GENESIS®

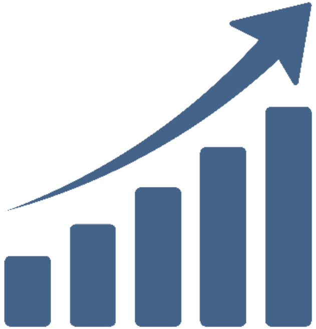
Leveraged Effect of Inflation: what it means for your reinsurance (also excess insurance) program

Understanding how inflation impacts coverage, pricing and your protection

Introduction

Inflation has a direct effect on loss cost, reserve adequacy and premium adequacy.

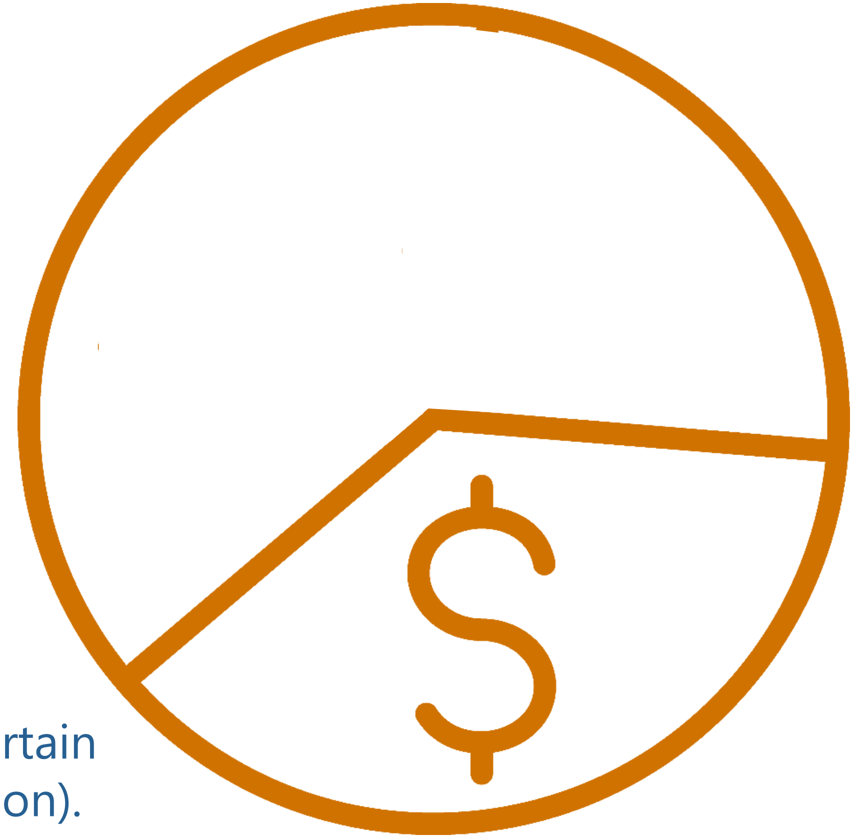
Inflation affects all layers of the insurance.



For cedents, even modest increases in claim costs can shift more losses into the reinsured layer.

This magnifying effect can change how your coverage responds and influence pricing at renewal.

What is the Leverage Effect?



Your reinsurance activates above certain thresholds (retention).

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Inflation increases loss severity → more claims pierce into the reinsurance layer.

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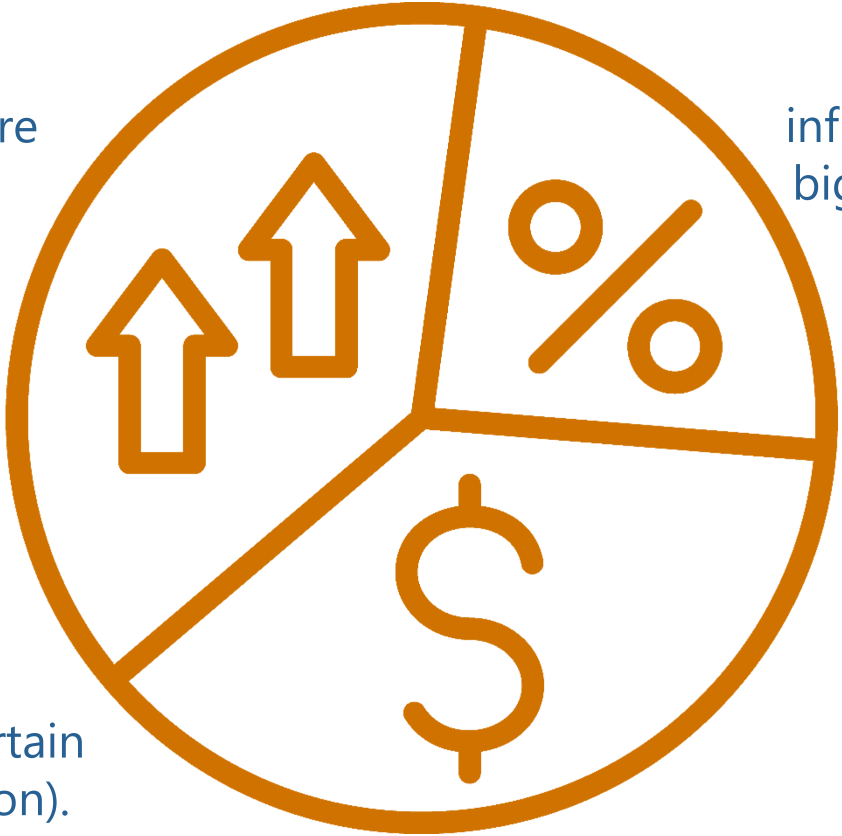


A small rise in inflation can have a big impact on your reinsurance recoveries.

Your reinsurance activates above certain thresholds (retention).

What is the Leverage Effect?

Nonlinear Impact: A 10% inflation increase may result in much higher than 10% rise in ceded losses.

Example: Losses that used to stop at $9.5M can now exceed a $10M retention, triggering reinsurance more frequently.

Program Sensitivity: Programs with narrow margins near retention are most exposed.

How Inflation Impacts Claims

- General inflation → Higher labor, medical, and repair costs.
- Social inflation → Larger jury awards and settlements.
- Economic inflation → Interest rates and capital costs affect reserve adequacy and pricing.

- **Social Inflation Deep Dive:** Driven by litigation funding, evolving legal norms, and public sentiment.
- **Reserve Adequacy:** Inflation erodes reserve adequacy over time, especially in long-tail lines.
- **Compounding Effect:** Claims filed today may settle years later at much higher values.

Example of Leverage Impact – *before inflation (1st scenario)*

		Ground Up	Retained	XS Layer 1	XS Layer 2	XS Layer 3	XS Layer 4	XS Layer 5
		Limit >	100,000	150,000	250,000	500,000	1,000,000	1,000,000
		Retention >	0	100,000	250,000	500,000	1,000,000	2,000,000
Scenario 1	Claim #	$	$	$	$	$	$	$
	1	200,000	100,000	100,000	0	0	0	0
	2		0	0	0	0	0	0
	3		0	0	0	0	0	0
	4		0	0	0	0	0	0
	5		0	0	0	0	0	0
	6		0	0	0	0	0	0
	7		0	0	0	0	0	0
	8		0	0	0	0	0	0
	9		0	0	0	0	0	0
	10		0	0	0	0	0	0
		200,000	100,000	100,000	0	0	0	0

Example of Leverage Impact – *with 10% inflation (1st scenario)*

Ground Up	Retained	XS Layer 1	XS Layer 2	XS Layer 3	XS Layer 4	XS Layer 5
Limit >	100,000	150,000	250,000	500,000	1,000,000	1,000,000
Retention >	0	100,000	250,000	500,000	1,000,000	2,000,000
$	$	$	$	$	$	$
220,000	100,000	120,000	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
220,000	100,000	120,000	0	0	0	0
	0.0%	20.0%	0.0%	0.0%	0.0%	0.0%

Example of Leverage Impact – *before inflation (2nd scenario)*

	Ground Up	Retained	XS Layer 1	XS Layer 2	XS Layer 3	XS Layer 4	XS Layer 5
	Limit >	100,000	150,000	250,000	500,000	1,000,000	1,000,000
	Retention >	0	100,000	250,000	500,000	1,000,000	2,000,000
	200,000	< selected increment					
Claim #	$	$	$	$	$	$	$
1	200,000	100,000	100,000	0	0	0	0
2	400,000	100,000	150,000	150,000	0	0	0
3	600,000	100,000	150,000	250,000	100,000	0	0
4	800,000	100,000	150,000	250,000	300,000	0	0
5	1,000,000	100,000	150,000	250,000	500,000	0	0
6	1,200,000	100,000	150,000	250,000	500,000	200,000	0
7	1,400,000	100,000	150,000	250,000	500,000	400,000	0
8	1,600,000	100,000	150,000	250,000	500,000	600,000	0
9	1,800,000	100,000	150,000	250,000	500,000	800,000	0
10	2,000,000	100,000	150,000	250,000	500,000	1,000,000	0
	11,000,000	1,000,000	1,450,000	2,150,000	3,400,000	3,000,000	0

Example of Leverage Impact – *10% inflation (2nd scenario)*

Ground Up	Retained	XS Layer 1	XS Layer 2	XS Layer 3	XS Layer 4	XS Layer 5
Limit >	100,000	150,000	250,000	500,000	1,000,000	1,000,000
Retention >	0	100,000	250,000	500,000	1,000,000	2,000,000
10.0%	< selected inflation					
$	$	$	$	$	$	$
220,000	100,000	120,000	0	0	0	0
440,000	100,000	150,000	190,000	0	0	0
660,000	100,000	150,000	250,000	160,000	0	0
880,000	100,000	150,000	250,000	380,000	0	0
1,100,000	100,000	150,000	250,000	500,000	100,000	0
1,320,000	100,000	150,000	250,000	500,000	320,000	0
1,540,000	100,000	150,000	250,000	500,000	540,000	0
1,760,000	100,000	150,000	250,000	500,000	760,000	0
1,980,000	100,000	150,000	250,000	500,000	980,000	0
2,200,000	100,000	150,000	250,000	500,000	1,000,000	200,000
12,100,000	1,000,000	1,470,000	2,190,000	3,540,000	3,700,000	200,000
	0.0%	1.4%	1.9%	4.1%	23.3%	∞

Example of Leverage Impact – *before inflation (3rd scenario)*

	Ground Up	Retained	XS Layer 1	XS Layer 2	XS Layer 3	XS Layer 4	XS Layer 5
	Limit >	100,000	150,000	250,000	500,000	1,000,000	1,000,000
	Retention >	0	100,000	250,000	500,000	1,000,000	2,000,000
AY	$	$	$	$	$	$	$
2015	200,000	100,000	100,000	0	0	0	0
2016	200,000	100,000	100,000	0	0	0	0
2017	200,000	100,000	100,000	0	0	0	0
2018	200,000	100,000	100,000	0	0	0	0
2019	200,000	100,000	100,000	0	0	0	0
2020	200,000	100,000	100,000	0	0	0	0
2021	200,000	100,000	100,000	0	0	0	0
2022	200,000	100,000	100,000	0	0	0	0
2023	200,000	100,000	100,000	0	0	0	0
2024	200,000	100,000	100,000	0	0	0	0
	2,000,000	1,000,000	1,000,000	0	0	0	0

Example of Leverage Impact – *10% inflation (3rd scenario)*

	10.0%	< selected inflation					
	Ground Up	Retained	XS Layer 1	XS Layer 2	XS Layer 3	XS Layer 4	XS Layer 5
	Limit >	100,000	150,000	250,000	500,000	1,000,000	1,000,000
	Retention >	0	100,000	250,000	500,000	1,000,000	2,000,000
AY	$	$	$	$	$	$	$
2015	518,748	100,000	150,000	250,000	18,748	0	0
2016	471,590	100,000	150,000	221,590	0	0	0
2017	428,718	100,000	150,000	178,718	0	0	0
2018	389,743	100,000	150,000	139,743	0	0	0
2019	354,312	100,000	150,000	104,312	0	0	0
2020	322,102	100,000	150,000	72,102	0	0	0
2021	292,820	100,000	150,000	42,820	0	0	0
2022	266,200	100,000	150,000	16,200	0	0	0
2023	242,000	100,000	142,000	0	0	0	0
2024	220,000	100,000	120,000	0	0	0	0
	3,506,233	1,000,000	1,462,000	1,025,485	18,748	0	0
		0.0%	46.2%	∞	∞	0.0%	0.0%

Pricing Challenges

- Future claims may cost more than anticipated.
- Underpricing risk is especially high in long-tail lines (e.g., casualty).

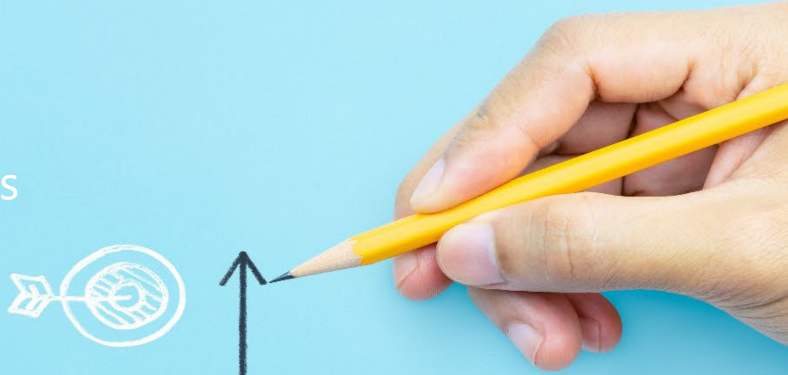
Long-Tail Exposure: Casualty claims may settle years later, compounding inflation risk.

Reinsurer Response: Higher premiums, tighter terms, and reduced capacity are common responses.

Reserve Adequacy: If reserves were set assuming 2% inflation but actual inflation hits 6%, solvency risk increases.

Strategies

- Stronger claim monitoring and reserving practices
- Multiple inflation scenarios (baseline, adverse, extreme)
- Careful underwriting of long-tail lines
- Collaboration with cedents to monitor emerging claim trends



Scenario Modeling: We test how your program responds to inflation increases of 5%, 10%, or more.

Solvency Focus: Regular reserve reviews help maintain financial stability.

Forward-Looking Models: Protection is based on future conditions, not outdated assumptions.

Closing

Inflation is uncertain, but your reinsurance program is designed to provide stability.

We work with you to ensure protection keeps pace with rising costs.

Our goal is to make sure your reinsurance doesn't become less effective over time.

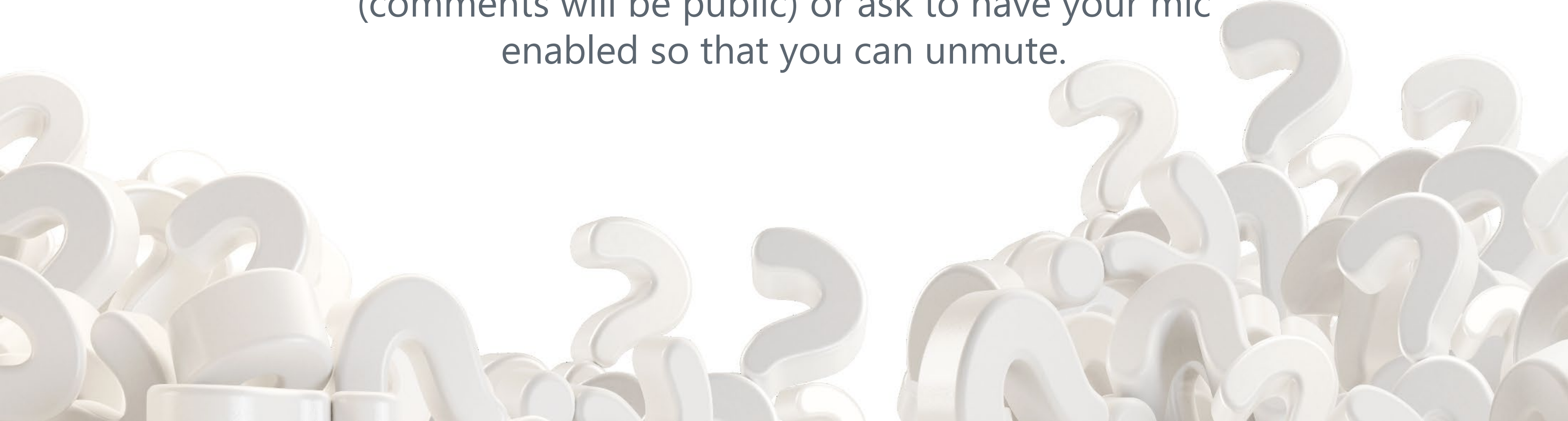
By testing different inflation scenarios and collaborating closely, we ensure your protection remains aligned with today's costs.

Partnership Value:

Working together to anticipate risks, adapt structures, and maintain strong protection.

We welcome a discussion; do you have any questions or comments?

Use the Q&A function (comments will only be seen by organizers/presenters, not participants), the chat function (comments will be public) or ask to have your mic enabled so that you can unmute.



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Thank You

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