etc.venues St.Paul's, London and online **AM Best's** Europe Insurance Market Briefing & Methodology Review Seminar - London Nick Charteris-Black Managing Director, Market Development – EMEA 20 October, 2021

Agenda – Insurance Market Briefing (BST)

09:00 Welcome and Introductory Comments Nick Charteris-Black, Managing Director, Market Development – EMEA

09:10 EMEA Market Overview – Update on Credit Rating Activity and Outlooks Greg Carter, Managing Director, Analytics – EMEA & AP

09:25 Keynote Presentation *Malcolm Newman, Managing Director, SCOR SE, EMEA Hub*

- 10:05 Thematic Session:
 The Evolving Risk Landscape for Re/Insurers
 Catherine Thomas, Senior Director, Analytics
 Dr. Angela Yeo, Senior Director, Analytics
- 10:25 Evolving Risks and Opportunities in the Cyber Insurance Market

 Alex Rafferty, Associate Director, Analytics

10:45

- 11:10 Thematic Session: Reinsurance Market Highlights
 Dr Mathilde Jakobsen, Director, Analytics
 Ghislain Le Cam, Director, Analytics
- 11:40 Guest Presentation: Responsible Investing in the Insurance Industry Drivers to Watch Out For Chandra Chadalawada, Head of ALM and Liquidity Management for Legal & General Retirement Institutional (LGRI)
- 12:15 Panel Discussion: Climate Risk's Growing
 Complexity What Role for the Insurance Industry?
 Richard Banks, Director, Industry Research EMEA, AM Best
 Jessica Turner, PHD, ACII, Managing Director,
 Catastrophe Advisory, Guy Carpenter
 Shane Latchman, Vice President & Managing Director,
 AIR Worldwide
 Jessica Botelho-Young, Associate Director, Analytics, AM Best
- 12:50 Closing Comments

 Nick Charteris-Black, Managing Director, Market Development

 EMEA
- 13:00 Networking Lunch



Agenda – Methodology Review Seminar (BST)

14:25 Welcome and Introductory Comments

Mahesh Mistry, Senior Director, Credit Rating Criteria, Research & Analytics

14:30 IFRS 17 – Nearing the Horizon

Anthony Silverman, Director, Credit Rating Criteria, Research & Analytics
Pierre Tournier, Associate Director, Analytics

14:55 ESG in Best's Credit Rating Methodology (BCRM)

Mahesh Mistry, Senior Director, Credit Rating Criteria, Research & Analytics Michael Dunckley, Associate Director, Analytics

15:15 Scoring and Assessing Innovation

Victoria Ohorodnyk, Associate Director, Analytics

15:30 Performance Assessments for Delegated Underwriting Authority Enterprises: An Overview and the Assessment Process

Mahesh Mistry, Senior Director, Credit Rating Criteria, Research & Analytics Myles Gould, Director, Analytics

15:50 Q&A Interactive Panel Discussion

AM Best Credit Rating Analysts

16:30 Close





Any Questions?

Please use this link or the QR code to submit questions to our speakers



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Don't forget to include your NAME and COMPANY



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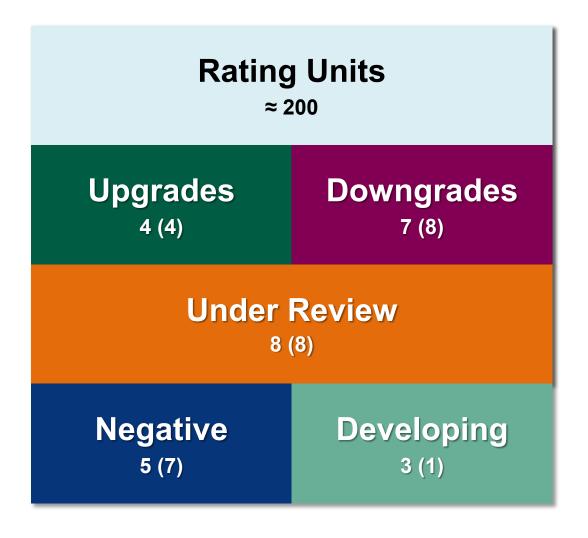
EMEA Market Overview: Update on Credit Rating Activity and Outlooks

Greg Carter – Managing Director, Analytics EMEA & Asia Pacific

AM Best's Europe Insurance Market Briefing & Methodology Review Seminar – London 20 October 2021



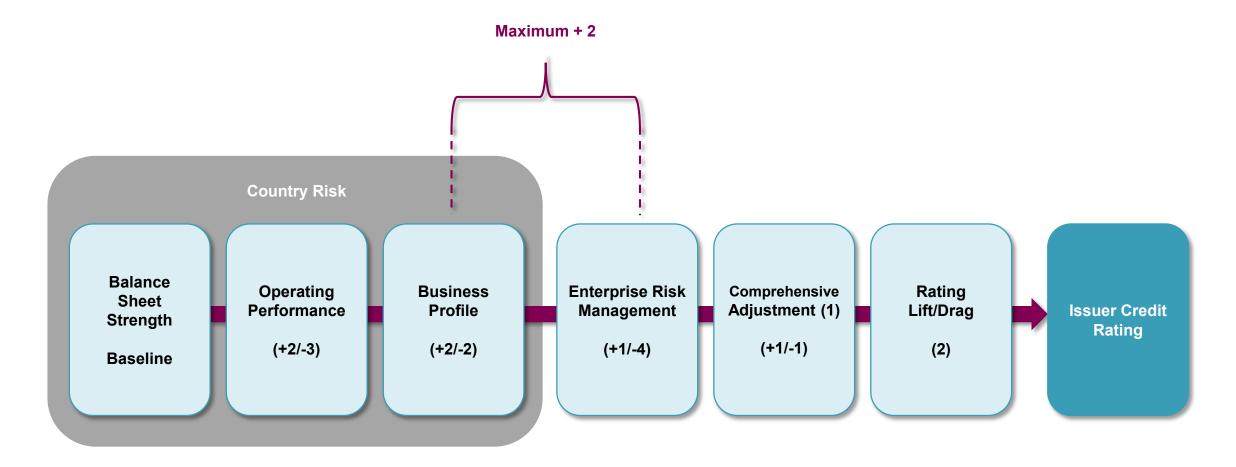
Rating Actions



Note: 2020 numbers in brackets



Best's Credit Rating Methodology (BCRM) – Building Blocks



Notes

- 1: A comprehensive adjustment can be applied of + 1 or 1 for creditworthiness not captured elsewhere
- 2: Applies to assessment of non-lead rating units in relation to the broader organisation leading to lift/drag +4 to -4



Credit Drivers – Causes of Rating Actions

Changes in Balance Sheet Strength
1 Upgrades, 4 Downgrades

Operating Performance 2 Downgrades

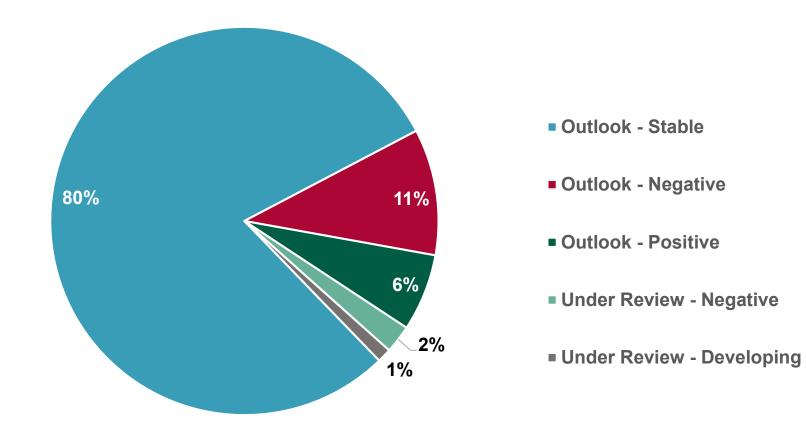
Business Profile
1 Upgrade, 1 Downgrade

Enterprise Risk Management
1 Upgrade

Changes to Lift/Drag
1 Upgrade

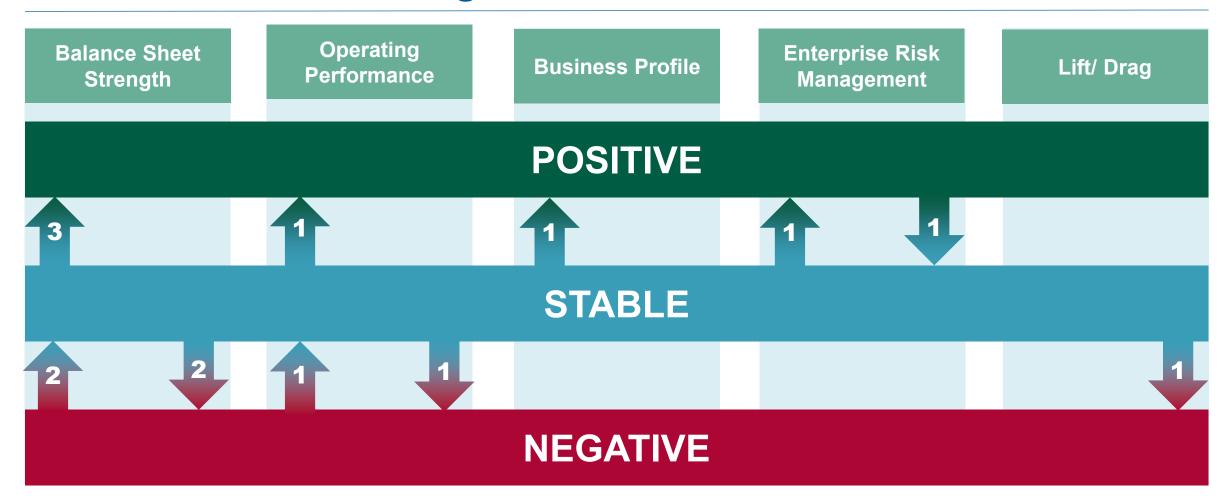


Outlooks





Drivers of Outlook Changes





Conclusions

- No direct rating actions from Covid-19
 - Industry exposure equal to a medium/large catastrophe event
 - Reflects a strong market?
- Not the pandemic the market modelled / prepared for?
- Reputational impact of unpaid Business Interruption claims?



Greg Carter Managing Director, Analytics – EMEA & Asia Pacific





Keynote Presentation

Malcolm Newman, Managing Director, SCOR SE, EMEA Hub

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Some of our most engrained habits have changed... and the crisis is still going on, inviting to humility and prudence!

Daily check

✓ Wallet

Keys

Phone

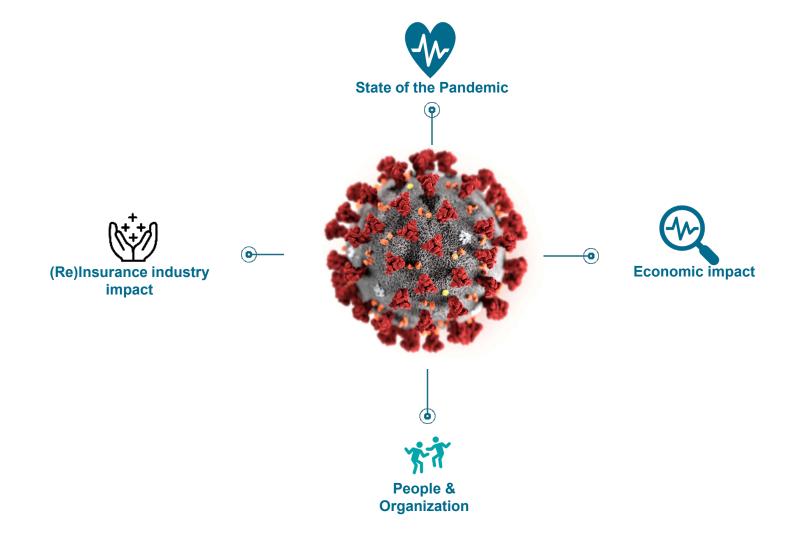
and...







How has the virus shaped the world?

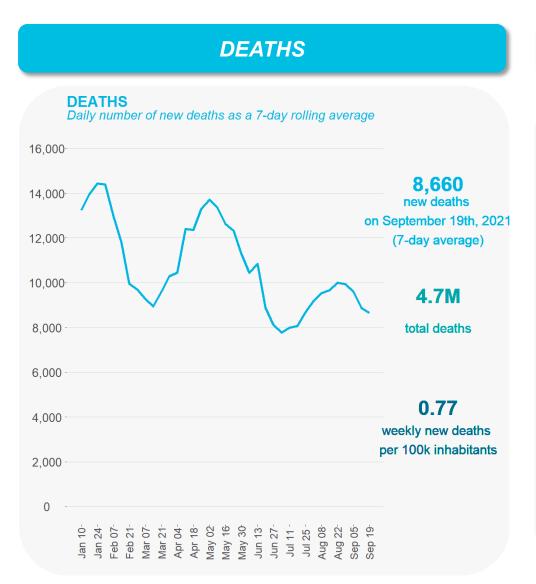




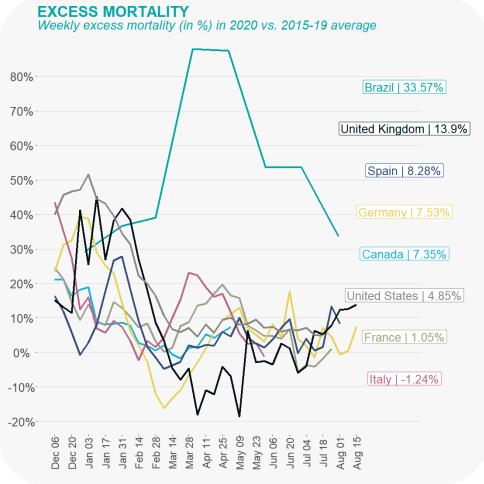
The total number of COVID-19 cases recorded since the beginning of the pandemic now stands at around 155m people, with a total number of deaths now close to

State of the Pandemic

3.3m



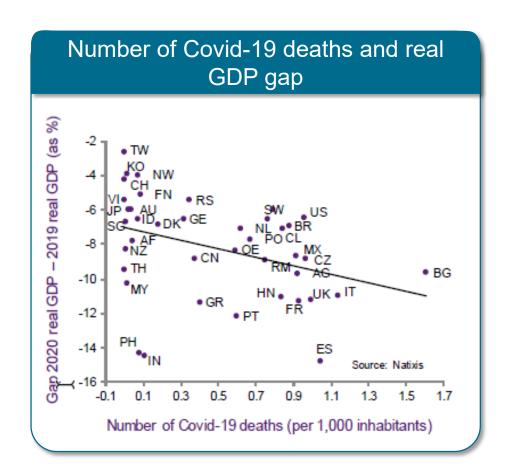
EXCESS MORTALITY

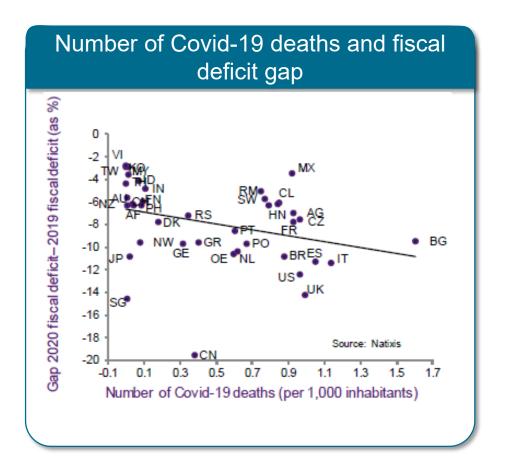




Understanding there is no conflict between health and the economy







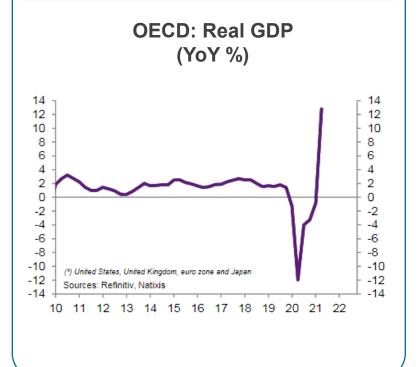
- > The above shows that health and the economy are complementary: the countries with the fewest deaths from COVID are also the ones that have lost the least growth and have been the least reliant on fiscal deficits.
- > Contrary to what is often claimed, a higher number of COVID cases does not need to be accepted in order to save the economy



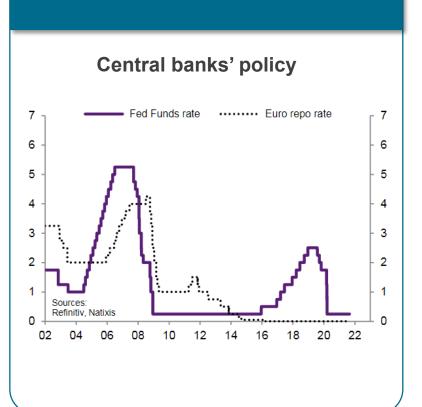
Economic challenges are forming: the macroeconomics of the Covid crisis



Economic Growth: fall in production, governments' intervention

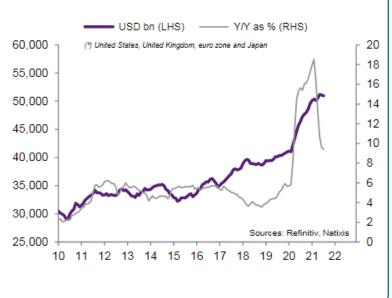


Interest rates: to the floor



Monetary base: booming

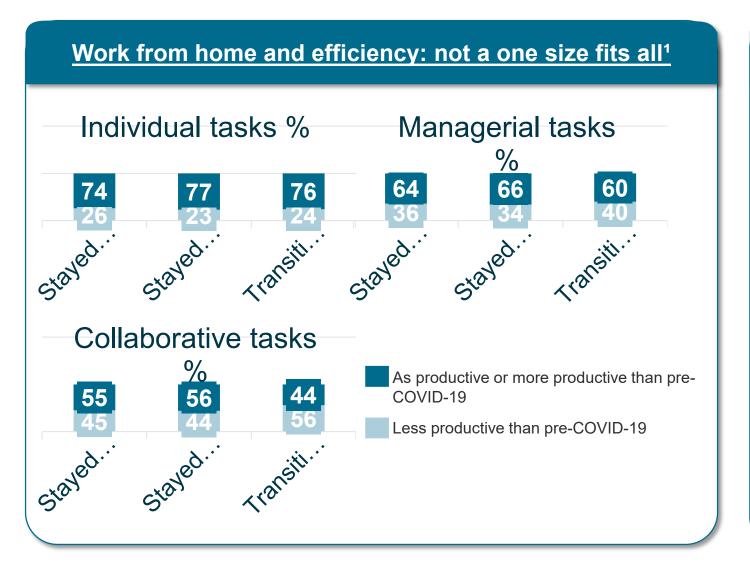
Effects of a perpetually expansionary monetary policy





Working from home uncovered many opportunities, and increased risks





Cyber attacks on the rise²



Ransomware attacks:

x 7



Covid themed emails:

40% are spam

Source: SCOR

- 1. Source: BCG, « What 12,000 Employees Have to Say About the Future of Remote Work"
- 2. Source: Bitdefender Report Mid-Year Threat Landscape Report 2020

While pandemics have always had a prominent place in the galaxy of emerging risks that (re)insurers face, Mental health appeared last year





Trends



GLOBAL CLIMATE CHANGE



DETERIORATION OF THE ENVIRONMENT



EVOLVING HEALTH TRENDS



CHANGING DEMOGRAPHICS



SHIFTING SOCIAL &
GEOPOLITICAL LANDSCAPES



EMERGING TECHNOLOGIES



HYPER CONNECTIVITY



NEW BUSINESS & FINANCE MODELS

Legend



Linkage to trend

New in 2021

Potential impact for SCOR:



Highly critical

Critical

Low critical

Likelihood of occurrence in the next 10 years:

High

Medium

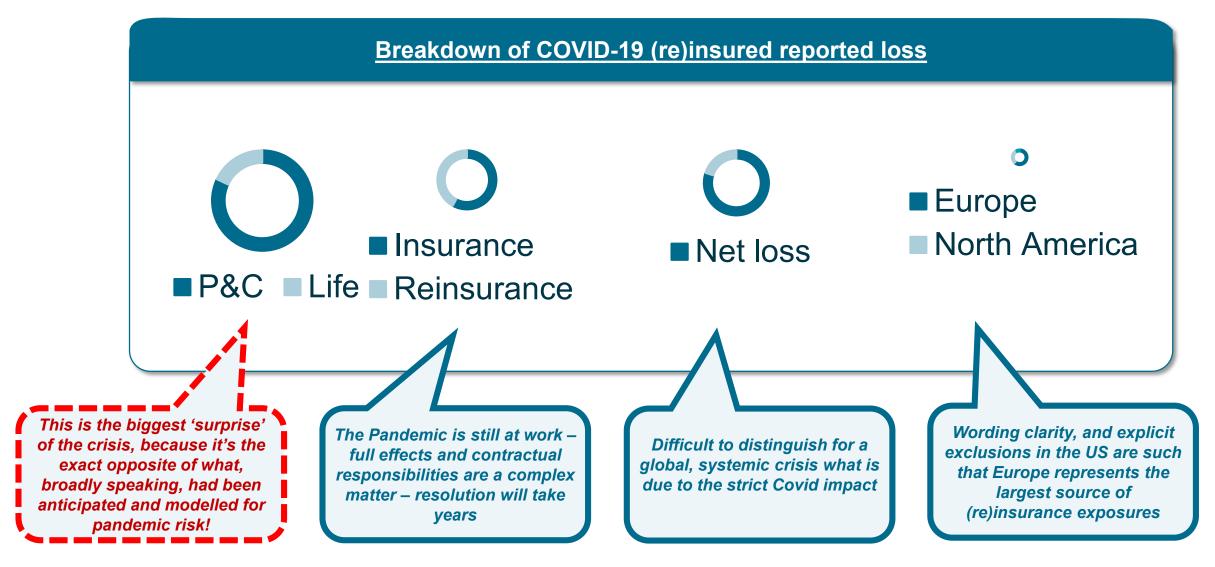
Low

Impact and likelihood based on the worstcase scenario assessed



The Covid-19 pandemic looks set to be much more of a P&C shock than a Life shock in terms of estimated claims

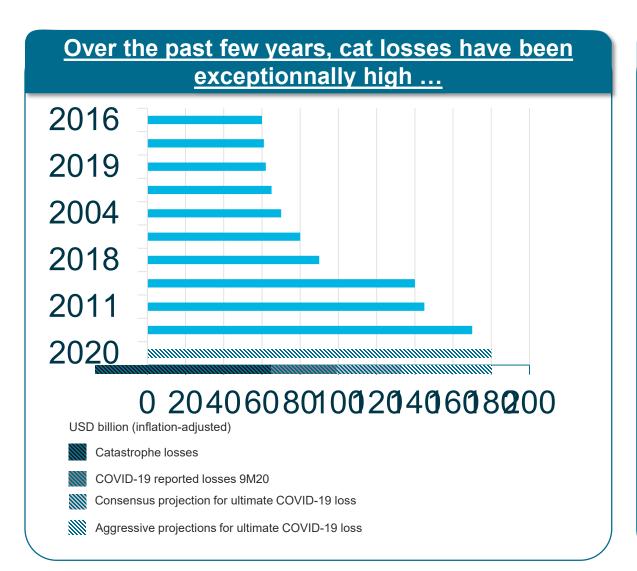


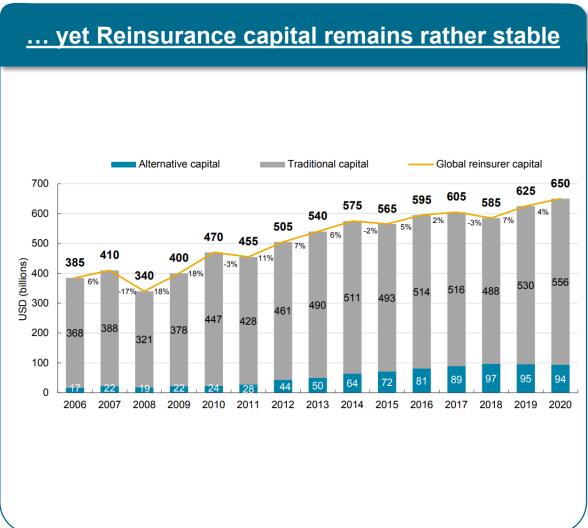




The Reinsurance industry is playing its shock-absorbing role...





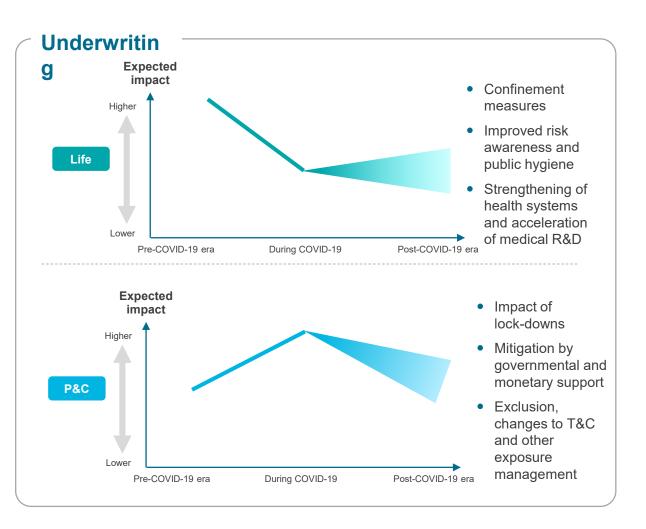


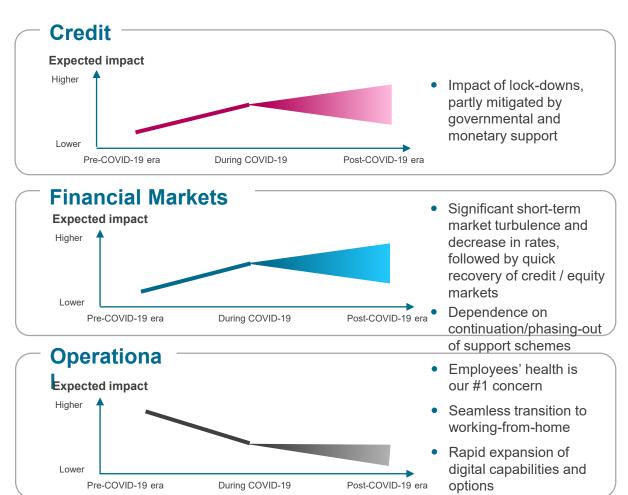


... while uncertainties remain extremely high on all types of risks...



27



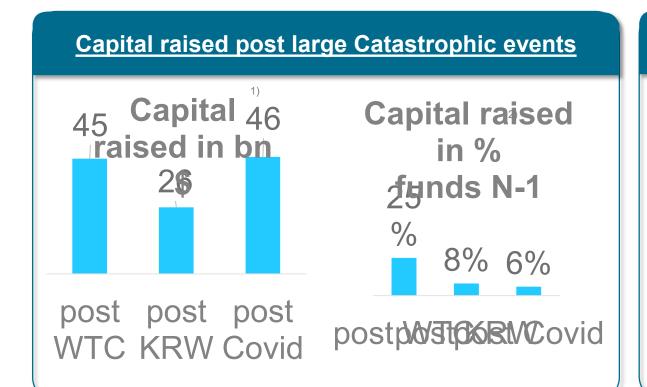


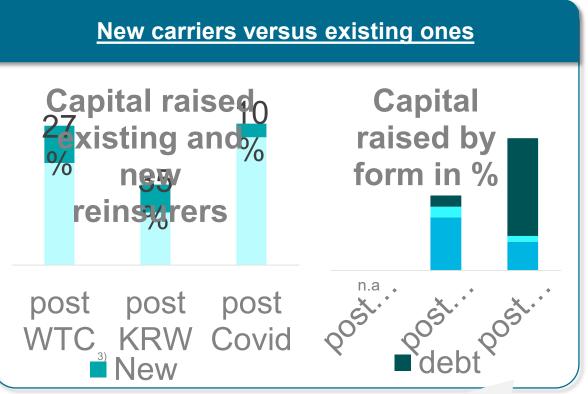


Source: SCOR

... triggering another influx of capital to the (Re)insurance industry







Post Covid, majority of capital was raised by existing reinsurers in the form of debt issuance

Source: SCOR analysis, as of Q2 2021

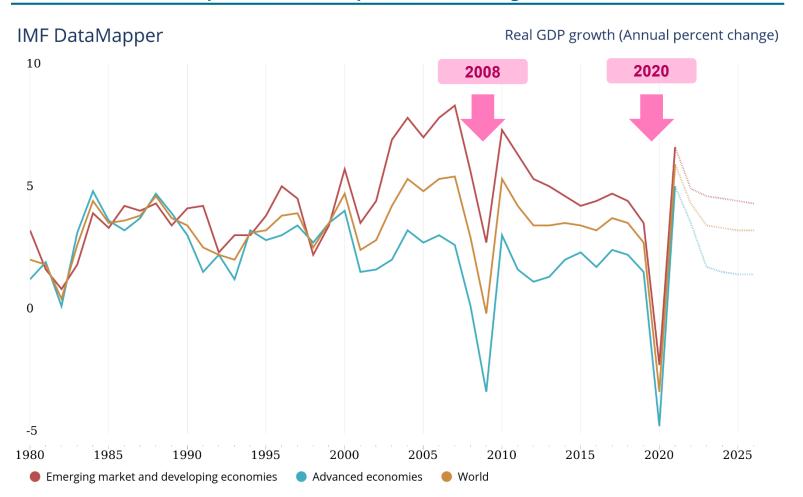
- Capital raised based on SCOR internal research
 Post WTC until June 2004, in % funds as of YE 2000
 Post KRW until November 2006 in % of funds as of YE 2004
 Post Covid until March 2021 (before deduction of debt repayments) in % funds as of YE 2019
- 2) New capital raised in % of funds for Top 35 reinsurers as per AMB Top 35 reinsurers ranking in annual reinsurance reports
- 3) New post Covid includes Convex, which raised capital post Covid in 2020 but had already been established in 2019; excluding them share of capital raised by new reinsurers drops to 7%



But sectorial wording issues are putting the (Re)insurers at risk of taking the position of the villains, similarly to banks in 2008



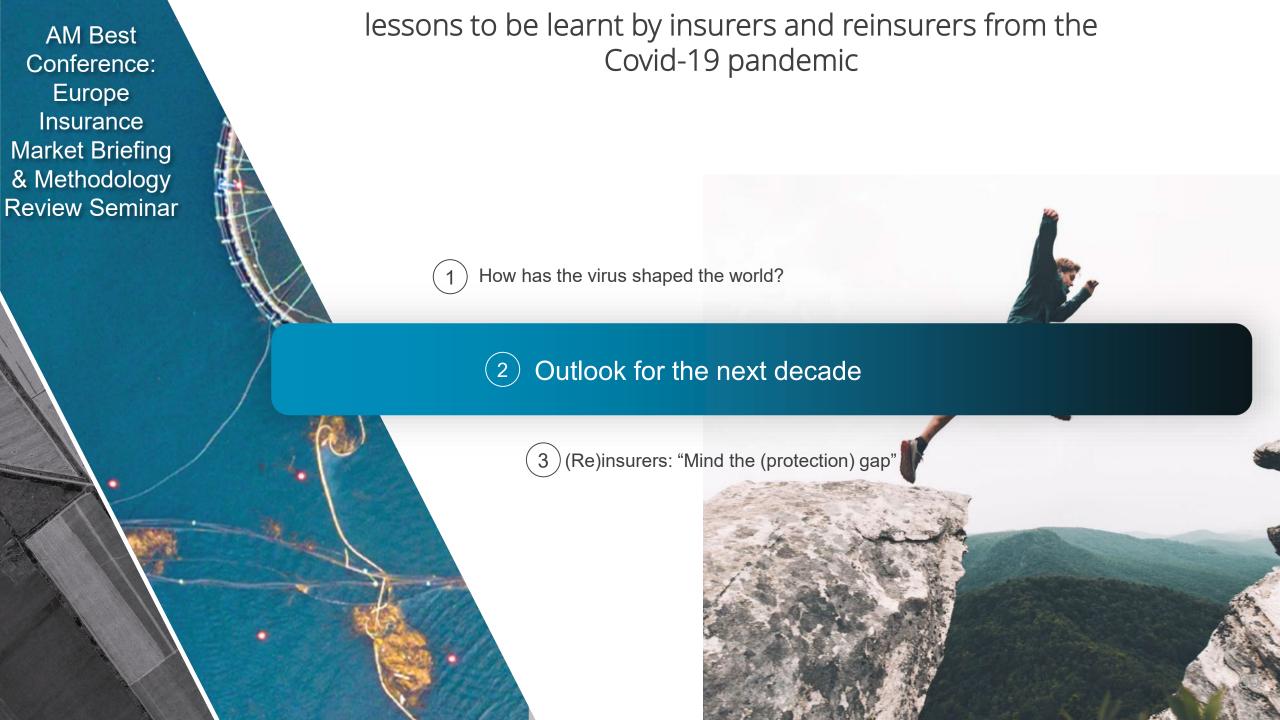
Impact of Covid-19 pandemic on the global GDP



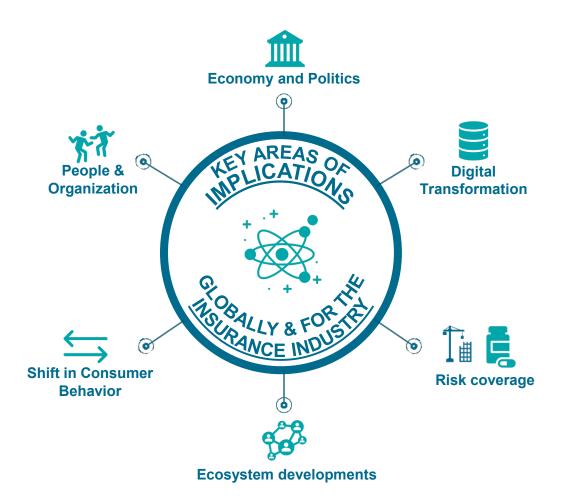




FCA wins Business Interruption insurance case over COVID: what now?



We look at six key areas of implication through COVID-19 Globally and for the (Re)insurance industry





New world disorder: social, political and geopolitical



- 2008 financial crisis: domino effect from a Financial crisis, to an economic one, leading to social and political backlash, globally
- □ 2020-2021: the political response ("whatever it takes" approach: global confinement, massive injection of liquidities in the economy) was un-predictable... and impossible to model for a(n) (re)insurer









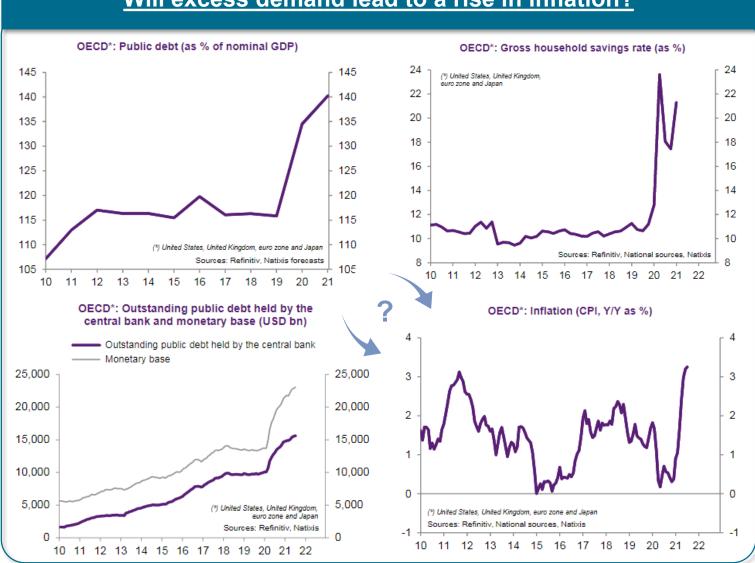


Source: The Economist

What will come out of the post-covid macroeconomic equilibrium?



Will excess demand lead to a rise in inflation?



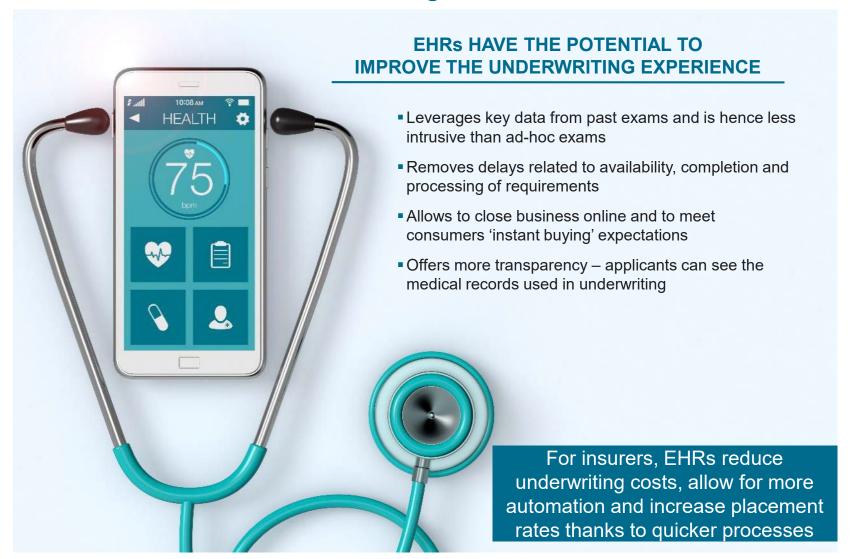
The fall in production due to the COVID crisis has given rise to a particular macroeconomic equilibrium:

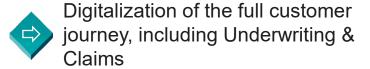
- The fall in production due to supply-side constraints should have driven down the incomes of house holds and companies, but this was prevented by very large fiscal deficits. These incomes were not consumed but saved (due to the public health constraints?) → accumulation of excess savings.
- 2. The public debt issued to stabilize private sector income was bought by central banks in exchange for money creation → no public debt problem, but a problem of excess money creation and therefore financial instability (excessive rise in asset price?)
- 3. The economic outlook hinges on how the forced savings will be used.
- → If they are spent, there will be excess demand for goods and services and therefore inflation
- → If they are invested in existing financial or real estate assets, there will be inflation in asset prices

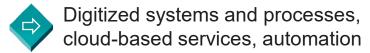


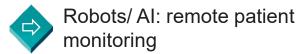
EHRs (Electronic Health Records) provide an attractive alternative to traditional medical underwriting methods











UNDERWRITING REIMAGINED"

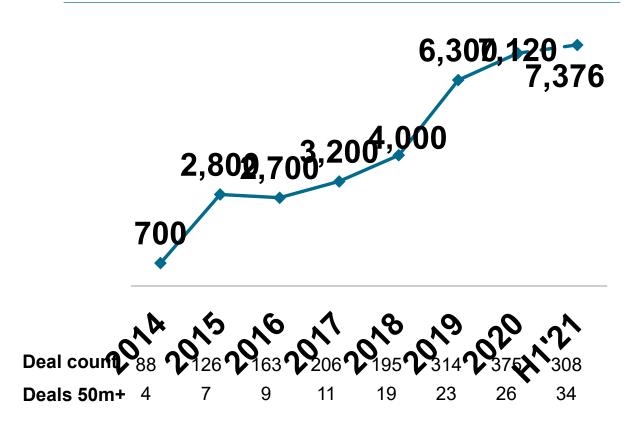


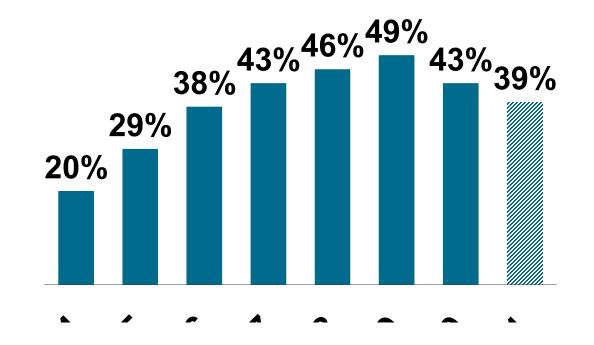
Venture capital has flowed into InsurTech since 2015; (re)insurers are leading players



InsurTech funding (\$ millions)









Moving forward, coverage and prevention of pandemics will become a key topic for the industry





We are living longer



We are healthier

Cost of healthcare becomes challenging

But this contributes to new and complex ageing challenges

- More and more active workers need to support elderly relatives
- Growing need for Long Term Care



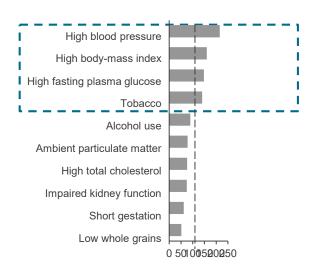
Today, 1/3 of Europeans above 50 have to take care of an elder relative1)



Approx. 4 in every 10 people will have a need for long term care in their lifetime1)

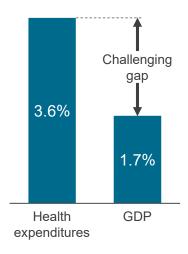
But environmental and lifestyle risks are increasingly contributing to mortality

- Top 4 risk factors account for more than 100 million years of life lost²⁾
- Years of Life Lost (in millions)



Health expenditures are increasing at a faster pace than GDP

- Health expenditures increased yearly by 3.6% in real terms over the 2000-2016 period³⁾
- Yearly increase in OECD countries over 2000-2016 period



- 1) Source: Global Health Metrics study, October 2018
- 2) The years of life lost correspond to the remaining life expectancy lost due to a premature death. Source: K.J.Foreman, N.Marquez, A.Dolgert et al. "Forecasting life expectancy, vears of life lost, and all-cause and
 - cause-specific mortality for 250 causes of death: reference and alternative scenarios for 2016", Lancet, October 2018
- 3) Source: The World Health Organization Global Health Expenditure database and World Bank National Accounts data files



Learnings from past pandemics suggest long-term positive impacts on mortality driven by advances in the healthcare and pharmaceutical industries



High uncertainty in the short to medium term driven by several questions:

- New variants development: more contagious? / more or less lethal?
- Vaccine efficacy against new variants?
- Vaccination take up?
- Loss of immunity over time?
- Decrease of natural or vaccine immunity due to new variants?
- Speed of development of new medical treatments?

Mortality spike:

financial impact

Sequelae

Lessons learned from previous pandemics and epidemics

- Sense of urgency to improve public health & hygiene
- Reduction of mortality observed in the following 2-3 years
- Flu vaccination recommendation and awareness
- Fostered development of antibiotics and anti-virals

Stronger pandemic knowledge, learnings from Covid-19 (virus apparition and propagation, etc.)

Improved governmental preparedness on pandemic response



mRNA technology has been proven and can lead to fast new vaccine development



Enhanced digitalisation of healthcare systems



Factors with a positive effect on mortality (mortality displacements, milder flu season)

Covid-19 is likely to become a recurring epidemic



People are more health conscious

(mask wearing, regular hand

washing, exercising more, etc.)



SCOR

Improved

Pre-Covid-

19

mortality

Schematic representation – order of elements is illustrative as many are intertwined

Postponement of diagnosis & treatment

Psychological & Behavioural effects

Economic impacts

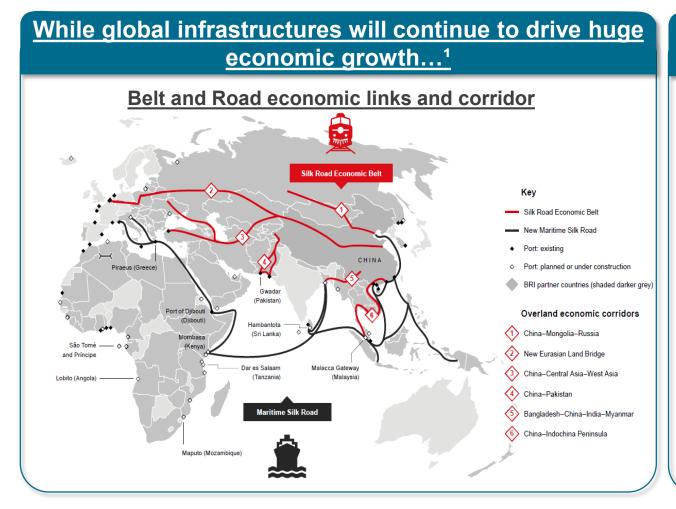


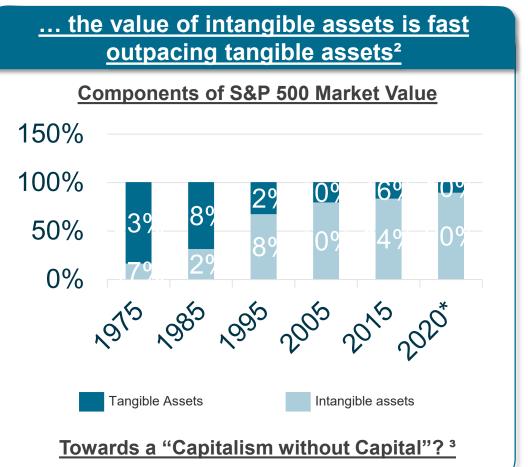
Projections

Time

Insurable assets will continue to grow fast From tangible assets towards intangibles







- 1. Source: HSBC, World Bank
- 2. Source: Ocean Tomo
- 3. "Capitalism without Capital: The Rise of the Intangible Economy", Jonathan Haskel, Stian Westlake

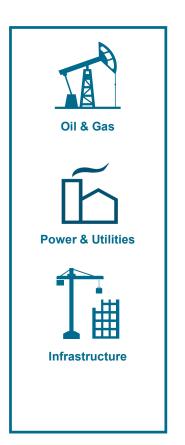


Environmental, Societal & Governance, and Climate Change will take an increasing role in steering economic activity globally



Today

Examples of key industrial occupancies



key

of

evolution

the

Anticipating

occupancies

industrial

Transformation due to major macro trends



- This is integral part of Specialty Insurance's DNA, developed from a large industrial risks background
- SGP&C is reinforcing its technical expertise thanks to industrial risk & client proximity
- Climate change & Energy transition as well as other major macro trends will impact these key occupancies' future
 - Insurance needs from key occupancies' clients will evolve
 - SCOR invests today to be able to understand and adapt to various industrial scenarios and remain relevant to its clients
- > SCOR is actively investing to remain an industry expert in the future through:
 - Preparing for the mid-to-long-term major macro trends' impacts on key occupancies
 - Predicting the impact on insurable matter, insurance covers, needed underwriters' skills and organizational setup

Mid / Long-term future





The frontiers of insurability and underlying risk pools are evolving and reshaping increasingly fast



- Drivers, such as the changes in the macro-economic environment, technology, and data contribute to the growth of the sphere of insurable risks (incl. public goods, cyber, terrorism)....
- ... But we are also facing opposite trends: climate change or growing networks and inter-dependencies are challenging long-term insurability of the world
- Addressing systemic risks will require
 - the combined efforts of governments and the private (re)insurance industry in the form of strong and innovative public-private partnerships
 - (re)insurers engagement with capital market, to bring the necessary capacity to bridge the protection gap
- (Re)insurers are at risk of becoming irrelevant to societies if they are not at the forefront of Risk assessment, Risk management and Risk transfer agendas
- Climate and Cyber risks as the next global (systemic) catastrophes?

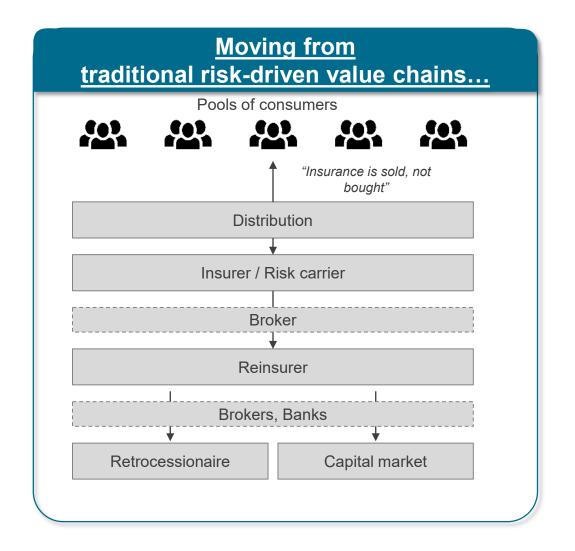


The risk universe





We expect the disintegration of the traditional insurance value chain to accelerate towards "platformisation" of the ecosystem







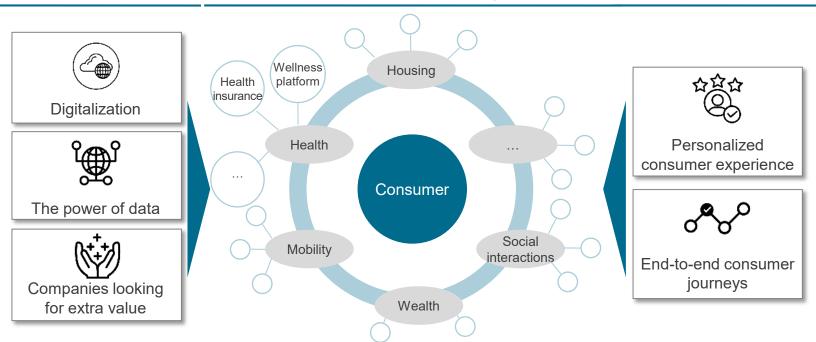
We call to build consumer-driven ecosystems, going beyond just answering traditional insurance needs



Supply – macro-trends reshaping industries

Consumer-driven ecosystems

Demand – changing consumer expectations





The Case for Default Insurance¹

- "First, new insurtechs need to continue to build convenient, category-specific offerings that can easily be embedded into a merchant's existing checkout flow or user experience. (...) The bigger opportunity lies in incorporating platform data to not only better underwrite risk, but also inform marketing, quoting, sales, and renewals over the full life cycle of a customer."
- "How might this insurance embedding work? New insurance infrastructure companies will provide some of these layers "as a service." (...) As a business model, embedded financial services is becoming increasingly mainstream. Embedded insurance is next"





Post Covid-19, consumer demands are driving a transformation of the Life insurance industry — ReMark Global Consumer Survey¹⁾





Increased awareness of the fragility of life

- 67% of consumers state that Covid-19 has encouraged them to be more proactive about managing their health
- 74% worry about the health of those around them more
- 72% are more conscious of the importance of mental health



Desire for a simpler and faster purchasing experience

- 85% of consumers would prefer a purchasing process that is completed within 48 hours
- 63% of consumers would share EHR data to speed up the insurance purchase
- 69% used online service in their insurance purchase process for speed and convenience





Higher appreciation of the need for life insurance

- 73% of Millennials or Gen Z have purchased one or more life or health insurance products in past two years, versus 51% of Gen X
- 72% of consumers feel they need additional education about L&H insurance
- 72% of respondents with close experience with Covid-19 impact changed their attitude to risk



Aspiration for more interactions with life insurers

- 56% of consumers would share physical activity data for rewards and premium discounts
- 76% find premium discounts attractive as a reward for physical activity
- 68% of those with a changed attitude to insurance increased their existing life or health cover



Motor and Home insurance are being integrated as part of a broader, services-based offering



Motor & Home insurance: More and more customers are willing to share data

<u>Proportion of customers willing to share data</u> with an insurer for a lower premium and/or more tailored cover¹

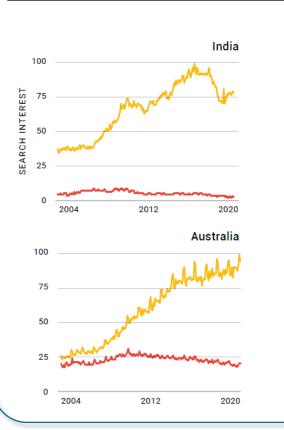
		(*)						
	DE	CA	US	UK	AUS	JP	IT	CN
Social media history	9%	14%	16%	13%	17%	J 29%	23%	32%
Spending history	30%	22%	22%	21%	24%	53%	44%	42%
Home sensor data	18%	36%	34%	30%	31%	43%	44%	38%
Car or home video	23%	31%	27%	37%	36%	42%	40%	42%
Home energy usage	52%	53%	52%	51%	54%	52%	59%	48%
Credit history	24%	55%	67%	63%	59%	55%	42%	74%
How I drive	35%	51%	56%	50%	54%	63%	68%	73%
Where I drive	28%	62%	55%	57%	65%	62%	63%	63%
Criminal history	44%	59%	63%	77%	67%	50%	69%	39%
My car usage	54%	78%	77%	74%	82%	76%	77%	86%
Insurance history	58%	85%	83%	90%	87%	68%	82%	85%
Average	34%	50%	50%	51%	52%	54%	55%	57%

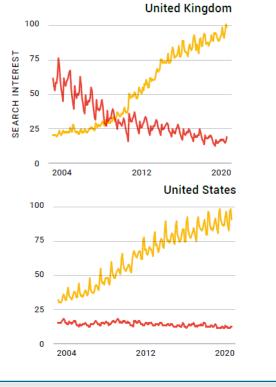
Consumers will increasingly look for value-add: services, connectivity

The trends for searches containing "cheap" and "best" have been in opposite directions²



bestSearch term



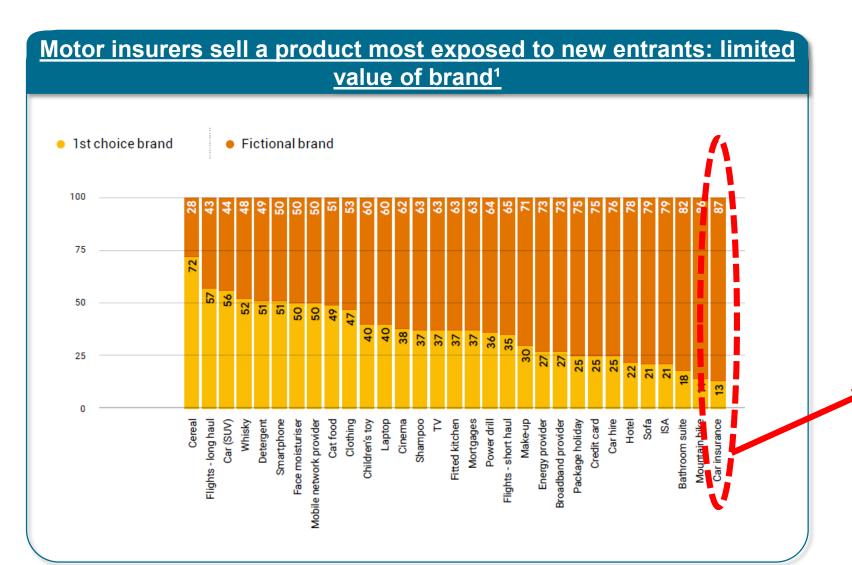




- . Source: Deloitte, "The future of home and motor insurance What do customers want?"
- Source: Google, "Decoding Decisions Making sense of the messy middle"

Will (financial) institutions continue to inspire trust? When "Presence" takes over "Brand"





- In a UK study¹, Google shows that a fictional brand is most likely to be preferred to a well known ("1st choice brand") brand when superior desirability categories (biases) are promised²
- Insurance customers are the most prone to follow desirability promises and their own personal biases to ignore the brand value of the provider
- Car insurance ranks the lowest of all products where loyalty to "1st choice brand" resists to the power of a fictional brand with supercharged promises



- 1. Source: Google, "Decoding Decisions Making sense of the messy middle"
- 2. 6 biases identified and exploited in the Google study: Category heuristics, authority bias, Social proof, Power of now, Scarcity bias, Power of free

Employees and civil society's aspirations towards corporations are evolving



The workforce shrinks dramatically and shifts strategically¹

- Digitization replaces 30% of insurance workers and 100% of manual processes, even as data science, tech and customer wellness jobs expand
- Critical questions facing the employers of tomorrow:
 - How to retain a strong transformative culture in highly automated environments with extensive remote working?
 - What are the optimal sourcing strategies for the future?
 - What role will automation and technology play in workforce transformation?
 - How can simplified products increase automation?
 - Which key attributes of insurance careers appeal to top talent?

Defining our Purpose

Purpose is about moving from what to why, moving from content to context



Extending

Protection & Peace of Mind



Making insurance

Relevant & Desirable



Improving

Health & Well-Being



Expanding

Risk Knowledge



Inspiring

Purpose-Driven Communities

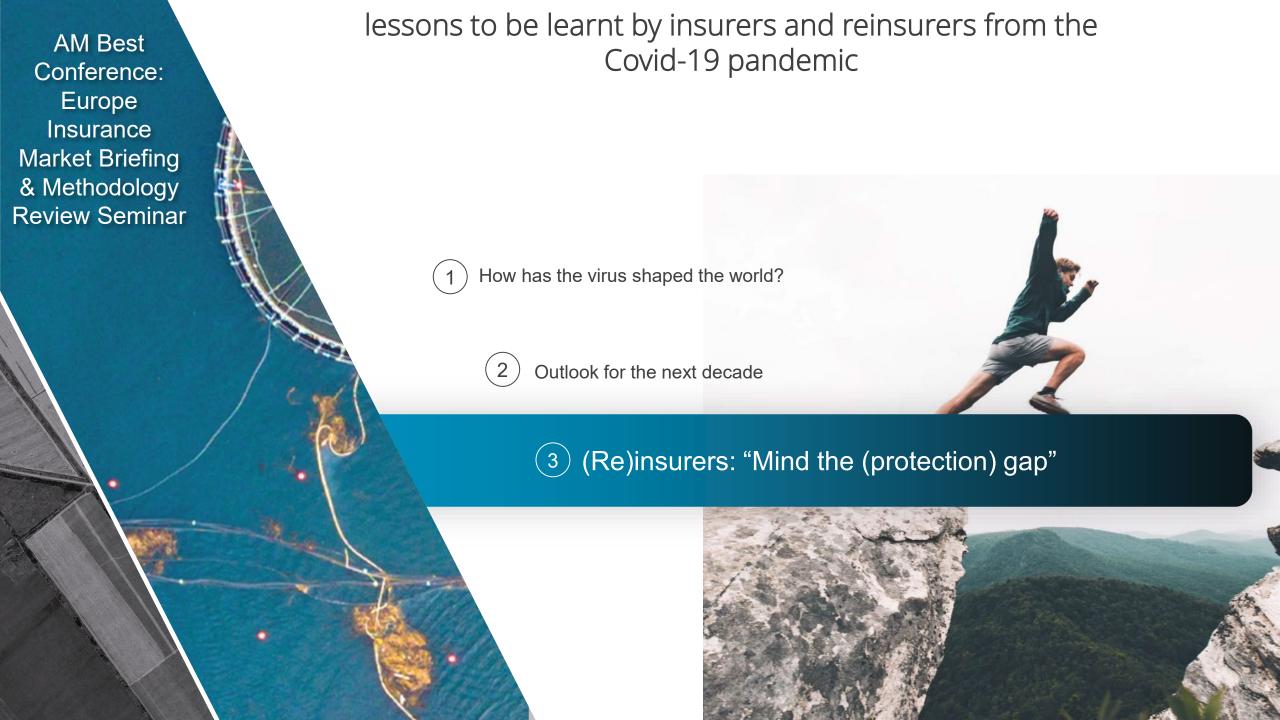


Keeping our

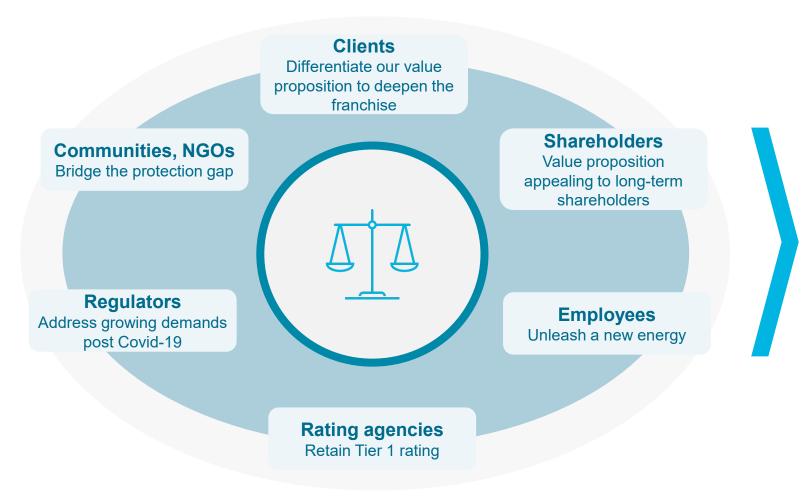
Financial Promises

Combining the art & science of risk to protect societies





(Re)insurer should ensure that they meet their stakeholders' expectations and deliver value to all of them...



- Create long-term value for Shareholders, while managing Rating agencies' and Regulators' expectations
- As we navigate a changing and uncertain environment, Clients and Employees will expect (re)insurers to deliver a differentiated value proposition
- In a post-Covid world, Regulators and Communities will challenge insurers and reinsurers to demonstrate their value to society



... while delivering on their Purpose and bring solutions in a heightened risk awareness environment



translate into...



The pandemic accelerates pre-existing underlying profitability issues in the industry

Capital will continue to be a commodity in a low interest rate environment... but cost of funding will increase at some point

Sustained hardening of the P&C insurance and reinsurance markets since 2018

Technology is a secular disrupter

Increasing focus on Sustainability: planet, human and organisational health

Underwriting returns will remain the key performance drivers

Gap between leaders and followers will widen

Simplicity and efficiency get rewarded

Strong underwriting discipline is what matters in the end

Profitable growth opportunities available to those with strong capital base and global infrastructure

Reinsurers are ideally placed, at the crossroads of capital and technology

Accompanying clients in their transition: climate risk and health protection gap



Re/insurers are actors in an expanding risk universe, where client needs, typology and maturity of risks are evolving

Exogenous factors

The risk landscape is evolving, shaped by the world's economic macro trends







Re/insurers challenges for the future

Emerging & future risks

New & evolving client needs

Products maturity cycle ongoing

Endogenous factors

How can a (re)insurer differentiate itself?

Robust partner

Ease of doing business, client-mindset

Expertise & capabilities



How to build a reinsurance business that is "future ready" Investing in our People and Culture, in Innovation and Expertise, and help our clients grow

Take a view on what will not change in the future...

- 1. The risks environment is expanding, requiring ever growing "Art & Science" approach to risks
- 2.Insureds' appetite for risk and volatility decreases as the world becomes more complex growing appetite for <u>both</u>:
 - 1. Simplicity AND expertise
 - 2.Risk-bearing capabilities AND services

3.Regulation will not shelter insurers: innovation will work around it

... and build on it today, progressively

Depth & Sophistication

(Re)insurers need to be more sophisticated in their own infrastructure / depth, investing both in Technology and Human capital (current and tomorrow's)

Client-centric organisation

Deliver a simple, commercially-appealing offering, delivered by a client-centric organization

Look for transparent long-term partnerships, leveraging data, information, clear wordings

Turned towards innovation

Work on building the insurers of the future, partnering with all stakeholders: existing clients, regulators, innovation partners



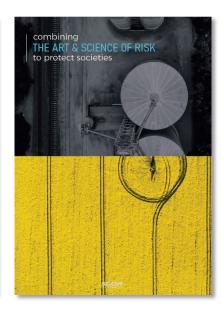
SCOR's Raison d'être











Combining the art & science of risk to protect societies





The Evolving Risk Landscape for Re/Insurers

Catherine Thomas – Senior Director, AM Best Angela Yeo – Senior Director, AM Best

AM Best's Europe Insurance Market Briefing & Methodology Review Seminar – London 20 October 2021



The Evolving Global Risk Landscape

Challenges	Opportunities
 Greater exposure to emerging and intangible risks Changing climate and demographic trends Risks increasingly interconnected Digitalisation accelerating Higher potential for significant unanticipated accumulations 	 Covid-19 highlighted the need for effective risk management and transfer Increasing awareness of existing protection shortfalls Changing protection needs Potential for product innovation Provision of risk management solutions



Changing motor market – Usage Based Insurance, Pay As You Drive, Pay How You Drive

Usage Based Insurance

Pay As You Drive – based on odometer reading, GPS reading, time travelled or other travel info transmitted

Pay How You Drive – additional information/sensors

Both use telematics – vehicle information is transmitted automatically

Pros

Pricing closer aligned to actual risk

Bespoke insurance products

Reduce claim frequency

Enhanced social and environmental benefits

Cons

Data privacy

Comparability of products



Changing motor market – Autonomous Driving Levels

- 1) Driver Assistance support the driver, no control
 - 2) Partly Automated systems can take control, driver remains responsible for operating the vehicle
 - 3) Highly Automated certain situations, driver can dis-engage for extended period of time
 - **4) Fully Automated** vehicle drives most of the time, driver must remain able to drive
 - 5) Full Automation people in vehicle are passengers only



Changing motor market – Autonomous Driving Levels

Challenges	Opportunities
 Greater need for cross-border collaboration Changing mobility needs Largely unchartered risk territory Risks increasingly interconnected Digitalisation accelerating 	 Changing protection needs Product innovation Provision of risk management solutions

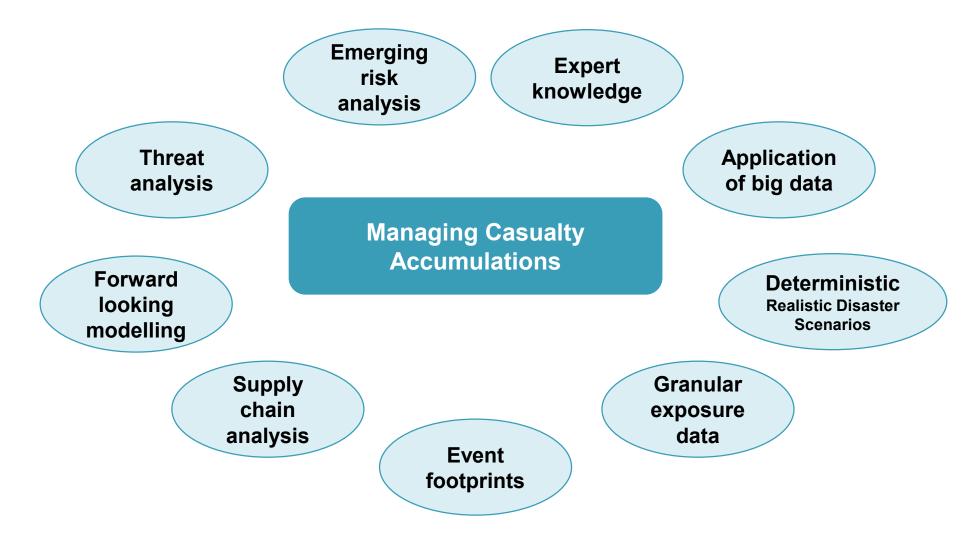


Casualty Catastrophe – Complex Exposure Management Challenge

Features	Challenges		
 Driven by human factors 	 Potential for accumulation of risk 		
Sensitive to legal and socio-economic factors	growing in an increasingly interconnected world		
 Losses can occur over multiple years and territories 	 Detection and management of accumulations more difficult as complexity grows 		
 Difficult to predict future losses from past events 	 Long-tail and diverse nature increases uncertainty in reserves 		
 Influenced by technological advances and growing global networks 	Absence of reliable probable maximum loss data		



Casualty Catastrophe – Managing Accumulation Risks





Natural Catastrophes – Changing risk landscape

Primary Perils	Secondary Perils	Risks and concerns
 Well studied & monitored 	 Increasing insured losses 	 Quality of underwriting
 Strong modelling capabilities 	 Lack of general understanding of risks 	 Primary and secondary peril losses rising
 Good risk assessment, pricing, accumulation control practices in place 	Lack of modelling tools	Complex interconnected socioeconomic and climatic factors



Business Interruption – A Growing Threat

Supply Chains	Non-Damage Perils	New Triggers
 Increasingly complex Span countries and continents Local events can have global implications Contingent business interruption particularly exposed 	 Covid-19 exposed potential for material nondamage business interruption losses Intangible assets represent a higher proportion of exposure Increased vulnerability to disruption from perils without physical damage 	 Cyber risk Economic, societal and political risks Environmental risks



Increased uncertainty and potential for unanticipated aggregations





Business Interruption – Managing Exposure

Managing Exposure	Loss Prevention
Deductibles, limits, exclusions	Systematic monitoring
More transparent wording	 Early warning systems
 Robust data and analytics 	 Contingency planning
 Modelling supply chains 	 Improving supply chain resilience
Stress testing	



Adapting to the Evolving Risk Landscape

Growing business complexity, shifting market dynamics and technological advancements are challenging insurers

Data and analytics key to understanding risk drivers, their interdependencies and potential loss aggregations

Opportunities for product innovation

Provision of risk insights and risk management tools/services needed, in addition to risk transfer

Innovation critical to the long-term success of all insurers



Q & **A**

Catherine Thomas
Senior Director, AM Best
Angela Yeo
Senior Director, AM Best





Evolving Risks and Opportunities in the Cyber Insurance Market

Alex Rafferty – Associate Director, AM Best

AM Best's Europe Insurance Market Briefing & Methodology Review Seminar – London 20 October 2021

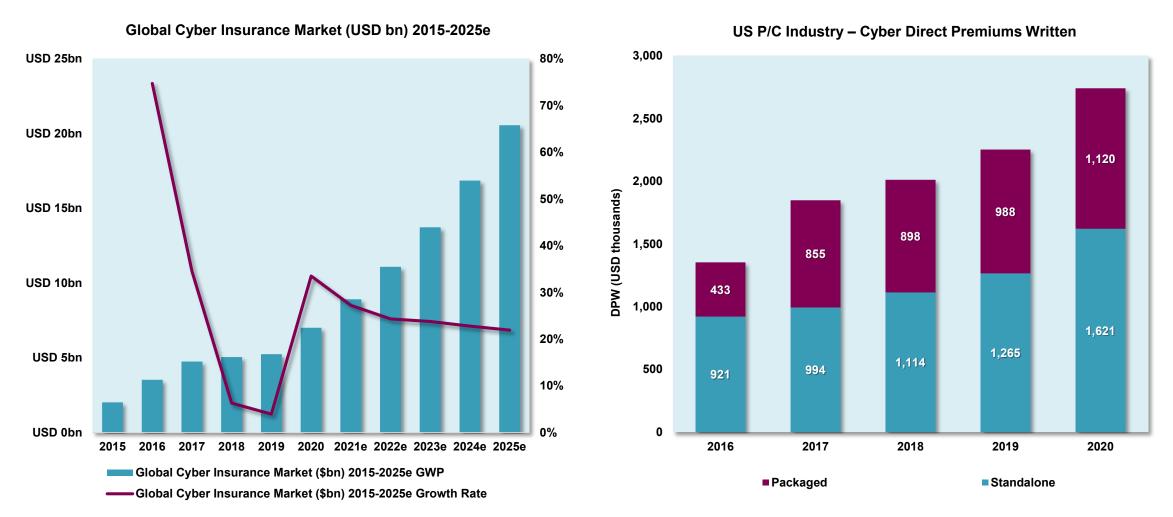


Cyber Risk High on the Agenda

Centre for the Study of Financial Innovation				
2019 Rank	Risk	2017 Rank		
1	Technology	3		
2	Cyber Risk	2		
3	Change Management	1		
4	Regulation	6		
5	Investment Performance	5		
6	Climate Change	-		
7	Competition	8		
8	Human Talent	9		
9	Macro-Economy	7		
10	Interest Rates	4		

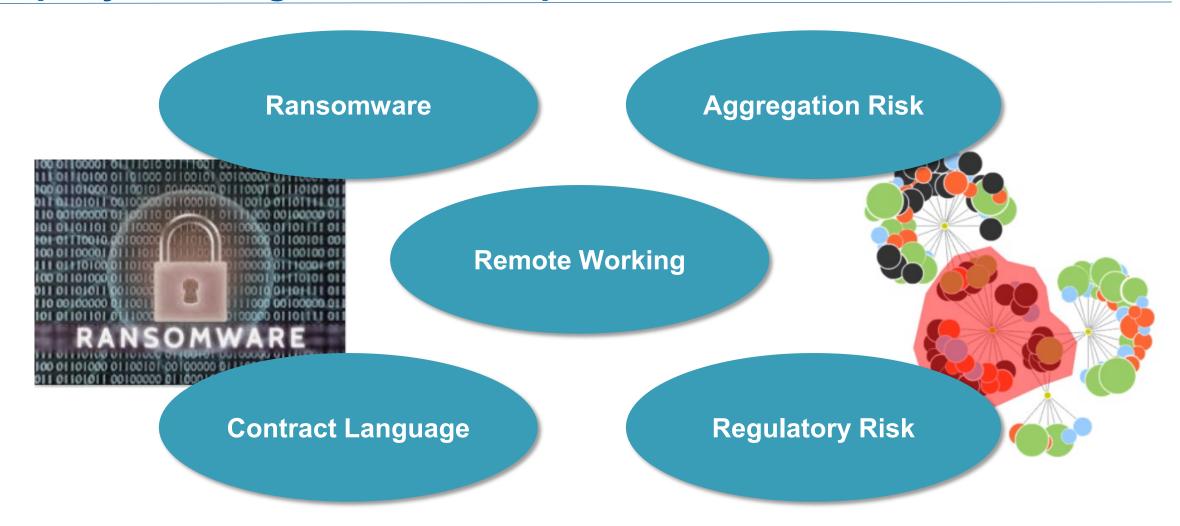


Rapid Growth in Cyber Insurance Premiums





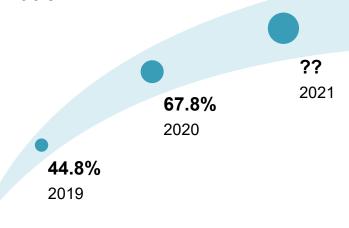
Rapidly Evolving Risk Landscape





Increasing Claims Costs

US P/C Industry – Cyber Insurers Loss Ratio

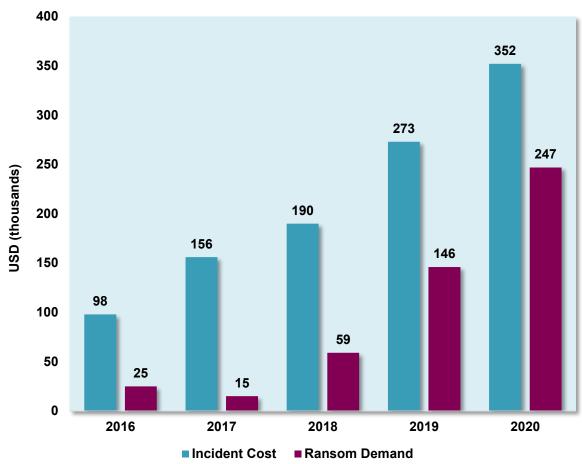


US P/C Industry – Cyber Premiums and Claims Average Growth Rate 2016-2020

Premiums 19.3%

Claims **38.5**%







A 'Truly' Hard Market...

US P/C Industry – Cyber Rate Changes by Quarter





Managing the Cyber Risk Opportunity

Enterprise risk management (ERM) critical

- Operational cyber risk management
- Cyber underwriting risk management

Underwriting risk management

- Implementing a robust underwriting and pricing approach
- Establishing prudent reserving practices – reflecting developing cyber risk profile
- Exposure/wording clarity

Supported by ERM framework

- Well-defined risk identification process
- Clearly articulated risk appetite. How much is an insurer willing to lose from a cyber loss event?



Alex Rafferty Associate Director, AM Best





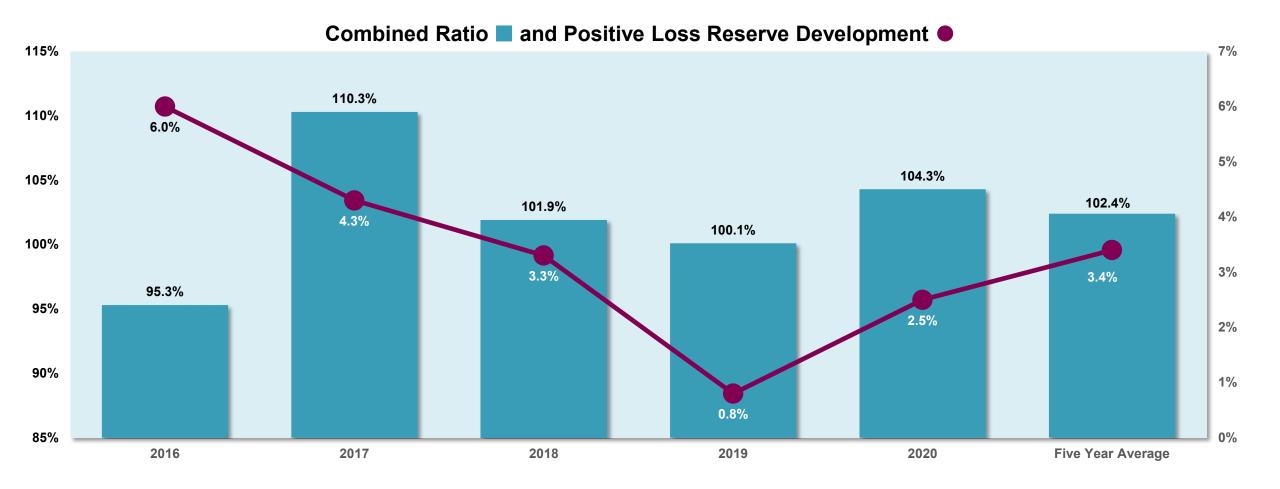
Reinsurance Market Highlights

Dr. Mathilde Jakobsen – Director, Analytics Ghislain Le Cam – Director, Analytics

AM Best's Europe Insurance Market Briefing & Methodology Review Seminar – London

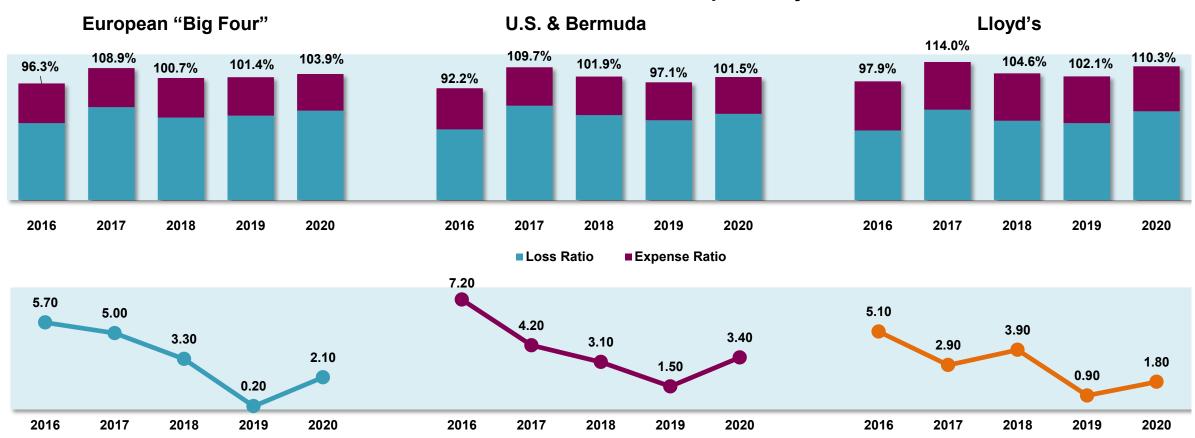
20 October 2021





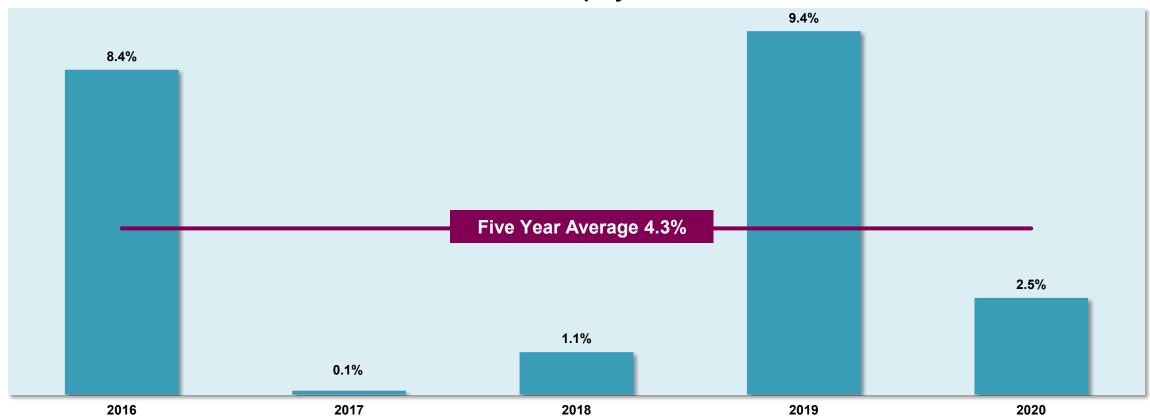


Combined Ratios and Positive Loss Reserve Development by Reinsurance Sector





Return on Equity



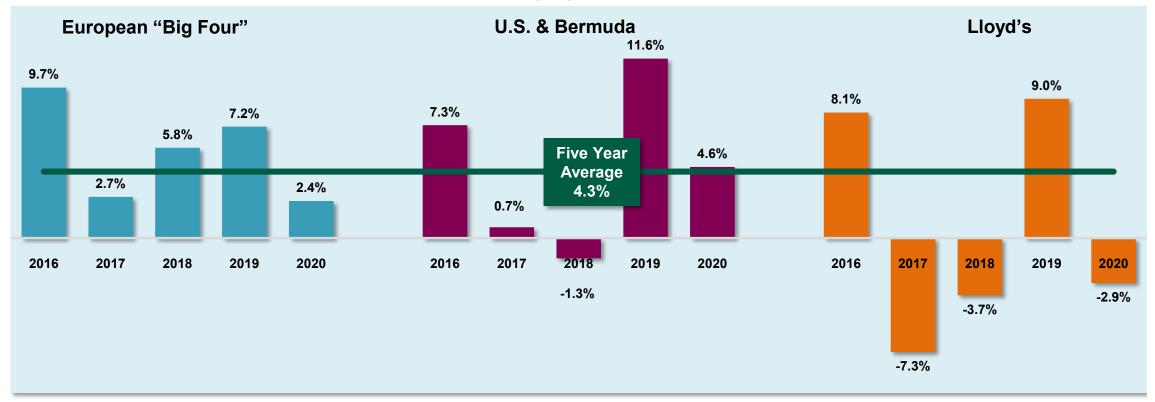


Reinsurers' Median Return on Common Equity (ROCE)
Compared to Median Weighted Average Cost of Capital (WACC) (%)



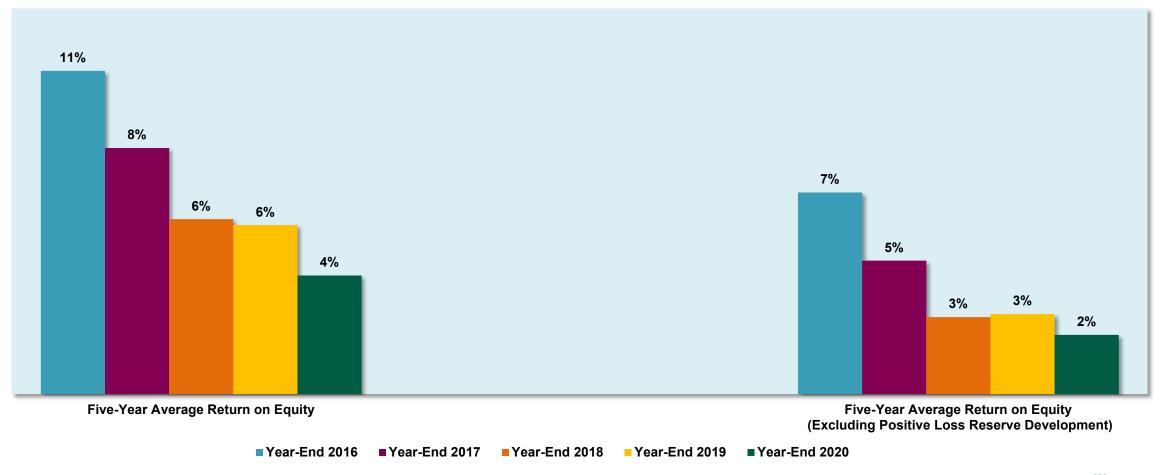


Return on Equity by Reinsurance Sector





Global Reinsurance Market



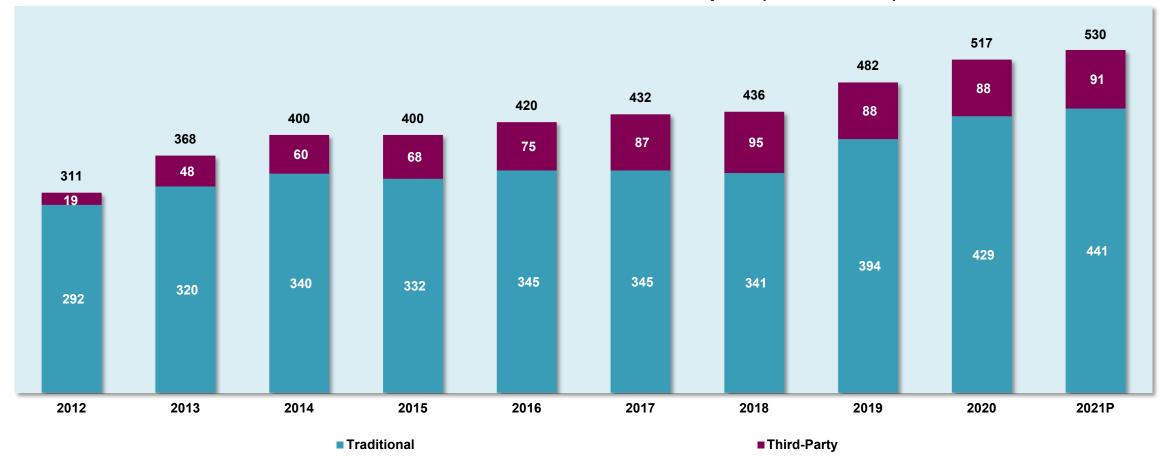


Global Reinsurance Market – Market Well Capitalised



Global Reinsurance Market Capital

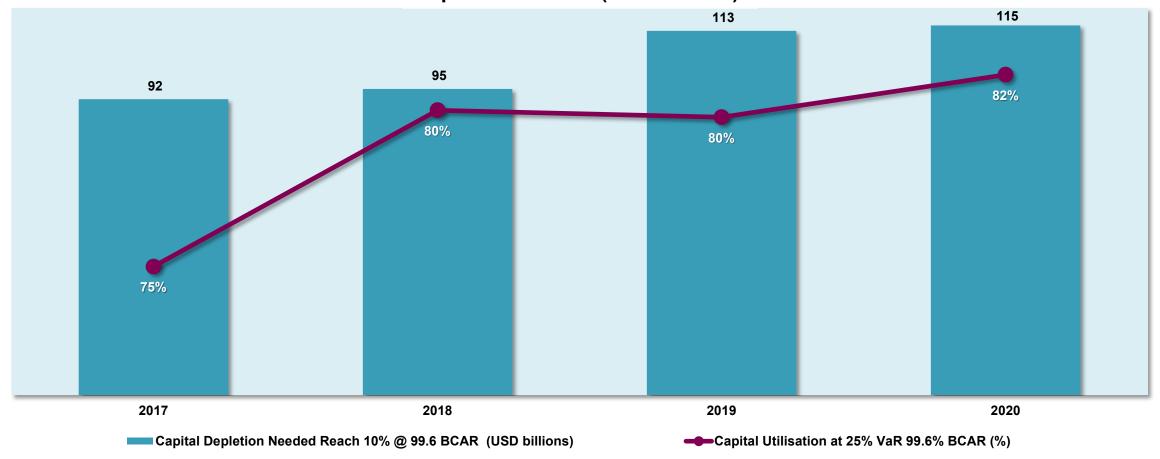
Estimate – Total Dedicated Reinsurance Capital (USD billions)





Global Reinsurance Market Capital

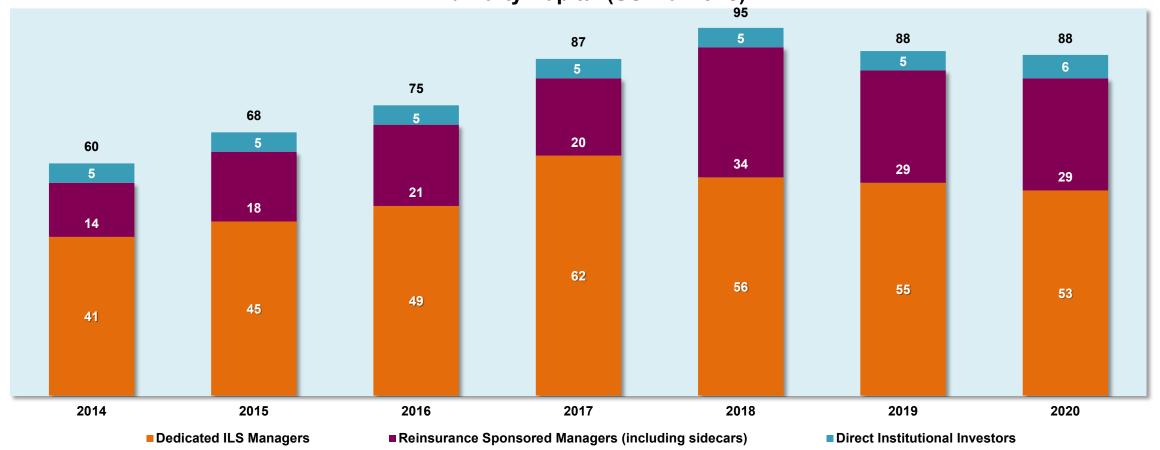
Capital Utilisation (USD billions)





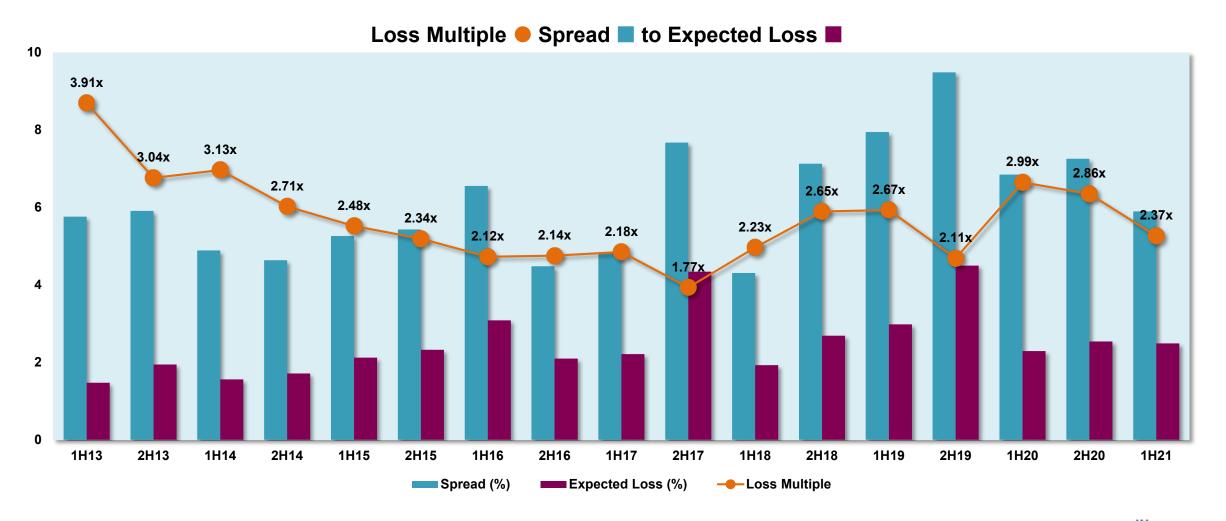
Global Reinsurance Market Capital

Third-Party Capital (USD billions)





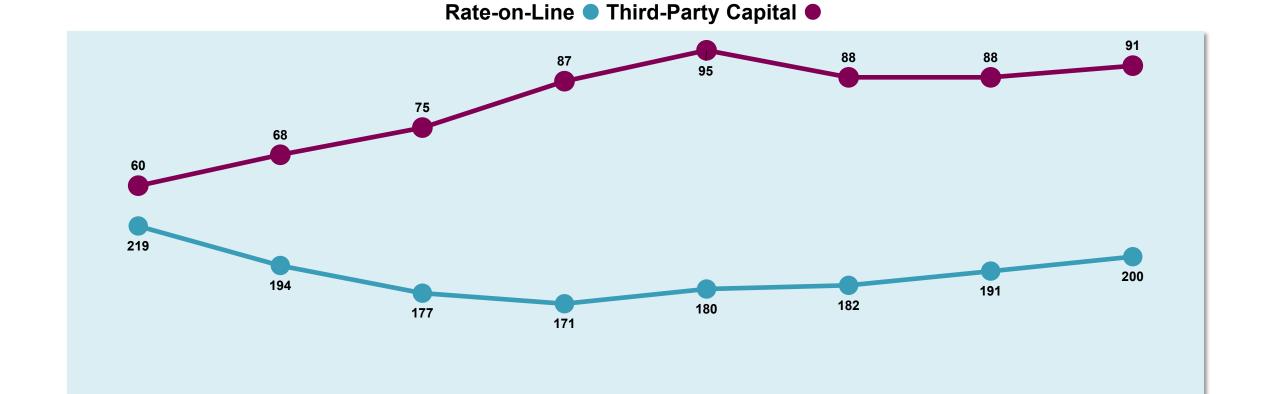
Global Reinsurance – Catastrophe Bonds





Property Catastrophe Rate-on-Line and Third-Party Capital

2017





2021P

2014

2018

2019

Third-Party Capital (USD billion)

2020

2015

2016

Rate-on-Line (%)

Global Reinsurance Market Stable Outlook



Global Reinsurance Market Outlook – Stable

Headwinds

Claims uncertainty: COVID-19, secondary perils, social inflation

Risk modelling challenges; Emerging risks in a more interconnected world: e.g. cyber

New capital continues to enter the segment; Low interest rates

Limited investment alternatives

Risk of a smaller role for the (re)insurance segment in an evolving economy



Global Reinsurance Market Outlook – Stable

Headwinds	Tailwinds
Claims uncertainty: COVID-19, secondary perils, social inflation	Positive pricing trends; Focus on underwriting discipline
Risk modelling challenges; Emerging risks in a more interconnected world: e.g. cyber	Reinsurers seem to start to meet their cost of capital
New capital continues to enter the segment; Low interest rates	Disciplined, limited impact from new entrants
Limited investment alternatives	Segment remains well capitalised; Closer convergence with ILS markets
Risk of a smaller role for the (re)insurance segment in an evolving economy	Global reinsurance one of the most innovative segments



Q & **A**

Dr. Mathilde Jakobsen Director, AM Best Ghislain Le Cam Director, AM Best





Guest Presentation: Responsible Investing in the Insurance Industry – Drivers to Watch Out For

Chandra Chadalawada,

Head of ALM and Liquidity Management for Legal & General Retirement Institutional (LGRI)

AM Best's Europe Insurance Market Briefing & Methodology Review Seminar – London 20 October 2021







L&G ESG Approach & Climate Risk Management

October 2021

Contents

Legal & General

- 1. L&G's ESG Journey
- 2. Focus on Climate Risk and Strategy
- 3. Case Studies
- 4. Present and Future Outlook

L&G Purpose

ESG central to our purpose



Our purpose is to improve the lives of our customers, build a better society for the long term and create value for our shareholders. This inspires us to use our long-term assets in an economically and socially useful way to benefit everyone in our communities.

This shapes how we work and helps us create our vision of "Making a difference through inclusive capitalism".

"Economic, social and climate benefits can go hand-in-hand if the power of finance is deployed effectively." **Nigel Wilson, Group CEO**

Climate Policy Statements



1

We will decarbonise the assets on our balance sheet to align with the 'Paris' objective, which we interpret as limiting warming to 1.5°C

2

We advocate for urgent action to mitigate the climate emergency from both governments and the companies we are invested in

3

We will use our influence as a large investor to promote a transition to a low-carbon economy 4

We support the goal of carbon neutrality by 2050, in line with global efforts to limit warming to 1.5°C

5

We have committed to the Science Based Target initiative (SBTi)

L&G Approach to Sustainability

Pioneering an inclusive future



Our journey to net zero

The transition to a low carbon future is both a risk and an opportunity. It shapes every part of our business, from how we invest our proprietary assets and influence the companies we invest in to how we operate day to day.

We have committed to the Science Based Targets initiative (SBTi) and will extend our set of targets for our investments and operational footprint. We will increase our investments in renewable energy and low carbon technology. All the homes we build will be capable of net zero carbon operation from 2030.

| Building a | better society

Inclusive capitalism is an economic system where today's capital is used to benefit tomorrow's society. Making investments that drive social outcomes is core to our work. Supporting society to emerge from Covid-19 more resilient and inclusive makes sound commercial sense.

Building a better society includes supporting healthcare systems, providing critical financial services for customers, contributing to communities and supporting young people to create a stronger society after Covid-19.

Growing our business responsibly

Responsibility to our employees, customers, communities and society is the foundation on which we deliver inclusive capitalism. We are responsible for our behaviour and corporate culture and we hold ourselves to high standards of integrity.

Our responsibility to employees is focused on supporting their wellbeing and engagement as part of an inclusive and inspiring workplace. Our approach has been shaped by the impacts of Covid-19. We are committed to strong governance and to developing sustainable supply chains where climate change, environmental and human rights risks are managed transparently.

Why do we bother with ESG



Insurance and financial markets regulation incorporates ESG risks







ESG is an opportunity and a source of competitive advantage







Climate risk directly impacts the certainty of the cashflows in our portfolio



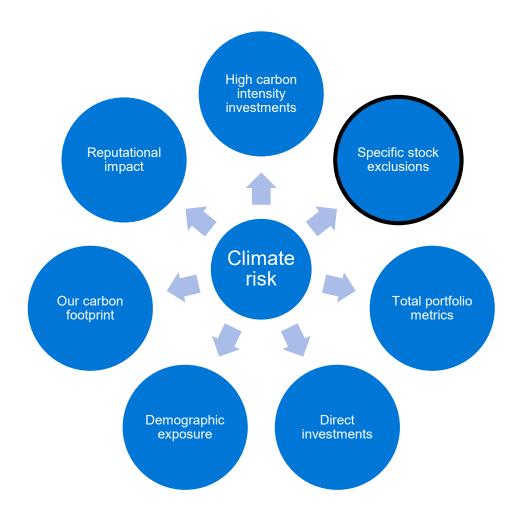




Climate Risk Management



We manage our businesses to align with the mitigation of climate change and to be resilient to the risk of different climate outcomes.

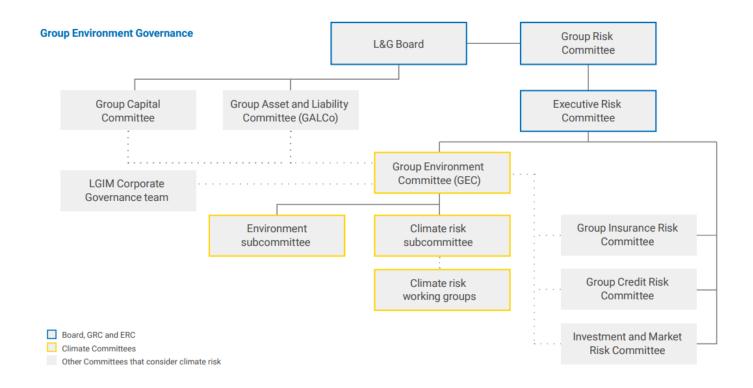






Climate Governance





Established framework delegated from the Group Board, with dedicated climate risk committees and incorporation of climate risk into the terms of reference for other committees

Group Climate Strategy



Invest

How we invest our £95.1 billion of proprietary assets



Influence

How we influence as one of the world's largest asset managers with £1.3 trillion of assets under management



Operate

How our businesses operate

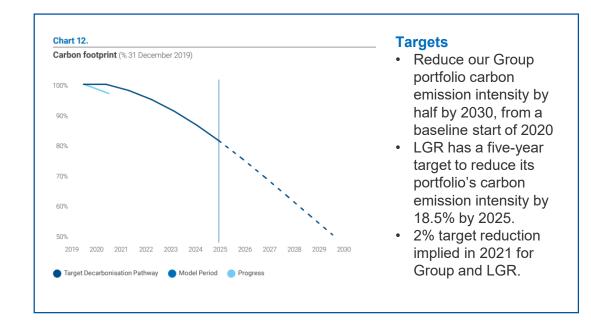


The table below summarises our individual business's climate strategies and strategic focus.

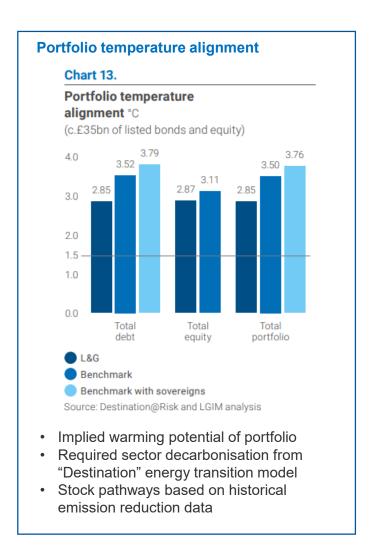
Business	Focus	Climate strategy
Retirement (institutional and retail)	£	Decarbonise the portfolio, covering c.90% of our Group's proprietary assets, to align with 'Paris'.
Capital investment	£ \$	 Create energy efficient homes and seek to reduce the associated embodied carbon. Continue to invest in clean energy. To date, we have invested in: Ground source heat pump technology: through our 36% stake in The Kensa Group. Electric vehicles: we increased our stake in Pod Point to 23%, forming a joint venture with EDF. Onshore and offshore wind: through our fund manager, NTR. Solar: £57.5 million investment in Oxford Photovoltaics (PV), developing high-efficiency solar photovoltaic products which can produce substantially more power than a typical silicon module of the same size. Nuclear fusion technology: Tokamak Energy aims to bring fusion energy to the market by 2030.
Insurance		Develop technology to retrofit existing and new build housing in the UK to reduce emissions.
Investment management	£ 101	 As a large investor, we influence companies and regulators to step up on sustainability. Work in partnership with our clients to set decarbonisation goals for portfolios. Develop investment solutions which seek to support the low-carbon transition using outputs from our Destination@Risk framework.

Metrics and Targets





$$\frac{tCO2e}{\pounds mn} = \frac{mass\ of\ gas\ x\ global\ warming\ potential}{Enterprise\ Value}$$



Climate Modelling

Our Framework

Source: Destination@Risk and LGIM analysis

We currently model three energy pathways, reported in our TCFD:

Pathway	Outcome
Business as usual (BAU) World fails to act to make the necessary changes to address climate change	+3.5°C or greater
Well below 2°C World takes early, definitive, joined-up policy and investment actions. Company and consumers align their behavior with a carbon neutral economy	<+ 2°C limit
Disorderly Collective action to achieve the outcomes of 'Well below 2°C' is delayed to 2030	

Chart 3. Destination global primary energy mix (%) 2020 2030 2040 2050 2020 2030 2040 2050 2020 2030 2040 2050 BAU Historic Well below 2°C Disorderly Oil Coal Gas Nuclear Hydro Renewables Biomass





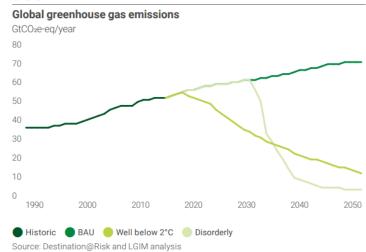
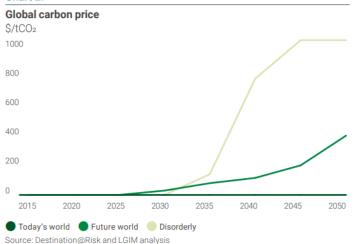


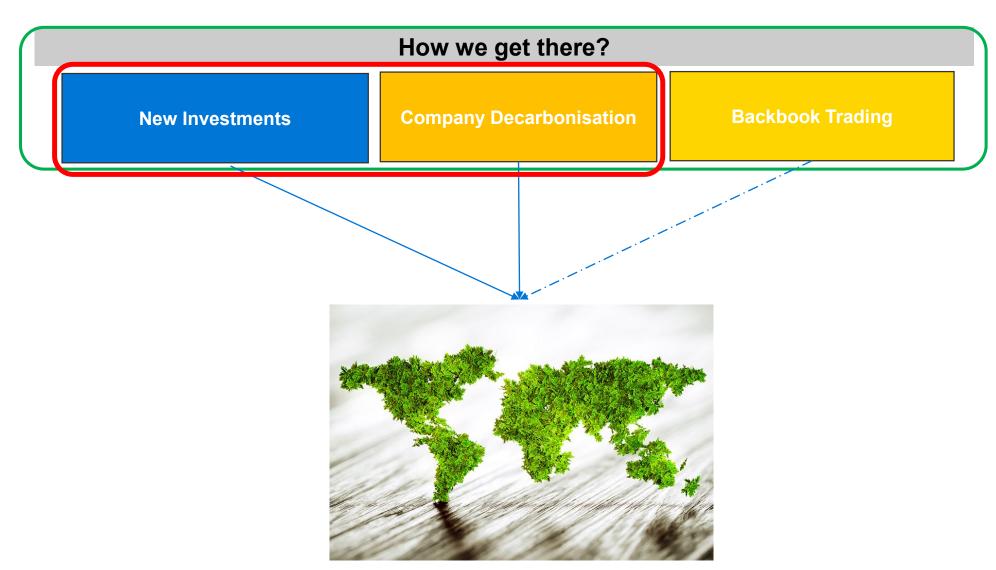
Chart 2.



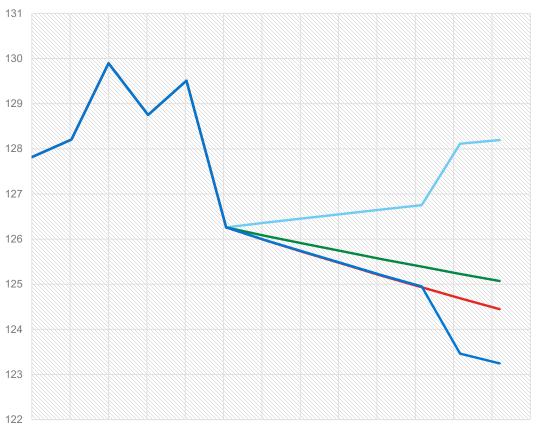
Source: Destination@Risk and LGIM analysis

Three Pillars of Portfolio Decarbonisation





Carbon Intensity Forecasting



Dec-19 Jan-20 Feb-20 Mar-20 Apr-20 May-20 Jun-20 Jul-20 Aug-20 Sep-20 Oct-20 Nov-20 Dec-20 Jan-21

Scenario

- 1. Central 0% Decarbonisation
- 2. Low Property DI Sourcing
- 3. Low NB & Low Property DI Sourcing



Challenges with ESG data, even for traded assets

Real Assets may have lumpy exposures

Complexity with more esoteric assets

Case Study: ExxonMobil

"Investor LGIM dumps ExxonMobil from its Future World funds"

Reuters, 20 Jun 2019**

"Investor Legal & General backs activist in Exxon proxy battle"

Reuters, 11 May 2021

"Exxon: At least 2 board members lose seats in climate fight"

The Independent, 26 May 2021



"Investor Legal & General to vote against Exxon chair re-election over climate"

Reuters, 12 May 2020

"Proxy adviser backs activist call for Exxon board overhaul"

Financial Times, 14 May 2021

"Exxon Slayer Engine No. 1's New ETF Targets Passive Aggressive ESG Money"

Bloomberg, 22 June 2021

Case Study: Green Gilts

Green Savings Bonds will be critical in tackling climate change ... and funding much-needed infrastructure investment ... "

HM Treasury, June 2021

"UK's first green gilt raises £10bn after record investor interest"

Business Green, September 2021

"Investors queue up for green Government gilts as demand hits £100bn"

The Independent, September 2021



"The Net Zero target will require major investments into transport electrification, expansion of renewable and low-carbon power generation, as well as the development of low carbon hydrogen technologies"

HM Treasury, June 2021

"Investors call for expanded range of green gilts"

Professional Pensions, September 2021

Case Study: Renewable Energy

LGR Invests in renewable energy projects servicing over 2 million homes





Climate-related activity in 2021 and beyond





SS3/19



Further development of asset class specific decarbonation tracking, bespoke fundamental analysis of single names and setting targets on ESG related investment goals



Q&A

Panel Discussion: Climate Risk's Growing Complexity—What Role for the Insurance Industry?



Richard Banks
Director,
Industry Research – EMEA
AM Best



Jessica Turner,
PHD, ACII
Managing Director,
Catastrophe Advisory,
Guy Carpenter



Shane Latchman
Vice President &
Managing Director
AIR Worldwide



Botelho-Young,
CA
Associate Director,
Analytics
AM Best





Climate Risk's Growing Complexity – What Role for the Insurance Industry?

Jessica Botelho-Young, CA – Associate Director, AM Best

AM Best's Europe Insurance Market Briefing & Methodology Review Seminar – London

20 October 2021



Understanding Climate Risk

Physical Risk Transition Risk Liability Risk



Assessing Climate Risk through the Rating Process



Climate Risk

- Capital position withstands shocks
- Protection against peak exposures and aggregation of losses
- Low volatility / sensitivity to climate risk
- Diversification in investment portfolio

- Stability of earnings
- Limited impact of stranded assets
- Adequate modelling and pricing
- New climate products earnings accretive

- Underwriting profile diversified and insulated against climate risks
- Development of new products
- Clearly defined policy wording and contracts

- Climate risks factored into ERM approach
- Ability to absorb climate stress tests
- Ability to model weather-related risks
- High visibility of climate reporting, (financial disclosures, regulatory reporting)
- Board oversight

Balance Sheet Strength

- Rapid decline in capital position – overexposure, unexpected losses
- Inadequate protection against peak exposures
- High volatility / sensitivity to climate risks
- Material write-downs of stranded assets

Operating Performance

- Volatile earnings
- Financial losses due to stranded assets
- Climate risks not considered in underwriting model
- Unexpected losses
- Adverse mortality and morbidity rates from resistant disease

Business Profile

- Underwriting or investment profile concentrated and exposed to climate risk
- Uncertain or indirect exposures to climate risks

Enterprise Risk Management

- Breaches of appetite and tolerance
- · Stress test failures
- Inadequate risk modelling – poor data quality
- Non-disclosure in financial reporting
- Inadequate protection against peak exposure, or aggregation of risks





Assessing Climate Risk through the Rating Process

- We consider the impact (if any) climate risk has on an insurer's Financial Strength
- Catastrophe stress testing within the Best's Capital Adequacy Ratio (BCAR) model
- Discuss climate risk and impact on strategy during management meetings
- Review the results of any regulatory climate stress tests performed
- Assessing the quality of catastrophe stress testing capabilities and use of models
- Where climate risk is relevant and material it may lead to a rating action



Panel Discussion: Climate Risk's Growing Complexity—What Role for the Insurance Industry?



Richard Banks
Director,
Industry Research – EMEA
AM Best



Jessica Turner,
PHD, ACII
Managing Director,
Catastrophe Advisory,
Guy Carpenter



Shane Latchman
Vice President &
Managing Director
AIR Worldwide



Botelho-Young,
CA
Associate Director,
Analytics
AM Best



Agenda – Methodology Review Seminar (BST)

14:25 Welcome and Introductory Comments

Mahesh Mistry, Senior Director, Credit Rating Criteria, Research & Analytics

14:30 IFRS 17 – Nearing the Horizon

Anthony Silverman, Director, Credit Rating Criteria, Research & Analytics
Pierre Tournier, Associate Director, Analytics

14:55 ESG in Best's Credit Rating Methodology (BCRM)

Mahesh Mistry, Senior Director, Credit Rating Criteria, Research & Analytics Michael Dunckley, Associate Director, Analytics

15:15 Scoring and Assessing Innovation

Victoria Ohorodnyk, Associate Director, Analytics

15:30 Performance Assessments for Delegated Underwriting Authority Enterprises: An Overview and the Assessment Process

Mahesh Mistry, Senior Director, Credit Rating Criteria, Research & Analytics Myles Gould, Director, Analytics

15:50 Q&A Interactive Panel Discussion

AM Best Credit Rating Analysts

16:30 Close





