

Global Reinsurance Market Overview

Stefan Holzberger- Chief Ratings Officer, AM Best

**Singapore International Reinsurance Conference (SIRC)
October 31st, 2023**

Why is this Cycle Different?

Leading indicators to historical reinsurer formations

Single major event:
Hurricane
Earthquake
Terrorism

Material capital
erosion

Sharp rate
increases in a
short period of
time

New 2023/24 class?

Rising interest rates
since 2022

Higher opportunity cost
Gradual rate increases before 1/1/23

Alternative Capital

Plateaued in 2018

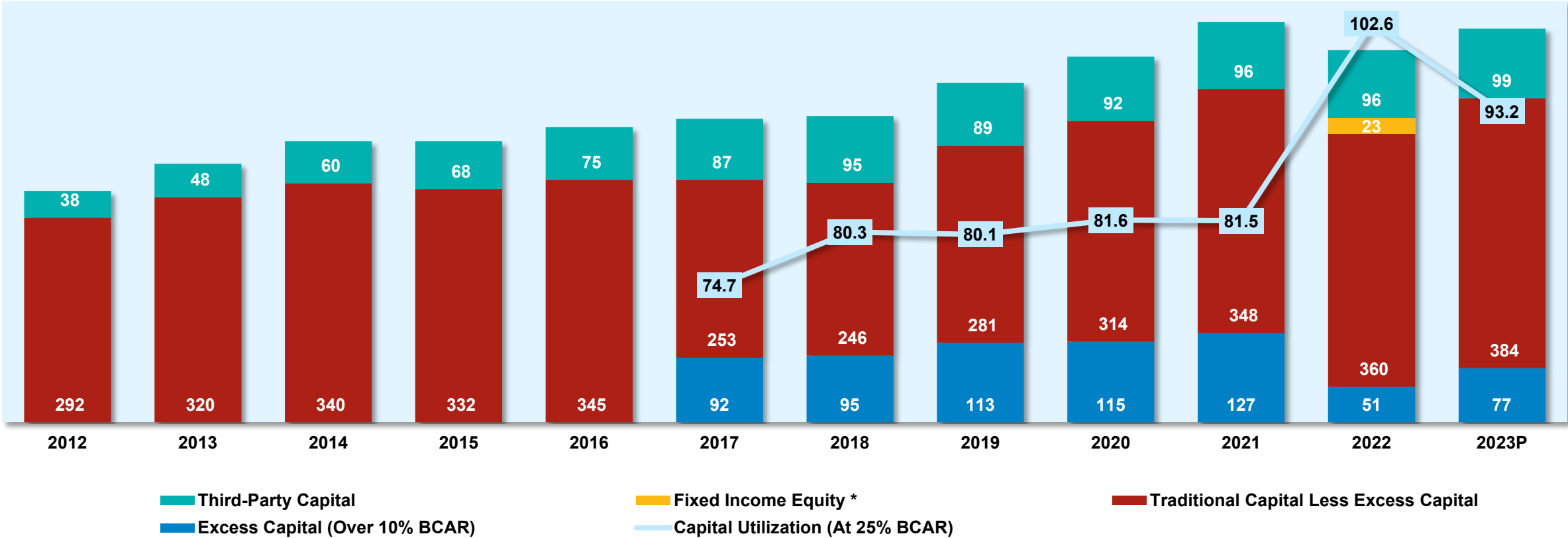
No single major
catastrophe event

Accumulation of more frequent
secondary perils

Global reinsurers remain
well capitalised

Global Reinsurance Market Capital

Total Dedicated Reinsurance Capital (USD Billions)



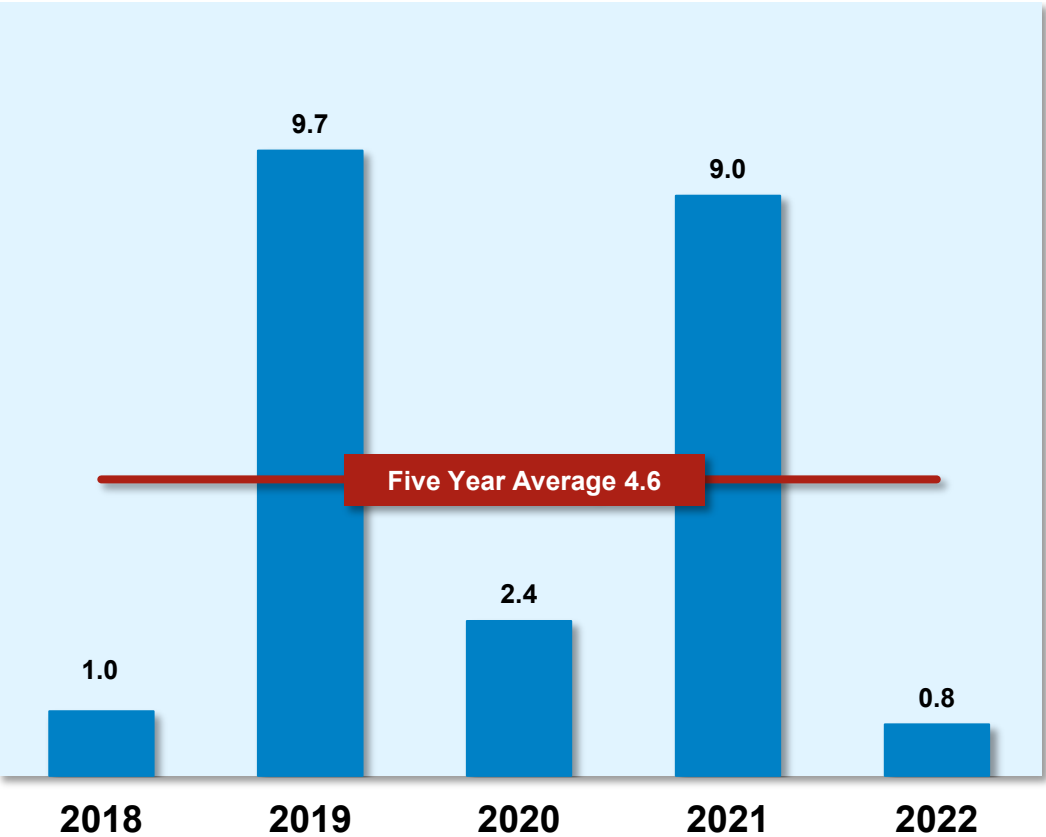
*: For reinsurers that have ample cash liquidity to support their potential shock losses, the “fixed-income equity” adjustment captures the amount of capital that AM Best anticipates will be recovered as bonds mature over time

Sources: Estimates by Guy Carpenter and AM Best

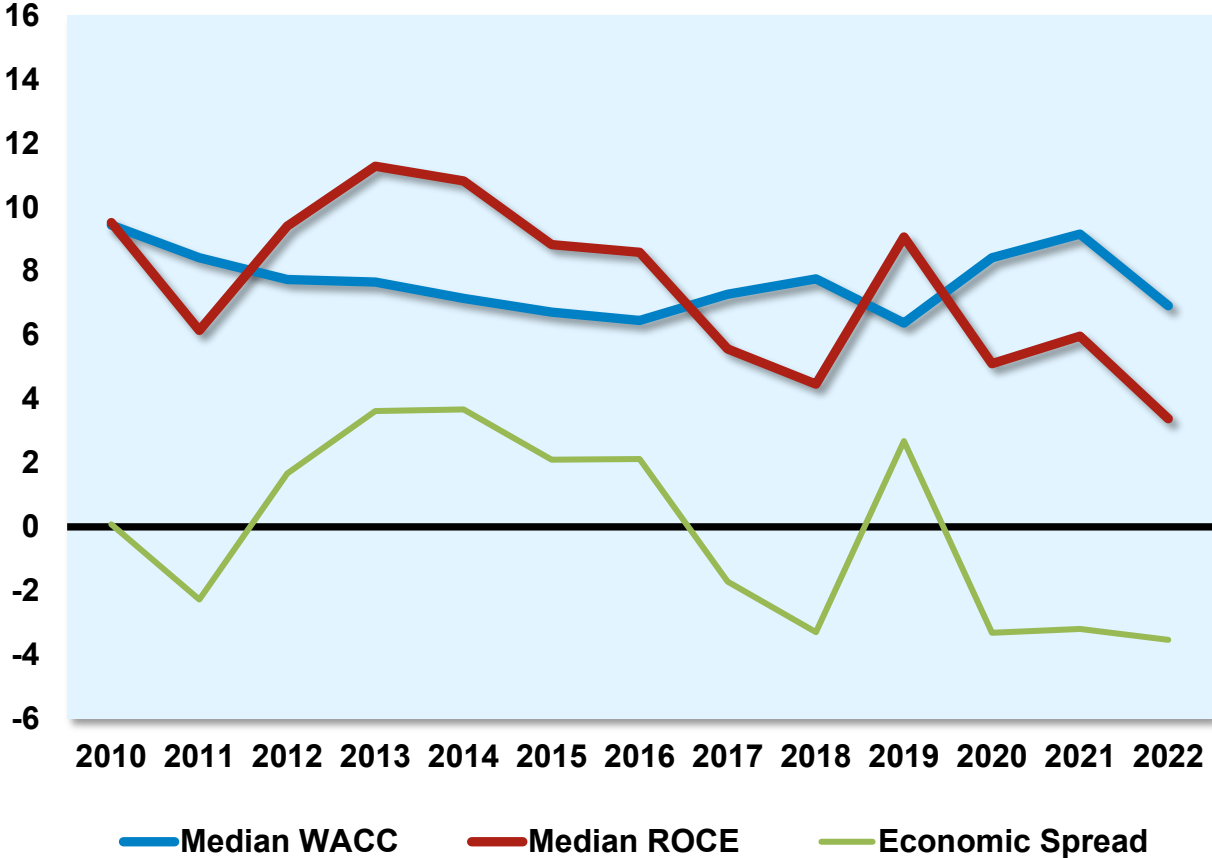


Global Reinsurance Market Performance

Return on Equity (%)



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

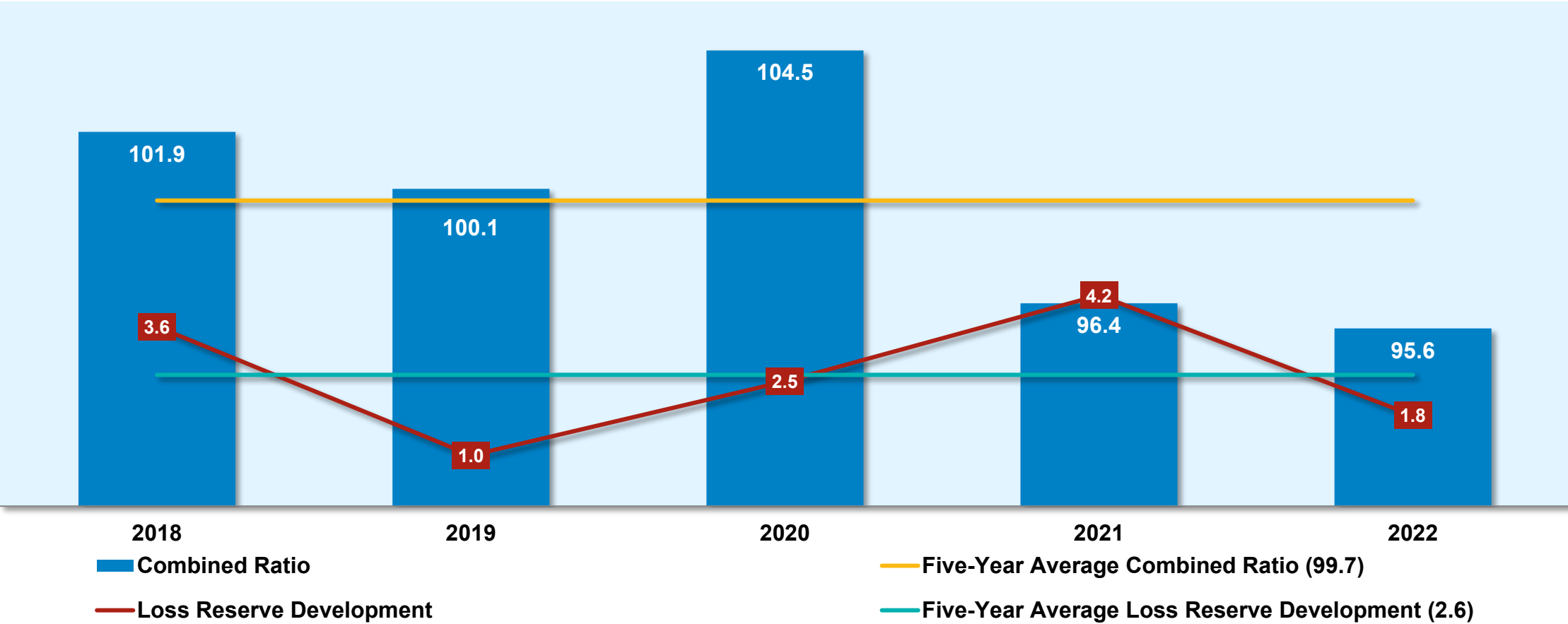


Sources: Return on Equity - AM Best data and research, WACC and ROCE - Bloomberg



Global Reinsurance Market Performance

Combined Ratios and Favourable Reserve Development (%)



Source: AM Best data and research



Global Reinsurance Market Outlook – Stable

Headwinds

Available capital ≠ Deployed capital

More complex and evolving risk environment

Inflationary pressures

Pressure to innovate to maintain relevance

Tailwinds

Reinsurers remain well capitalized

Demand remains strong, characterized by flight to quality

Technical results continue to improve

Reinsurers have shown ability to innovate

Key Themes for SIRC 2023

There is no capacity shortage
just smarter allocation

Results improving
but reinsurers still catching up

Business models evolving
specialist model under threat?

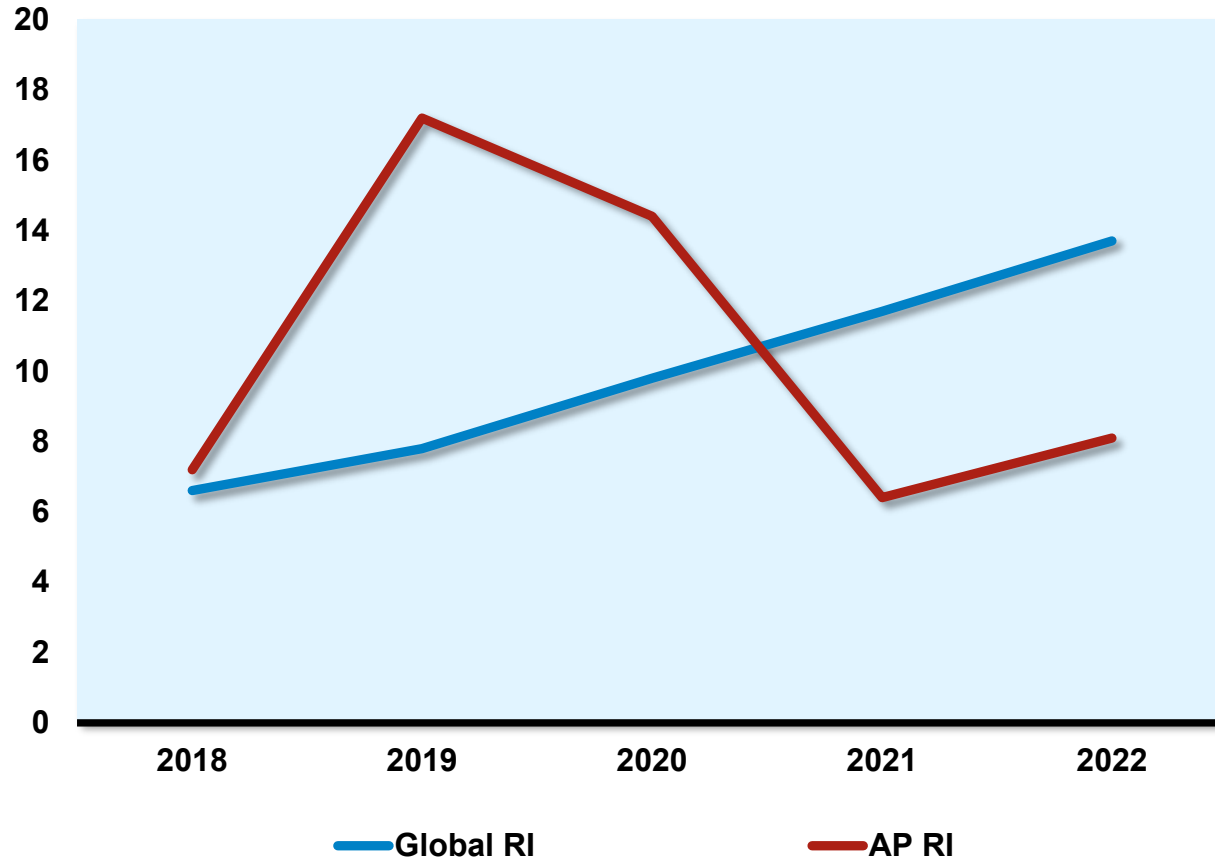
Northeast Asia Reinsurance Market Overview

Christie Lee– Senior Director, AM Best

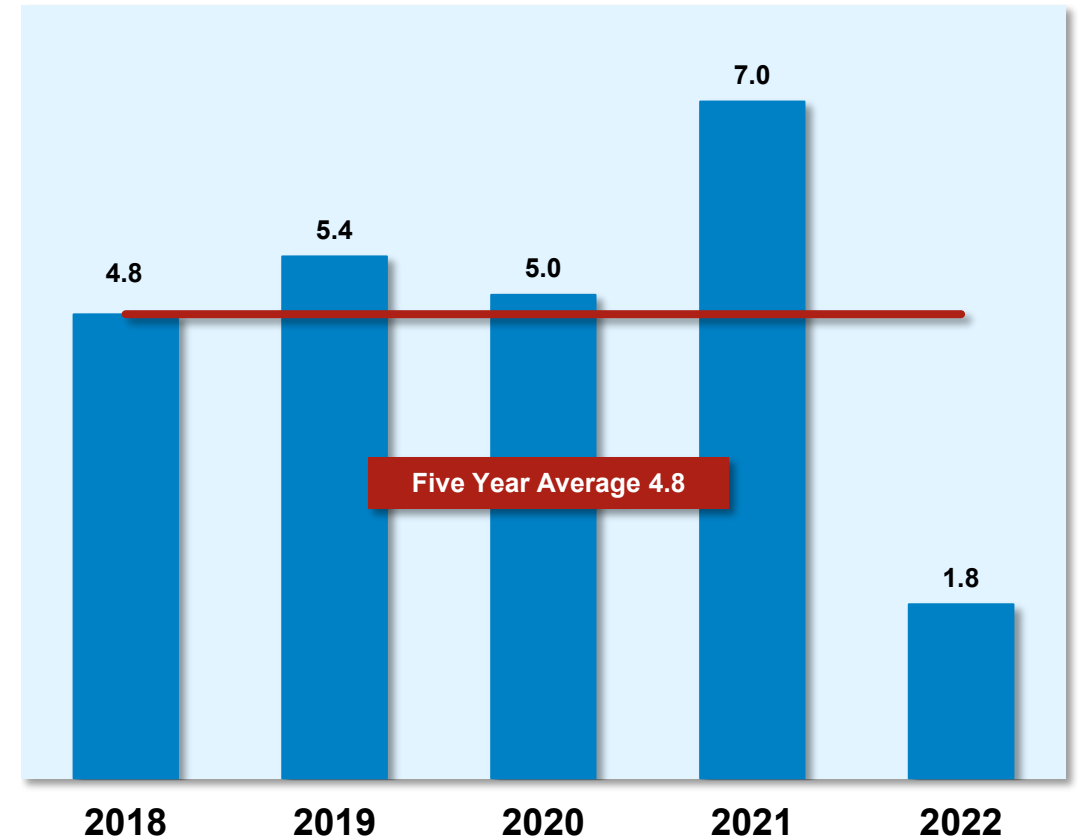
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Asia Reinsurance Market Performance

Net Premium Written Growth (P/C Only) (%)



AP Return on Equity (%)



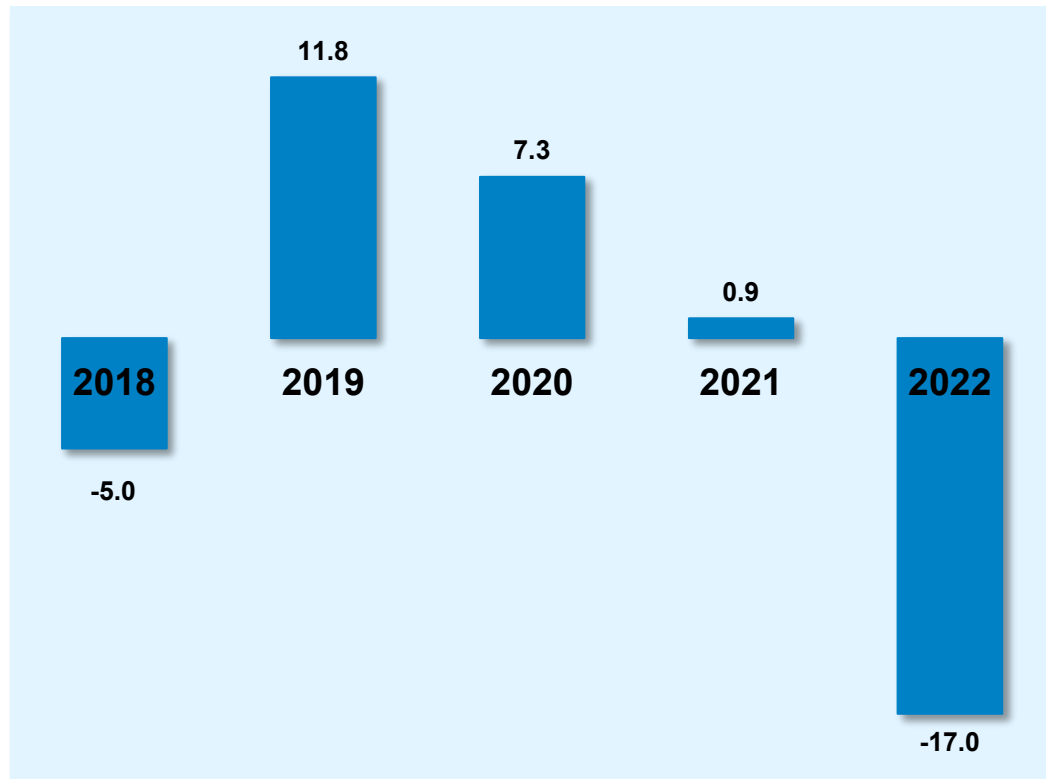
Sources: AM Best data and research

Our Insight, Your Advantage™

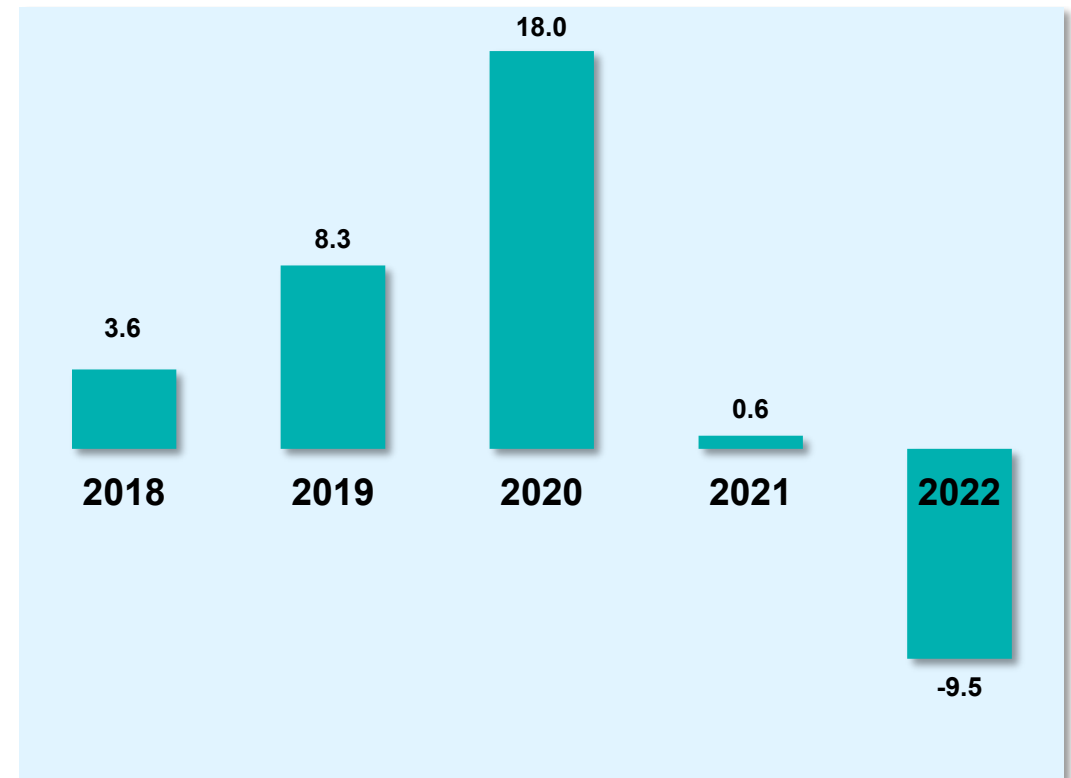


Shareholders' Equity Growth (%)

Global RI



AP RI

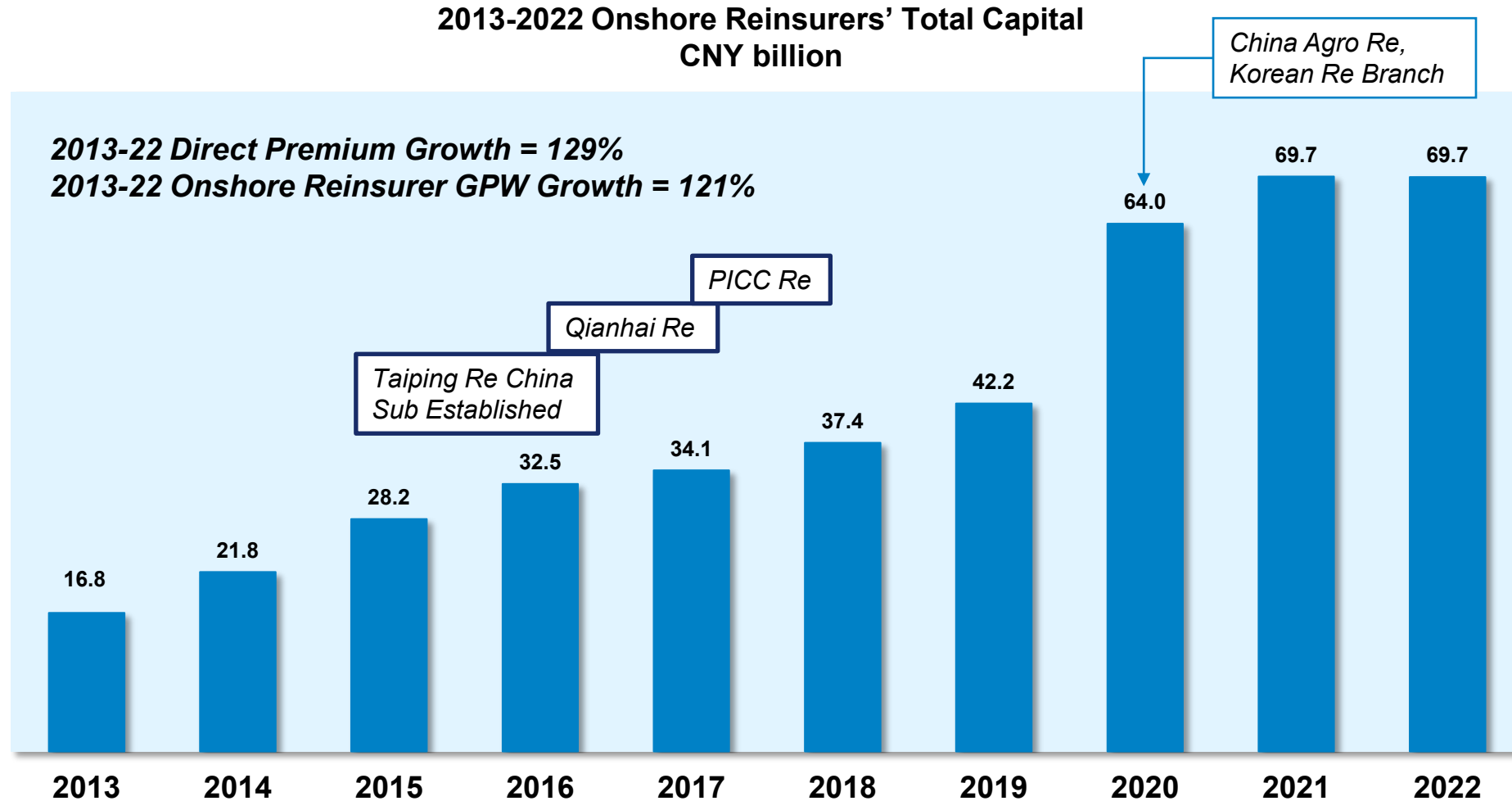


Sources: AM Best data and research

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China – Onshore RI Capital Growth



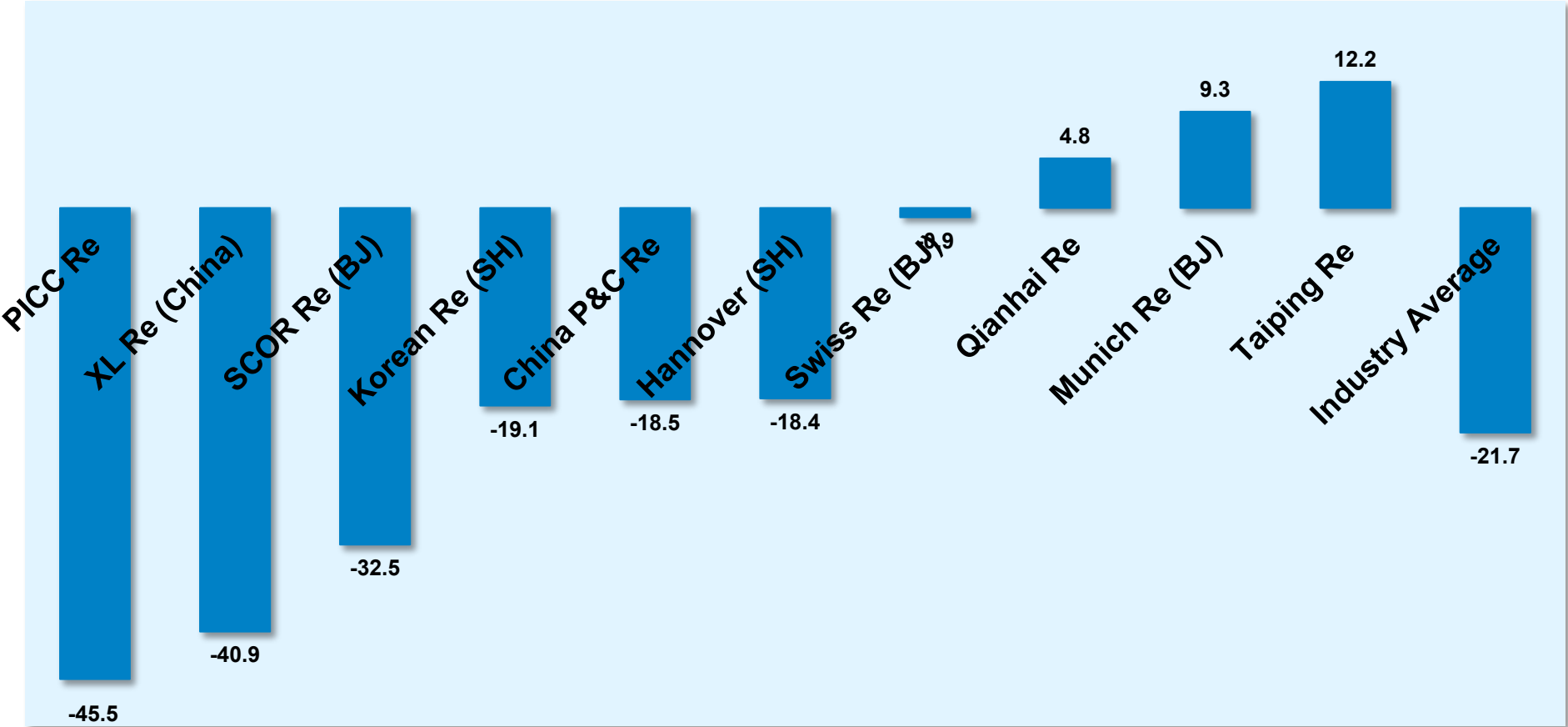
Sources: AM Best data and research

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China Onshore Reinsurers (2023 CAT Capacity Change)

C-ROSS CAT Risk Minimum Capital Requirement Change (%)
2023Q2 over 2022Q2



Sources: AM Best data and research

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Summary

Underwriting loss and poor investment return dragged the large Asian RI's operating performance in 2022.

The decline in large Asian RI's shareholders' equity is much smaller than global RIs'.

A decrease in retro capacity suppressed Asian's reinsurers capacity offering.

Capacity demand-supply-chain lag in Asia.

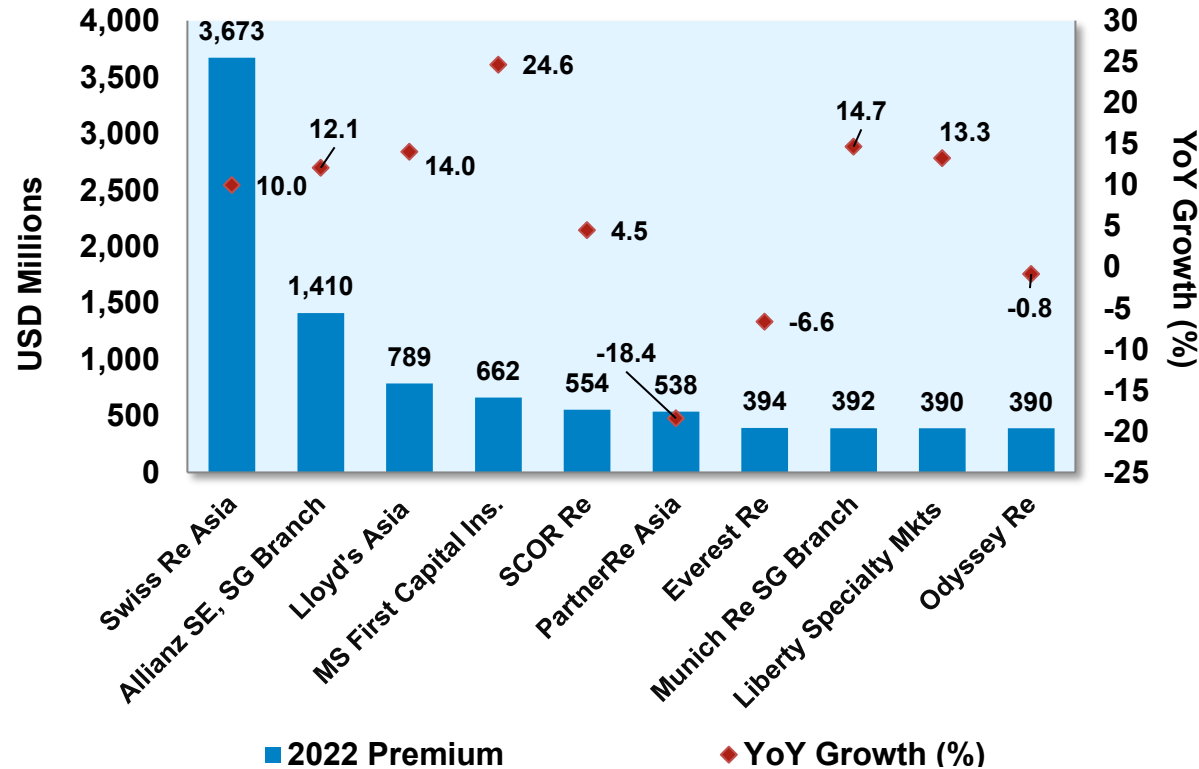
South/Southeast Asia Reinsurance Market Overview

Chris Lim – Associate Director, AM Best

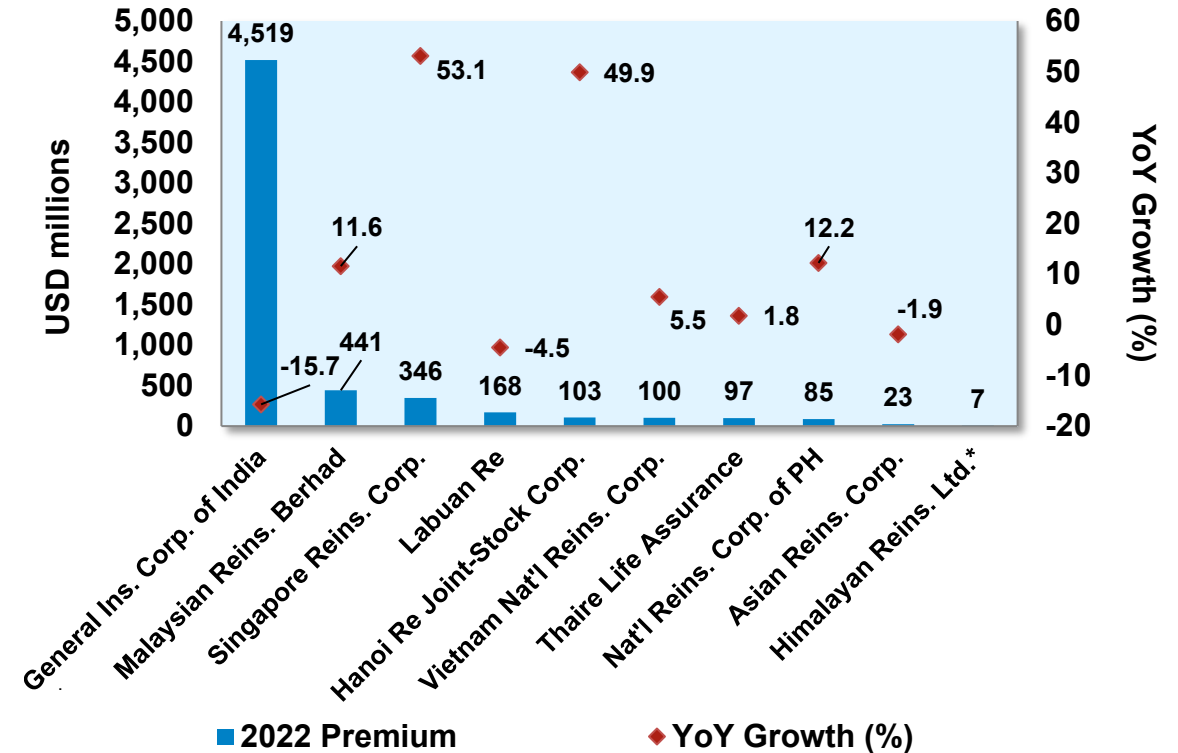
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2022 Non-Life Reinsurance Premium Assumed & YoY Growth

Top Ten Singapore (Re)insurers



South/Southeast Asia Reinsurers

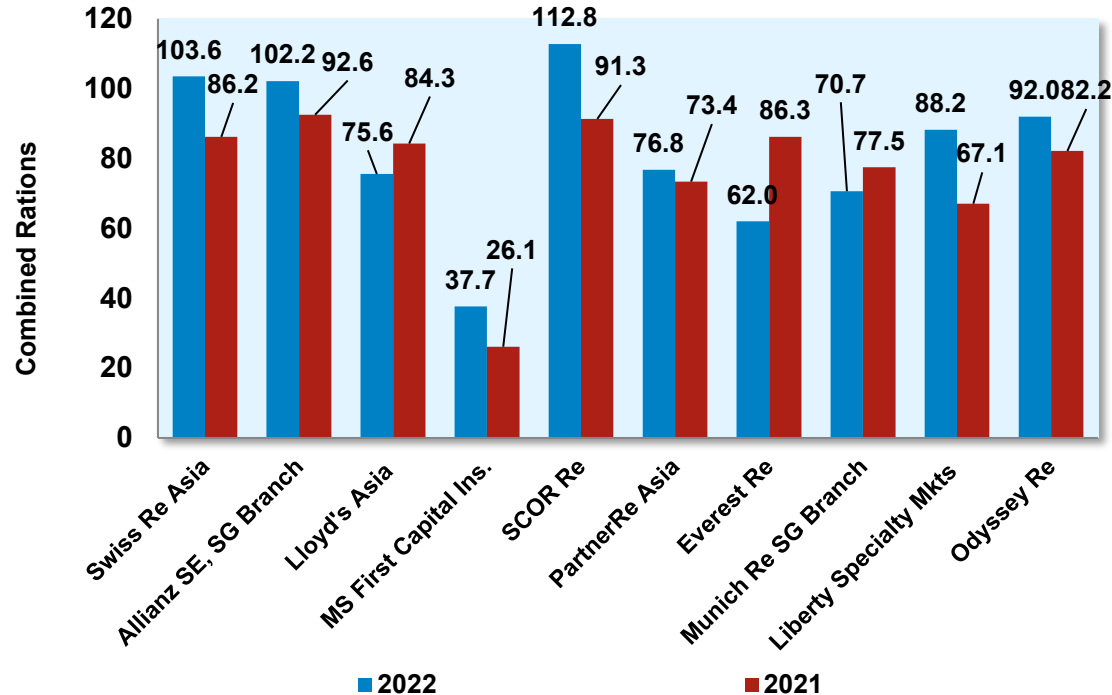


Sources: Monetary Authority of Singapore, Insurance company returns, AM data and research
 Note: Chart on the right shows only AM Best rated reinsurers which writes predominantly non-life reinsurance

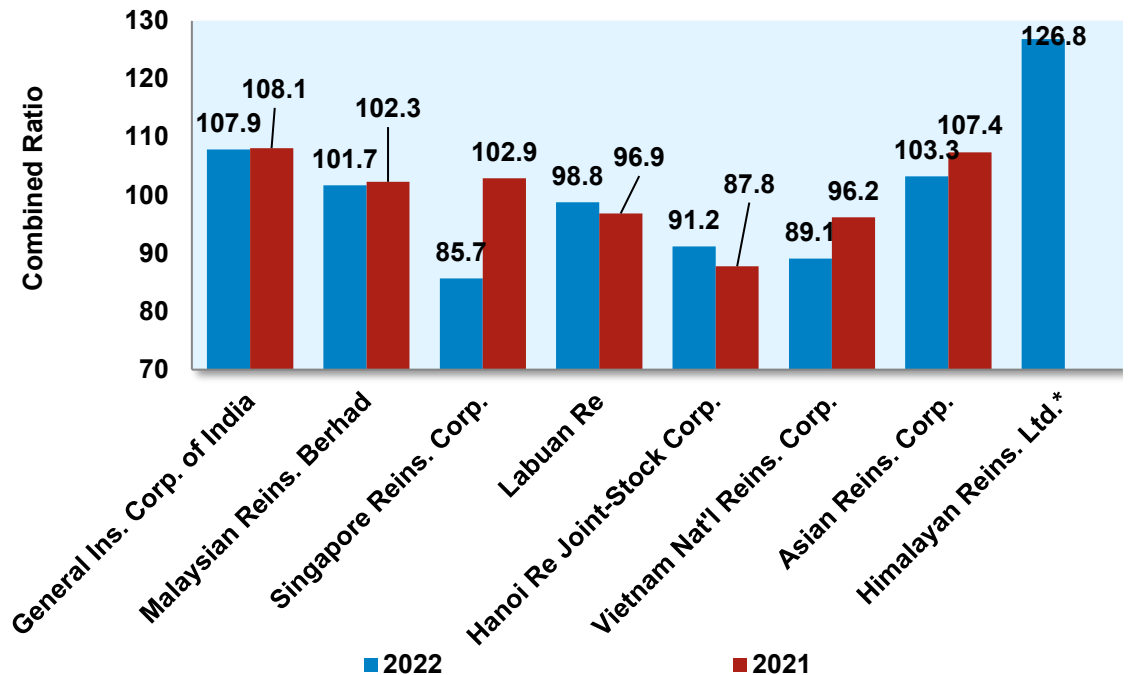
2022 Underwriting Performance

- 2022 - A year of high global insured catastrophe losses.
- However, relatively more subdued catastrophe claims in this region, although still impacted by 2022 Eastern Australia floods.

Top Ten Singapore (Re)insurers – Combined Ratios



South/Southeast Asia Reinsurers – Combined Ratios



Sources: Monetary Authority of Singapore, Insurance company returns, AM data and research
 Note: Chart on the right shows only AM Best rated non-life reinsurers which writes predominantly non-life reinsurance

Review of Recent Reinsurance Renewals



- Inflationary pressure
- Withdrawal of property reinsurance capacity
- Shortage of proportional reinsurance capacity
- Rate increases, tightening terms, and higher retentions

Reduced Appetite for Catastrophe-Exposed Property Reinsurance



Rising costs of secondary perils

- Jakarta Floods – Jan '20
- Black Summer Bushfires (Aust) – '19/'20
- Malaysia Floods – Dec '21
- Typhoon Rai (Philippines) – Dec '21
- South India Floods – Nov '21
- Eastern Australia Floods – Feb/March '22
- Auckland Floods – Jan/Feb '23
- Cyclone Gabrielle – Feb '23

Other Issues Impacting S/SEA Reinsurers



BEST'S SPECIAL REPORT

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Financial Review
October 10, 2022

Rising Interest Rates Leading to Large Unrealized Losses on Fixed Maturities

Unrealized losses through second quarter 2022 have exceeded first quarter 2020 losses

Higher health insurance claims

due to increased healthcare utilization and treatment costs

"Rising hospitalization as health nation's expense"

Rising hospitalization as health nation's expense

Rising hospitalization as health nation's expense

Healthcare costs are rising sharply, with hospitalizations being a major driver. The infographic shows a hospital ward with many beds and a bar chart of costs. The bar chart shows costs increasing from \$100 to \$300. Text includes "Rising hospitalization as health nation's expense" and "due to increased healthcare utilization and treatment costs".

Credit insurance claims

Credit insurance claims

Credit insurance claims

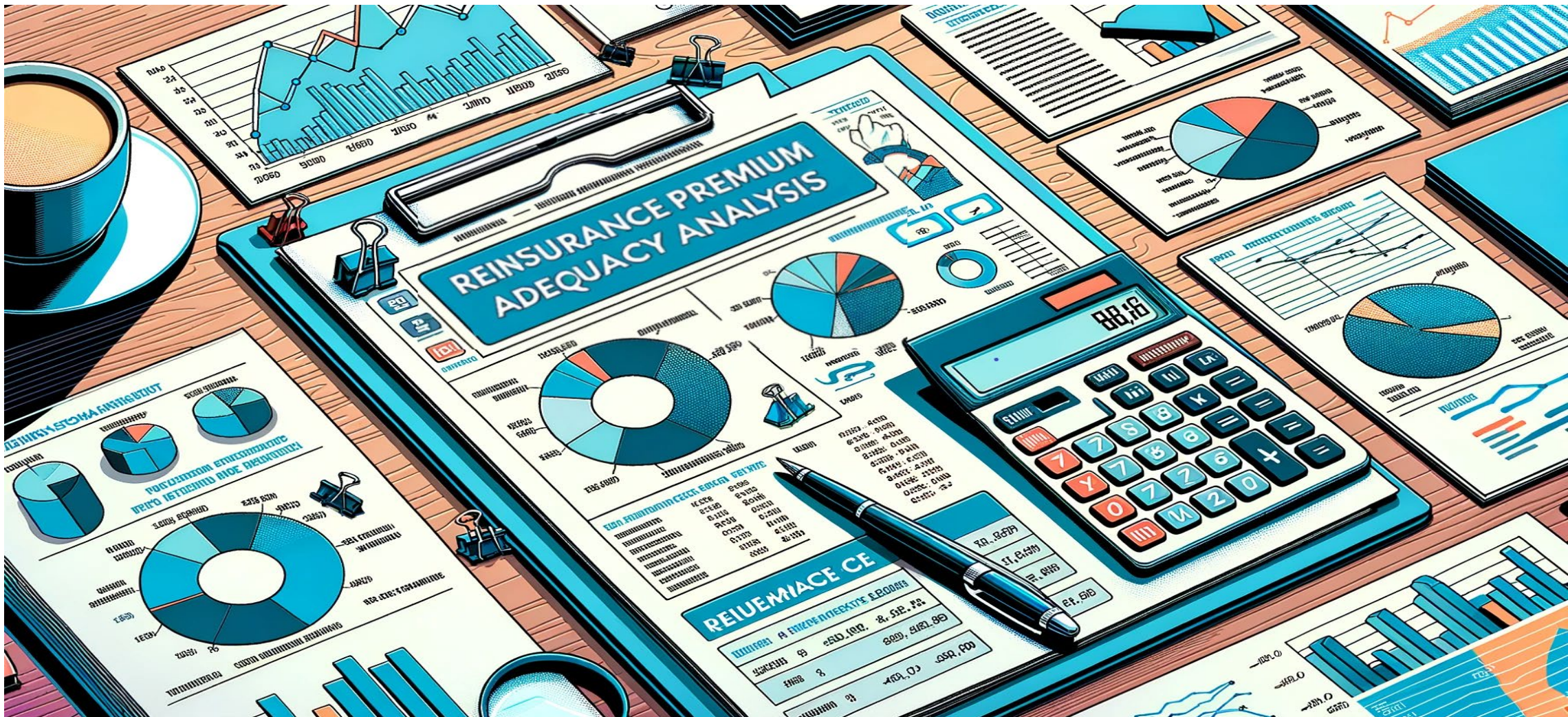
The infographic details credit insurance claims with various statistics and charts. Key statistics include a 7.5% increase in claims, an 11.5% increase in claims, and another 7.5% increase in claims. It also mentions 'Key trends in credit insurance claims' and 'Credit insurance claims'.

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Market Response

Greater emphasis on pricing and risk selection

Enhanced accumulation management and controls

Non-property diversification

Use of managing general agents (MGA's)

Geographical diversification

What's Next?



- Impact of global reinsurance market conditions
- Climate risk appetite
- Cost of capital
- Rate adequacy
- Emerging risks
- More orderly renewal?

National Scale Rating

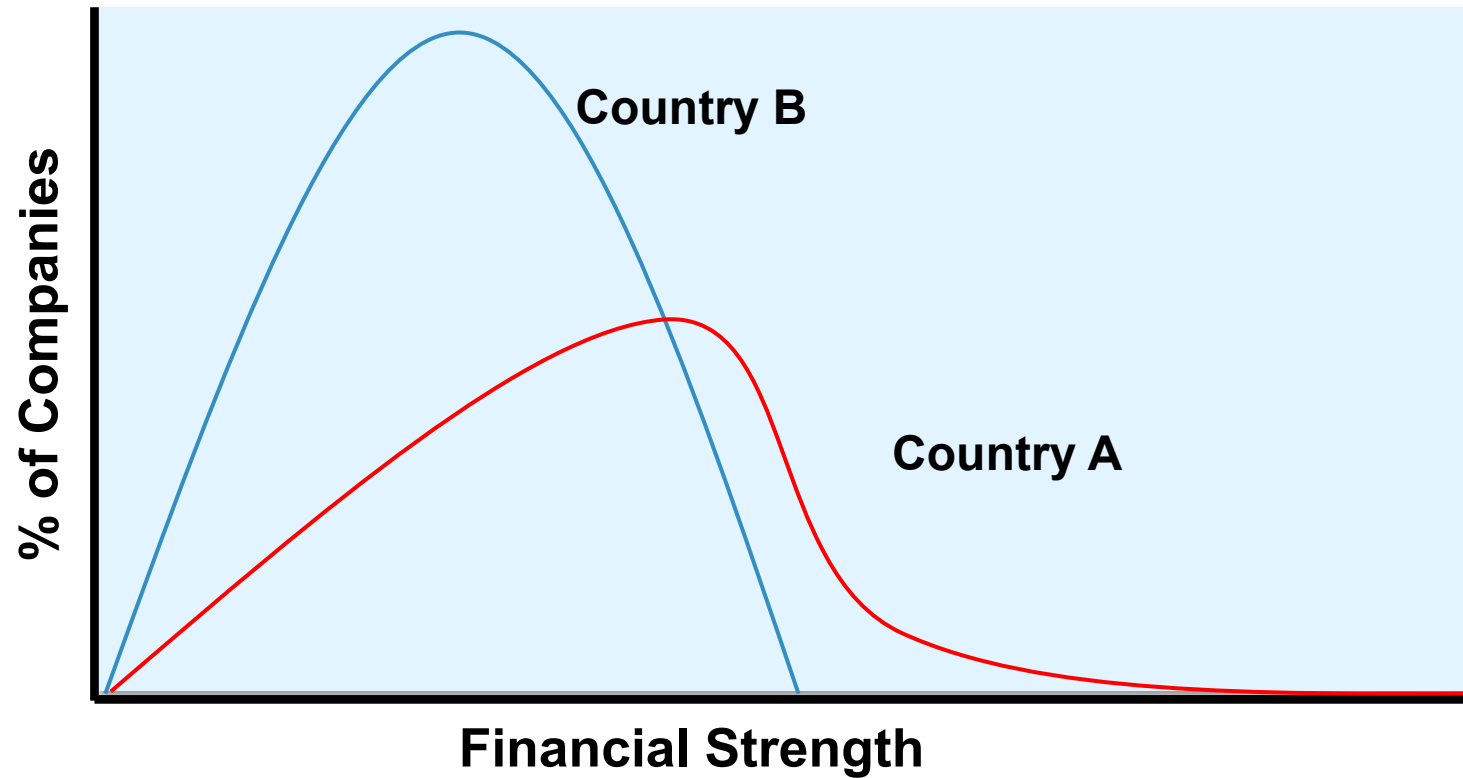
Greg Carter – Managing Director, AM Best

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AM Best's National Scale Rating

- AM Best's National Scale Rating (NSR) is a relative opinion of financial strength among companies within a country.
- NSR's were created to address county-specific limiting factors within each country – including economic, political, and financial system risks, and other insurance industry factors.

Country – Specific Factors



AM Best's National Scale Rating

- All insurers that enter Best's NSR process are first assigned a Global Issuer Credit Rating (ICR), which is an independent opinion of an entity's ability to meet its ongoing financial obligations and it's the basis for the NSR.
- An NSR is then mapped from a corresponding ICR using a transition chart.

AM Best's National Scale Rating

The evaluation of financial strength in a country is assessed through nine individual factors:

1. Reported Capital and Surplus
2. Ratio of Cash & Fixed Income Investments to Total Investments
3. Gross Leverage Ratio
4. Gross Premiums Written
5. Return on Equity
6. Return on Assets
7. Retention Ratio
8. Combined Ratio
9. Reported Assets

NSR is mapped from a corresponding ICR using a transition chart



Global ICR Scale	Indonesia National Scale
bbb+	aaa.ID
bbb	aa+.ID
bbb-	aa.ID
bb+	aa-.ID to a+.ID
bb	a.ID to a-.ID
bb-	bbb+.ID
b+	bbb.ID to bbb-.ID
b	bb+.ID to bb.ID
b-	bb-.ID
ccc+	b+.ID to b.ID
ccc	b-.ID
ccc-	ccc+.ID to ccc.ID
cc	ccc-.ID to cc.ID
c	c.ID

Next Steps

- Will consider NSRs for other territories.
- NSRs will continue to provide a measure of relative strength over the longer term, even as specific insurance markets and economies mature.

Thank you!



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