Welcome

Nick Charteris-Black
Managing Director, Market Development - EMEA
<table>
<thead>
<tr>
<th>Time</th>
<th>Session</th>
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<tbody>
<tr>
<td>09:10</td>
<td>EMEA Market Overview: Update on Rating Activity and Outlooks</td>
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<tr>
<td></td>
<td>Greg Carter, Managing Director, Analytics – EMEA</td>
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<td>09:30</td>
<td>Keynote Address: Performance Management In a Changing World</td>
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<td>Jon Hancock, Performance Management Director, Lloyd's</td>
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<td>10:15</td>
<td>Coffee</td>
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<td>10:40</td>
<td>Thematic Session: Protectionism &amp; Market Access Issues</td>
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<td>Timothy Prince, Director, Analytics &amp; Salman Siddiqui, Associate Director, Analytics</td>
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<td>11:20</td>
<td>Thematic Session: European M&amp;A</td>
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<td>Anthony Silverman, Associate Director, Analytics</td>
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<td>12:00</td>
<td>Reinsurance Panel</td>
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<td>Chair: Mark Geoghegan</td>
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<td>(Insurance Insider)</td>
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<td>James Few (MS Amlin)</td>
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<td>Henning Ludolphs (Hannover Re)</td>
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<td>Mike Van Slooten (Aon Benfield)</td>
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<td>Stefan Holzberger (A.M. Best)</td>
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<td>12:45</td>
<td>Concluding Comments</td>
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<td>13:00</td>
<td>Lunch</td>
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Any queries of a commercial nature should be directed to A.M. Best’s Market Development function.
EMEA Market Overview:
Update on Rating Activity and Outlooks
Key Market Characteristics

- Low investment yields
- Challenges to meet shareholder expectations
- Abundance of reinsurance capacity
- Limited growth opportunities

Best's Issuer Credit Rating (ICR) distribution as at 30 September, 2017
Western Europe

Key Market Characteristics

- Post Solvency II world
- Improving economic outlook for Euro-area

- Political risks emerging from Brexit

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<th>Rating</th>
<th>Percentage 2017</th>
<th>Percentage 2016</th>
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<td>3%</td>
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<tr>
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Rating Distribution September 30, 2017

Rating Distribution September 30, 2016
### Western Europe

#### Upgrade drivers
- Strong operating performance: 5
- Stability of capital position: 2
- International expansion: 1
- Resilience to economic strains: 1
- Integration into a larger group: 1
- Parental support (reinsurance/guarantee): 1

#### Downgrade drivers
- Change of ownership: 1
- Weakened technical performance: 1

#### Rating Actions
- **Affirm**: 84%
- **Initial**: 7%
- **Downgrade**: 1%
- **Upgrade**: 8%

#### Outlook Summary
- **Negative**: 92%
- **Positive**: 3%
- **Stable**: 4%
- **Positive**: 1%
Middle East & North Africa

Key Market Characteristics

- Fiscal budgets under pressure from low oil prices
- Slowing growth from reduced government expenditure
- On going political instability and conflict

- Sound capitalisation, despite significant investment risk
- Regulatory changes likely to put pressure on capital
- Market leaders exhibit strong technical performance

Rating Distribution September 30, 2017

- aa-: 2%
- a+: 8%
- a: 8%
- a-: 20%
- bbb+: 22%
- bbb: 22%
- bbb-: 27%
- bb+: 7%
- bb: 5%
- bb-: 5%
- b+: 2%

Rating Distribution September 30, 2016

- aa-: 2%
- a+: 8%
- a: 8%
- a-: 20%
- bbb+: 22%
- bbb: 22%
- bbb-: 24%
- bb+: 5%
- bb: 5%
- bb-: 5%
- b+: 2%
### Middle East & North Africa

#### Upgrade drivers
- Strong operating performance: 2
- Improved ERM: 2
- Improved capitalisation: 2
- New ownership: 1
- Business restructuring: 1
- Improved competitive position: 1

#### Downgrade drivers
- Weakening capitalisation: 3
- Volatile investments: 2
- Deteriorating operating performance: 2
- Deficiencies in ERM: 1

#### Rating Actions
- Affirm: 79%
- Initial: 7%
- Downgrade: 7%
- Upgrade: 7%

#### Outlook Summary
- Negative: 10%
- Positive: 7%
- Stable: 76%
- Under Review: 7%
Eastern Europe and CIS

Key Market Characteristics

- Economic uncertainty and market volatility
- Small markets with low insurance penetration
- Government influence still present
- Investment opportunities generally weak
- Risk management a weakness
- Regulators enhancing monitoring capabilities

Rating Distribution as at 30 September, 2017

Rating Distribution as at 30 September, 2016
## Eastern Europe and CIS

### Upgrade drivers
- Improved Business Profile: 1

### Downgrade drivers
- Deteriorating capital position: 3
- Persistent technical losses: 2
- Rapid growth: 2
- Regulatory action: 1

---

### Rating Actions

- **Affirm**: 56%
- **Initial**: 25%
- **Downgrade**: 13%
- **Upgrade**: 6%

### Outlook Summary

- **Positive**: 63%
- **Stable**: 31%
- **Negative**: 0%
BCRM Building Blocks

Country Risk

Balance Sheet Strength
  Baseline

Operating Performance
  (+2/-3)

Business Profile
  (+2/-2)

Enterprise Risk Management
  (+1/-4)

Comprehensive Adjustment
  (+1/-1)

Rating Lift/ Drag

Issuer Credit Rating

Maximum +2
BCRM Building Blocks

**Balance Sheet Strength**
- Baseline
  - Assessment
    - Strongest
    - Very Strong
    - Strong
    - Adequate
    - Weak
    - Very Weak

**Operating Performance**
- (+2/-3)
  - Assessment
    - Very Strong +2
    - Strong +1
    - Adequate 0
    - Marginal -1
    - Weak -2
    - Very Weak -3

**Business Profile**
- (+2/-2)
  - Assessment
    - Very Favorable +2
    - Favorable +1
    - Neutral 0
    - Limited -1
    - Weak -2
    - Very Limited -2

**Enterprise Risk Management**
- (+1/-4)
  - Assessment
    - Very Strong +1
    - Appropriate 0
    - Marginal -1
    - Weak -2
    - Very Weak -3/4
EMEA – Balance Sheet Strength

EMEA – Balance Sheet Strength Distribution

- Strongest: 8.3%
- Very Strong: 64.4%
- Strong: 23.7%
- Adequate: 3.6%

EMEA – Median BCAR Score by Balance Sheet Strength

Source: A.M. Best data and research
EMEA – Balance Sheet Strength by Long-Term Issuer Credit Rating

Source: A.M. Best data and research
Performance management in a changing world

Jon Hancock
Performance Management Director, Lloyd’s

15 November, 2017
My first 12 months

- Brand
- Fantastic response to catastrophes
- Attractiveness of Lloyd’s
- Complexity to simplification → risk-based
- Fast-paced change … ready to respond quickly
- Diversity of portfolio and businesses at Lloyd’s → opportunity and security
- Risk landscape
- It really is competitive … but not just at Lloyd’s
Market conditions

- Low interest rates = abundance of capital
- Pricing pressure . . . still?
- Expenses
- Impact of the hurricanes
- Changing distribution
- New business models / increased competition
- Changing risk landscape
Alibaba.com
The world’s most valuable retailer owns no inventory

Facebook
The world’s most popular media company creates no content

Netflix
The world’s largest movie house owns no cinemas

Skype
The world’s largest phone company owns no telco infrastructure

Airbnb
The world’s largest accommodation provider owns no property

Uber
The world’s largest taxi company owns no taxis
Risk-based approach to oversight

- Not all syndicates the same
- They do not all require the same oversight/
- Nor oversight of the same things

What does this mean?
- We will not attempt to oversee everything or review everything
- We will focus on the things we are worried about & where can make a difference

Half the activity – twice the knowledge
Innovation @ Lloyd’s

Horizon-scanning
What risks are out there?

Raising awareness
Thought leadership

Understanding the implications
Decision-making resources (scenarios)

Evaluation
How significant are the risks?

Quantification
For product innovation & exposure management
Expenses must reduce for Lloyd’s to compete

- Total expenses have risen to a combined 41%
- Modernisation is critical
- Lloyd’s Corporation is reducing expenses
  - Levy
    - Corporation Operating Model
- Acquisition costs are high
  - Reducing returns on capital
  - Vulnerable to competitors
- Facilities have a role
Planning for catastrophes
Lloyd’s response to Harvey/Irma/Maria

- $1 billion paid on claims for Harvey, Irma and Maria
- Average response time by the market is less than two days
- Money moved within five days on average into London brokers’ accounts
Oliver is the future

“When I grow up I want to be an insurance person”
Lloyd’s: the global centre for specialist re/insurance

- Digitising the market
- Harnessing the power of data
- Driving innovation/thought leadership/product development
- Opening up new markets
- Growing existing markets
- Providing strong oversight
- Ensuring the market grows sustainably
Performance management in a changing world

Any questions?
Thematic Session: Protectionism & Market Access Issues
Globalisation

- International movement of trade, capital, people and knowledge

- Benefits for insurance industry
  - Growth opportunities
  - Diversification

- Barriers to entry
  - Regulatory
  - Cultural
  - Tax
  - Economies of scale
US-EU Covered Agreement

• Four principal objectives:
  – Elimination of local presence requirements
  – Elimination of collateral requirements
  – Reliance on home-market supervision
  – Supervisory cooperation and the exchange of information

• Rating implications – Neutral
  – Level playing field for reinsurers
  – Group-wide capital fungibility benefits
  – Increased competitive pressures
  – Potentially increased credit risk
Brexit

- Uncertainty on both sides
  - Market access
  - Legal and regulatory consequences

- Contingency planning
  - New domicile considerations

- Rating Implications – Limited
  - Significant uncertainty remains
  - Negative capital fungibility considerations
  - Cost and capital implications
## Brexit

### Reasons for Choice of EU Company Domicile

<table>
<thead>
<tr>
<th>Company</th>
<th>Domicile</th>
<th>Client Proximity</th>
<th>Regulator</th>
<th>Access to Talent</th>
<th>Business Friendly</th>
<th>Existing Operations</th>
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US Tax Reform

• Framework
  – Cut corporate tax rate
  – Foreign subsidiary dividend exemption
  – Reduced tax rate on foreign profits

• Rating Implications – Neutral
  – An advantage for US domiciled insurers
  – Potential impact on group-wide capital management
Emerging Markets

• Balancing act between protectionism and open markets
• India and China both looking to liberalise markets, whilst protecting local players
Emerging Markets – MENA

• Protectionist measures employed:
  – Staff localisation
  – Minimum retention levels
  – Restrictions on foreign ownership
  – Investment restrictions

• Balanced against:
  – Reducing reliance on oil
  – Wanting more foreign investment
Emerging Markets – Africa

• Fewer protectionist measures than MENA
• Looking to maximise foreign investment and encouraging cross-border inter-African activity
• However, some protection involved for reinsurers via the use of mandatory cessions
Emerging Markets – Iran

• Isolation driven externally not internally
• Forced to create ‘resistance economies’ replacing foreign imports with domestic goods and services. This includes (re)insurance
• Market dominated by state backed primary insurer (Bimeh Iran) and reinsurer (Bimeh Markazi)
Emerging Markets – Iran

• The cost of isolation
  – Limited access to well-rated reinsurance capacity
  – Difficulty in paying international reinsurance premiums
  – Increased accumulation risk within the Iranian market
  – Withdrawal of expertise
  – Lack of competition and poor service standard

• Lifting of sanctions hasn’t yet led to international players entering the market
Emerging Markets – Russia

• Impact of sanctions
  – Slightly dampened premium growth
  – Reduced international reinsurance support
  – Response: the set up of a National Reinsurer with mandatory cessions

![Graph of GWP growth and Inflation in Russia from 2012 to 2016]
Concluding Thoughts

• Protectionist actions may have an impact on credit ratings
• These can be both negative and positive, depending on the nature of measures

• Positive impact:
  – Reduced competition and increased pricing power of insurer
  – More defendable market positions

• Negative impact:
  – Limited investment options
  – Reduced financial flexibility
  – Potential deterioration of credit quality of reinsurance panel
Thematic Session: European M&A
What has happened?

- Peak for mergers & acquisitions (M&A) was 2014 rather than 2015 (unlike for wider M&A)
- Consolidation deals caused the hump
- Some recovery in 2017

Source: A.M. Best data and research
Interest rates – changes and stability

12 month Euribor

- 'Category changes' were 2012 and 2016
- 2017 background still unhelpful

Source: A.M. Best data and research
Largest transactions

• 2017  Standard Life acquires Aberdeen Asset Management. USD 4.9 billion. All shares.

• 2016  NN Group acquires Delta Lloyd. USD 2.5 billion. All cash.

• 2015  Mitsui buys Amlin. USD 5.3 billion. All cash

• 2015  XL Group acquires Catlin. USD 4.1 billion. 56% cash, 44% shares.

• 2014  Aviva acquires Friends Life Group. USD 13.7 billion. All shares

• 2014  ManuLife acquires Standard Life Canada. USD 3.7 billion. All cash.

Source: A.M. Best data and research
For a rated company A.M. Best would expect to be informed in advance of a significant event.

If appears possible that event may affect rating then rating placed under review - signalled through “u” modifier.

Wide range of factors reviewed.

A.M. Best will seek to resolve status on completion or termination of transaction.

Rating Evaluation Service (RES) provides confidential, unpublished, unmonitored point-in-time opinion of impact of hypothetical scenarios.
Transaction types

Who is doing what…

Five categories adopted

- In-market consolidation
- Cross-border developed market
- London Market
- Emerging Markets
  - European acquires emerging
  - European sells emerging
  - Chinese acquirer
  - European acquires/sells emerging from/to developed
- Run-off
Deal Value Across Categories

Split by value: all transactions 2012 to 2016

- Reasonably equal distribution
- Consolidation
- London market over-represented
- Emerging markets are high profile in the dataset

- In-market consolidation
- Cross border developed market
- London market
- Emerging markets
- Run off

Source: A.M. Best data and research
Some of the dynamics

• Consolidation
  – Focusing on strengths (cross-border)
  – Building and defending the core (in-market)
• London market – a wide universe of diversified buyers
• Run-off, an emerging category. Data captures a part of activity
• Emerging markets – strategic re-orientation
Emerging Market Transactions

Split by value: emerging market transactions

- European buys emerging
- European sells emerging
- European buys/sells emerging from/to developed
- Chinese acquirer

Source: A.M. Best data and research

• European buys from locals is only 32% of value
• Significant swaps between developed market players
• Identifying and focusing on strengths at this stage
Split by year

- Emerging markets and cross border were dominant
- In-market consolidation and run-off have moved to foreground
- Volatile mix year-to-year

Source: A.M. Best data and research
What next?

• Consolidation
• Except in the London market?
• FinTech?
• Increased run-off?
• Asset management?
• Emerging markets
Reinsurance Panel

James Few
Global Managing Director, Reinsurance, MS Amlin

Henning Ludolphins
Managing Director, Retrocession & Capital Markets, Hannover Re

Mark Geoghegan
Managing Director, Insurance Insider

Mike Van Slooten
International Head of Aon Benfield Market Analysis, Aon Benfield

Stefan Holzberger
Chief Rating Officer, A.M. Best
Global Market Trends

Combined Ratios by Reinsurance Sector

European “Big Four”

U.S. & Bermuda

Lloyd’s

Source: A.M. Best data and research
Return on Equity (2012 to present) and Five-Year Average

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

Global Reinsurance Market

- Five-Year Average Return on Equity: 10.9%
- Five-Year Average Return on Equity Excluding Loss Reserve Development: 6.8%

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

Estimate for Total Dedicated Reinsurance Capacity (USD billions)

- 2013: 320
- 2014: 340
- 2015: 332
- 2016: 345
- 2017E: 355

Notes and Sources: Estimates by Guy Carpenter and A.M. Best
Convergence Capacity (2017 estimated) (USD billions)

Direct Institutional Investors
Reinsurance Sponsored Managers
Dedicated Insurance-linked securities (ILS) Managers

Notes and Sources: Estimates by Guy Carpenter and A.M. Best
Segment Outlook – Reinsurance

Capitalisation remains strong but…

- Performance has been deteriorating and pressure on margins continues to mount
- Returns for some reinsurance companies will fall short on a risk-adjusted basis

A.M. Best Maintains Negative Outlook

Headwinds
- Convergence capital pressure
- Intense competition
- Earnings under pressure
- Slippage in terms & conditions

Tailwinds
- Favourable reserve development
- (Catastrophes)
- Increased cessions
2017 Insurance Market Briefing - Europe

etc.venues St.Paul's, London

15 November 2017