

AM Best's Insurance Market Briefing 2020 – SIRC

Wednesday, 4 November 2020

10.00am – 11.30am (GMT+8)

Panellists



Scott Ryrie
Co-CEO, AM Best
Asia Pacific (Singapore)



Greg Carter
Managing Director,
Analytics EMEA &
Asia Pacific



Christie Lee
Head of Analytics,
Greater China, Japan
and South Korea



Carlos Wong-Fupuy
Senior Director, Global
Reinsurance



Myles Gould
Head of Analytics,
Southeast Asia,
Australia and New
Zealand

Questions:
webinars@ambest.com

More Insights:
<http://www.ambest.com/about/coronavirus.html>

Introduction

**Scott Ryrie – Co-CEO,
AM Best Asia Pacific (Singapore) Pte Ltd**

Agenda

Global Reinsurance Market

COVID-19 Update

Asia-Pacific Reinsurance Market

Southeast Asia Reinsurance Market

Hot Topics Round-up

Question & Answer

Global Reinsurance Market

Greg Carter – Managing Director, Analytics
EMEA & Asia Pacific

Carlos Wong-Fupuy – Senior Director,
Global Reinsurance

Global Reinsurance Market – Discussion Outline

Outlook

Performance

Capital

Developments

Global Reinsurance Market

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Global Reinsurance Market Outlook – Stable

Headwinds

Uncertainty on potential COVID-19 related reinsurance losses

Low yield investment conditions and capital markets volatility

Less cushion in reserves exacerbated by social inflation & prop-cat reserve development

Global economic recessionary pressure & uncertainty of future demand for coverage

Uncertainty on government intervention

Tailwinds

Initial COVID-19 losses manageable with demand for improved terms and conditions - more exclusions

Accelerating pricing momentum at the primary insurance level

Improving pricing across various reinsurance products

Flight to quality

Revised appetite from third-party capital and greater discipline from traditional reinsurers

Global Reinsurance Market

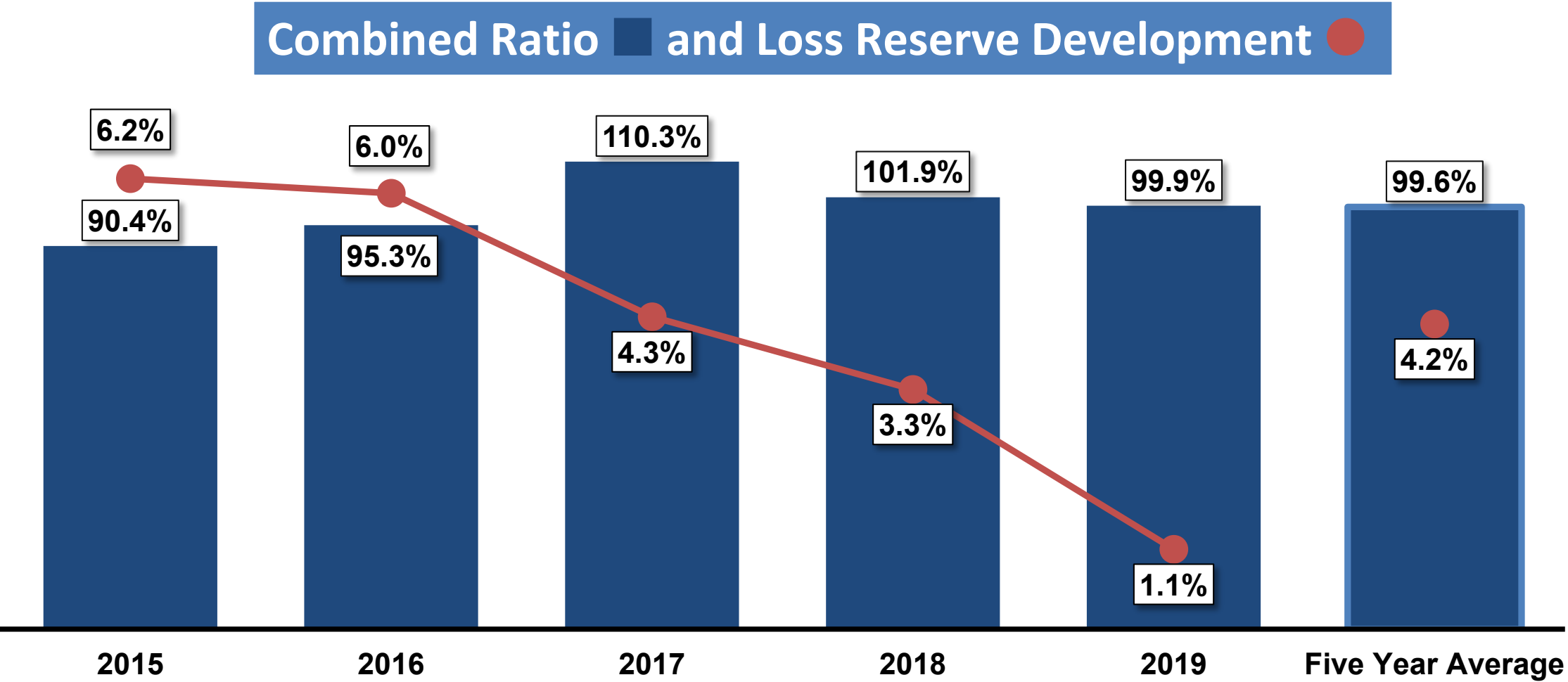
Outlook

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Global Reinsurance Market – Performance



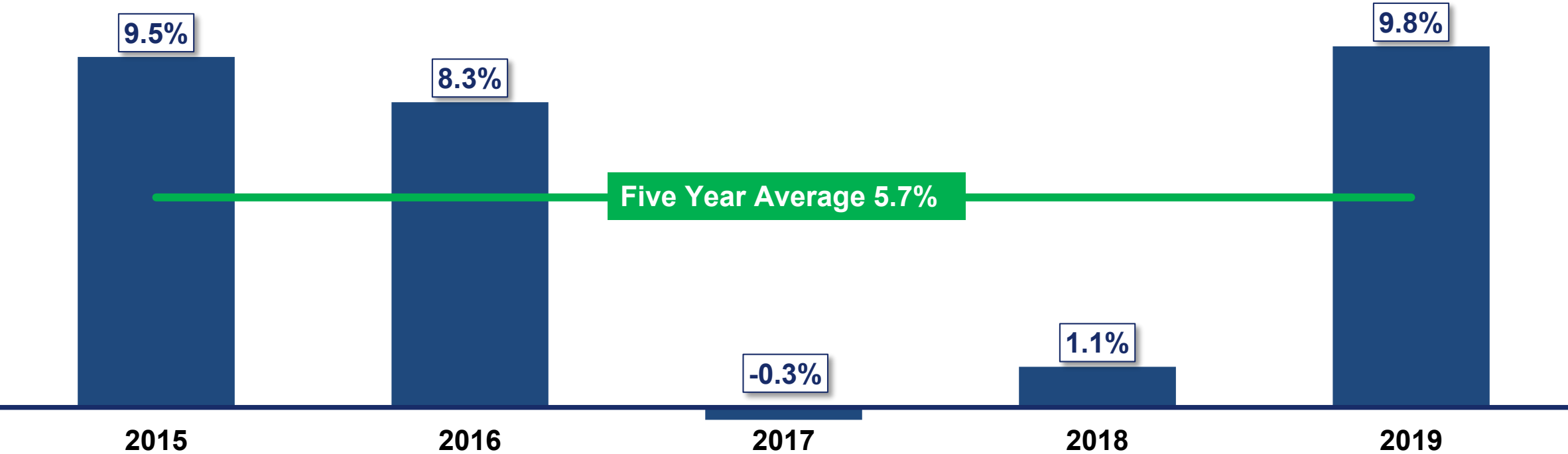
Source: AM Best data and research

Our Insight, Your Advantage™



Global Reinsurance Market – Performance

Return on Equity



Source: AM Best data and research

Our Insight, Your Advantage™



Global Reinsurance Market

Outlook

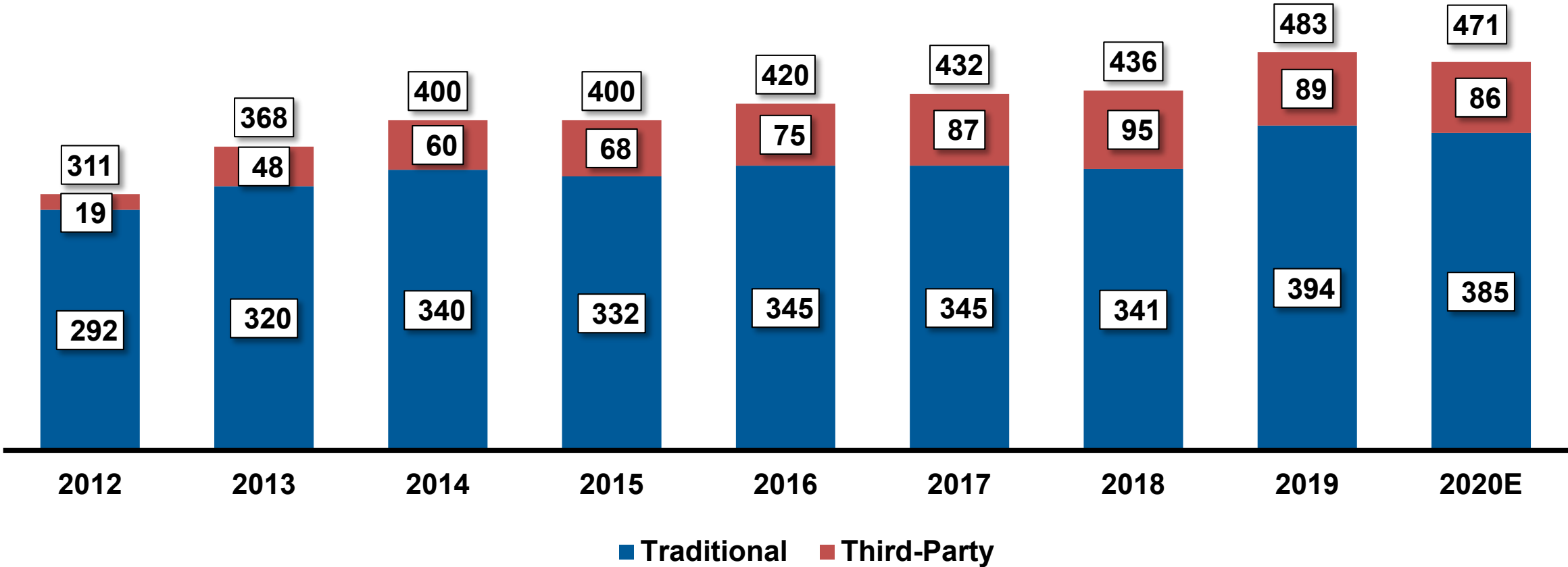
Performance

Capital

Developments

Global Reinsurance Market – Capital

Estimate - Total Dedicated Reinsurance Capital (USD billions)



Notes and Sources: Estimates by Guy Carpenter and AM Best

Global Reinsurance Market – Capital

Top 10 Global Reinsurance Groups Non-Life

Swiss Re Ltd.

Munich Reinsurance Company

Hannover Rück SE

Lloyd's

Berkshire Hathaway Inc.

SCOR S.E.

Everest Re Group Ltd.

PartnerRe Ltd.

XL Bermuda Ltd.

Transatlantic Holdings, Inc.

Top 10 Global Reinsurance Groups Life

Swiss Re Ltd.

Great West Lifeco

Munich Reinsurance Company

Reinsurance Group of America Inc.

SCOR S.E.

Hannover Rück SE

Berkshire Hathaway Inc.

Pacific LifeCorp

Assicurazioni Generali SpA

PartnerRe Ltd.

Notes:

Ranked by unaffiliated gross premium written in 2019.

Source: AM Best data and research

Global Reinsurance Market

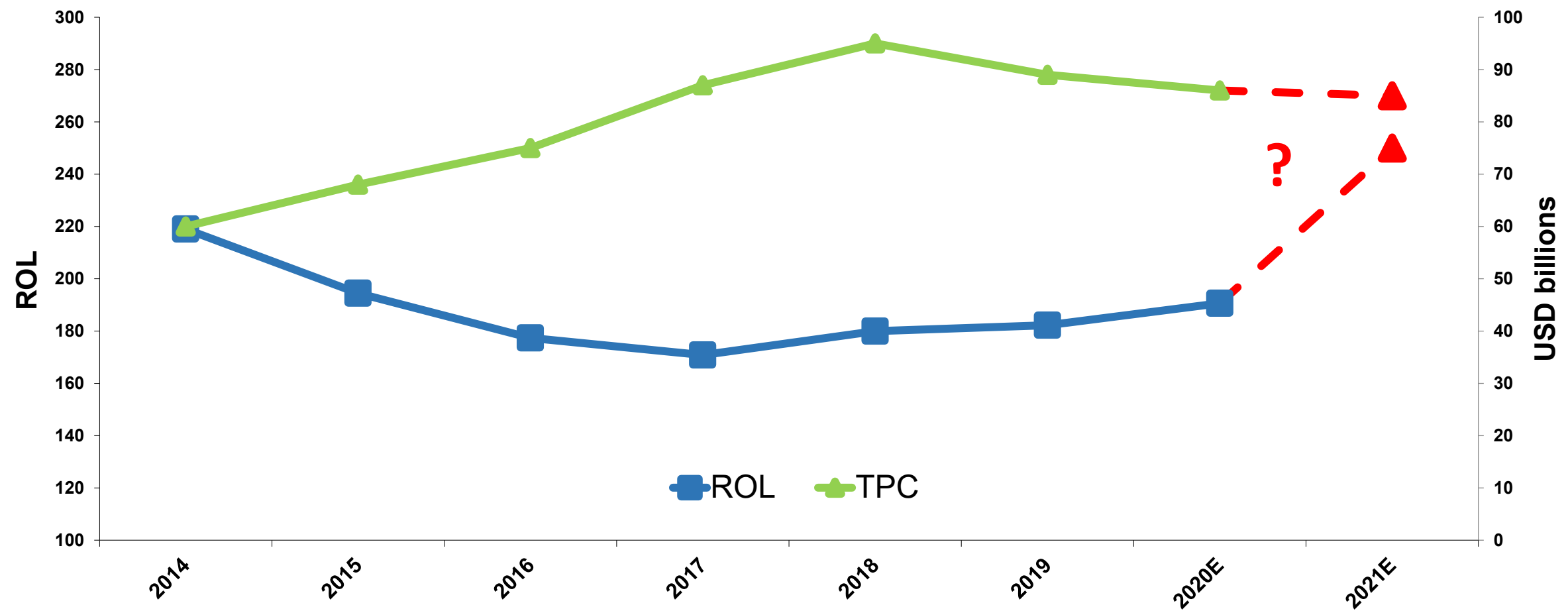
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Property Catastrophe Rate-on-Line (ROL) and Third Party Capital (TPC)



Source: Guy Carpenter & AM Best

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Catastrophe Losses Do Have Reserve Tails

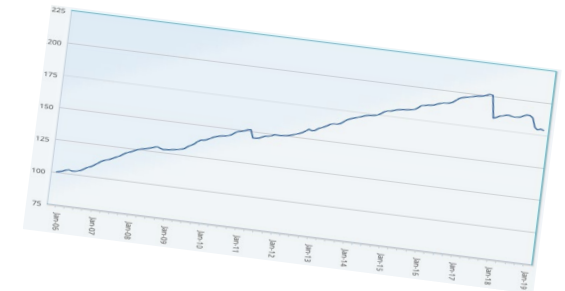
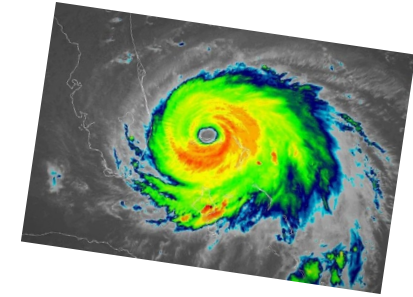
US Hurricanes, Japanese Typhoons,
California and Australian wildfires

Loss creep affecting both traditional and
ILS capital

Concerns about robustness of catastrophe
modelling

Drawn out claims adjustment process /
Trapped collateral

Changing perception on risk and lack of
correlation with the rest of the economy



Global Reinsurance Market Outlook – Stable

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COVID-19 Update

Greg Carter – Managing Director,
Analytics
EMEA & Asia Pacific

COVID-19 – An Ongoing Event



Our response – Stress Test results



Reported losses still behind initial estimates

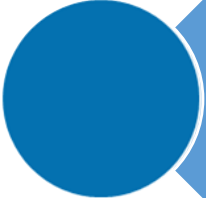


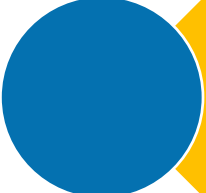


**Wide range of impact on loss ratios
(business mix and assumptions)**



Economic impact influenced all territories and product lines

COVID-19 – An Ongoing Event

-  **Affecting both life and P&C**
-  **Both sides of the balance sheet**
-  **Business Interruption – legal cases creating a longer tail?**
-  **Operational impact on the industry?**

Asia-Pacific Reinsurance Market

Christie Lee – Head of Analytics,
Greater China, Japan & South Korea

Asia-Pacific Reinsurer Characteristics

Business Profile

- National reinsurers in certain markets have defensible positions at home
- Higher % of proportional treaty book relative to foreign counterparts
- Relatively high dependence on retrocession due to domestic catastrophe risk accumulation
- Large reinsurers started to diversify their portfolios by geography and line of business since the Tohoku earthquake and Thai floods in 2011

Capital Management

- Robust capitalisation as evidenced by high BCARs
- Low financial leverage; many are debt-free
- Low third-party capital usage

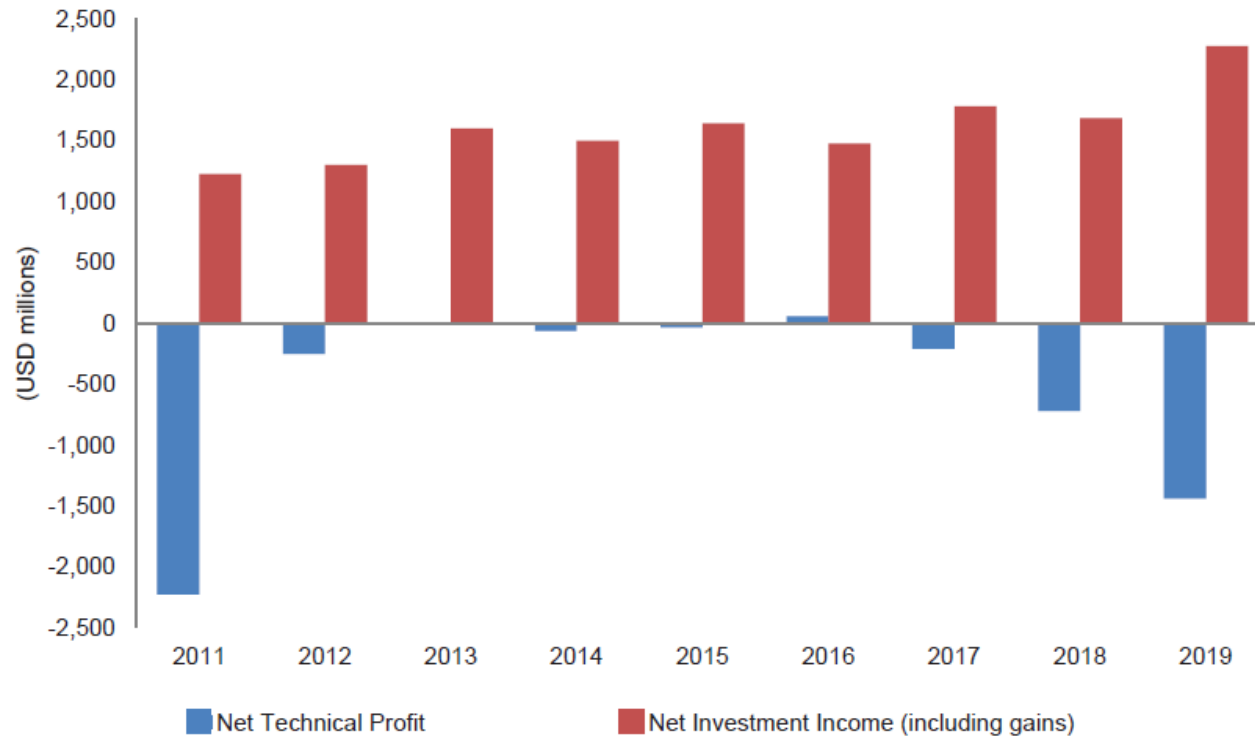
Asia-Pacific Reinsurer Characteristics

Operating Performance

- High investment returns
- Fierce competition
 - International reinsurers' increased capacity allocation to Asia
 - Capacity from new domestic reinsurers

Asia-Pacific Reinsurers' Underwriting and Investment Returns

Asia-Pacific Reinsurers' Underwriting and Investment Returns



Note: The scope of study covers selected non-life reinsurers and non-life focused composite reinsurers domiciled in Asia-Pacific. Underwriting results include life underwriting profit/loss, which accounts for a relatively small proportion of the total underwriting results.

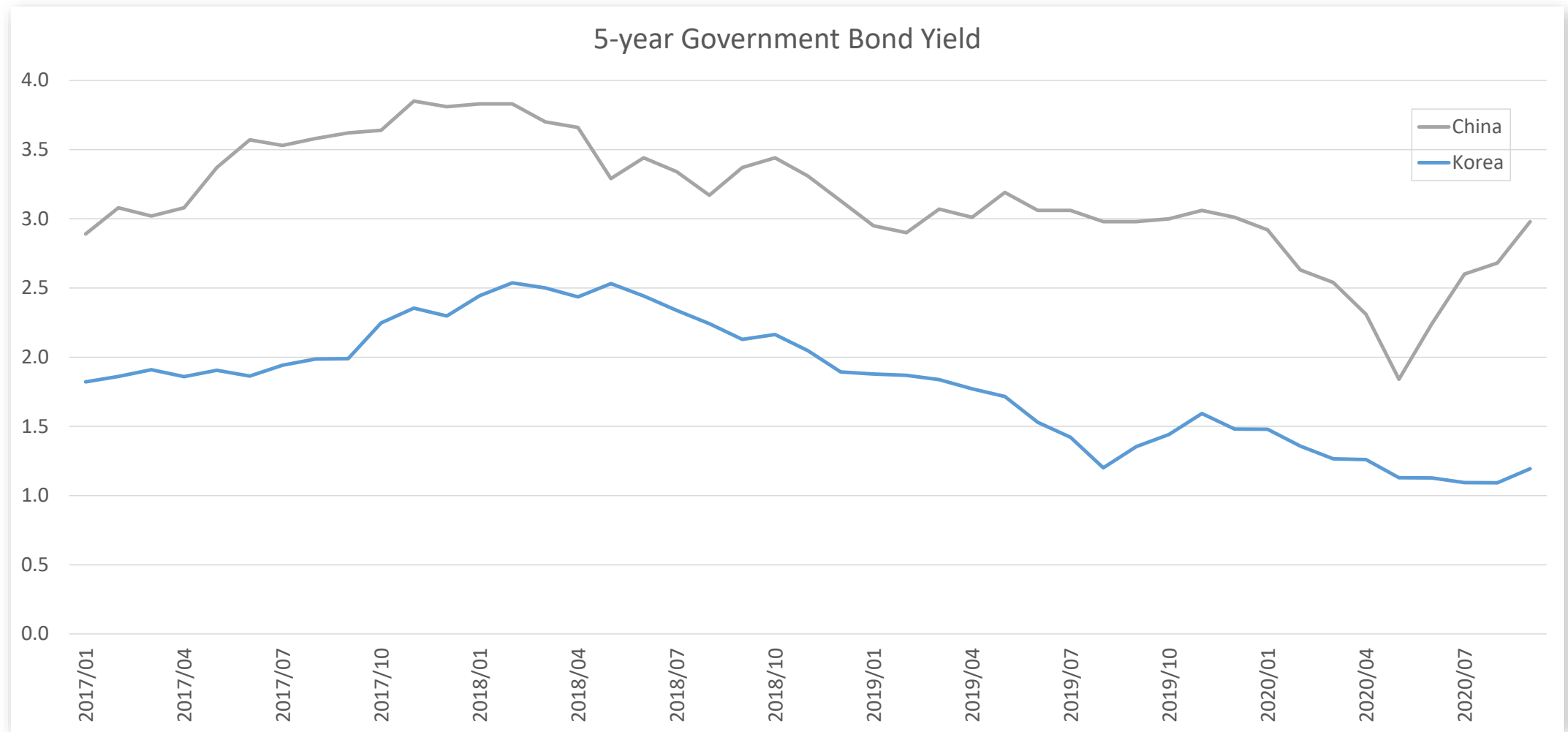
Source: AM Best data and research

- Thin technical profit
- Deteriorating underwriting loss
 - Catastrophe events
 - Agricultural losses in China and India
 - Social activism in Hong Kong
 - Inadequate pricing
- ROEs are supported by investment income

Asia-Pacific Reinsurers' Investment Strategy

- Investment risk appetites vary
- Some with material investment assets in deposits and investment grade bonds
- Others have increased allocation to higher risk asset classes to chase yield

Asia-Pacific Reinsurers' Investment Strategy



Source: Ministry of Finance of the People's Republic of China; Economic Statistics System by Bank of Korea

Asia-Pacific Reinsurers' Investment Strategy

- Declining yields impact BOTH investment and underwriting
 - Lower expected investment returns from new money and re-investments
 - Lower discount rates used in pricing
 - Higher present value of future claim payments
 - Increase in pricing

Challenges Faced by Asia-Pacific and Global Reinsurers

Similar	Different
Lower yield investment conditions	COVID-19 claims are more manageable
Decrease in (re)insurance demand due to economic recession	Retro capacity shortage adds greater pressure to profitability and stability
<p><u>Re-considerations</u> Capital deployment strategy Strive for quality business Communication to marketplace</p>	
Market hardening must be sustained long enough to offset the impact of prior inadequate market conditions	

Southeast Asia Reinsurance Market

Myles Gould – Head of Analytics,
Southeast Asia, Australia & New Zealand

Southeast Asia Reinsurance Market

Headwinds	Tailwinds
Competitive landscape with domestic reinsurers continuing to face relevance challenge against international capacity	Initial COVID-19 losses are low – supported by exclusions embedded from prior pandemics
Declining investment yields and capital market volatility	Some positive pricing momentum, albeit overall picture skewed by hikes on loss affected accounts
Elevated natural catastrophe incidence in the Asia-Pacific region	Life & health (L&H) growth supporting increased diversification

Emerging Trends in Life and Health Reinsurance

Growth Drivers:

- L&H growth in SEA insurance segment
- Insurers seek reinsurance support to manage risk retention and solvency amid L&H growth
- Domestic reinsurers have seized the opportunity to provide technical support for new products
- COVID-19 pandemic has raised awareness of L&H coverages

Opportunities:

- Low L&H penetration in SEA
- Non-catastrophe exposed
- More stable loss experience than some non-life lines
- Less capital intensive than commercial lines

Challenges:

- Thin profit margins, typically low single digit
- Limited underwriting experience and data quality/availability

Changing Investment Conditions

Selected SEA Countries – Base Rate Movements

Country	Interest Rate Jan 1, 2020	Interest Rate Oct 25, 2020	YTD Δ (bps)
Indonesia	5.00%	4.00%	-100
Malaysia	3.00%	1.75%	-125
Philippines	4.00%	2.25%	-175
Thailand	1.25%	0.50%	-75
Vietnam	6.00%	4.00%	-200

- Deposit rates and treasury yields in emerging SEA markets have typically been attractive and considerably higher than in many developed markets
- However, the economic fallout from COVID-19 has driven these returns lower in 2020 and is likely to continue

Changing Investment Conditions

- Reinsurers are faced with accepting lower returns or assuming more investment risk in the hunt for yield
- AM Best does not expect reinsurers to materially shift investment compositions given the potential implications for balance sheet strength
- Instead, we foresee a greater focus on underwriting profitability and a re-balancing of overall earnings

Compulsory Cessions

- In several SEA markets, local obligatory cessions benefit the business profiles of domestic reinsurers
- However, compulsory cessions are often subject to periodic review with potential changes remaining an area that could undermine reinsurers' revenue stability

Examples of Compulsory Reinsurance Cessions in SEA

Country	Nature of Cession	Recipient Reinsurer(s)
Philippines	Local insurers required to offer 10% of treaty and facultative reinsurance capacity	National Reinsurance Corp of the Philippines
Malaysia	Partial “voluntary” treaty and facultative reinsurance cession by local insurers	Malaysian Reinsurance Berhad
Indonesia	Local insurers required to cede a sizable portion to domestic reinsurers, albeit a phased reduction to obligatory cessions (for some risk types) is expected to take place over next 2 years	Various domestic reinsurers

Hot Topics Round-up

Hot Topics Round-up

- IFRS 17
- Regulatory Changes

Question & Answer

Thank You

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