

# AM Best's France Insurance Market Briefing - Paris

16 March 2023



# AM Best's France Insurance Market Briefing - Paris

William Mills  
Senior Director, Market Development – EMEA

# Presenters & Panelists



**William  
Mills**

Senior Director  
Market Development



**Sylvestre  
Frezal**

Deputy Chief Executive  
& Secretary General  
Covéa Group



**Mathilde  
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Senior Director  
Analytics



**Ghislain  
Le Cam**

Senior Director  
Analytics



**Pierre  
Tournier**

Associate Director  
Analytics

# Agenda – France Insurance Market Briefing - Paris

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**10:00 Welcome and Introductory Comments**

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

**10:10 Guest Presentation**

*Sylvestre Frezal, Deputy Chief Executive & Secretary General, Covéa Group*

**10:50 The Global Reinsurance Market: Perspectives, Outlook & 1.1.23 Renewals**

*Dr. Mathilde Jakobsen, Senior Director, Analytics*

**11:20** 

**11:40 AM Best Ratings and Methodology: Benchmarking Study and Rating Actions**

*Ghislain Le Cam, Senior Director, Analytics*

*Pierre Tournier, Associate Director, Analytics*

**12:10 AM Best's Hot Topics**

*Ghislain Le Cam, Senior Director, Analytics*

*Pierre Tournier, Associate Director, Analytics*

**12:45 Closing Comments and Networking Lunch**



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# Disclaimer

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

# ASSURANCE & RÉASSURANCE

Conférence AM Best - 16/03/2023

**Sylvestre FRÉZAL**

Directeur général délégué de Covéa,  
Secrétaire général

# LE MIROIR GROSSISSANT DE L'ACTUALITÉ





# LA LOGIQUE INDUSTRIELLE DES ACTEURS FINANCIERS



# QUELLE STRUCTURE CAPITALISTIQUE OPTIMALE ?



**QUESTIONS ?**



# The Global Reinsurance Market: Perspectives, Outlook & 1.1.23 Renewals

Dr Mathilde Jakobsen – Senior Director, Analytics

# Global Reinsurance Market – Discussion Outline

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**Results Drive Improving Pricing and Terms**

**Market Well Capitalised – Subject to Asset Volatility**

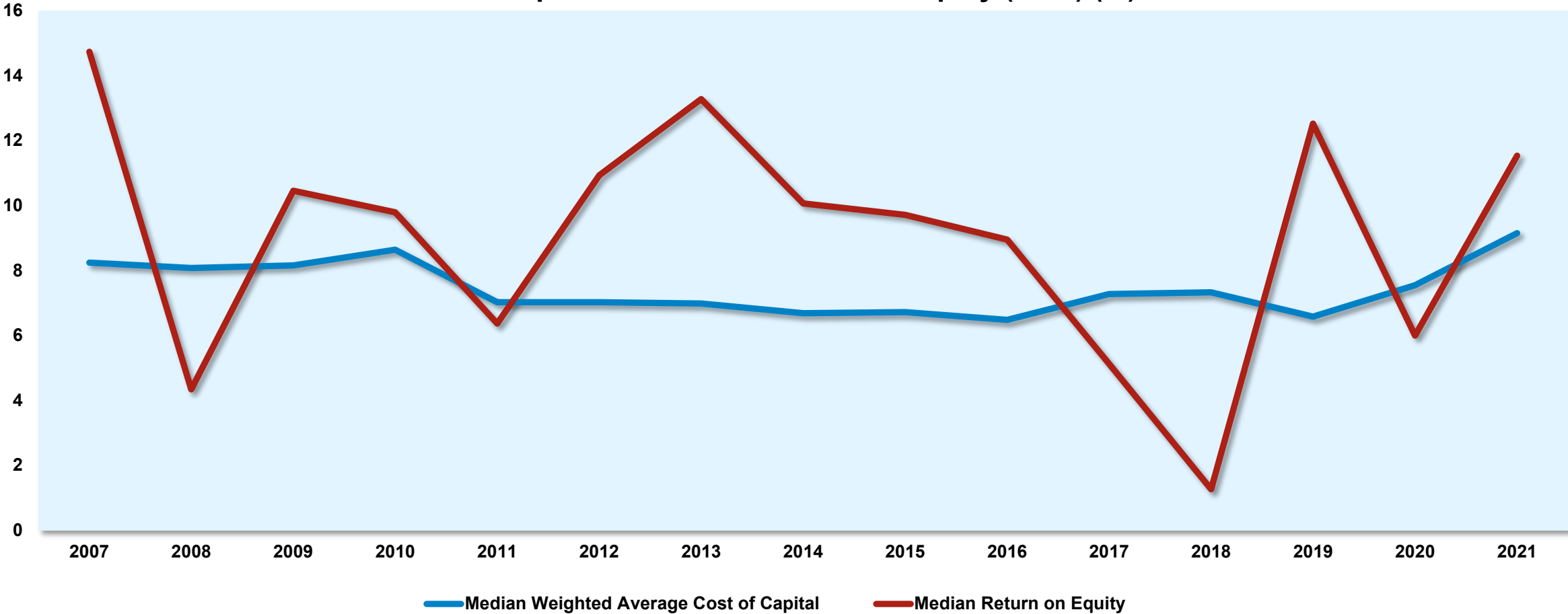
**Outlook: Stable – Drivers Remain in Flux**

**Global Reinsurance Market  
Results Drive  
Improving Pricing and Terms**



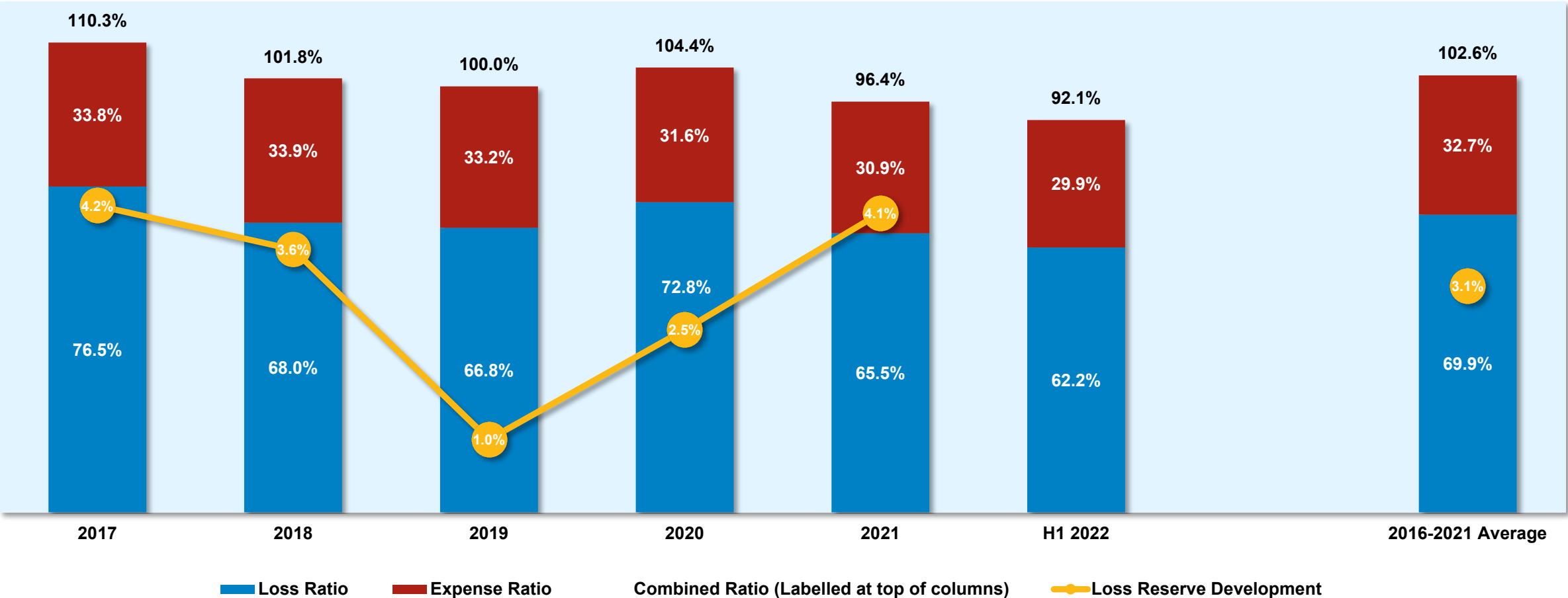
# Global Reinsurance Market Performance

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



# Global Reinsurance Market Performance

Loss and Expense Ratios and Positive Loss Reserve Development

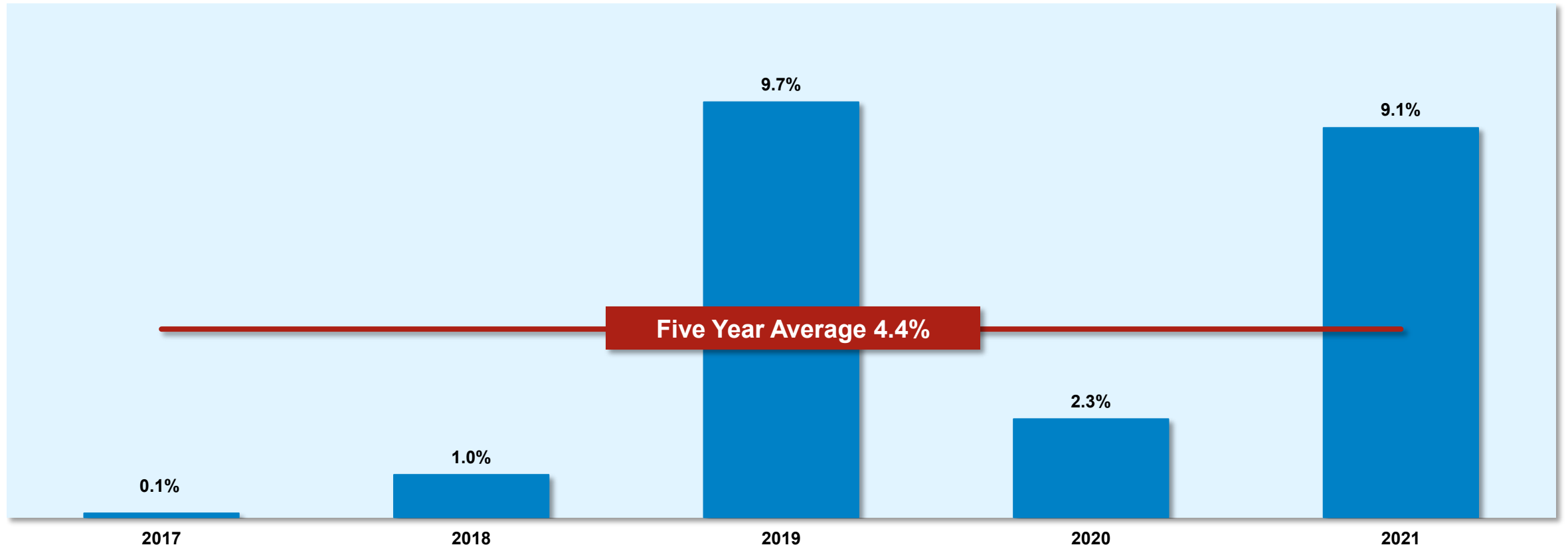


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# Global Reinsurance Market Performance

## Return on Equity

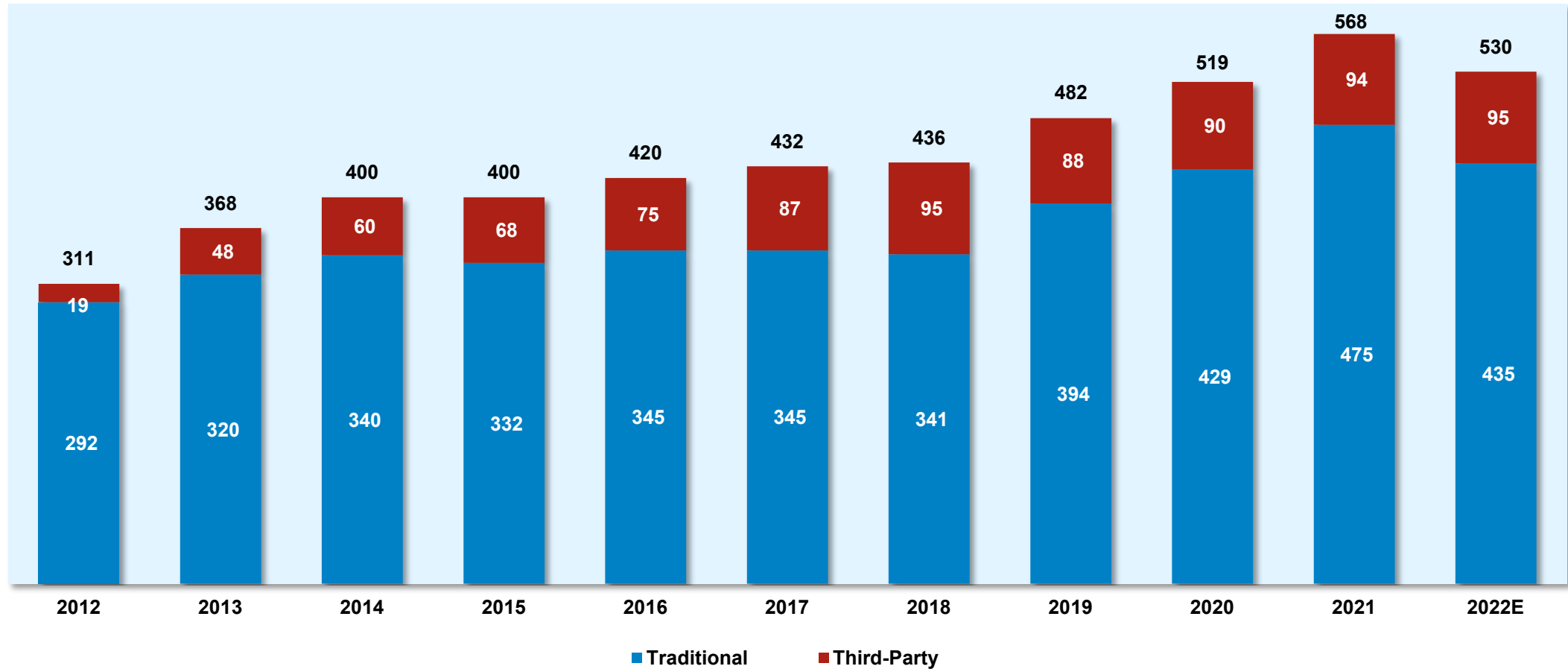




**Global Reinsurance Market  
Market Well Capitalised. Subject to  
Asset Volatility**

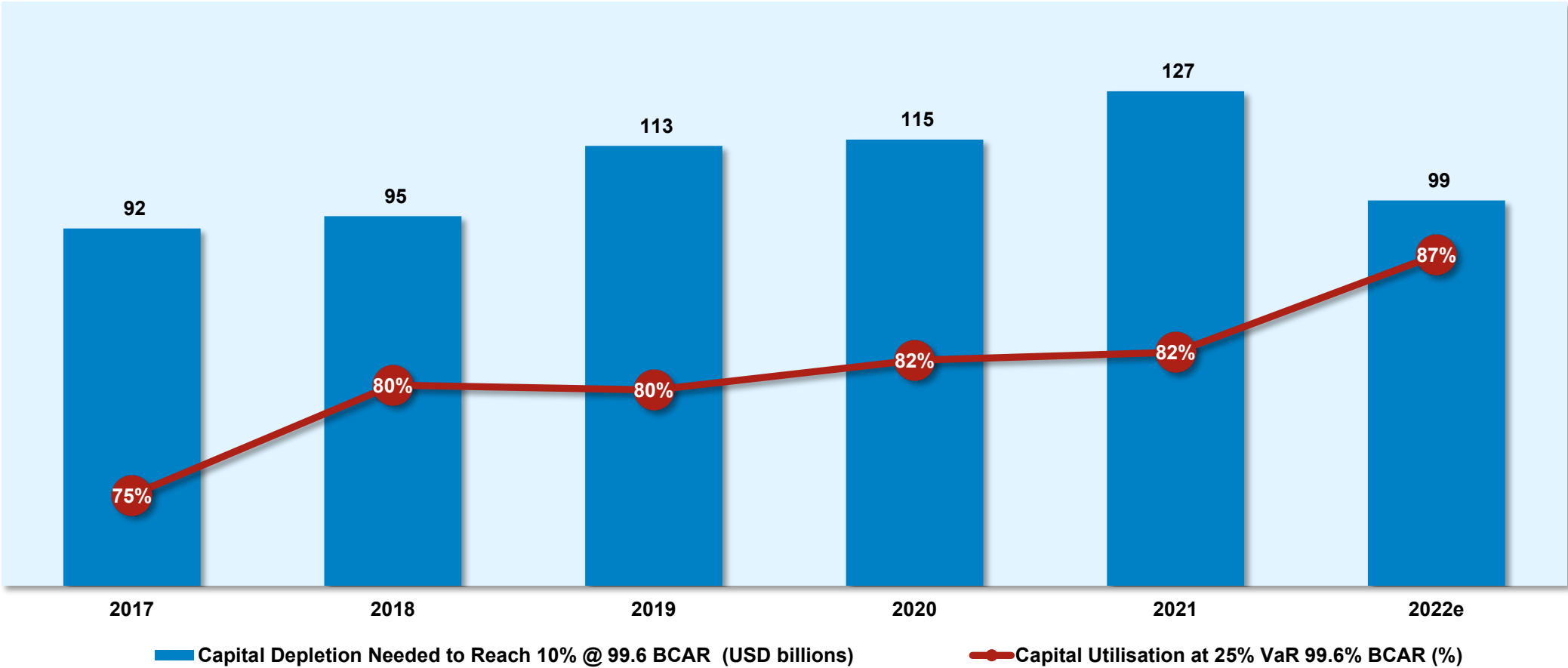
# Global Reinsurance Market Capital

Estimate – Total Dedicated Reinsurance Capital (USD billions)



# Global Reinsurance Market Capital

Capital Utilisation (USD billions)



# Global Reinsurance Market Outlook – Stable Drivers Remain in Flux

# Global Reinsurance Market Outlook – Stable

## Headwinds

Heightened natural catastrophe activity continues to test investor risk appetite

Geopolitical and economic uncertainty: inflation, rising interest rates, risk of recession

New capital is cautious despite improved pricing and tighter T&Cs. Similar constraints on the ILS side, particularly for retro capacity

Segment well capitalised, but interest rate hikes and volatile investment markets have materially reduced shareholders' equity on a MV basis

Inflationary pressures and the risk of recession make profitability targets more challenging

## Tailwinds

Sustained upward pricing trends, improving terms and conditions

More stable results following shifts in business mix. Positive reserve development

Segment remains well capitalised but subject to asset market volatility.

Available ≠ Dedicated capital

Underwriting discipline

Strong demand from cedants looking for stable results and capital efficiency in an uncertain environment

# Q&A



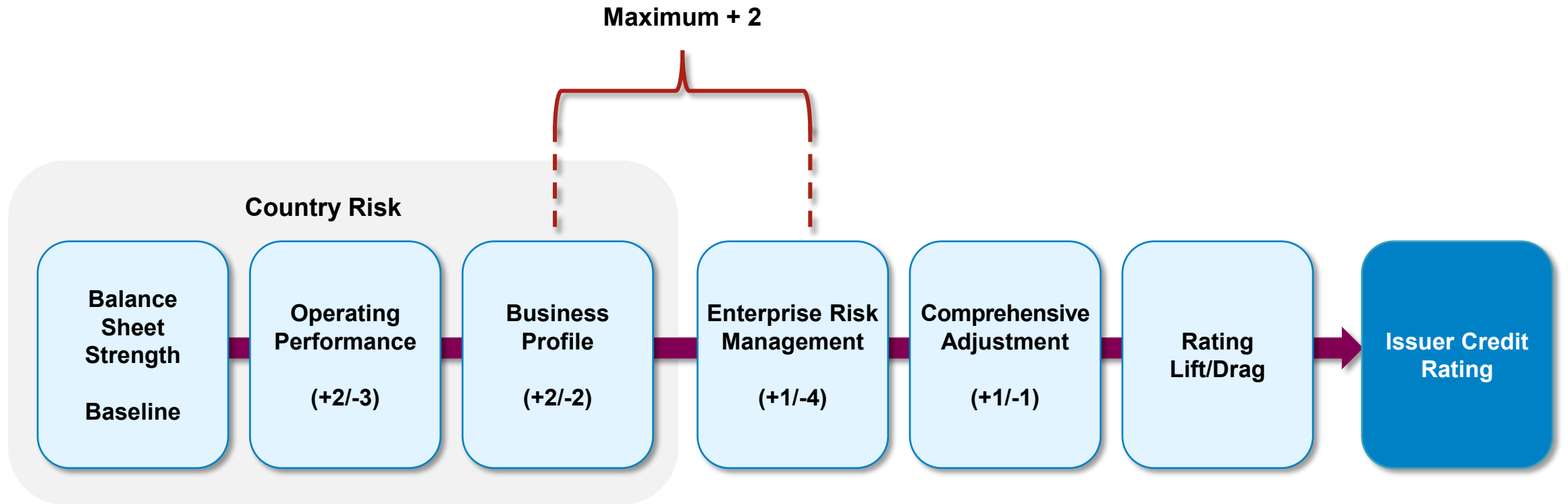
# AM Best's France Insurance Market Briefing - Paris

16 March 2023

# **AM Best Ratings and Methodology: Benchmarking Study and Rating Actions**

**Ghislain Le Cam – Senior Director, Analytics  
Pierre Tournier – Associate Director, Analytics**

# AM Best's Rating Process - Recap



# AM Best's Rating Process - Recap

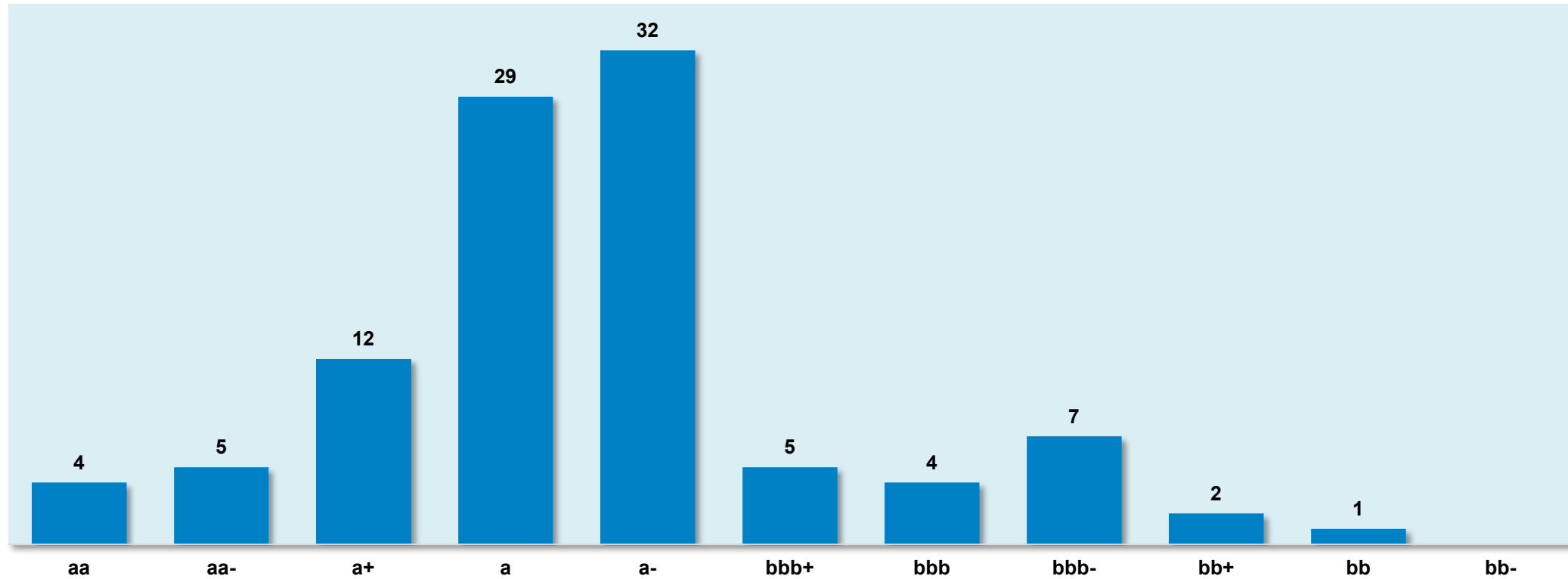
Balance Sheet Strength Baseline	Operating Performance (+2/-3)	Business Profile (+2/-2)	Enterprise Risk Management (+1/-4)
<b>Assessment</b>	<b>Assessment</b>	<b>Assessment</b>	<b>Assessment</b>
Strongest	Very Strong +2	Very Favourable +2	Very Strong +1
Very Strong	Strong +1	Favourable +1	Appropriate 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		

# AM Best's Rating Process - Recap

## 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
<b>Strongest</b>	a+/a	a+/a	a/a-	a-/bbb+	bbb+/bbb
<b>Very Strong</b>	a/a-	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-
<b>Strong</b>	a-/bbb+	a-/bbb+	bbb+/bbb/bbb-	bbb/bbb-/bb+	bbb-/bb+/bb
<b>Adequate</b>	bbb+/bbb/bbb-	bbb+/bbb/bbb-	bbb-/bb+/bb	bb/bb-	bb/bb-/b+
<b>Weak</b>	bb+/bb/bb-	bb+/bb/bb-	bb-/b+/b	b+/b/b-	b/b-/ccc+
<b>Very Weak</b>	b+ and below	b+ and below	b- and below	ccc+ and below	ccc and below

# AM Best Issuer Credit Ratings – Overview (2022) (%)

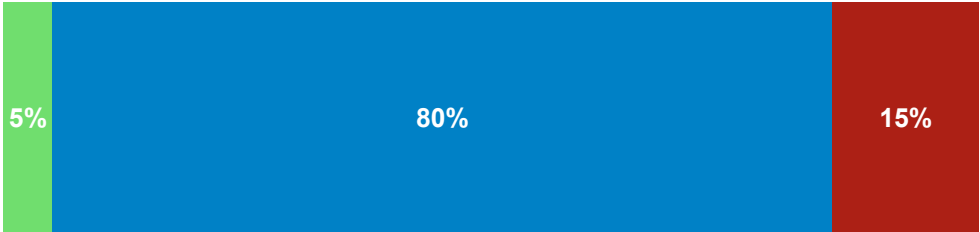




# Rating Outlooks and Drivers of Rating Upgrades & Downgrades (2022)

## Best's Issuer Credit Rating Outlook –

■ Positive ■ Stable ■ Negative



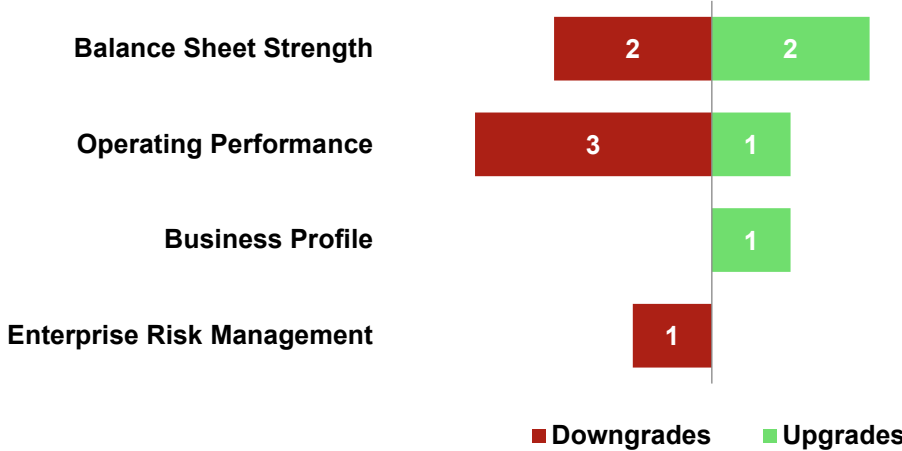
## Outlook Changes from Stable

■ Positive ■ Negative

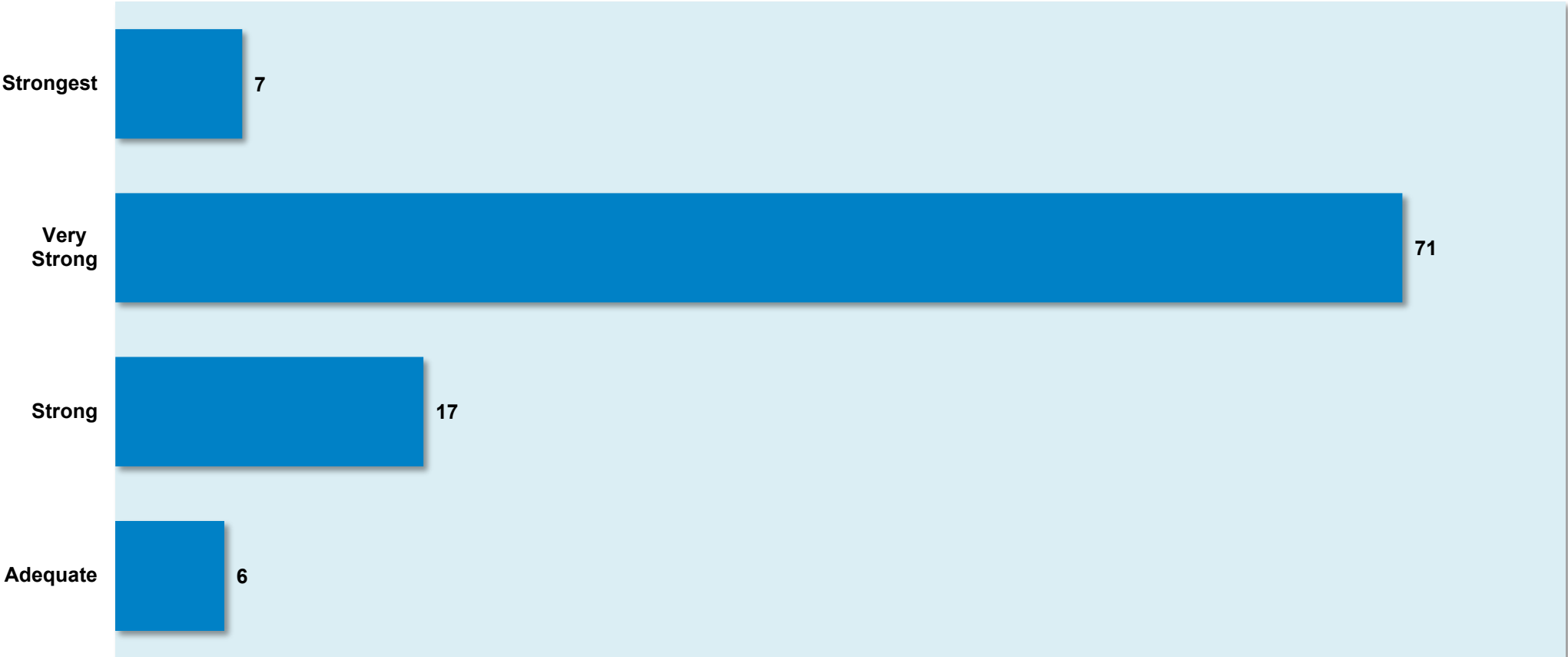


## Building Block

■ Upgrades ■ Downgrades

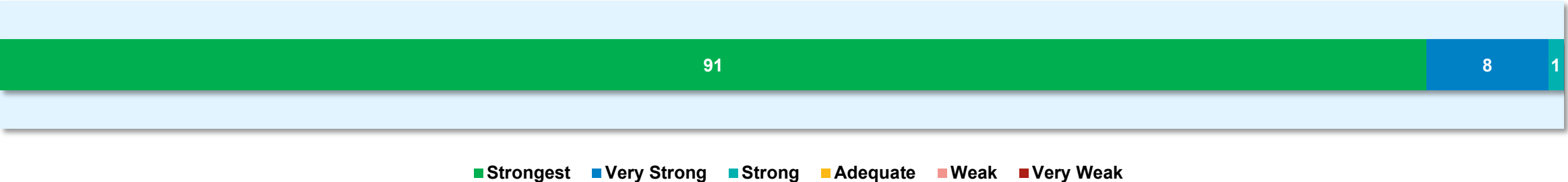


# Balance Sheet Strength - Distribution of Assessments (%)

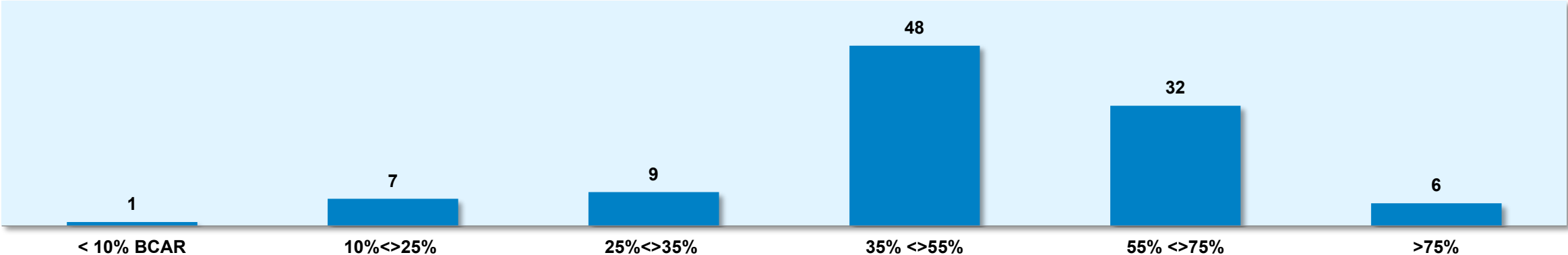


# Balance Sheet Strength – Distribution of BCAR Scores (2022) (%)

## Best's Capital Adequacy Ratio (BCAR) (%)

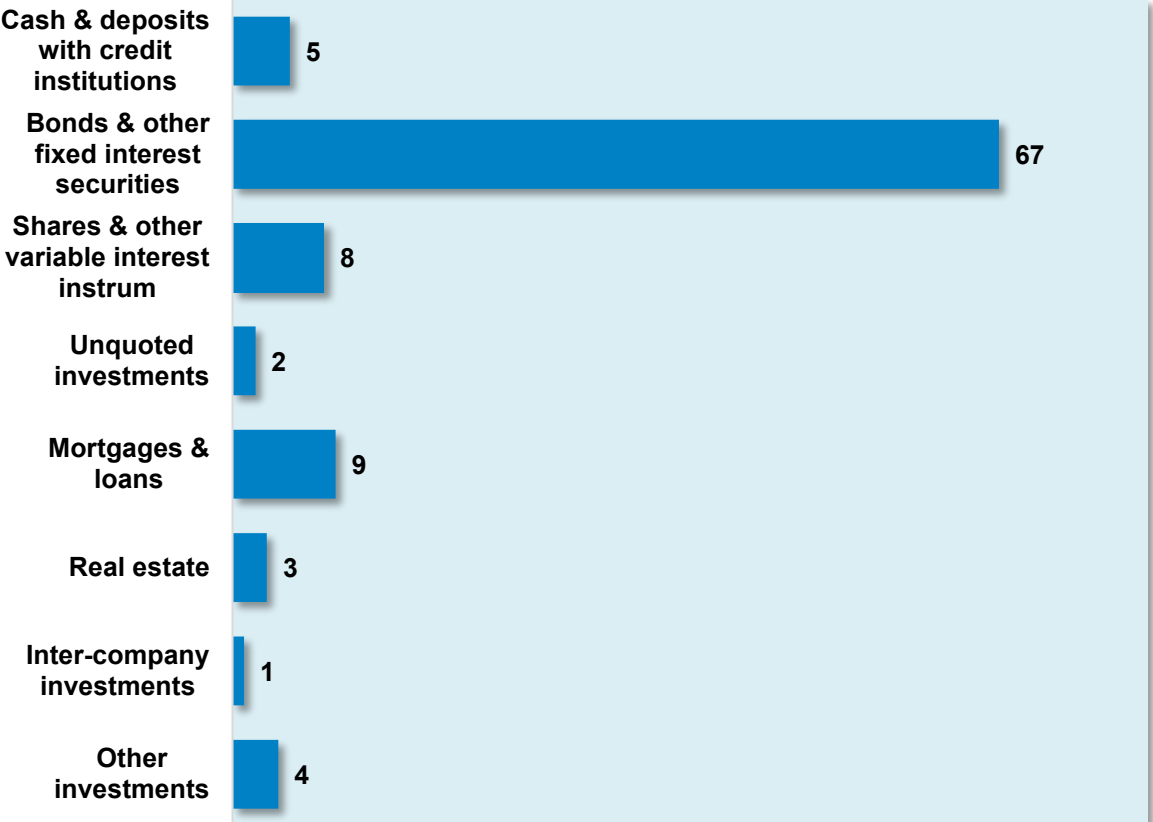


## Breakdown of BCAR Assessments by Percentage of Rating Unit (%)

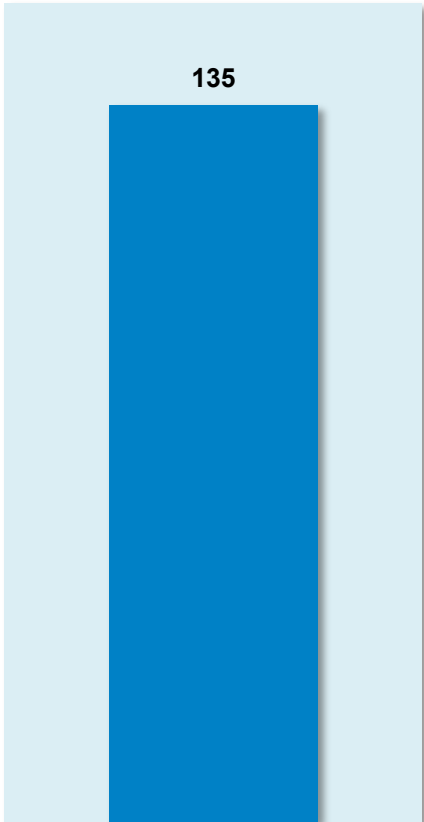


# Balance Sheet Strength

Balance Sheet Strength – Distribution of Investments (%)



Underwriting Leverage (Gross Written Premium/Shareholders' Funds) (%)



# Balance Sheet Strength vs BCAR Distribution (%)

## Other Quantitative & Qualitative Considerations

		Balance Sheet Strength			
		Strongest	Very Strong	Strong	Adequate
BCAR Assessment	Strongest	7	68	12	5
	Very Strong		3	4	1
	Strong			1	
	Adequate				0

Asset quality / diversification

Stress test

Asset liability matching

Liquidity

Reinsurance quality / appropriateness / dependence

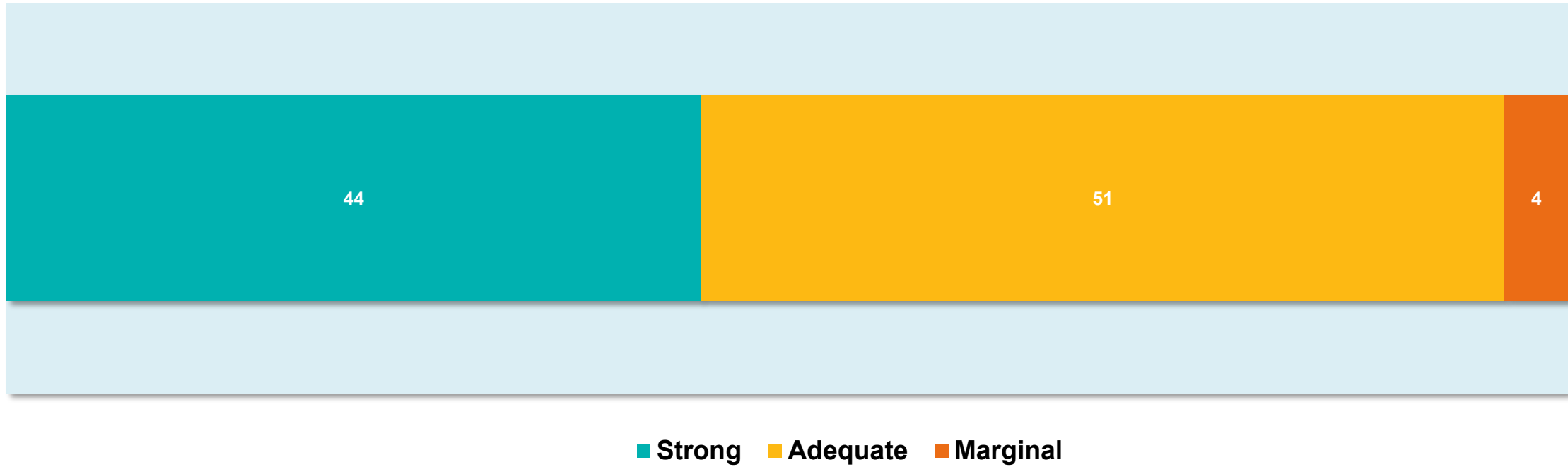
Reserve adequacy

Fungibility of capital

Internal capital model

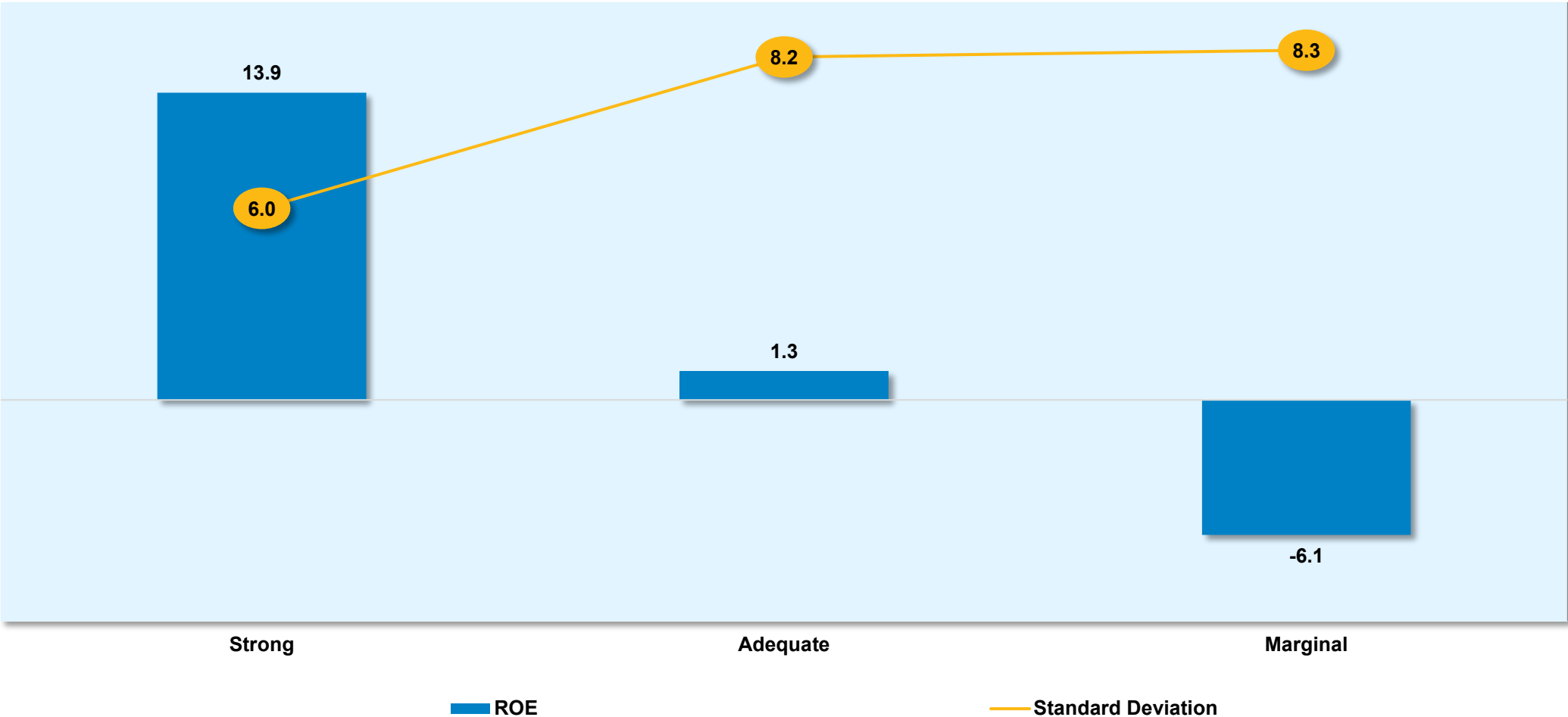


# Operating Performance - Distribution of Assessments (2022) (%)

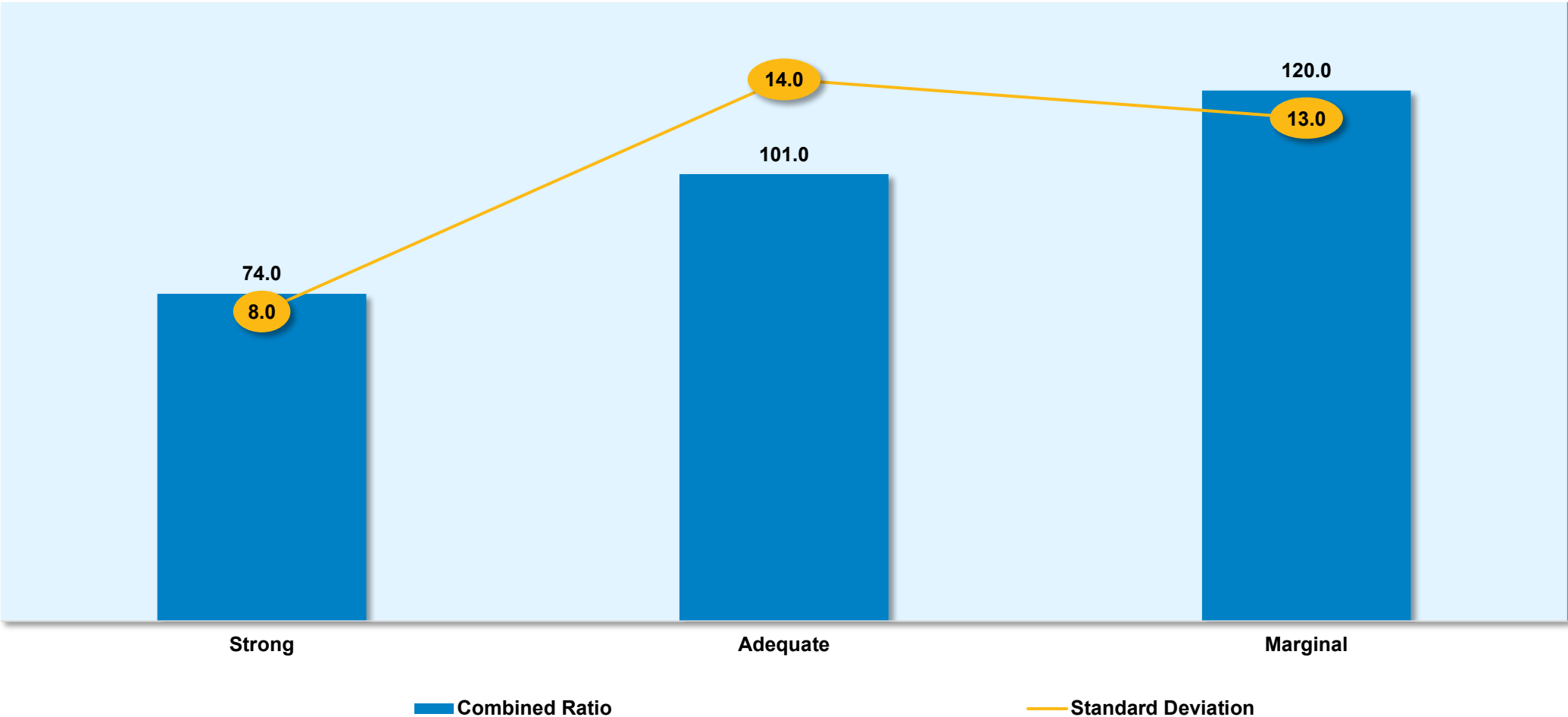




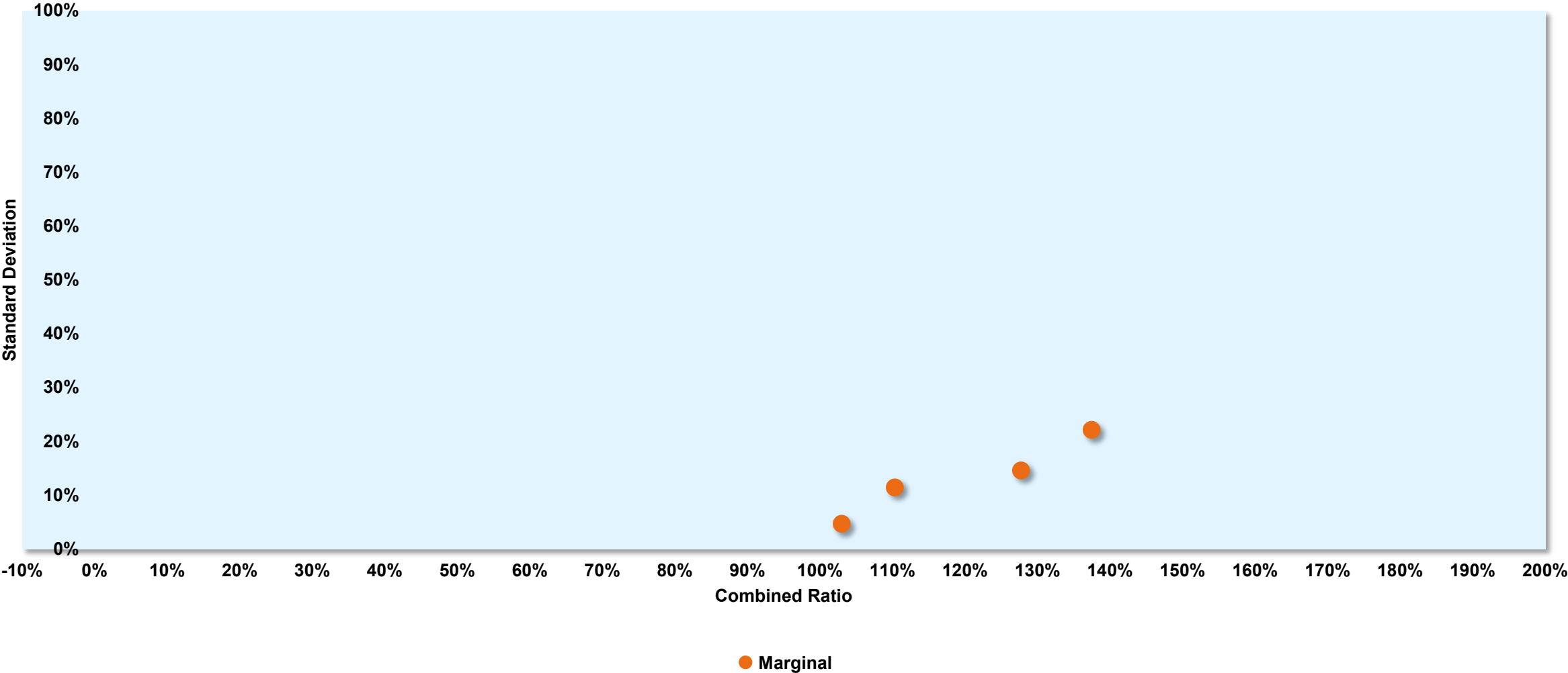
# Operating Performance – Five-Year (2017-2021) Return on Equity & Standard Deviation (%)



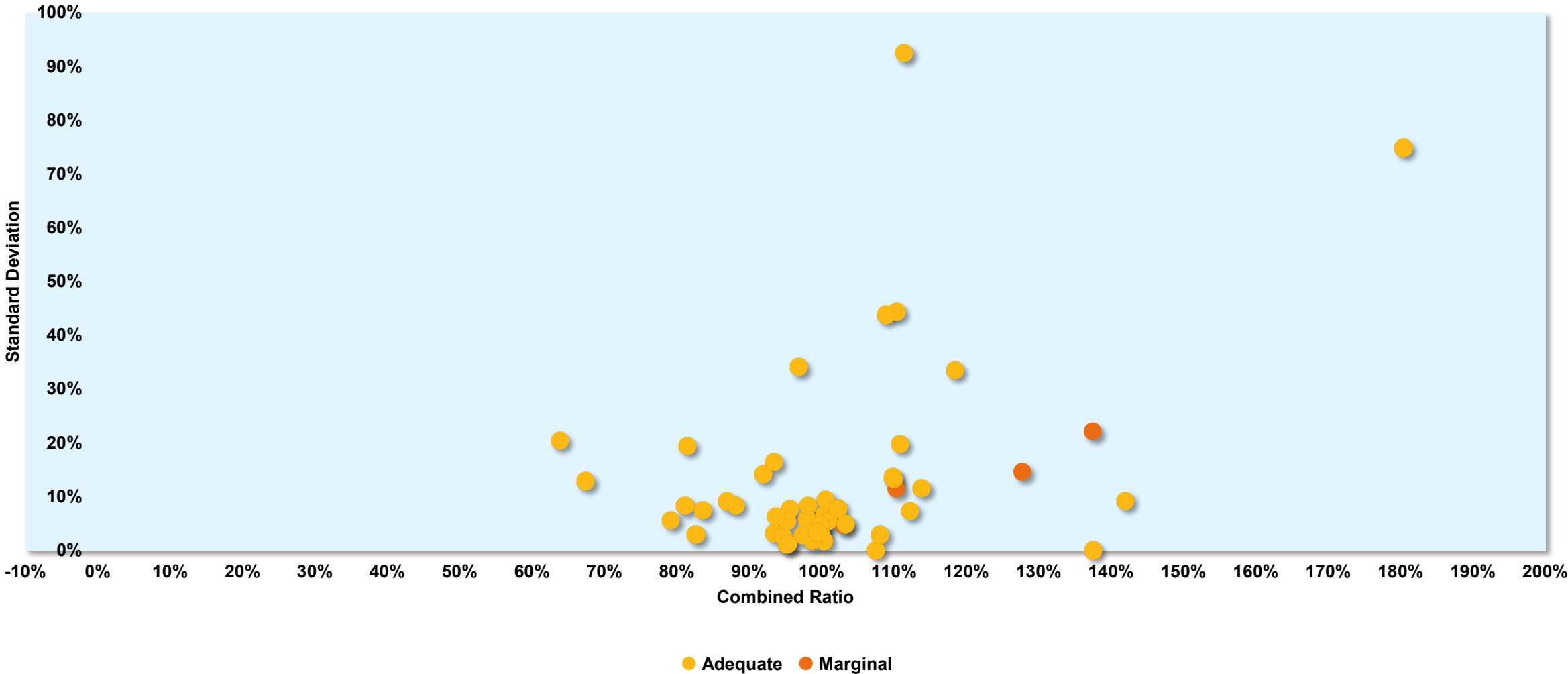
# Operating Performance – Five-Year (2017-2021) Combined Ratio & Standard Deviation (%)



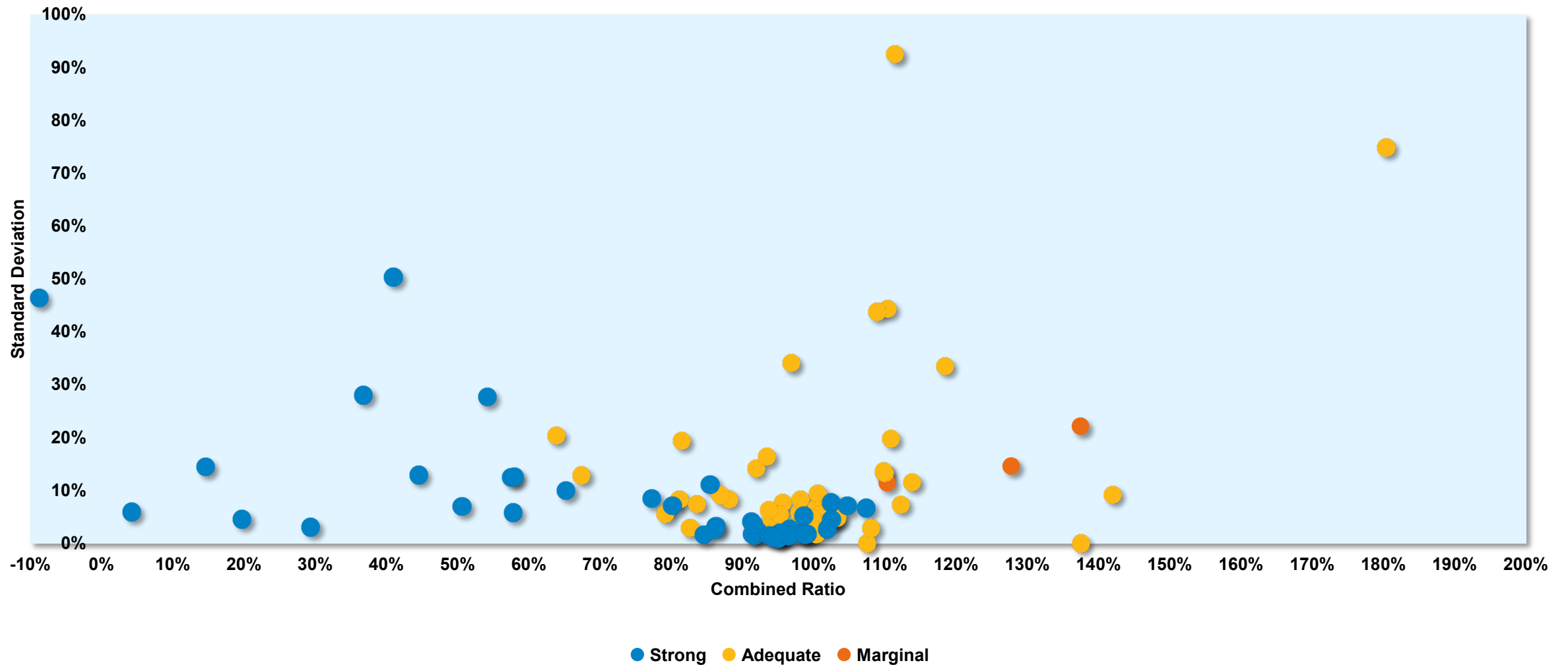
# Operating Performance – Five-Year (2017-2021) Combined Ratio vs Standard Deviation



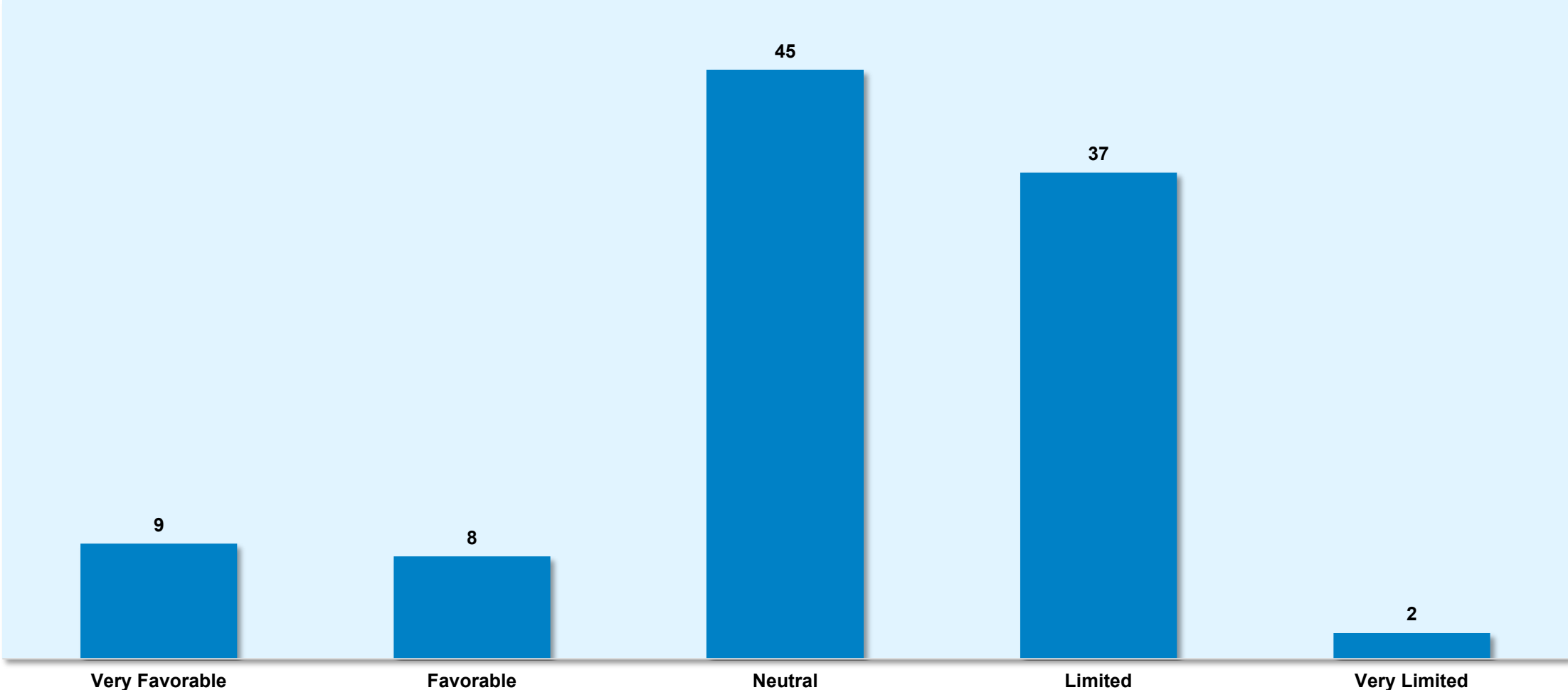
# Operating Performance – Five-Year (2017-2021) Combined Ratio vs Standard Deviation



# Operating Performance – Five-Year (2017-2021) Combined Ratio vs Standard Deviation

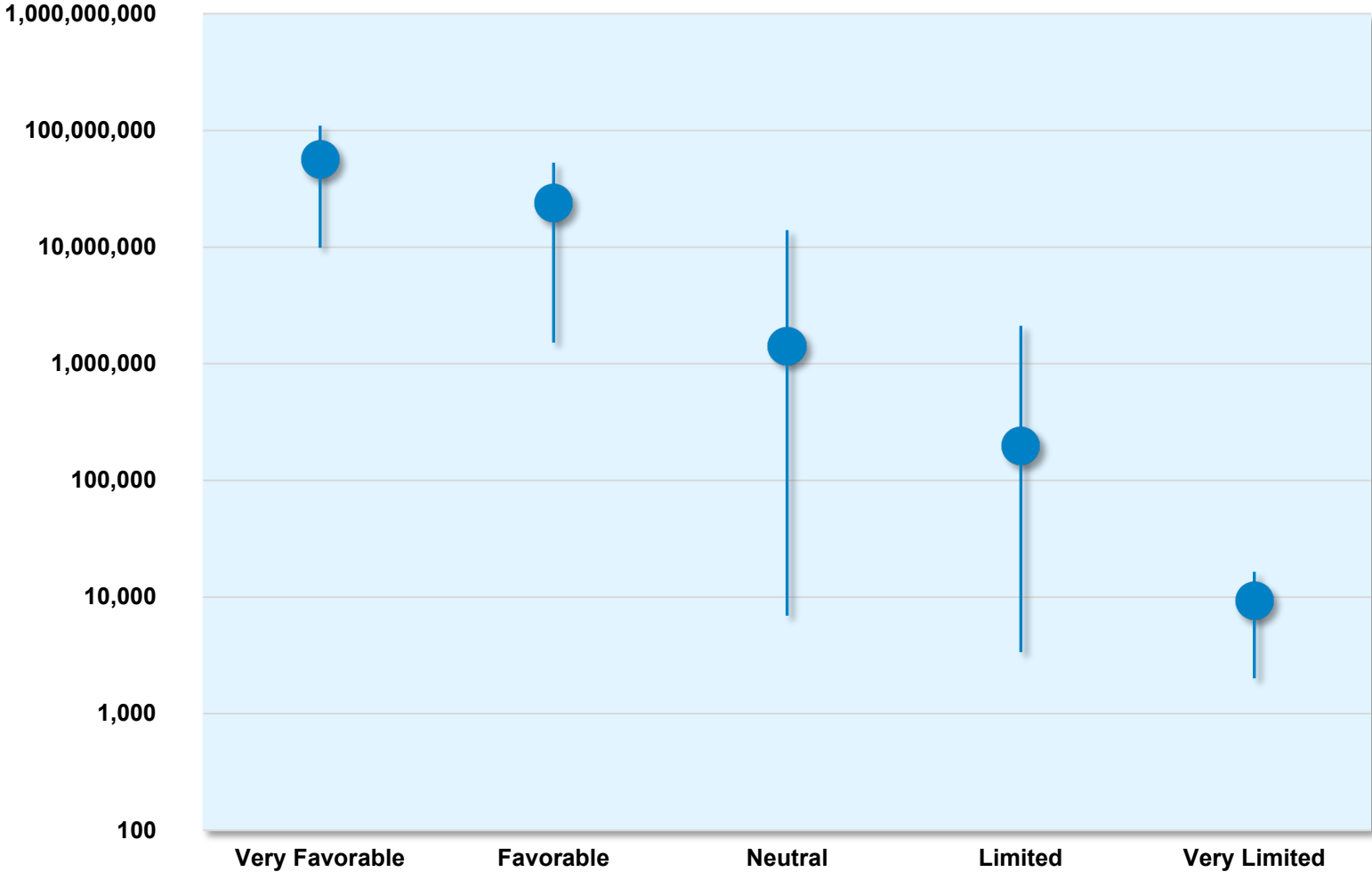


# Business Profile – Distribution of Assessments (%)





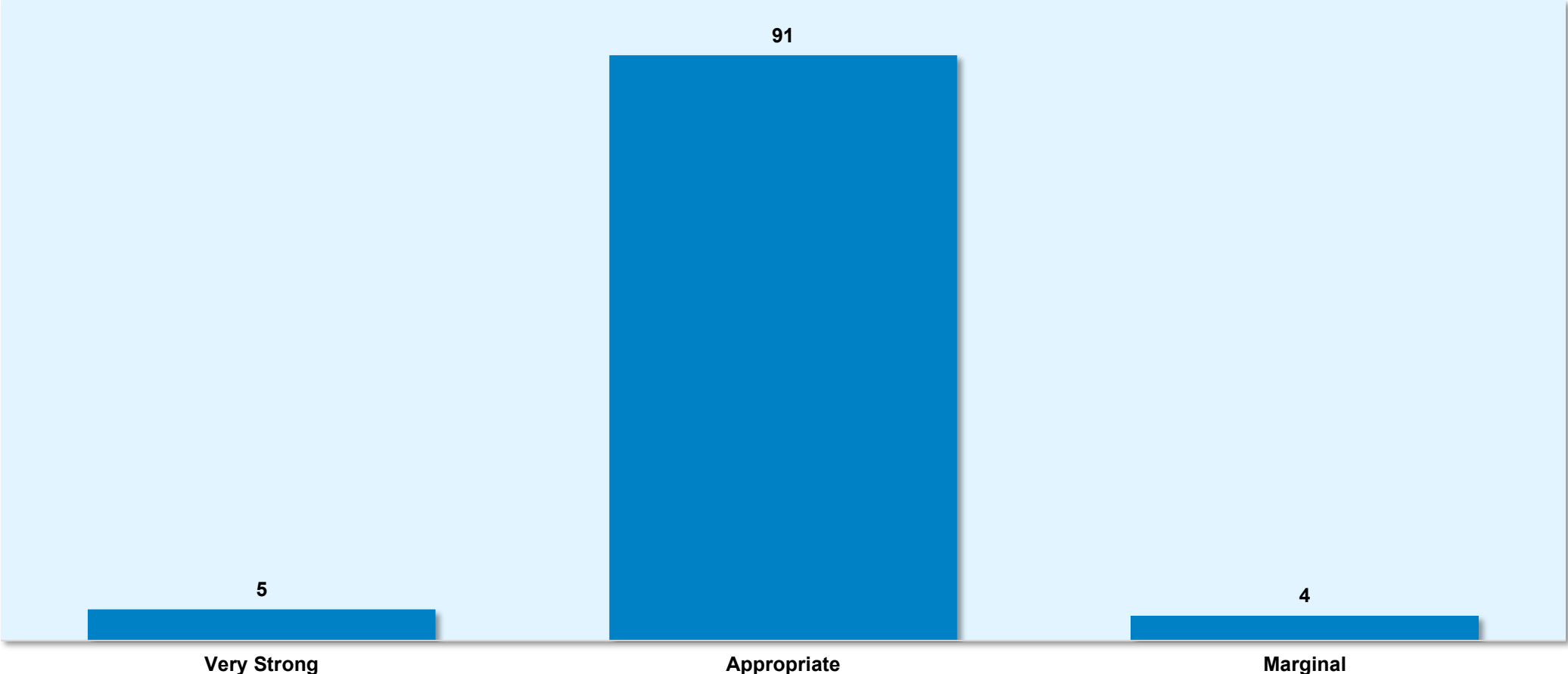
# Business Profile – Average Net Earned Premium (USD 000)



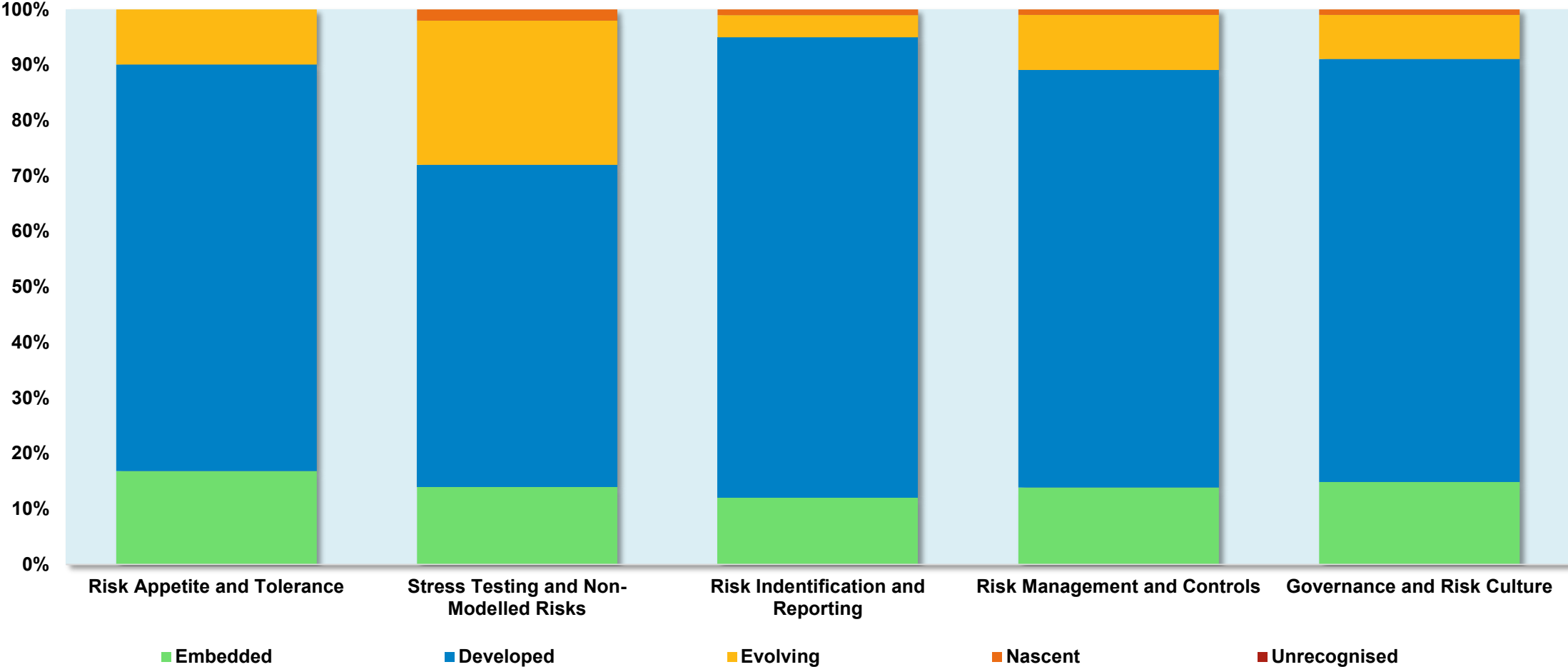
Business Profile Review Components	
Product/ Geographic Concentration	Product Risk
Market Position	Degree of Competition
Pricing Sophistication & Data Quality	Management Quality
Regulatory, Event & Market Risks	Distribution Channels
Innovation	



# Enterprise Risk Management – Distribution of Assessments (%)



# Enterprise Risk Management – Distribution of Risk Framework Assessments (%)

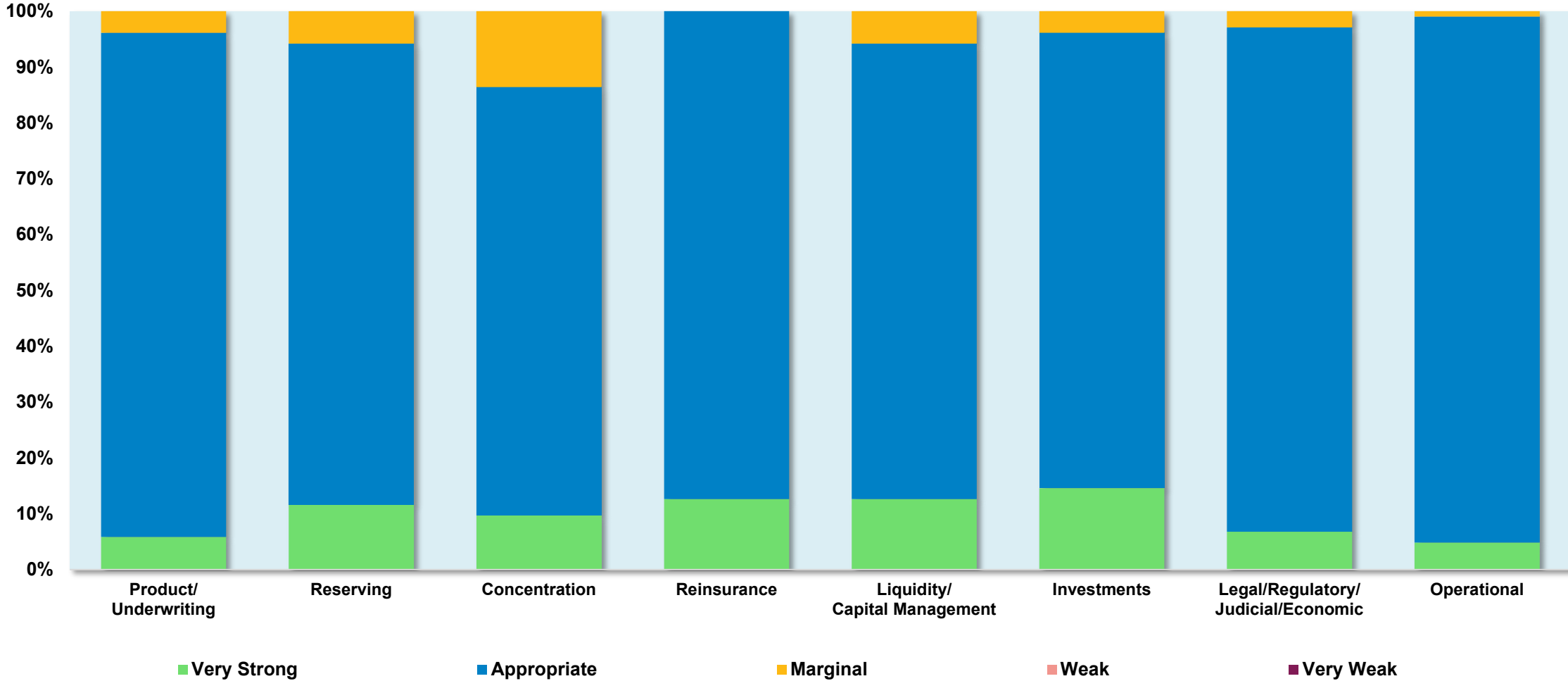


Our Insight, Your Advantage™

Source: AM Best data and research  
 Rating assessments 1 January 2022 to 31 December 2022



# Enterprise Risk Management – Distribution of Risk Capability Assessments (%)



Our Insight, Your Advantage™

Source: AM Best data and research  
 Rating assessments 1 January 2022 to 31 December 2022



# Q&A

# AM Best Hot Topics

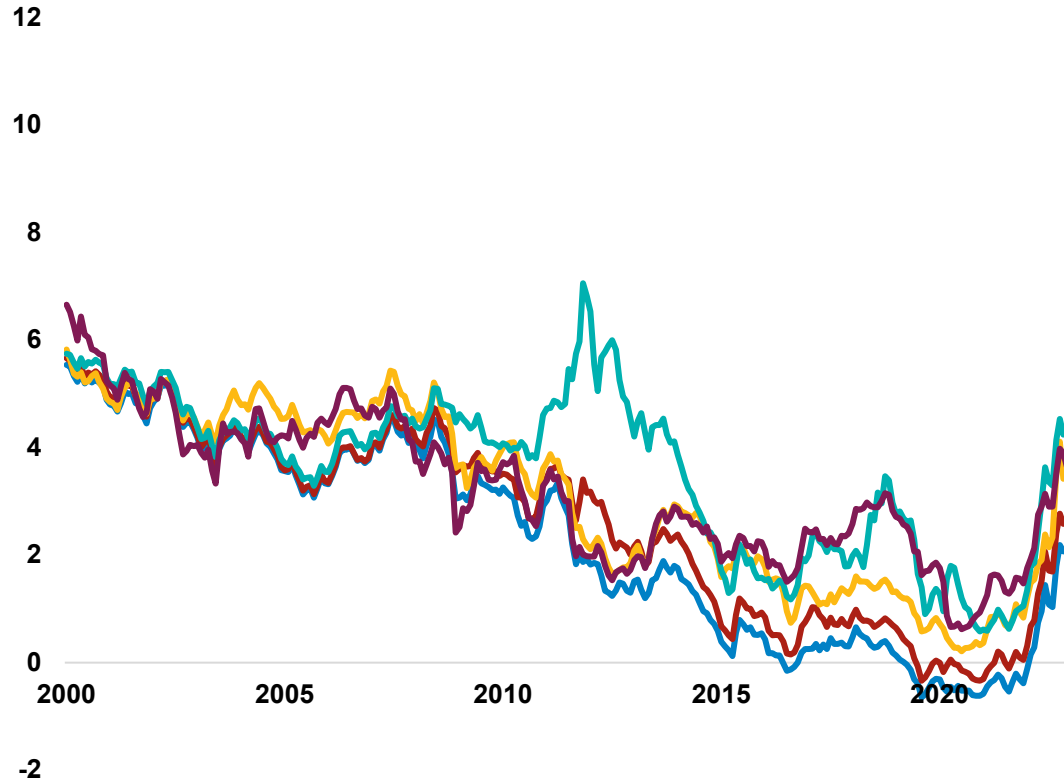
**Ghislain Le Cam – Senior Director, Analytics**  
**Pierre Tournier – Associate Director, Analytics**

# Impact of Inflation and Interest Rate Changes

# Impact of inflation and interest rate changes

10 Year Interest Rate (%)

## Long Term Interest Rates

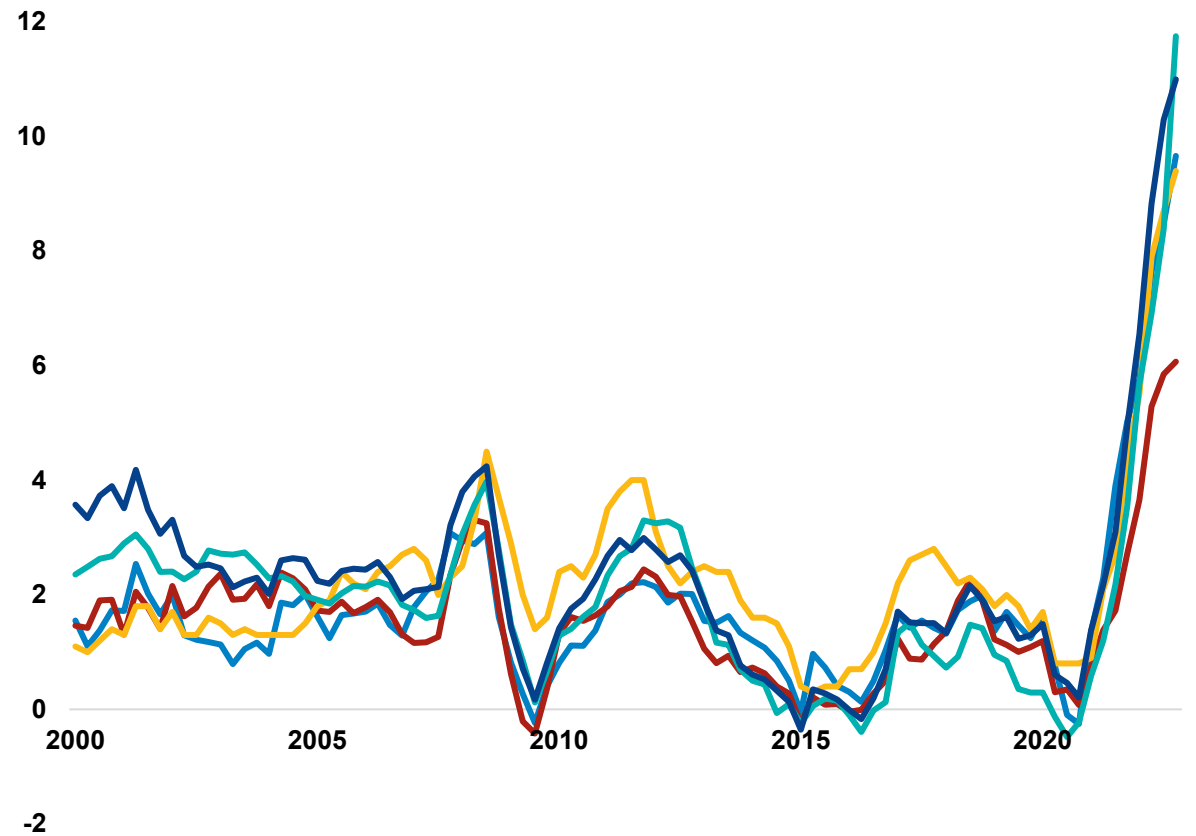


Source: OECD

— DEU — FRA — GBR — ITA — USA

Annual Growth Rate (%)

## Inflation, CPI

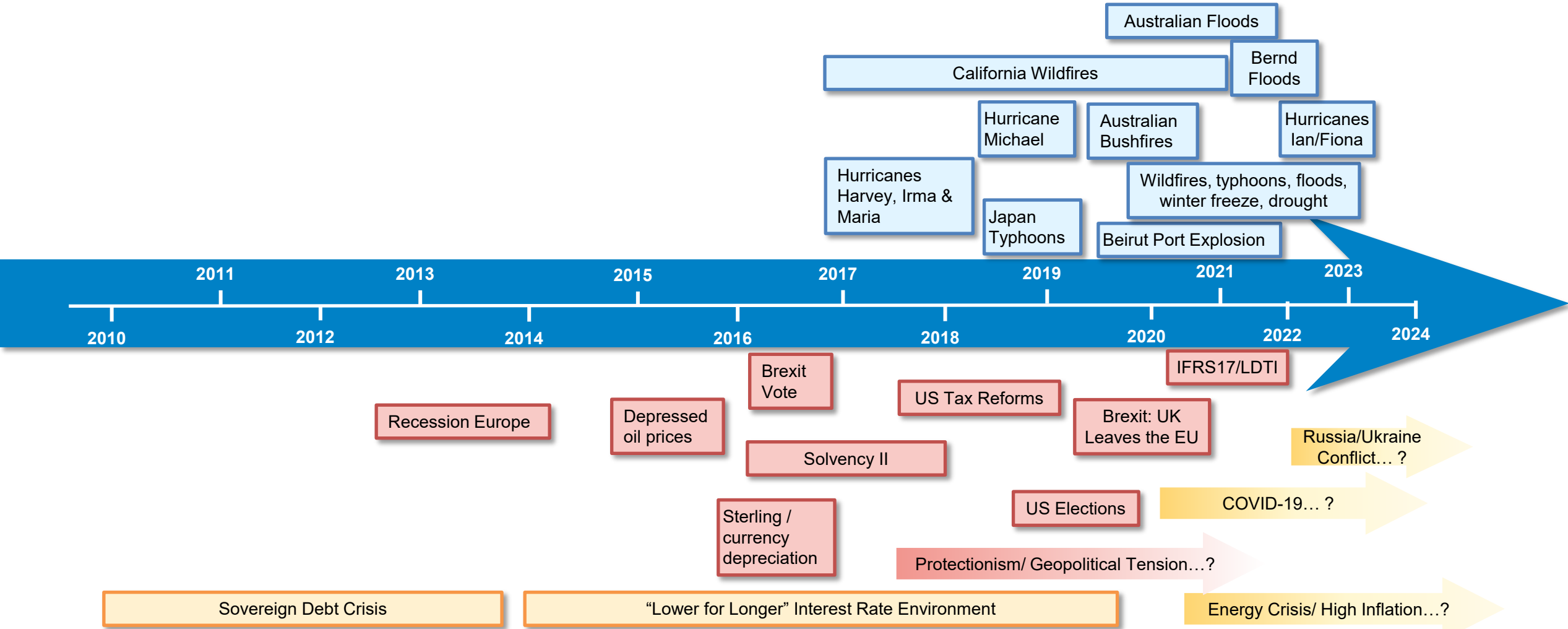


Source: OECD

— DEU — FRA — GBR — ITA — EU27



# Timeline of recent events



# 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

# IFRS 17 – Transitioning to a New Standard

# IFRS 17 – Impact on AM Best’s Ratings

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- 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

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- The learning curve for IFRS 17 is steep
- External communication in nascent stages:
  - Slow communication seems to partly be because work is ongoing, 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
  - No hard numbers or parallel runs shared
- 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

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- 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
- Life operating ratio
  - New and welcome ratio
  - 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?

# 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 public financial reporting standards for insurance contracts.

Regulatory Review April 29, 2021

An expert standard May 20 30 June

AM Best (re)insur financial receive

AM Best of the d AM Best

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

## Key Performance Indicators More Meaningful Under IFRS 17

### 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

### Principal Takeaways

- In general, AM Best does not expect the introduction of IFRS 17 to have a direct impact on ratings
- AM Best will continue to have an economic view of (re)insurers' balance sheets to cater for different reporting standards across jurisdictions

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

May 30, 2022

AM Best views few MENA insurance companies as fully prepared for the transition to IFRS 17

## Market Preparedness for IFRS 17 in the MENA Region Varies

### Principal Takeaways:

- The level of preparedness in the Middle East and North Africa region for IFRS 17 varies significantly by country and by insurer, ahead of the standard's effective date of 1 January 2023
- In general, companies operating in the region's more mature regulatory environments show greater readiness for IFRS 17, AM Best's analysis shows. There is a less consistent picture among the region's small carriers and in markets with less oversight
- The Premium Allocation Approach—a simpler method of measuring contracts than the General Measurement Model—is expected to be widely utilised across the region for qualifying products, which in theory should support the ease of transition to IFRS 17
- There is a clear reliance on third parties to drive IFRS 17 implementation projects, creating the risk of potential disconnect between internal management engagement and external consultant experience
- General weakness in data quality is an area of concern, given the increased data requirements of IFRS 17

Visit AM Best's research pages for more information



# ESG in Best's Credit Rating Methodology (BCRM)

# Understanding ESG Concepts: General Perspective

The consideration of environmental, social and governance factors alongside financial factors



**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



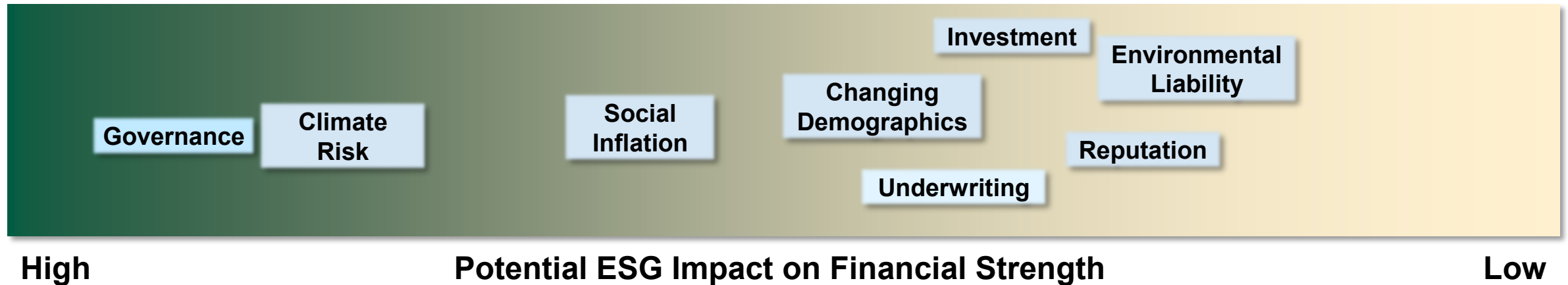
**Governance** factors relate to procedures and processes according to which a company is directed and controlled

# ESG Potential Impact on Credit Quality

The impact of ESG Factors on financial strength are not uniform and can vary due to:

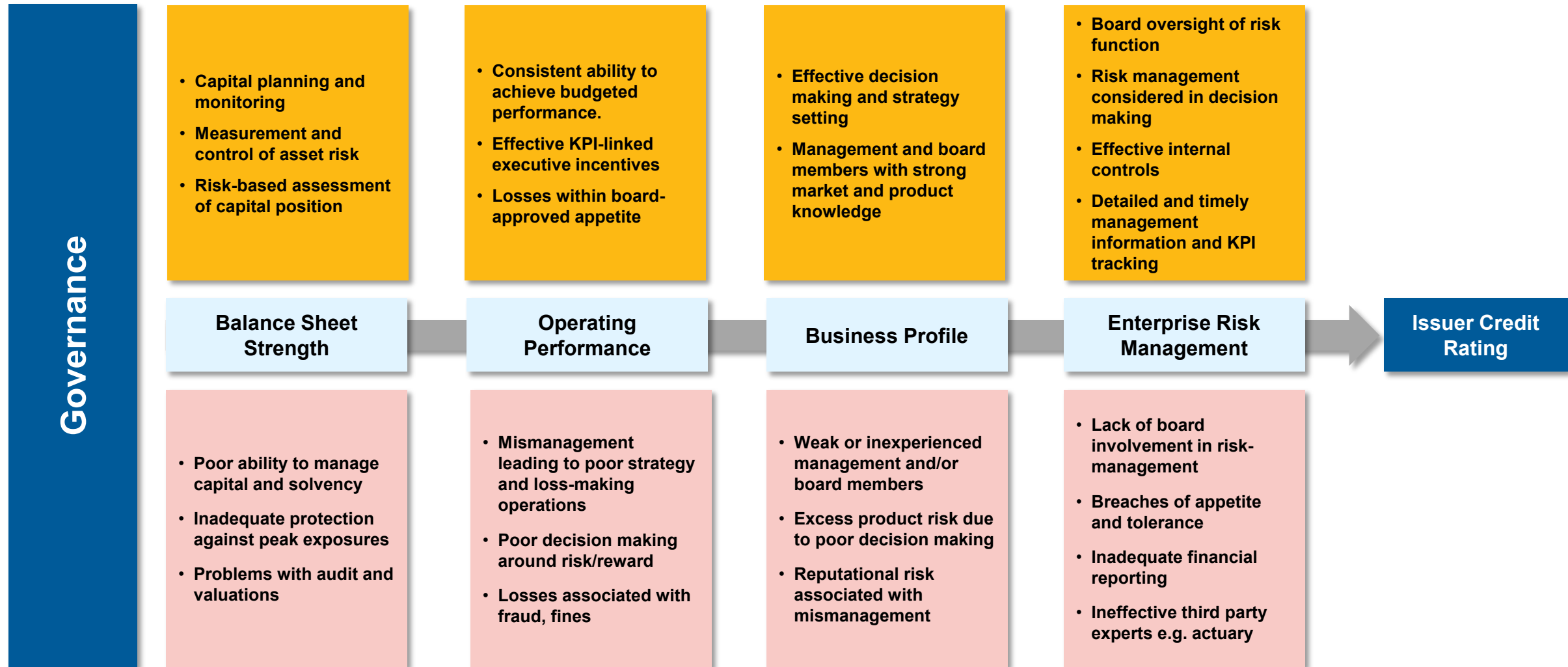
- Type of company
- Exposure (liability and asset)
- Level of risk transfer
- The markets a company operates in

Issues like Governance and Climate Risk can have a material impact on an insurers financial strength



The impact of some ESG credit factors may be increasing over time.

# Assessing Governance through the Rating Process



# Assessing Climate Risk through the Rating Process





# ESG – Ongoing Research

Trend Review  
October 28, 2021

## US Insurers' Perceptions of ESG

**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.

Trend Review  
May 5, 2021

## Investor Pressure Adds Momentum for Reinsurers to Integrate ESG Factors

**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 environmental, social and governance (ESG) risks and opportunities.

December 1, 2022

## Corporate Governance Lessons for Insurers in the Wake of the FTX Failure

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.

November 22, 2021

## ESG and Insurance Credit Ratings: Frequently Asked Questions

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**  
1. What is ESG?

Visit AM Best's research pages for more information:





# Q&A

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# AM Best's France Insurance Market Briefing - Paris

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