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AM Best's Insurance Market Briefing – Milan

12 June 2024

Vienna Marriott Hotel

Presenters

Riccardo Ciccozzi
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Agenda

10:30 Welcome and Introductory Comments

Riccardo Ciccozzi, Director, Market Development – Europe

10:40 The Global Reinsurance Market: Perspectives, Outlook & 1.4.24 Renewals

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

11:10 AM Best's Hot Topics – IFRS 17 Update, Permacrisis/Polycrisis, Italian Insurance Market Outlook

Jose Berenguer, Associate Director, Analytics
Andrea Porta, Financial Analyst

11:40 Why Do Companies Get Rated? Clients' Rating Decision Process

Riccardo Ciccozzi, Director, Market Development – Europe

12:00 Q&A & Closing Remarks

12:15 Networking Lunch

Disclaimer

Disclaimer

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The Global Reinsurance Market: Perspectives, Outlook & 1.4.24 Renewals

Dr. Angela Yeo

Senior Director, Head of Analytics, Amsterdam

Global Reinsurance Market Outlook – Positive

Headwinds	Tailwinds
Heightened natural catastrophe activity	Robust profit margins
Increasing relevance of cyber risks	Underwriting discipline is being maintained
Inflationary pressures, rising interest rates Higher cost of capital	Segment remains well capitalized
Geo-political uncertainty	Demand for coverage remains strong
Economic and social inflationary pressures	Slower reduction in interest rates will likely support strong returns over the short term

Is There Actually a “Capacity Shortage”?

Why is this Cycle Different?

Leading indicators to historic reinsurance company formations

Single major event:
Hurricanes
Earthquakes
Terrorism

Material capital erosion

Sharp rates increase in a short period of time

New 2023/24 class?

Rising interest rates only since 2022

Higher cost of opportunity

Gradual rate increases before1/1/23

Alternative Capital

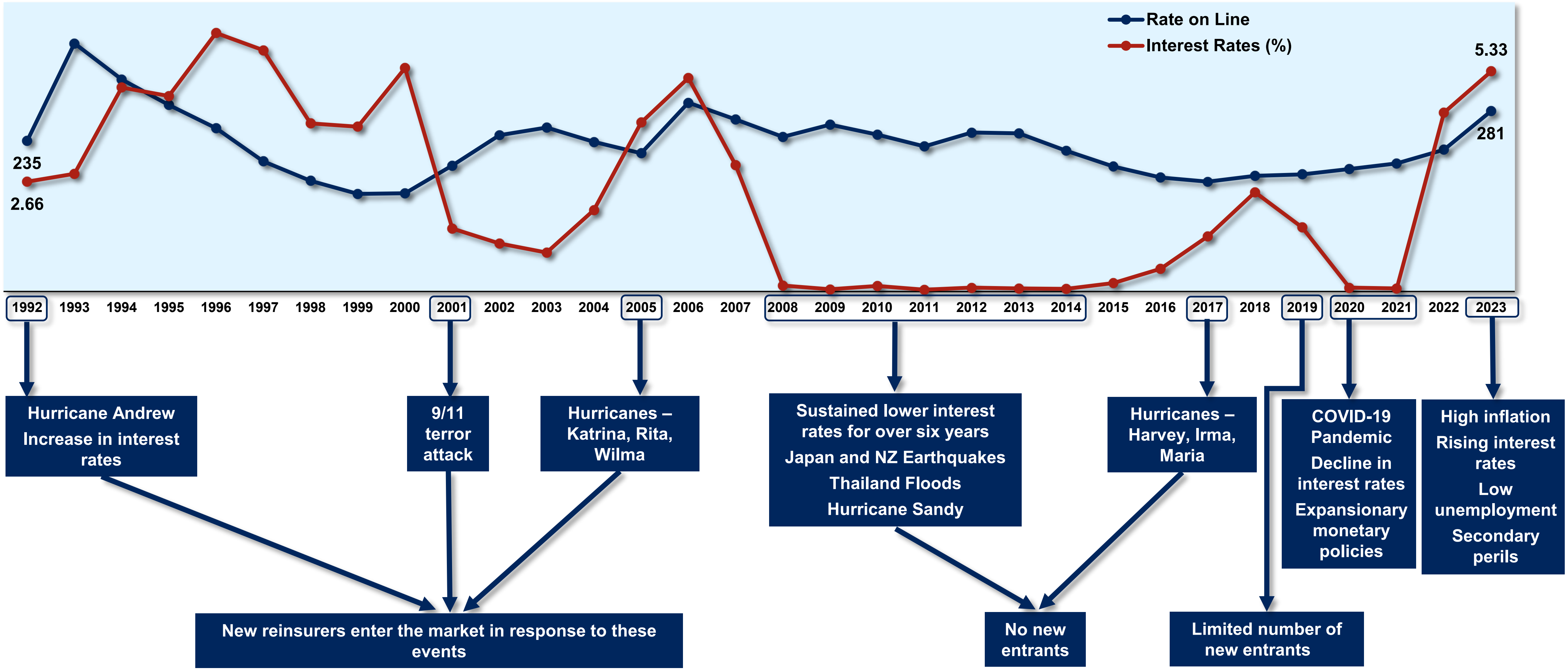
Plateaued since 2018

No single major catastrophe event

Accumulation of more frequent secondary perils

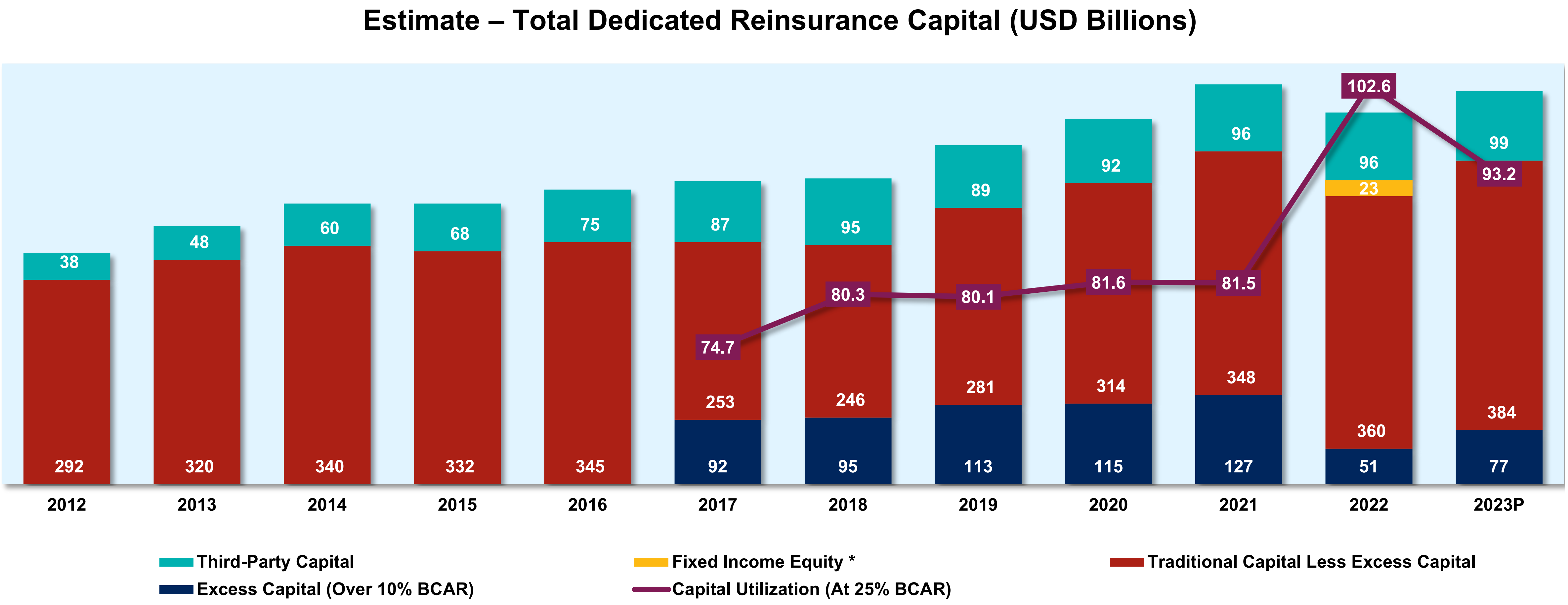
Global reinsurers remain well capitalised

Why is this Cycle Different?



Sources: Estimates by Guy Carpenter and AM Best

Global Reinsurance Market Capital



*: 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
Notes and Sources: Estimates by Guy Carpenter and AM Best

Ratings – Reinsurers Retain Financial Strength

Negative Factors

- Fixed-income unrealized investment losses
- Persistent high claims activity
- Weather-related and secondary perils
- Best's Capital Adequacy Ratios declined, but balance sheet strength remains unchanged
- Operating performance impacted

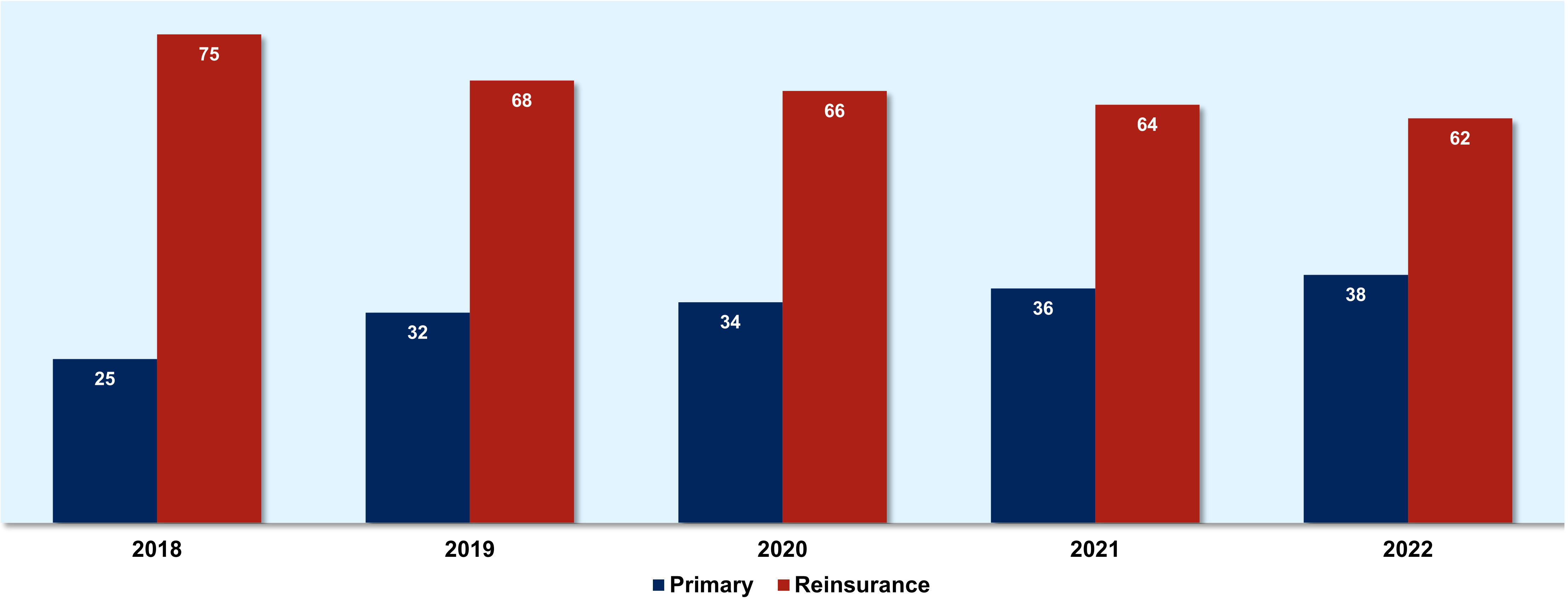
Positive Factors

- Capital buffers protection
- Higher interest rates
- Asset Liability Management
- High credit quality of investment portfolios
- Dividend policy / share buybacks unaffected
- Balance sheet strength assessment remains unchanged
- Underwriting discipline

Results Improving

Global Reinsurance – Primary Insurance vs. Reinsurance

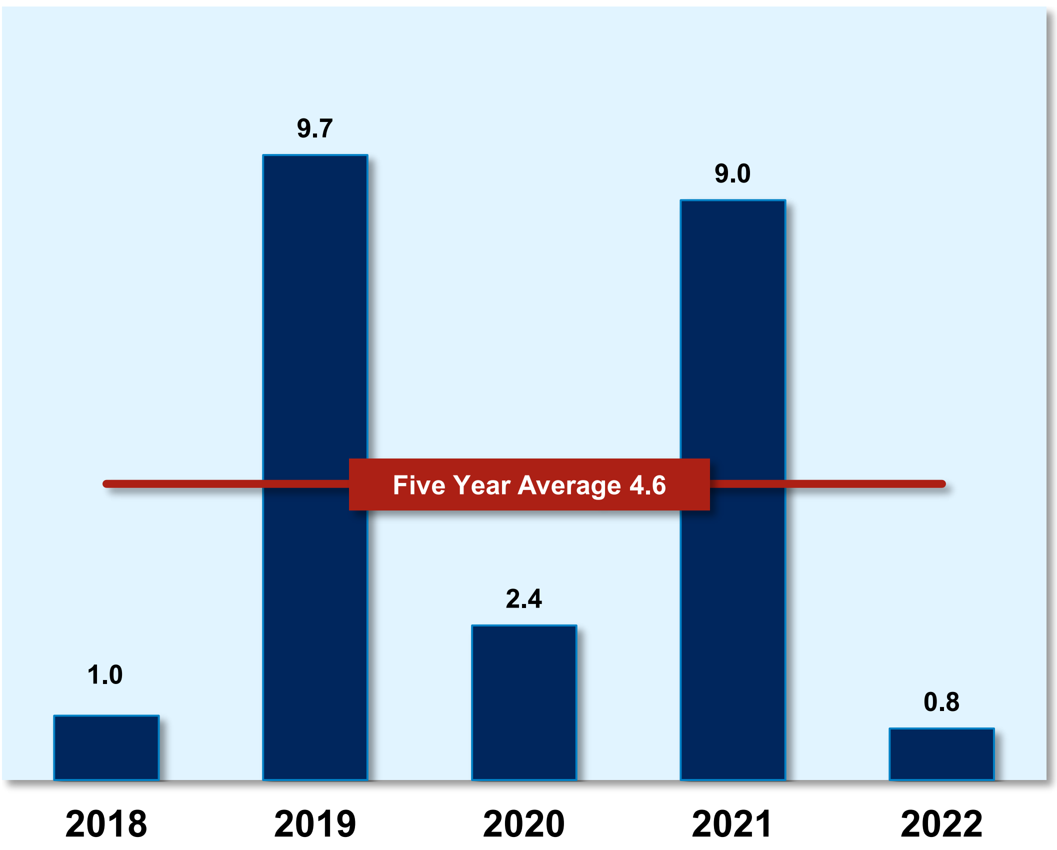
Allocation by Net Premium Written (%)



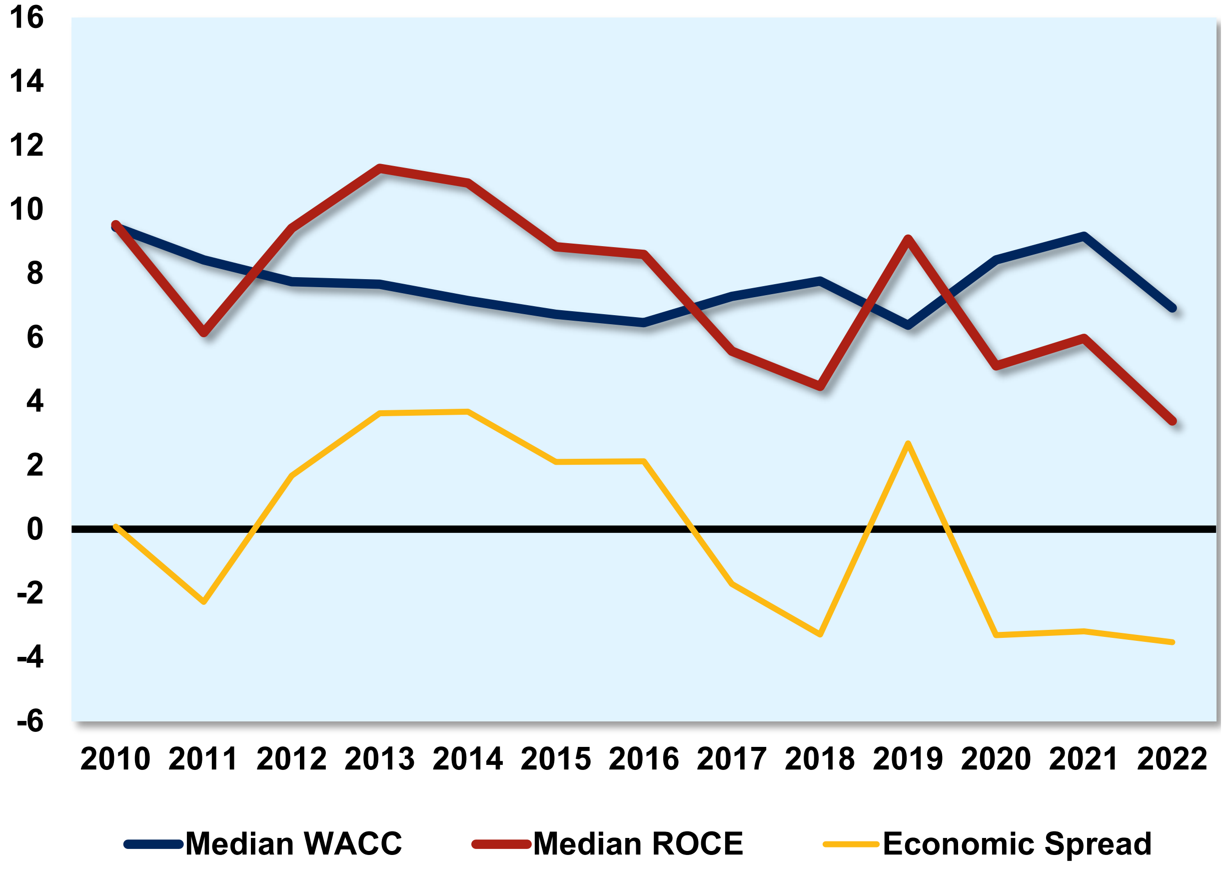
Based on the 25 largest reinsurance groups.
Source: AM Best data and research

Global Reinsurance Market Performance

Return on Equity (%)



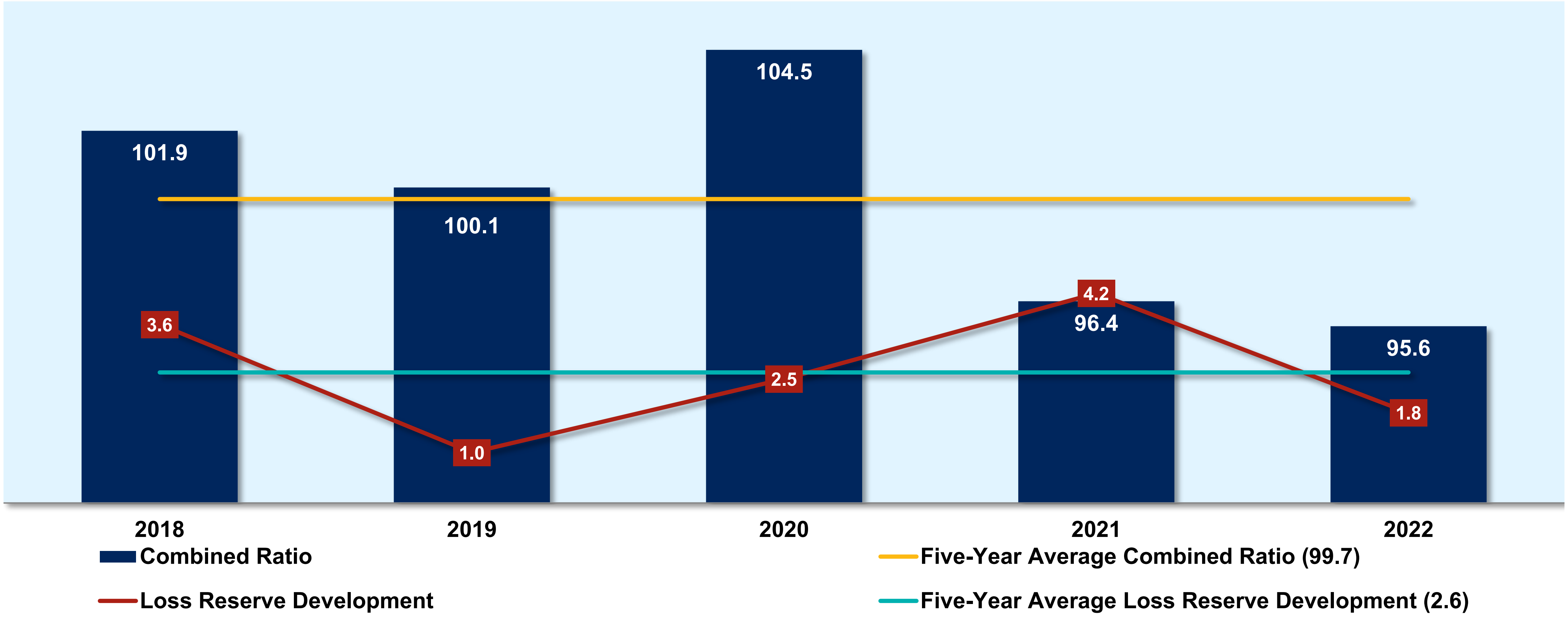
Reinsurers' Median Weighted Average Cost of Capital (WACC) Compared to Median Return on Capital Employed (ROCE) (%)



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

Business Models Evolving –
Hybrids
Role of ILS
Distribution

Evolution of Business Models

Investors seem to prefer diversified, flexible companies, with a proven track record

High demand for reinsurance, driven by flight to quality. Financial strength is paramount

Well diversified, nimble and established reinsurers in a strong position

Specialised reinsurers have become rare

Expansion of established players more likely than new entrants

Alternative capital has become more of a partner than a competitor

Evolving distribution models critical to expand business

What to Expect for the Next 12 Months?

AM Best's Expectations – The Next 12 Months

Underwriting profits –
to continue

Rate increases –
decelerating

Disciplined expansion of the reinsurance segment –
led by major players

Significant new capital / number of new entrants –
unlikely

Inflationary pressures and high interest rates –
to remain

Renewed appetite for volatile lines of business –
but with tighter terms and conditions

Emerging risks –
slow expansion

Higher retentions –
here to stay

Q&A

AM Best's Hot Topics:

IFRS 17 – Current Status and Rating Considerations

Jose Berenguer, CFA
Associate Director, Analytics

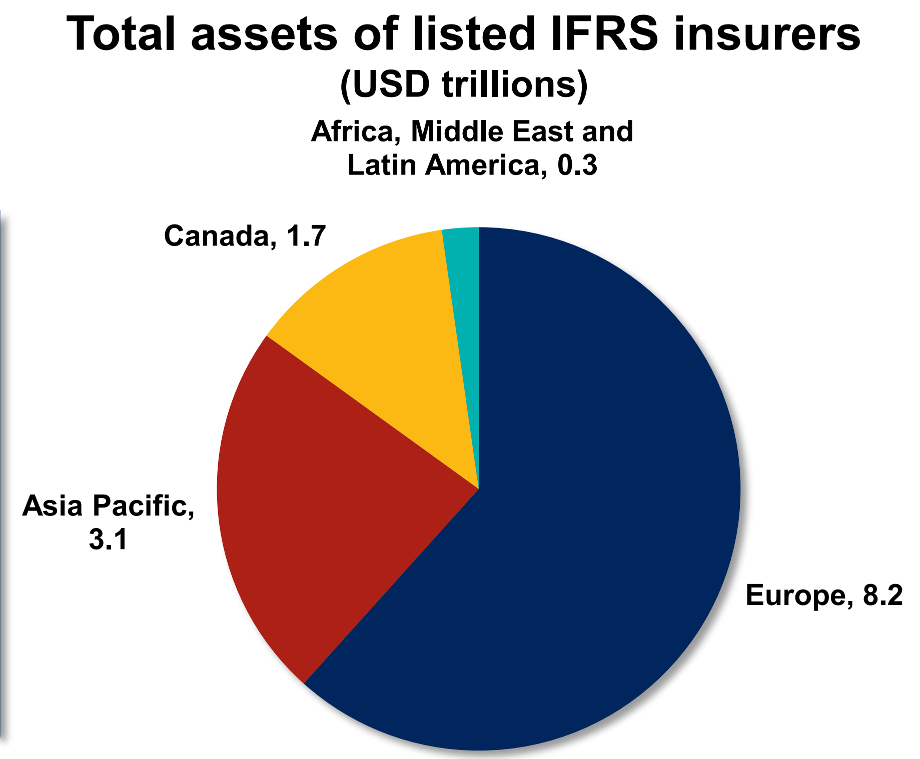
Agenda

- IFRS 17 Implementation and Market Observations
- Rating Considerations – Analytical considerations for each building block
- Key Takeaways

IFRS 17 –
Implementation
& Market Observations

Who is Affected?

Listed Insurance Companies Only: Reporting Framework	Number of Companies	Total Assets (USD trillions)
IFRS Standards	449	13.3
US GAAP	128	4.7
Japanese GAAP	11	4.0
Other National GAAP	38	0.1
Total	626	22.1



Number of companies:
Europe – 87
Asia Pacific – 156
Canada – 10
Africa, Middle East and Latin America – 196

Note: This table excludes insurance brokers.
Source: IFRS Foundation

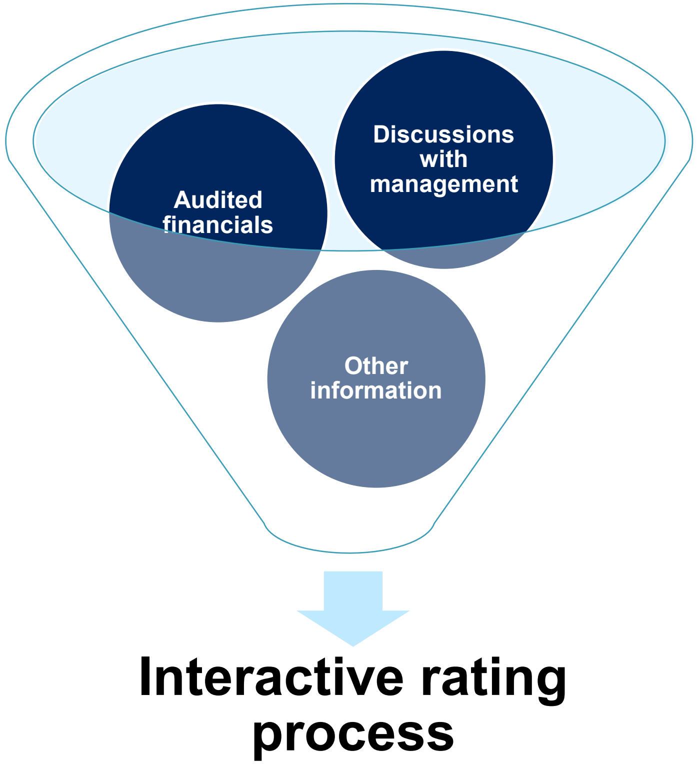
Key Observations

- Impact of transition is far more pronounced in the life segment
- For non-life insurers, the impact is considerably narrower and biased to the upside
- Significant variation in the IFRS 17 disclosures; Level of aggregation of the disclosures also varied
- Significant differences in the yield curves applied to discount insurance liabilities
- Updated definitions of existing KPIs, such as operating profit and combined ratio, differ across insurers
- New metrics, such as CSM-related measures, have been developed in light of IFRS 17

IFRS 17 – Rating Considerations

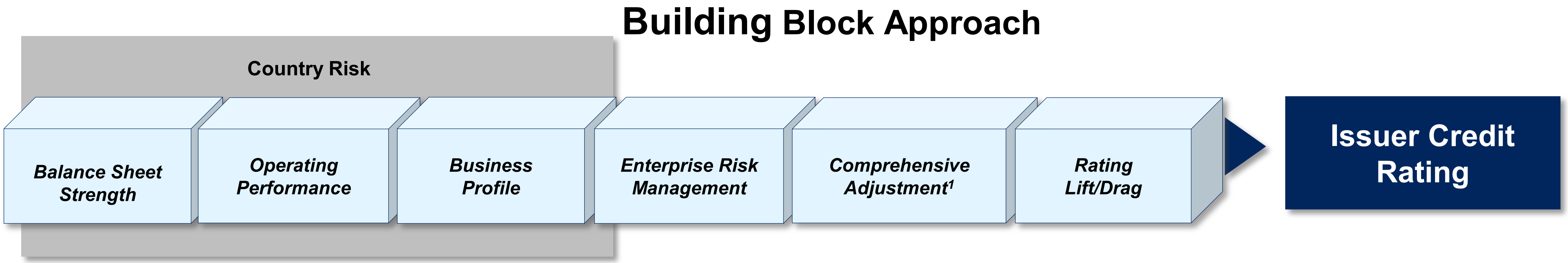
IFRS 17 – Analytical Considerations

- Audited financial statements are a key input in the ratings process
- Currently, AM Best's ratings are assigned to insurers who report under different standards
- Rating process should be agnostic to the reporting standards



The change in accounting standards does not impact credit fundamentals

IFRS 17 – Analytical Considerations



- Because the presentation of the underlying information will change, the analysis supporting certain building blocks may evolve
- Analysis supporting Balance Sheet Strength and Operating Performance are most likely to be impacted
- Some examples include:
  - Impact at adoption and comparing to pre-IFRS 17 financials
  - Understanding profitability metrics and earnings attribution
  - Expectations regarding reserve development
  - Interpreting impact on leverage metrics

Balance Sheet Strength – IFRS 17

Balance Sheet Strength → Operating Performance → Business Profile → Risk Management → Issuer Credit Rating

BCAR Model Itself is Unchanged

Inputs to BCAR Carefully Identified, Other Quantitative Considerations

BCAR Inputs	
Claims reserves	Adjust IFRS 17 reserves for insurance debtors/creditors Use undiscounted PVFCF
IFRS 17 DAC	AC allocated to future new business removed from equity
Net economic value due to long-term business	Based on Life segment CSM and Risk Adjustment
Pricing risk	Normally use forecast Insurance Services Revenue for P&C

Other Quantitative Considerations	
Reserve adequacy	Explicit Risk Adjustment
Life segment	Contribution to equity from unit-linked (when classified as insurance) may influence view of a BCAR score

Operating Performance – IFRS 17

Balance Sheet Strength → **Operating Performance** → Business Profile → Risk Management → Issuer Credit Rating

Underwriting Performance

- Discounted claims means combined ratios more comparable across lines and companies
- Ratios less likely to be affected by premium/commission mix of reinsurance
- Comparisons with non-IFRS 17 insurers will require interpretation
- Transparency on onerous contracts

Investment Ratio

- Investment Result (net of discount unwind) to Insurance Services Revenue
  - Value added by the insurer retaining those funds for the period

Total Operating Earnings

- Lag/Drag from longer-tailed lines removed

Operating Performance (+2/-3)

Assessment
Very Strong +2
Strong +1
Adequate 0
Marginal -1
Weak -2
Very Weak -3

Business Profile

Balance Sheet Strength → Operating Performance → **Business Profile** → Risk Management → Issuer Credit Rating

Business profile is a qualitative component that directly affects the quantitative measures

Business Profile (+2/-2)

Business Profile Review Components	
Product/geographical concentration	Product risk
Market position	Degree of competition
Pricing sophistication & data quality	Management quality
Regulatory, event, market, and country risks	Distribution channels
Innovation	Secondary effects of IFRS 17 may develop over time

Assessment
Very Favourable +2
Favourable +1
Neutral 0
Limited -1
Very Limited -2

Enterprise Risk Management (ERM)

Balance Sheet Strength → Operating Performance → Business Profile → **Risk Management** → Issuer Credit Rating

ERM assessment considers:
risk management framework, risk management capabilities in light of risk profile, and overall ERM

Framework Assessment Components
Risk Identification and Reporting
Risk Appetite and Tolerances
Stress Testing and Non-Modelled Risks
Risk Management and Controls
Governance and Risk Culture

Risk Evaluation Review Components	
Product & Underwriting Risk	Operational Risk
Reinsurance Risk	Concentration Risk
Legislative/ Regulatory/Judicial/ Economic Risk	Investment Risk
Reserving Risk	Liquidity & Capital Management Risk

Management of IFRS 17 measures and transition

Enterprise Risk Management (+1/-4)

Assessment
Very Strong +1
Appropriate 0
Marginal -1
Weak -2
Very Weak -3/4

Key Takeaways

- No automatic ratings changes from IFRS 17
- BCAR model unchanged
- Primary focus for BCAR is to carefully identify inputs
    - For example, liability for incurred claims, DAC, Net Economic Value due to Long-term Business
- Some new SRQ requirements
- Enhanced KPIs under IFRS 17, more particularly in life segment
- Improved comparability of KPIs within IFRS 17 universe, but comparisons across accounting standards will continue to require interpretation
- AM Best expects implementation to evolve over the next few years

Q&A

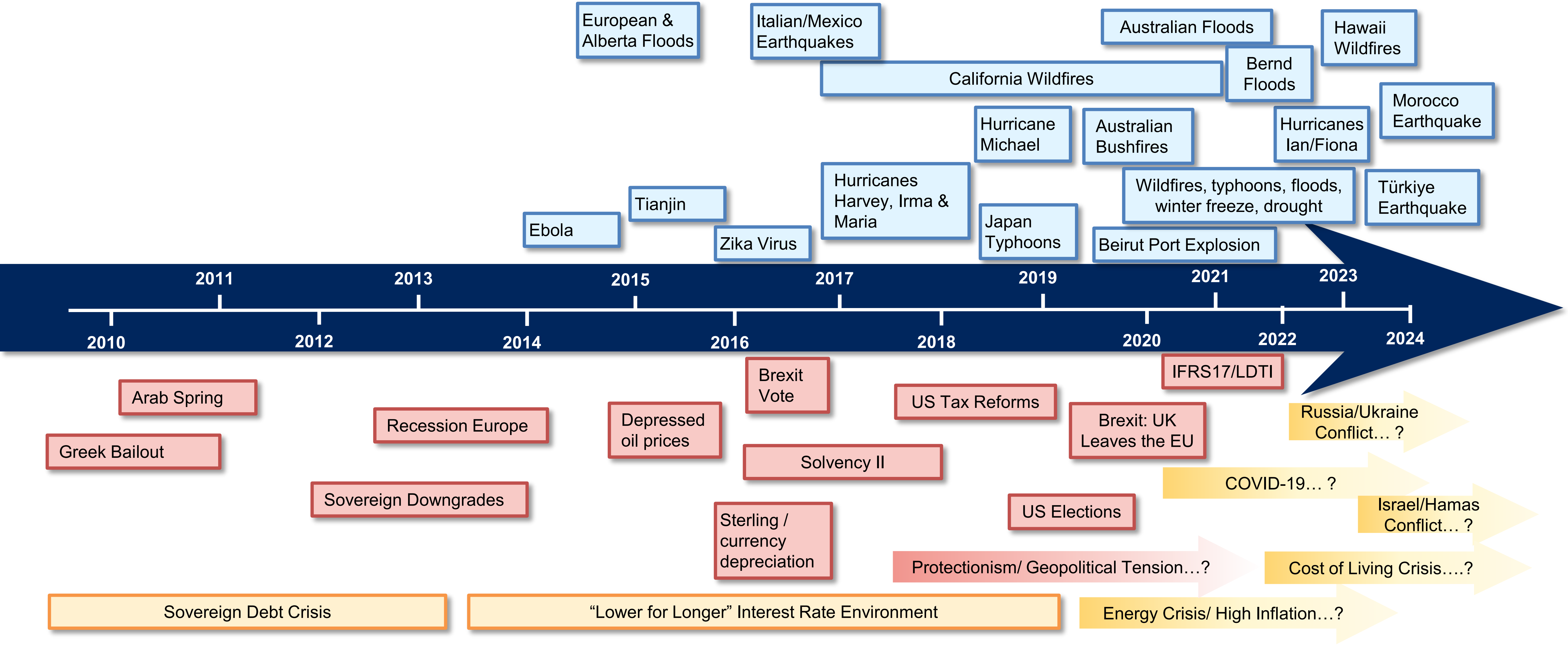
AM Best's Hot Topics: Impact of the Poly/Perma-Crisis on the (re)insurance market

Jose Berenguer, CFA, Associate Director, Analytics
Andrea Porta, Financial Analyst

Polycrisis and Permacrisis

Polycrisis	Permacrisis (Collins Dictionary Word of the Year 2022)
The simultaneous occurrence of several catastrophic events • Stems from climate, political, geopolitical and economic forces • Where disparate crises interact – such that the overall impact far exceeds the sum of each part	An extended period of instability and insecurity, especially one resulting from a series of catastrophic events • A static and permanently difficult situation • Outcome cannot be predicted • Can only be managed –not resolved

Timeline


European & Alberta Floods
Italian/Mexico Earthquakes
Australian Floods
Hawaii Wildfires
Bernd Floods
California Wildfires
Morocco Earthquake
Hurricane Michael
Australian Bushfires
Hurricanes Ian/Fiona
Hurricanes Harvey, Irma & Maria
Wildfires, typhoons, floods, winter freeze, drought
Türkiye Earthquake
Tianjin
Ebola
Zika Virus
Japan Typhoons
Beirut Port Explosion
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
Brexit Vote
IFRS17/LDTI
Arab Spring
US Tax Reforms
Recession Europe
Depressed oil prices
Brexit: UK Leaves the EU
Russia/Ukraine Conflict… ?
Greek Bailout
Solvency II
COVID-19… ?
Sovereign Downgrades
US Elections
Israel/Hamas Conflict… ?
Sterling / currency depreciation
Protectionism/ Geopolitical Tension…?
Cost of Living Crisis….?
Sovereign Debt Crisis
"Lower for Longer" Interest Rate Environment
Energy Crisis/ High Inflation…?

Change in Risk Priorities

Uncertainties Tied to Climate Risk, Geopolitical Risks, Inflation, Rising Cyber Exposure, Changing Regulation

2014	2018	2022	2023	2024
BI - Supply Chain Disruptions	BI - Supply Chain Disruptions	Cyber	Cyber	Cyber
Natural Catastrophes	Cyber	BI - Supply Chain Disruptions	BI - Supply Chain Disr uptions	BI - Supply Chain Disruptions
Fire, Explosion	Natural Catastrophes	Natural Catastrophes	Macroeconomic Developments	Natural Catastrophes
Changes in Regulation and Legislation	Market Developments	Pandemic Outbreak	Energy Crisis	Changes in Regulation and Legislation
Market Stagnation or Decline	Changes in Regulation and Legislation	Changes in Regulation and Legislation	Changes in Regulation and Legislation	Macroeconomic Developments
Loss of Reputation and Brand Value	Fire, Explosion	Climate Change	Natural Catastrophes	Fire, Explosion
Intensified Competition	New Technologies	Fire, Explosion	Climate Change	Climate Change
Cyber	Loss of Reputation and Brand Value	Market Developments	Shortage of Skilled Workforce	Shortage of Skilled Workforce
Theft, Fraud, Corruption	Political Risks and Violence	Shortage of Skilled Workforce	Fire, Explosion	Energy Crisis
Quality Deficiencies / Defects	Climate Change	Macroeconomic Developments	Political Risk and Violence	Political Risk and Violence

Source: Allianz Risk Barometer reports

Dealing with the Polycrisis / Permacrisis

Impact on Ratings	Balance Sheet Strength	Operating Performance	Business Profile	Parent Companies (Lift / Drag)
Ratings generally resilient	Resilient balance sheets	Greater volatility in underwriting and investments performance	Larger, diversified companies have shown more resilience	Impact on parent companies in other sectors can be varied
More downward pressure	Gradual erosion of BCAR, but remaining within 'Strongest' category	Events hampered ROEs – returns below expectation	Concentrated single market, single product players have seen more impact	
Impact more accurate for concentrated, single market or single product (re)insurers	Impact more acute for concentrated, single market or line (re)insurers	Focus on improving stability of returns – higher margin business	Focus on reshaping portfolio and exposures	
Large, diversified companies have fared better	Focus on Capital Management	Inflation - reserving and pricing trends		
	Access to capital markets			

Market Response

Risk Appetite / Tolerance

Risk appetite and tolerance generally within expectation. Events absorbed by the market. In some instances, some small, concentrated companies have been over exposed

Exposures

Redefining T&Cs, exclusions, single event and accumulation limits, attachment points

Modelling & Stress Testing

Stress testing different perils –
models coming under greater scrutiny

Risk Transfer

Review of broader risk transfer mechanisms to manage risk

Correlation & Accumulation

Focus on correlation and accumulation management

Regulation

Mandated regulatory resilience tests

Market Environment

Changes –
Insurer vs. Reinsurer market dynamics

Reverse Stress Testing

Considering events/scenarios that could be a detriment to the company and its associated tail risk

Inflation

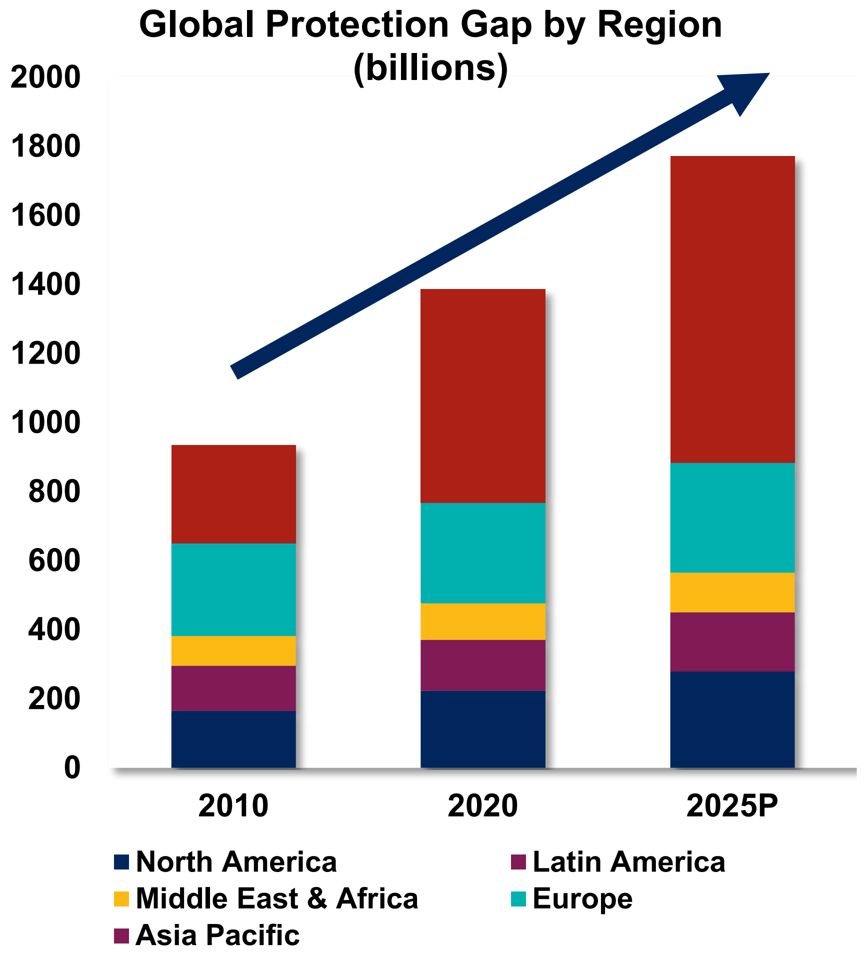
Constantly reviewed and actively managed –
impact on reserving and pricing

Market Response

Risk Sharing	Capital Management and Profitability	Macro Economics	Geopolitical Changes
- PPPs - ILS	Balance sheets generally remain strong – operating performance generally below expectations	Companies were generally in a strong position going into the most recent financial crisis	Cost of doing business continues to rise

Protection Gap – Is the Gap Between Economic and Insured Losses Growing?

Protection Gap = Economic cost/loss to society relative to insured cost



Protection Gap is Constantly Changing
- Protection Gap Varies by Type of Event
- Cost to Society Varies by Wealth of Country

Who will bear the Cost?
- (Re)Insurers
- Individuals
- Governments

Is it Economic to Insure?
- Public Private Partnerships the Solution?

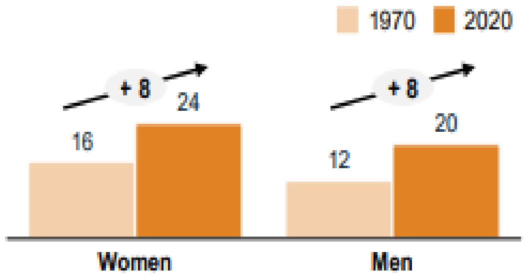
Source (Chart only):
PwC - Artemis.bm Insurance protection gap could hit USD 1.86tn by 2025

Protection Gap – Is the Gap Between Economic and Insured Losses Growing?

Pensions

USD 1 Trillion

Expected life years after labour market exit (OECD countries)

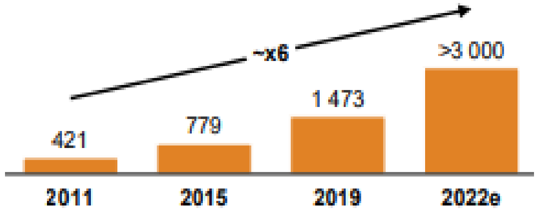


Demographic changes – smaller working population

Cyber

USD 900 Billion

Number of breaches with >50 000 files lost

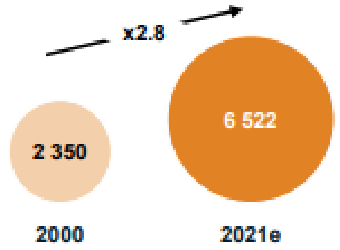


Presence of technology, increasing the number, type and severity of attacks

Healthcare

USD 800 Billion

Health spending[1] in OECD countries (US$ per capita)

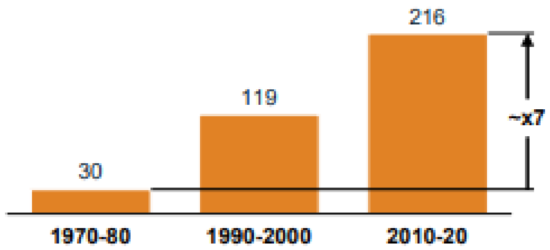


Aging population, rising healthcare needs, increased morbidity, higher costs

Nat Cats

USD 150 Billion

Average annual natcat losses per decade[2] (US$bn)



Increased frequency and severity of CAT events, higher exposures, tighter terms

Source: GFIA

Challenges Ahead

- Climate Risk ↑
- Cyber Risk ↑
- SRCC ↑
- Litigation ↑
- Regulatory Risk ↑

Frequency and severity of events –

Likely to increase

Macro-economic environment –

Remains uncertain and volatile

Key Takeaways

Uncertainty Remains –

Increased frequency and severity of events; higher levels of contagion and interconnectedness

Strong Balance Sheets –

Needed to cope with heightened cost of doing business and absorbing unforeseen events

Insurance Industry has Shown Resilience to Market Events –

Effective and adaptable ERM remains key to manage unknown events

Uncertainty and Volatility also – Create opportunities

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Q&A

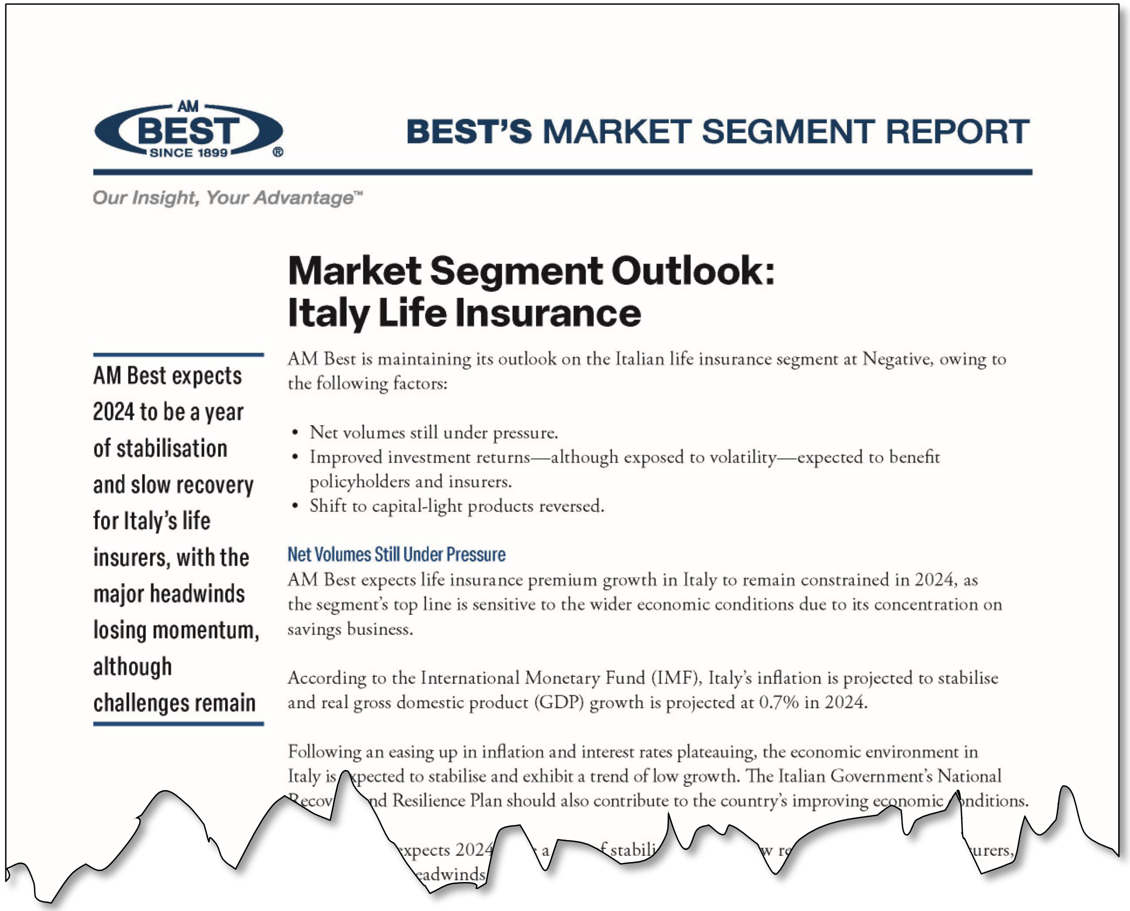
AM Best Hot Topics: Italian Insurance Market Outlook

Andrea Porta
Financial Analyst

AM Best's 2024 Market Segment Outlook – Italy Life Insurance

Outlook Maintained at Negative

- Net volumes still under pressure
- Improved investment returns to benefit policyholders and insurers, although exposed to volatility
- Shift to capital-light products reversed



BEST'S MARKET SEGMENT REPORT

Our Insight, Your Advantage™

Market Segment Outlook: Italy Life Insurance

AM Best expects 2024 to be a year of stabilisation and slow recovery for Italy's life insurers, with the major headwinds losing momentum, although challenges remain

AM Best is maintaining its outlook on the Italian life insurance segment at Negative, owing to the following factors:

- Net volumes still under pressure.
- Improved investment returns—although exposed to volatility—expected to benefit policyholders and insurers.
- Shift to capital-light products reversed.

Net Volumes Still Under Pressure

AM Best expects life insurance premium growth in Italy to remain constrained in 2024, as the segment's top line is sensitive to the wider economic conditions due to its concentration on savings business.

According to the International Monetary Fund (IMF), Italy's inflation is projected to stabilise and real gross domestic product (GDP) growth is projected at 0.7% in 2024.

Following an easing up in inflation and interest rates plateauing, the economic environment in Italy is expected to stabilise and exhibit a trend of low growth. The Italian Government's National Recov… nd Resilience Plan should also contribute to the country's improving economic …nditions.

AM Best’s 2024 Market Segment Outlook – Italy Non-Life Insurance

Outlook Revised from Negative to Stable

- Growth Momentum Supported by Tariff Adjustments and Stabilization of the Economic Environment
- Segment-Wide Underwriting Profitability Sustained by Improving Motor Business
- Elements of the 2024 Budget Law Pose a Challenge for Property Business

BEST’S MARKET SEGMENT REPORT

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Market Segment Outlook: Italy Non-Life Insurance

Italy’s non-life insurers successfully navigated the challenges of 2023, and AM Best expects 2024 to be a year of solid and healthy growth for the segment.

AM Best has revised its outlook on Italy’s non-life insurance segment from Negative to Stable. The following factors were considered:

- Growth momentum supported by tariff adjustments and stabilisation of the economic environment.
- Segment-wide underwriting profitability sustained by improving motor business.
- Elements of the 2024 Budget Law pose a challenge for property business.

Growth Momentum Supported by Tariff Adjustments and Stabilisation of the Economic Environment

AM Best expects non-life insurance gross written premium (GWP) to continue to grow at a steady pace during 2024, supported by tariff increases and a stabilisation of the Italian economy. According to the International Monetary Fund (IMF), Italy’s inflation rate will stabilise while real gross domestic product (GDP) is projected to grow by 0.7%.

In 2023, non-life GWP grew 7.7%, according to Associazione Nazionale fra le Imprese Assicuratrici (ANIA), the fourth consecutive year of growth. Motor GWP, which accounts for just over a third of the seg…nt’s premiums, returned to growth in 2023 after years of contraction driven by high levels …n. ANIA also reported that the average premium rate for mot… …bility …sed by 7.9% …

Q&A

Why Do Companies Get Rated?

Clients' Rating Decision Process

Riccardo Ciccozzi

Director, Market Development – Europe

Workshop – How the Rating Process Works

- Considerations for Obtaining a Rating
- Why Companies Get Rated
- Analytical Process & Timeline

Considerations for Obtaining a Rating

What is an Insurer Credit Rating?

It is an

internationally recognised

independent benchmark

of

insurer financial strength

Example of Decision-Making Process

Corporate Objectives
Growth, Profitability, Resilience

Corporate Strategy
Market(s) Share, M&A,
Distribution Strategy, Innovation, etc.

Context:
Competition, Volatility, Perma/Poly Crisis

Differentiation

Credit Rating

Why Companies Get Rated

Why do (re)insurers get rated?

Provides external flexibility and benchmarking

Facilitates market entry and business development

Business critical requirement (often "A-" minimum) for credit sensitive market segments e.g. reinsurance, large commercial business

To engage in cross-border activity

Facilitates capital raising and reinsurance purchase

Satisfies investor due diligence requirements e.g. M&A

Meets regulatory requirements in certain jurisdictions

Provides independent oversight supporting corporate governance processes

What are the characteristics of highly rated AM Best (re)insurers?

- Superior and stable risk-adjusted capitalisation across the various confidence levels
- Strong, predictable and sustainable operating profitability developed from a favourable lower-risk liability profile, with results exhibiting limited volatility
- Strong and stable operating cash flows, with books of business demonstrating favourable retention trends
- Diversified earnings and revenue streams
- Consistency of key metrics compared with peers

- Competitive advantage in branding, customer experience, investments, and/or underwriting
- Competitive market position leading to pricing power in core business lines
- Effective use of technology/data analytics which positively impacts performance
- Market-leading distribution system
- Comprehensive and proactive enterprise risk management
- Long-term, well-developed business strategy that has been tested over time
- Strong management team
- Key operations in stable regulatory environments

The Rating Process

Overview

RSA Signing & Fee Payment → Information Compiled → Rating Meeting Held → Analysis Performed → Rating Determined → Rating Disseminated → Activities Monitored

RSA Signing & Fee Payment

RSA Signing & Fee Payment → Information Compiled → Rating Meeting Held → Analysis Performed → Rating Determined → Rating Disseminated → Activities Monitored

Sanctions Questionnaire

Rating Services Agreement

Pricing & Payment

Information gathering under building block headings

- RSA Signing & Fee Payment
- Information Compiled
- Rating Meeting Held
- Analysis Performed
- Rating Determined
- Rating Disseminated
- Activities Monitored

Balance Sheet Strength

Operating Performance

Business Profile

Enterprise Risk Management

Analytical process & timeline

- RSA Signing & Fee Payment
- Information Compiled
- Rating Meeting Held
- Analysis Performed
- Rating Determined
- Rating Disseminated
- Activities Monitored

Management Meeting

Analysis & Decision

Rating Communication

Monitoring Best’s Credit Rating

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Q&A

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AM Best's Insurance Market Briefing – Milan

12 June 2024

Vienna Marriott Hotel