Rendez-Vous de Septembre, Monte Carlo

2018 Reinsurance Market Briefing

Nick Charteris-Black
Managing Director, Market Development - EMEA

Greg Carter
Managing Director, Analytics - EMEA

Robert DeRose
Senior Director, Global Reinsurance Ratings

Anthony Diodato
Managing Director, P/C and Reinsurance

9 September 2018
Preparing for Brexit......

• A.M. Best currently registered with European Securities and Markets Authority (ESMA)
• Allows market access across the current EU 28 to provide rating services
• New registered EU subsidiary being established in Amsterdam to maintain EU 27 access
• Operational by 29 March 2019
US Securities Laws explicitly prohibit the issuance or maintenance of a credit rating where a person involved in the sales or marketing of a product or service of the CRA also participates in determining or monitoring the credit rating, or developing or approving procedures or methodologies used for determining the credit rating.

No part of this presentation amounts to sales / marketing activity and A.M. Best’s Rating Division employees are prohibited from participating in commercial discussions.

Any queries of a commercial nature should be directed to A.M. Best’s Market Development function.
Discussion Outline

Global Reinsurance Results and Trends

Global Reinsurance Market Capacity

Global Reinsurance Market Evolution

Global Reinsurance Sector Outlook
# Segment Outlook – Global Reinsurance

<table>
<thead>
<tr>
<th>Headwinds</th>
<th>Tailwinds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intense competition</td>
<td>Cession rates increasing</td>
</tr>
<tr>
<td>Increasing interest from third-party capital</td>
<td>Cat losses temporarily stabilise rates</td>
</tr>
<tr>
<td>Earnings stabilise but remain under pressure</td>
<td>Favourable reserve development, but waning</td>
</tr>
<tr>
<td>Excess capacity hinders further improvement</td>
<td>Strong risk-adjusted capital</td>
</tr>
<tr>
<td>Potential for increased inflation</td>
<td>Increase in interest rates</td>
</tr>
<tr>
<td></td>
<td>M&amp;A</td>
</tr>
</tbody>
</table>

Although capitalisation remains strong and rate deterioration temporarily halted, pressure on margins continues. Over the intermediate term, returns for some reinsurers will fall short on a risk-adjusted basis. Maintain negative market outlook.
Global Reinsurance Results and Trends
U.S. Growth Accelerates in 1H

U.S. GPD Growth, Inflation and Unemployment

- GDP (%)
- CPI (%)
- Unemployment Rate (%)


GDP & Inflation (CPI) (%)

Unemployment Rate (%)
Global GDP Growth – Major Economies

China  France  Germany  Japan  United Kingdom  United States

*Forecast

2018 Reinsurance Market Briefing, Monte Carlo
2017 represented the most significant year for catastrophe losses since 2011. Hurricane Harvey, Irma, Maria combined with Earthquake in Mexico and Wildfire in California produced industry losses in the range of USD 80 to 100 billion. Despite timing of these events, negative reserve surprises have been limited thus far.
Global Reinsurance Market Trends

Overall 2017 catastrophes amounted to an earnings events as rated balance sheets emerged flat for the year.

Alternative capital did participate in the events in a meaningful way resulting in collateral locks prior and through the 1/1 and mid year renewal periods.

Alternative capital investors were NOT hindered by the losses and brought additional capacity to the market for the renewals.
Global Reinsurance Market Trends

Optimism that followed quickly faded as January renewal negations progressed.

Overall, reinsurance pricing stabilized. More pronounced improvement in underlying business

Significant push back from Clients not impacted by losses. But hope lingered into the June / July Renewal.

As a result pricing is not optimal for certain classes and structures but there are opportunities out there...
## Total Economic and Insured Losses (USD billions)

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
<th>Annual Change (%)</th>
<th>10-Year Average</th>
<th>% of 10-Year Average Economic Losses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Economic Losses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Natural Catastrophe</td>
<td>300</td>
<td>178</td>
<td>69%</td>
<td>178</td>
<td></td>
</tr>
<tr>
<td>Man-made</td>
<td>6</td>
<td>10</td>
<td>-42%</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>306</td>
<td>188</td>
<td>63%</td>
<td>190</td>
<td></td>
</tr>
<tr>
<td><strong>Insured Losses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Natural Catastrophe</td>
<td>131</td>
<td>56</td>
<td>133%</td>
<td>51</td>
<td>29%</td>
</tr>
<tr>
<td>Man-made</td>
<td>5</td>
<td>8</td>
<td>-45%</td>
<td>7</td>
<td>58%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>136</td>
<td>65</td>
<td>110%</td>
<td>58</td>
<td>31%</td>
</tr>
</tbody>
</table>

Source: Swiss Re Institute

September 9, 2018
Global Reinsurance Market Trends

Global Reinsurance Sector – Combined Ratio

Source: A.M. Best data and research
Combined Ratio by Reinsurance Sector

European “Big Four”

- 2013: 89%
- 2014: 92%
- 2015: 92%
- 2016: 96%
- 2017: 109%

U.S. & Bermuda

- 2013: 87%
- 2014: 87%
- 2015: 91%
- 2016: 92%
- 2017: 109%

Lloyd’s

- 2013: 87%
- 2014: 88%
- 2015: 90%
- 2016: 98%
- 2017: 114%

Legend:

- Loss Ratio
- Expense Ratio
Global Reinsurance Market Trends

Return on Equity (2013 to present) and Five-Year Average

Source: A.M. Best data and research
Global Reinsurance Market Trends

Return on Equity by Reinsurance Sector

European “Big Four”

U.S. & Bermuda

Lloyd’s

Source: A.M. Best data and research
Global Reinsurance Market

5 Year Average Return on Equity Less Reserve Development

- Composite at YE2016: 10.9%
- Composite at YE2017: 8.3%

5 Year Average Return on Equity excluding Loss Reserve Development

- Composite at YE2016: 6.8%
- Composite at YE2017: 4.5%

Source: A.M. Best data and research
Global Reinsurance Market Capacity
# Global Reinsurance Market Capacity

## Top 10 Global Reinsurance Groups – Non-Life

<table>
<thead>
<tr>
<th>Rank</th>
<th>Group Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Munich Reinsurance Company</td>
</tr>
<tr>
<td>2</td>
<td>Swiss Re Ltd.</td>
</tr>
<tr>
<td>3</td>
<td>Berkshire Hathaway Inc.</td>
</tr>
<tr>
<td>4</td>
<td>Lloyd’s</td>
</tr>
<tr>
<td>5</td>
<td>Hannover Ruck SE</td>
</tr>
<tr>
<td>6</td>
<td>SCOR S.E.</td>
</tr>
<tr>
<td>7</td>
<td>Everest Re Group Ltd.</td>
</tr>
<tr>
<td>8</td>
<td>XL Group plc</td>
</tr>
<tr>
<td>9</td>
<td>Transatlantic Holdings, Inc.</td>
</tr>
<tr>
<td>10</td>
<td>PartnerRe Ltd.</td>
</tr>
</tbody>
</table>

## Top 10 Global Reinsurance Groups – Life

<table>
<thead>
<tr>
<th>Rank</th>
<th>Group Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Munich Reinsurance Company</td>
</tr>
<tr>
<td>2</td>
<td>Swiss Re Ltd.</td>
</tr>
<tr>
<td>3</td>
<td>Reinsurance Group of America Inc.</td>
</tr>
<tr>
<td>4</td>
<td>SCOR S.E.</td>
</tr>
<tr>
<td>5</td>
<td>Hannover Ruck SE</td>
</tr>
<tr>
<td>6</td>
<td>Great West Lifeco</td>
</tr>
<tr>
<td>7</td>
<td>Berkshire Hathaway Inc.</td>
</tr>
<tr>
<td>8</td>
<td>Pacific LifeCorp</td>
</tr>
<tr>
<td>9</td>
<td>PartnerRe Ltd.</td>
</tr>
<tr>
<td>10</td>
<td>Assicurazioni Generali SpA</td>
</tr>
</tbody>
</table>

Source: A.M. Best data and research. Ranked by unaffiliated gross premium written in 2017
Global Reinsurance Market Capacity

Life and Non-Life Reinsurance GPW Distribution by Ranking

Rank 1-10 70.2%
Rank 11-20 15.5%
Rank 21-30 7.2%
Rank 31-40 4.6%
Rank 41-50 2.5%
Global Reinsurance Market Capital

**Estimate for Total Dedicated Reinsurance Capital (USD billions)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Convergence Capital</th>
<th>Traditional Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>19</td>
<td>292</td>
</tr>
<tr>
<td>2013</td>
<td>48</td>
<td>320</td>
</tr>
<tr>
<td>2014</td>
<td>60</td>
<td>340</td>
</tr>
<tr>
<td>2015</td>
<td>68</td>
<td>332</td>
</tr>
<tr>
<td>2016</td>
<td>75</td>
<td>345</td>
</tr>
<tr>
<td>2017</td>
<td>87</td>
<td>345</td>
</tr>
<tr>
<td>2018E</td>
<td>100</td>
<td>362</td>
</tr>
</tbody>
</table>

Notes and Sources: Estimates by Guy Carpenter and A.M. Best
Global Reinsurance Market Capital

Convergence Capital (2018 estimated) (USD billions)

- Direct Institutional Investors, 6bn
- Reinsurance Sponsored Managers, 23bn
- Dedicated Insurance-linked Securities (ILS) Managers, 71bn

Notes and Sources: Estimates by Guy Carpenter and A.M. Best

2018 Reinsurance Market Briefing, Monte Carlo
Market Landscape ~10 Years In Time

“Global” Franchises
- Arch
- Aspen
- AXIS
- Everest Re
- Hannover Re
- Lloyd’s
- Munich Re
- Renaissance Re
- SCOR Re
- Swiss Re

Sheltered Franchises
- Allied World
- Endurance (Sompo Intl)
- General Re
- MS Amlin
- Odyssey Re
- National Indemnity
- Partner Re
- Tokio Millennium Re
- TransRe
- Validus
- XL Catlin

Franchises That Are Gone
- Ariel Re
- Flagstone
- Harbor Point / Max (Alterra)
- IPC Re
- Montpellier
- New Castle Re
- Paris Re
- Platinum Re

What Does The Future Hold?
- Fidelis
- Greenlight Re
- Hamilton
- Harrington Re
- Humboldt Re
- Kelvin Re
- Lumen Re
- Maiden Re
- Third Point Re
- Watford Re
The Case for M&A

- Broader product capability
- Broader geographic reach
- Greater influence
- Greater attractiveness to alternative capital

Opportunity for growth

Alternatively...
M&A is the result of a strategic opportunity
Alternative Capital

Alternative capital is driving a great deal of structural change in the market

However, the market continues to be heavily influenced by the global reinsurance leaders
The Drive for Efficiency

The market will continue to become more efficient as all players strive to become closer to the client.
Global Market Trends

Strategy Evolution

Traditional Dual Platform
- Control the client
- Build primary business

Alternative Capital Platform
- Manage or have a relationship with alternative capital
- Build fee income stream

Mergers & Acquisitions
- Relevance and size
- Ability to be small and nimble with parental protection
Global Market Trends

Potential Opportunities

Cyber Insurance  Flood  Mortgage  Terrorism  InsurTech  US Tax Reform
London and Regional Markets

Lloyd’s

Brexit Plans
## Combined Ratios by Class of Business

<table>
<thead>
<tr>
<th>Class of Business</th>
<th>Accident Year 2016</th>
<th>Calendar Year 2016 post Prior Year Releases/Deficit</th>
<th>Accident Year 2017</th>
<th>Calendar Year 2017 post Prior Year Releases/Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reinsurance</td>
<td>102.3</td>
<td>92.3</td>
<td>117.2</td>
<td>121.7</td>
</tr>
<tr>
<td>Property</td>
<td>106.6</td>
<td>103.4</td>
<td>131.5</td>
<td>127.6</td>
</tr>
<tr>
<td>Casualty</td>
<td>102.9</td>
<td>102.7</td>
<td>103.7</td>
<td>103.1</td>
</tr>
<tr>
<td>Marine</td>
<td>108.4</td>
<td>106.2</td>
<td>121.8</td>
<td>122.4</td>
</tr>
<tr>
<td>Energy</td>
<td>106.4</td>
<td>107.7</td>
<td>86.6</td>
<td>106.9</td>
</tr>
<tr>
<td>Motor</td>
<td>108.9</td>
<td>111.9</td>
<td>114.4</td>
<td>122.3</td>
</tr>
<tr>
<td>Aviation</td>
<td>106.9</td>
<td>84.7</td>
<td>100.6</td>
<td>102.2</td>
</tr>
</tbody>
</table>

Source: Lloyd's market results (31 Dec., 2017)
Lloyd’s

• Catastrophe losses –
  18.5 points on combined ratio in 2017 –
  not outside expectations given scale of events

• Underlying run rate combined ratio of business –
  > 100%

• Remedial actions – underway

• A.M. Best Rating – Action affirmed (July),
  FSR A, ICR a+, Outlook stable
Lloyd’s challenges

- **Core lines of business** – strong competition
- **Expense ratio** – high compared to peers
- **Regional reinsurance hubs** – growth reducing flow of business to London
- **Market modernisation programme (TOM)** – being implemented
- **Appointments** – senior management
- **Brexit**
Brexit Plans
**Major considerations for choice of domicile**

- tax regime
- approach and expertise of regulator
- proximity to clients
- access to talent
- Location of existing subsidiaries
- more insurers exploring Part VII transfers of existing EU business to newly-created subsidiaries
London likely to remain one of the world’s leading insurance centres in Europe
## Segment Outlook – Global Reinsurance

<table>
<thead>
<tr>
<th>Headwinds</th>
<th>Tailwinds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intense competition</td>
<td>Cession rates increasing</td>
</tr>
<tr>
<td>Increasing interest from third-party capital</td>
<td>Cat losses temporarily stabilise rates</td>
</tr>
<tr>
<td>Earnings stabilise but remain under pressure</td>
<td>Favourable reserve development, but waning</td>
</tr>
<tr>
<td>Excess capacity hinders further improvement</td>
<td>Strong risk-adjusted capital</td>
</tr>
<tr>
<td>Potential for increased inflation</td>
<td>Increase in interest rates</td>
</tr>
<tr>
<td></td>
<td>M&amp;A</td>
</tr>
</tbody>
</table>

Although capitalisation remains strong and rate deterioration temporarily halted, pressure on margins continues. Over the intermediate term, returns for some reinsurers will fall short on a risk-adjusted basis. Maintain negative market outlook.
Q & A
2018 Insurance Market Briefing – Europe & Methodology Review Seminar

Tuesday 6 November, 2018:
2018 Insurance Market Briefing – Europe
08:30 – 13:00 GMT, followed by lunch
Methodology Review Seminar
14:00 – 16:00 GMT

EMEA Market Overview ● Reinsurance ● Environmental, Social, and Governance ● Technology in Insurance Panel

Notable Developments since last year’s Best’s Credit Rating Methodology Update ● BCRM – Key Changes, Impacts and Expectations ● Mock Rating Committee

There is no cost to attend the Briefing or Seminar, but registration is required as space is limited.

etc. venues St Paul’s, London
200 Aldersgate, London, EC1A 4HD