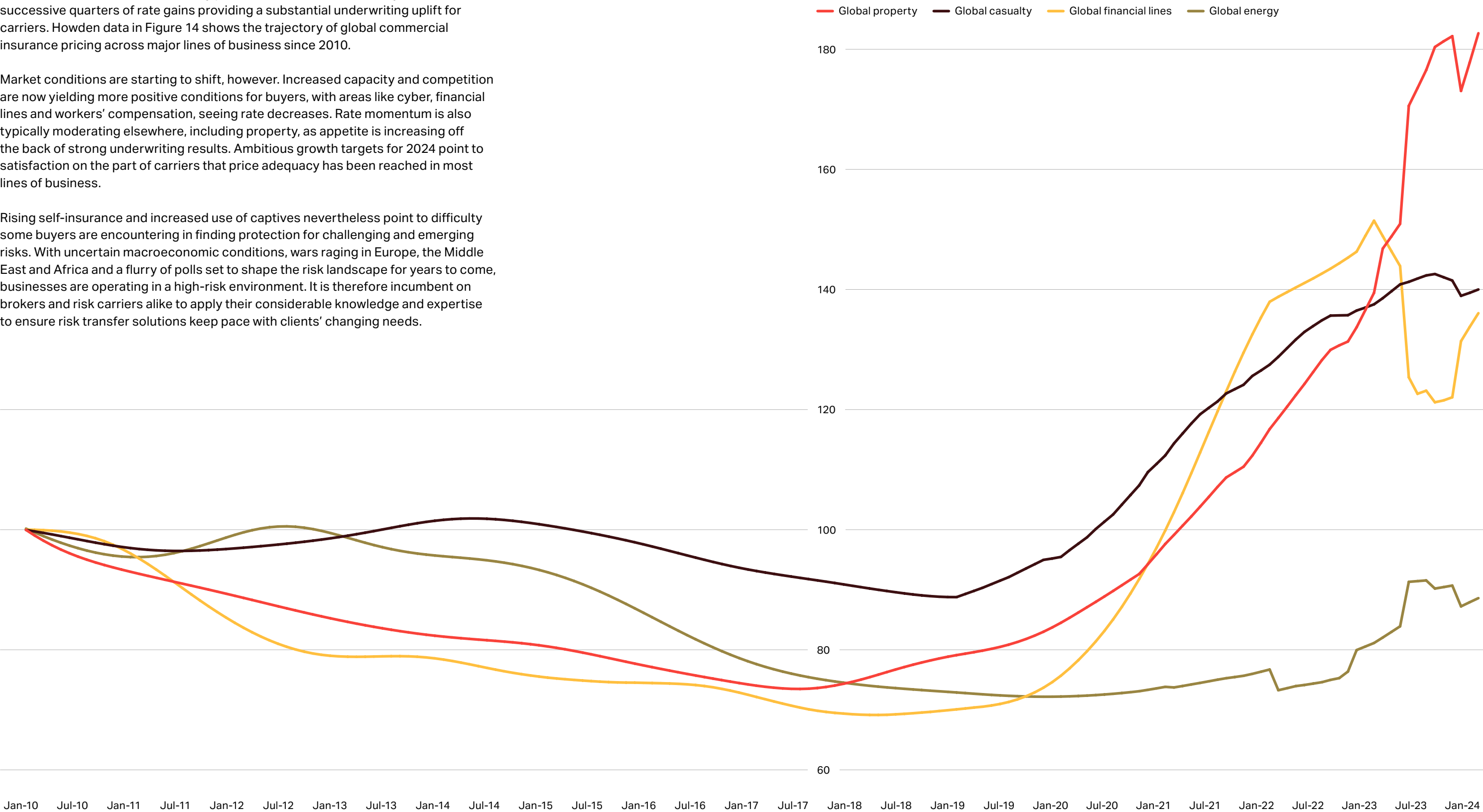
Post-peak market cycle

All of which has extended an already protracted insurance market cycle, with successive quarters of rate gains providing a substantial underwriting uplift for carriers. Howden data in Figure 14 shows the trajectory of global commercial insurance pricing across major lines of business since 2010.

Market conditions are starting to shift, however. Increased capacity and competition are now yielding more positive conditions for buyers, with areas like cyber, financial lines and workers' compensation, seeing rate decreases. Rate momentum is also typically moderating elsewhere, including property, as appetite is increasing off the back of strong underwriting results. Ambitious growth targets for 2024 point to satisfaction on the part of carriers that price adequacy has been reached in most lines of business.

Rising self-insurance and increased use of captives nevertheless point to difficulty some buyers are encountering in finding protection for challenging and emerging risks. With uncertain macroeconomic conditions, wars raging in Europe, the Middle East and Africa and a flurry of polls set to shape the risk landscape for years to come, businesses are operating in a high-risk environment. It is therefore incumbent on brokers and risk carriers alike to apply their considerable knowledge and expertise to ensure risk transfer solutions keep pace with clients' changing needs.

Figure 14: Global commercial insurance pricing indices by key lines of business – 2010 to 2023  
(Source: Howden, NOVA)



# 2024: a turning point?

2023 ended on a strong note from a macroeconomic perspective as resilient growth, steeper than expected falls in inflation and building expectations for lower yields coalesced to drive a robust rally in financial markets.

Despite the ongoing war in Ukraine and the outbreak of war in the Middle East, commodity prices remained stable and optimism grew around a so-called 'soft landing' for the global economy. Since then, stocks have sustained their upward momentum, with several equity markets reaching record highs in 1Q24. Bond markets, meanwhile, are down modestly on the year (after recording a stellar two-month run in November and December 2023) as expectations for interest rate cuts have been pared back. Having fallen in unison in 2022 as markets adjusted to end of cheap capital and low prices, Figure 15 charts the divergent paths taken by global equities and global bonds since mid-2023.

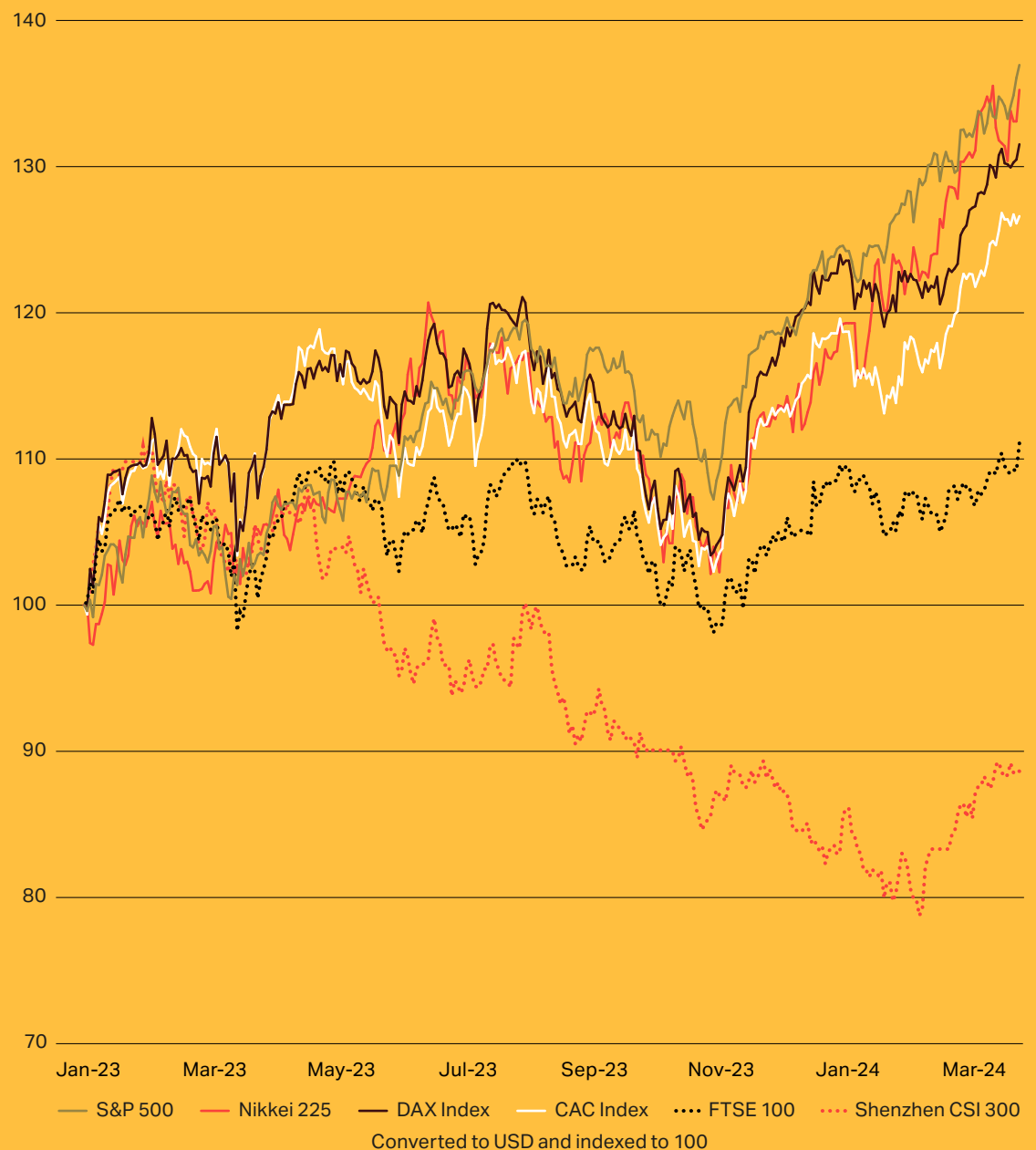
**Figure 15: Diverging trajectories of stocks and bonds in 2023/24** (Source: Howden, Bloomberg)



\* Global stocks = MSCI World Equity Index and global bonds = Bloomberg Global Aggregate Bonds Index

The S&P 500 has led the equities charge due to the enduring strength of the U.S. economy and the considerable bearing of the 'Magnificent Seven' tech stocks. Other equity markets, such as those in Japan and Europe, have also reached record highs, despite lacklustre growth projections in these regions.

**Figure 16: Performance of major equity markets in 2023/24** (Source: Howden, Bloomberg)

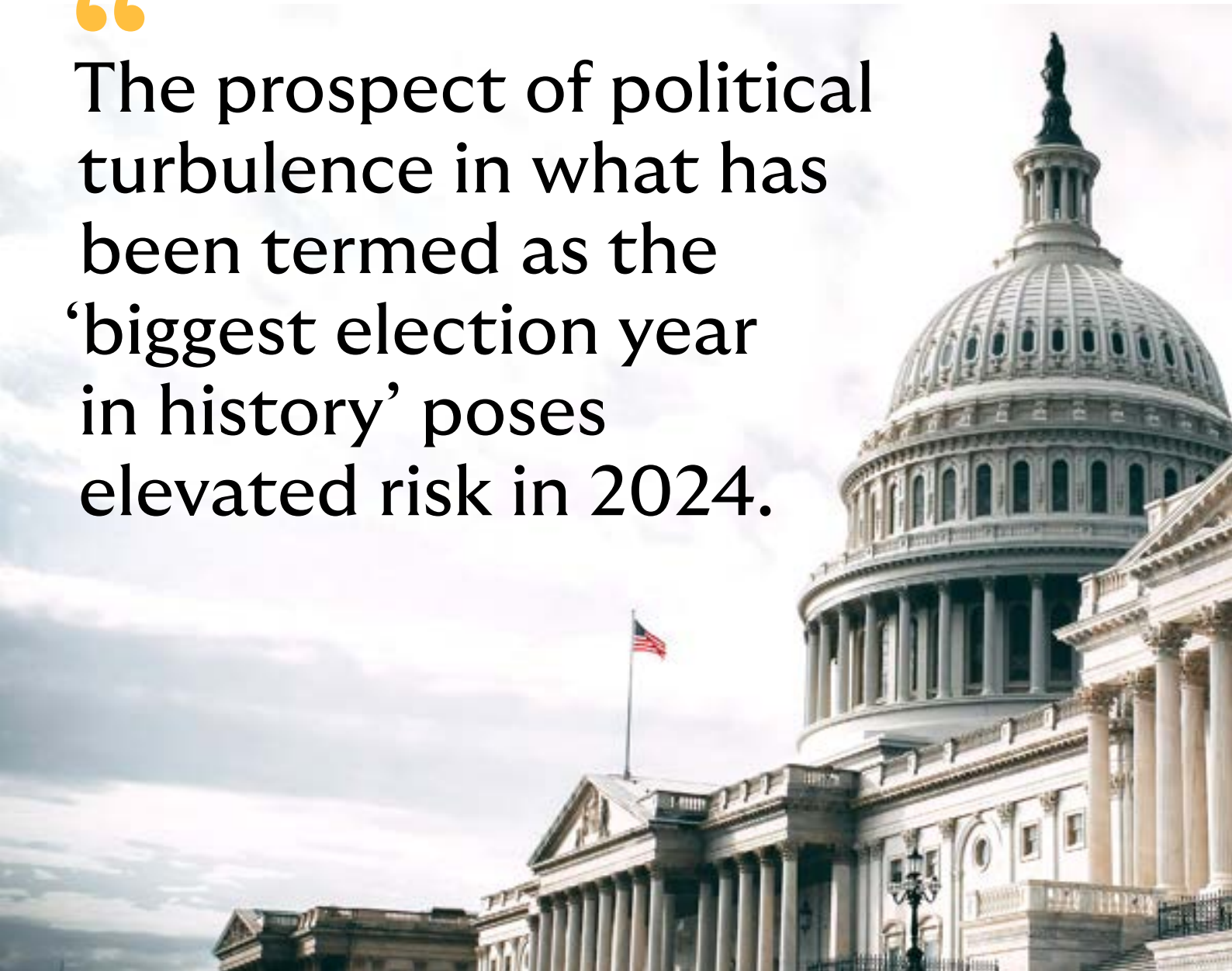


## A world of risk

This rally marks an extraordinary run considering markets are operating in an environment of higher inflation and interest rates, with consensus forecasts shifting perpetually. Such uncertainty, combined with several hot conflicts around the world and the prospect of political turbulence in what has been termed as the 'biggest election year in history', pose elevated risks in 2024.

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The prospect of political turbulence in what has been termed as the 'biggest election year in history' poses elevated risk in 2024.



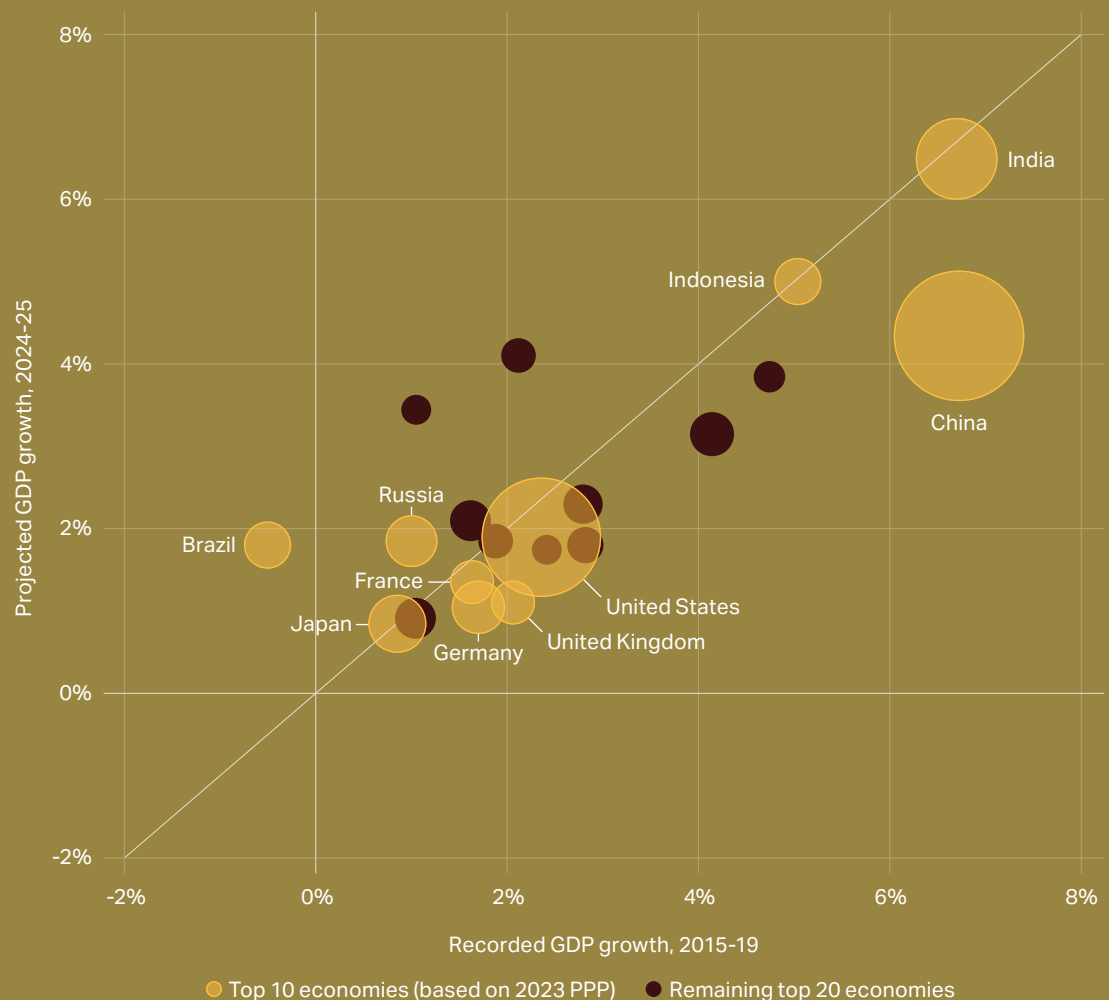
# 01

## Macro uncertainty

Shifting narratives around the macroeconomic outlook – from the roaring 2020s to recession, ‘soft landings’ or even talk of a Goldilocks market – reflect the degree of variability introduced into the global economy by successive shocks.

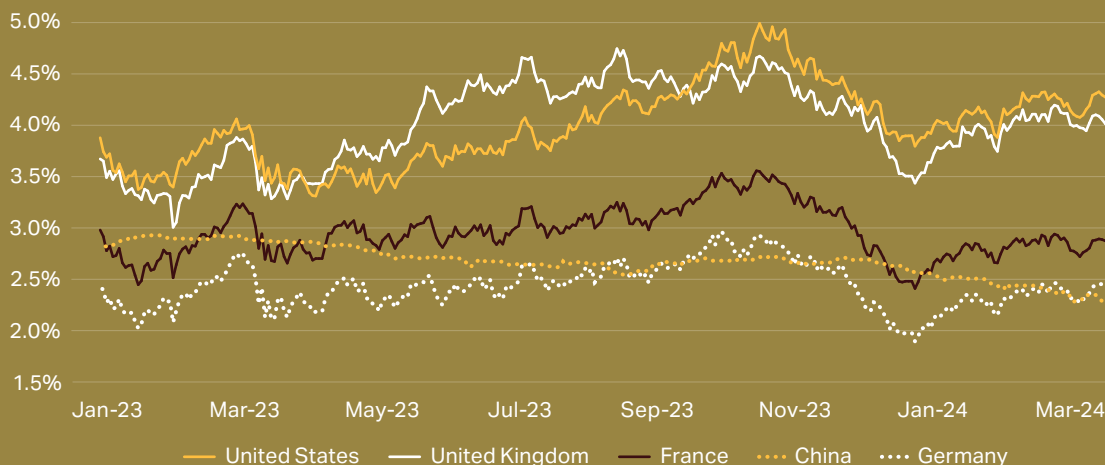
Despite the changeable backdrop, major economies have proved resilient. Growth has held up better than expected, disregarding concerns that measures to tame inflation would lead to recession. Underlying performance remains stifled, however. Figure 17 shows that most major economies look set to register lower growth this year and next compared to pre-COVID years, with China likely to experience a marked deceleration.

**Figure 17: Projected 2024-25 GDP growth vs recorded performance in 2014-19 for top 20 economies** (Source: Howden, IMF, Bloomberg)



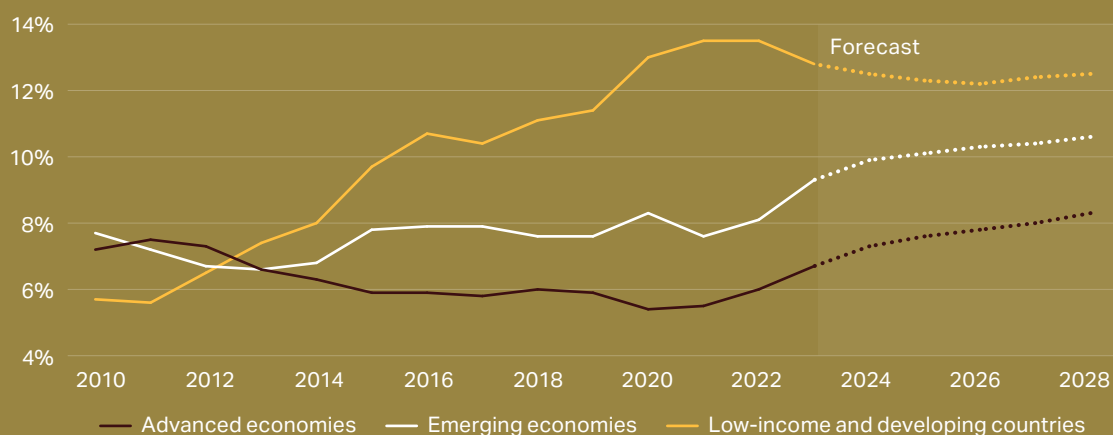
Tight labour markets, upside surprises to inflation in the first few months of the year and receding recession fears have tempered expectations for monetary policy loosening. The U.S. Federal Reserve is now projected to reduce interest rates three times this year versus the six or seven cuts forecast late last year, triggering a modest rebound in government bond yields (as shown by Figure 18).

**Figure 18: 10-year government bond yields – 1Q23 to 1Q24** (Source: Howden, Bloomberg)



The resilience exhibited by major economies is expected to prevent recession in 2024, which bodes well for a (re)insurance market looking to sustain its recent run of above-trend premium growth. Low underlying productivity growth and higher interest payments on government, corporate and consumer debt are nevertheless likely to weigh on economic activity, impact investment plans / public spending and make governments less willing (and able) to backstop risk.

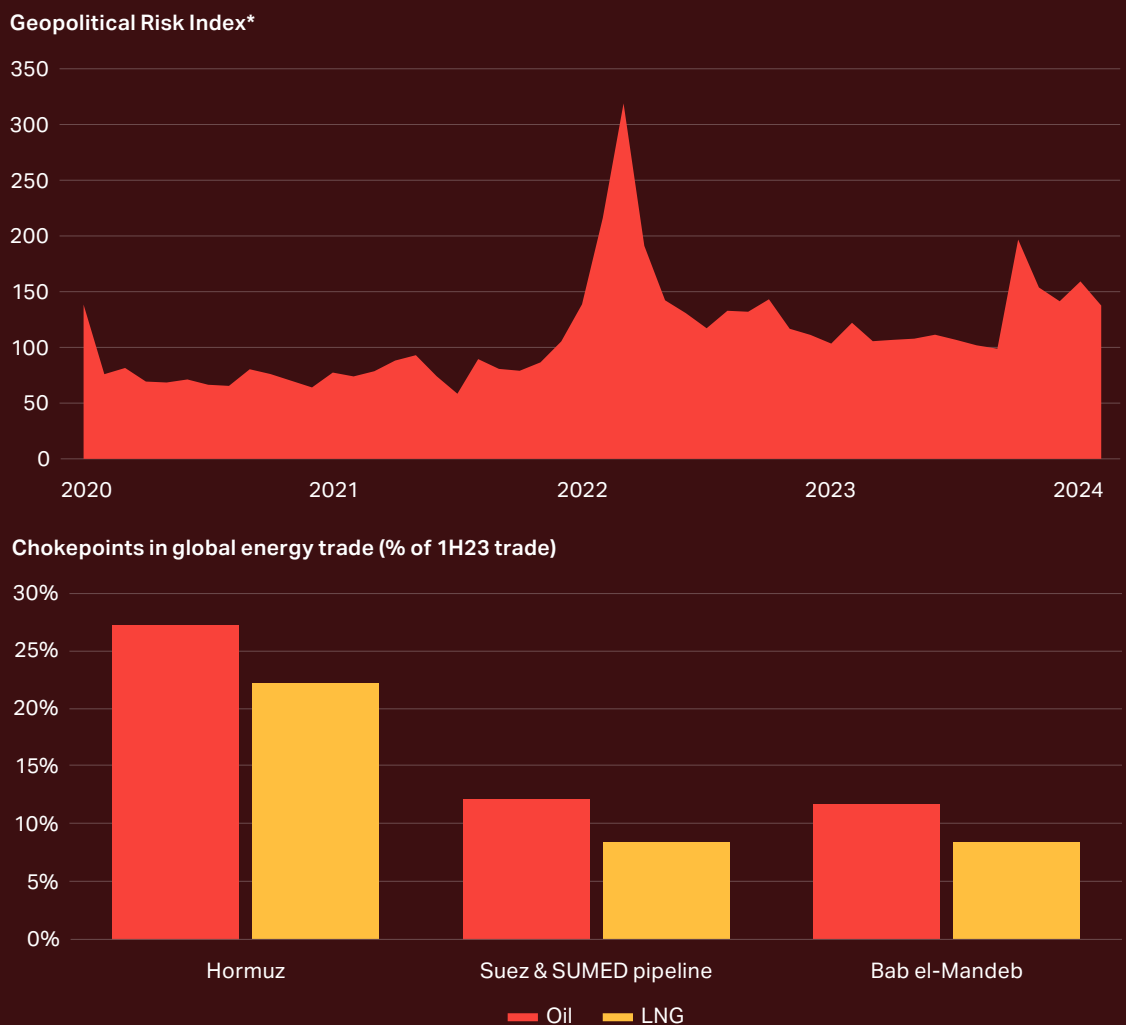
**Figure 19: Government interest payments as % of revenues** (Source: IMF)



## 02 Geopolitics

Geopolitics has played a dominant role in shaping the macro and loss environment in recent years and is front and centre in 2024. War in the Middle East, as well as other risks that extend to the ongoing conflict in Ukraine and persistent tensions across the Taiwan Strait, threaten energy security, global supply chains, international trade, and, by extension, resurgent inflation.

**Figure 20: Elevated geopolitical risks and key supply routes for global energy trade**  
(Source: Howden, U.S. Energy Information Administration, Geopolitical Risk Index)



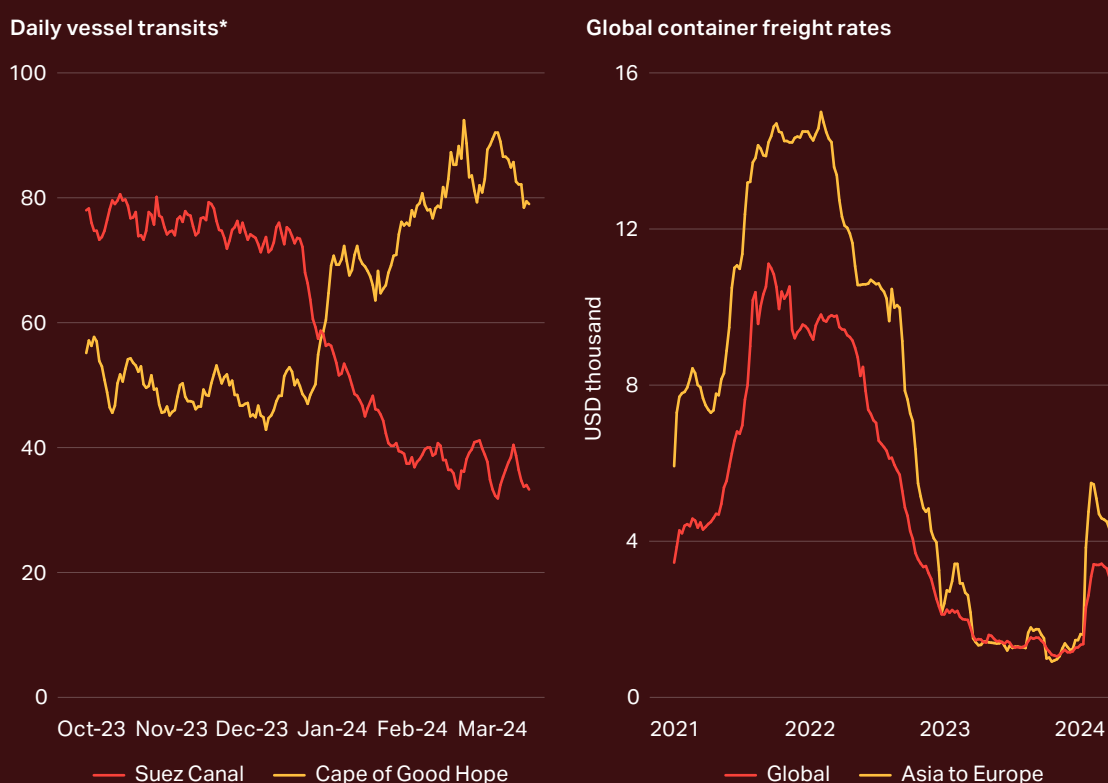
\* Caldara, Dario and Matteo Iacoviello (2022), "Measuring Geopolitical Risk," American Economic Review, April, 112(4), pp.1194-1225. Data downloaded from <https://www.matteoiacoviello.com/gpr.htm> on 21 March 2024.

Missile and drone attacks on commercial ships in the Red Sea by Yemen-based Houthi militants are the latest shock to global commerce and supply chains. Resurgent activity by Somali pirates has also been recorded recently. The second chart in Figure 20 highlights the risks associated with escalation in the Middle East, given the importance of regional trade routes in transporting oil and gas (in this case) to the Americas, Asia and Europe.

U.S. airstrikes on military targets in Yemen have done little to contain the attacks so far. Vessels carrying goods and energy supplies have been forced to reroute around Africa as a result, adding up to 10-15 days to typical journeys from Asia to Europe, thereby lengthening delivery times and absorbing capacity in the container sector, as well as increasing costs.

The marine war insurance market continues to support vessels transiting difficult areas, with pricing adjustments reflecting heightened risks. Freight rates have also increased, with third-party data (from Freightos) showing a three-fold increase for certain routes since the start of the crisis. They nevertheless remain well below levels reached in 2021/22 and have moderated in recent weeks.

**Figure 21: Shipping disruption in Red Sea** (Source: Howden, Freightos, IMF Portwatch)

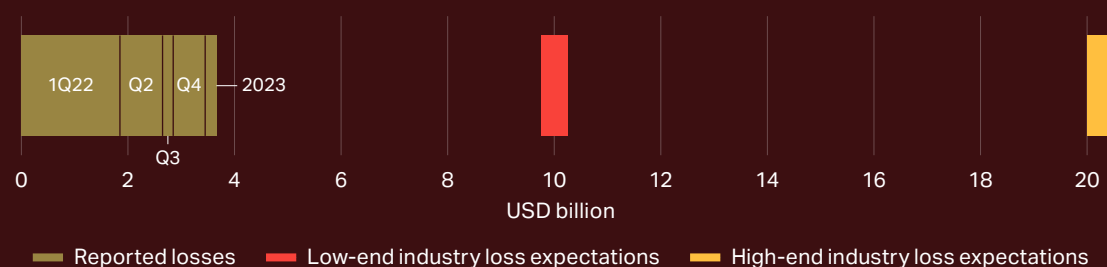


\* 7-day moving average for vessel transits

Direct insured losses from hostilities in the Middle East remain relatively contained. Indirect impacts have also been limited so far, with little movement in commodity prices and isolated impacts to industrial production (car factories in particular) and retail supplies. Prolonged disruption or contagion could nevertheless see risks escalate and reverse recent global disinflationary trends. Indeed, analysts are warning that disruption of up to a year could see goods inflation rise by 1-2%.

Insured losses from Ukraine remain uncertain two years into the conflict. Developments in the aviation market following settlements between lessors and Russian airlines have raised hopes that market losses could fall towards the low-end of early expectations. Figure 22 shows Ukraine war-related losses reported by individual (re)insurers since the outbreak of war. Most carriers did not add to reserves in 2023.

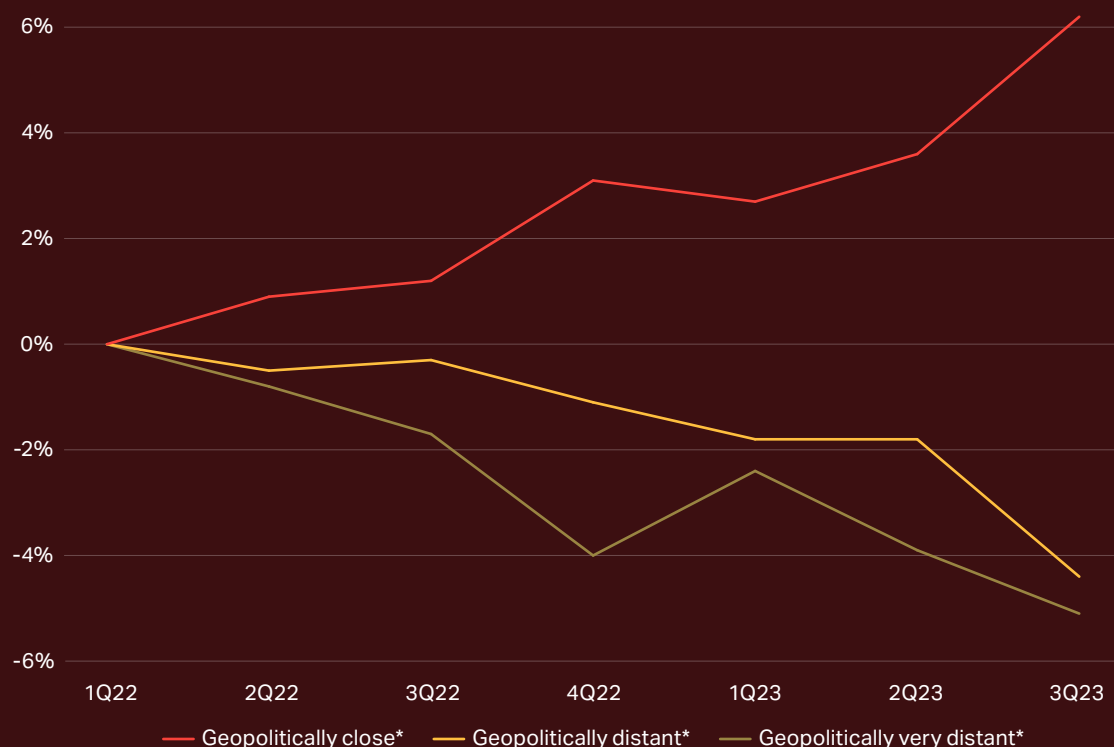
**Figure 22: Reported (re)insured losses for Ukraine war vs ultimate industry loss estimates**  
(Source: Howden, company reports)



The prevalence of hot conflicts in Ukraine, the Middle East and Africa carry serious ramifications for global security and the world order. In addition to the devastating human toll, Figure 23 shows that geopolitical fragmentation has caused structural shifts in trade patterns following Russia's invasion of Ukraine that bring the potential for significant changes to supply chains, as well as increased inflation volatility.

All of which underscores the need for companies to secure supply chains and reduce reliance on geopolitical hotspots. This process requires agility but also presents an opportunity for innovation and growth. Whilst strategies like 'friend-shoring' can incur additional time and costs, they can also reduce pressure points and assist insurability at a time when geopolitical forces are redrawing trade maps across the world.

**Figure 23: Average change in bilateral trade by geopolitical group – 1Q22 to 3Q23**  
(Source: UNCTAD based on national statistics)



\* UN voting records used to determine geopolitical categories. Data excludes services and intra-EU trade.

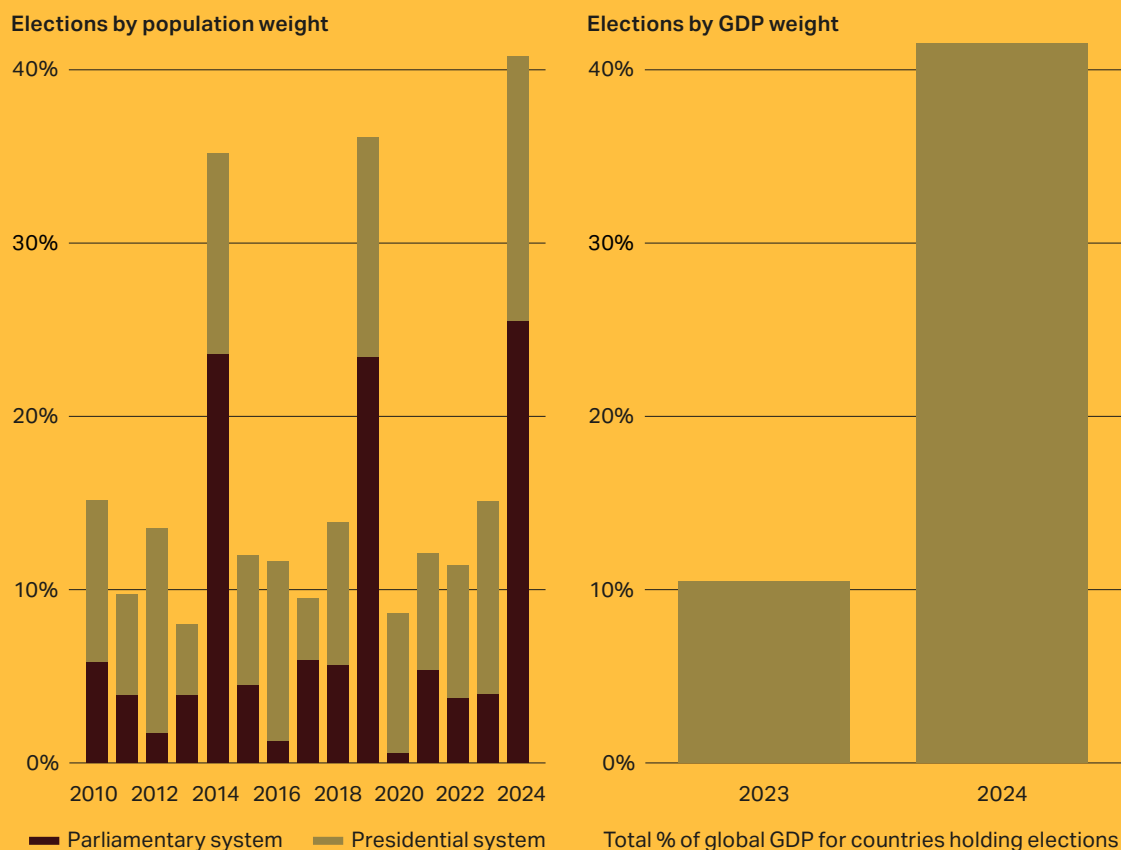
## 03

## 2024 elections

Economic uncertainty and an upsurge in armed conflict coincide with a slew of high-profile elections this year. Some 60 countries, which account for approximately 40% of the world's population and gross domestic product, are due to hold votes, with results not only impacting domestic policies in each respective nation, but also set to shape the course of global developments for years to come.

**Figure 24: Share of world's population and GDP set to vote in 2024<sup>5</sup>**

(Source: Howden, Goldman Sachs, IMF)



Taiwan and Pakistan have already held elections, with the former likely to have important ramifications on Taipei's (and the West's) future relations with China and the latter providing an early example of the uncertainty (and tension) that can follow closely contested outcomes. Polls in India, Mexico, South Africa, South Korea, the United States and United Kingdom are due to follow later in the year.

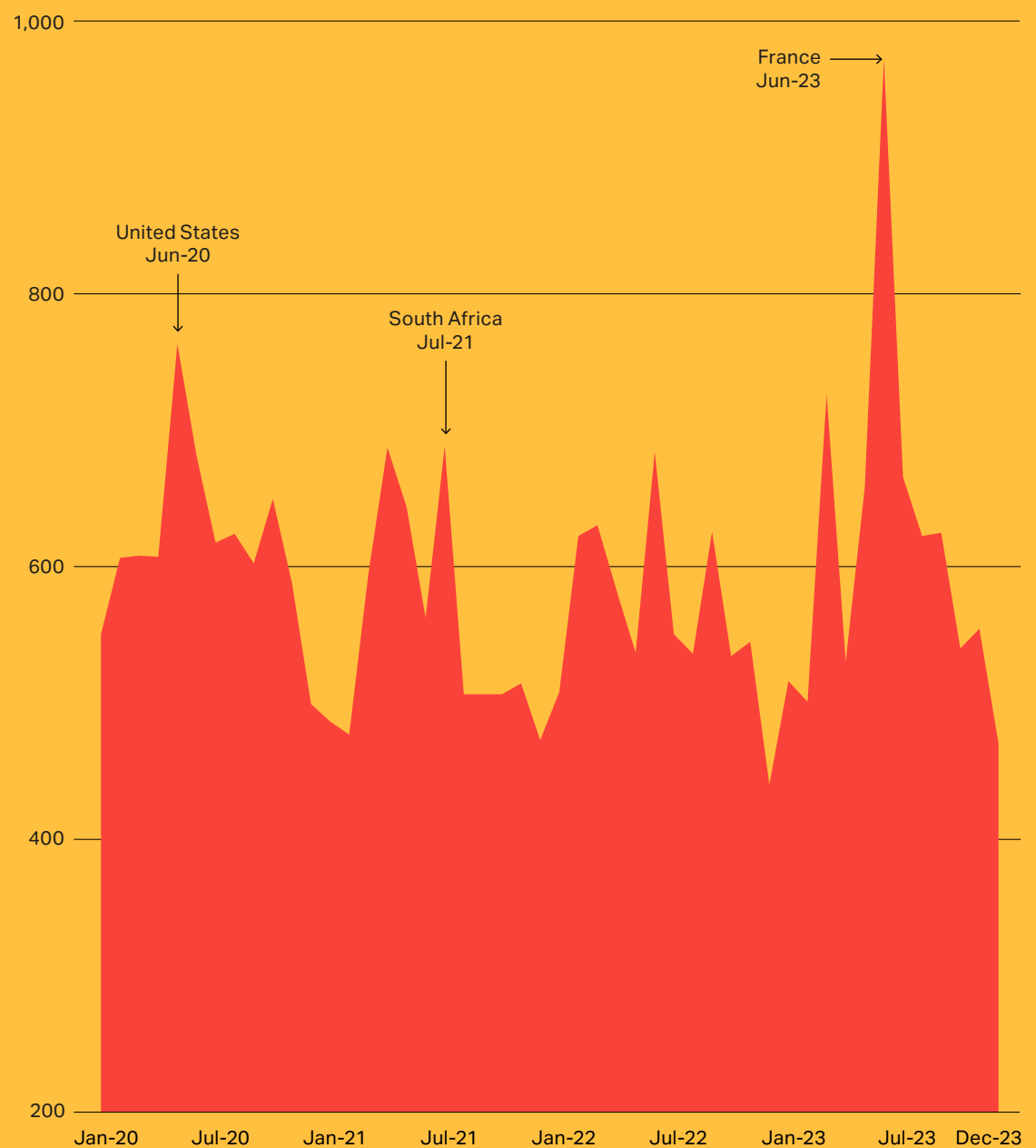
Given the size of the economies involved and concerns that misinformation and disinformation from internal and external parties could be used to undermine the democratic process, the potential for political instability presents a major risk for 2024.

<sup>5</sup> Countries classified as being 'full democracy', 'flawed democracy' and 'hybrid regime' in the Economist Intelligence Unit's Democracy Index 2023 report have been included in the analysis for global GDP.

The stakes are high. Grievances tied to the rising cost-of-living, food and energy insecurity, falling real incomes, high levels of debt and perceived poor governance and corruption, inflamed further by populism and polarisation, are eroding social cohesion. Population growth in major cities is also playing a role as increased density of people and insured assets drive losses higher.

Two countries holding elections this year, the United States and South Africa, experienced damaging acts of violence in 2020 and 2021. Figure 25 charts how both these events, alongside riots in France last year, contributed to episodes of unrest across G20 countries from 2020.

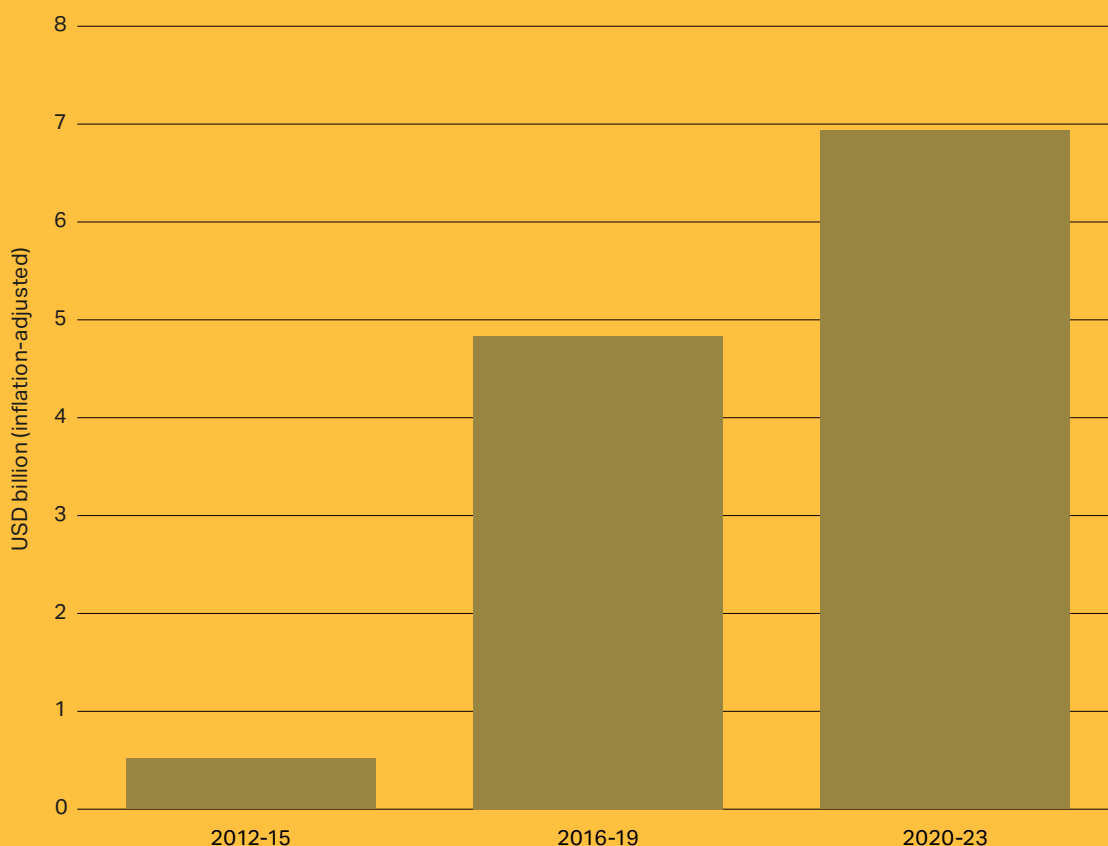
**Figure 25: Number of monthly riots in G20 countries – 2020 to 2023**  
(Source: Howden, ACLED)



Associated (inflation-adjusted) insured losses from civil unrest during this timeframe approached the 7 billion mark (see Figure 26), which is indicative of how the scale of events and losses are now spiralling. Rather than a series of random acts, recent losses from civil unrest are a manifestation of a highly challenged macro-environment, fuelled further by the proliferation of technology and the reach provided by smartphones and social media platforms.

**Figure 26: Insured losses from civil unrest by 4-year period – 2012 to 2023**

(Source: Howden, NOVA)



With elections in 2024 set to introduce an additional dose of unpredictability into an already volatile environment, businesses need to prepare for, and protect themselves against, escalating political-related risks. Alongside civil unrest, the potential for major deviations in policy, contract cancellation or even debt defaults can transform exposures overnight.

Such a backdrop not only brings direct financial risks from property damage and business interruption, but can also threaten operations, personnel, supply chains and reputations. All of which underscores the value of political violence and political risk insurance, where resilient market capacity is supporting businesses to invest and tap into new growth opportunities.

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# Risk brings opportunity

The importance of (re)insurance comes to the fore in such an uncertain and volatile environment. No sector can rival the market's expertise in understanding, measuring and mitigating risk.

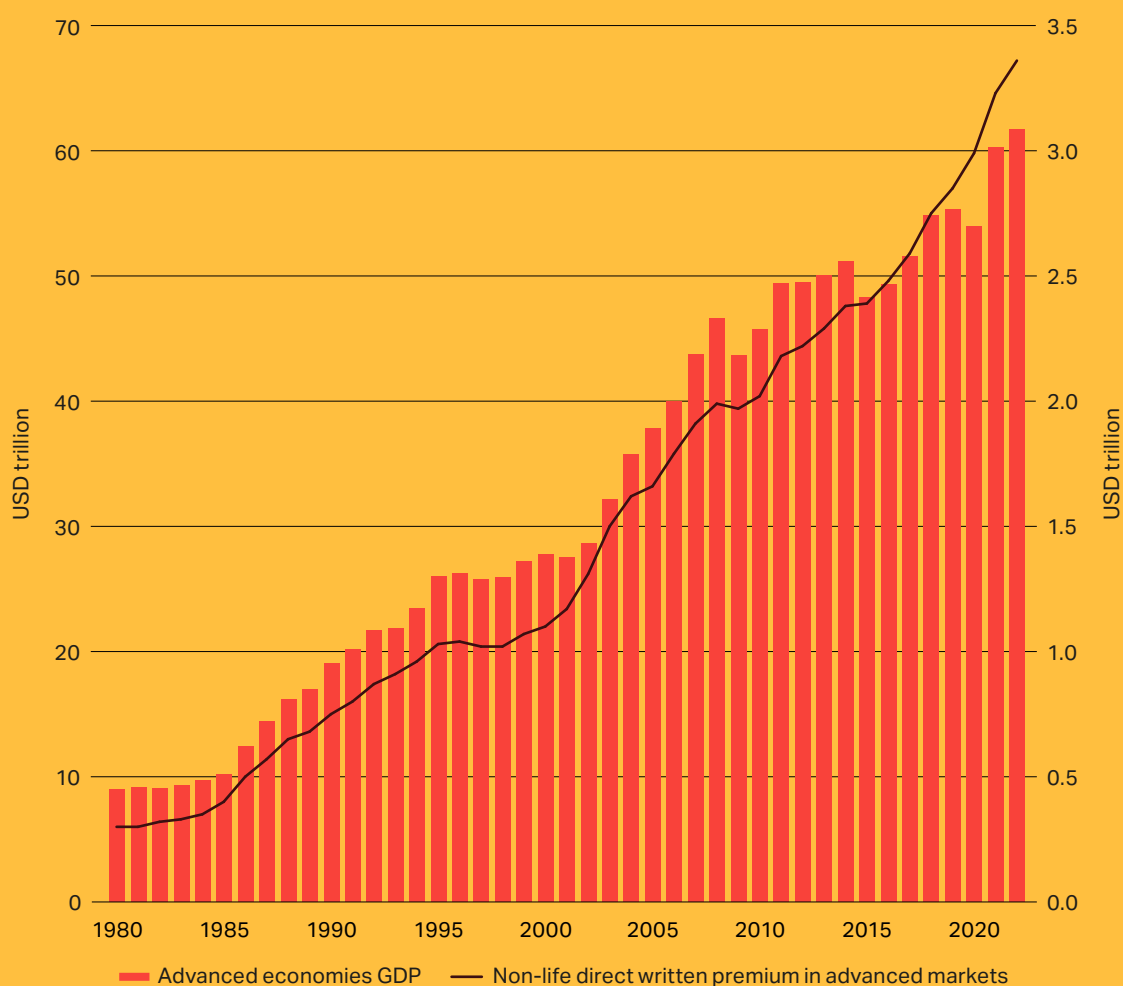
After five years of near-uniform hardening, market conditions in 2024 are more favourable for buyers, with pricing stabilising and risk appetite on the rise. By stepping up at this time of macroeconomic and geopolitical instability, insurance is enabling commerce worldwide that allows ships to sail and businesses to invest.

## Value of insurance

The socioeconomic benefits of (re)insurance are wide-ranging. In addition to carriers' position as large, long-term investors in infrastructure projects and businesses, insurance is also a facilitator of risk-taking by providing policyholders with the confidence that losses will be recovered when the unexpected happens.

The close correlation between economic activity and insurance development (as shown by Figure 27) paints a picture of an industry that has largely supported clients in adjusting to change and, ultimately, stimulating growth and innovation. Insurance penetration rates have ticked up since 2018 off the back of significant pricing tailwinds.

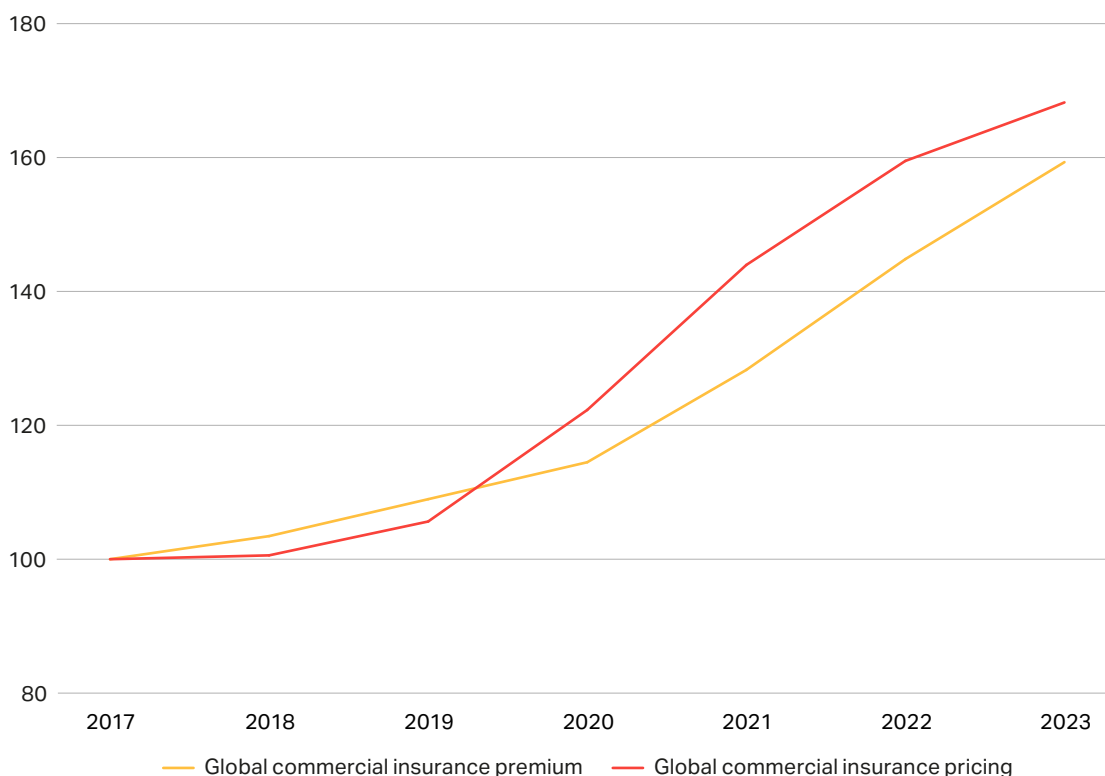
**Figure 27: Nominal GDP vs direct written premium in advanced economies – 1980 to 2022**  
(Source: Howden, World Bank, Swiss Re)



## Remaining relevant

Finding new solutions to sustain market growth and close protection gaps will become increasingly important as price momentum wanes. Although the global commercial insurance market has grown significantly since 2017, rate hardening has driven much of this growth (see Figure 28).

**Figure 28: Global commercial premium growth vs global commercial insurance pricing – 2017 to 2023** (Source: Howden)



The shift in growth impetus from price to exposure as the market cycle transitions requires creative thinking around new products (and appetite) for under-insured risks like supply chains and non-damage business interruption. Utilising advances in data and analytics to develop new applications of traditional protection and continued innovation (such as parametric insurance) will be key to filling long-discussed protection gaps. Arresting the trend of self-insurance and higher retentions is the route to long-term relevance, and new possibilities.

The risk transfer sector is in a strong position to deliver. Capital positions are robust, and even after the effects of inflation, (re)insurers recorded stellar profitability last year. Long-term prospects are equally positive, as investment income will continue to benefit from higher reinvestment yields and underwriting performance is sustained by strong market conditions.

Howden is closely monitoring global developments and stands ready to support clients through this highly fluid period. Thoughtful risk management solutions and differentiated advice can make all the difference in this market and we are actively working with clients and carriers to ensure coverage is available to meet businesses' rapidly changing needs.

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# Meet the experts



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