

**Excelsior Hotel Ernst
Cologne
4 May, 2022**

**Bayerischer Hof
Munich
5 May, 2022**

**AM Best's
Germany Insurance Market Briefings –
Cologne, Munich**

**William Mills
Senior Director, Market Development – EMEA**

Presenters & Panelists



**William
Mills**

Senior Director
Market Development



**Angela
Yeo**

Senior Director
Analytics



**Morgane
Hillebrandt**

Financial Analyst
Analytics



**Konstantin
Langowski**

Senior Financial Analyst
Analytics

Agenda – Germany Insurance Market Briefings

15:30 Welcome and Introductory Comments

William Mills, Senior Director, Market Development – EMEA

**15:45 The Global Reinsurance Market:
Perspectives, Outlook & 1.1.22 Renewals**

Dr. Angela Yeo, Senior Director, Analytics

**16:15 AM Best Ratings and Methodology:
Benchmarking Study**

Morgane Hillebrandt, Financial Analyst

Konstantin Langowski, Senior Financial Analyst

16:45 AM Best's Hot Topics

Konstantin Langowski, Senior Financial Analyst

Dr. Angela Yeo, Senior Director, Analytics

17:00 Networking Reception

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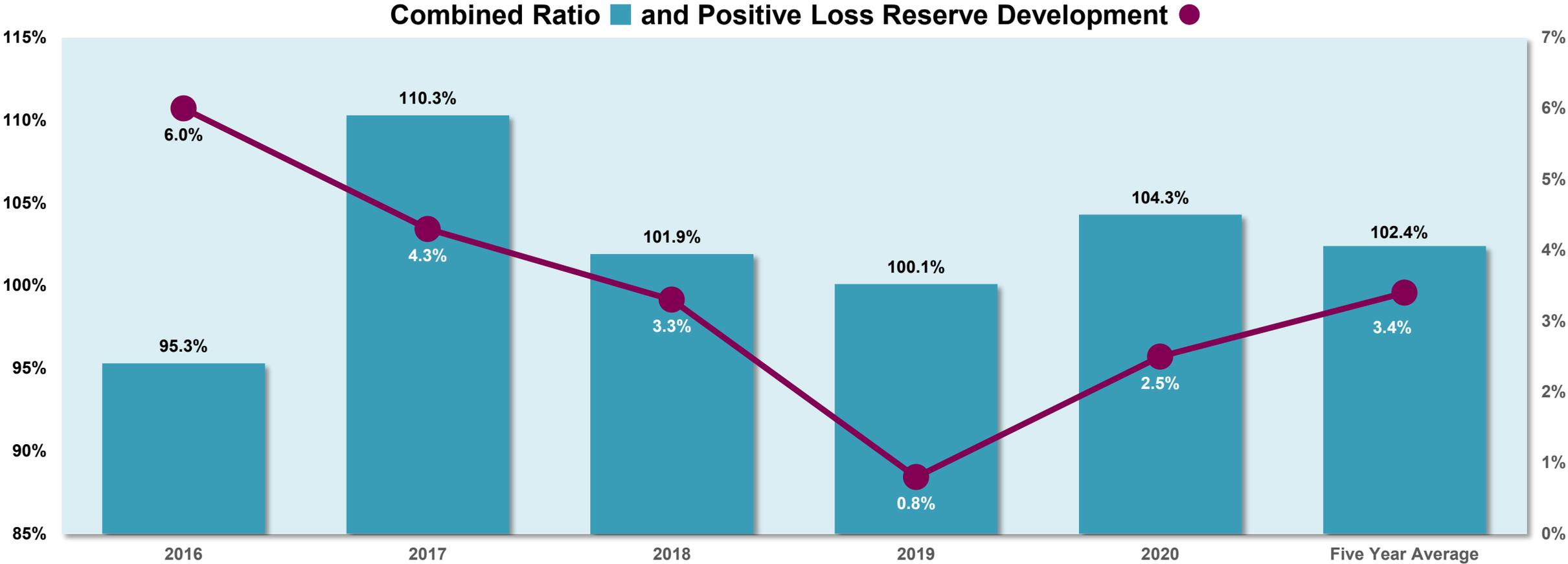
The Global Reinsurance Market: Perspectives, Outlook & 1.1.22 Renewals

Dr. Angela Yeo – Senior Director, Analytics

May 2022

Global Reinsurance Market – Market Performance

Global Reinsurance Market Performance



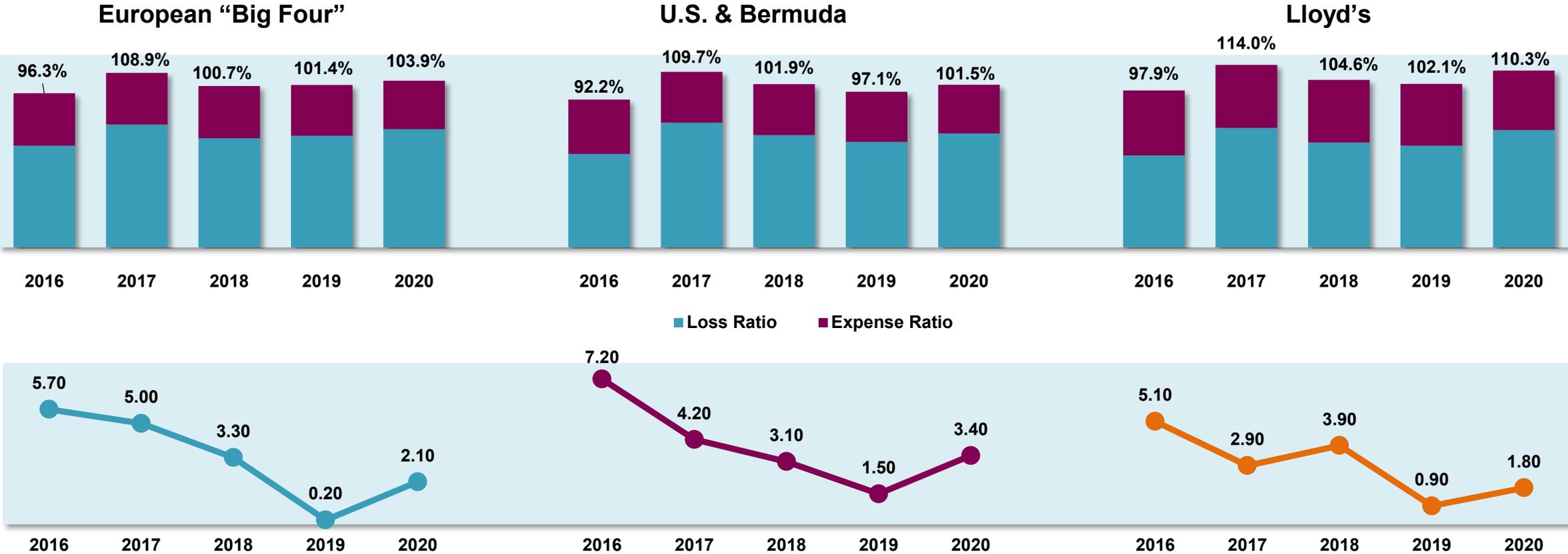
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Source: AM Best data and research



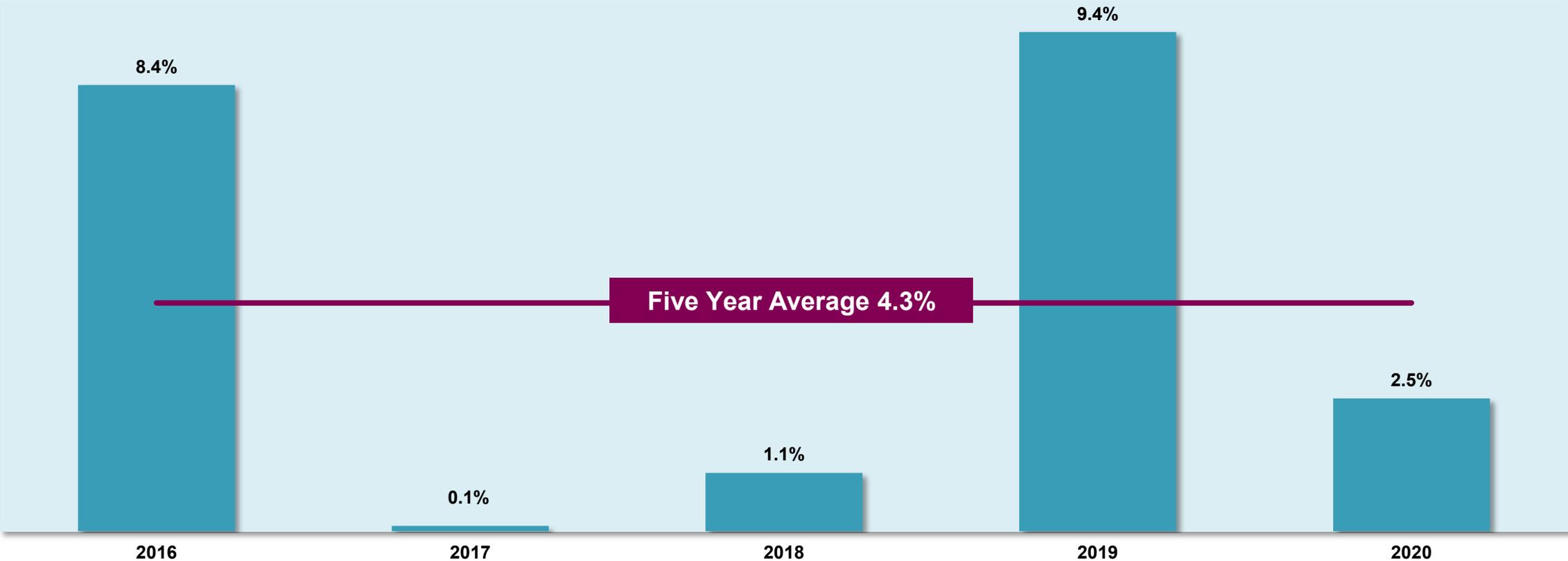
Global Reinsurance Market Performance

Combined Ratios and Positive Loss Reserve Development by Reinsurance Sector



Global Reinsurance Market Performance

Return on Equity



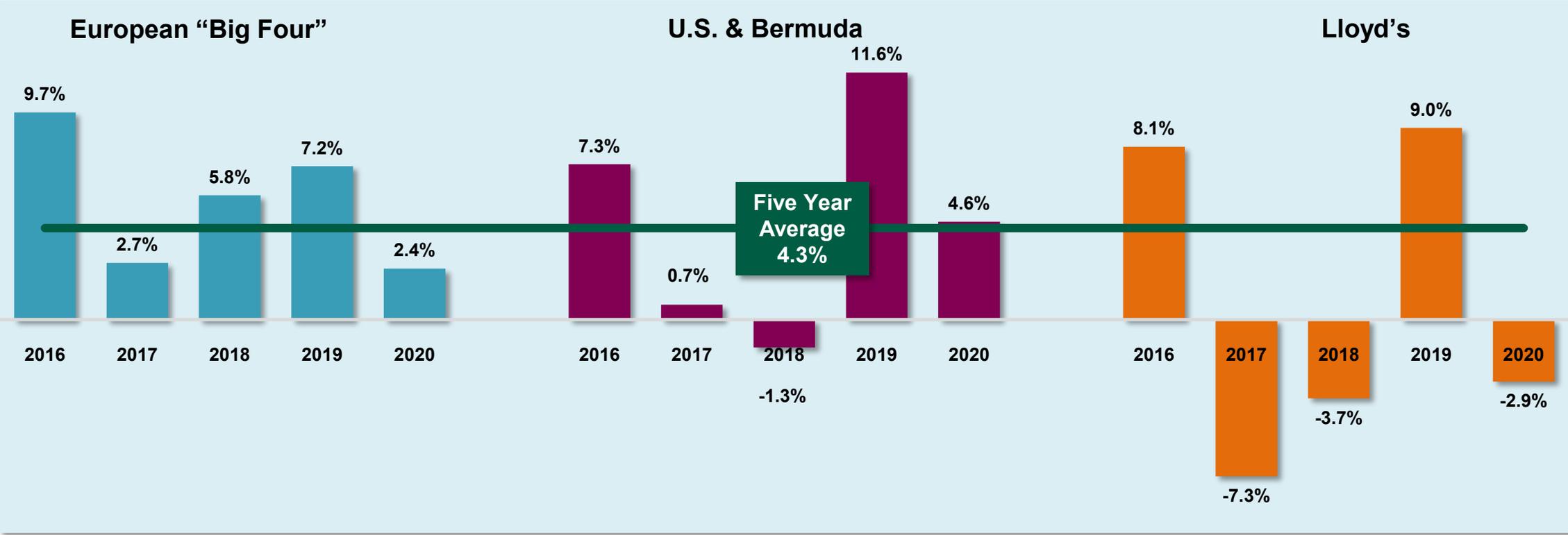
Global Reinsurance Market Performance

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



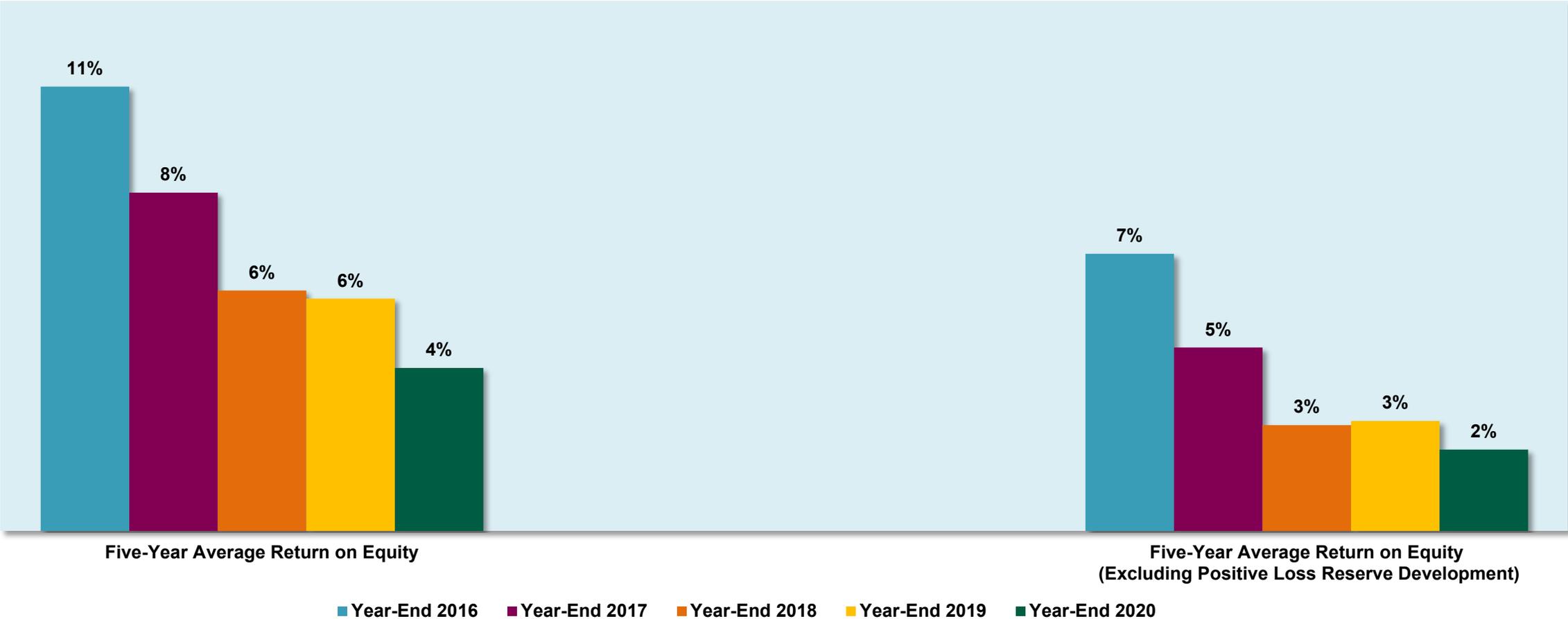
Global Reinsurance Market Performance

Return on Equity by Reinsurance Sector



Global Reinsurance Market Performance

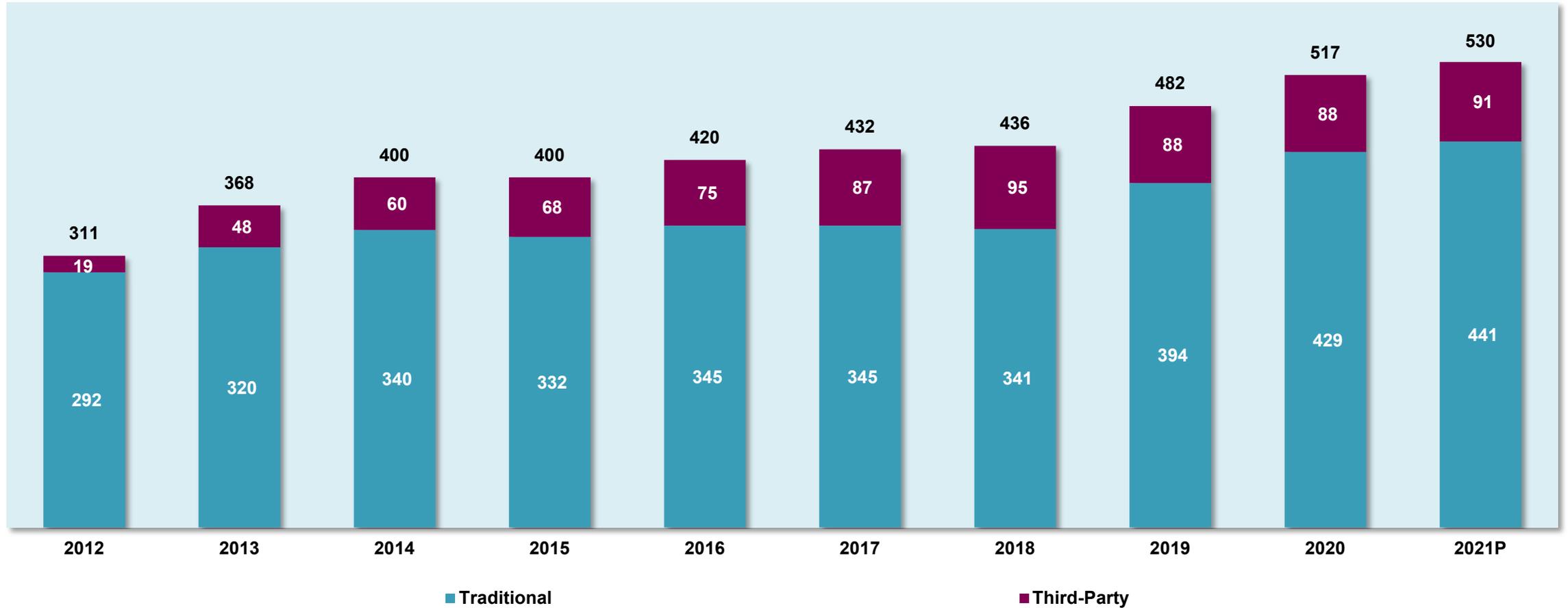
Global Reinsurance Market



Global Reinsurance Market – Market Well Capitalised

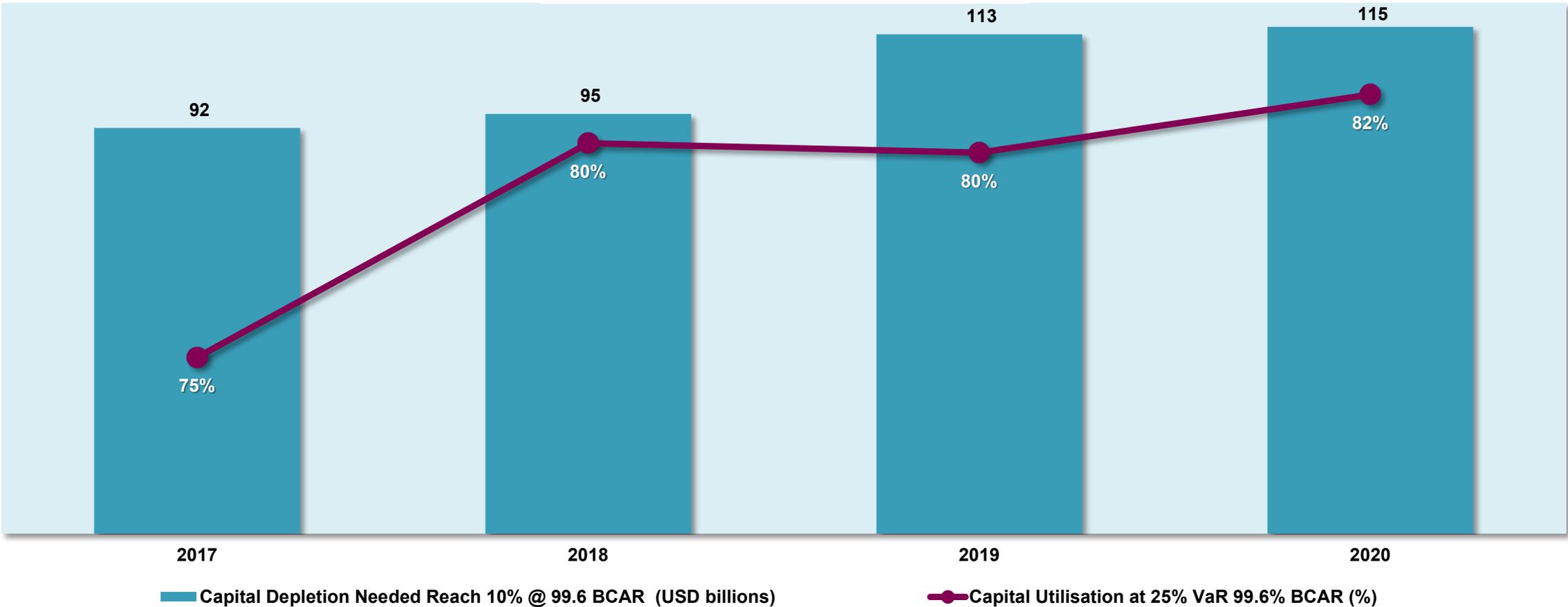
Global Reinsurance Market Capital

Estimate – Total Dedicated Reinsurance Capital (USD billions)



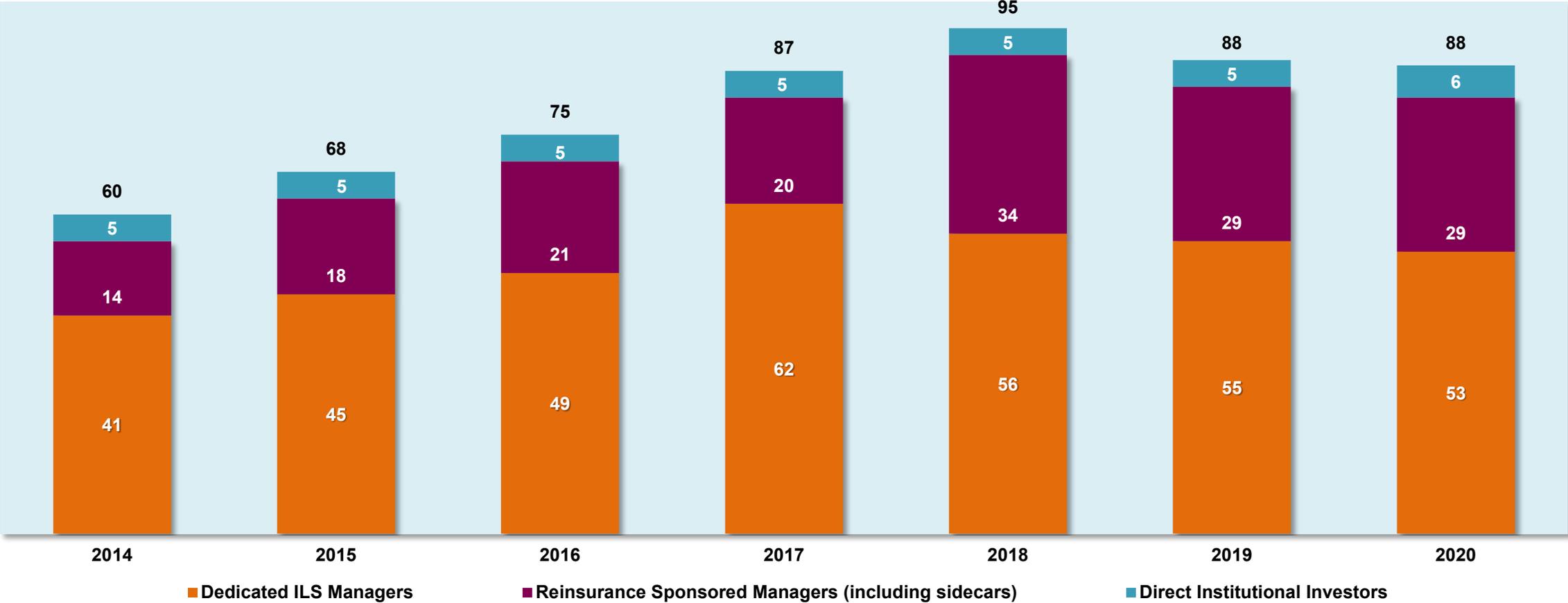
Global Reinsurance Market Capital

Capital Utilisation (USD billions)



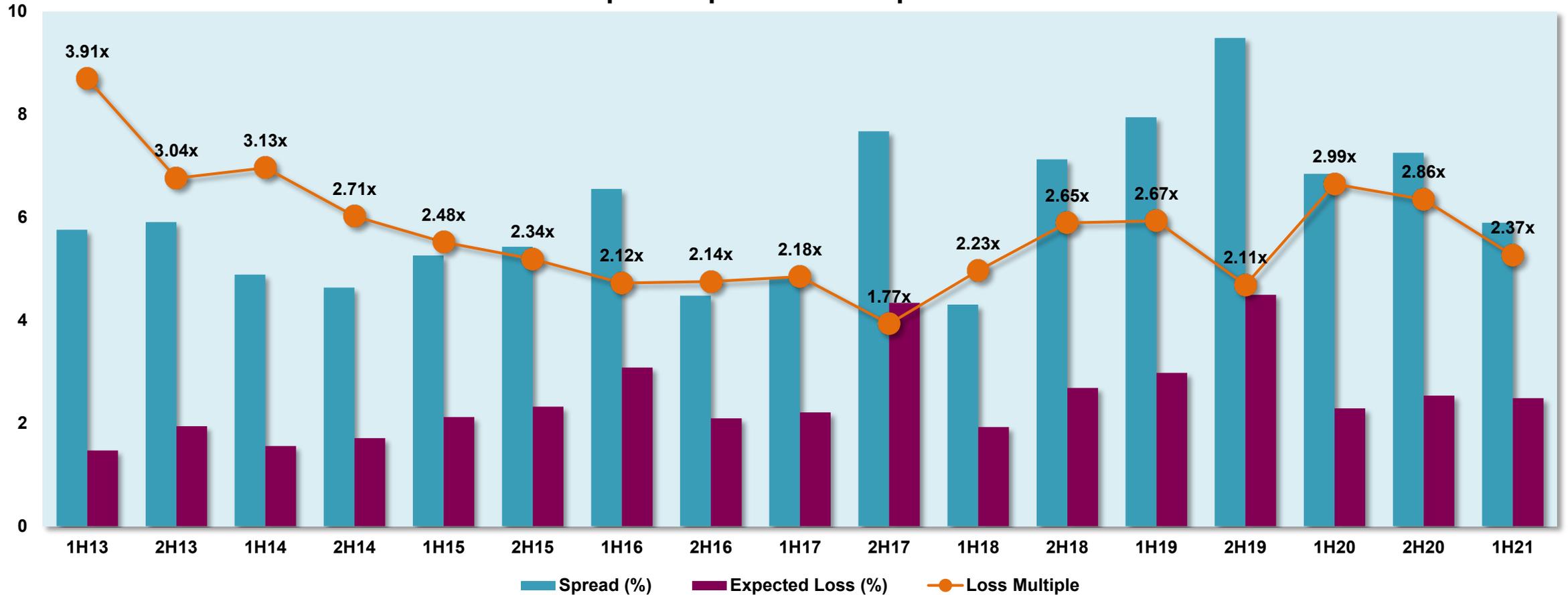
Global Reinsurance Market Capital

Third-Party Capital (USD billions)



Global Reinsurance – Catastrophe Bonds

Loss Multiple ● Spread ■ to Expected Loss ■

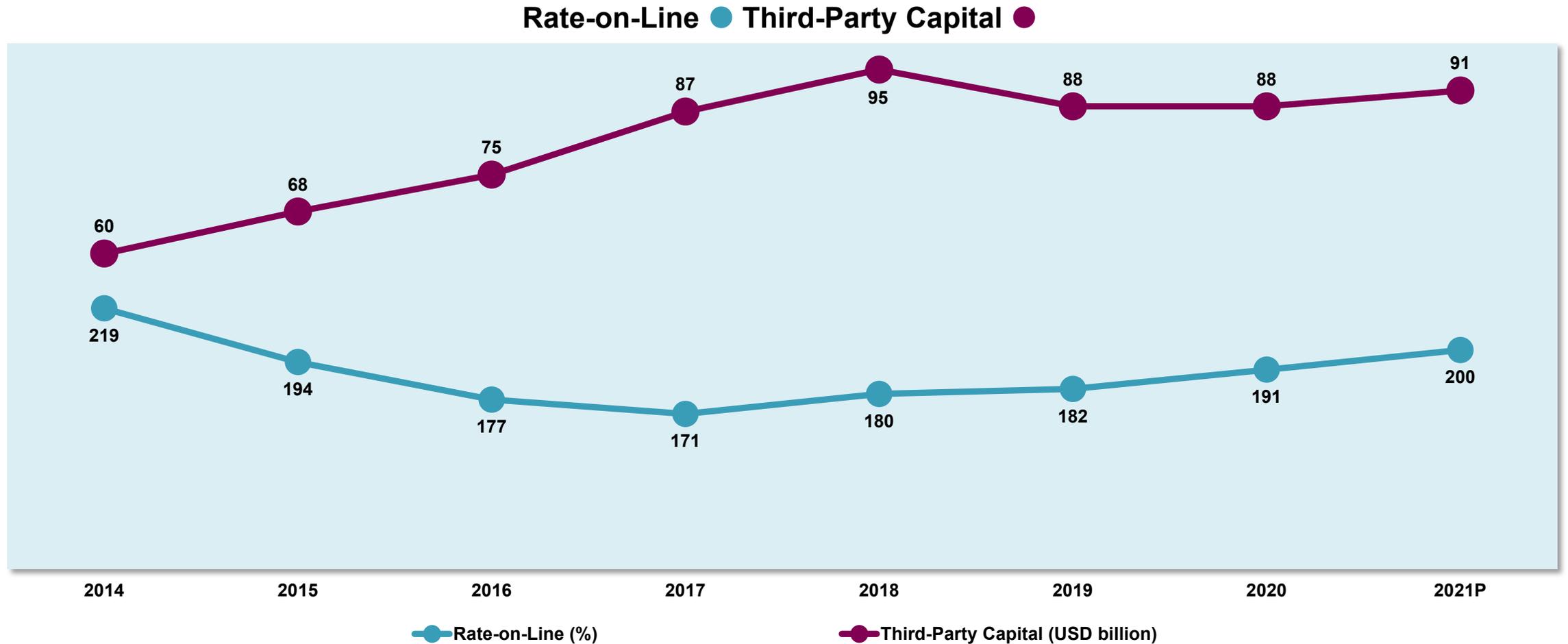


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Notes: Expected Loss and Spread are US dollar weighted. Loss Multiple defined as Ratio of Spread to Expected Loss. Source: AM Best data and research



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



Global Reinsurance Market Outlook

Global Reinsurance Outlook

AM Best is maintaining its Stable outlook for the Global Reinsurance segment, based on the following factors:

- Improved pricing, terms and conditions to continue during 2022
- Recent nat cat activity (Uri, Ida, European floods, wildfires, etc.) reinforces trends
- Market remains well-capitalized (both traditional and ILS) but disciplined
- Limited impact from new capital

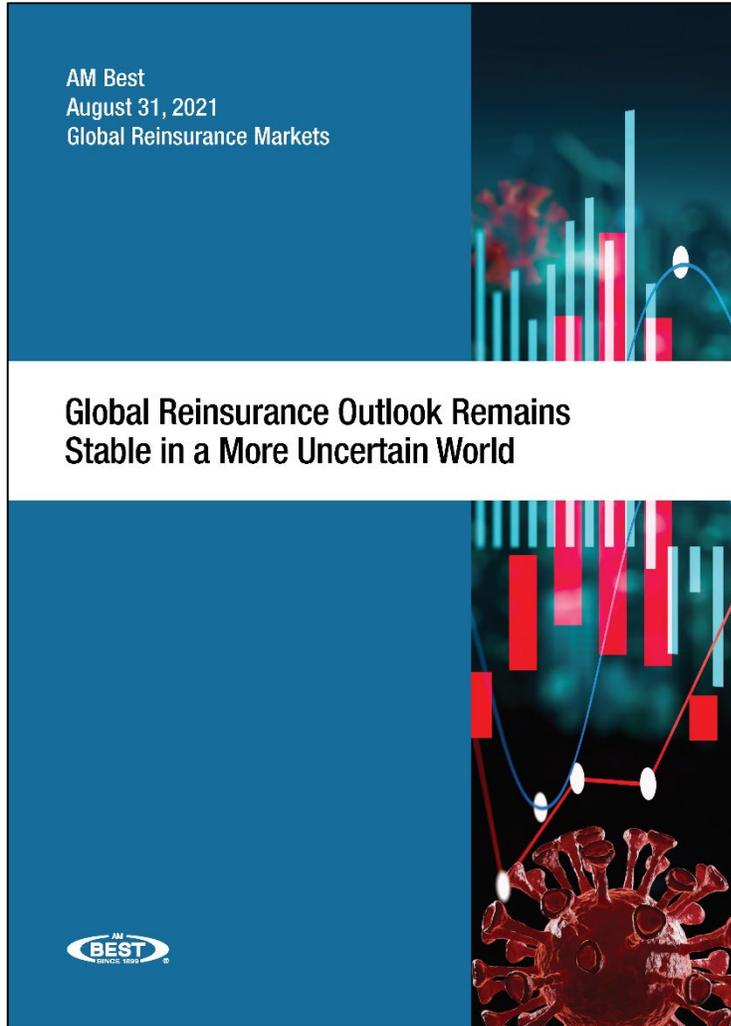
Global Reinsurance Outlook

Factors countering these positives include the following:

- Persistent uncertainty about COVID-19 losses seems manageable
- Modeling challenges: nat cat exposures, secondary perils, cyber, liability
- Inflationary expectations /interest rate uncertainty
- Cautious interest from third-party capital
- Geopolitical uncertainty

Heightened Geopolitical Risk

| Underwriting | Broader impact |
|--|--|
| <ul style="list-style-type: none">• Losses expected on aviation war, political risk/violence and trade credit policies• Extended litigation likely to push up loss costs• Cyber:<ul style="list-style-type: none">- increase in attacks/claims anticipated - but spike not yet observed- war exclusions in place - but difficult to enforce• Loss of premium income (energy, marine and infrastructure business most affected) | <ul style="list-style-type: none">• Inflation driven by higher commodity prices• Investment market volatility• Operational/compliance risk associated with sanctions• Supply chain issues• Social unrest |



The latest *Best's Market Segment Report*, “Global Reinsurance Outlook Remains Stable in a More Uncertain World”, is available on AM Best’s website:

www.ambest.com

or point your mobile device at the QR code below to go to AM Best’s Industry Research page:



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**William Mills
Senior Director, Market Development – EMEA**

AM Best Ratings and Methodology: Benchmarking Study

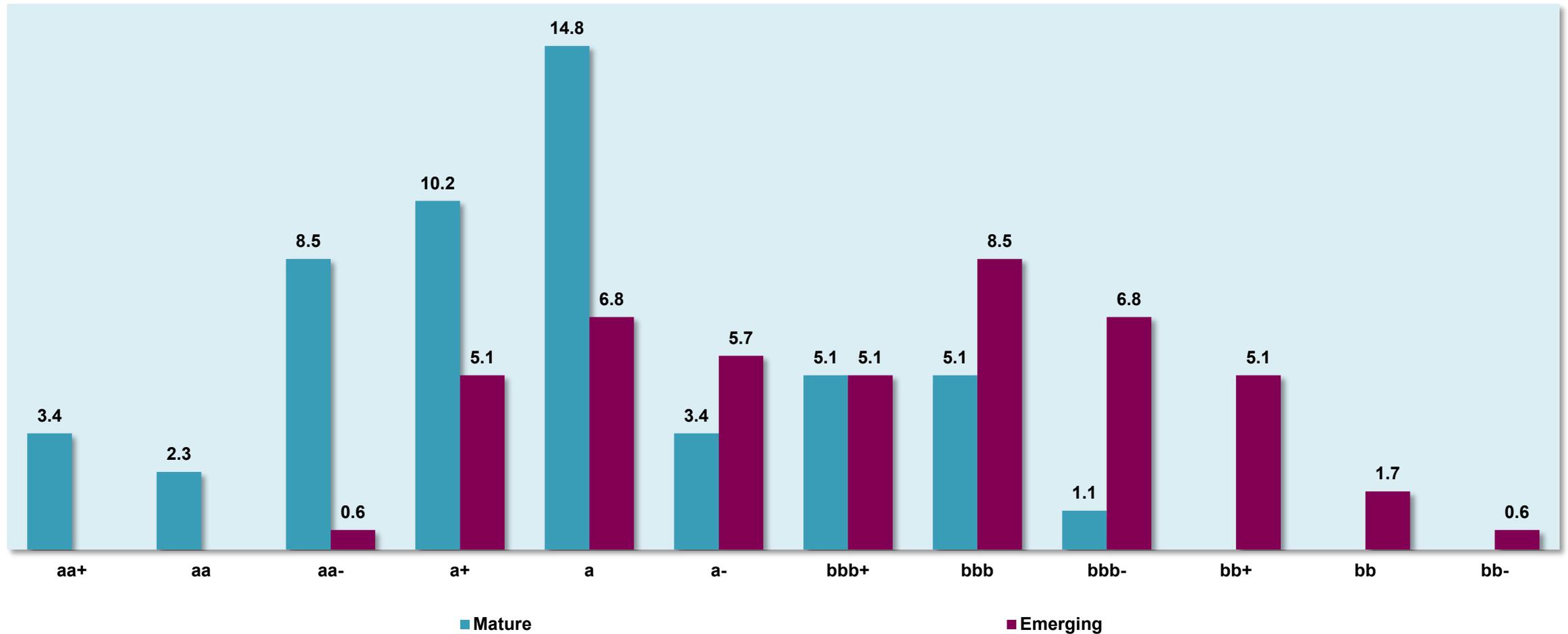
Morgane Hillebrandt – Financial Analyst
Konstantin Langowski – Senior Financial Analyst

May 2022

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+ |
| bb+, bb | B |
| bb- | B- |
| b+, b | C++ |
| b- | C+ |
| ccc+, ccc | C |
| ccc-, cc | C- |

Issuer Credit Ratings EMEA – Overview (2021) (%)

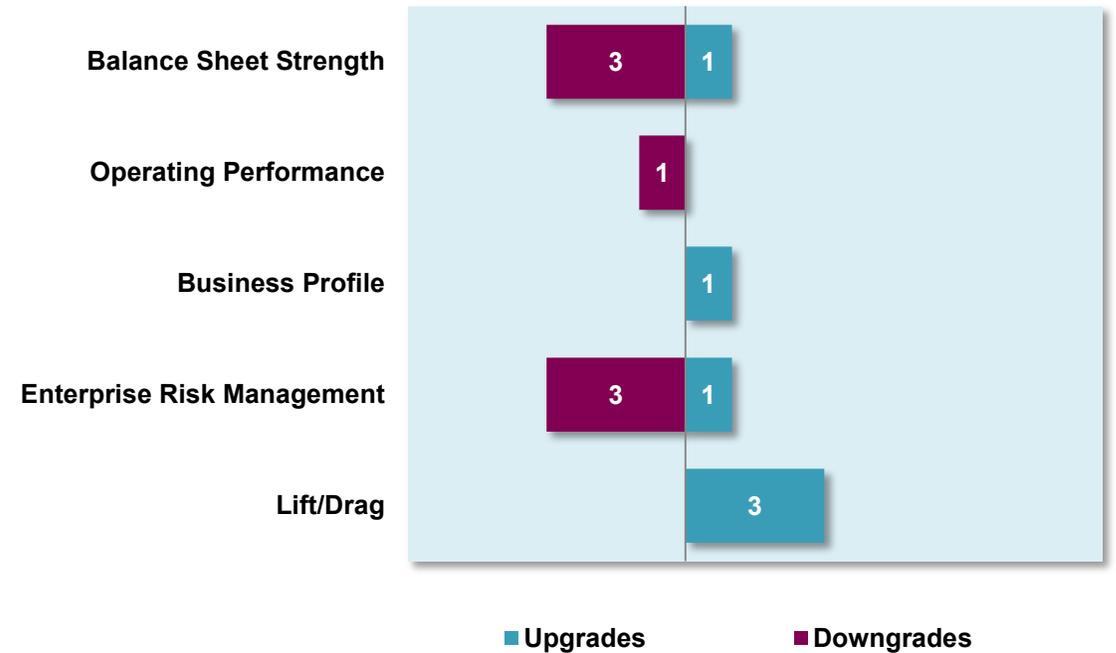


Outlooks Splits and Drivers of Rating Upgrades & Downgrades EMEA (2021) (%)

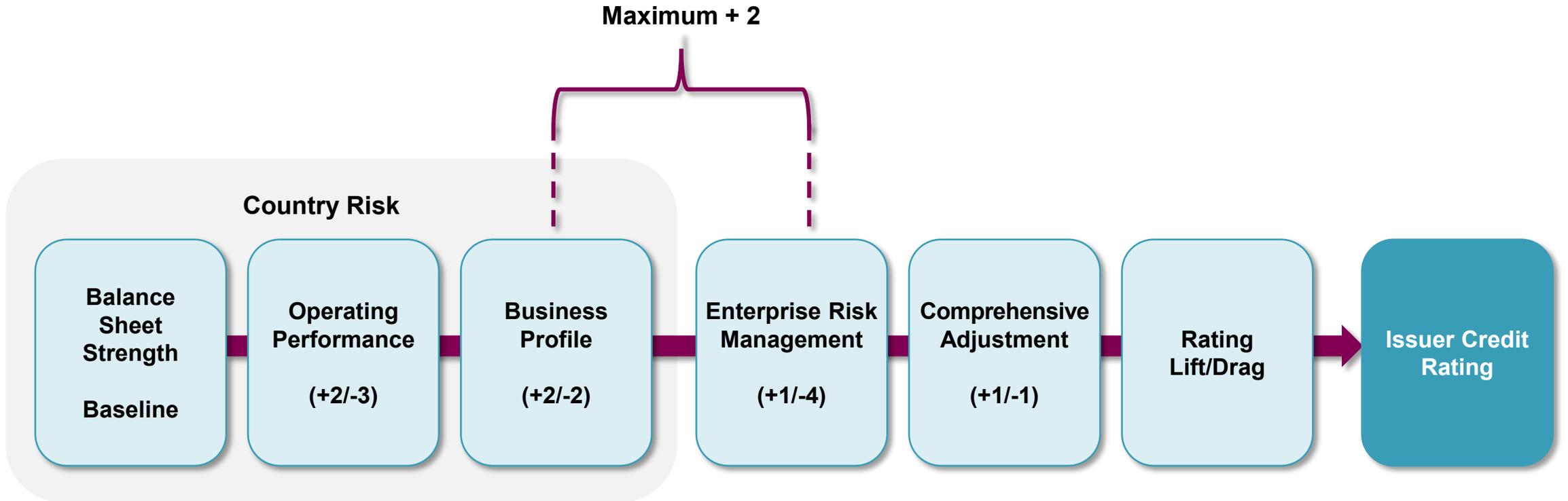
Overall Rating Outlook Split



Upgrades & Downgrades by Building Block



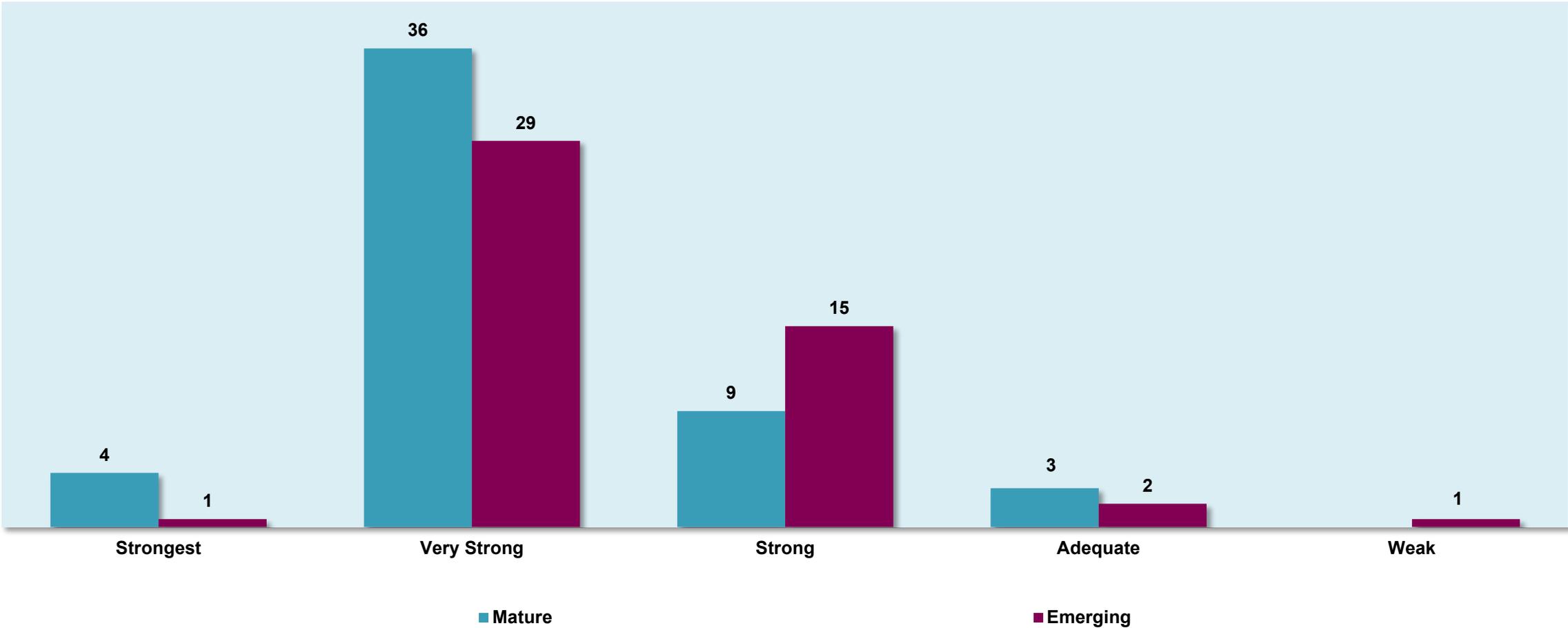
AM Best's Rating Process – Recap



AM Best's Rating Process – Recap

| Balance Sheet Strength Baseline | Operating Performance (+2/-3) | Business Profile (+2/-2) | Enterprise Risk Management (+1/-4) |
|------------------------------------|-------------------------------|--------------------------|------------------------------------|
| Assessment | Assessment | Assessment | Assessment |
| Strongest | Very Strong +2 | Very Favourable +2 | Very Strong +1 |
| Very Strong | Strong +1 | Favourable +1 | Appropriate 0 |
| Strong | Adequate 0 | Neutral 0 | Marginal -1 |
| Adequate | Marginal -1 | Limited -1 | Weak -2 |
| Weak | Weak -2 | Very Limited -2 | Very Weak -3/4 |
| Very Weak | Very Weak -3 | | |

Balance Sheet Strength EMEA – Distribution of Assessments (2021) (%)



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-/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

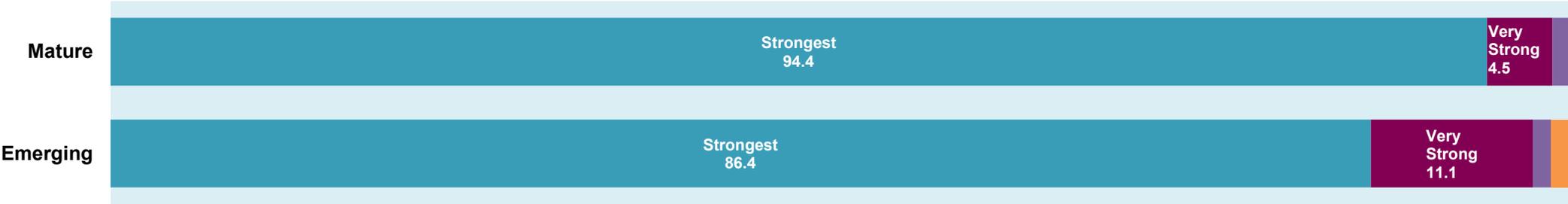
$$\text{BCAR} = \frac{(\text{Available Capital} - \text{Net Required Capital})}{\text{Available Capital}} \times 100$$

| 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 |

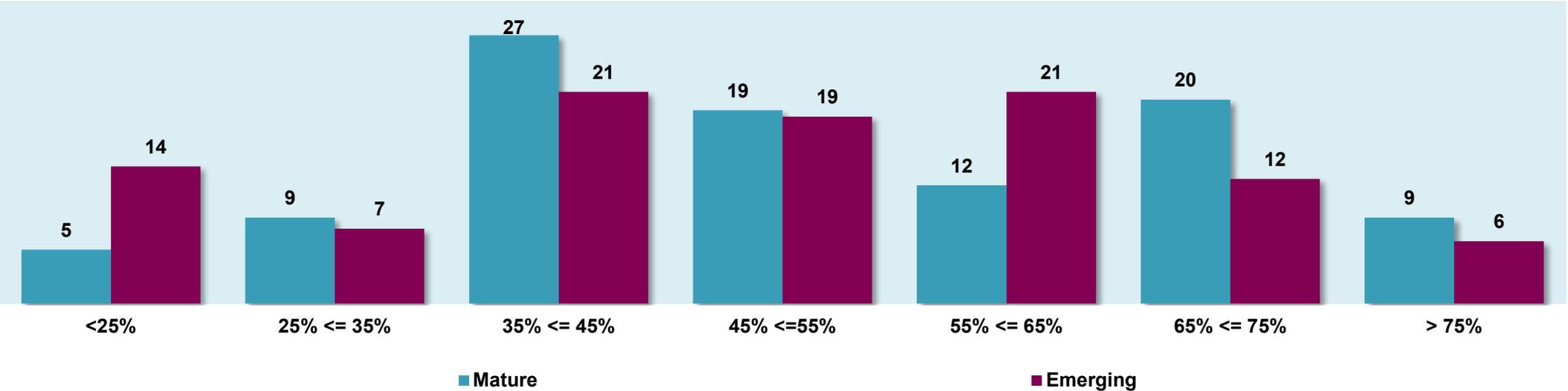
* Companies with < 20 million USD in capital & surplus cannot score in strongest category

BCAR – Assessment & Distribution (2021)

BCAR Assessment



Distribution of BCAR Scores @99.6% VaR Within the Strongest Category



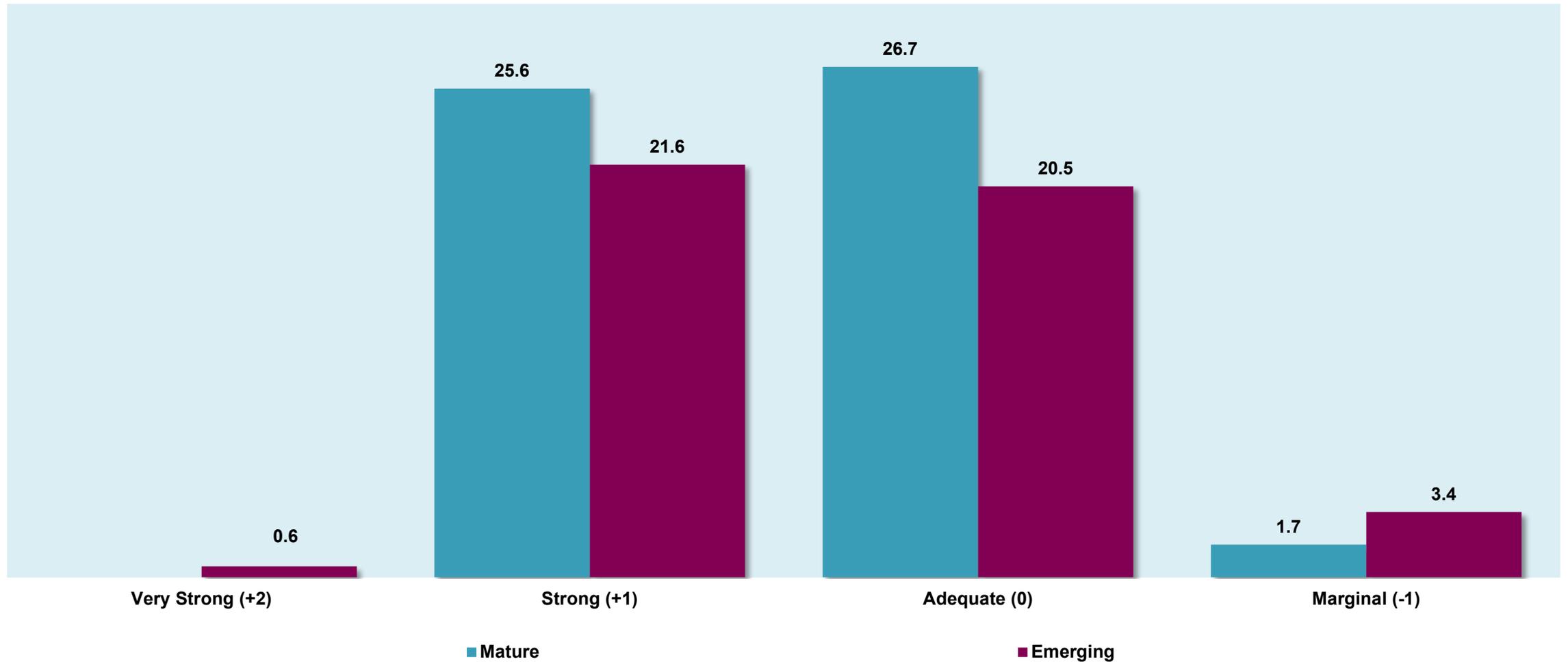
Balance Sheet Strength EMEA – Relationship of BCAR (2021)

| | | Mature Markets | | | | | For both mature and emerging markets, most companies have a balance sheet strength assessment of “Very Strong” |
|-----------------|-------------|------------------------|-------------|--------|----------|------|--|
| | | Balance Sheet Strength | | | | | |
| | | Strongest | Very Strong | Strong | Adequate | Weak | |
| BCAR Assessment | Strongest | 10.5 | 67.4 | 13.7 | 3.2 | - | |
| | Very Strong | - | 1.1 | 2.1 | 1.1 | - | |
| | Strong | - | - | - | 1.1 | - | |
| | Adequate | - | - | - | - | - | |
| | Weak | - | - | - | - | - | |
| | Very Weak | - | - | - | - | - | |

| | | Emerging Markets | | | | |
|-----------------|-------------|------------------------|-------------|--------|----------|------|
| | | Balance Sheet Strength | | | | |
| | | Strongest | Very Strong | Strong | Adequate | Weak |
| BCAR Assessment | Strongest | 1.2 | 59.3 | 25.9 | - | - |
| | Very Strong | - | 2.5 | 6.2 | 2.5 | - |
| | Strong | - | - | - | 1.2 | - |
| | Adequate | - | - | - | - | - |
| | Weak | - | - | - | - | 1.2 |
| | Very Weak | - | - | - | - | - |

While the BCAR score is an integral part of the balance sheet strength analysis, it is not the sole determinant. Other factors are also evaluated - such as dependence on reinsurance, programs to support capital diversification and quality of assets and liquidity

Operating Performance EMEA – Distribution of Assessments (2021) (%)



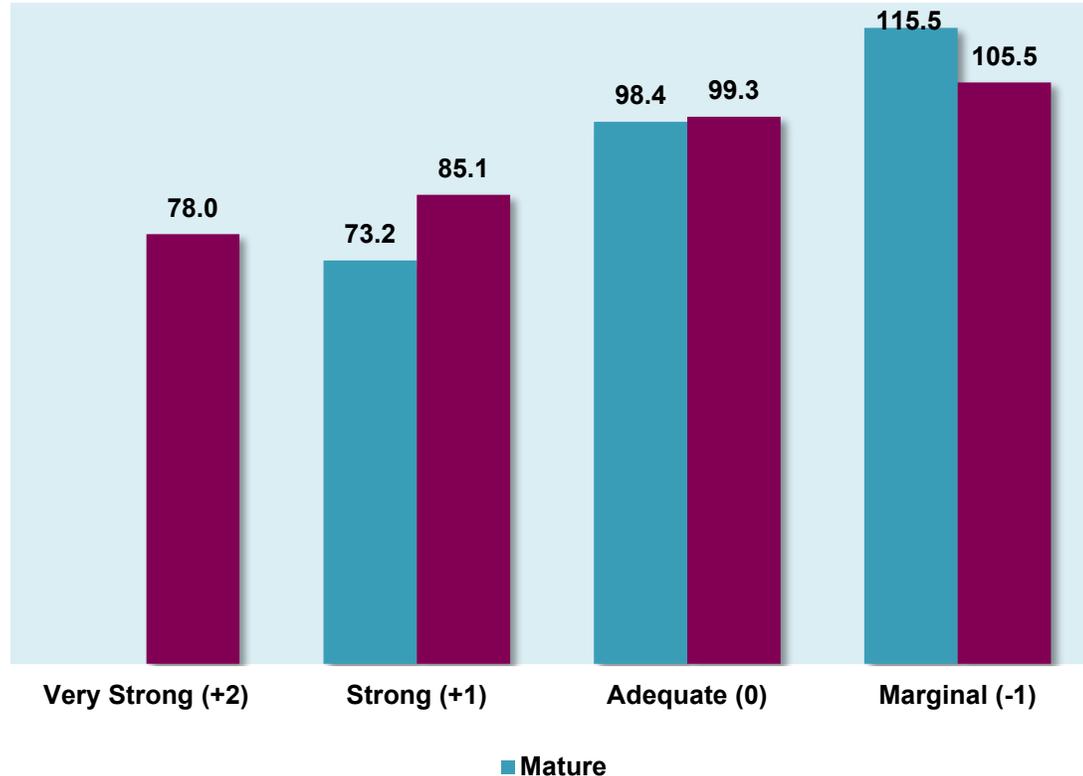
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Data on “Marginal” and “Very Strong” are skewed due to a small sample size
Source: AM Best data and research

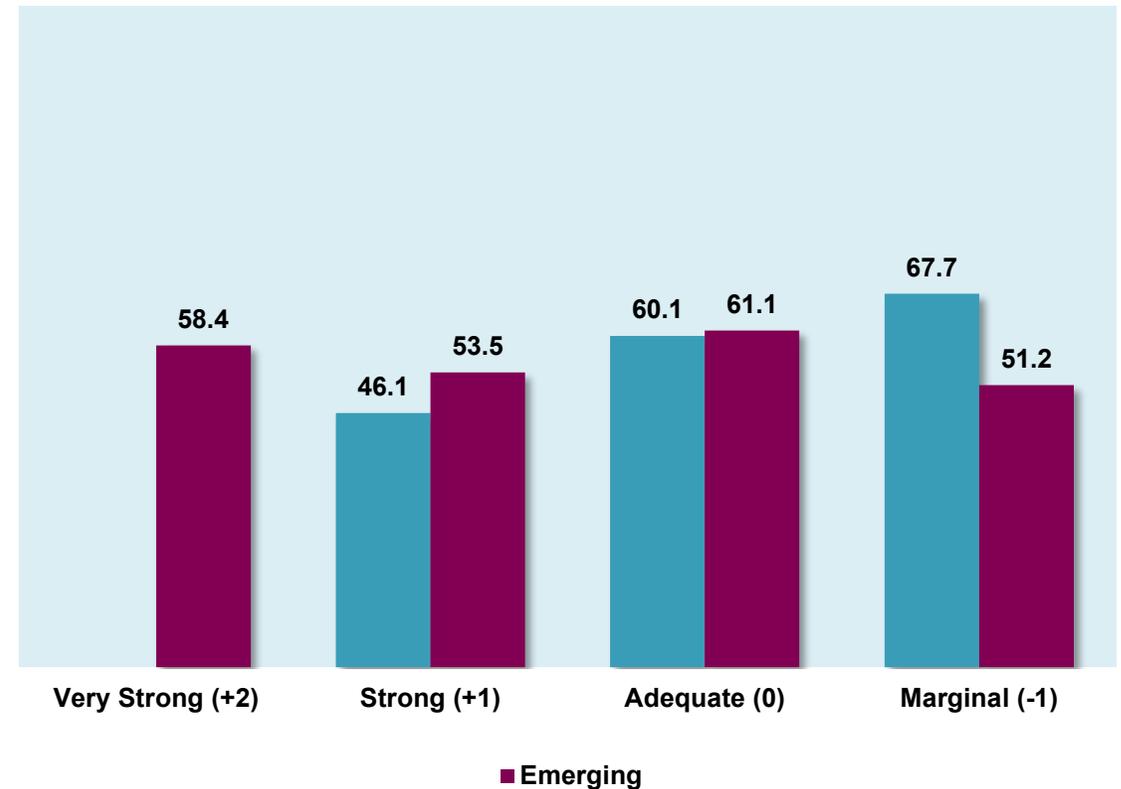


Operating Performance EMEA (Five Year Average) (2016-2020) (%)

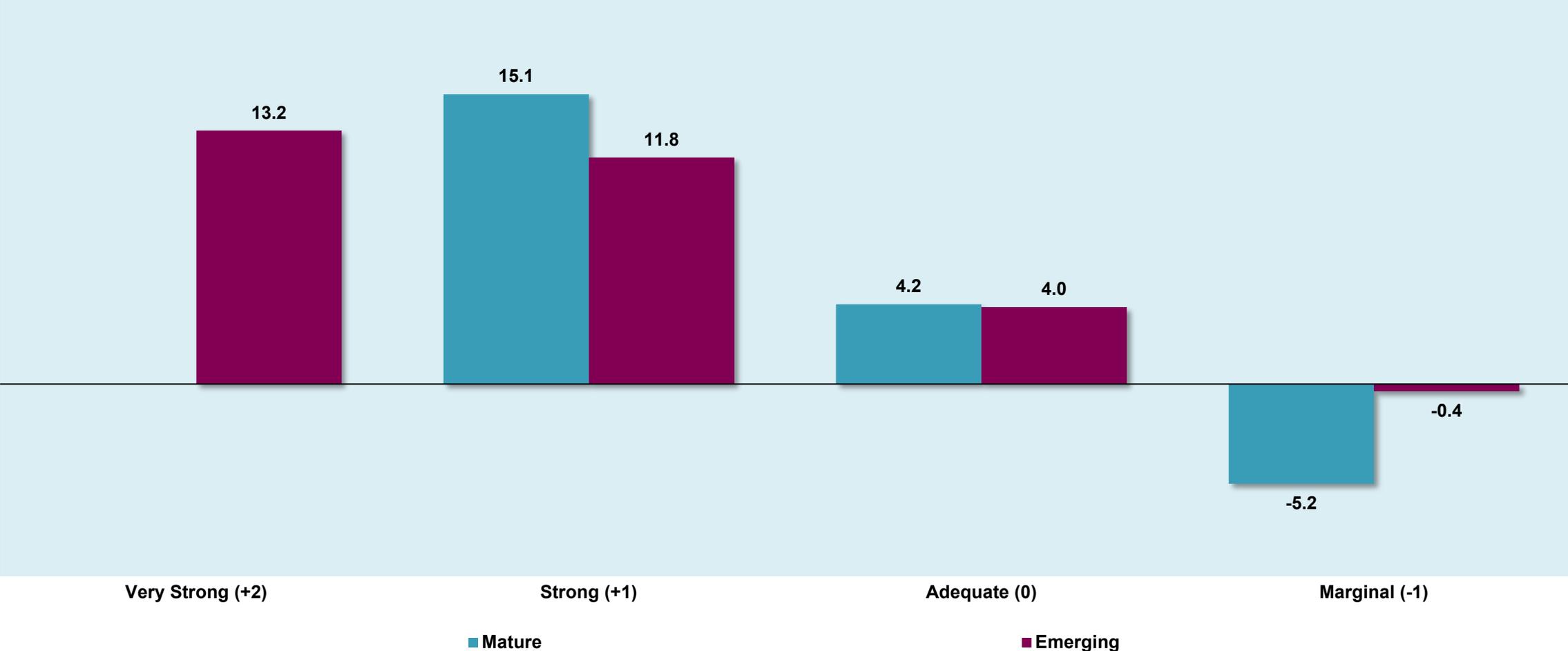
Combined Ratios



Loss Ratios



Operating Performance EMEA – Five Year Average Inflation-Adjusted Return on Equity (2016-2020) (%)

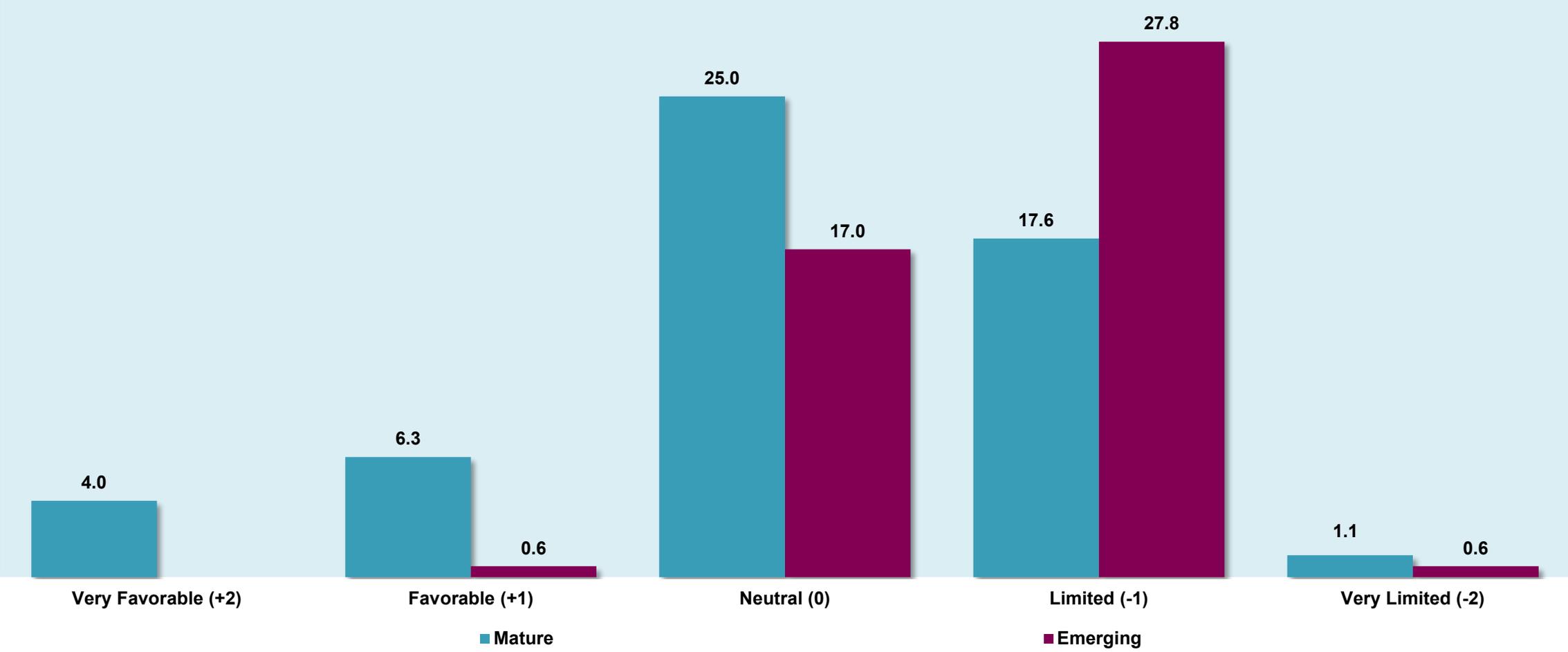


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Data on “Marginal” and “Very Strong” are skewed due to a small sample size
 Source: AM Best data and research



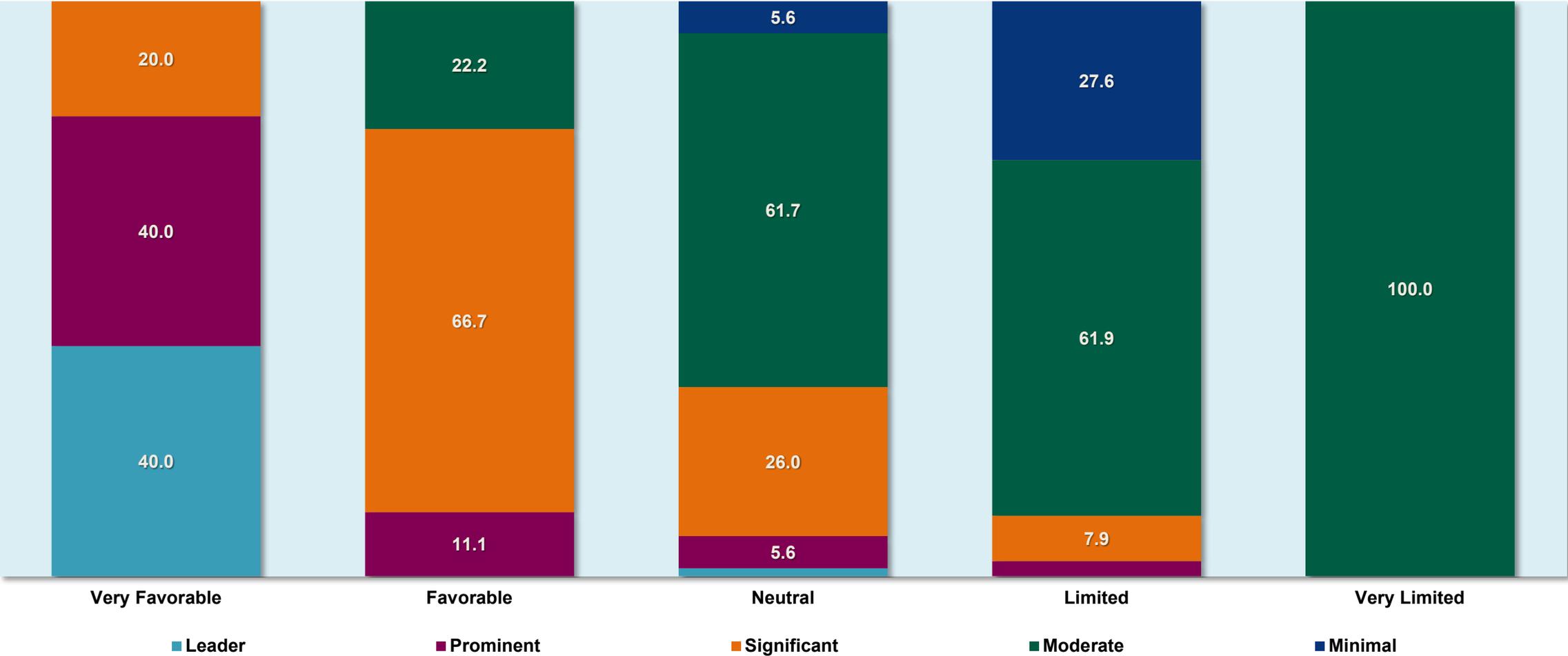
Business Profile EMEA – Distribution of Assessments (2021) (%)



Business Profile – General Characteristics

| Very Favorable | Favorable | Neutral | Limited |
|--|---|---|---|
| <p>Superior global franchise</p> <p>Excellent product & geographical diversification</p> <p>Excellent access to business through multiple distribution channels</p> <p>Market leaders across key segments</p> <p>Pricing sophistication</p> <p>Core markets/products performing well</p> <p>Significant innovation</p> | <p>Leading position in a single market or niche segment</p> <p>Good product & geographical diversification</p> <p>Strong access to markets through key distribution channels</p> <p>Extensive inhouse expertise</p> <p>Good data and pricing sophistication</p> <p>Core lines performing well</p> | <p>Strong market profile in a small market</p> <p>Limited size on global scale</p> <p>Narrow profile on net basis</p> <p>Some dependence on third parties</p> <p>High degree of competition</p> <p>Moderate economic/ political/regulatory risk</p> | <p>SME and monoline insurers</p> <p>Limited product & geographical diversification</p> <p>Very limited profile on global scale</p> <p>Narrow profile on net basis</p> <p>High dependence on third parties</p> <p>High degree of competition</p> <p>High economic/ political/regulatory risk</p> <p>Limited innovation</p> |

Business Profile EMEA – Innovation Assessment by Business Profile (%)

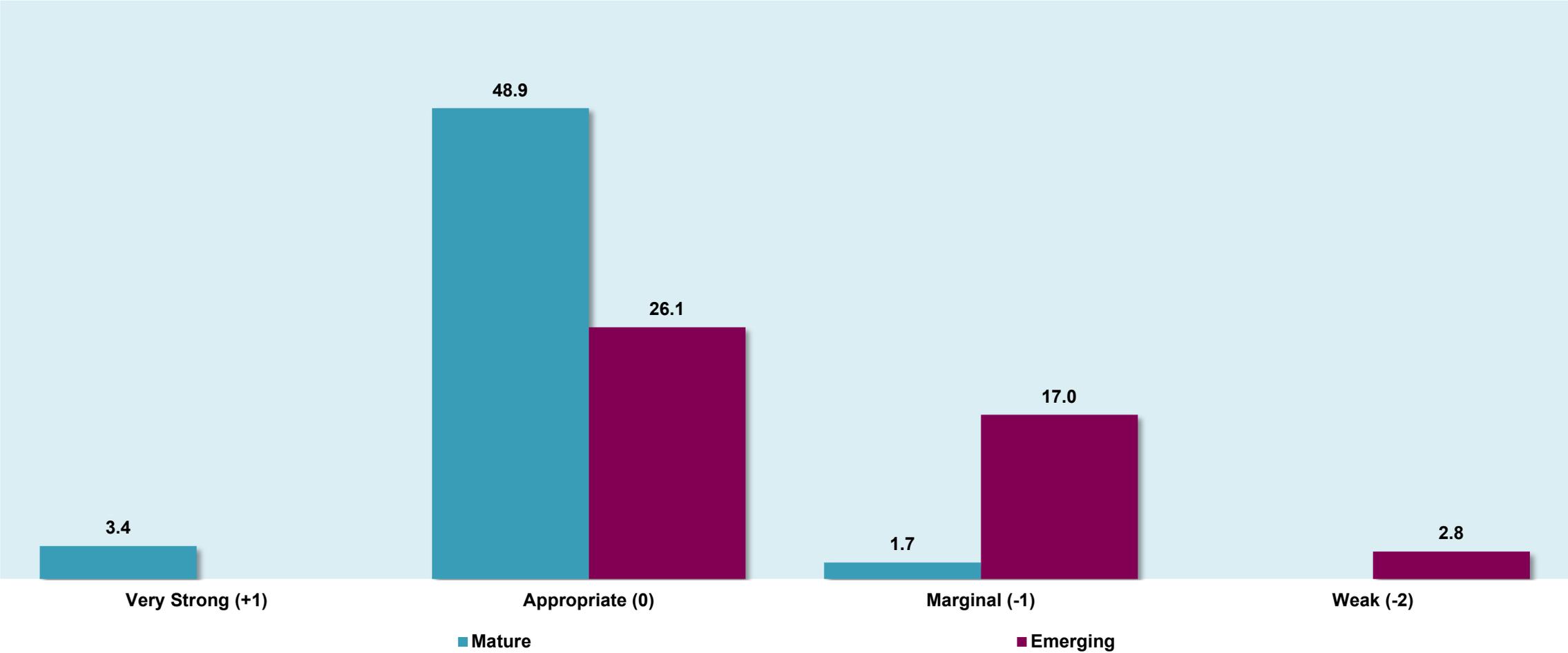


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Source: AM Best data and research

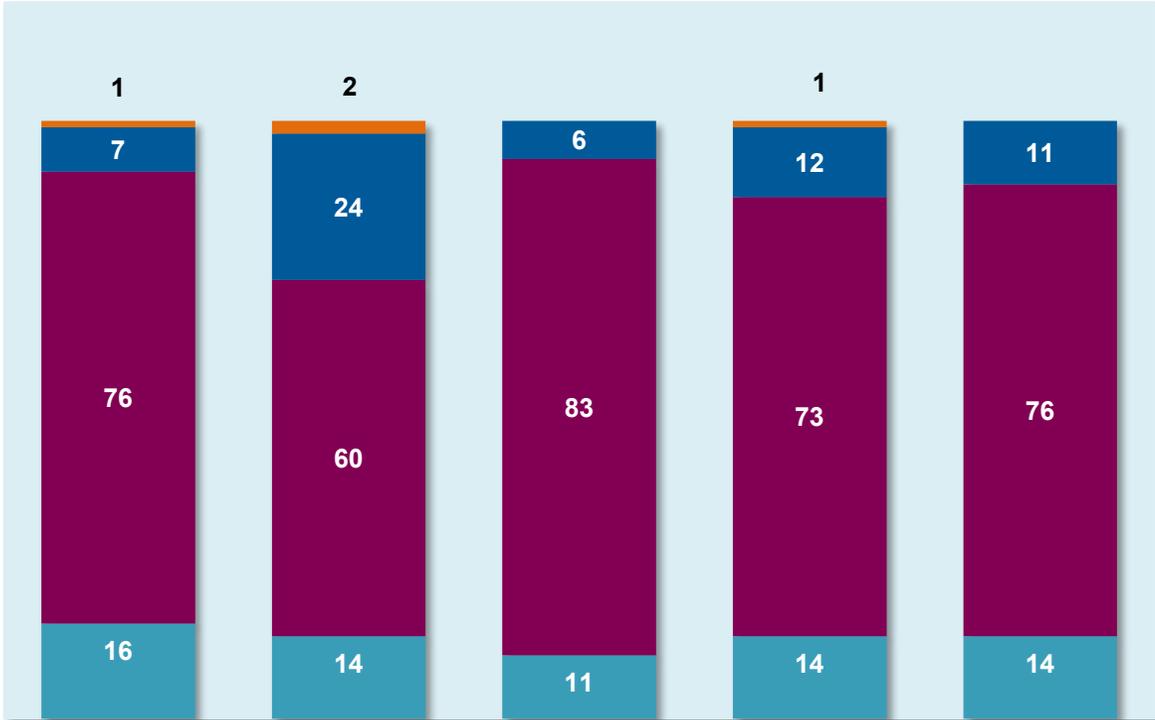


Enterprise Risk Management – Distribution of Assessments (2021) (%)

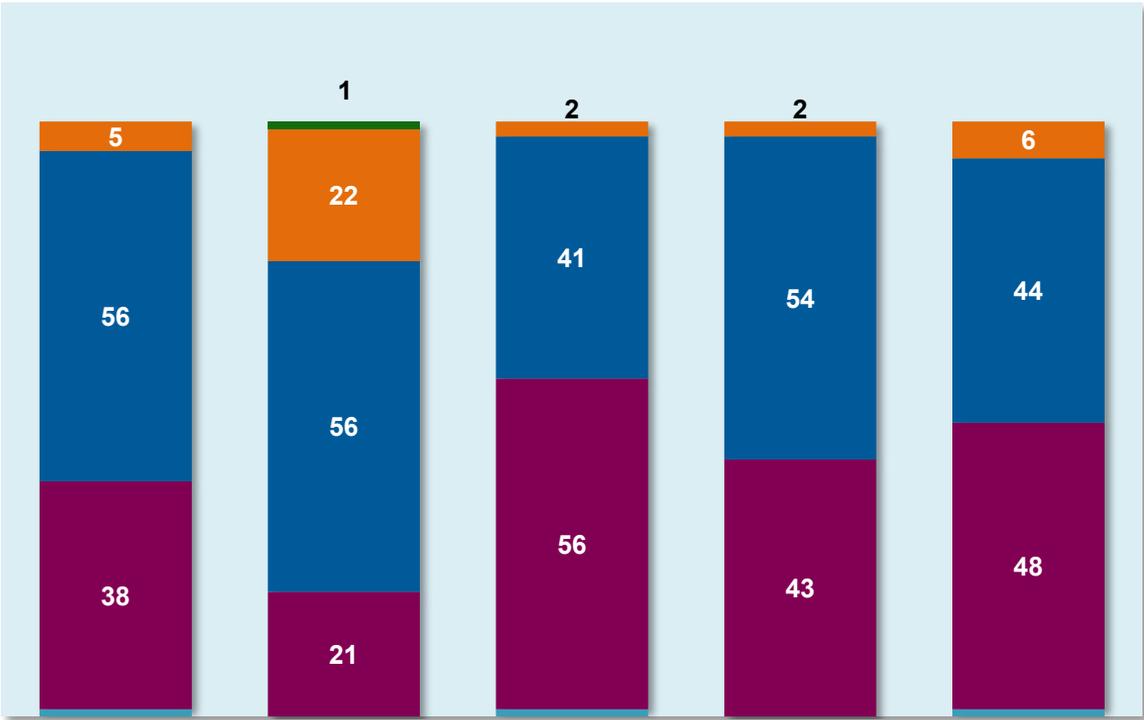


ERM – Risk Framework Evaluation (2021)

Mature Markets



Emerging Markets

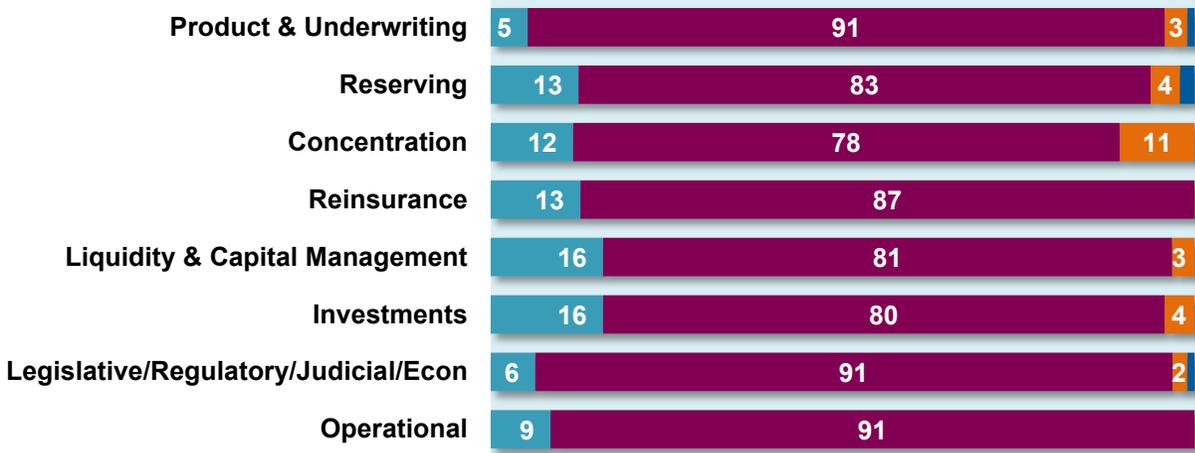


■ Embedded ■ Developed ■ Evolving ■ Nascent ■ Unrecognized

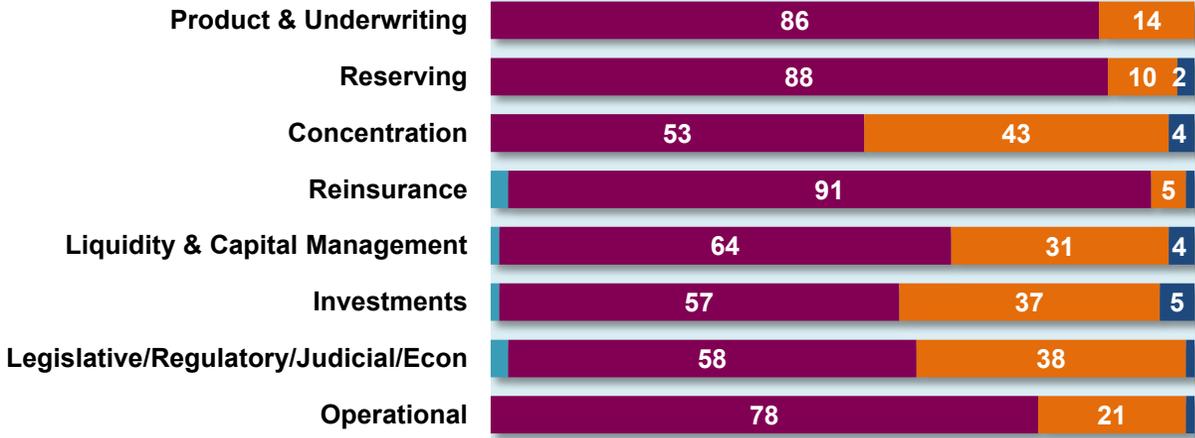


ERM – Risk Capabilities Evaluation (2021)

Mature Markets



Emerging Markets



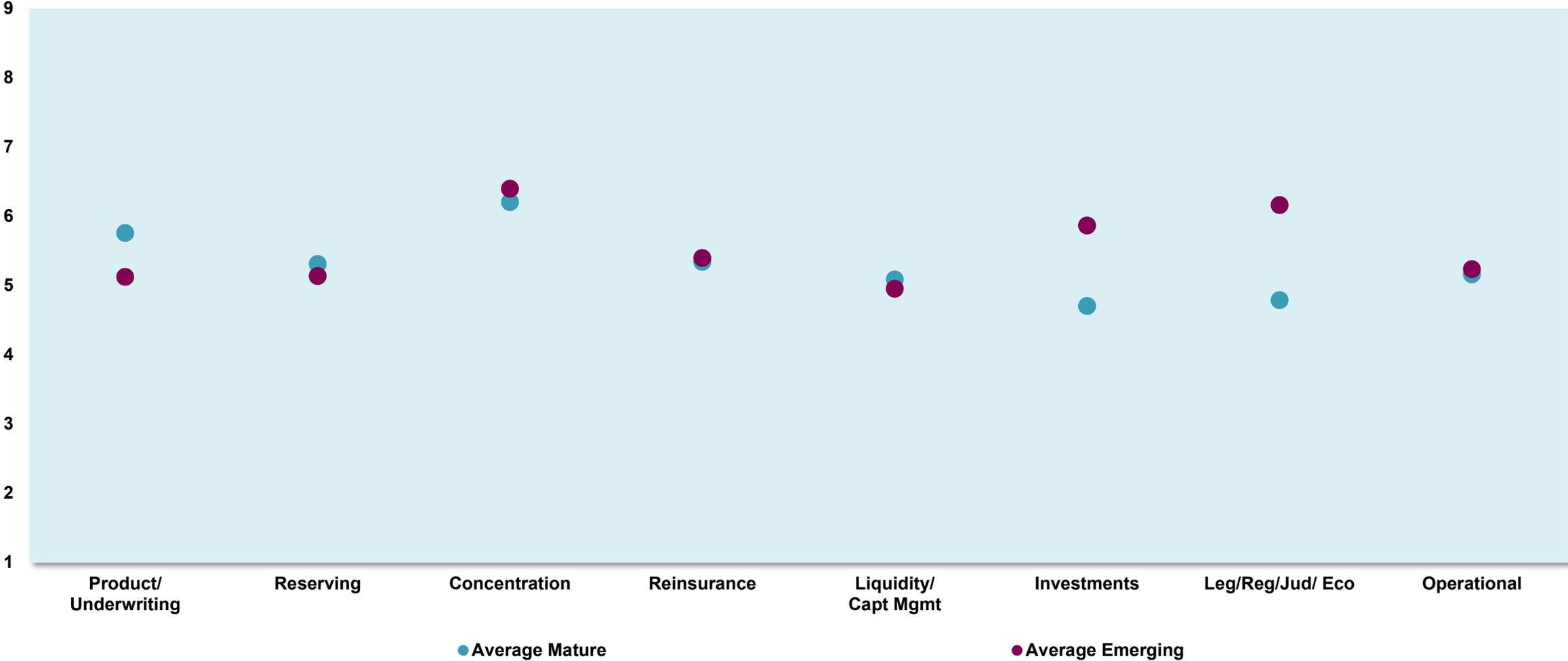
■ Very Strong ■ Appropriate ■ Marginal ■ Weak ■ Very Weak



ERM – General Characteristics

| Very Strong | Appropriate | Marginal | Weak |
|--|---|--|--|
| <p>Formalised risk appetite/tolerances</p> <p>Defined risk reporting roles/responsibilities</p> <p>Regular stress/scenario testing</p> <p>Superior risk control/ monitoring procedures</p> <p>Horizon scanning</p> <p>Sophisticated inhouse modelling & tools</p> <p>Fully embedded risk framework</p> <p>Strong governance & risk culture</p> | <p>Defined risk appetite/tolerances</p> <p>Periodic stress/scenario testing</p> <p>Robust risk control/monitoring procedures</p> <p>Advanced inhouse modelling & tools</p> <p>Risk framework partially utilised for strategic decision making</p> <p>Developing governance & risk culture</p> | <p>Basic risk appetite/tolerances</p> <p>Evolving risk control/monitoring procedures</p> <p>No evidence of stress/scenario testing</p> <p>Some third-party reliance</p> <p>Little alignment between risk framework & business strategy</p> <p>Emerging governance & risk culture</p> <p>Moderate economic/ political/regulatory risk</p> | <p>Indistinct risk appetite/tolerances</p> <p>History of ERM failures/regulatory breaches</p> <p>Extensive third-party reliance</p> <p>No alignment between risk framework & business strategy</p> <p>Underdeveloped governance & risk culture</p> <p>High economic/ political/regulatory risk</p> |

EMEA Rating – Average Risk Profile Evaluation



Ukrainian-Russian Conflict

- Downgrade and withdrawal of four ratings
- Indirect implications: second order effects
 - acceleration of inflation
 - growth prospects reduced by economic uncertainty
 - potential for increased volatility in capital markets
 - potential further supply chain disruptions
- Direct impact: potential claims in aviation, marine, political risk, cyber and trade credit

What is a Best's Market Segment Outlook?

AM Best's Market Segment Outlooks

- Examine the current trends in particular segments of the insurance industry over the next 12 months
- Typical factors considered include:
 - Current and forecast economic conditions
 - The regulatory environment and potential changes
 - Emerging product developments
 - Competitive issues
- A Best's Market Segment Outlook can be Positive, Negative, or Stable
- Many segments covered internationally
- AM Best ratings take into account how companies manage these factors and trends
- Not an indicator of rating movements

European Market Segment Outlooks

Non-Life – Negative Outlooks

Supporting Factors

- Low interest rates and investment volatility pressure earnings
- Growth prospects reduced by economic uncertainty associated with rising geopolitical tension and potential new COVID-19 variants
- Rising inflation and social inflation risk in the context of higher claim frequency
- Increased investment risk in certain European markets as insurers are seeking higher yields through alternative investments

Moderating Factors

- Mature and diversified markets
- Premium rates increases expected to support technical profitability
- Resilient solvency ratios

European Market Segment Outlooks

Life – Negative Outlooks

Supporting Factors

- Premium growth challenged by uncertain economic conditions
- Compressed margins due to the low interest rate environment
- Downward pressures on solvency levels

Moderating Factors

- Efforts to shift business mix to low-risk, capital light products

AM Best's Market Segment Outlooks – Europe (as at April 26, 2022)

| | | |
|---|---|---|
| France Life Negative <i>(no change)</i> | France Non-Life Negative <i>(revised)</i> | London Market Stable <i>(no change)</i> |
| Italy Life Negative <i>(no change)</i> | Italy Non-Life Negative <i>(revised)</i> | |
| Spain Life Negative <i>(no change)</i> | Spain Non-Life Negative <i>(revised)</i> | |
| UK Non-Life Negative <i>(no change)</i> | UK Life Stable <i>(revised)</i> | |

AM BEST
SINCE 1899

BEST'S MARKET SEGMENT REPORT

Our Insight, Your Advantage™

April 14, 2022

Market Segment Outlook: France Non-Life Insurance

AM Best is revising its outlook to Negative from Stable for the French non-life insurance segment.

Uncertain economic conditions pose challenges for French non-life insurers

Factors that support the Negative outlook in 2022 include:

- Growth prospects reduced by economic uncertainty
- Rising inflation and claims frequency cause underwriting challenges
- Uncertainty remains for COVID-19 business interruption (BI)
- Low interest rates and investment pressure on equity

AM Best's Market Segment Outlooks can be downloaded from our Best's Market Segment Outlooks page

Q&A

AM Best's Hot Topics

Konstantin Langowski – Senior Financial Analyst
Dr. Angela Yeo – Senior Director, Analytics

May 2022

ESG in Best's Credit Rating Methodology (BCRM)

Understanding ESG Concepts: General Perspective

The consideration of environmental, social and governance factors alongside financial factors in the investment and underwriting decision-making processes



Environmental factors: Concern issues related to resource use, pollution, climate risk, energy use, waste management and other physical environmental challenges and opportunities



Social factors: Concern issues related to how a company interacts with the communities it operates in, its suppliers, employees and customers. These include, for example, labor standards, health and safety, supply chain management and nutrition and obesity



Governance factors: Concern procedures and processes according to which an organization (in this context, mainly a company) is directed and controlled

ESG Impact on Credit Quality

ESG is relevant when it has a visible impact on financial strength.
Positive ESG attributes may have no impact on a rating

ESG while important is not a new concept

Environmental and governance factors have long been part of the credit analysis and captured in our rating opinions

Translating into Criteria: Importance of ESG Factors are on the Rise

ESG factors have always been considered in our rating process and have impacted ratings when they are material. AM Best also considers the long term impact of ESG factors.

Best's Credit Rating Methodology (BCRM)

| Balance Sheet Strength | Operating Performance | Business Profile | Enterprise Risk Management |
|--|---|--|--|
| <ul style="list-style-type: none">• Climate risk*• ESG integration in investing activities• Stranded assets | <ul style="list-style-type: none">• Social inflation• ESG-related litigation• Impact of ESG integration on profitability | <ul style="list-style-type: none">• Underwriting exclusions• Changing demographics• Data privacy• Reputational risk | <ul style="list-style-type: none">• Corporate governance*• Stress testing*• Management of insurance and non-financial risks |

- ESG factors, where material and relevant, may impact any one, or several building blocks
- Impact of ESG is viewed purely from an analytical perspective – focusing on the impact on the credit rating
- No judgement is made on the ethical value of ESG activities or ESG credentials of the company

ESG Commentary in Credit Reports

Analysts consider any **key** ESG factors the company faces

Commentary reflects how ESG can affect **credit quality** and how ESG risks and opportunities are being integrated and considered by the company

Commentary also reflects specific risks and opportunities that the company is facing based on additional details learned through discussions with management

**AM Best's
Performance Assessment (PA)
for
Delegated Underwriting
Authority Enterprises
(DUAEs)**

What is a Performance Assessment (PA)?

A measurement of the relative ability of an enterprise to perform services on behalf of insurance partners

Key components are assessed and assigned points based on the entity's performance

The summation of the points from each key component determines the Assessment Range which translates into the Performance Assessment

PA for DUAEs – Current State

- Methodology released on February 1, 2022
- Published first three performance assessments in early April 2022
- Industry outreach and education is ongoing

What is a Delegated Underwriting Authority Enterprise (DUAE)?

- AM Best defines a DUAE as a third party entity that is appointed by a (re)insurer, through contractual agreements, to perform underwriting, claims handling, and/or administrative functions on behalf of their carrier partners
- Typically carried out by insurers, DUAE's functions can include:

Binding
coverage

Underwriting
and pricing

Settling
claims

Appointing
retail agents
in a certain
region

Access to
niche
segments
and markets

- The DUAE manages all or part of the insurance business of an insurer and acts as an insurance agent or broker for the insurer, while working as the intermediary between insurers and agents, and/or insured

Growing Importance of DUAEs

- Increasingly important part of the insurance value chain (insurance distribution model)
- Main presence in US, UK and Australia; gaining traction in other markets
- Actively used by global insurance players, in addition to small specialised insurers
- Provide a variety benefits:

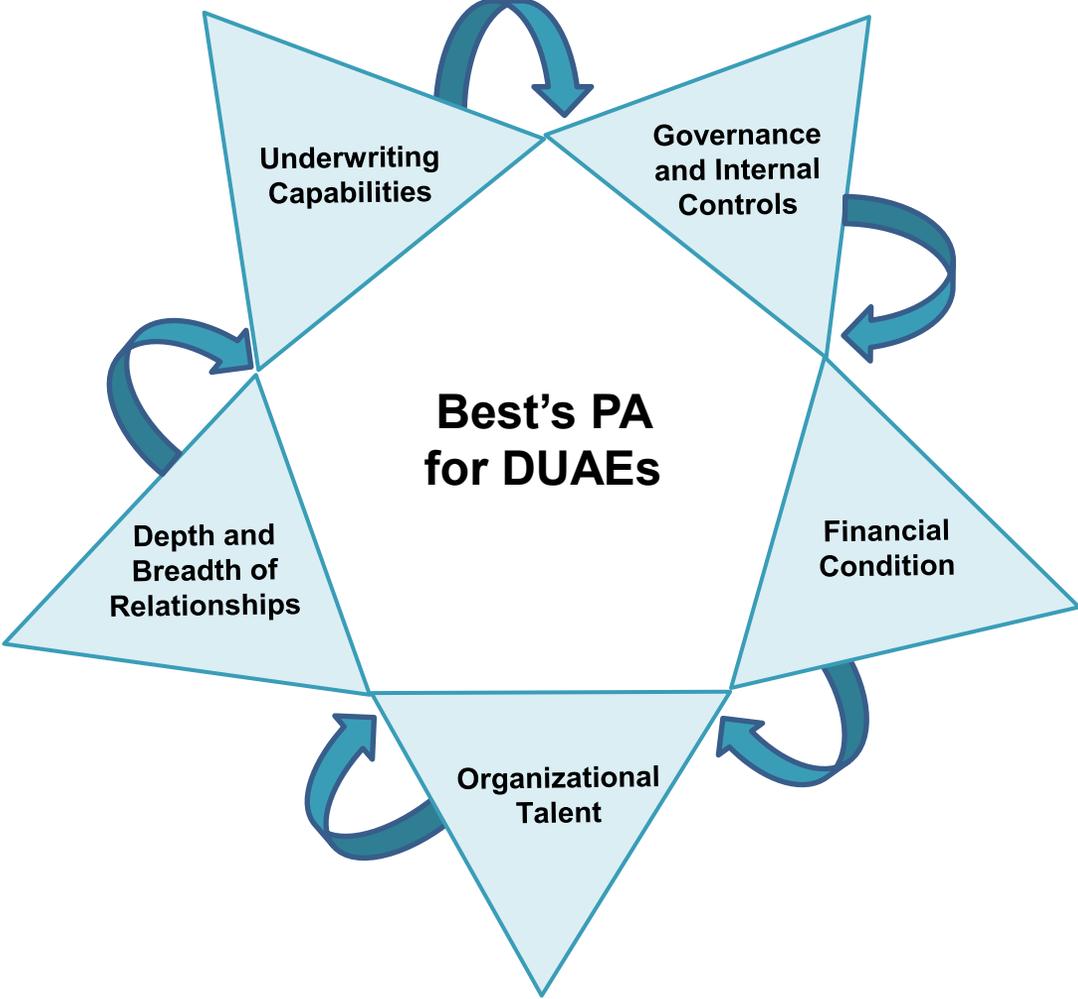
Distribution

**Underwriting
expertise**

**Claims
management**

**Access to
niche
segments
and markets**

PA for DUAEs Components



PA for DUAEs – Final Outcome

| Assessment Categories | Assessment Symbols | Assessment Ranges |
|-----------------------|--------------------|-------------------|
| Exceptional | PA-1 | 34-40 |
| Excellent | PA-2 | 27-33 |
| Strong | PA-3 | 20-26 |
| Fair | PA-4 | 13-19 |
| Weak | PA-5 | Up to 12 |

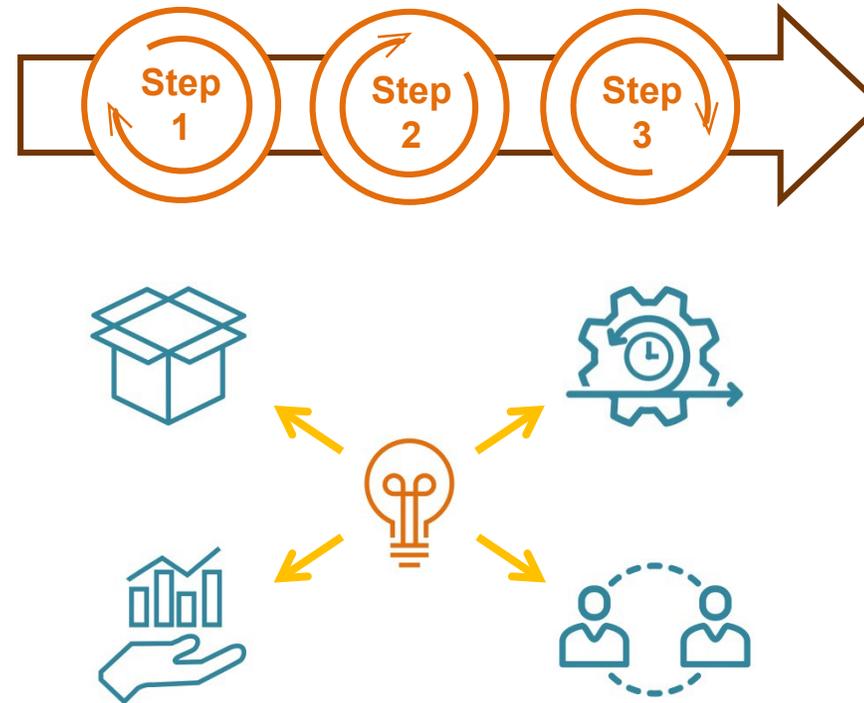
The PA scale outlines the DUAE's:

- Relative ability to perform services on behalf of its insurance partners
- Underwriting expertise
- Financial performance indicators
- Company processes
- Appropriateness of governance and internal controls

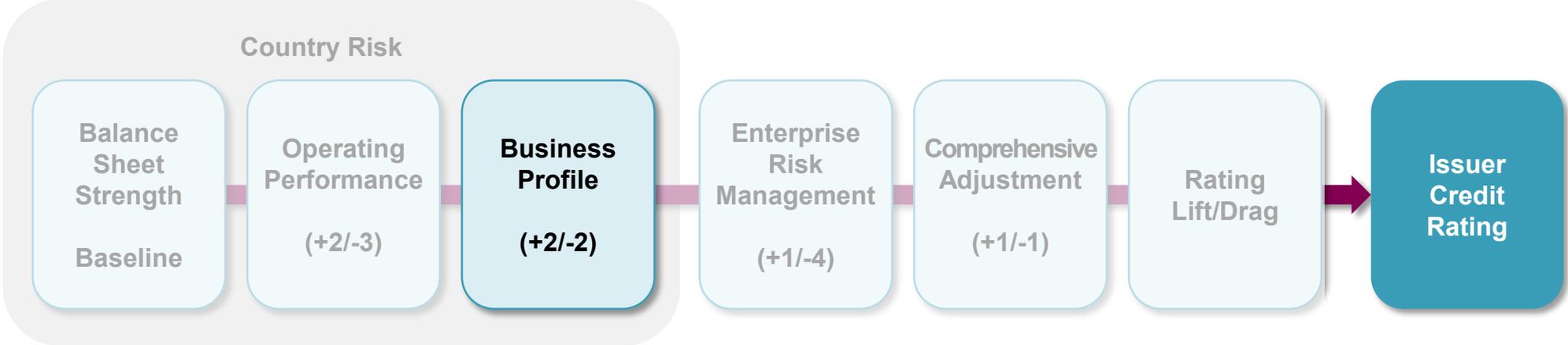
Innovation Insights

Innovation – AM Best Definition

- A multi-stage process ...
- ... that transforms ideas into new or significantly improved:
 - Products
 - Processes
 - Services
 - Business models
- ... that have measurable positive impact over time and enable an organization to stay relevant and successful ...
- ... and can be organically grown or adopted from external sources.



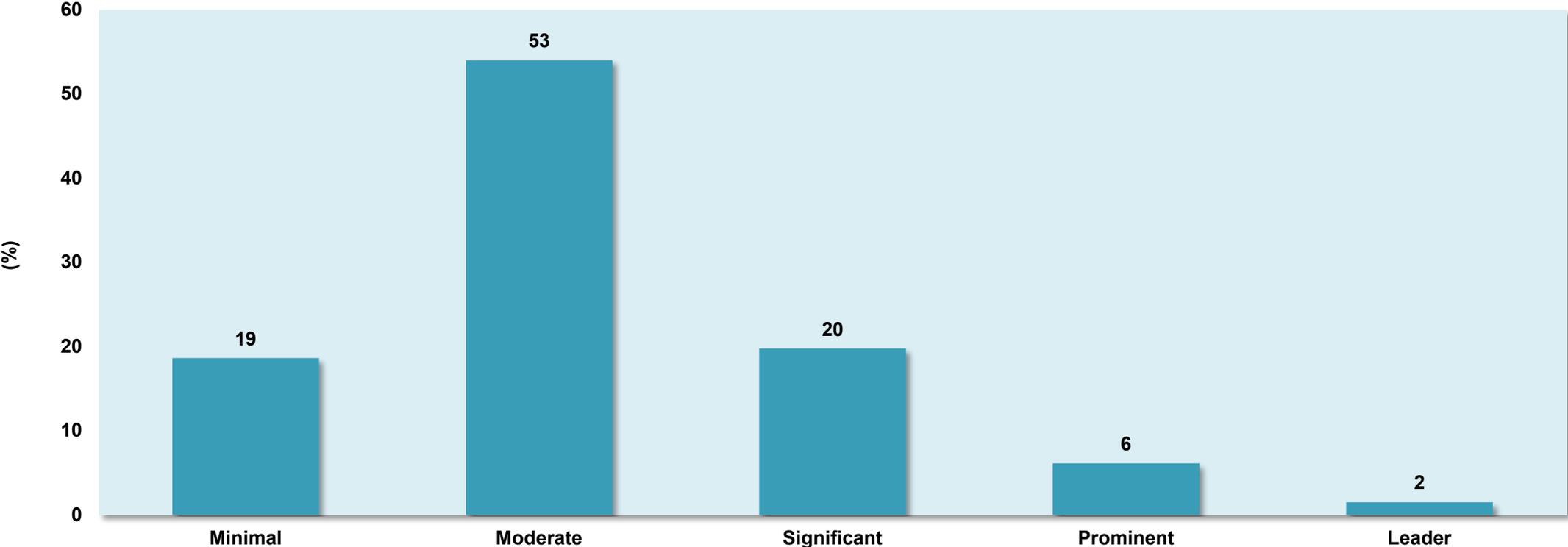
BCRM Building Blocks – Where is Innovation Captured?



| Business Profile Components | |
|---|--|
| • Market Position | • Management Quality |
| • Pricing Sophistication & Data Quality | • Regulatory, Event, and Country Risks |
| • Product Risk | • Distribution Channels |
| • Degree of Competition | • Product/Geographic Concentration |
| • Innovation | |

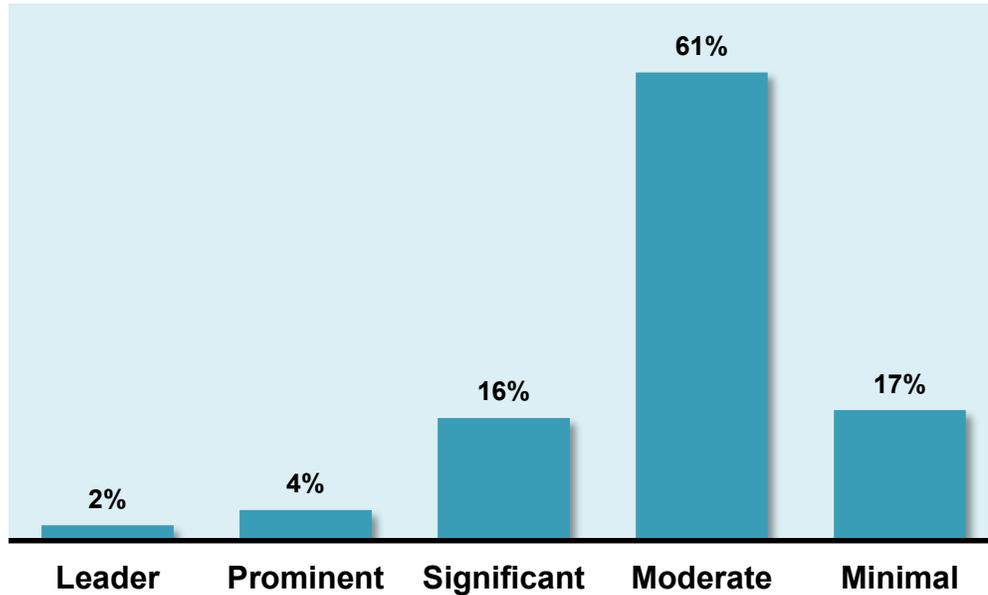
Findings – Global Distribution Centered on “Moderate” as of H1 2021

Innovation Assessments

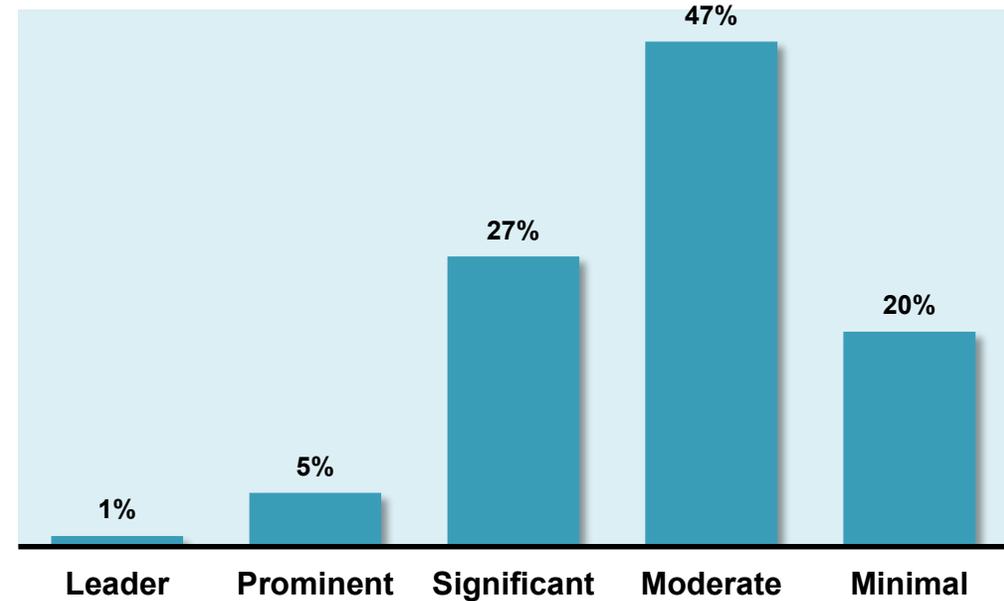


Findings – Global Distribution Centered on “Moderate” as of H1 2021

P/C Distribution

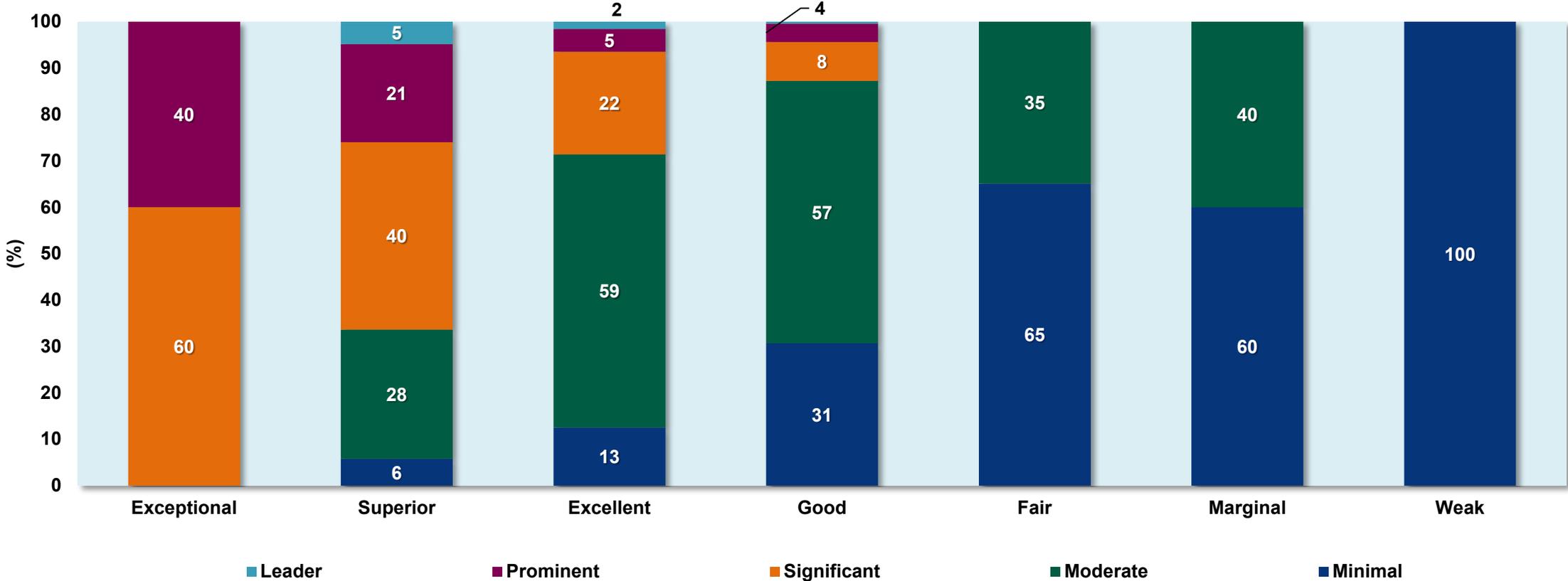


Life/Annuity Distribution

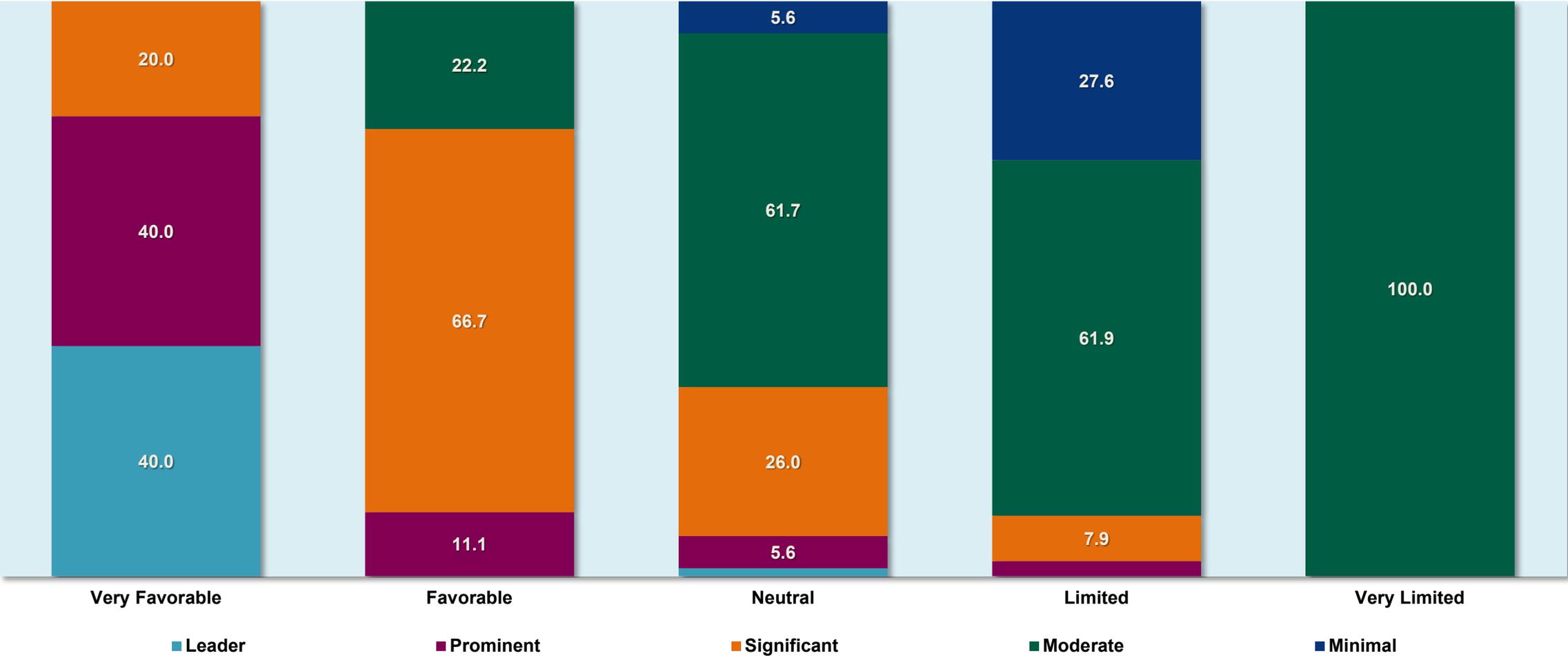


Higher Rated Companies Are More Innovative ...

Innovation Profile by Rating Category



Business Profile EMEA – Innovation Assessment by Business Profile (%)



Q&A

**Excelsior Hotel Ernst
Cologne
4 May, 2022**

**Bayerischer Hof
Munich
5 May, 2022**

**AM Best's
Germany Insurance Market Briefings –
Cologne, Munich**

**William Mills
Senior Director, Market Development – EMEA**