CUO's report

"By design, we have built an underwriting team with a thorough understanding of the underlying insurance classes – they are best placed, in our view, to identify and respond to both key emerging trends and specific risk opportunities"

Our underwriting approach

A team is only as strong as its component parts and, in that respect, we have been committed to targeting underwriters with both a strong understanding of the underlying insurance business and a solid technical background.

Deliberately, we have sought out individuals with a broader grasp of the reinsurance value chain and the various products within it. It has been a clear objective of the underwriting approach at Conduit Re from day one that we should remain geographically impartial and also largely product neutral between quota share and excess of loss, with the goal being to optimise our returns class-by-class and region-by-region.

Key to this ground-up approach is a strict focus on active cycle management and the steep changing shape of returns seen in the market when measured over time. We believe the resulting portfolio is therefore robust and has greater ability to withstand shocks.

As a reinsurer, we have invested in processes enabling access to an enormous level of underlying insurance information that then informs the reinsurance contracts that we either bind or decline – we seek to put our reinsurance underwriters in the shoes of the insurer when considering the interplay of risk transfer from the underlying insurance business to the reinsurance contract.

Ultimately, however, success boils down to the breadth and depth of talent and experience we have to make the best of the opportunities we are presented with and I am delighted to have recently brought in the very experienced Peter Kiernan as Head of Property, bringing more depth and support to the team. We are a dynamic, evolving business, and I anticipate fully that, as we grow, we will add to the team's experience while continuing to support, invest in and nurture our existing talent.

Maturing relationships

The relationships we now enjoy with brokers and intermediaries are testament to our strategy. Our presence is very relevant in the marketplace and our approach is understood. The market certainly understands the dimensions of our risk appetite, our view of risk and, indeed, our approach to risk pricing.

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What that means for Conduit Re is that we are now being presented with a very large number of opportunities from which to select. At this evolving point in the cycle, that is a good place to be.

Market conditions

Both Neil and Trevor have already provided their views as to where we are in the cycle. I endorse their positive outlook as we are seeing a fundamental and ongoing correction in response to a combination of several factors, both economic and related to specific loss events.

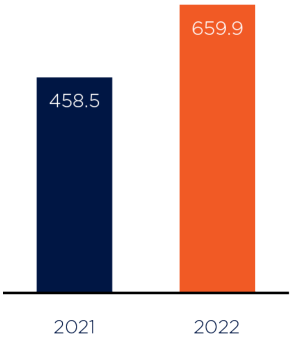
In 2022, across the board, we saw a move towards greater transparency and clearer definitions in the reinsurance treaty market, driven by the impact of incurred claims on the horizon and perhaps the benefit of hindsight. What we have observed in the last 12 months is that there has been a narrowing of coverage terms, and a real willingness to sell that coverage in a more specifically defined manner. In addition we have seen a far greater degree of discipline within the market in demanding that information necessary for reinsurers to calculate an appropriate price for the risk being assumed.

From the launch of our business, outwards reinsurance has been a core part of our risk management strategy. The outwards reinsurance contracts were placed in 2022 with our incumbent partners, while also broadening our panel with some new markets. The programme is actively managed in line with our plan.

Underwriting

Overall, for the year ended 31 December 2022 our estimated ultimate premiums written were $659.9 million (2021: $458.5 million), after adjustments. This planned growth has been achieved by both expanding our current positions and developing new relationships.

Estimated ultimate premiums written ($m)

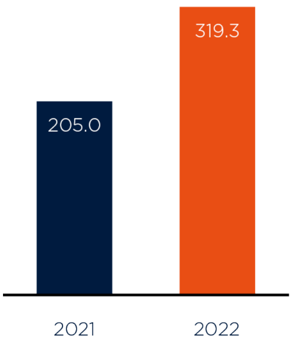


Conduit Re's overall risk-adjusted rate change across the portfolio, net of claims inflation, in 2022 was 4%.

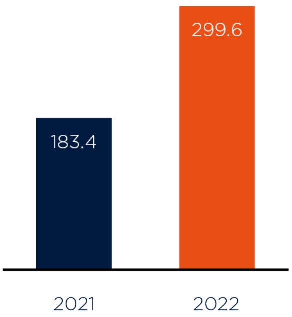
Property

Estimated ultimate premiums written in the property book for the year ended 31 December 2022 were $319.3 million (31 December 2021: $205.0 million). Gross premiums written for the same period were $299.6 million (31 December 2021: $183.4 million).

Ultimate premiums written ($m)



Gross premiums written ($m)



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Property premium split (2022)
(Property quota share only)

- Commercial lines **62%**
- Personal lines **38%**

(All property)

- Catastrophe **59%**
- Non-catastrophe **41%**

In 2021 and 2022, the market experienced some of the largest catastrophe losses ever. In these initial 24 months of our business existence, we have been tested against $240.0 billion or more of estimated insurance industry natural-catastrophe losses.

Conduit Re's portfolio has natural-catastrophe exposure but, where such exposure does exist, we price in a consistent and, we think, robust manner. In constructing the property portfolio we have resisted the somewhat easy practice of loading with large amounts of low probability risk, which would have produced a huge strain and demand on our balance sheet, for return levels outside of our plan. We consider tail risk or remote risk as a scarce resource, structuring transactions to simplify the management and quantification of these exposures. This consistent approach allows the underwriting team to constantly monitor the market value of natural-catastrophe pricing.

The pricing metrics of volatility contracts improved throughout 2022. The significant loss activity across the class, from building collapse, a European war and traditional natural-catastrophes, put increasing upwards pressure on prices. Hurricane Ian made landfall in Florida at a time when natural-catastrophe excess of loss contracts had not experienced the risk-adjusted rate increases captured from the quota share placements. A significant portion of the excess of loss capacity is bought by the personal lines carriers, which sits conversely to the more commercial lines-driven quota share purchases. This was one of the factors in our favourable consideration towards writing structured quota share contracts.

Hurricane Ian is currently reported by PCS (an industry provider of estimates of catastrophic insured property losses) as a $52.9 billion loss event, including loss adjustment expenses. However, our estimated net loss of $40.9 million (net of reinsurance recoveries and reinstatement premiums) demonstrates our portfolio's balanced texture and robustness to significant natural-catastrophe loss activity. I believe that the characteristics of Hurricane Ian, the quantum of loss it caused coupled with its physical parameters (particularly radius to maximum winds and wind speeds) will cause insurance carriers to reassess their protection levels. For this reason, I expect to see further demand for natural-catastrophe capacity, albeit in differing forms by the insurance market at nominally higher margin levels for sellers of reinsurance.

While there were a number of other smaller catastrophe events which gave further tests to Conduit Re's growing and diversified portfolio, such as European storms Eunice and Dudley, hailstorms in France, floods in Australia and South Africa, and winter storm Elliott in the United States, none of these had a material impact on our 2022 results. It is accurate to say that our appetite for European exposure was limited due to both the margins and the terms and conditions of reinsurance contracts.

Here again the blend and texture of our portfolio has served us well. We have continued to sit alongside our quota share partners in the improving original rating environment, with both attrition and natural-catastrophe premiums increasing in margin. I am certain that the risk-reward balance in respect of reinsurance volatility products will develop favourably for us.

Our risk-adjusted rate change in our property segment, net of claims inflation, in 2022 was 7%.

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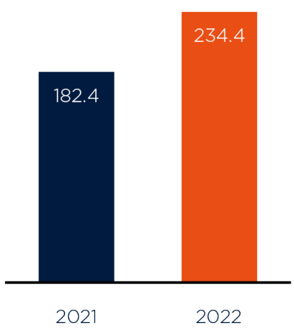
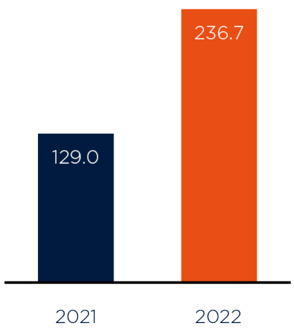
Casualty

Estimated ultimate premiums written in our casualty book for the year ended 31 December 2022 were $234.4 million (31 December 2021: $182.4 million). Gross premiums written for the same period were $236.7 million (31 December 2021: $129.0 million).

Ultimate premiums written ($m)



Gross premiums written ($m)



Casualty premium split (2022)
(Casualty quota share only)

- Commercial lines **100%**
- Personal lines **0%**

(All casualty)

- Casualty general third-party liability **54%**
- Casualty professional liability/financial institutions **36%**
- Casualty misc lines **10%**

Our risk-adjusted rate change in our casualty segment, net of claims inflation, in 2022 was 1%.

During 2022, we benefited from further improvement in underlying casualty loss ratios, which are, arguably, the best for a very long time. We remain focused on professional/financial lines and general liability casualty, continuing to avoid motor. This, together with compound rate increases, puts the underlying business in a much healthier position and I don't see a reversion of this in the short term. The biggest challenge we faced in casualty was a mismatch between our view of inflation and that of many of our clients. There are differing opinions in the market on the longevity of the current heightened inflationary environment. However, Conduit Re has the advantage of having been established in a high inflation environment so the concept of inflation is firmly embedded in how we think about risk. Our most successful client relationships have taken and will continue to take a similar view and this is clearly visible in the data they share with us. This partnership and cycle management creates the discipline that reverberates through the risk transfer chain, creating consistency between business objectives.

There are certainly some significant themes in the commercial casualty market, with sub-classes such as workers' compensation and public D&O evidencing signs of slowdown in rate increases. This is the point at which an insurance partner underlines to us their strategy to manage this phase of the cycle. Though loss ratios have been improving due to rate increases, reaction to and management of a prolonged period of both core and social inflation requires reinsurance structure rebalancing, particularly when considering quota share placements. As a general observation, best-in-class casualty partners responded with reductions in ceding commissions or simply shared less of the more difficult sub-classes.

The underwriting team continues to monitor the industry behaviour post COVID, continually testing our views on trend and inflation. Despite evidence of softening of primary rate increases, our partners show the drive for rate increases in excess of trend, tighter terms and conditions and discipline in capacity deployment. During 2022 global exposures began accelerating once again, and in the context of insurance offering wealth and business interest protection, there is an increasing demand for our product.

We continue to watch with interest the development of the cyber class market and the rapidly evolving changes to structures, coverage and rating. In 2022 we did not write any standalone cyber risks, with exposure limited to that assumed as part of the broader coverage contracts that we write.

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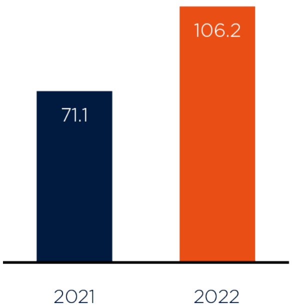
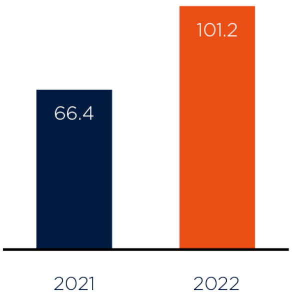
Specialty

Estimated ultimate premiums written in our specialty book for the year ended 31 December 2022 were $106.2 million (31 December 2021: $71.1 million). Gross premiums written for the same period were $101.2 million (31 December 2021: $66.4 million).

Ultimate premiums written ($m)

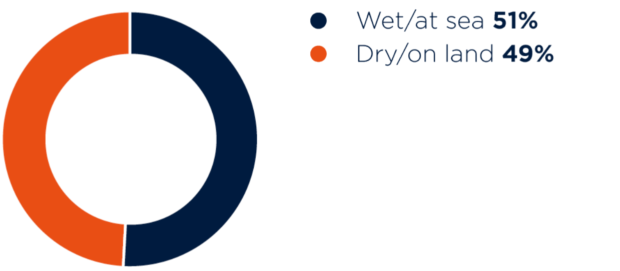


Gross premiums written ($m)



Specialty premium split (2022)
(Specialty quota share only)

(All specialty)



Our risk-adjusted rate change in our specialty segment, net of claims inflation, in 2022 was 2%.

The specialty segment contains a variety of differing product classes, with each of them at differing points in their own self-contained market cycles and therefore requiring specific attention from our pricing and underwriting teams. Within the broad range of specialty classes there are several which, although we monitor them, have continued to fall outside our risk appetite, such as mortgage, trade credit, surety and motor.

The main specialty classes of business we write include aviation, energy, marine, renewables, political violence and terrorism and are offered on both a specific and a whole account basis. Estimated ultimate premiums written grew almost 50% year-on-year and we continued to have some success in the quota share support of those clients where embedded technical margins remain attractive.

In the marine classes, the market for hull and cargo required a significant degree of risk selection on our part as the relative profitability of these classes within different regions of the world vary enormously. While the North America region tends to be where our property and casualty capacity can be extensively deployed, when it comes to the marine classes there exists a more heavy supply of reinsurance capacity and this has the obvious effect of dampening margin on the treaty reinsurance being presented. This is not a recent trend but rather a feature that has existed for some time – prior to the existence of Conduit – and we continue to tread carefully there.

The offshore energy market continues to be reasonably balanced in the supply versus demand equation. The rate change metrics presented by clients indicated that the non-capacity projects showed signs of rate improvement in the primary insurance markets. The rates on capacity installations held firmer, we believe, as they often have insurance demands still running beyond $5.0 billion in limit or more and therefore rely to a greater extent on the treaty reinsurance market for continued capacity and support.

The onshore energy market has continued to produce reasonably solid results in the broader marketplace and as such has warranted our support over the last two years. Rates have moved up significantly in previous years and have either held firm or deteriorated slightly over the year but, from a technical margin standpoint, the class continues to offer attractive overall returns. The catastrophe exposure remains relatively well controlled in this class, and data modelling is readily available, giving us more comfort in allocating capacity to it.

In the political violence and terrorism class, we continue to allocate more capacity to contract forms where the exposure is specifically detailed for these risks rather than being covered in a broader

CUO's report
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bundled treaty type. The market has embraced this transparent unbundling of risks more since the Ukraine-Russia conflict and consequently, we think, it continues to offer a reasonable technical margin. The issue in writing this class is around the need to manage the potential for contract accumulations and this was a feature in limiting our exposure to events such as the Ukraine-Russia conflict.

We remain a very small participant in the aviation specialty classes but we saw evidence in the second half of 2022 of rate increase and terms and condition improvement. In response we were able to increase the flow of business in the class over this period. We saw evidence of initial rate increases in the primary markets. The reinsurance capacity has also been attracting higher rates and better terms and conditions, which is encouraging.

In summary, we view the specialty lines as very much complementary to our property and casualty offerings. Recognising the breadth of knowledge and experience that needs to be employed in evaluating the differing specialty submission types, we endeavour to bring the resources of the entire underwriting and pricing team to bear, to arrive at a team consensus approach to contracts written. Given that many of the specialty lines have limited exposure to natural-catastrophe loss events, the class can often present an attractive proposition with lower embedded volatility – always providing of course that technical margin is present.

Greg Roberts
CUO
3 March 2023