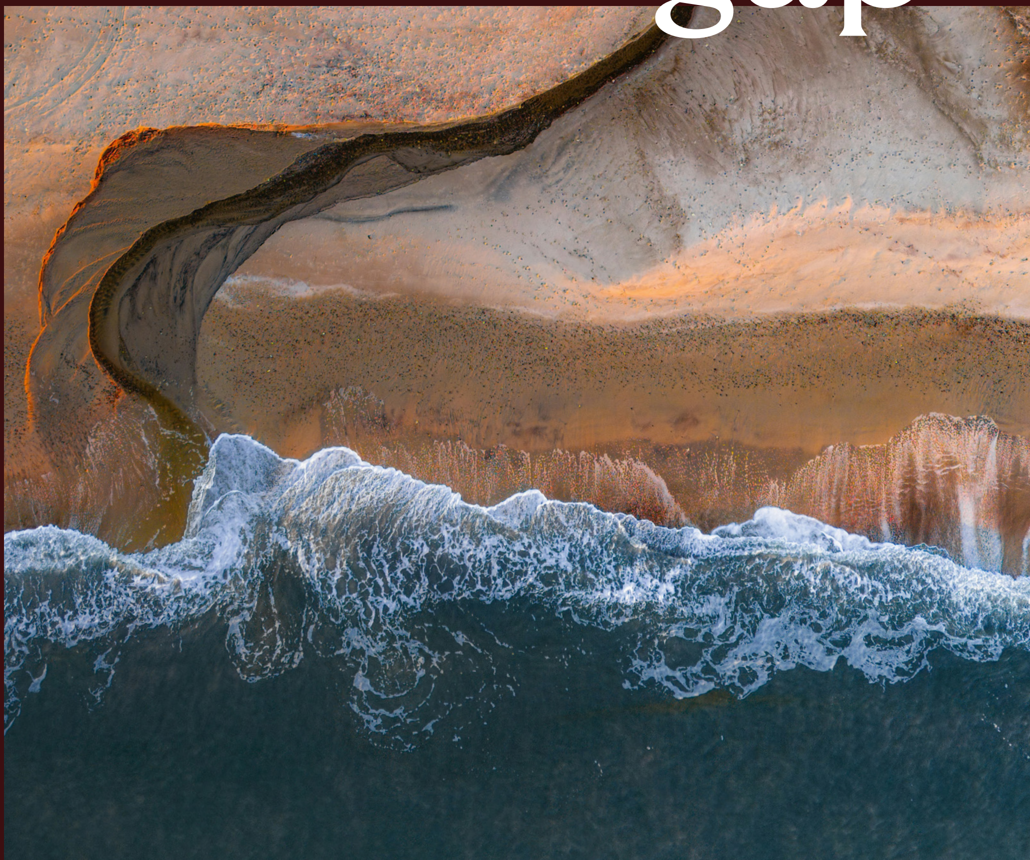
Howden Re

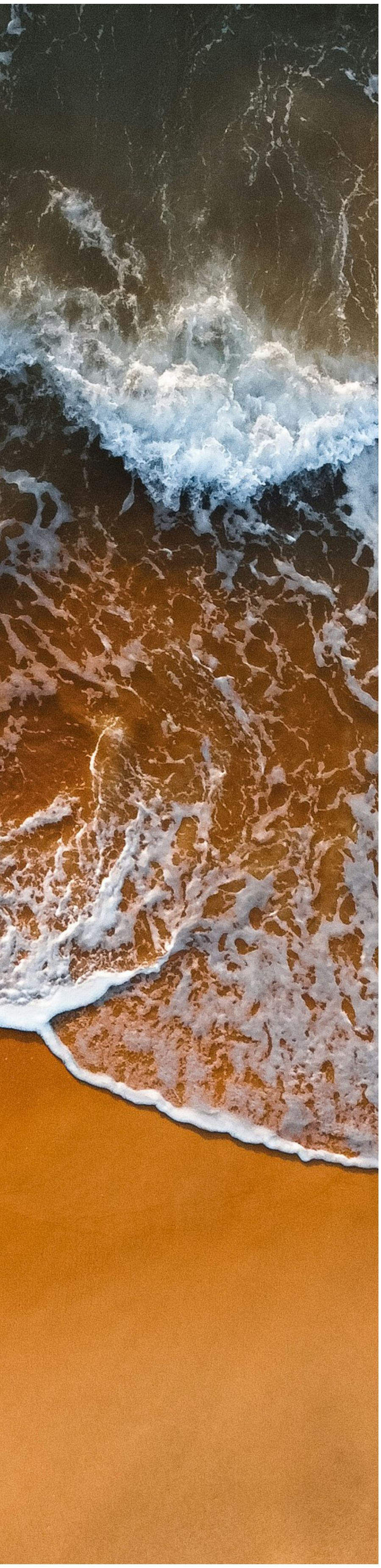
Bridging the risk perception gap



A call for technical reconnection

November 2025

HOWDEN



As the reinsurance community gathered in Baden-Baden, the conversations were inevitably shaped by the aftershocks of the 2023 hard market that now shows evident sign of softening. Post Baden-Baden, a price decrease of mid-high single digit on MTPL and low double digit on Property Cat is where expectations are. While this is valuable savings for the cedent, it is not addressing the post 2023 widened gap in risk perception persisting between cedants and reinsurers.

This divergence is not just philosophical; it has led to a material shift in risk bearing, with cedants increasingly shouldering exposures that may exceed reasonable thresholds, while reinsurers retreated from areas they once supported.

One of the most telling evidence is the evolution of natural catastrophe loss sharing. Over the recent years, insurers have absorbed a growing proportion of nat cat losses moving from 54% in 2022 to 67% in 2024*, a trend that reflects reinsurers' recalibrated appetite but also exposes cedants to volatility that was traditionally mutualised. This shift is emblematic of a broader market phenomenon: a growing distance in how risk is viewed, priced, and ultimately borne.

At Howden Re, we believe this gap is not inevitable. It is our role to bridge it through technical innovation, collaborative modelling, and a renewed commitment to understanding the root causes of the divergence. As a testament to our dedication, this year we have placed:

- **the largest parametric cover in continental Europe,** protecting parishes across Italy.
- **a pioneering winter weather parametric solution** in the Nordics, offering multiline protection against the impacts of atypically cold conditions.

We see three key areas where this disconnect is most pronounced and where solutions are within reach: Retention Covers, Motor Third Party Liability, Subsidence.

1 Retention Covers

2 Motor Third Party Liability

3 Subsidence

Section 1

Retention Covers

Reclaiming Protection

Retention Covers

While coverage for high-severity events remains a staple of the reinsurance market, protection against high-frequency, medium-severity events – such as aggregate covers – has largely disappeared. We estimate that more than 60% of the aggregate covers were not purchased or not renewed between 2020 and 2025. Yet this retreat comes at a time when climate change is driving an increase in secondary perils, making frequency risk protection more relevant than ever. In this context, the mutualisation offered by reinsurance is not only logical – it's essential.

The market's withdrawal from frequency layers is largely driven by limited hindsight and uncertainty around the return periods of recent severe events, like the hail in France and Italy. The lack of robust data and modelling capabilities has made reinsurers hesitant to re-engage.

At Howden Re, we are actively exploring solutions to address these gaps. As a concrete example, in the Nordics we are implementing a winter weather parametric cover for unexpectedly cold winter driving cumulation of burst pipe, snow pressure and motor frequency.

By enhancing data granularity and exploring external sources, we aim to build a more accurate and actionable understanding of frequency exposures.

One of our other key initiatives involves improving hail vulnerability assessments through data enrichment leveraging satellite images or other construction databases, to help clients refine their view of risk and level-up the market technicity.

Now that the market has gained some hindsight on recent events, the timing is right to revisit retention and frequency covers. With improved data and evolving modelling techniques, there is a real opportunity to recalibrate pricing and reintroduce efficient protection. Reinsurers have an opening to re-engage in this space—not just as capacity providers, but as technical partners helping insurers navigate a changing risk landscape.

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Section 2

Motor Third Party Liability

Turning inflation risk into strategic insight

Motor Third Party Liability

Motor TPL Excess of Loss is a quintessential long-tail exposure, inherently sensitive to future inflation. Judicial trends, medical cost escalation, and evolving social dynamics introduce layers of uncertainty that make it increasingly difficult to align risk views between cedants and reinsurers.

Traditionally, under indemnity-based structures, reinsurers have borne a significant part of inflation uncertainty – leading to conservative pricing that embeds significant inflation buffers. This has created friction, especially in markets where cedants hold more optimistic inflation assumptions and it eventually led to increase retention where value for money was not matched.

At Howden Re, our active collaborations with cedants let us believe that parametric approaches can offer a constructive alternative. By designing parametric payout models that replicate the key drivers of indemnity – such as disability rates and age profiles – cedants can retain their own inflation assumptions and directly impact the pricing of their Motor TPL cover. However, this structure shifts the inflation risk back to the cedant, encouraging a more deliberate and transparent approach to inflation forecasting.

Parametric payout modelling also opens the door to deeper technical investigation on the cedant side. By comparing parametric payouts (which are inherently inflation-neutral) with actual indemnity payout, cedants can isolate historical inflation effects and gain clearer insight into what constitutes a reasonable forward-looking inflation rate. This analytical exercise is valuable when it comes to set the level of parametric payout, ensuring it embeds enough inflation for the future, but it can also serve technical discussions for the traditional indemnity covers, bringing undisputable evidence of the inflation held in the subject portfolio.

In this way, parametric modelling becomes more than a reinsurance cover enabler – it becomes a bridge for understanding, enabling cedants and reinsurers to engage on inflation risk with greater precision and mutual understanding.

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Section 3

Subsidence

From uncertainty to measurable triggers

Subsidence

Subsidence risk – particularly in France but not only – has become another area of growing disconnect between cedants and reinsurers. Whether due to limited data availability or the long-tail and climate-exposed nature of the risk, reinsurers have shown increasingly limited appetite for this peril. In parallel, the proportion of subsidence among the Nat Cat perils have grown from 41% in the last 40 years, to 52% in the last 10 years, showing an increasing need for protection.

Here again, parametric approaches offer a promising avenue to bridge divergent views. Having already proven effective in earthquake coverage, notably through Howden Re's successful deployment of the largest parametric capacity in continental Europe for Italian Churches, this model also holds strong potential for subsidence. By predetermining payout levels based on measurable environmental triggers, parametric structures help eliminate any potential claims development effects that typically concern reinsurers. This creates a more transparent and predictable framework for both parties.

In the absence of robust technical models for subsidence, the parametric modelling push cedants to stepping up and deepen their understanding of the underlying risk drivers. Building a parametric model requires a granular exploration of the root causes of loss – identifying quantitative indicators that best explain the underlying complex phenomenon (like clays shrinkage-swelling effect). At Howden Re, we've partnered with Reask, a specialist in climate analytics, to exploit a comprehensive knowledge base and stochastic models on subsidence. Their models simulate loss distributions as well as a set of related parameters for 50,000 stochastic scenarios, enabling to provide a stochastic assessment of any parametric subsidence cover, offering an independent view of risk that reinsurers and cedants can appropriate and debate.

Subsidence risk has become another area of growing disconnect between cedants and reinsurers, particularly in France.

Time for reconnecting

The 2023 market turnaround reset the reinsurance landscape – prices reached new highs, while coverage depth hit new lows. This shift reflects a widening gap in risk perception between cedants and reinsurers. Yet, the strong and recurring returns on equity now seen across the reinsurance sector suggest that the era of brute-force discipline – where security margins were layered at every level – can evolve into a more constructive phase: one of technical discipline.

As the market enters a softening phase, reinsurers face a strategic imperative to reopen avenues for growth. The very gaps that have emerged – whether in motor liability, subsidence, or more broadly on frequency layers – are not just challenges; they are opportunities. Discipline must now translate into technical capability. Insurers have a role to play by promoting transparency and sharing more granular data. Reinsurers, in turn, must move beyond simply saying "no" with caution – they must learn to say "yes" with confidence, backed by robust tools, structured methodologies, and a technical understanding that reflects the evolving risk landscape.

At Howden Re, we believe the future lies in reconnection. Not just between cedants and reinsurers, but between perception and reality, between risk and protection. For this renewal, and for the next, let's move the conversation beyond capacity and pricing. Let's talk about how we close the gap in risk perception – and build a more resilient, better-aligned market.

*Source Howden Re 2025 Who Dares Wins.

Every business faces unique exposures, let's talk about yours.

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