



**AM Best Insurance Market Briefing –
Germany**



Hamburg

18 February 2020



Cologne

19 February 2020



Munich

20 February 2020

Agenda

Zeit	Präsentation	Moderator
15:00	Regisration	
15:30	Welcome and Introductory Comments	William Mills <i>Director, Market Development</i>
15:45	Global Reinsurance Market - Reinsurance Trends and Insights & Update on Renewals at 1.1.2020	Dr Angela Yeo <i>Senior Director, Analytics</i>
16:15	Best's Credit Rating Methodology (BCRM): A Benchmarking Study	Konstantin Langowski <i>Financial Analyst</i>
16:45	Innovation: Update & Timeplan	Dr Angela Yeo <i>Senior Director, Analytics</i>
17:00	Networking Reception	

The Global Reinsurance Market

Dr. Angela Yeo

Senior Director – Analytics & Head of Operations



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Discussion Outline

Global Reinsurance Market

Outlook

Performance

Capital

Developments

Global Reinsurance Market Outlook

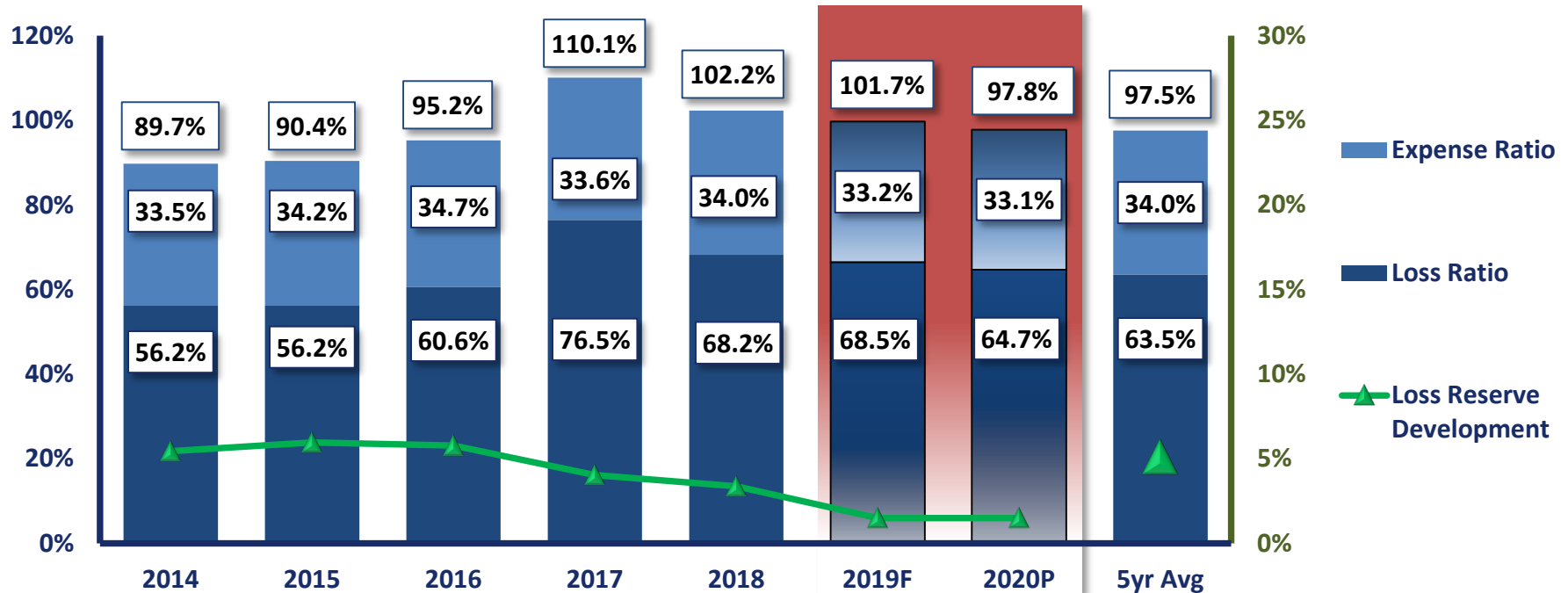
Headwinds	Tailwinds
Excess capacity and intense competition limits the potential for improvement	Increasing alignment between traditional and third-party capital
Increased cost of retrocession	Improving pricing discipline for property cat and retro in particular
Social inflation impacting loss cost	Accelerating pricing momentum at the primary insurance level
Less cushion in carried reserves	US economic growth slows, but continues
Continued interest from third-party capital (beyond property cat)	Emerging opportunities and evidence of increasing demand

December 2018 – AM Best revised the outlook on the Global Reinsurance sector to Stable

Global Reinsurance Market Performance

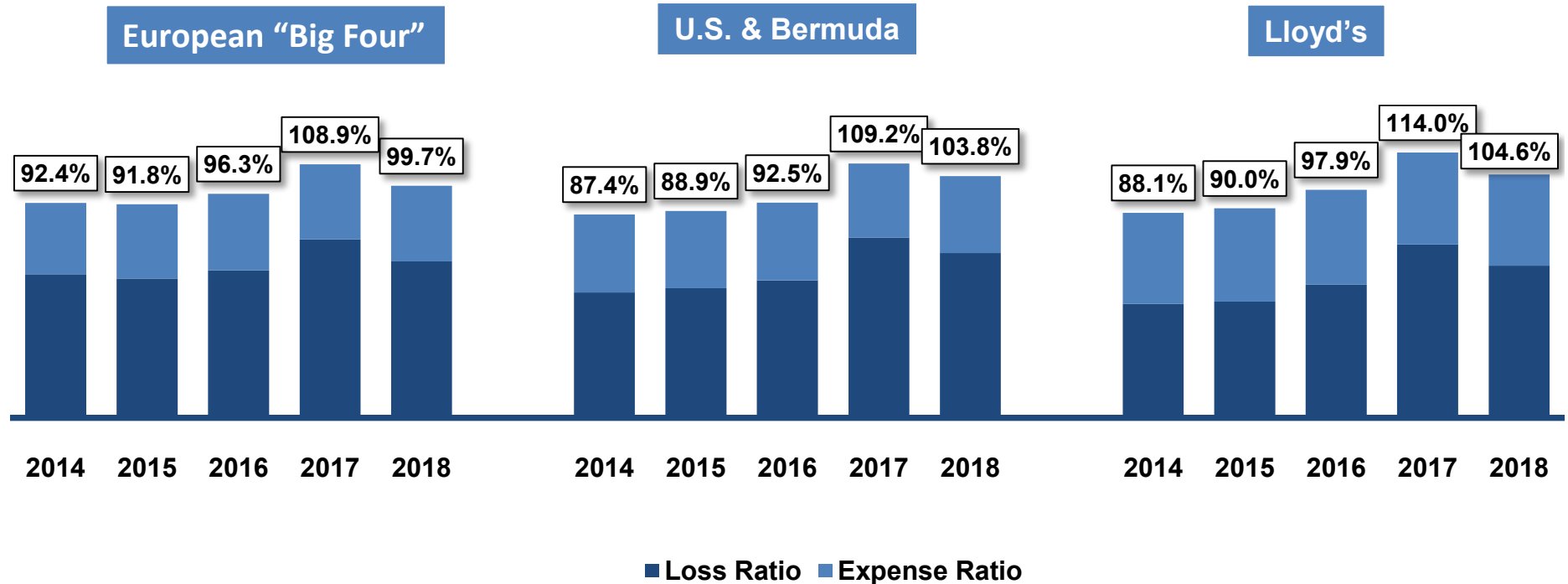
Global Reinsurance Market Trends

Global Reinsurance Sector – Combined Ratio

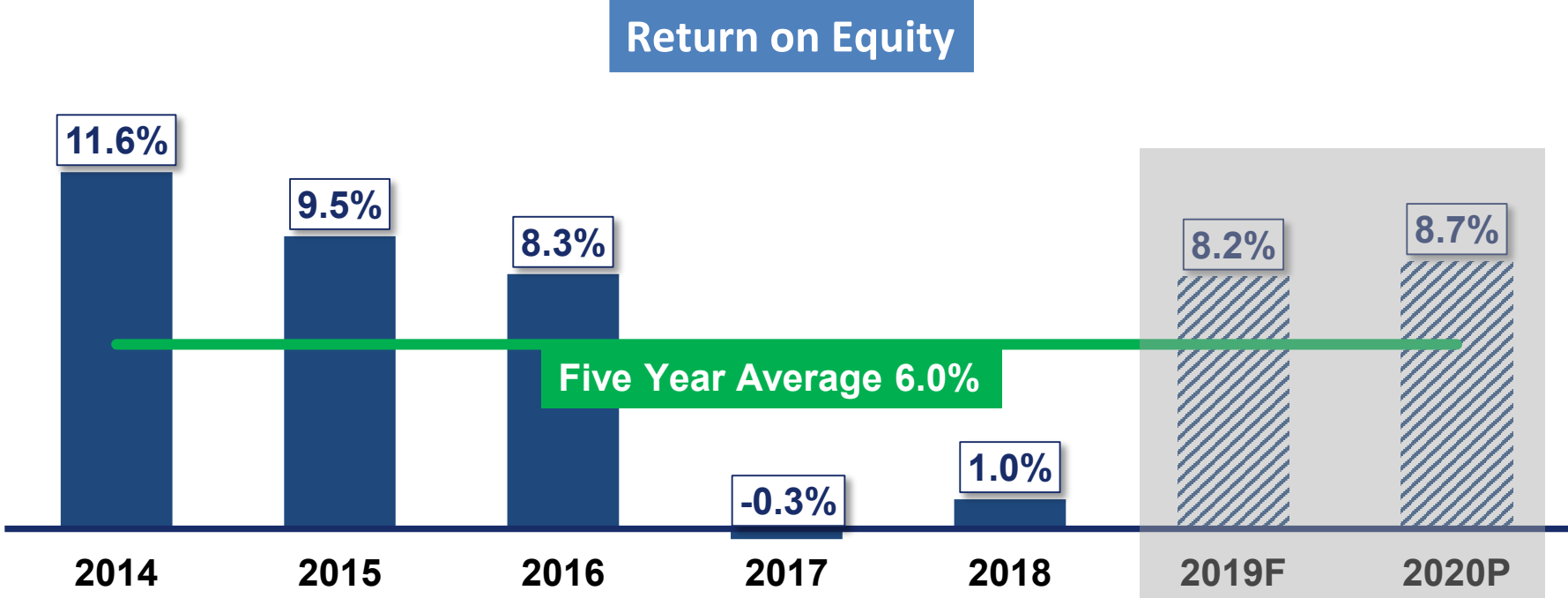


Global Reinsurance Market Performance

Combined Ratios by Reinsurance Sector



Global Reinsurance Market Performance



Source: AM Best data and research



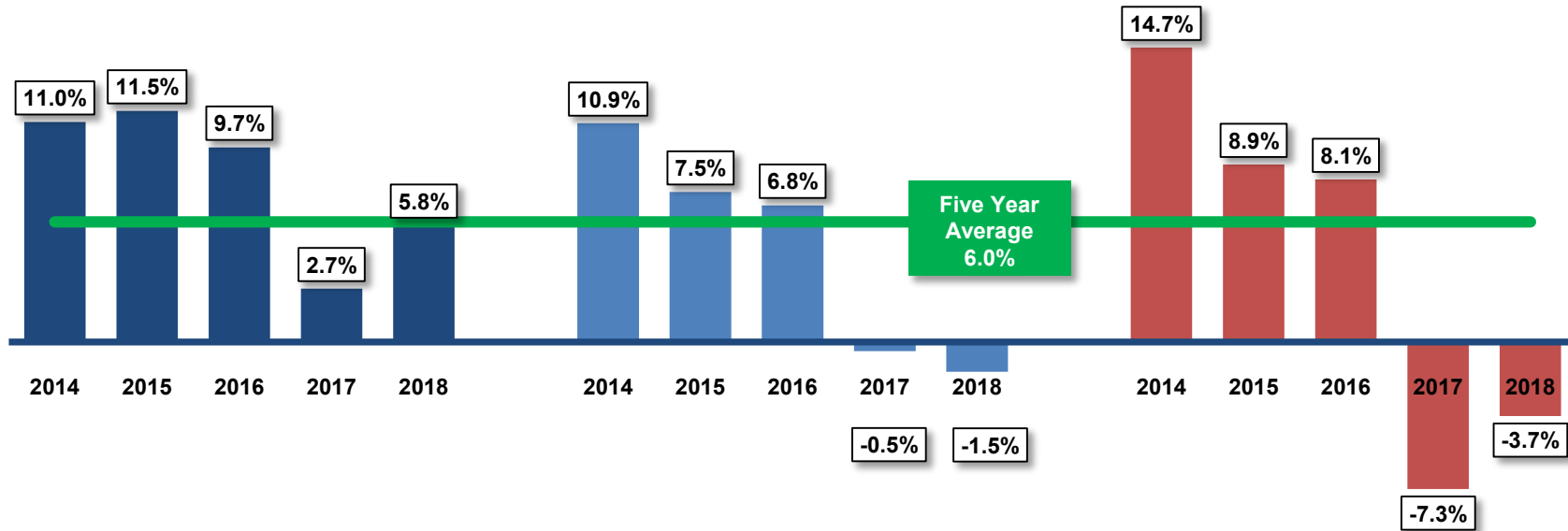
Global Reinsurance Market Performance

Return on Equity by Reinsurance Sector

European "Big Four"

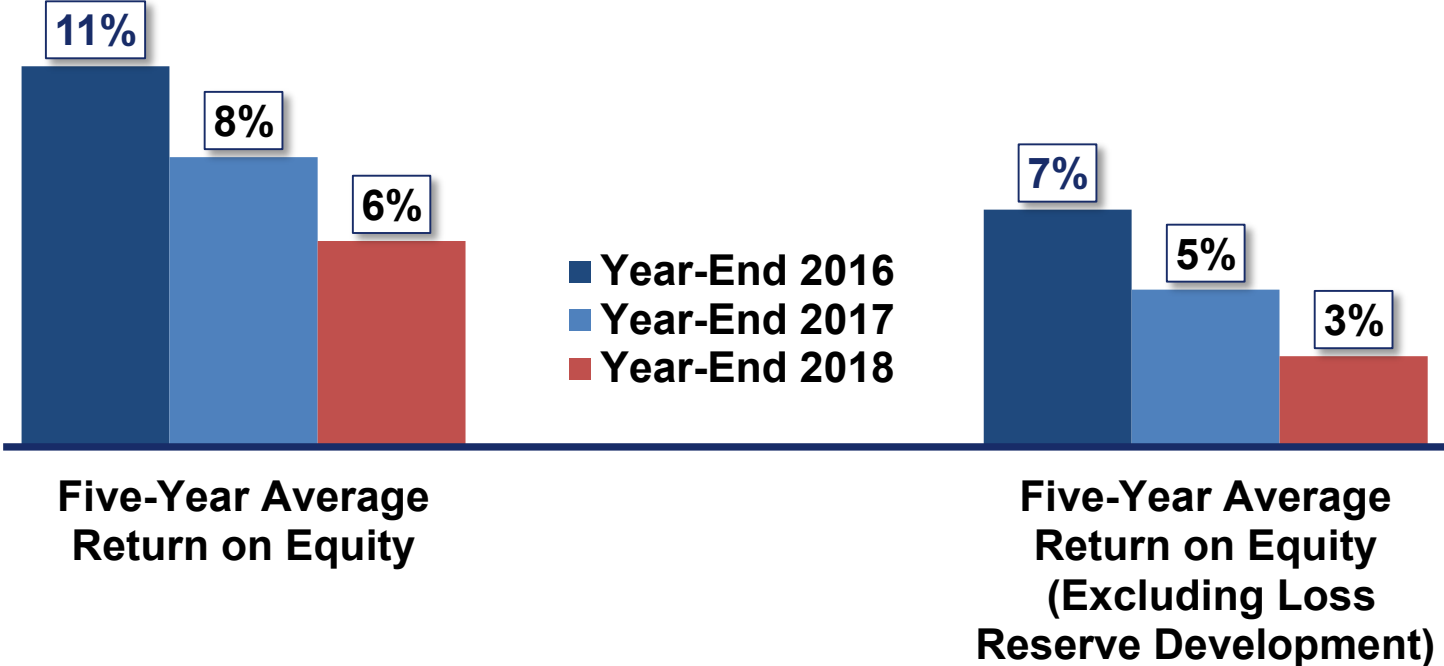
U.S. & Bermuda

Lloyd's



Global Reinsurance Market Performance

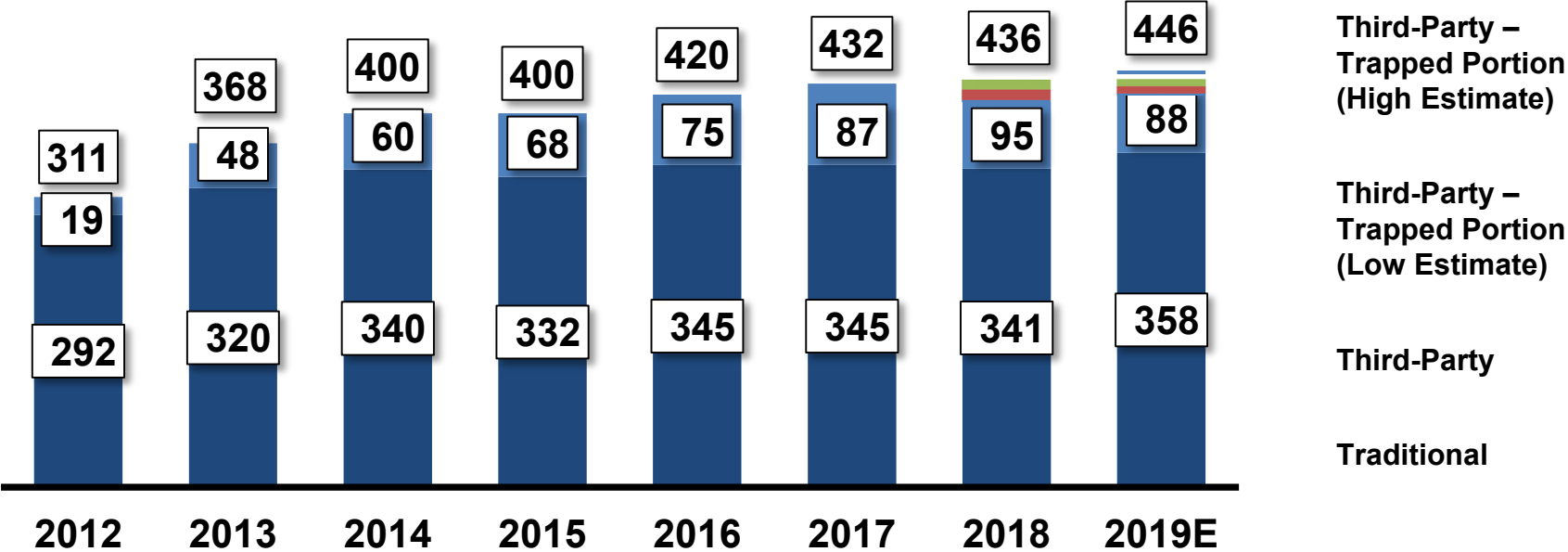
Global Reinsurance Market



Global Reinsurance Market Capital

Global Reinsurance Market Capital

Estimate - Total Dedicated Reinsurance Capital (USD billions)

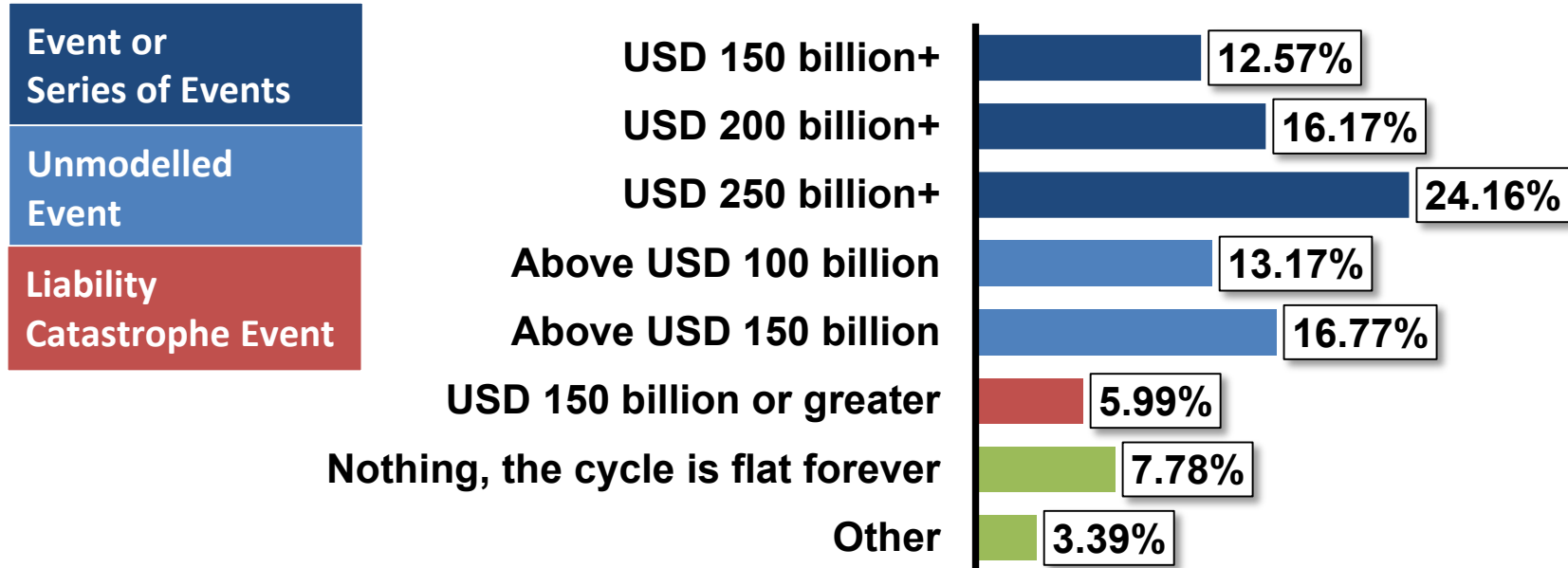


Sources: Estimates by Guy Carpenter and AM Best



What Would Turn the Market?

Capacity pressure could be a catalyst for a sustained uplift in prices



Notes:
Percentage of respondents
Source: Artemis

Global Reinsurance Market Capital

Top 10 World's Largest Reinsurance Groups

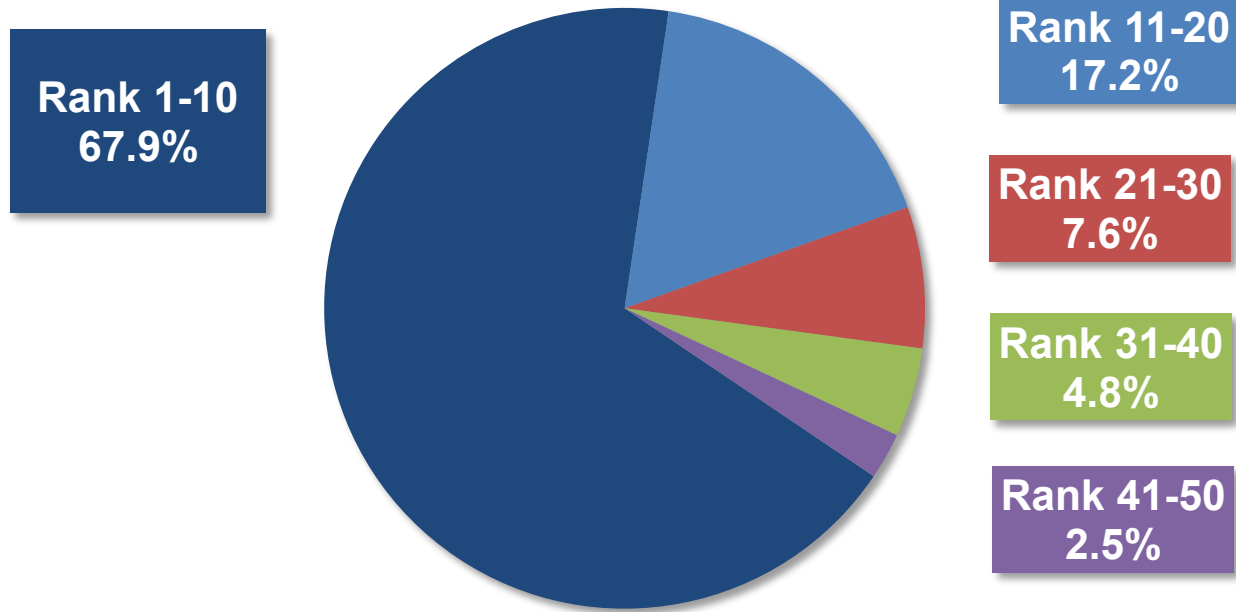
	Reinsurance					Total Shareholders' Funds	Ratios (%)		
	Premiums Written Life & Non-Life (USD m)		Non-Life Only (USD m)		Loss		Expense	Combined	
	Gross	Net	Gross	Net					
Swiss Re Ltd.	36,406	34,042	20,864	20,220	28,727	74.2	32.4	106.6	
Munich Reinsurance Co.	35,814	34,515	23,395	22,570	30,336	65.2	34.2	99.4	
Hannover Rück SE	21,952	19,791	13,709	12,368	10,923	66.9	29.5	96.4	
SCOR S.E.	17,466	15,773	7,069	6,115	6,672	66.5	32.8	99.3	
Berkshire Hathaway Inc.	15,376	15,376	9,930	9,930	352,500	88.6	21.9	110.4	
Lloyd's	14,064	9,926	14,064	9,926	34,846	72.2	33.8	106.0	
China Reinsurance (Group) Corp.	11,564	10,681	3,942	3,809	12,689	58.0	40.9	98.8	
Reinsurance Group of America Inc.	11,341	10,544	–	–	8,451	–	–	–	
Great West Lifeco	7,737	7,647	–	–	20,096	–	–	–	
Korean Reinsurance Co.	6,803	4,786	5,972	4,058	2,014	83.7	17.8	101.5	

Notes:
 Ranked by unaffiliated gross premium written in 2018.
 Source: AM Best data and research



Global Reinsurance Market Capital

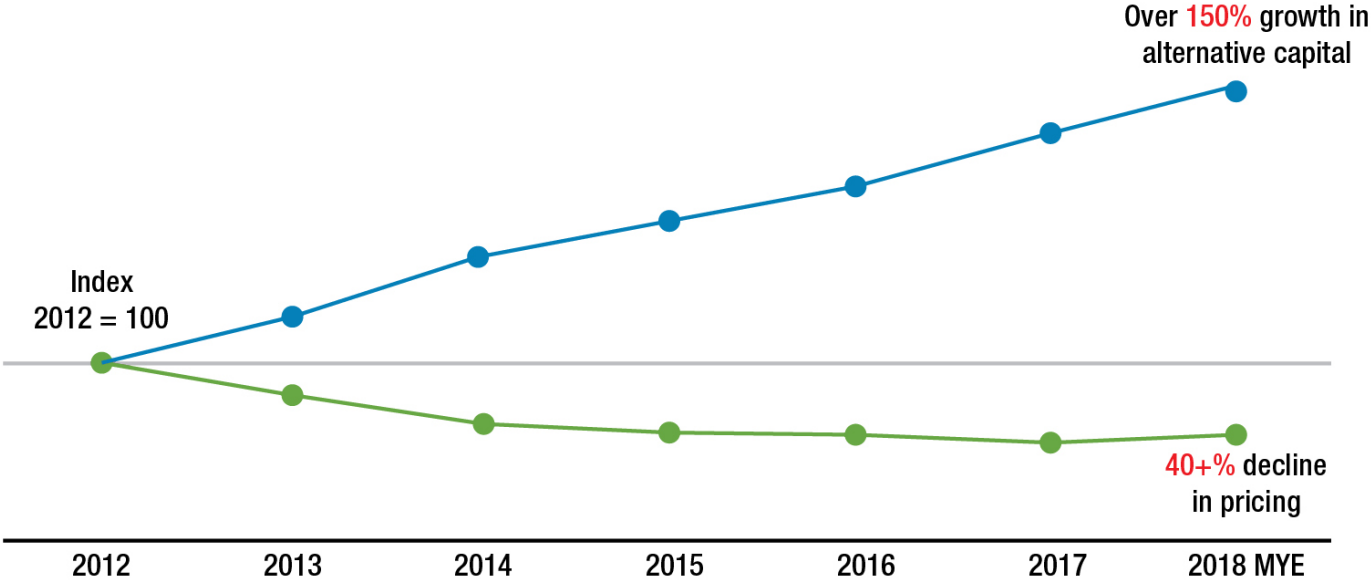
Life and Non-Life Reinsurance GPW Distribution by Ranking



Global Reinsurance Market Developments

Reinsurance Rates – Response to Influx of Alternative Capital

Supply and Demand Reinsurance rates in the Florida property cat market dropped in response to an influx of alternative capital



Source: Guy Carpenter



Catastrophe Losses do have Reserve Tails (1)

Hurricane Irma (2017) loss creep surprised both reinsurers and ILS funds exceeding USD 1 billion

Impact of development based on Florida footprint

Demand surge stressed claim adjustment process

Assignment of Benefits (AOB) resulted in higher loss cost

AOB lawsuits increased from 1,300 in 2000 to 135,000 in 2018

Catastrophe Losses do have Reserve Tails (2)



Hurricane Maria (2017) presented unique challenges due to scope of devastation

Limited local claim resources required adjusters from US to assist

Unfamiliarity with policy terms/conditions resulted in higher number of reopen claims and resulting loss

Prolonged settlement and usability exacerbated Contingent Business Interruption claims

Catastrophe Losses do have Reserve Tails (3)

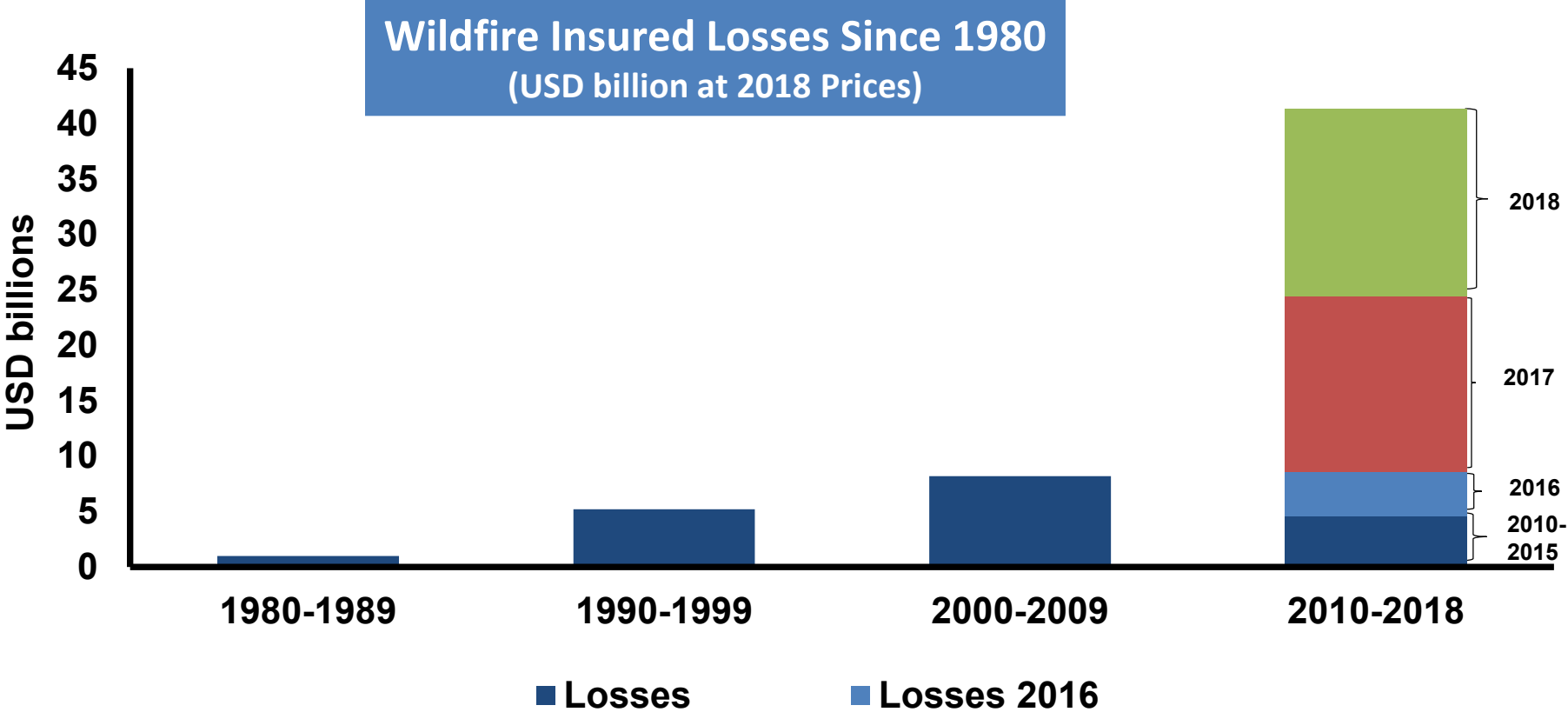
Typhoon Jebi (2018) current loss estimates up to USD 16 billion vs original estimate of USD 2 - 3 billion. Some firm's current loss pick of USD 8 - 10 billion

Japan fiscal year ends in March

Overlap with Typhoon Trami and a series of smaller losses, complicated claim and loss estimates

Preparation of Olympics stressed reconstruction resources driving up claims costs

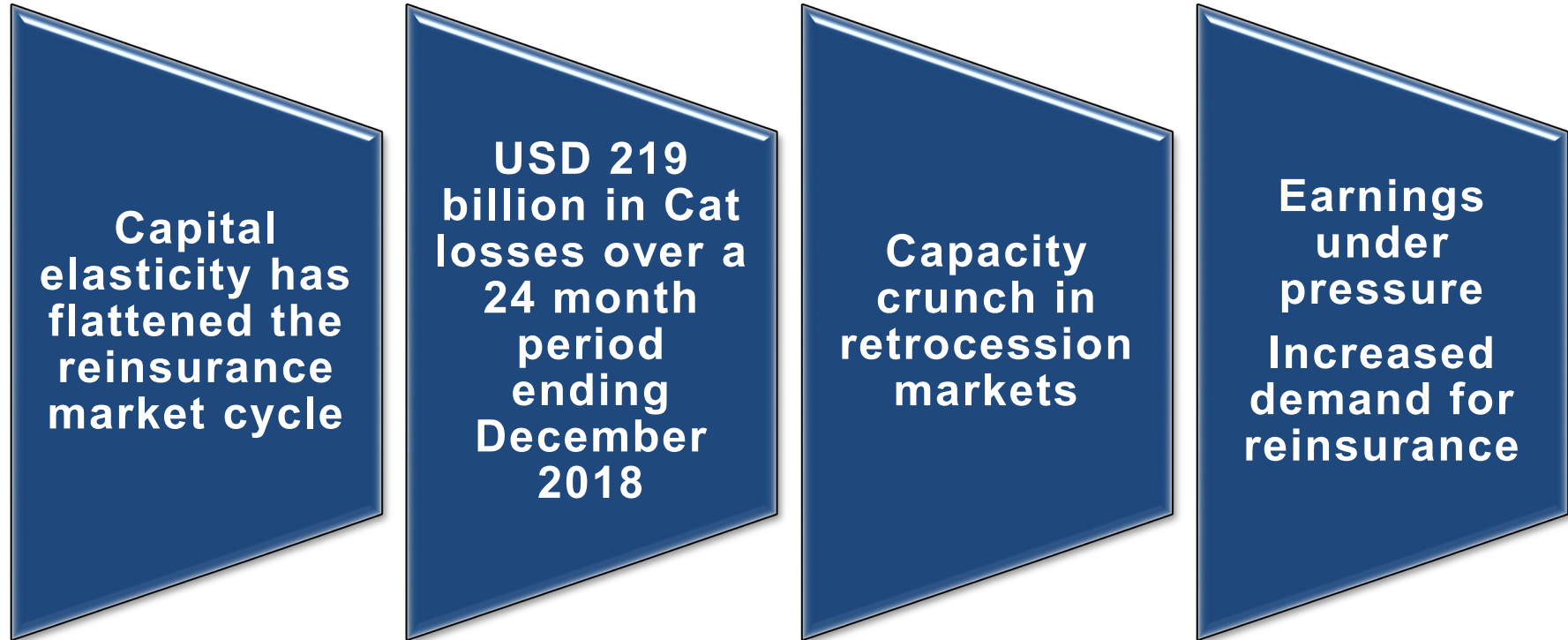
Global Reinsurance - Market Developments



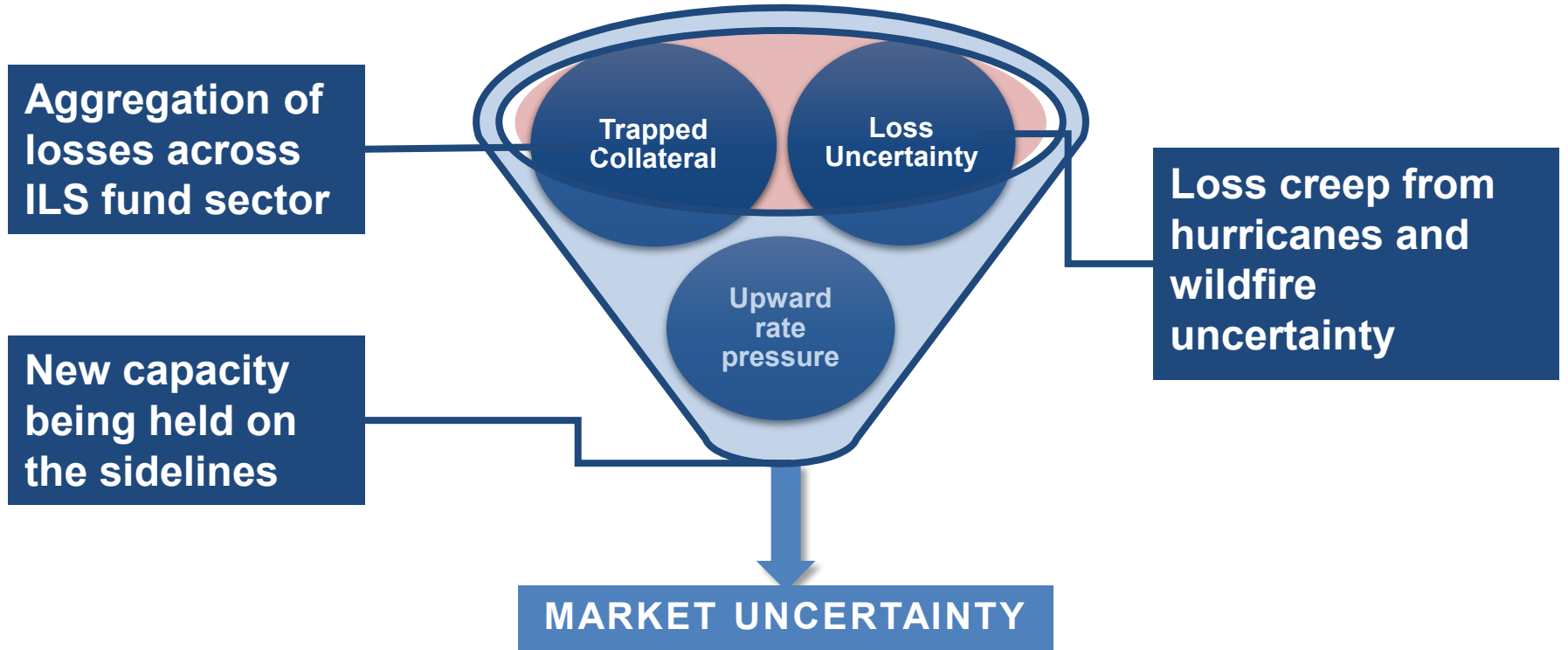
Source: Swiss Re Institute sigma



Possible Turn in Trajectory



Continued Market Uncertainty



What has transpired

January and June 2019 renewal negotiations ran late



Overall renewal pricing – flat to up

Predominately European renewals that were less affected by the 2017 and 2018 CATs

Rates did increase 30% for loss affected programs (Lloyd's and US)

Supply and Demand imbalance lead to retro pricing increases of 15-20%

Casualty programs saw modest rate improvement with ceding commissions flat to down

What to Expect?

Capital markets continue to be the key to sustained rate increases at the mid-year renewals

An abundance of capital waiting on the sideline

The evolving interest rate environment is a new variable within the pricing equation

What we observed so far

**January 2020 renewal negotiations
don't show a clear trend**



Overall renewal pricing – down and up

Reinsurance demand
remained strong
Variations in pricing
as well as T&Cs

ILS capacity growth
halted, or reduced
slightly, 144a cat
bond structures
making a come back

Retro: Supply and
Demand imbalance
continues and
contributes to a hard
market

Casualty: continued
concerns over
interest rates,
investment returns,
discount rates

Q&A

Best's Credit Rating Methodology (BCRM): Benchmarking Review

Konstantin Langowski

Financial Analyst

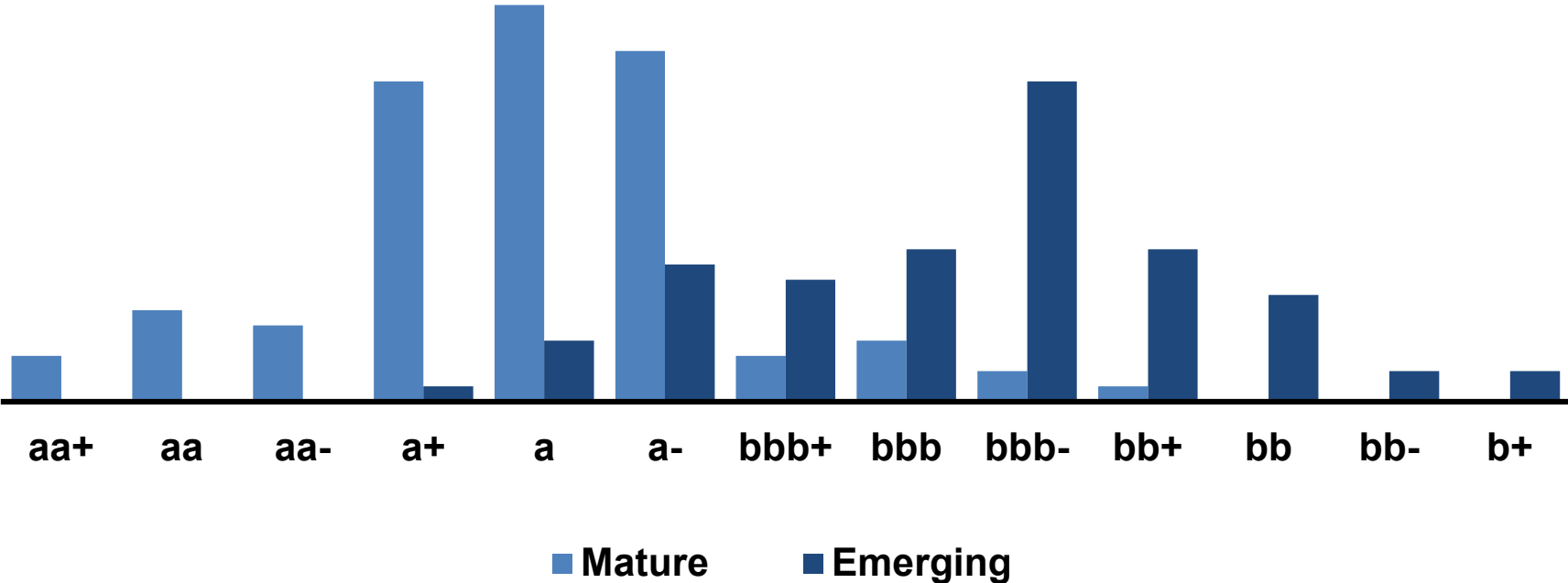


Issuer Credit Ratings (ICR) and Financial Strength Ratings (FSR)

Long-Term ICR	FSR
aaa aa+	A++
aa aa-	A+
a+ a	A
a-	A-
bbb+ bbb	B++
bbb-	B+

Long-Term ICR	FSR
bb+ bb	B
bb-	B-
b+ b	C++
b-	C+
ccc+ ccc	C
ccc- cc	C-

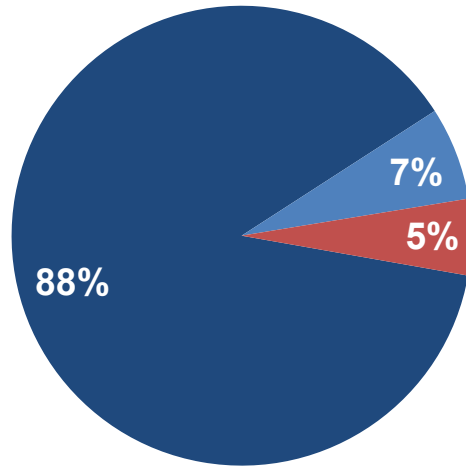
Issuer Credit Ratings EMEA: Overview (2019)



■ Mature ■ Emerging

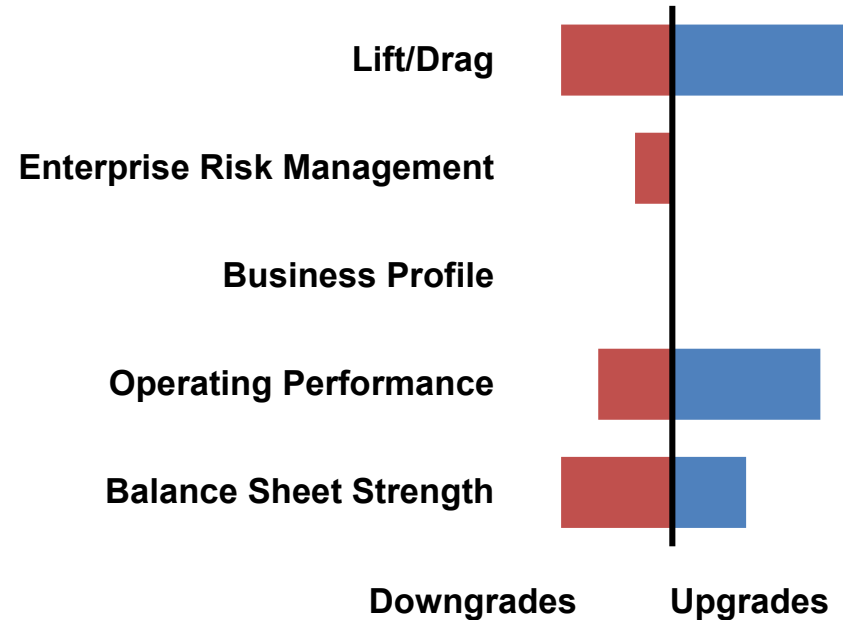
Drivers of Rating Upgrades & Downgrades EMEA (2019)

Overall Rating Movements

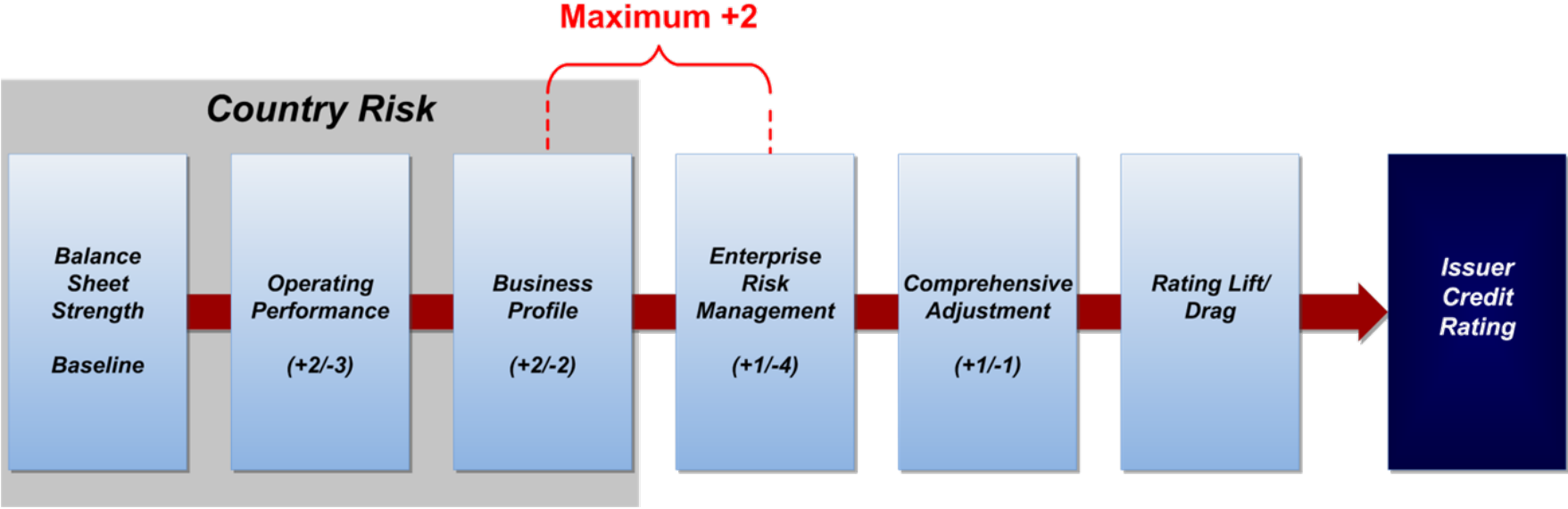


- Affirmation
- Upgrade
- Downgrade

Upgrades & Downgrades by Building Block



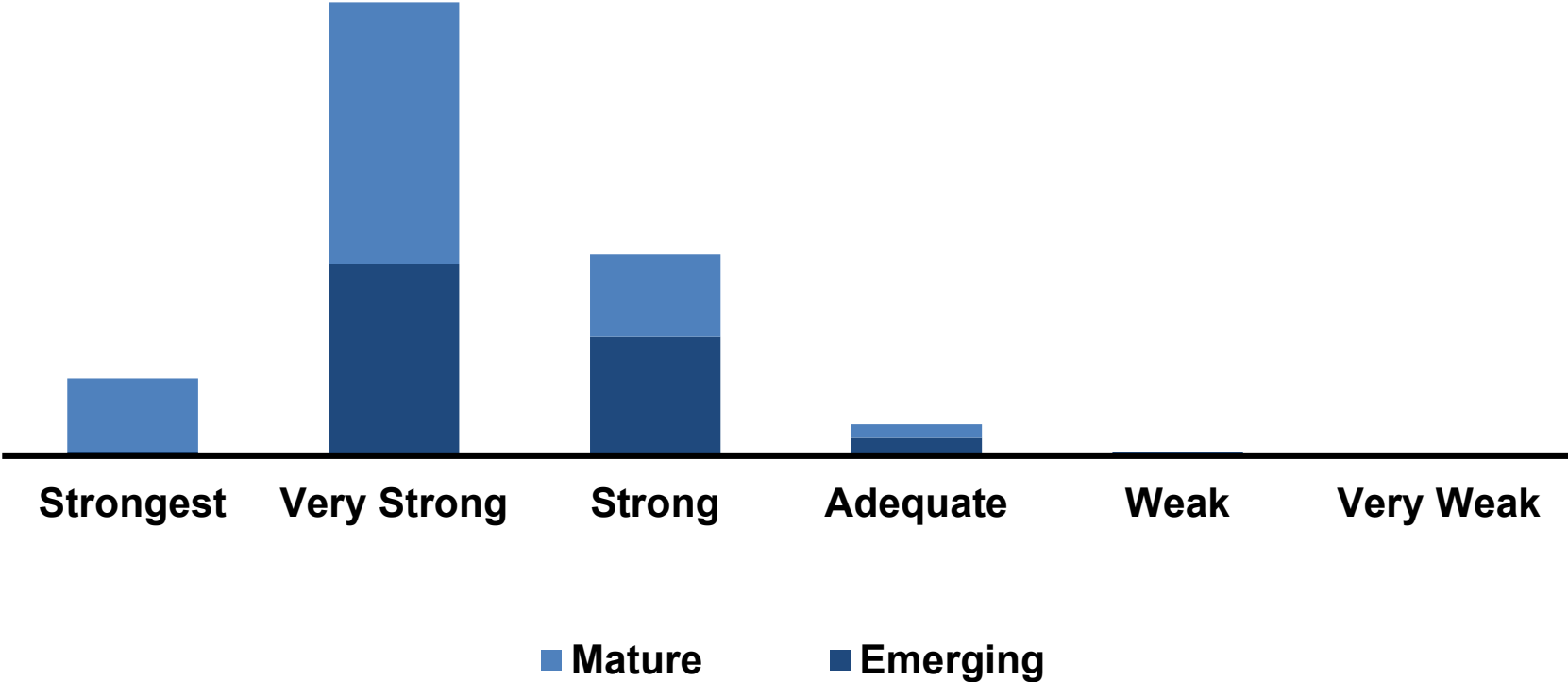
AM Best's Rating Process: Recap



AM Best's Rating Process: Recap

Balance Sheet Strength Baseline	Operating Performance (+2/-3)	Business Profile (+2/-2)	Enterprise Risk Management (+1/-4)																										
<table border="1"> <thead> <tr> <th>Assessment</th> </tr> </thead> <tbody> <tr><td>Strongest</td></tr> <tr><td>Very Strong</td></tr> <tr><td>Strong</td></tr> <tr><td>Adequate</td></tr> <tr><td>Weak</td></tr> <tr><td>Very Weak</td></tr> </tbody> </table>	Assessment	Strongest	Very Strong	Strong	Adequate	Weak	Very Weak	<table border="1"> <thead> <tr> <th>Assessment</th> </tr> </thead> <tbody> <tr><td>Very Strong +2</td></tr> <tr><td>Strong +1</td></tr> <tr><td>Adequate 0</td></tr> <tr><td>Marginal -1</td></tr> <tr><td>Weak -2</td></tr> <tr><td>Very Weak -3</td></tr> </tbody> </table>	Assessment	Very Strong +2	Strong +1	Adequate 0	Marginal -1	Weak -2	Very Weak -3	<table border="1"> <thead> <tr> <th>Assessment</th> </tr> </thead> <tbody> <tr><td>Very Favourable +2</td></tr> <tr><td>Favourable +1</td></tr> <tr><td>Neutral 0</td></tr> <tr><td>Limited -1</td></tr> <tr><td>Very Limited -2</td></tr> </tbody> </table>	Assessment	Very Favourable +2	Favourable +1	Neutral 0	Limited -1	Very Limited -2	<table border="1"> <thead> <tr> <th>Assessment</th> </tr> </thead> <tbody> <tr><td>Very Strong +1</td></tr> <tr><td>Appropriate 0</td></tr> <tr><td>Marginal -1</td></tr> <tr><td>Weak -2</td></tr> <tr><td>Very Weak -3/4</td></tr> </tbody> </table>	Assessment	Very Strong +1	Appropriate 0	Marginal -1	Weak -2	Very Weak -3/4
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Balance Sheet Strength: Distribution of Assessments (2019)



Balance Sheet Strength: The Baseline Assessment

Overall Balance Sheet Strength Assessment

Combined Balance Sheet Assessment (Rating Unit/ Holding Company)	Country Risk Tier				
	CRT-1	CRT-2	CRT-3	CRT-4	CRT-5
Strongest	a+/a	a+/a	a/a-	a-/bbb+	bbb+/bbb
Very Strong	a/a-	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-
Strong	a-/bbb+	a-/bbb+	bbb+/bbb/bbb-	bbb/bbb-/bb+	bbb-/bb+/bb
Adequate	bbb+/bbb/bbb-	bbb+/bbb/bbb-	bbb-/bb+/bb	bb+/bb/bb-	bb/bb-/b+
Weak	bb+/bb/bb-	bb+/bb/bb-	bb-/b+/b	b+/b/b-	b/b-/ccc+
Very Weak	b+ and below	b+ and below	b- and below	ccc+ and below	ccc and below

Best's Capital Adequacy Ratio (BCRM) Guidelines

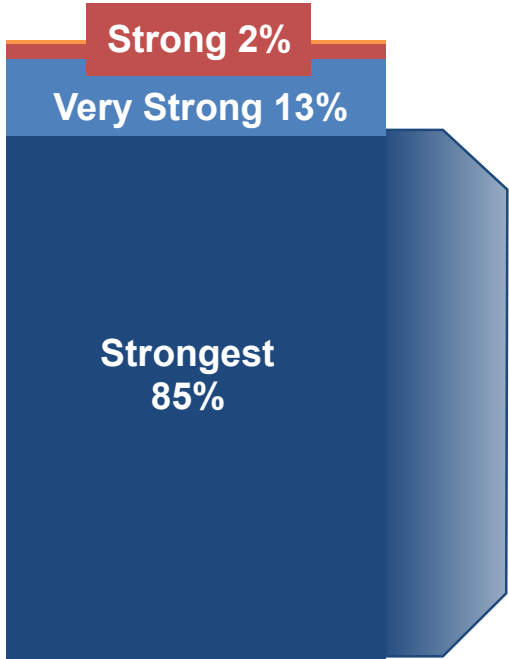
$$\text{BCAR} = \frac{(\text{Available Capital} - \text{Net Required Capital})}{\text{Available Capital}} \times 100$$

VaR Level (%)	BCAR	BCAR Assessment
99.6	> 25 at 99.6	Strongest
99.6	> 10 at 99.6 & ≤ 25 at 99.6	Very Strong
99.5	> 0 at 99.5 & ≤ 10 at 99.6	Strong
99	> 0 at 99 & ≤ 0 at 99.5	Adequate
95	> 0 at 95 & ≤ 0 at 99	Weak
95	≤ 0 at 95	Very Weak

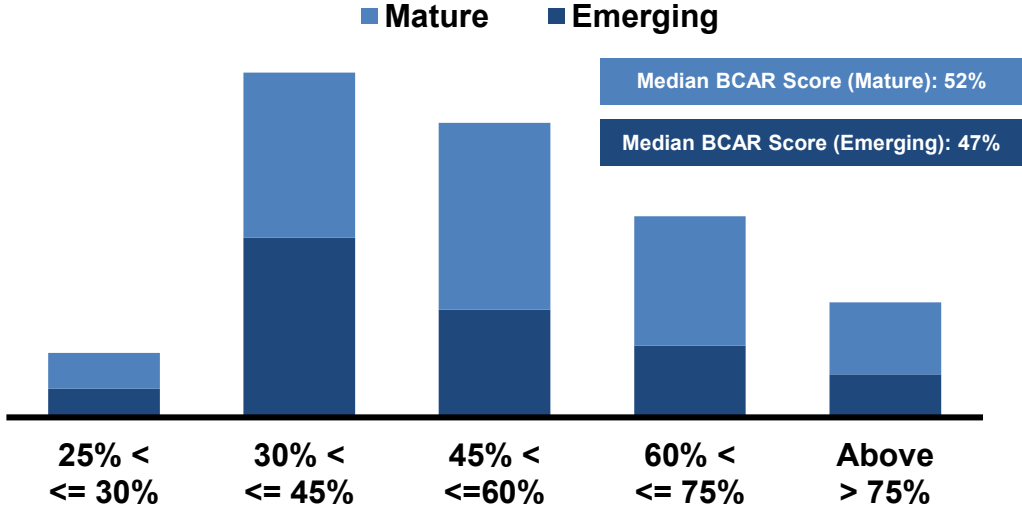
* Companies with < 20 million USD in capital & surplus cannot score in strongest category

BCAR: Assessment & Distribution (2019)

BCAR Assessment



Distribution of BCAR Scores @ 99.6% VaR within Strongest Category



Balance Sheet Strength: Relationship of BCAR

Mature		Balance Sheet Strength				
2018	Assessment	Strongest	Very Strong	Strong	Adequate	Weak
BCAR	Strongest	20%	56%	8%	1%	-
	Very Strong	2%	3%	4%	1%	-
	Strong	-	-	1%	1%	-
	Adequate	-	-	-	1%	-
	Weak	-	-	-	-	-
	Very Weak	-	-	-	-	-

2019	Assessment	Strongest	Very Strong	Strong	Adequate	Weak
BCAR	Strongest	17%	53%	16%	1%	-
	Very Strong	-	7%	2%	1%	-
	Strong	-	-	1%	1%	-
	Adequate	-	-	-	-	-
	Weak	-	-	-	-	-
	Very Weak	-	-	-	-	-

For both mature and emerging markets, most companies have a balance sheet strength assessment of “Very Strong”

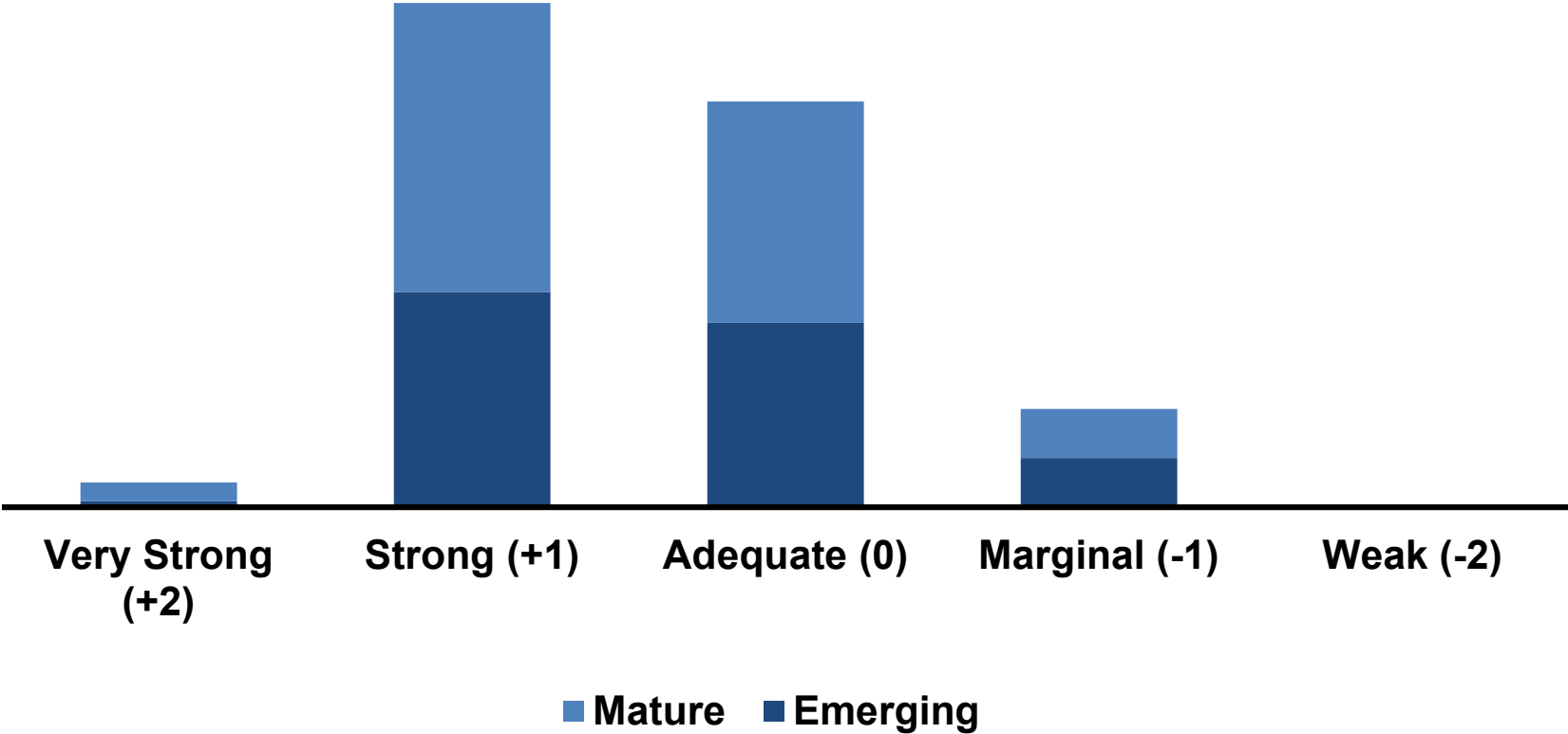
Emerging		Balance Sheet Strength				
2018	Assessment	Strongest	Very Strong	Strong	Adequate	Weak
BCAR	Strongest	1%	61%	19%	-	-
	Very Strong	-	3%	10%	-	-
	Strong	-	-	4%	-	-
	Adequate	-	-	-	1%	-
	Weak	-	-	-	-	-
	Very Weak	-	-	-	-	-

2019	Assessment	Strongest	Very Strong	Strong	Adequate	Weak
BCAR	Strongest	1%	57%	23%	-	-
	Very Strong	-	-	11%	4%	-
	Strong	-	-	1%	1%	-
	Adequate	-	-	-	-	-
	Weak	-	-	-	-	-
	Very Weak	-	-	-	-	1%

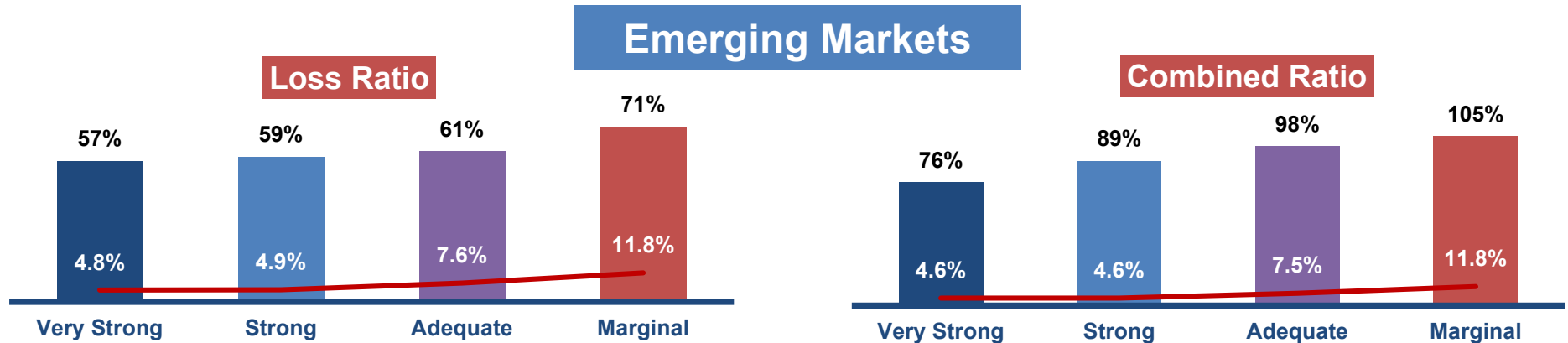
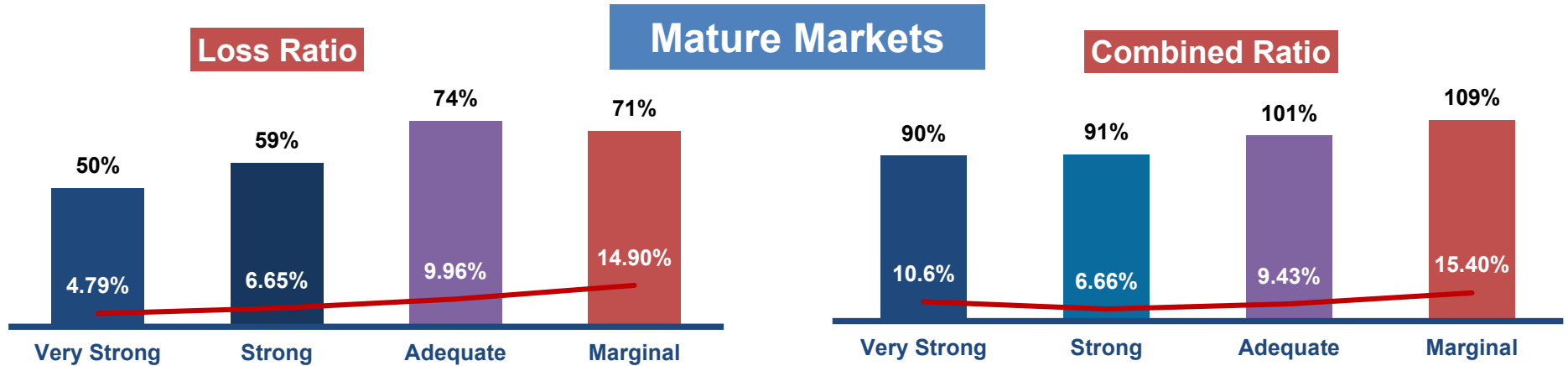
Over the surveillance period, there has been a slight deterioration in the balance sheet strength assessment

The BCAR is not the sole determinant of balance sheet strength

Operating Performance: Distribution of Assessments (2019)

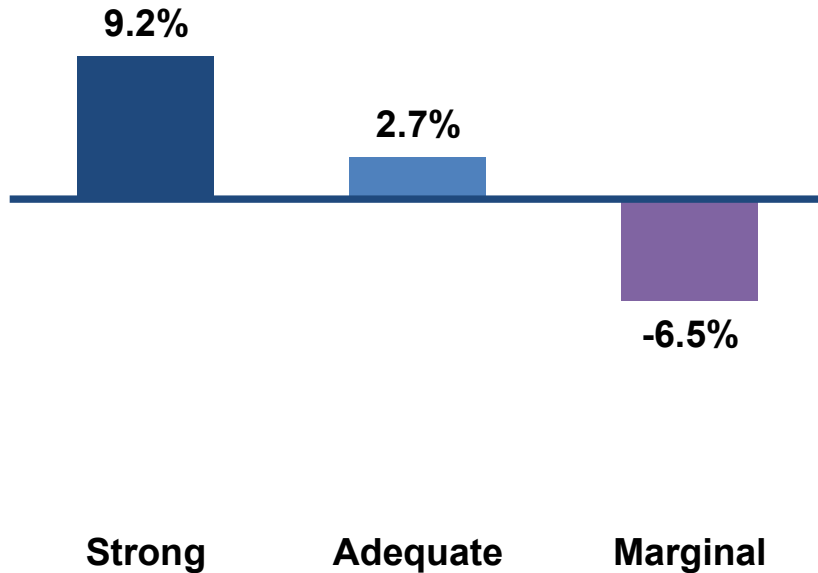


Operating Performance (Five Year Average) (2014-2018)

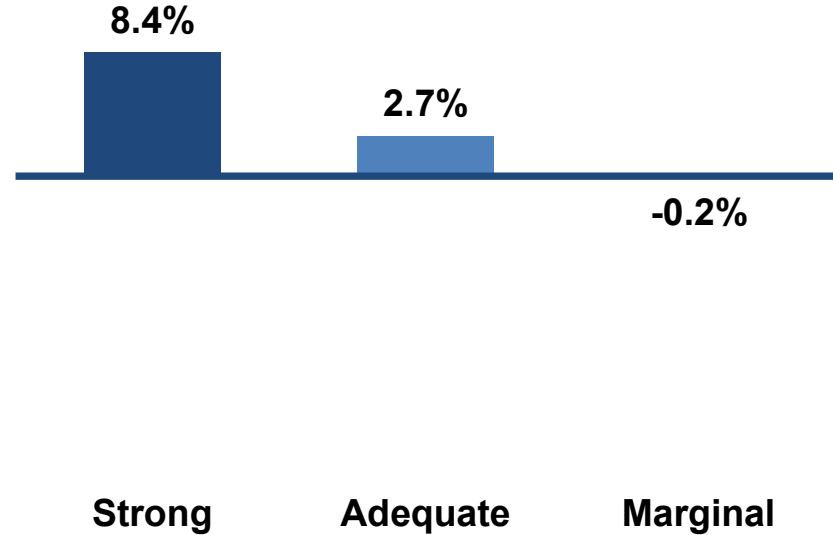


Operating Performance (Five Year Average) (2014-2018)

Mature Markets – Five Year Average Real Return on Equity



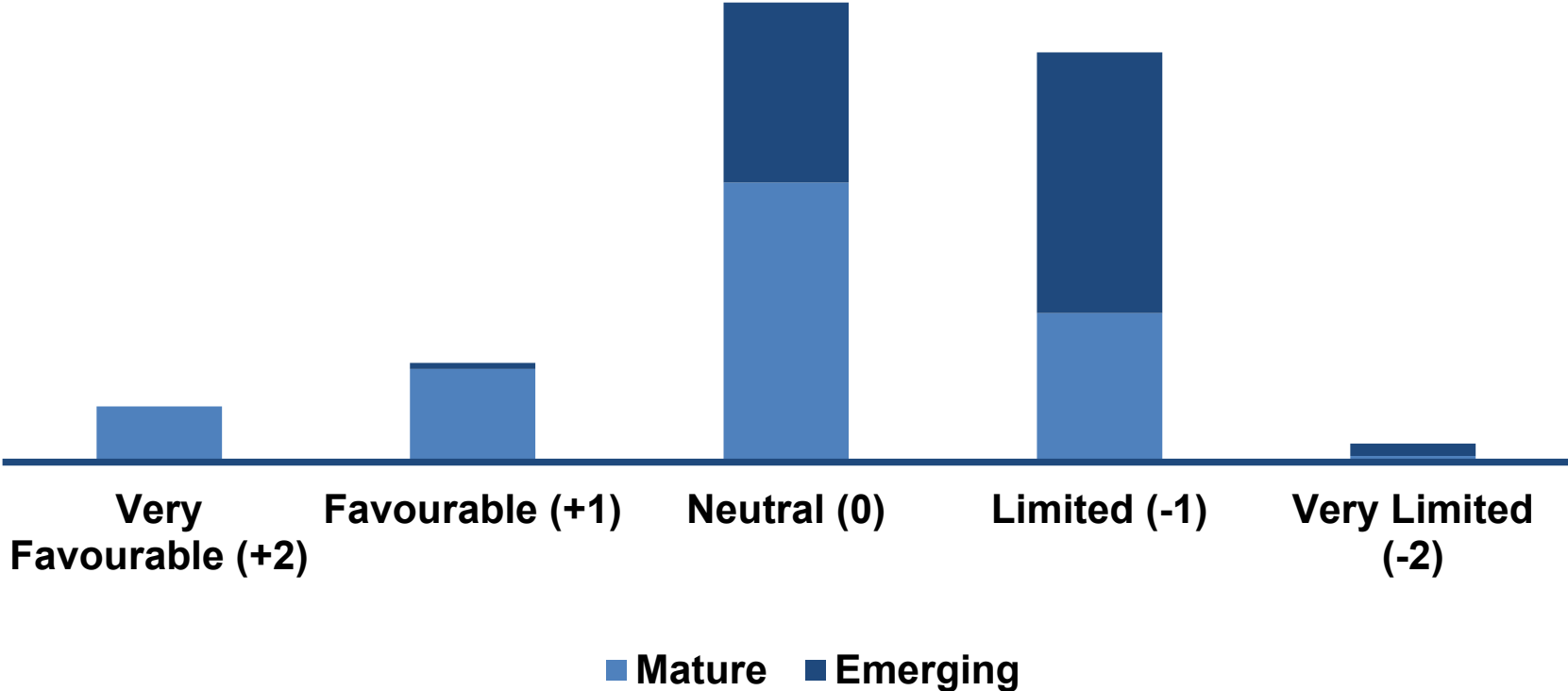
Emerging Markets – Five Year Average Real Return on Equity



* For mature markets, data on "Marginal" is skewed due to a small sample size

** Return On Equity adjusted for five-year average inflation

Business Profile: Distribution of Assessments (2019)



Business Profile: General Characteristics

Very Favourable

Superior global franchise
Excellent product & geographical diversification
Excellent access to business through multiple distribution channels
Market leaders across key segments
Pricing sophistication
Core markets/products performing well
Significant innovation

Munich Re, Hannover Re, Allianz, Generali

Favourable

Leading position in a single market or niche segment
Good product & geographical diversification
Strong access to markets through key distribution channels
Extensive inhouse expertise
Good data and pricing sophistication
Core lines performing well

Covea, Atradius, Lloyd's, QBE

Neutral

Strong market profile in a small market
Limited size on global scale
Narrow profile on net basis
Some dependence on third parties
High degree of competition
Moderate economic/political/regulatory risk

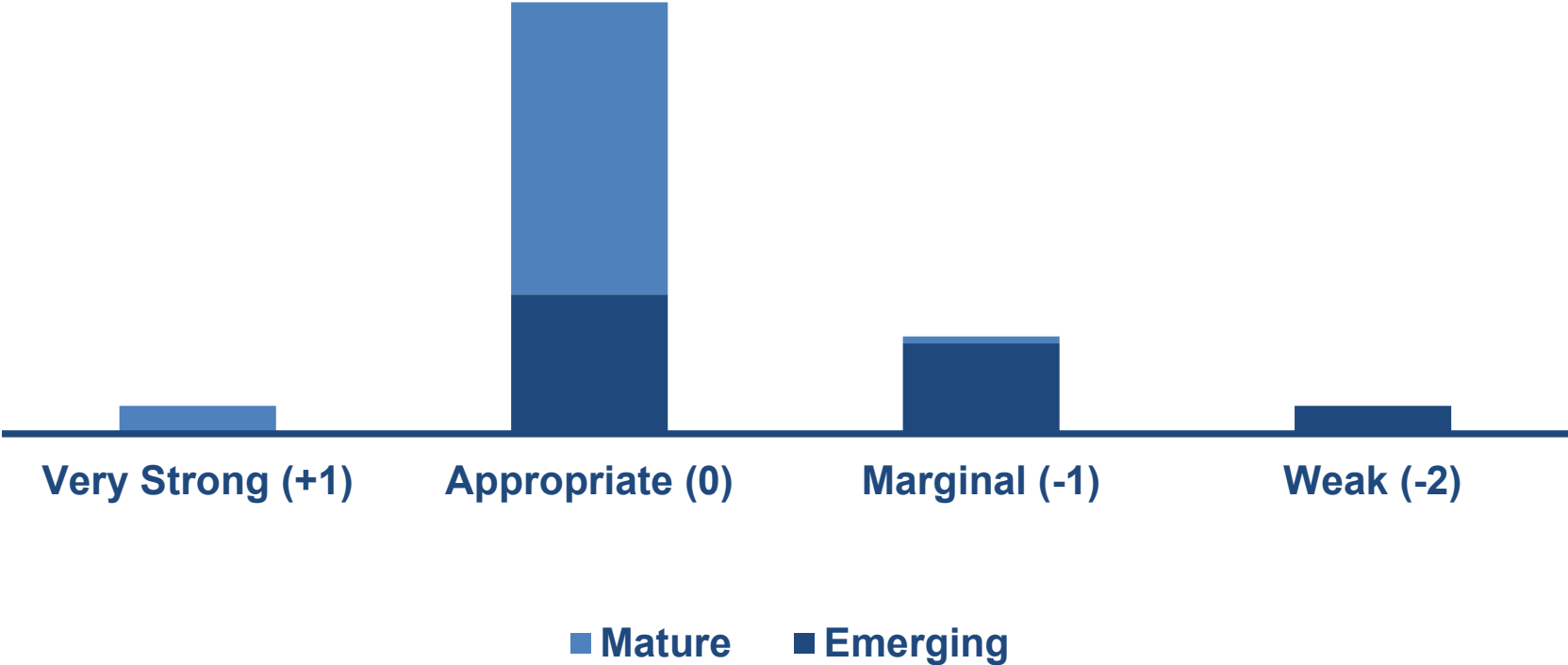
ENI, GIG, Unipol Group, Oman Ins

Limited

SME and monoline insurers
Limited product & geographical diversification
Very limited profile on global scale
Narrow profile on net basis
High dependence on third parties
High degree of competition
High economic/political/regulatory risk
Limited innovation

Fortegra, Noor Takaful, EA Re

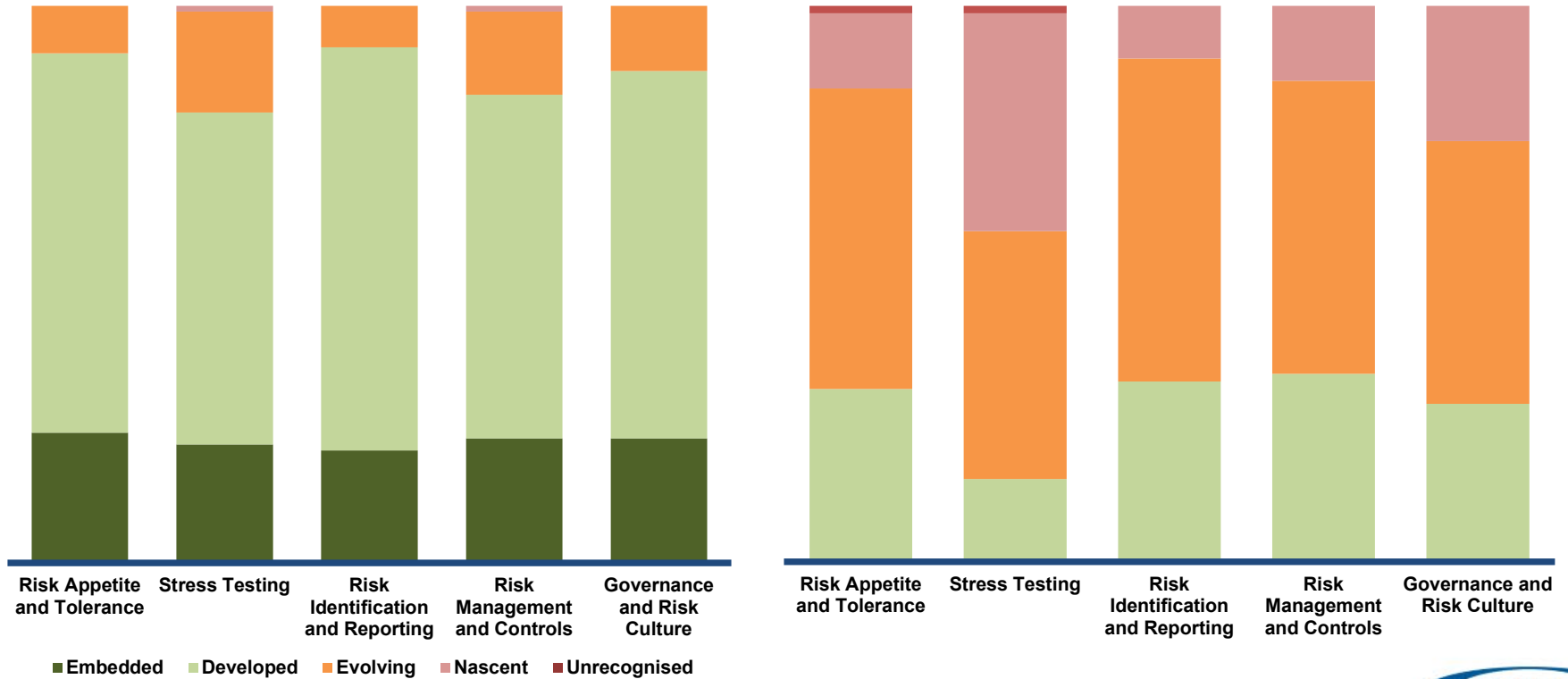
Enterprise Risk Management: Distribution of Assessments (2019)



ERM: Risk Framework Evaluation (2019)

Mature Markets

Emerging Markets

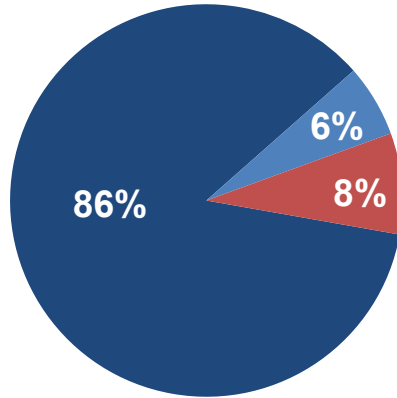


ERM: General Characteristics

Very Strong	Appropriate	Marginal	Weak
<ul style="list-style-type: none">Formalised risk appetite/tolerancesDefined risk reporting roles/responsibilitiesRegular stress/scenario testingSuperior risk control/ monitoring proceduresHorizon scanningSophisticated inhouse modelling & toolsFully embedded risk frameworkStrong governance & risk culture	<ul style="list-style-type: none">Defined risk appetite/tolerancesPeriodic stress/scenario testingRobust risk control/monitoring proceduresAdvanced inhouse modelling & toolsRisk framework partially utilised for strategic decision makingDeveloping governance & risk culture	<ul style="list-style-type: none">Basic risk appetite/tolerancesEvolving risk control/monitoring proceduresNo evidence of stress/scenario testingSome third-party relianceLittle alignment between risk framework & business strategyEmerging governance & risk cultureModerate economic/ political/regulatory risk	<ul style="list-style-type: none">Indistinct risk appetite/tolerancesHistory of ERM failures/regulatory breachesExtensive third-party relianceNo alignment between risk framework & business strategyUnderdeveloped governance & risk cultureHigh economic/ political/regulatory risk
Munich Re, Hannover Re, SCOR, Allianz	Covea, Atradius, Lloyd's, QBE	Arab Orient, Noor Takaful, EA Re	Kenya Re, Ghana Re, Nomad Ins

Final Remarks

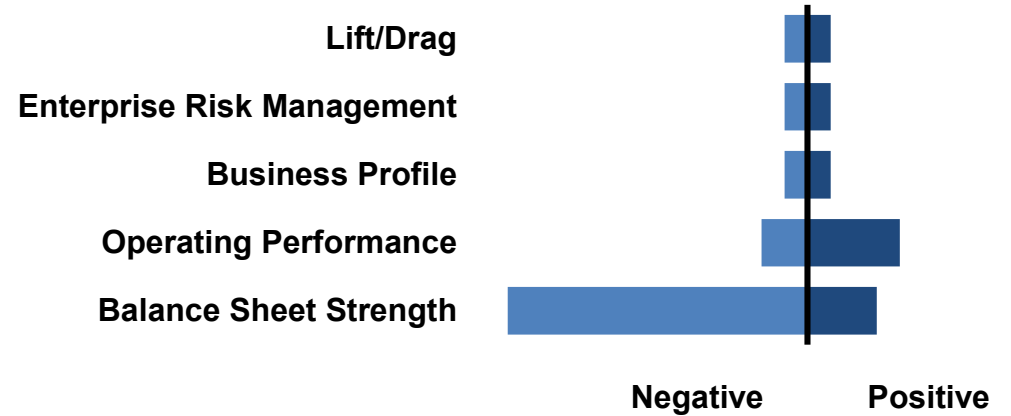
Rating Outlook by Rating Unit



■ Stable ■ Positive ■ Negative

- Balance sheet – ability to absorb shocks
- Sustainability of financial metrics
- Performance relative to peers
- Effectiveness of ERM

Rating Outlook by Building Block



- Changes to market conditions
- Geopolitical landscape
- Organisational restructuring
- Country Risk

Q&A

Innovation Update

Dr. Angela Yeo

Senior Director – Analytics & Head of Operations



Nächste Schritte

- AM Best hat den Kriterien Prozess zu 'Scoring and Assessing Innovation' abgeschlossen
- Innovation Kriterien treten Anfang März in Effekt
- AM Best wird dazu noch eine öffentliche Ankündigung machen
- Innovation wird Teil des interaktiven Rating Prozess' sein
- Innovation wird unter dem Baustein 'Business Profile' analysiert
- Die Ergebnisse werden mit den Unternehmen besprochen und erläutert, nicht aber öffentlich kommuniziert.

Q&A

2020 Insurance Market Briefing – Europe & Methodology Review Seminar



**Wednesday 11 November 2020:
2020 Insurance Market Briefing –
Europe**

08:30 – 13:00 GMT, followed by lunch
Methodology Review Seminar
14:00 – 16:00 GMT

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

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