

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

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Nick Charteris-Black
Managing Director,
Market Development – EMEA

Agenda – Insurance Market Briefing

09:00 Welcome and Introductory Comments

Nick Charteris-Black, Managing Director, Market Development – EMEA

09:10 EMEA Market Overview – Update on Credit Rating Activity and Outlooks

Greg Carter, Managing Director, Analytics – EMEA & AP

09:25 Keynote Presentation

Burkhard Keese, CFO, Lloyd's

10:05 Thematic Session: The Impact of Economic and Inflationary Pressures on Insurers Against a Backdrop of Increased Geopolitical Risk

*Catherine Thomas, Senior Director, Analytics
Dr Angela Yeo, Senior Director, Analytics*

10:45

11:10 Thematic Session: Reinsurance Market Highlights

*Dr Mathilde Jakobsen, Director, Analytics
Ghislain Le Cam, Director, Analytics*

11:35 Panel Discussion: Cyber Risk's Growing Complexity - What's Next for the Re/Insurance Industry?

*Richard Banks, Director, Industry Research - EMEA, AM Best
Luke Foord-Kelcey, Global Head of Cyber, AON Reinsurance Solutions
Paul Bantick, Group Head of Cyber Risks, Beazley
Rebecca Bole, Head of Industry Engagement, CyberCube
Valeria Ermakova, Associate Director, Analytics, AM Best*

12:25 Thematic Presentation: The Market for MGAs and Other DUAEs

Myles Gould, Director, Analytics

12:50 Closing Comments

Nick Charteris-Black, Managing Director, Market Development – EMEA

13:00 Networking Lunch

Agenda – Methodology Review Seminar

14:25 Welcome and Introductory Comments

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

14:30 Benchmarking EMEA Ratings

Timothy Prince, Director, Analytics
Ben Diaz-Clegg, Senior Financial Analyst

14:55 Closer Look - Start-ups & Run-Offs

Timothy Prince, Director, Analytics
Alex Rafferty, Associate Director, Analytics

15:15 ESG in Best's Credit Rating Methodology (BCRM)

Victoria Ohorodnyk, Associate Director, Analytics

15:30 IFRS 17 - Transitioning to a New Standard

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

15:50 Q&A Interactive Panel Discussion

AM Best Credit Rating Analysts

16:30 Close



**Use the QR code to submit questions
to our speakers**



Don't forget to include your NAME and COMPANY

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Disclaimer

US Securities Laws explicitly prohibit the issuance or maintenance of a credit rating where a person involved in the sales or marketing of a product or service of the CRA also participates in determining or monitoring the credit rating, or developing or approving procedures or methodologies used for determining the credit rating.

No part of this presentation amounts to sales / marketing activity and AM Best's Rating Division employees are prohibited from participating in commercial discussions.

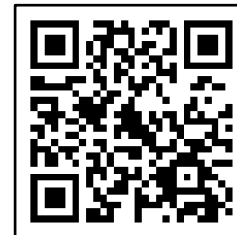
Any queries of a commercial nature should be directed to AM Best's Market Development function.

EMEA Market Overview: Update on Credit Rating Activity and Outlooks

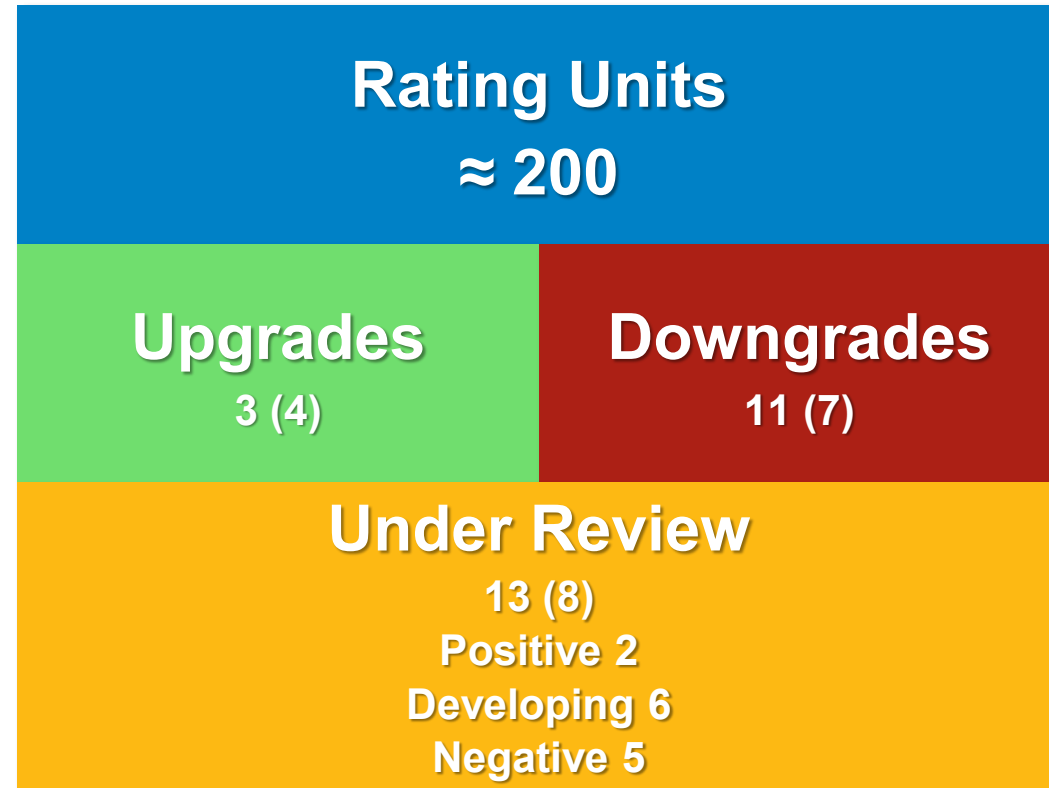
Greg Carter
Managing Director, Analytics
EMEA & Asia Pacific

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Rating Actions



Outlook Changes



Credit Drivers – Causes of Rating Actions 2022

Changes in Balance Sheet Strength
1 Upgrade, 9 Downgrades

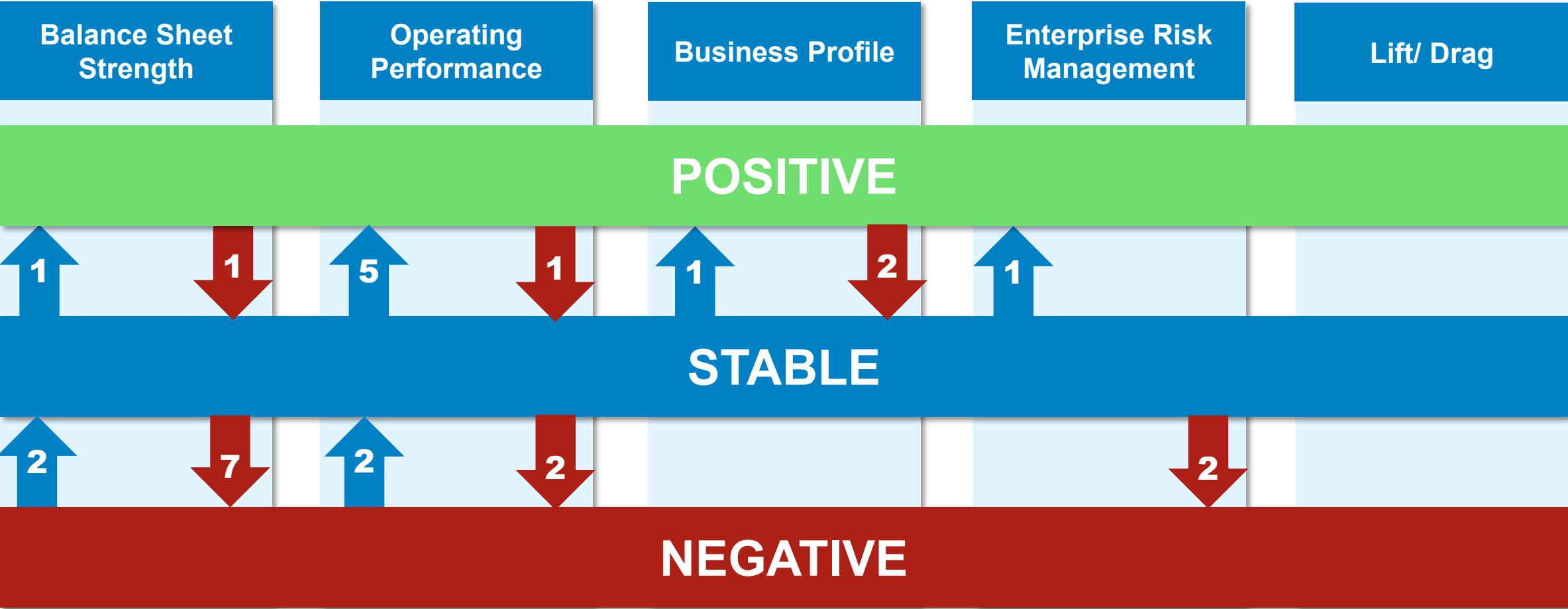
Operating Performance
No Actions

Business Profile
No Actions

Enterprise Risk Management
1 Upgrade, 2 Downgrades

Changes to Lift/Drag
1 Upgrade

Drivers of Outlook Changes



Outlook – Future Credit Drivers

Centre for the Study of Financial Innovation

2021 Rank	Risk	2019 Rank
1	Crime (Cyber)	2 ▲
2	Regulation	4 ▲
3	Technology	1 ▼
4	Climate Change	6 ▲
5	Interest Rates	10 ▲
6	Human Talent	8 ▲
7	Change Management	3 ▼
8	Competition	7 ▼
9	Investment Performance	5 ▼
10	Macro-Economy	9 ▼

Possible Impact on Ratings

Risk	Balance Sheet Strength	Operating Performance	Business Profile	Enterprise Risk Management
1 Crime (Cyber)	M	H	L	H
2 Regulation	M	L	L	M
3 Technology	L	M	H	H
4 Climate Change	M	M	L	L
5 Interest Rates	H	H	M	H
6 Human Talent	L	L	M	H
7 Change Management	M	L	M	H
8 Competition	M	H	H	L
9 Investment Performance	H	H	L	L
10 Macro-Economy	H	H	L	L

EIOPA Risk Dashboard – October 2022

Risks		Level	Trend (Past 3 Months)	Outlook (Next 12 Months)
1	Macro Risks	High	↘	↗
2	Credit Risks	Medium	→	↗
3	Market Risks	High	↑	↗
4	Liquidity and Funding Risks	Medium	→	→
5	Profitability and Solvency	Medium	↗	→
6	Interlinkages and Imbalances	Medium	↘	→
7	Insurance (Underwriting) Risks	Medium	→	→
8	Market Perceptions	Medium	↗	→
9	ESG Related Risks	Medium	→	↗
10	Digitalisation and Cyber Risks	Medium	↓	↗

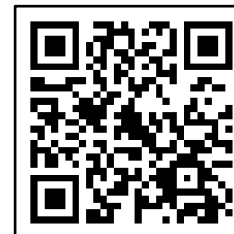
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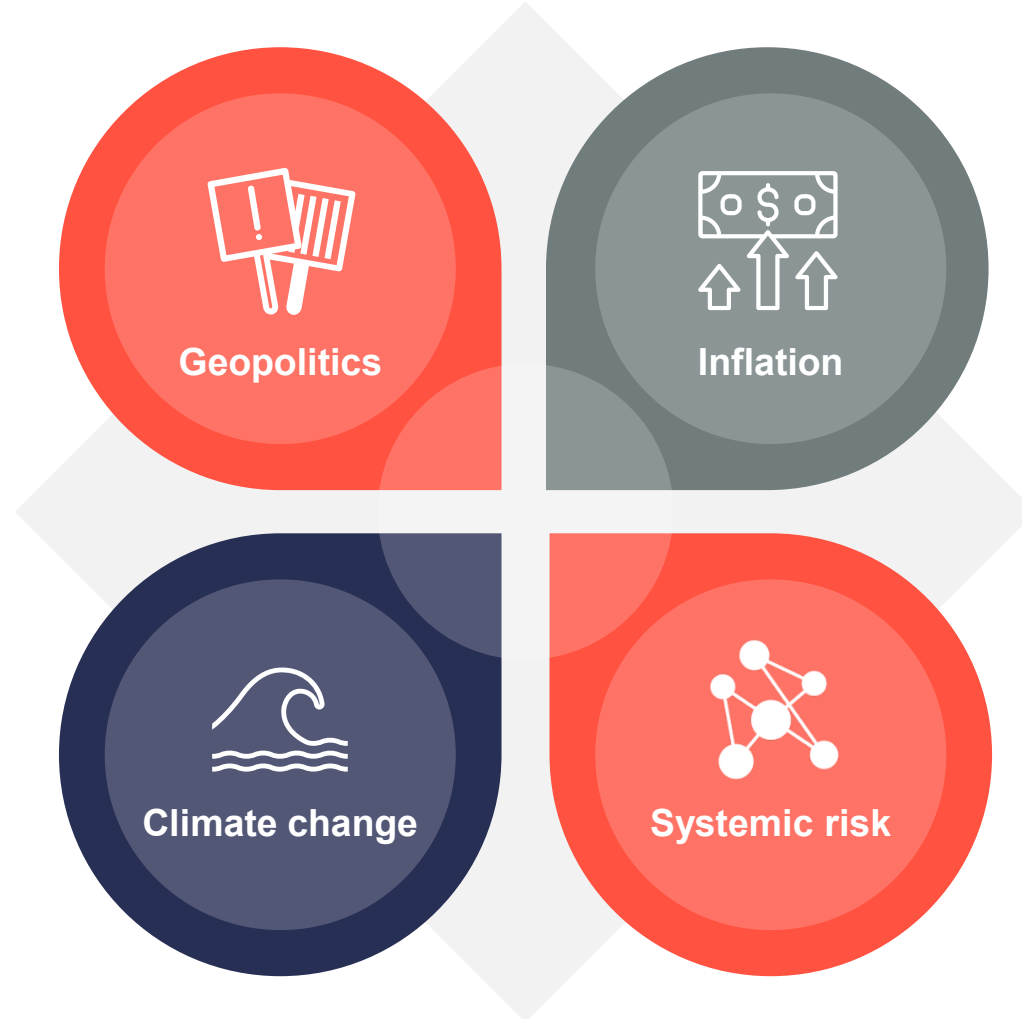
‘Performing through uncertainty’

2022

Burkhard Keese, Chief Financial Officer & Chief
Operating Officer, Lloyd's

**The
Future
at
Lloyd's**

Uncertain times present both a challenge...



...and an opportunity



Resilience and sustainable performance are key



**Sustainable
underwriting
performance**



**Solid pricing
conditions**



**Attractive yield
environment**



**High quality balance
sheet**

A world class investment proposition

The journey to London Bridge II

London
Bridge I

January 2021



Nov 2021



Dec 2021

Investment platform

Schroders
solutions

March 2022

London
Bridge II

August 2022

London Bridge II: Harnessing Lloyd's unique offering



Flow of
business



Quality
assurance



Access to all
classes of
business



High degree of
separation from
markets



Sustainable
performance and
underwriting

Well positioned for uncertain times

Our four strategic pillars



Performance

Driving sustainable and profitable growth across our market



Digitalisation

Delivering cost reductions through Blueprint Two



Purpose

Helping society manage uncertainty and unexpected shocks



Culture

Building an innovative, inclusive and high performing culture



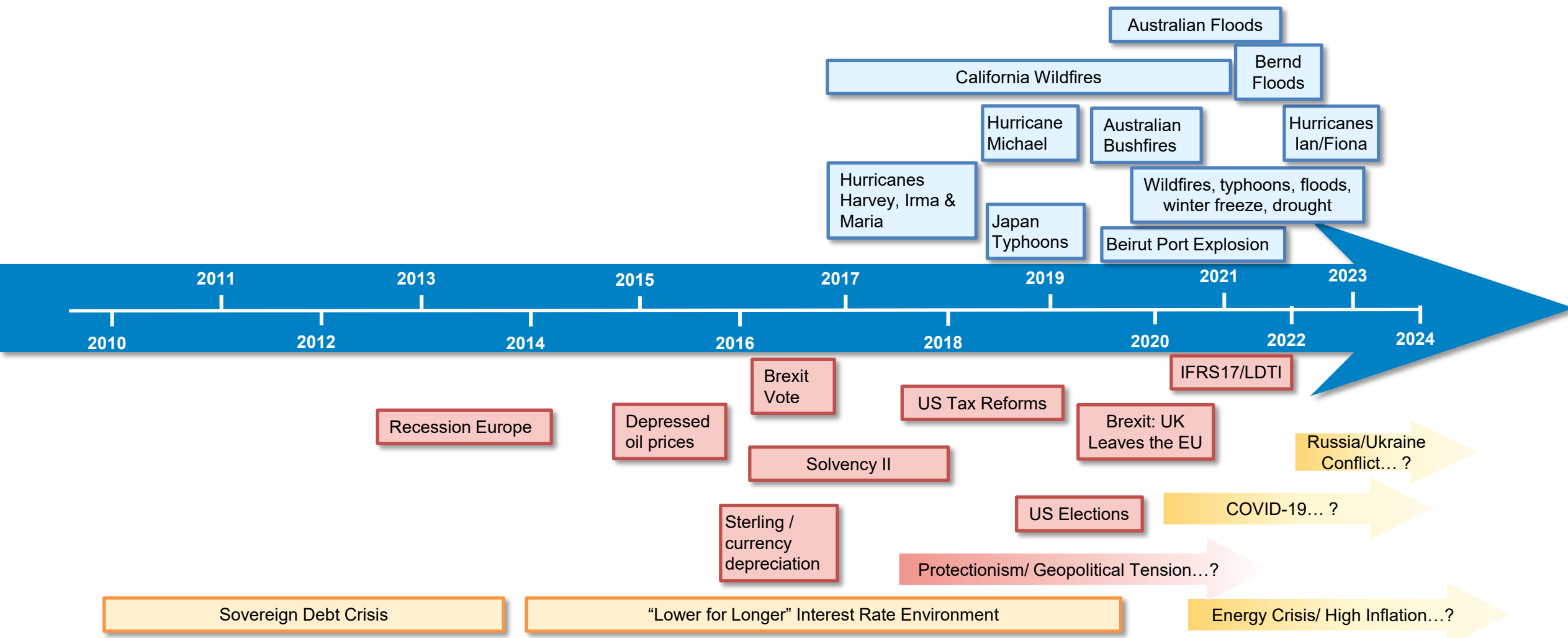
LLOYD'S

Thank you

The Impact of Economic and Inflationary Pressures on Insurers Against a Backdrop of Increased Geopolitical Risk

**Angela Yeo, Senior Director, Analytics
Catherine Thomas, Senior Director, Analytics**

Timeline



COVID-19 – December 2019

Outbreak of the pandemic poses unprecedented challenges

- March 2020: Lockdown measures impacted businesses and households globally
- Supply chain disruptions
- Economic downturn
- Fiscal stimulus packages and ECB support
- Onset of Inflation

Russia/Ukraine Conflict – February 2022

Russia invades Ukraine

- Immediate international sanctions imposed on Russia
- March 15th: provision of credit rating services to any Russian person or entity banned
- Market volatility
- Supply Chain issues intensified
- Potential economic loss impact in the Eurozone close to EUR 1 trillion predicted for 2022 – 2023
- Inflation NOT a short-term issue

Supply Chain Disruption

- **COVID-19 pandemic triggered supply chain disruptions / Conflict exacerbates this**

- Affected areas: production, transport and people's mobility
- Energy security
- In 2021, this hit the Eurozone economy with EUR112.7 billion in economic losses or 0.9% of GDP¹

- **Insurers' Response**

- Operational changes
- Shift in business mix to less impacted lines
- Solutions to control expenses and claims

- **Rating Considerations**

- Business Profile impact
- Monitoring ERM

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**

- Investment returns
- Asset valuations
- Future insurance liabilities
- Value proposition of life insurance products

- **Insurers' Response**

- Adjust investment portfolios
- Adjust pricing
- Revise reserving
- Change contract design
- Adjust fixed deductibles for xl contracts

- **Rating Considerations**

- Monitoring operating performance
- Liquidity & capital
- Performance of long-tail business lines
- ERM

Financial Pressures Driving Fraudulent Claims

- **Fraudulent claims increasing**

- Insurers reporting an uptick in claims fraud
- Financial stress driving motivation
- Full impact of cost of living crisis on individuals yet to be realised
- Businesses still recovering from Covid-19 pandemic
- Pressure from supply chain issues, inflation and economic uncertainty

- **Insurers' Response**

- Technology to support prevention and detection
- Data sharing
- Raise awareness of fraud consequences
- Support to vulnerable customers

- **Rating Considerations**

- Operating performance impact
- Buffer to absorb higher claims
- Discussion of affected LOBs, pricing and mitigating actions

Economic Downturn Increasing Likelihood of D&O Claims

- **Financial pressures on businesses**

- Higher risk of insolvencies
- Additional debt taken on to weather the Covid-19 pandemic
- Management of troubled businesses face greater scrutiny
- Exposure of wrongdoing more likely
- Availability of litigation funding

- **Insurers' Response**

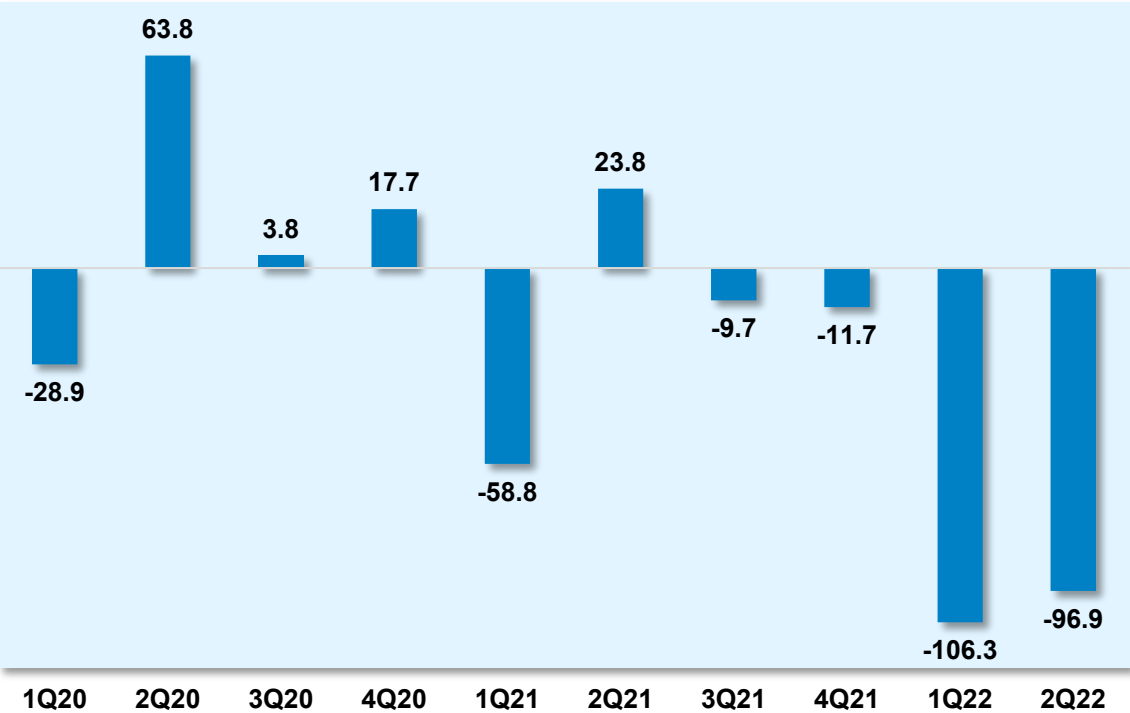
- Re-underwriting recession-prone lines
- Reducing exposure to vulnerable professions
- Pricing actions

- **Rating Considerations**

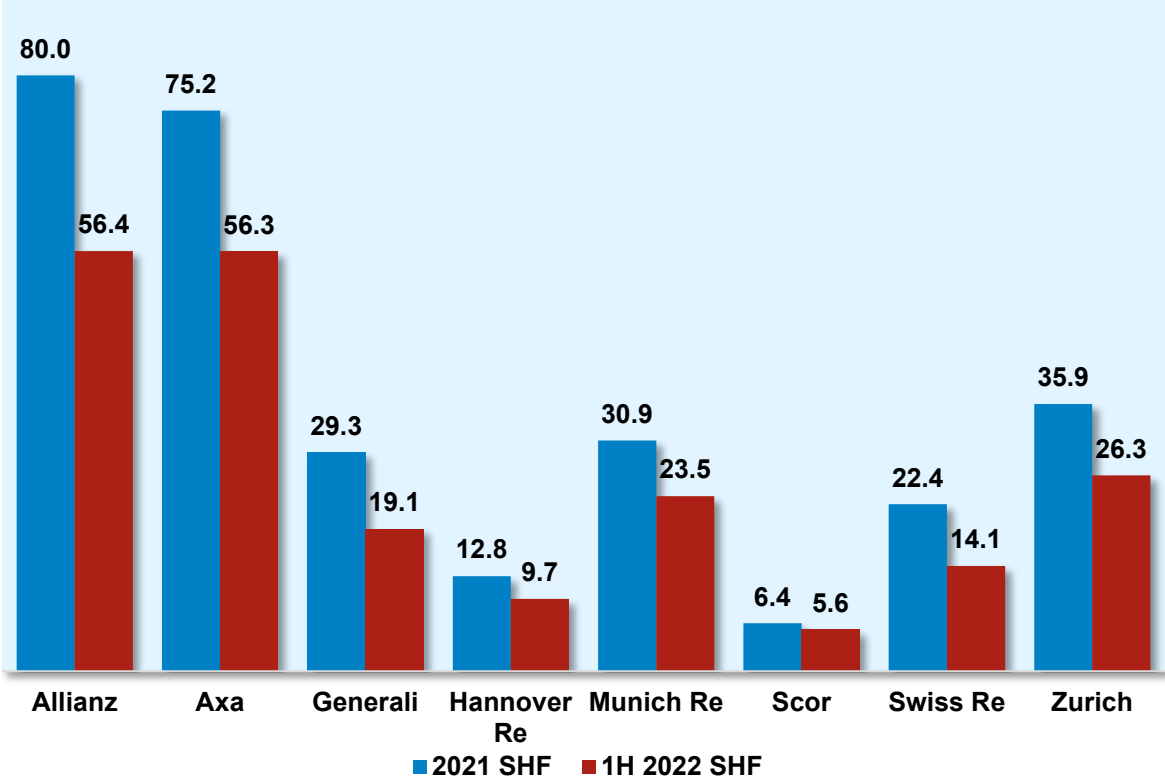
- Operating performance impact
- Buffer to absorb higher claims
- Discussion of affected business, diversification and mitigating actions

Rising Interest Rates Impacting Bond Values

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)



Rising Interest Rates Impacting Bond Values

- **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

Looking Forward

Resilience

Relevance

Sustainability

The Impact of Economic and Inflationary Pressures on Insurers Against a Backdrop of Increased Geopolitical Risk

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Catherine Thomas, Senior Director, Analytics

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Reinsurance Market Highlights

Dr Mathilde Jakobsen
Director, Analytics

Ghislain Le Cam
Director, Analytics

Global Reinsurance Market – Discussion Outline

Result Drive Improving Pricing and Terms

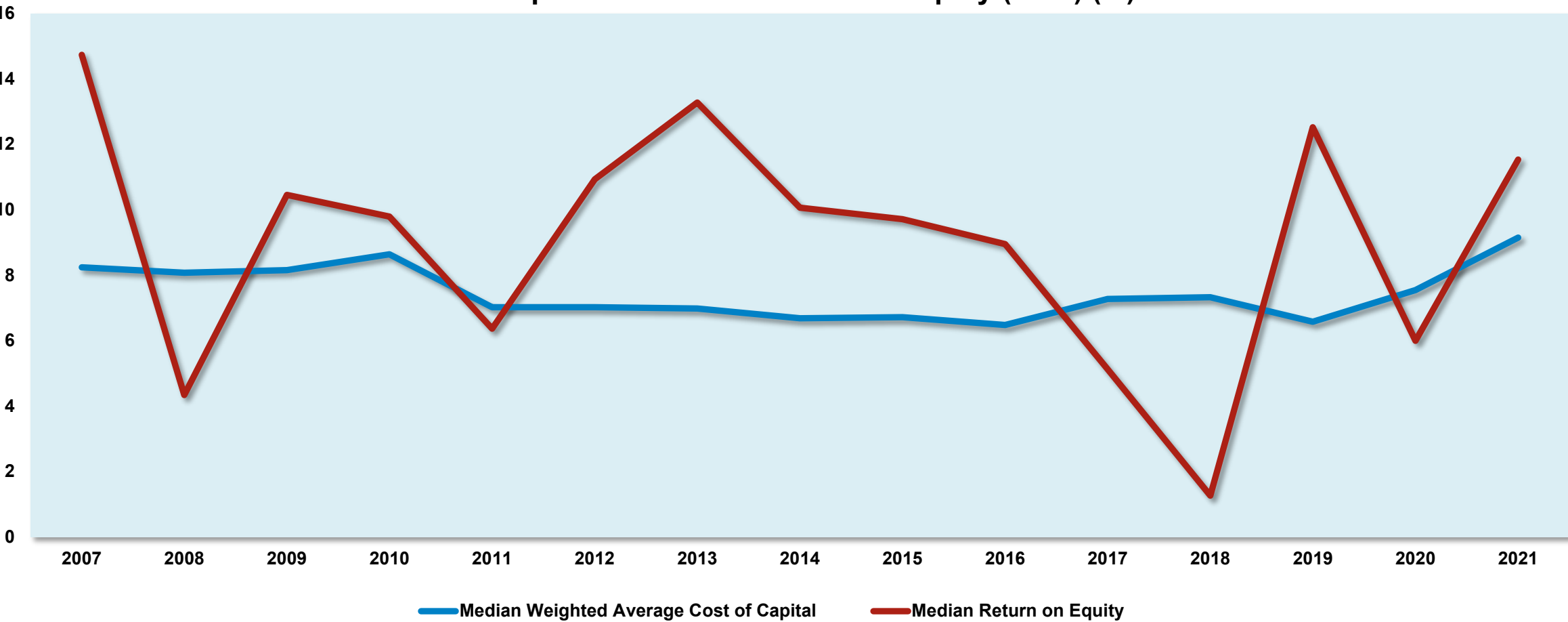
Market Well Capitalised. Subject to Asset Volatility

Outlook: Stable – Drivers Remain in Flux

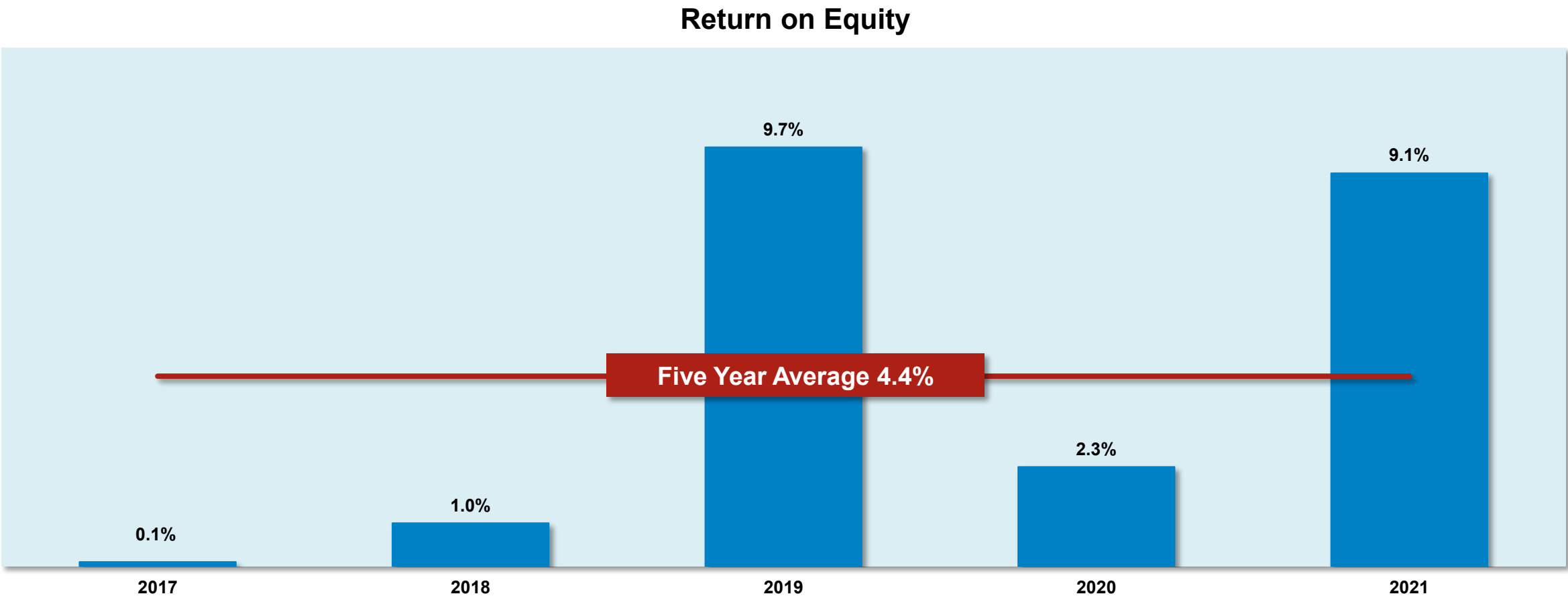
Global Reinsurance Market Results Drive Improving Pricing and Terms

Global Reinsurance Market Performance

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

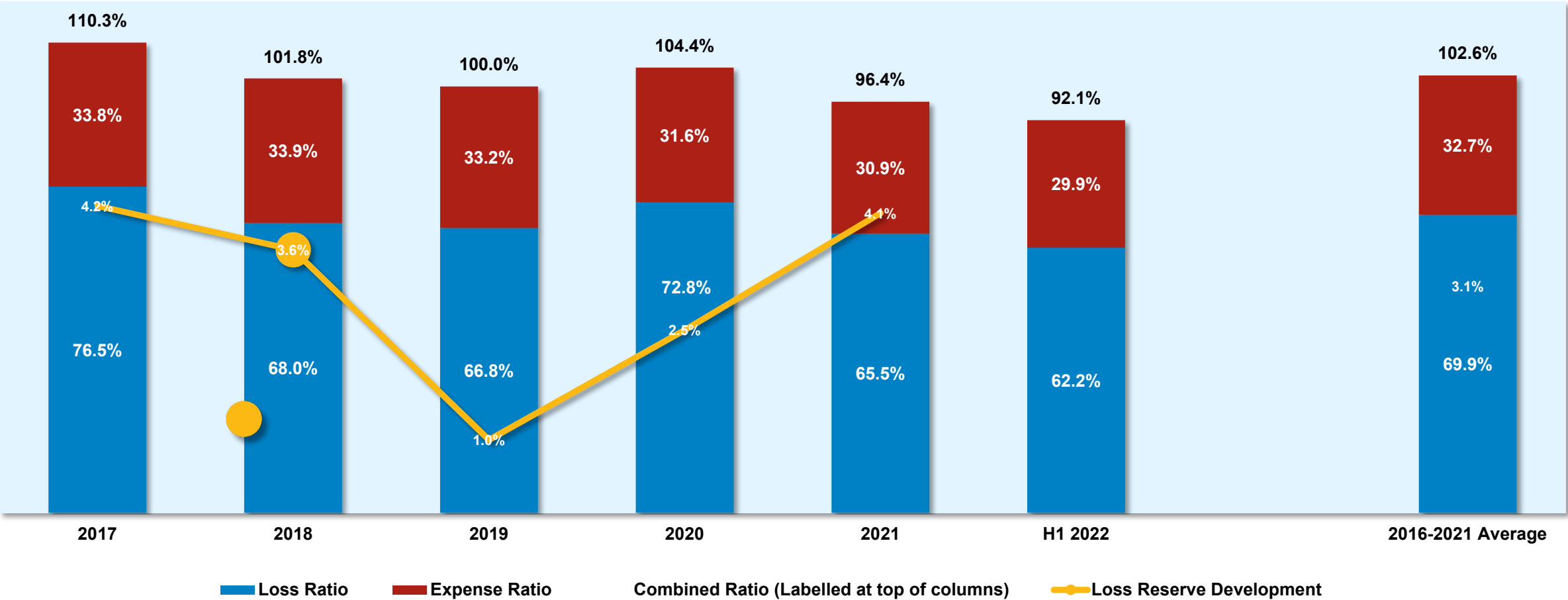


Global Reinsurance Market Performance



Global Reinsurance Market Performance

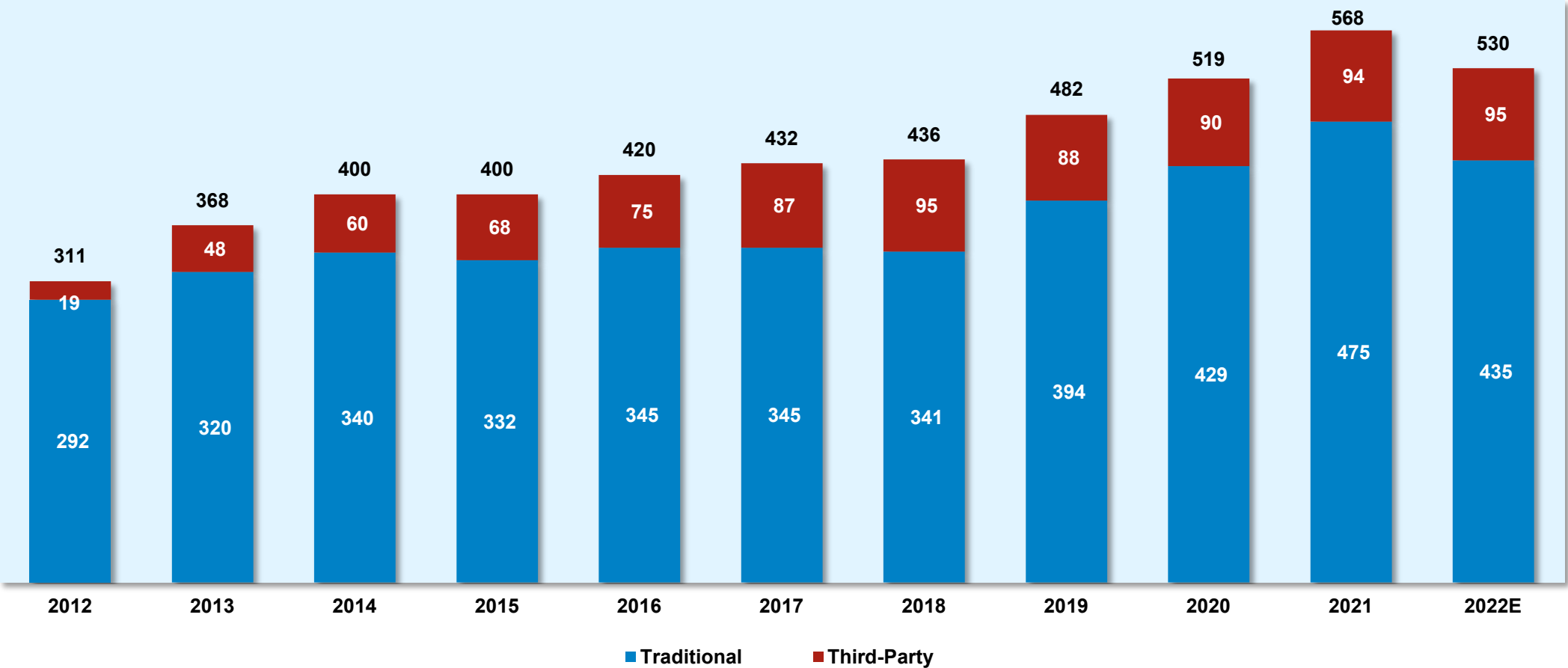
Loss and Expense Ratios and Positive Loss Reserve Development



Global Reinsurance Market Market Well Capitalised. Subject to Asset Volatility

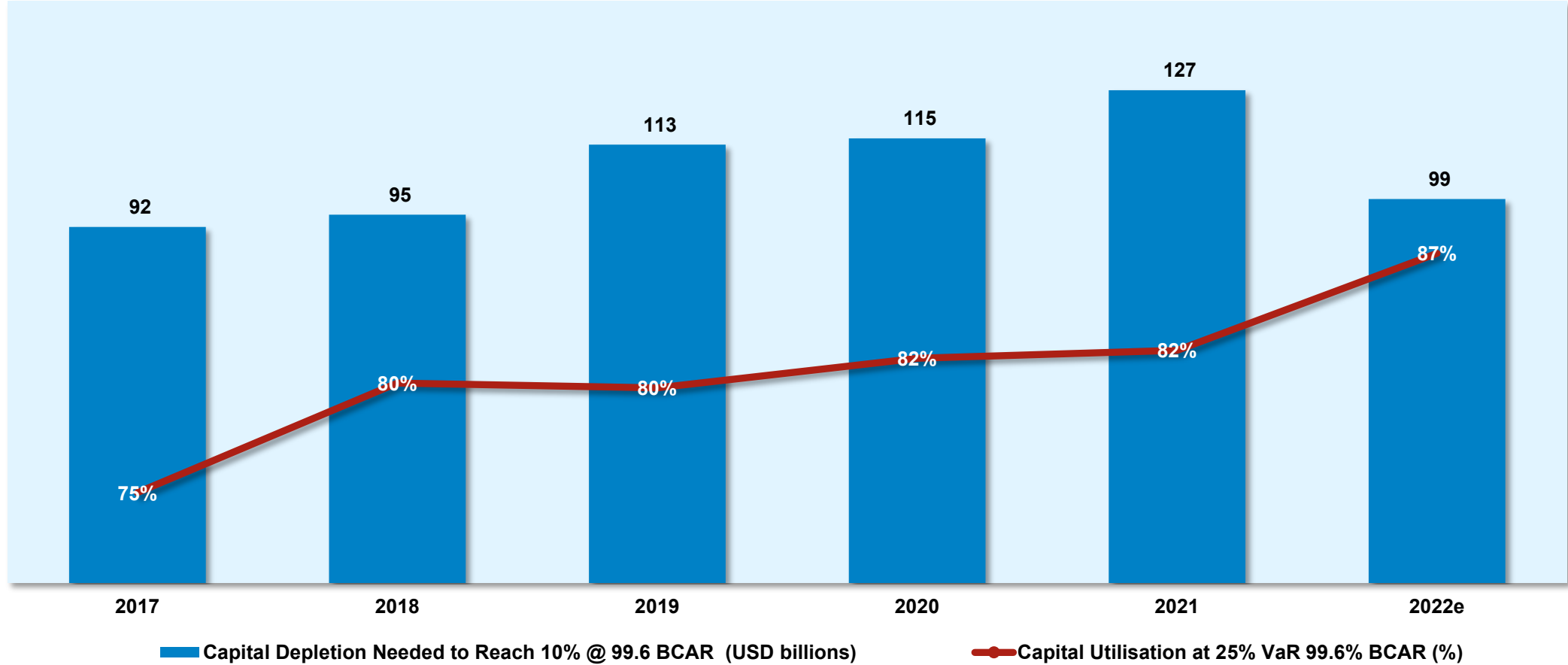
Global Reinsurance Market Capital

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

**More complex risk environment.
Secondary perils. Emerging risks**

**Modelling challenges/forward looking.
Inability to model human behavior and
government intervention. Social inflation**

**Economic uncertainty: inflation, rising
interest rates, risk of recession**

Investors re-assessing their risk appetite

**Risk of becoming less relevant in the
broader economy**

Global Reinsurance Market Outlook – Stable

Headwinds

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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.
Opportunities from uncertainty and
emerging risks?**

Reinsurance Market Highlights

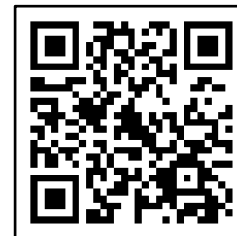
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Cyber Risk's Growing Complexity – What's Next for the (Re)insurance Industry?

Richard Banks
Director, Industry Research - EMEA

Introducing Today's Panel



**Richard
Banks**

Director
Industry Research – EMEA
AM Best



**Luke
Foord-Kelcey**

Global Head of Cyber
AON Reinsurance
Solutions



**Paul
Bantick**

Group Head of
Cyber Risks
Beazley



**Rebecca
Bole**

Head of Industry
Engagement
CyberCube



**Valeria
Ermakova**

Associate Director
Analytics
AM Best

The Market for Delegated Underwriting Authority Enterprises (DUAEs) and Best's Performance Assessment

**Myles Gould
Director, Analytics**

Delegated Underwriting Authority Enterprises



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

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

EU Landscape

- Varied levels of development and penetration by country
- Most prominent include Belgium, Germany, Ireland, Italy and the Netherlands
- Other countries more 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

Best's Performance Assessment (PA) for DUAEs

Recap on Rollout of Performance Assessment (PA) for DUAЕ

Draft methodology released for comment in March 2021

Received extensive feedback from market participants (DUAЕs, 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

Five public PAs released to date

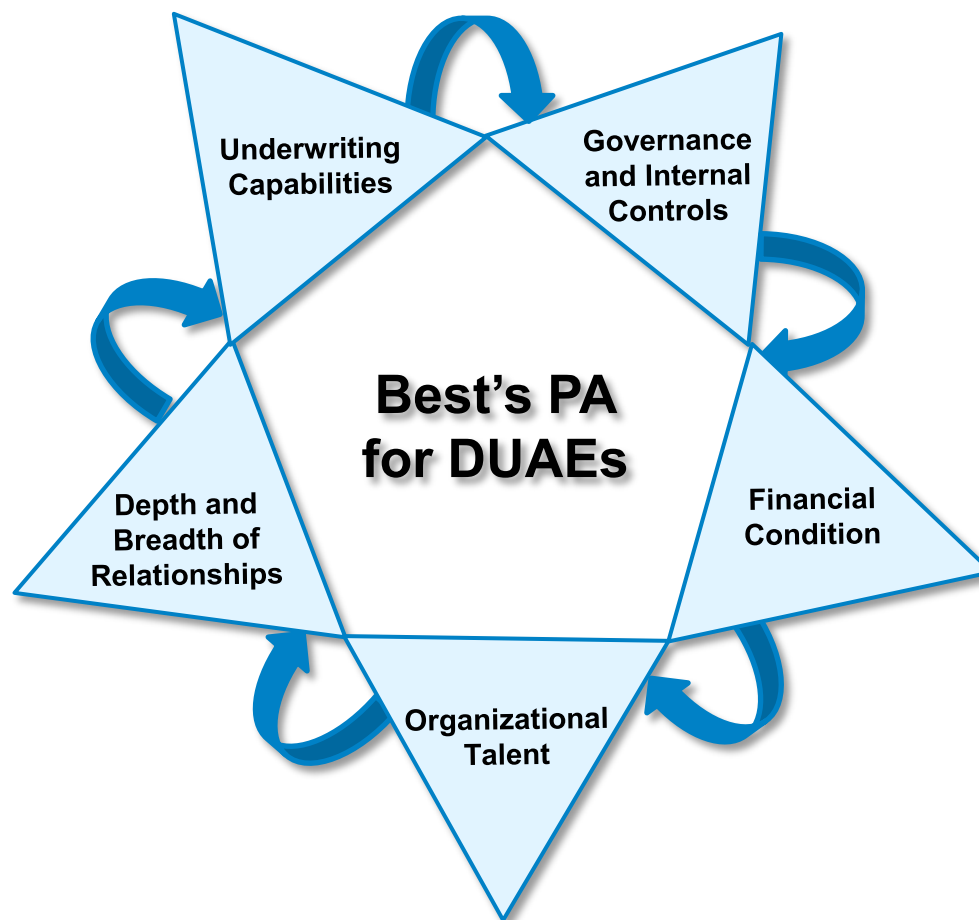
What is a Performance Assessment (PA)?

A forward-looking, independent, and objective non-credit opinion indicative of a DUAЕ'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 outcome ranges from PA-1 (Exceptional) through to PA-5 (Weak)

Published Performance Assessments

	Castel U/W Agencies Ltd.**	Cargo Risk Corporation	First Indemnity Ins Agency	Delta International Ltd.***	Amwins Group****
2021 GWP (USD million)	190.9	9.6	47.0	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	04/04/2022	04/04/2022	25/04/2022	22/08/2022	03/10/2022

*Figure for year ended 31 March 2022 converted at spot rate

** 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

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'



The Market for Delegated Underwriting Authority Enterprises (DUAEs) and Best's Performance Assessment

Myles Gould
Director, Analytics

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