Royal Industrieele Groote Club
Amsterdam

AM Best’s
Netherlands Insurance Market Briefing - Amsterdam

07 June 2023

AM BEST SINCE 1899

Presenters

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Agenda: Netherlands Insurance Market Briefing - Amsterdam

15:30 Welcome and Introductory Comments
Nick Charteris-Black, Managing Director, Market Development – EMEA

15:45 The Global Reinsurance Market: Perspectives, Outlook & 1.4.23 Renewals
Dr. Angela Yeo, Senior Director, Head of Analytics & Operations
Dr. Mathilde Jakobsen, Senior Director, Analytics

16:15 Delegated Underwriting/MGA Market Update
William Mills, Senior Director, Market Development – EMEA
Victoria Ohorodnyk, Associate Director, Analytics

16:45 AM Best's Hot Topics:
- **IFRS 17 – Transitioning to a New Standard**
- **Impact of Inflation and Interest Rate Changes**
- **ESG in Best's Credit Rating Methodology (BCRM)**

Konstantin Langowski, Senior Financial Analyst
Jose Berenguer, Senior Financial Analyst

17:15 Networking Reception

Disclaimer

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Any queries of a commercial nature should be directed to AM Best's Market Development function.

The Global Reinsurance Market: Perspectives, Outlook & 1.4.23 Renewals

Dr. Angela Yeo - Senior Director, Head of Analytics & Operations
Dr. Mathilde Jakobsen - Senior Director, Analytics

Global Reinsurance Market – Discussion Outline

Results Drive Improving Pricing and Terms

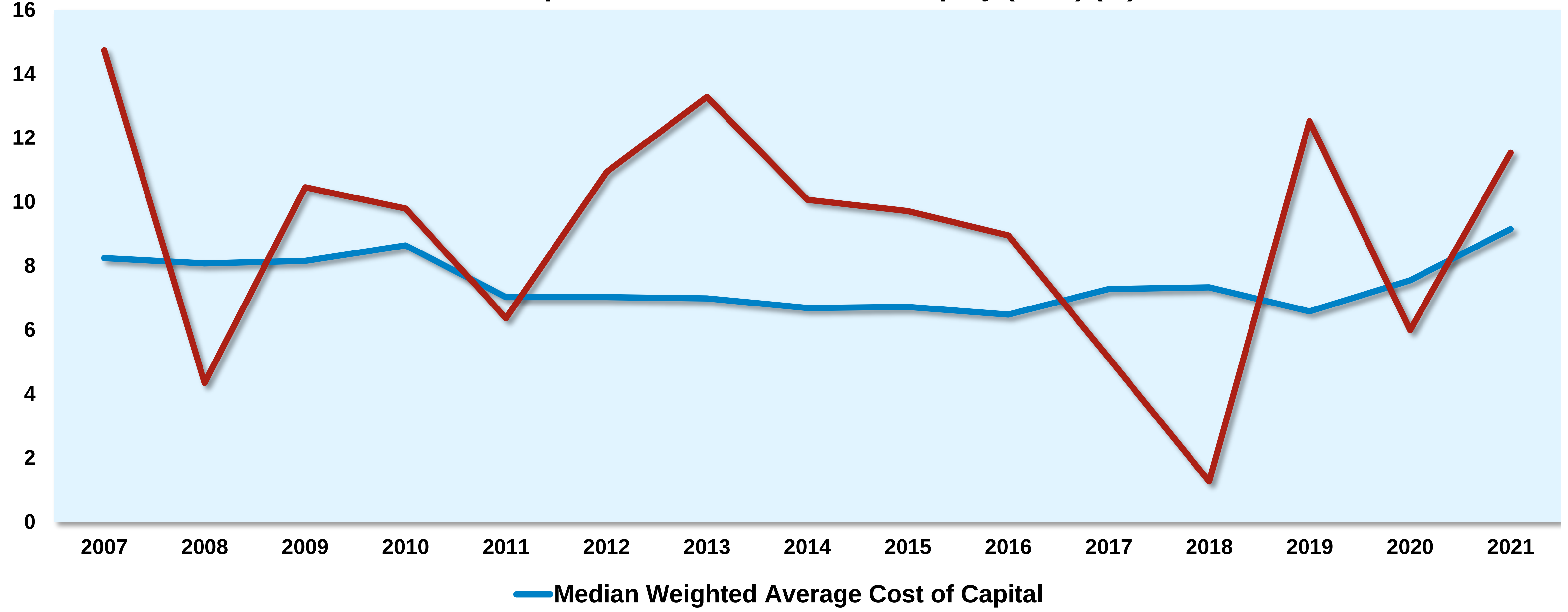
Market Well Capitalised – Subject to Asset Volatility

Outlook: Stable – Drivers Remain in Flux

Global Reinsurance Market Results Drive Improving Pricing and Terms

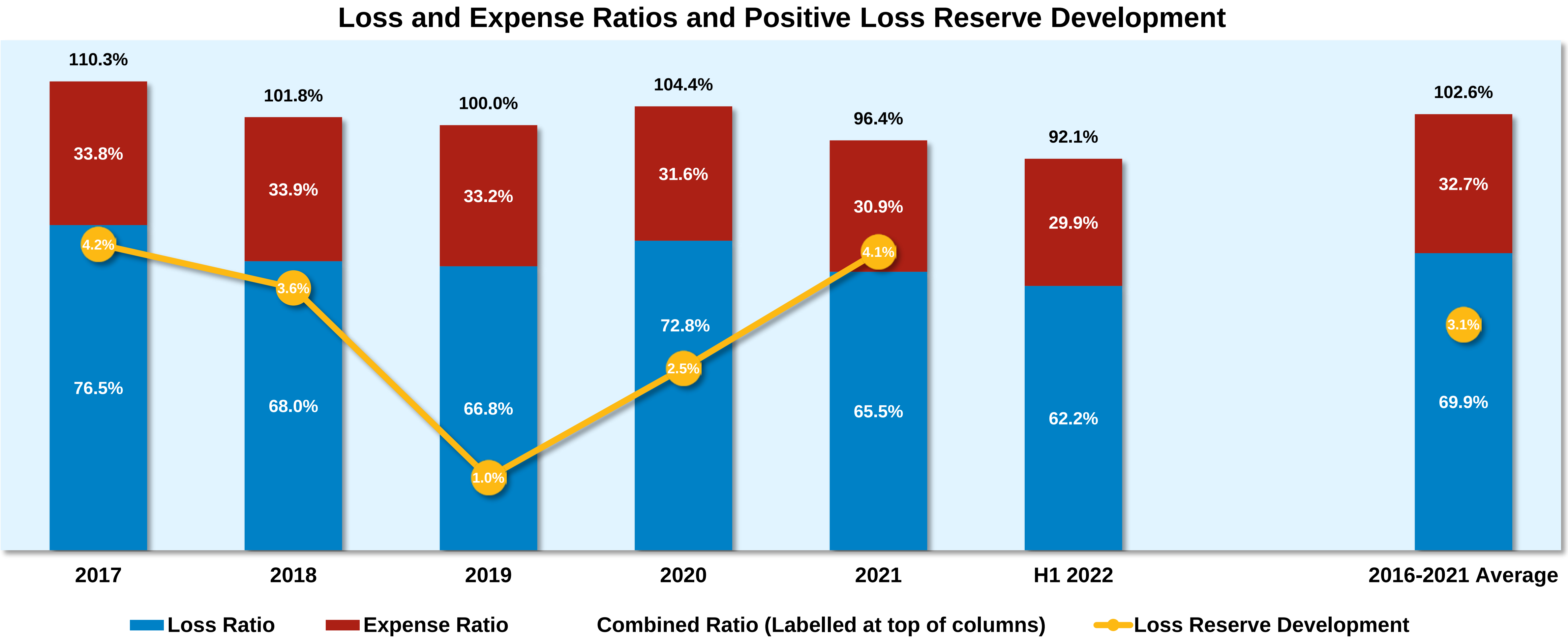
Global Reinsurance Market Performance

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

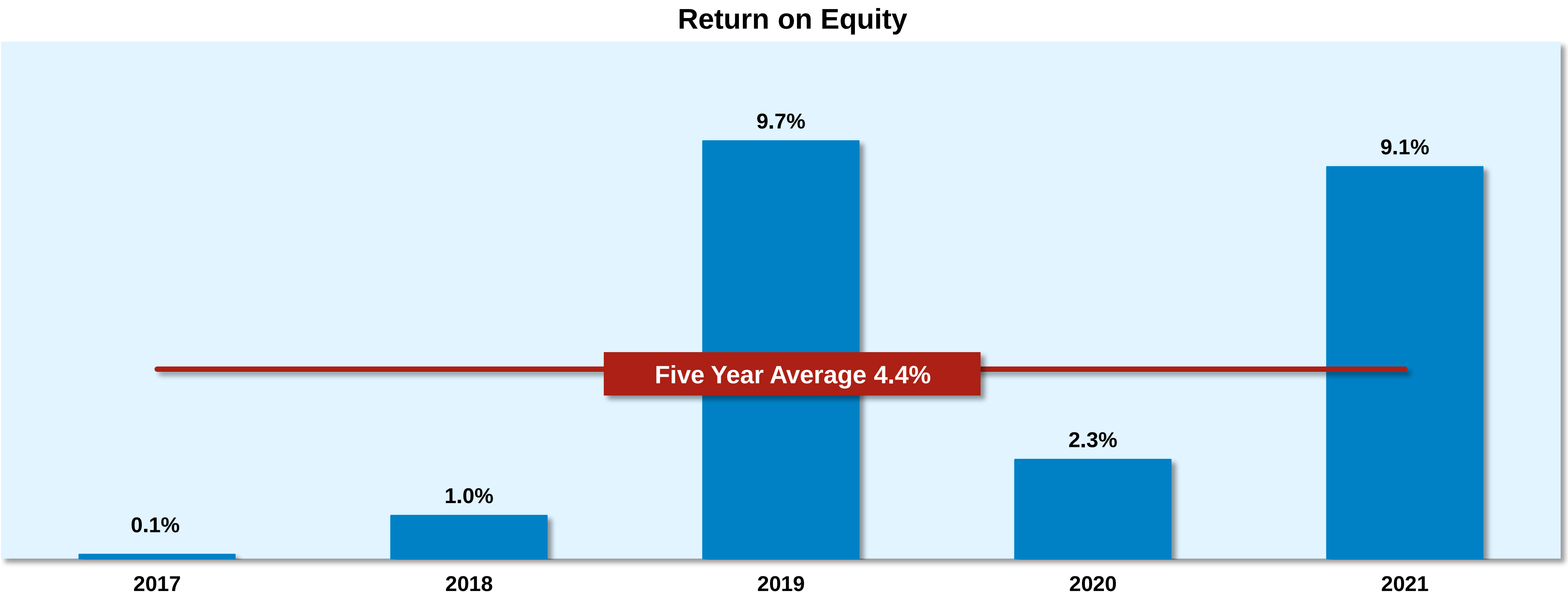


Source: Bloomberg

Global Reinsurance Market Performance

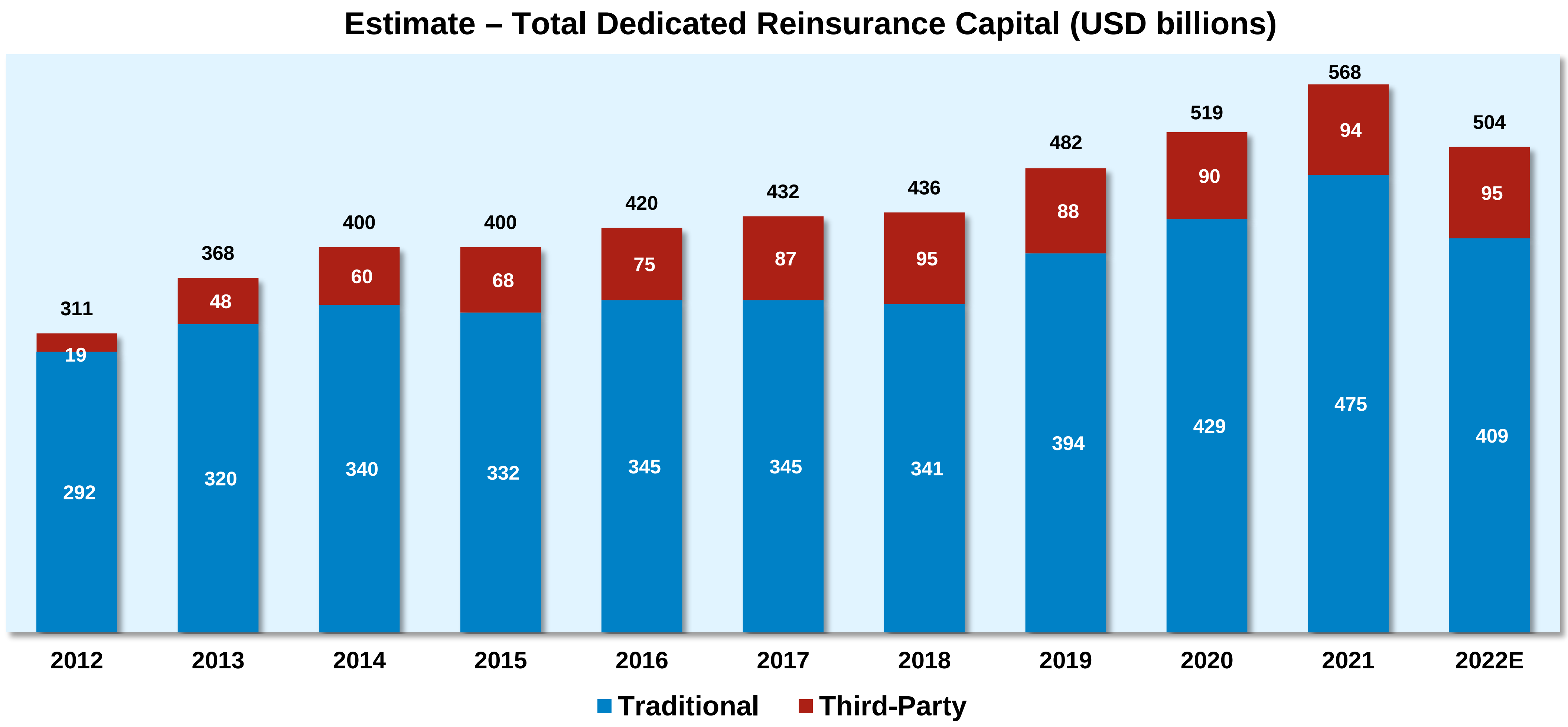


Global Reinsurance Market Performance



Global Reinsurance Market
Well Capitalised
Subject to Asset Volatility

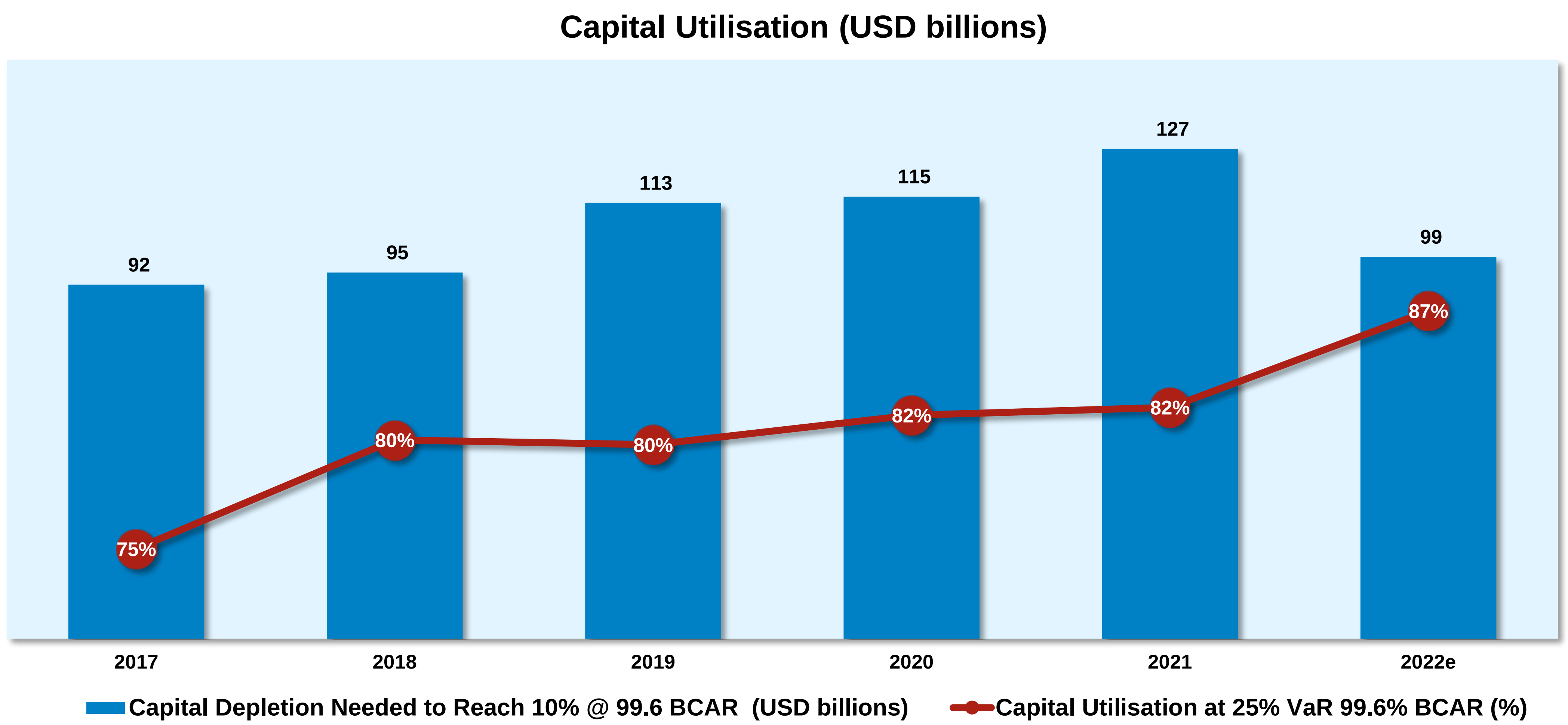
Global Reinsurance Market Capital



Our Insight, Your Advantage™

Notes and Sources: Estimates by Guy Carpenter and AM Best

Global Reinsurance Market Capital



Source: AM Best data and research

Global Reinsurance Market Outlook –
Stable Drivers Remain in Flux

Global Reinsurance Market Outlook – Stable

Headwinds	Tailwinds
Heightened natural catastrophe activity continues to test investor risk appetite	Sustained upward pricing trends, improving terms and conditions
Geopolitical and economic uncertainty: inflation, rising interest rates, risk of recession	More stable results following shifts in business mix. Positive reserve development
New capital is cautious despite improved pricing and tighter T&Cs. Similar constraints on the ILS side, particularly for retro capacity	Segment remains well capitalised but subject to asset market volatility. Available ≠ Dedicated capital
Segment well capitalised, but interest rate hikes and volatile investment markets have materially reduced shareholders' equity on a MV basis	Underwriting discipline
Inflationary pressures and the risk of recession make profitability targets more challenging	Strong demand from cedants looking for stable results and capital efficiency in an uncertain environment

Q&A

Best’s Performance Assessment for Delegated Underwriting Authority Enterprises (DUAEs) & Preview of the European MGA market

William Mills - Senior Director, Market Development – EMEA
Victoria Ohorodnyk - Associate Director, Analytics

Why Now?

Increasing role of DUAEs/MGAs in the insurance value/distribution chain

More rated (re)insurers engaging with DUAEs/MGAs

Broadens AM Best’s service offerings within its chosen sector

Increasing interest from key stakeholders – capacity providers, investors, intermediaries, regulators

Recap on Rollout of Performance Assessment (PA) for DUAEs

Draft methodology released for comment in March 2021

Received extensive feedback from market participants – DUAEs, insurance carriers, brokers, regulators, associations

Beta testing was conducted during the second half of 2021 to refine processes and information requirements

Methodology released live on February 1, 2022

Public PAs released from April 2022 – plus private assessments and in-progress PAs

Best's Performance Assessment (PA) for DUAEs

Delegated Underwriting Authority Enterprises

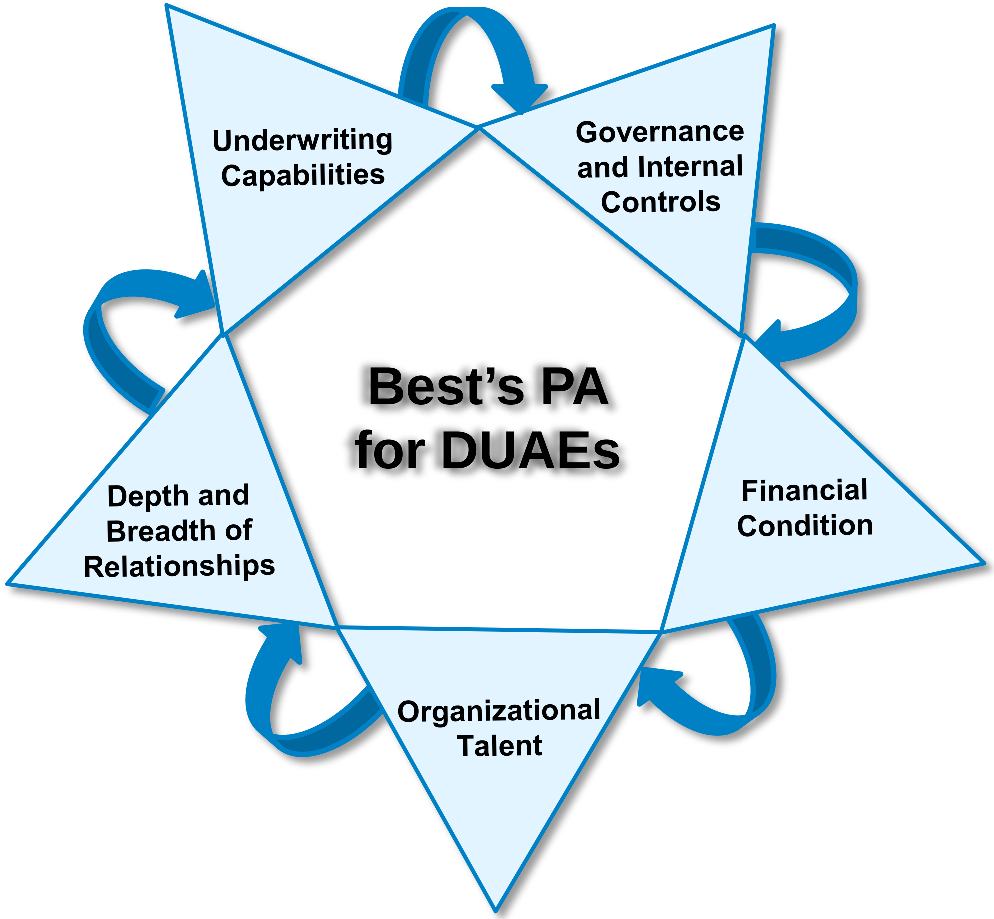
What is a Performance Assessment (PA)?

A forward-looking, independent, and objective non-credit opinion indicative of a DUAE's ability to perform services on behalf of insurance partners

Key components are assessed and assigned points based on the entity's performance, serviceability and alignment of interests in relation to its business partners

The summation of the points from each key component determines the Performance Assessment

Best's Performance Assessments for DUAEs – The Five Components



Performance Assessment Factors and Categories

Key Assessment Factor	Max Points
Underwriting Capabilities	10 (steps of 2)
Governance and Internal Controls	10 (steps of 2)
Financial Condition	10 (steps of 2)
Organizational Talent	5
Depth and Breadth of Relationships	5

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

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Published Performance Assessments

	Castel U/W Agencies Ltd.***	Cargo Risk Corporation	First Indemnity Ins Agency	Delta International Ltd.****	Amwins Group*****
2022 GWP (USD million)	282.7	12.5	46.9	60.5*	2,632.6**
Example Lines of Business	Warranty & Indemnity, Mega Yachts, Construction	Marine	Professional Liability	Liability / Property	Various
Primary Markets	UK and Europe	Latin America	US	New Zealand / Australia / Singapore	US
Parent Company	Arch Capital Group Limited	Standalone Entity	Standalone Entity	Standalone Entity	Amwins Group, LLC
Performance Assessment / Outlook	**PA-2 (Excellent) / Stable**	**PA-3 (Strong) / Stable**	**PA-3 (Strong) / Stable**	**PA-2 (Excellent) / Stable**	**PA-1 (Exceptional) / Stable**
Effective Date	April 20, 2023	April 21, 2023	May 12, 2023	August 22, 2022	October 03, 2022

*Figure pertains to the year ended 31 March 2022 converted at spot rate to USD
** 2022 data not yet available - figure pertains to the year ended 31 December 2021
*** Assessment includes Castel Underwriting Europe B.V.
**** Assessment on a consolidated basis and assigned to Delta Insurance New Zealand Limited, Delta Underwriting Private Limited and Delta Property Insurance Limited
***** Assessment on a consolidated basis and assigned to seven affiliates of the Amwins Group.

Source: AM Best data and research

MGAs and Delegated Underwriting in Europe

Partnerships with MGAs

- Allow insurers to achieve growth targets and execute diversification strategies in line with their risk appetite
- Among the key benefits MGAs provide for insurers:
  - Product line expertise
  - Geographic expertise
  - Niche market relationships & business access
- Reinsurer appetite in the sector has grown
  - Access to primary type risks
  - Fronters / platforms (e.g. Accredited & Accelerant) support ‘easier access’ and portfolio management
  - Opportunity to participate in new products/risks, such as cyber

Partnerships with MGAs

- Incubators for digital processes and new technologies
  - Technology use in distribution, underwriting and data analytics
  - Generally unencumbered by legacy systems
  - Not all MGA's are 'insurtechs' though
- Talent
  - 'Skin in the game' opportunities for insurance professionals
  - Entrepreneurial & innovative strategies
  - Tech sector expertise
- Alignment of interests remain critical
  - Longevity of carrier relationships depend on profitability of risk-bearing business
  - Appropriate commission structures

EU Landscape

- Varied levels of development and penetration by country
- Most prominent include Belgium, Germany, Ireland, Italy and the Netherlands
- Other countries emerging and in some cases nascent
- Regulation governing/enabling delegated underwriting authority/insurance agents remains a key driver of activity
- Post-Brexit, MGAs established in EU to enable continued access
- High growth in the US & UK MGA segments has led to expansion in Europe

UK and London Market Landscape

- Among the most developed MGA segments internationally (ex-US)
- Focus on commercial and complex retail/individual risks
- Lloyd's remains a major source of domestic and global MGA capacity
- Insurance hub provides strong access to talent
- Established regulation supports stakeholder interests
- MGA growth seen across established businesses, new start-ups and high level of M&A activity

Press Releases & Performance Assessment Reports

- Press Releases & Performance Assessment Reports published on AM Best's website
- Freely accessible to all interested parties
- Point your device at the code below to search for 'Recent Assessment Activity'

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Q&A

AM Best Hot Topics

Konstantin Langowski - Senior Financial Analyst
Jose Berenguer - Senior Financial Analyst

IFRS 17 –
Transitioning to a New Standard

IFRS 17 – Impact on AM Best's Ratings

- Currently, AM Best's ratings are assigned to insurers who report under different standards
- Variations in presentation of accounts do not impact credit fundamentals
- Accounts may lead to new insights, however:
  - A new model will help draw out insights from other models
  - There will also be new surprises and sensitivities to learn about
- The new presentation may influence the timing and transparency of how quickly results are shared
  - The level of optional disclosures included will impact how well results are understood
  - Volatility of year over year results may also evolve

IFRS 17 – Market Communication

- The learning curve for IFRS 17 is steep
- External communication in nascent stages:
  - Slow communication - partly because the subject is hard
- Scheduled investor presentations have been held through 2022, mostly in Q4:
  - Presentations tend to be educational and focus on key themes and high-level expectations
  - First hard numbers have been shared in Q1 2023; Parallel runs from larger companies are expected to be made available in Q2 2023
- Communication suggests that while reporting will change, the business will be unaffected
  - In many cases, management targets are expected to be carried over
  - No expected impact on targets, dividends and solvency

Using KPIs under IFRS 17

- Combined ratios
  - Practice will initially diverge
  - Net/net is the continuity option, but net/gross may become more prominent over time
- CSM
  - New + unwind versus amortised
  - New vs PVNBP
  - Contribution to available capital in BCAR
- RoE
  - Advantages to ratio using accounting as reported
  - With CSM as equity will also be used
  - Though problematic if revenue substantially delayed
- Investment result
  - New and welcome measure
- Profit contributions
  - Segment insurance services and investment result? Or allocate non-operating expenses?
- Life operating ratio
  - New and welcome ratio

Developments, Challenges and AM Best’s Response – Data

Task	AM Best’s Response
Gathering (very) different public data	Analytically fully specified IT stage in process
SRQ	Analytically fully specified Some existing requests will become more important: Amount of discount in reserves by line (non-life) New requests: Non-life incurred claims net creditors (re)insurance debtors – not new data New requests, new data – not a feature
Timing is fixed	On plan so far
Company data	Depends on data provision
Unknown unknowns	Some contingency in timetable

Challenges and AM Best's Response – Modelling, KPIs, etc.

Task	AM Best's Response
Model	Strategy is for an unchanged economic model Factors are not in general a function of companies' accounting standard in global BCAR Inputs are carefully specified
Key Performance Indicators (KPIs)	Many new ones Refreshed existing Large majority are unchanged
Field testing	Commences 2023
Credit reports	Careful progress to provide for all stakeholders
Resourcing	All support provided
Training	Heavily engaged

IFRS 17 – Ongoing Research

April 29, 2020

IFRS 17: IASB Decisions Impact Insurers and Users of Accounting Data

An economic evaluation of accounting data will remain AM Best's basis for assessing the underlying financial health of (re)insurers

The International Accounting Standards Board (IASB) has been considering amendments to the published IFRS 17 accounting standard for insurance contracts.

Regulatory Review
April 29, 2021

Key Performance Indicators More Meaningful Under IFRS 17

A closer link between accounting ROEs and underlying profitability should provide more transparency for financial stakeholders

Principal Takeaways

- AM Best believes that on balance IFRS 17 will be more meaningful, transparent and consistent across territories than current financial reporting standards
- IFRS 17 should better assist the universe of financial stakeholders in identifying and supporting (re)insurance activities with good economic returns and create more effective market discipline
- The new reporting standard is not anticipated to have a direct effect on credit ratings, although the data, terminology and many of the KPIs used will change
- Challenges will include discontinuities in data records and KPIs, possible comparability questions within territories, at least initially (including between IFRS and local GAAP reporters), and also costs and disruption over the implementation phase.

As IFRS 17 moves from the standard setting to implementation stage, a new chapter has opened, bringing with it fresh uncertainties. Stakeholders are starting to debate what users of (re)insurance company financial reporting will do with the new data and what the likely key performance indicators (KPIs) will be under IFRS 17.

This report explores some of the challenges and opportunities that AM Best has identified at this point as stemming from the new framework, as well as some of the KPIs it believes will be critical for both (re)insurers' financial stakeholders and (re)insurers themselves, including:

Regulatory Review
April 28, 2022

IFRS 17: Transitioning to a Standard with New Concepts and Terminology

AM Best anticipates that industry practice on KPIs may well take two or three years to settle

Principal Takeaways

- In general, AM Best does not expect the introduction of IFRS 17 to have a direct impact on ratings

Regulatory Review
May 11, 2023

Disclosures Suggest Wide Variation in IFRS 17 Impact on Shareholders' Equity

A reduction in shareholders' equity is far from automatic for life insurers.

Principal Takeaways

- The impact of transition to IFRS 17 on shareholders' equity is far more pronounced in the life insurance segment. The range of outcomes is wide for the segment and biased to the downside, although a reduction on transition is far from automatic
- Changes to the treatment of capital in participating funds often act to reduce shareholders' equity on transition
- For non-life insurers, the impact is considerably narrower and biased to the upside

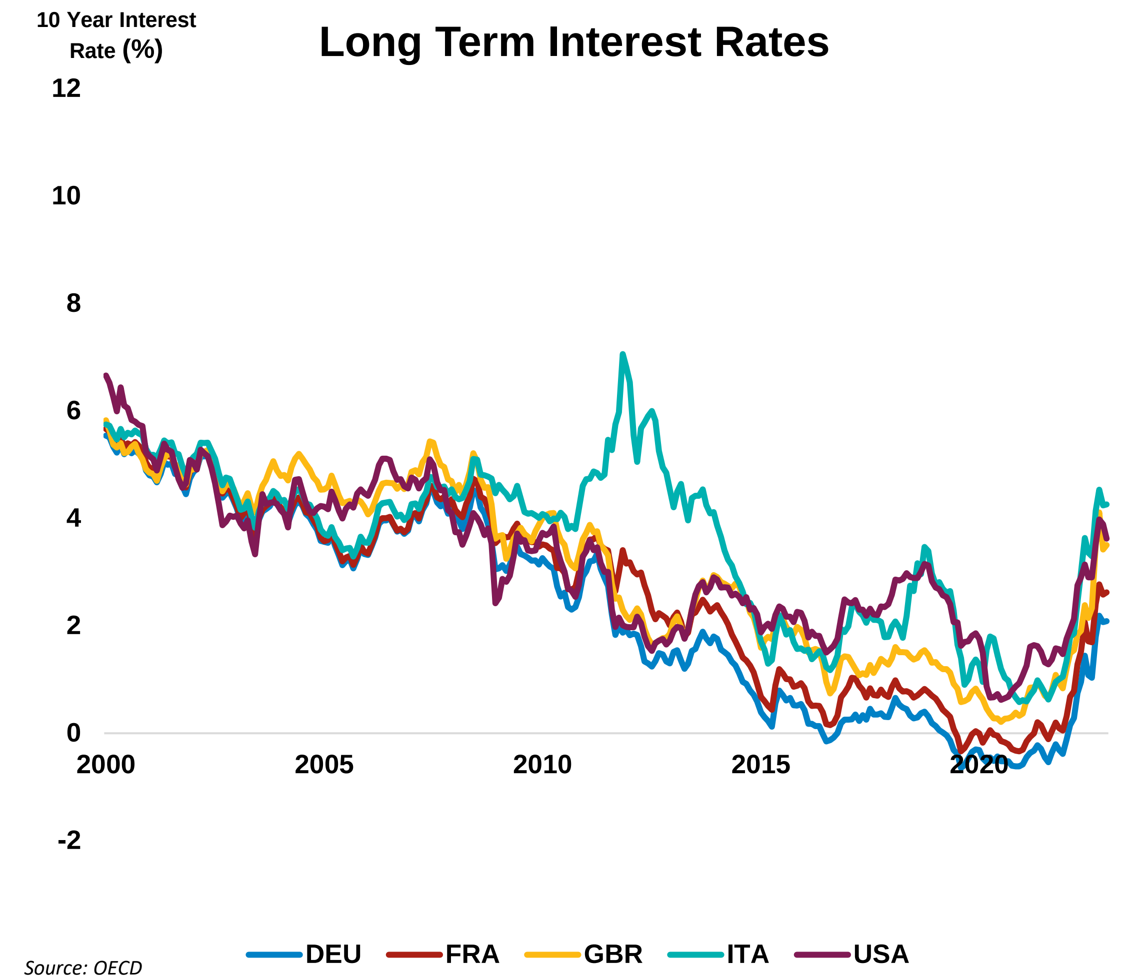
For (re)insurers that report under International Financial Reporting Standards (IFRS), the transition to IFRS 17 at the beginning of 2023 impacts large parts of their external financial reporting and metrics. In recent months several (re)insurers accompanied their usual investor presentation with early estimates of a few major selected measures under the new standard.

This report analyses disclosures from certain larger (re)insurers to identify some of the more significant changes, with a focus on shareholders' equity. The report then comments on inputs for non-life reserve risk into AM Best's proprietary capital adequacy model (BCAR) under IFRS 17.

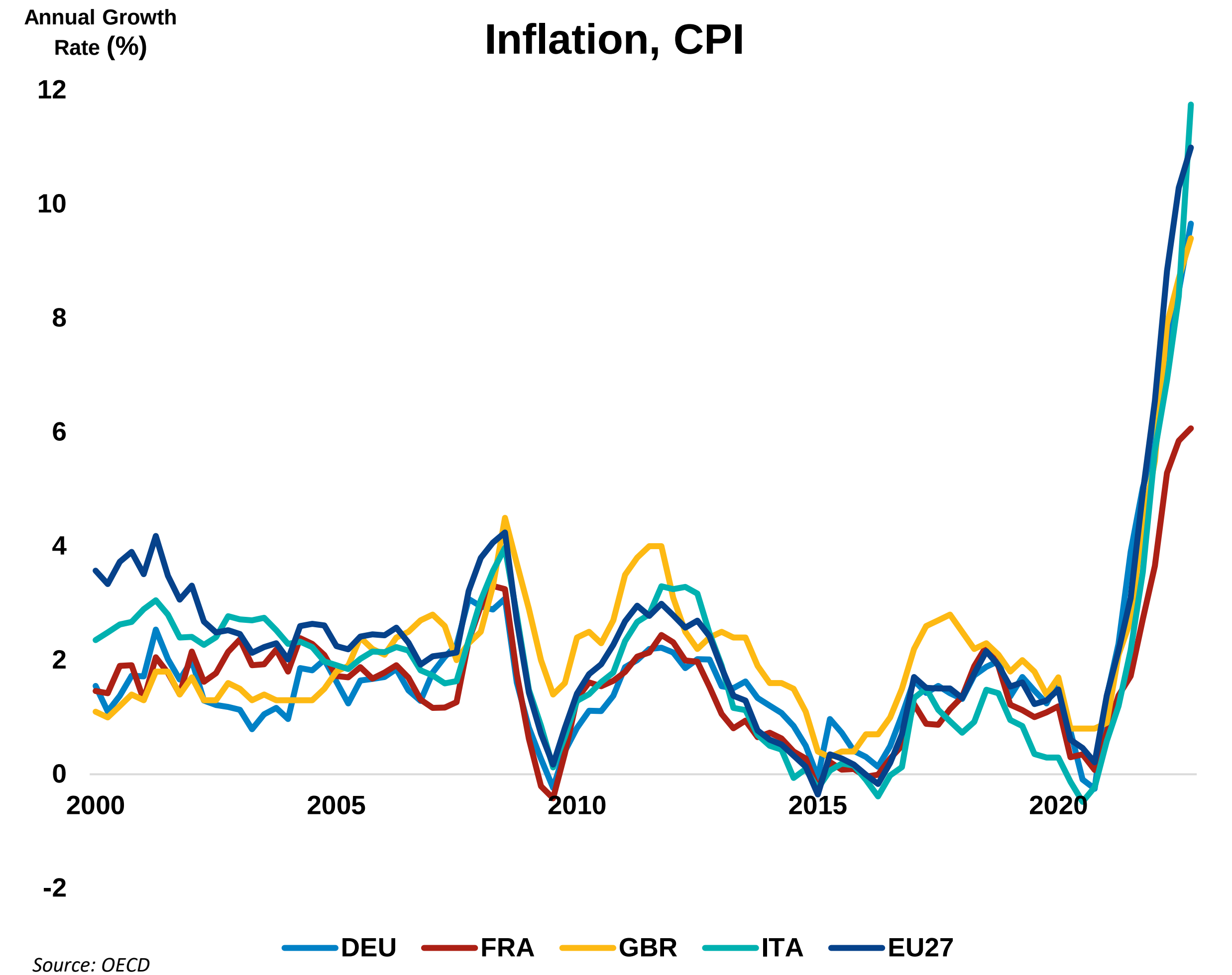
Visit AM Best's research pages for more information

Impact of Inflation and Interest Rate Changes

Impact of Inflation and Interest Rate Changes



Source: OECD



Source: OECD

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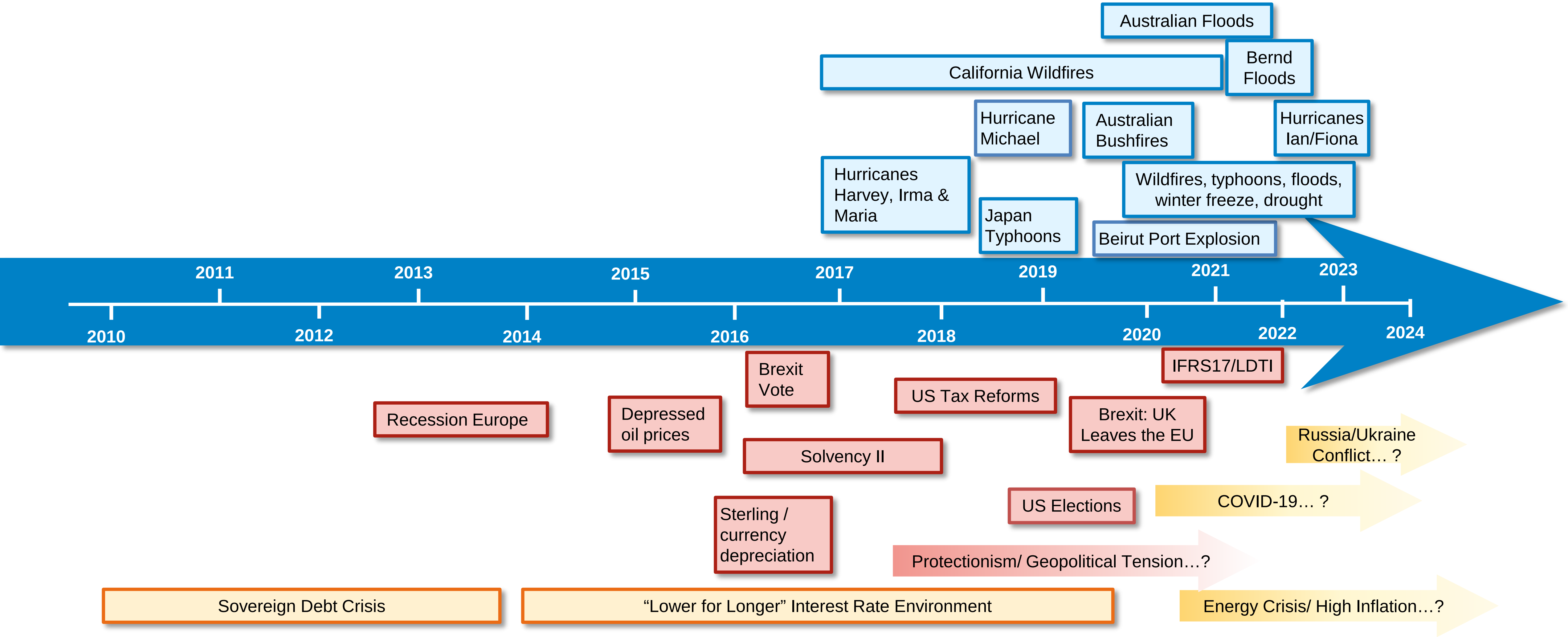
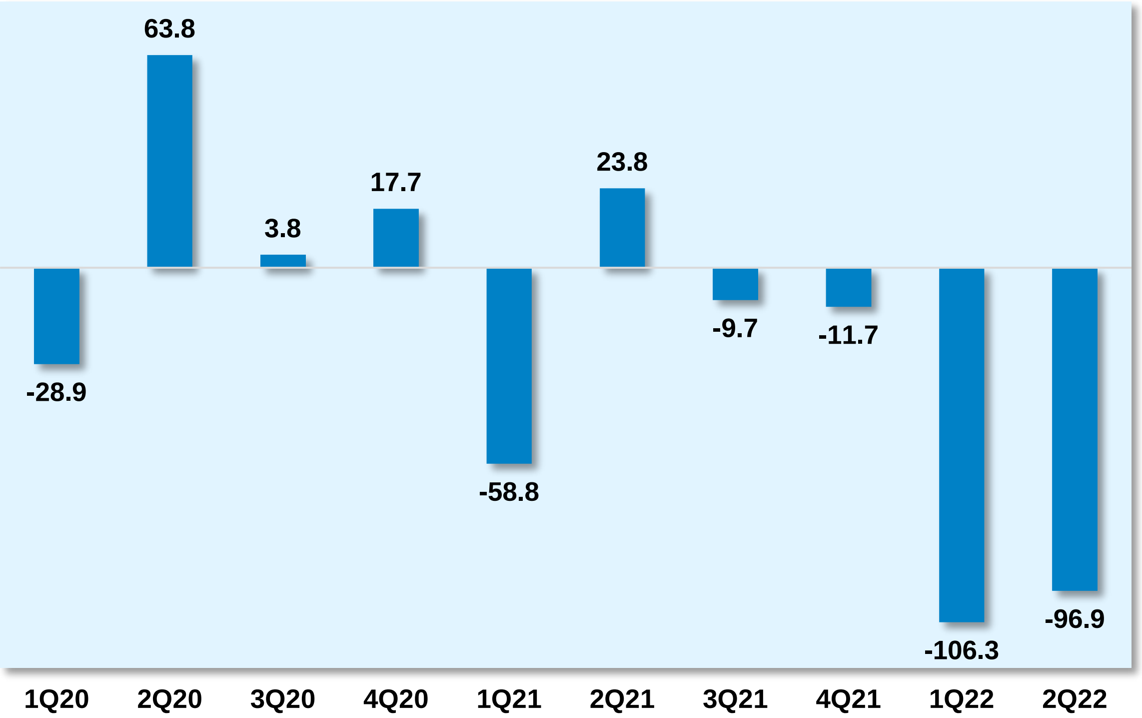
Timeline of recent events

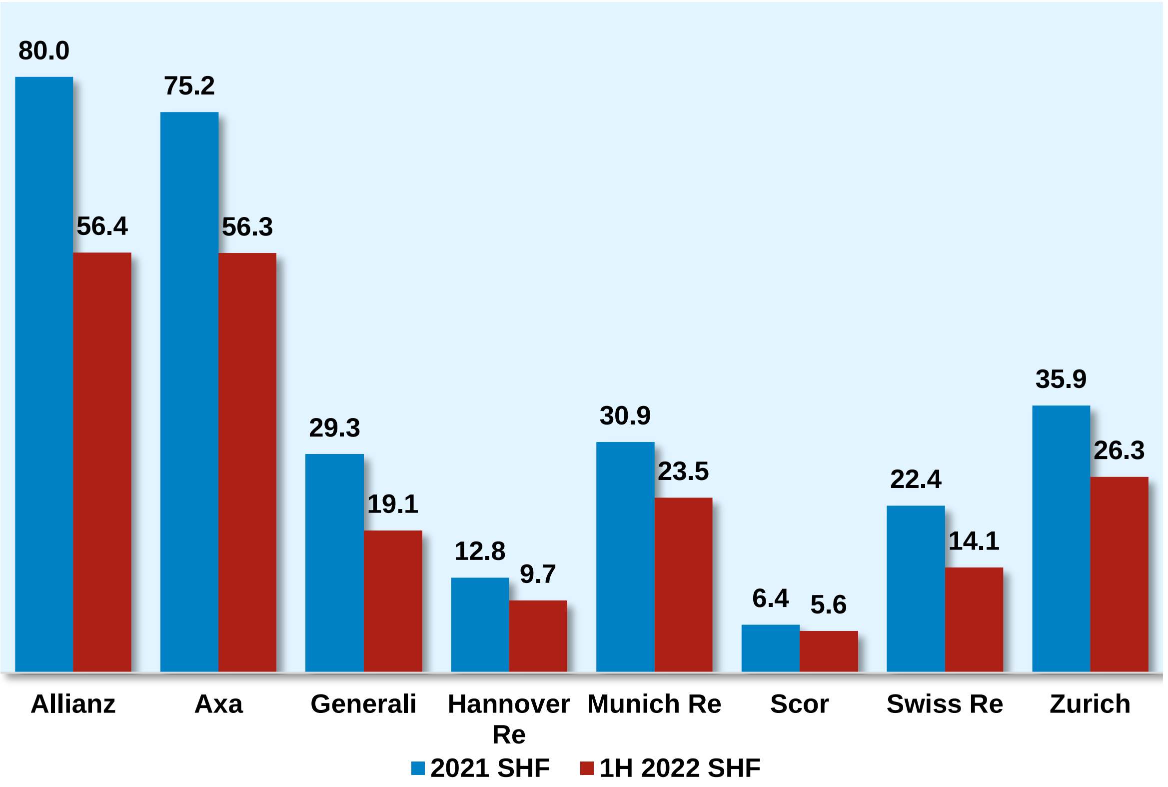


Impact of unrealised gains/losses

US GAAP Filing Insurers
Unrealised Gain/Loss on Fixed Maturities (USD billions)



Major European Listed Re/Insurers
Movement in Reported Shareholders' Funds 1H 2022 (EUR billions)



Inflation

- **Onset during COVID-19 lockdown/ change of pace due to conflict**
  - Assumed short term at first, now assumed to last into 2024
  - Rising interest rates
- **Insurers' Impact**
  - Claims inflation
  - Value proposition of life insurance products
- **Insurers' Response**
  - Adjust pricing
  - Revise reserving
  - Change contract design
  - Adjust fixed deductibles for xl contracts
- **Rating Considerations**
  - Monitoring operating performance
  - Performance of long-tail business lines
  - ERM

Rising Interest Rates

- **Unrealised Losses Reducing Shareholders’ Funds:**
  - Rising interest rates and higher spreads
  - Bonds comprise bulk of portfolios
  - Higher default rates not yet observed
  - Regulatory solvency not adversely impacted
  - Reinvestment yields up

- **Insurers’ Response:**
  - Focus on diversification and resilience
  - Credit risk in focus
  - Heightened liquidity monitoring

- **Rating Considerations:**
  - Economic vs accounting view
  - Ability and intention to hold to maturity
  - Analysis of potential liquidity requirements
  - Level of RAC and ability to absorb losses

ESG in Best's Credit Rating Methodology (BCRM)

Understanding ESG Concepts

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

Environmental factors relate to resource use, pollution, climate risk, energy use, waste management, and other physical environmental challenges and opportunities

Social factors relate to how a company interacts with the communities it operates in, its suppliers, employees, and broader stakeholders

Governance factors relate to procedures and processes according to which a company is directed and controlled

What Are ESG Factors?

Examples of ESG factors

- Physical risks
- Transition risks
- Liability risks
- Stress test failures
- Environmental opportunities

Environmental

- Demographic changes
- Product liability
- Social inflation
- Data privacy
- Social opportunities

Social

- Corporate governance
- Corporate behaviour
- Transparency
- Board composition
- Business ethics

Governance

Translating into Criteria – Importance of ESG Factors Are on the Rise

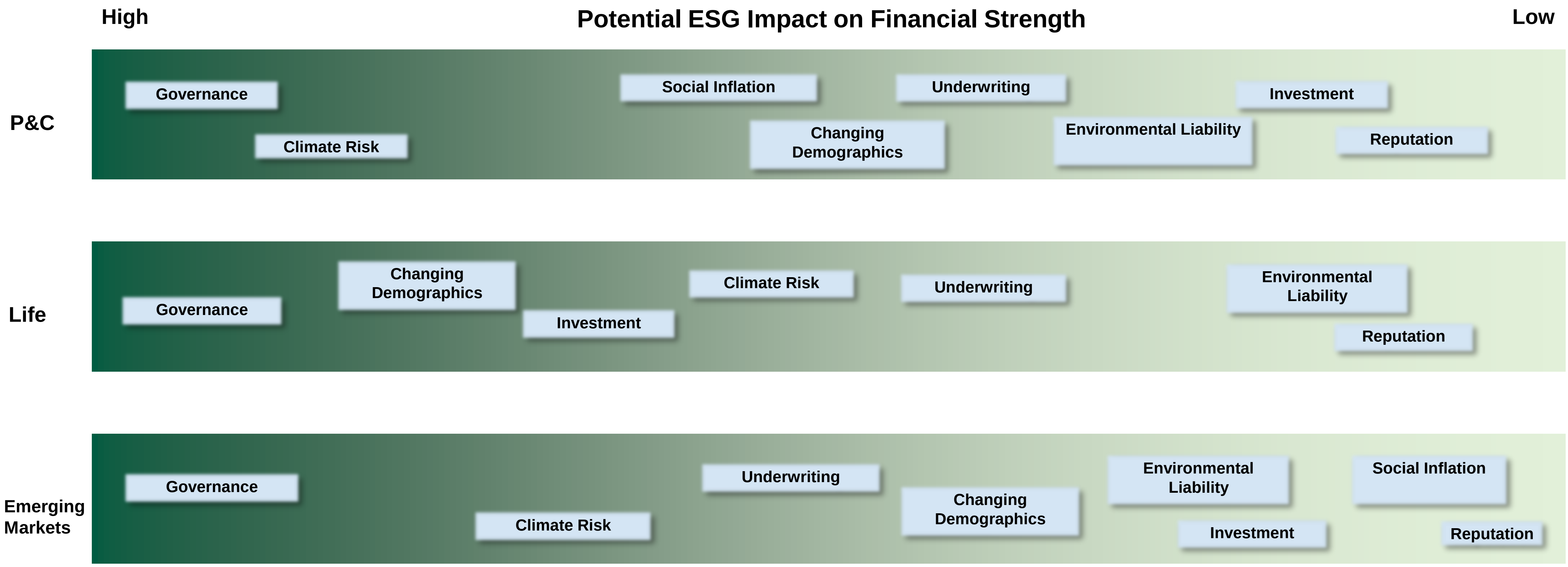
- ESG factors have always been considered in our rating process and have impacted ratings when they are material. AM Best also considers the long-term impact of ESG factors.

Balance Sheet Strength	Operating Performance	Business Profile	Enterprise Risk Management
• Climate risk* • ESG integration in investing activities • Stranded assets	• Social inflation • ESG-related litigation • Impact of ESG integration on profitability	• Underwriting exclusions • Changing demographics • Data privacy • Reputational risk	• Corporate governance* • Stress testing* • Management of insurance and non-financial risks

*ESG factors that are most relevant over the near-term

- 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 Impact on Credit Quality is not Uniform – Examples



Assessing Governance through the Rating Process

Governance

Balance Sheet Strength

+

- Capital planning and monitoring
- Measurement and control of asset risk
- Risk-based assessment of capital position

–

- Poor ability to manage capital and solvency
- Inadequate protection against peak exposures
- Problems with audit and valuations

Operating Performance

+

- Consistent ability to achieve budgeted performance.
- Effective KPI-linked executive incentives
- Losses within board-approved appetite

–

- Mismanagement leading to poor strategy and loss-making operations
- Poor decision making around risk/reward
- Losses associated with fraud, fines

Business Profile

+

- Effective decision making and strategy setting
- Management and board members with strong market and product knowledge

–

- Weak or inexperienced management and/or board members
- Excess product risk due to poor decision making
- Reputational risk associated with mismanagement

Enterprise Risk Management

+

- Board oversight of risk function
- Risk management considered in decision making
- Effective internal controls
- Detailed and timely management information and KPI tracking

–

- Lack of board involvement in risk-management
- Breaches of appetite and tolerance
- Inadequate financial reporting
- Ineffective third party experts e.g. actuary

Issuer Credit Rating

Assessing Physical Climate Risk through the Rating Process

Climate Risk

Balance Sheet Strength

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

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

Operating Performance

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

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

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

Enterprise Risk Management

+
- 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

–
- 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

Issuer Credit Rating

ESG – Ongoing Research

Trend Review
October 28, 2021

US Insurers' Perceptions of ESG

A majority of US insurers agree that more clarity is needed fro regulators particularl with respe to identifyi measuring reporting E factors

Summary

- Between 40% and 50% of US insurers in each segment are actively engaged with ESG.
- All segments have a focus on the "G" in ESG—governance.
- Roughly 60% of companies agree that demand from stakeholders to explicitly consider ESG factors has grown.
- There is widespread agreement across all segments that ESG is not only about identifying and measuring risk, but also about identifying opportunities.

December 1, 2022

Corporate Governance Lessons for Insurers in the Wake of the FTX Fai

Cryptocurrency exchange FTX's collapse highlights the crucial need for effective corporate governance

The bankruptcy of cryptocurrency exchange FTX is the latest example of a corporate collapse resulting from governance failures. Although FTX is not an insurance company, the series of events leading to its collapse should nonetheless provide a sobering warning for the insurance industry. AM Best would typically take a favourable view of insurance company enterprise risk management (ERM) frameworks which incorporate lessons learned from recent events and emerging issues. Equally, we expect insurers with strong governance practices to be better able to manage risks.

Insurers generally benefit from effective ring-fencing of, and/or reserving for, resources to meet obligations to policyholders, underpinned by market discipline and regulation. However, even insurers with healthy balance sheets and sound operating performance may in some instances experience rapid deterioration in their financial strength because of weak internal controls, or poor strategic decisions linked to inadequate governance.

Trend Review
May 5, 2021

Investor Pressure Adds Momentum for Reinsurers to Integrate ESG Factors

ESG integration may lead increased financial flexibility

Principal Takeaways

- All the listed reinsurers, in a recent AM Best survey of European and Asia Pacific-based (re)insurers, cited investors as creating the most - or second most - pressure to consider

November 22, 2021

ESG and Insurance Credit Ratings: Frequently Asked Questions

AM Best's guide to frequently asked questions about ESG and related definitions

Environmental, social, and governance (ESG) continues to be a key topic of interest among stakeholders in the insurance industry, but there is some uncertainty as to what it actually entails, and what actions or disclosures are expected from (re)insurers. (Re)insurers generally agree that more clarity is needed from regulators about the identification, measurement, and reporting of ESG factors.

AM Best believes that communicating how it views ESG factors in the context of insurance credit ratings will provide greater transparency to the market. As a result, we have developed this frequently asked questions (FAQ) document to help provide additional background and context. In addition, we have included an **ESG Glossary** at the end of the FAQ. We recognize that there are no agreed upon definitions for many ESG-related terms and this glossary provides AM Best's perspective on how these terms are used in the domain of credit ratings.

General Information

Visit AM Best's research pages for more information:

Q&A

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AM Best's
Netherlands Insurance Market Briefing - Amsterdam

07 June 2023