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125
YEARS

An aerial photograph of Vienna, Austria, showing a dense urban landscape with numerous buildings, a prominent church spire, and distant hills under a clear sky.

**AM Best's
CEE Insurance Market Briefing – Vienna**

17 April 2024

Vienna Marriott Hotel

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125
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Nick Charteris-Black

Managing Director, Market Development, EMEA – AM Best

Vienna Marriott Hotel

AM Best – An Overview

- Established in 1899, pioneered the concept of insurer financial strength ratings in 1906
- Worldwide headquarters in New Jersey, USA. Regional centres in London, Amsterdam, Dubai, Hong Kong, Singapore & Mexico City.
- Provider of international ratings, financial data and news relating to the insurance industry
- Full-service global insurance ratings capabilities
- Interactive ratings coverage exceeding 3,600 companies, including 200 alternative risk transfer entities and 450 mutual companies, in more than 100 countries
- Financial data coverage of over 16,000 re/insurance companies worldwide
- Published market research through a broad range of Special Reports
- Extensive marketing and publishing capability to promote corporate ratings in local and international markets

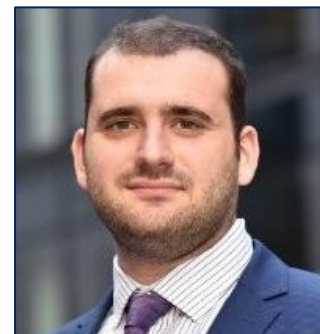
Presenters



Nick Charteris-Black
Managing Director,
Market Development,
EMEA



Dr Angela Yeo
Senior Director,
Head of Analytics,
Amsterdam



Todor Kitin
Senior Financial Analyst



William Mills
Senior Director,
Market Development,
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Morgane Hillebrandt
Senior Financial Analyst



Andrea Porta
Financial Analyst



Riccardo Ciccozzi
Director,
Market Development,
Europe



Stanislav Stoev
Senior Financial Analyst



Keynote Speaker
Tobias Sondorfer
Vice-Chairman of the
Board of Directors,
VIG Re

Agenda

09:00 Welcome Remarks

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

William Mills, Senior Director, Market Development, EMEA
Riccardo Ciccozzi, Director, Market Development, Europe

09:10 Keynote Presentation - A Changing Landscape for Insurers / Reinsurers in the CEE

Tobias Sonndorfer, Vice-Chairman of the Board of Directors, VIG Re

09:40 Thematic Session: Dealing with the Permacrisis/Polycrisis

Dr Angela Yeo, Senior Director, Head of Analytics – Amsterdam

Morgane Hillebrandt, Senior Financial Analyst

10:20 

10:40 Panel Discussion: Cyber – Developing an Appropriate Approach to the Cyber Risk Threat

Chair

Daniela Ghetu, Editorial Director, The XPRIMM Publications; President, PIA-Presses Internationales des Assurances

Panellists

Todor Kitin, Senior Financial Analyst, AM Best

Matt Harrison, Casualty Head of Technical Sales, Gallagher Re

Tom Johansmeyer, Global Head of Index Classes, Inver Re

Thierry Murté, CEO, CyQuant

11:15 Benchmarking EMEA Ratings

Stanislav Stoev, Senior Financial Analyst

Andrea Porta, Financial Analyst

11:55 Workshop: How the Rating Process Works

William Mills, Senior Director, Market Development, EMEA

Riccardo Ciccozzi, Director, Market Development, Europe

12:40 Closing Comments and Networking Lunch

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A Changing Landscape for Insurers/ Reinsurers in the CEE Region

Tobias Sondorfer



>600 clients in 60 countries



Continental Europe & mature Asia footprint



4 offices globally



>EUR 900m GWP



A+ rating from S&P since 2008



Quo vadis,
(Re)insurance industry?

Economic indicators before and after Covid

Inflation
[%]



Eastern Europe



2019

1.8

+1.0

1.4

+2.2

3.9

+2.3

1.5

+2.2

2023

2.8

3.6

6.2

3.7

2.1

+3.3

-0.4

+4.2

n/a

-0.4

+4.2

2019

5.4

3.8

n/a

3.8

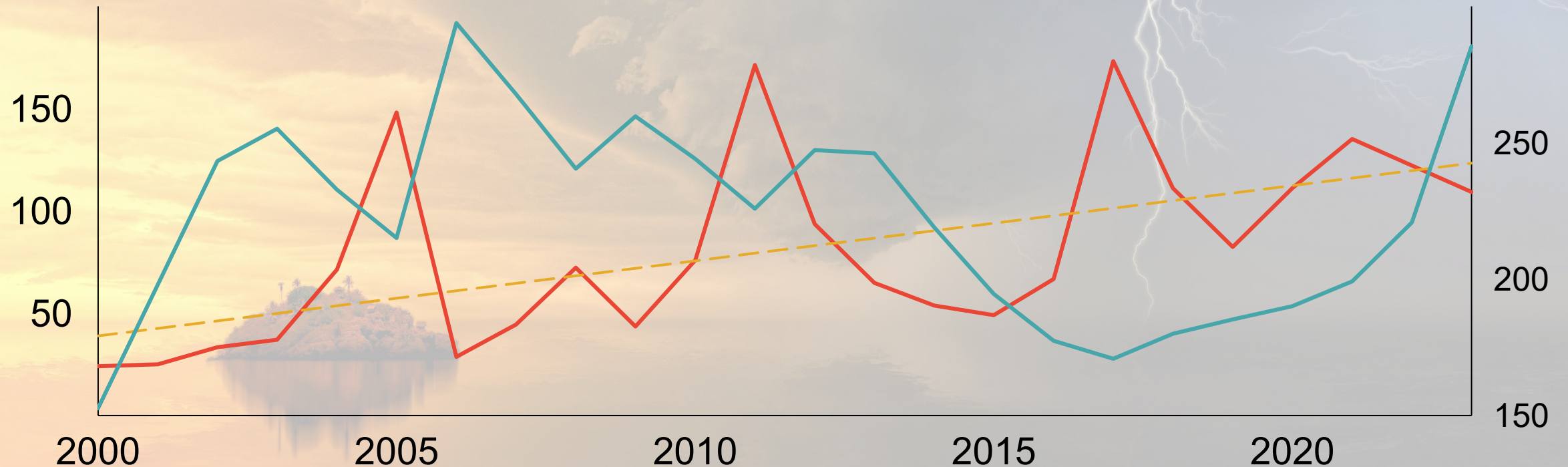
2023

Interest rate
[%]

NatCat developments

Global NatCat losses [EUR bn]

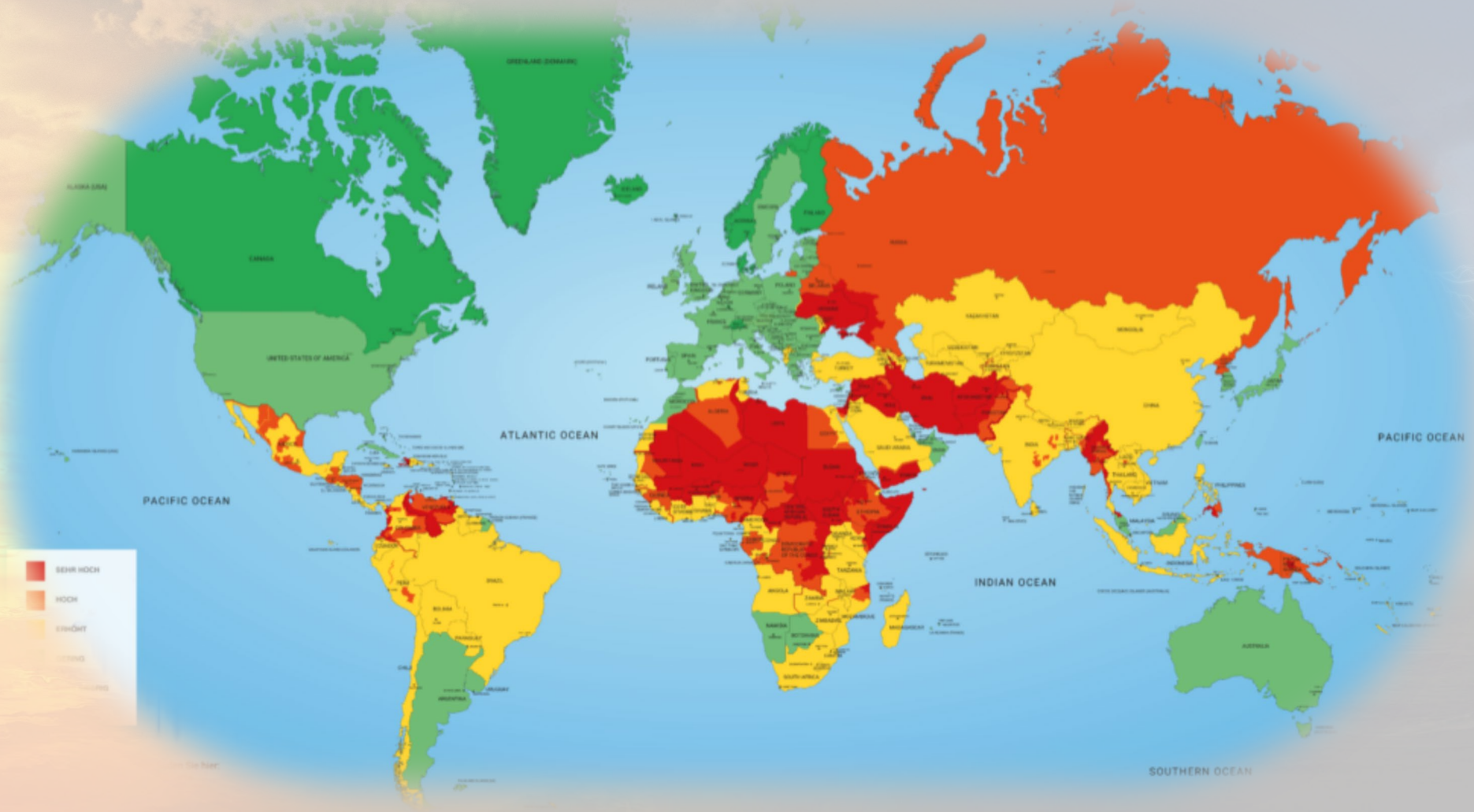
Rate on Line [Indexed, base 1990]



— Annual global NatCat losses - - - Trend global NatCat losses — Global Catastrophe Rate on Line Index

Source: AON; Guy Carpenter

Geopolitical risk map 2024

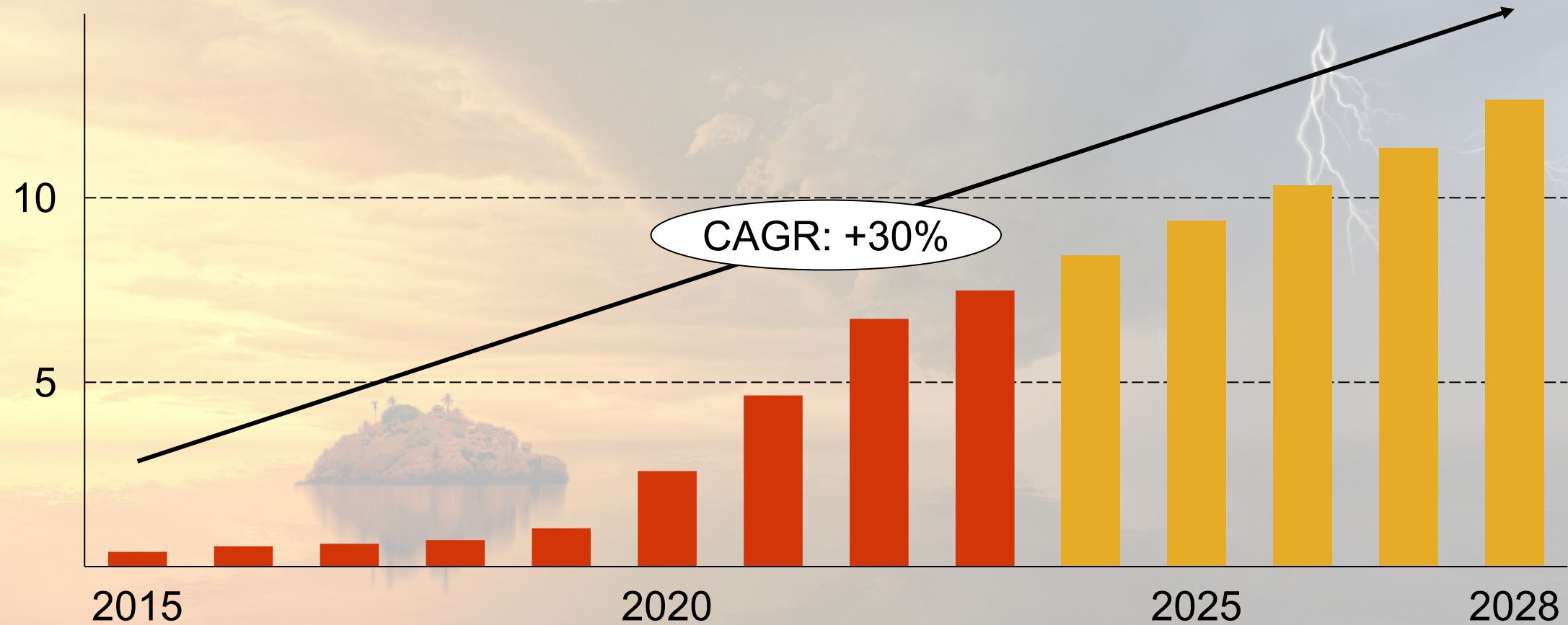


Very high High Increased Low Very low

Source: A3M Global Monitoring

Costs of cyber crime

[EUR bn]



CAGR: +30%

Actual Forecast

Source: National Cyber Security Organizations, Federal Bureau of Investigation, International Monetary Fund

Short- & long-term risks ranked by impact severity

Risks: 2 years

Misinformation and disinformation

Extreme weather events

Societal polarization

Cyber insecurity

Interstate armed conflict

Lack of economic opportunity

Inflation

Involuntary migration

Economic downturn

Pollution

Risks: 10 years

Extreme weather events

Critical change to Earth system

Biodiversity loss & ecosystem collapse

Natural resource shortages

Misinformation and disinformation

Adverse outcomes of AI technologies

Involuntary migration

Cyber insecurity

Societal polarization

Pollution

Economic Environmental Geopolitical Societal Technological

Source: World Economic Forum Global Risks Perception Survey

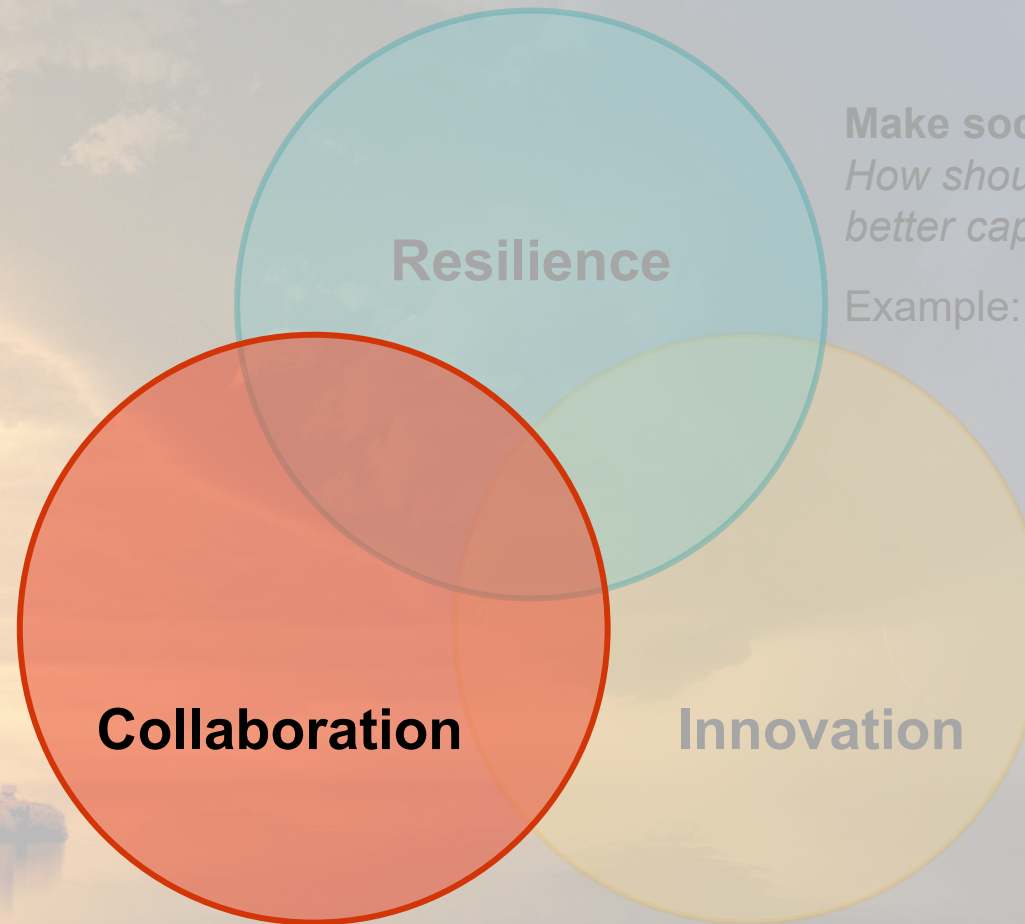




Make societies aware of the climate change

How should NatCat systems be organized to better capture increasing unpredictability?

Example: Flood Re



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Overcome the “We know it all culture”

Which partners can enhance our value generation throughout the entire value chain, or even extend it?

Example: Leverage of Insurtech



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How should NatCat systems be organized to better capture increasing unpredictability?

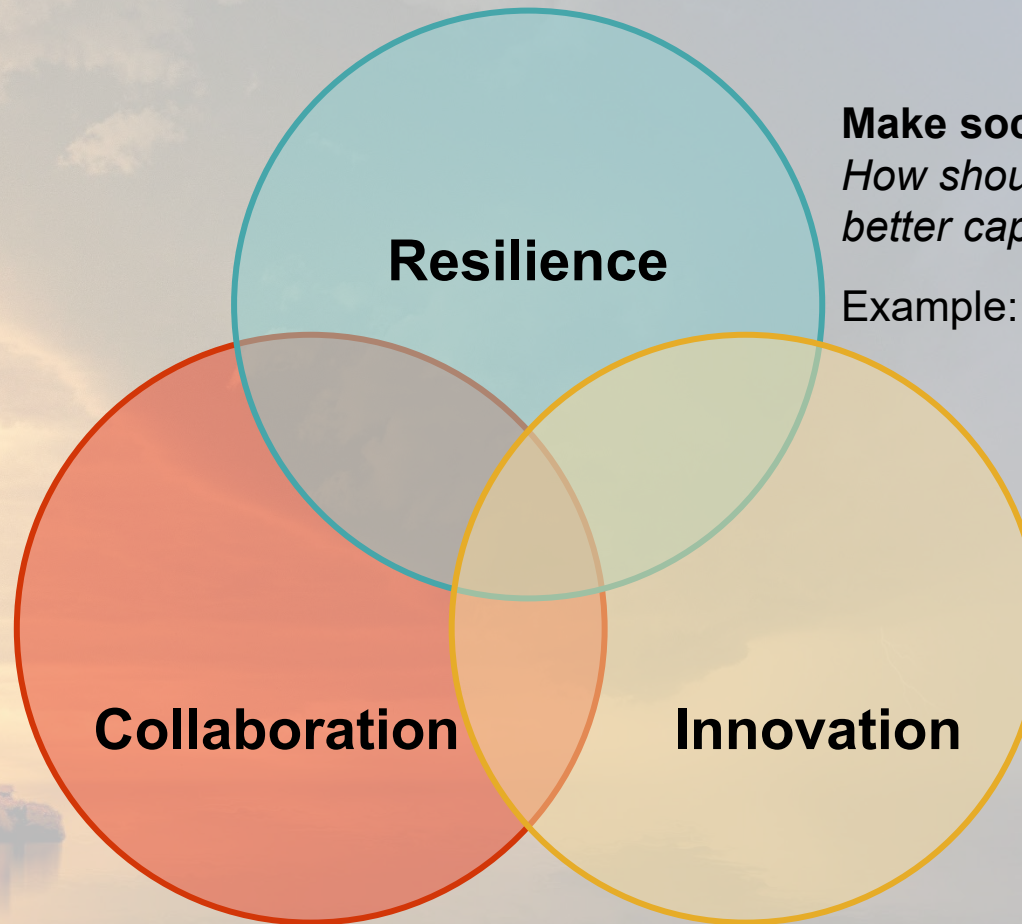
Example: Flood Re

Overcome the “We know it all culture”
Which partners can enhance our value generation throughout the entire value chain, or even extend it?

Example: Leverage of Insurtech

Close Protection Gap through leveraging data & tech
What product- & sales innovation can be used to close current & future protection gaps?

Example: aiSure offering performance guarantees to AI solution providers



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**Thank you for
your attention**

Dealing with the PermaCrisis/PolyCrisis

**Dr. Angela Yeo
Senior Director, Head of Analytics**

**Morgane Hillebrandt
Senior Financial Analyst**

Polycrisis and Permacrisis

Polycrisis

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

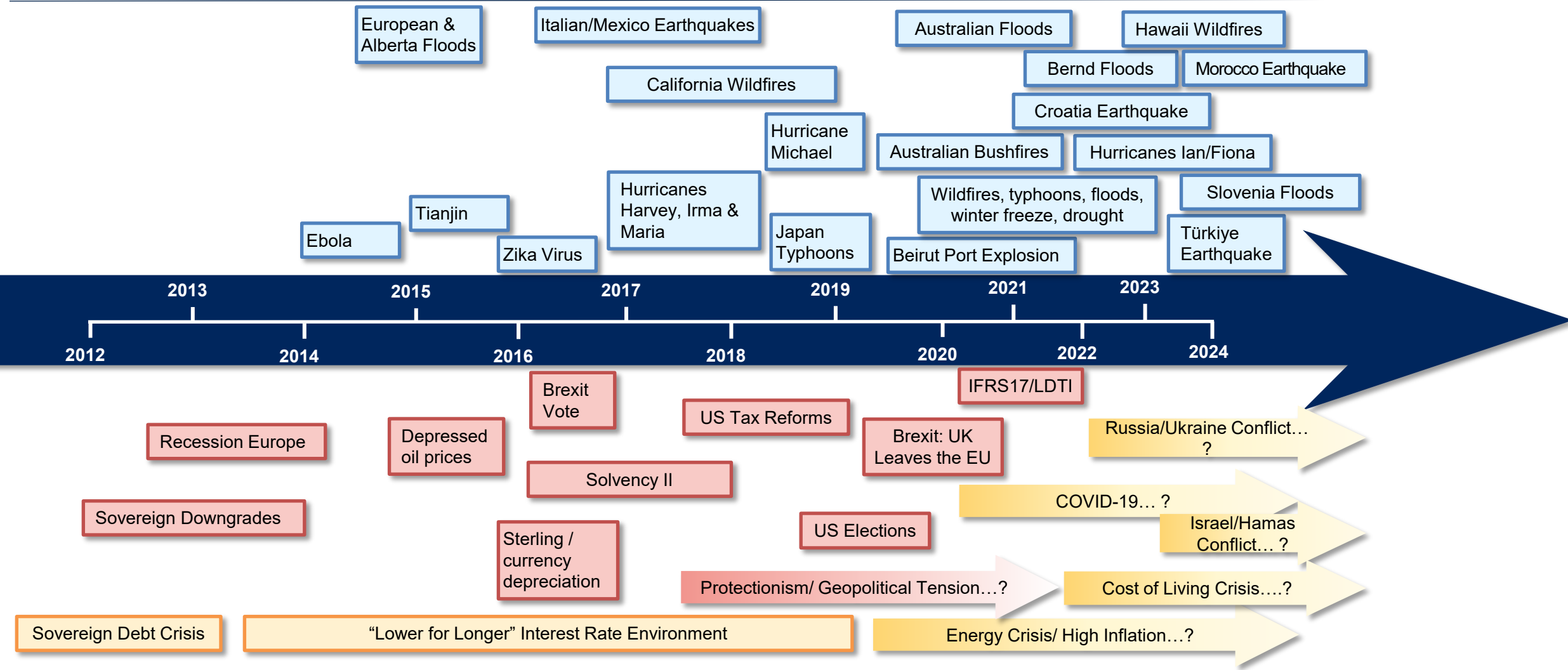
Permacrisis

(Collins Dictionary Word of the Year 2022)

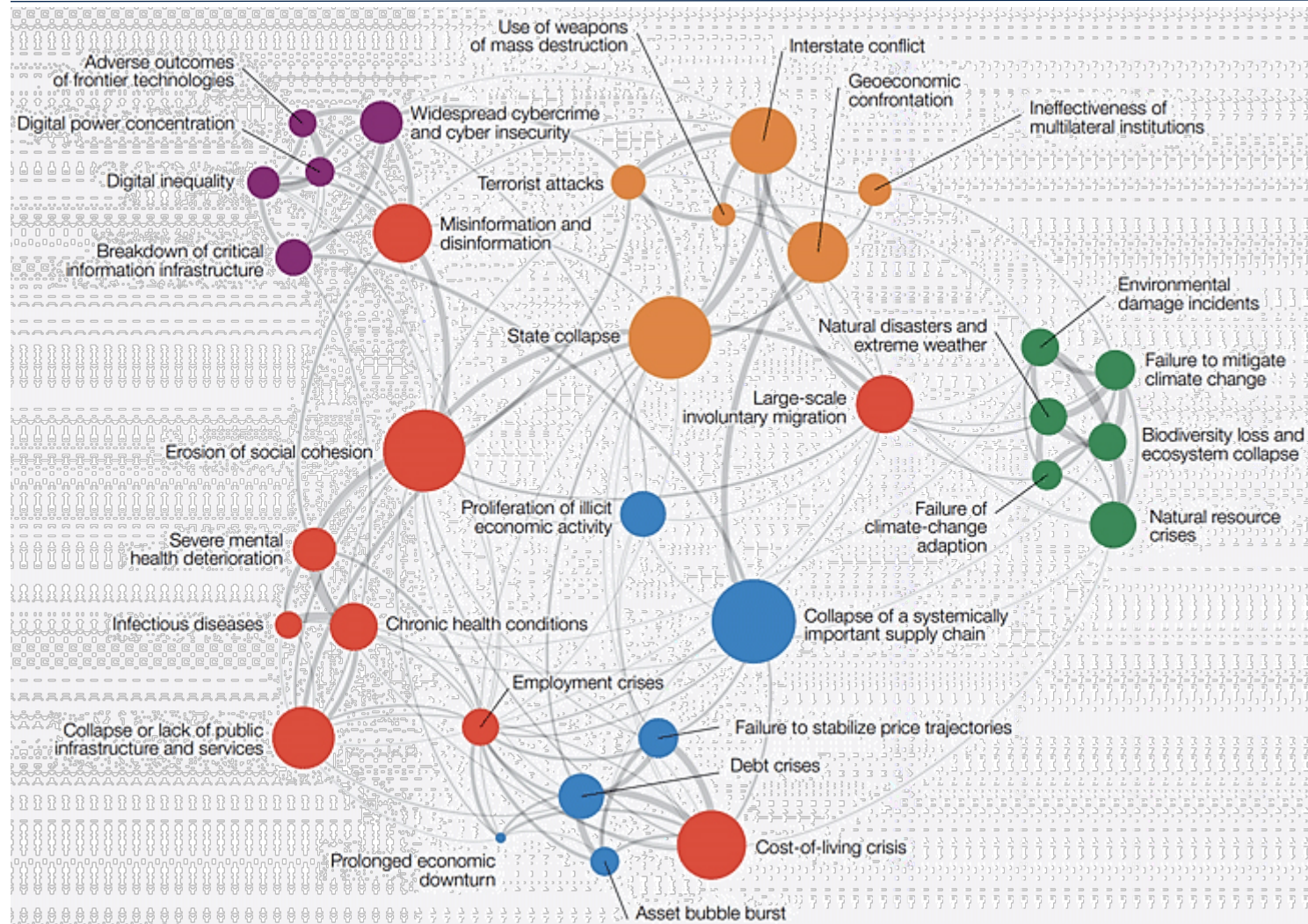
An extended period of instability and insecurity, especially one resulting from a series of catastrophic events

- A static and permanently difficult situation
- Outcome cannot be predicted
- Can only be managed –not resolved

Timeline



Interconnectivity of Risks



Market environment –
increasingly interconnected
between risk categories,
with a higher degree of
contagion

- Economic
- Environmental
- Geopolitical
- Societal
- Technological

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 Disruptions	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

Dealing with the Polycrisis / Permacrisis

Impact on Ratings

Ratings generally resilient

More downward pressure

Impact more accurate for concentrated, single market or single product (re)insurers

Large, diversified companies have fared better

Balance Sheet Strength

Resilient balance sheets

Gradual erosion of BCAR, but remaining within 'Strongest' category

Impact more acute for concentrated, single market or line (re)insurers

Focus on Capital Management

Access to capital markets

Operating Performance

Greater volatility in underwriting and investments performance

Events hampered ROEs – returns below expectation

Focus on improving stability of returns – higher margin business

Inflation - reserving and pricing trends

Business Profile

Larger, diversified companies have shown more resilience

Concentrated single market, single product players have seen more impact

Focus on reshaping portfolio and exposures

Parent Companies (Lift / Drag)

Impact on parent companies in other sectors can be varied

Market Response

Risk Sharing

Public Private Partnerships (PPP)

- Not a new concept, but in the limelight again
- Pools acting as direct, co- or re-insurers, with governments as buyers or guarantors
- Often legislation required – mandatory covers, opt-in / opt-out clauses
- NatCat (such as Morocco, Turkey), Flood, Terrorism
- Cost of insurance v willingness-to-pay

ILS Markets

- Risks are being dissected and shared with different parties

Capital Management & Performance

Balance Sheets Generally Remain Strong – Operating Performance Generally Below Expectations

- Marginal cost of capital rising; ROE expectations rise
- Access to new capital has been difficult for new insurers, but existing players have good financial flexibility
- Rising inflation and interest rates also led to losses on insurers' fixed income holdings
- Inflation has had an impact on reserving and pricing, operating costs
- Larger balance sheets needed to absorb more risk; reinsurance dependence remains high
- Evidence of capital support from shareholders appears muted in the region

Market Response – Macro-Economic

Macro-Economic

Companies Generally in a Strong Position Going into the most Recent Financial Crisis

- Lessons learnt from previous financial crises
- Continued regulatory and tax reforms
- Inflation – rising since Spring 2021 for most economies
- Interest rates – steep increase during 2022
- Volatile energy prices
- Labour shortages – qualified professionals

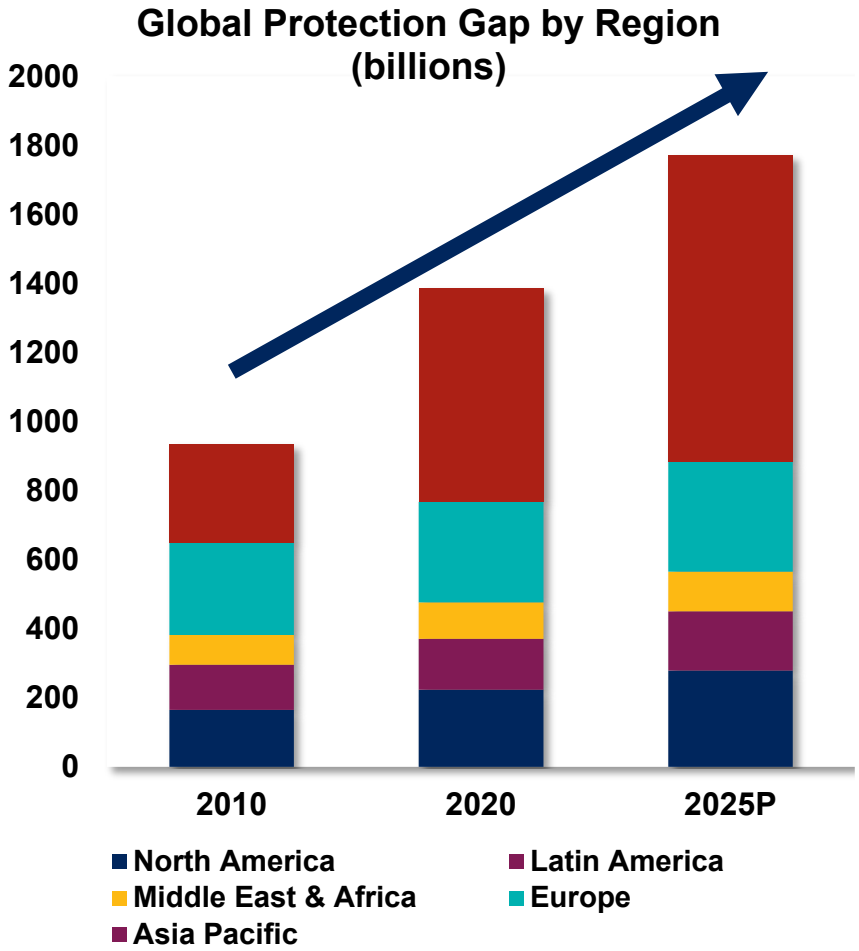
Geopolitical Changes

Cost of Doing Business Continues to Rise

- Tensions elevated in the region
- Political trends navigate towards nationalism, introducing fragmentation and trade barriers
- Local regulators introducing new rules and closer monitoring of (re)insurers
- Market players are thinking carefully how to adjust expansion or development strategies into markets with high growth potential, but also high potential to political or regulatory reforms

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

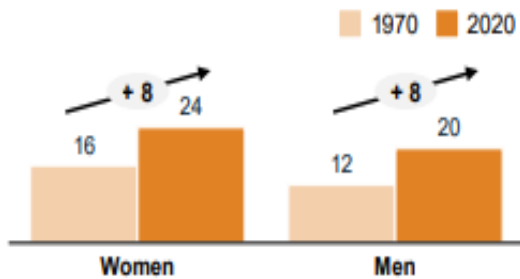


Protection Gap – Is the Gap Between Economic and Insured Losses Growing?

Pensions



Expected life years after labour market exit (OECD countries)

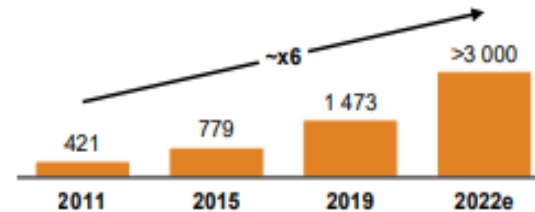


Demographic changes – smaller working population

Cyber



Number of breaches with >50 000 files lost

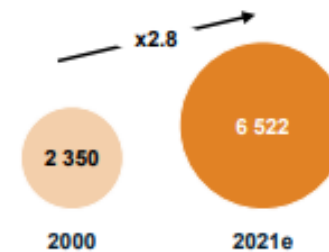


Presence of technology, increasing the number, type and severity of attacks

Healthcare



Health spending¹ in OECD countries (US\$ per capita)

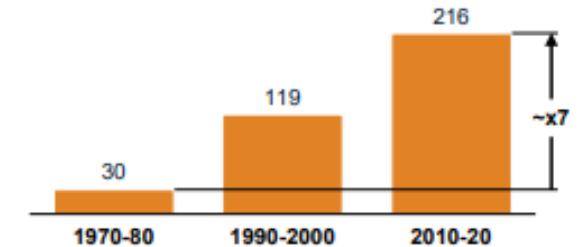


Aging population, rising healthcare needs, increased morbidity, higher costs

Nat Cats



Average annual natcat losses per decade² (US\$bn)



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

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

Q&A

Agenda

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Stanislav Stoev, Senior Financial Analyst

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11:55 Workshop: How the Rating Process Works

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12:40 Closing Comments and Networking Lunch

Panel Discussion
Cyber –
Developing an Appropriate
Approach to the Cyber Risk Threat

Introducing Today's Panel

Chair



**Daniela
Ghetu**

Editorial Director,
The XPRIMM Publications
President, PIA-Press
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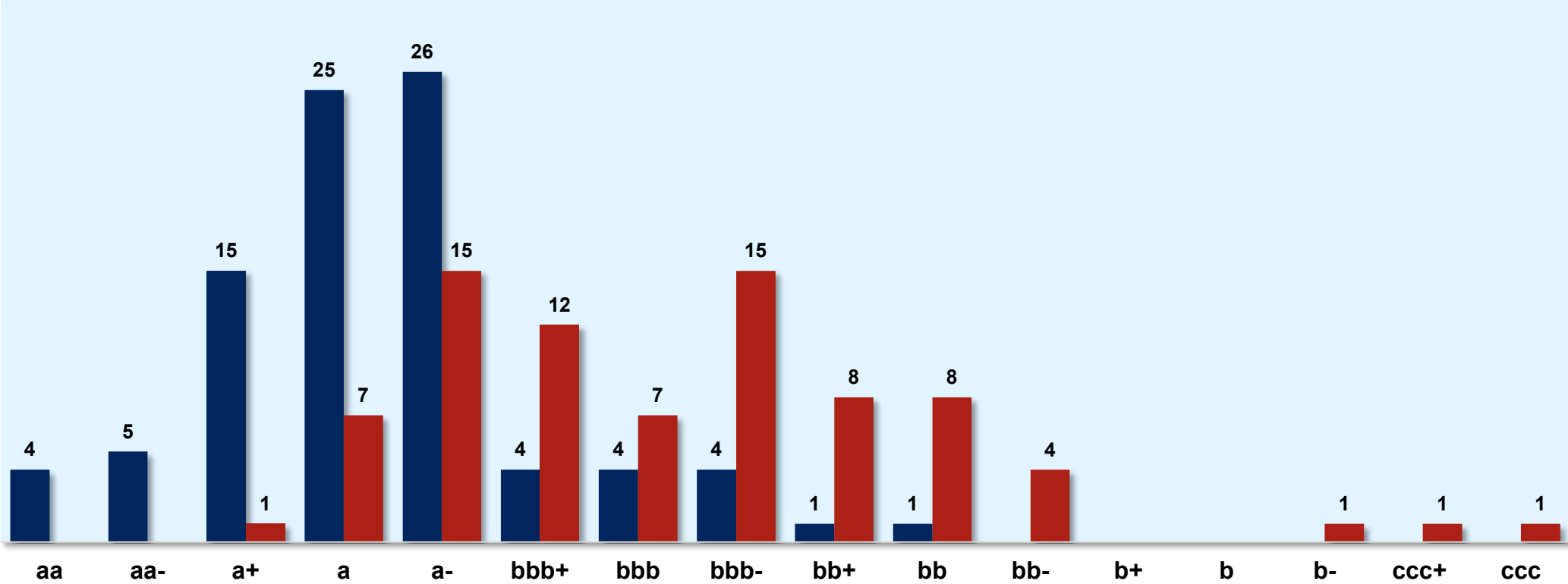
Benchmarking EMEA Ratings

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Issuer Credit Ratings EMEA – Count

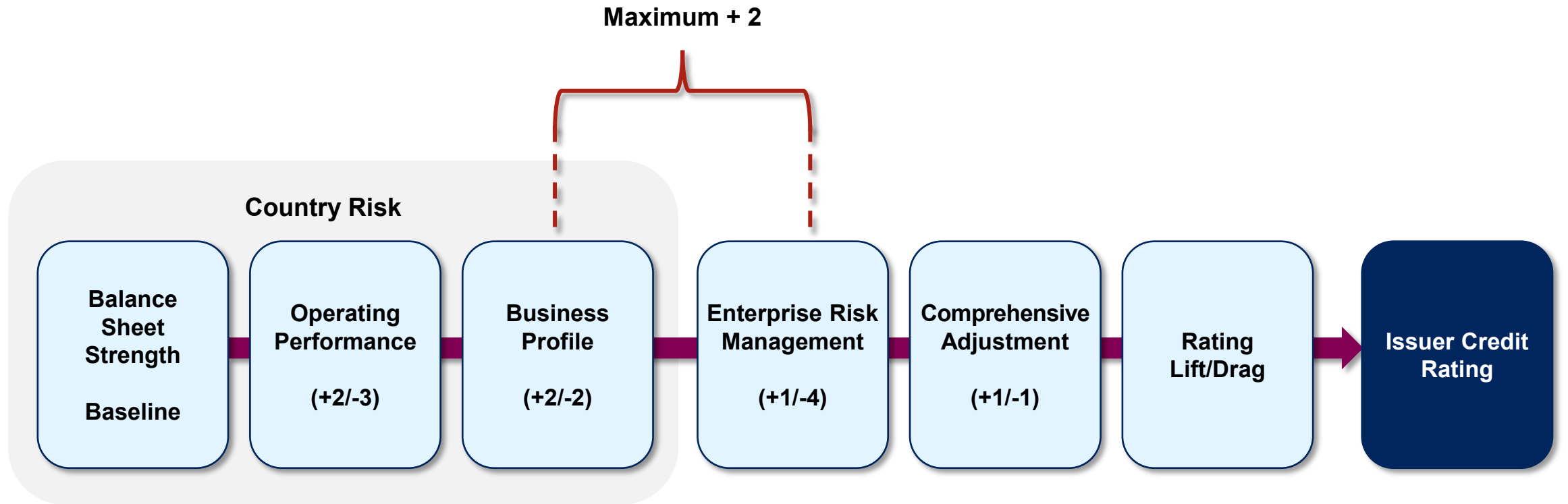
■ Mature Markets ■ Emerging Markets



Data as of December 31, 2023
 Source: AM Best data and research



AM Best's Rating Process - Recap



Balance Sheet Strength vs Baseline ICR

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

Source: Best's Credit Rating Methodology

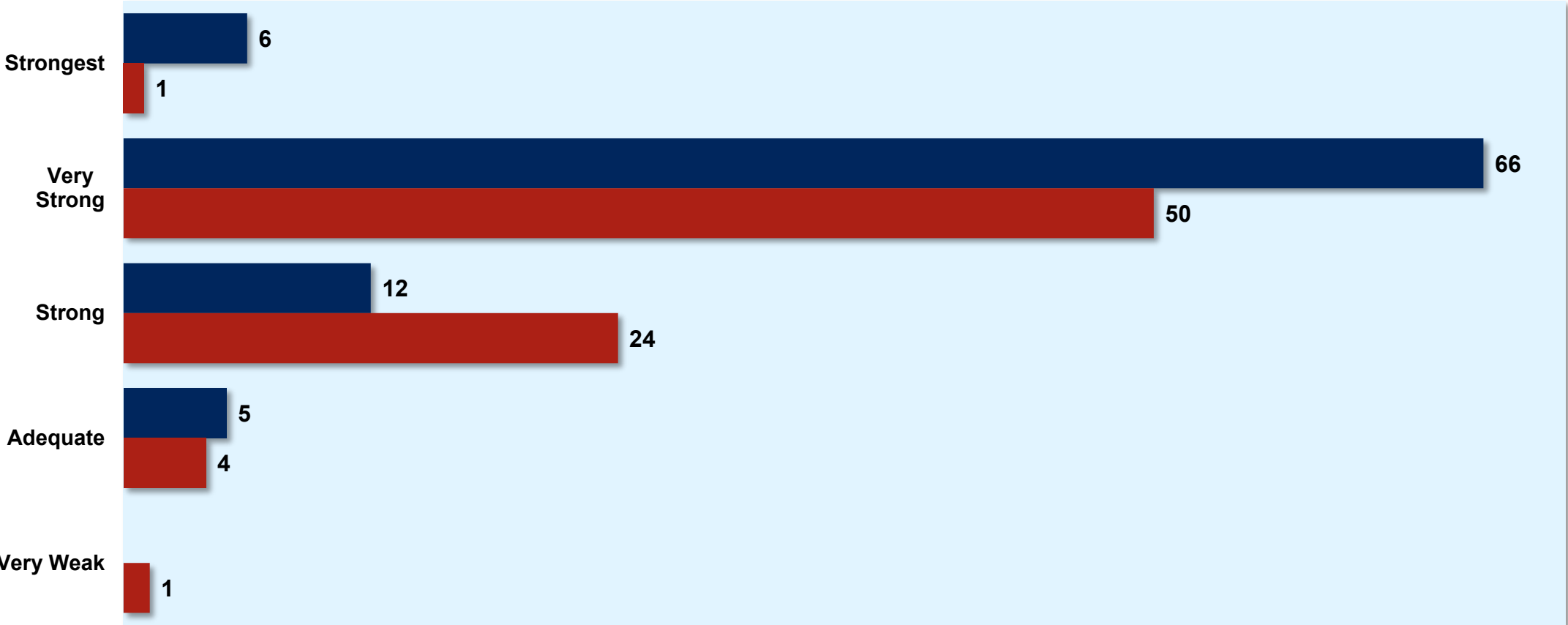


AM Best's Rating Process - Recap

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

Balance Sheet Strength - Distribution of Assessments (%)

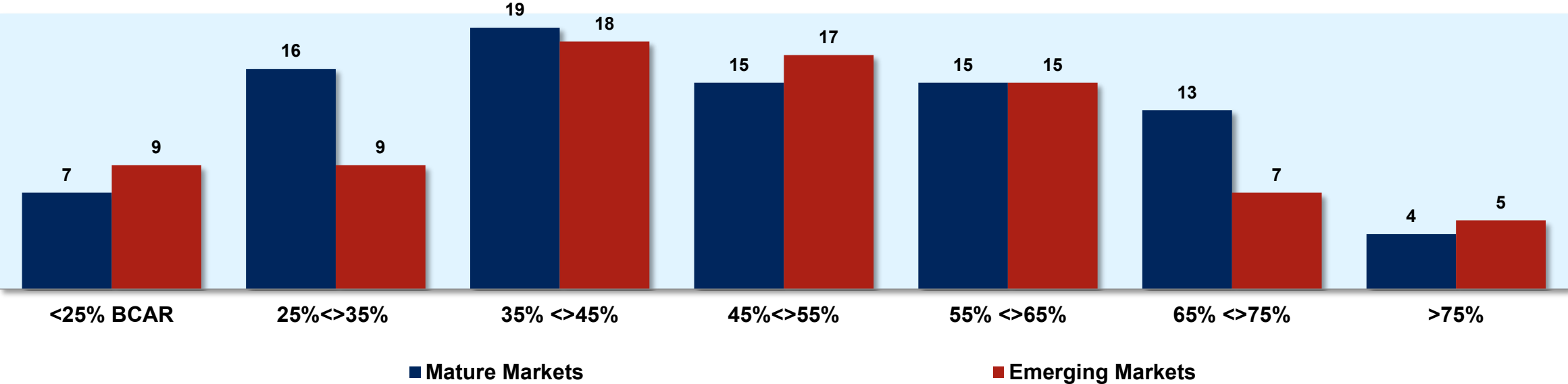
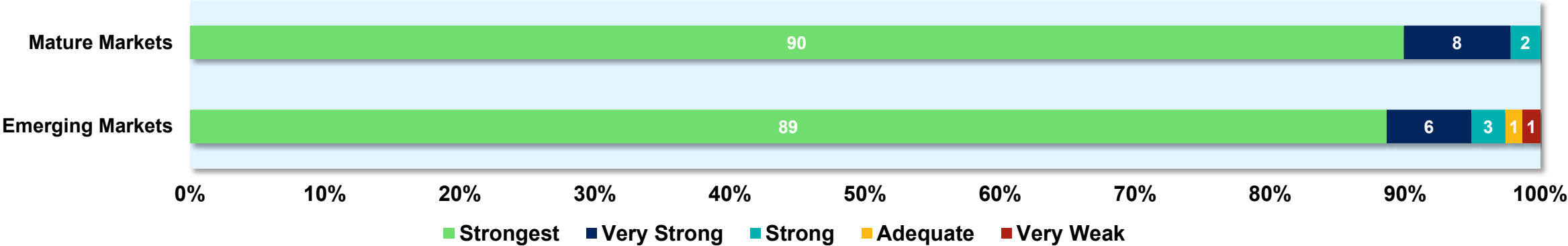
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Balance Sheet Strength - Distribution of BCAR Scores



Data as of December 31, 2023
 Source: AM Best data and research



Balance Sheet Strength vs BCAR Distribution (%)

Mature Markets

		Balance Sheet Strength					
		Strongest	Very Strong	Strong	Adequate	Weak	Very Weak
BCAR Assessment	Strongest	7	73	7	3		
	Very Strong		1	4	2		
	Strong			2			
	Adequate						
	Weak						
	Very Weak						

Emerging Markets

		Balance Sheet Strength					
		Strongest	Very Strong	Strong	Adequate	Weak	Very Weak
BCAR Assessment	Strongest	1	61	23	4		
	Very Strong		1	5			
	Strong			3			
	Adequate				1		
	Weak						
	Very Weak						1

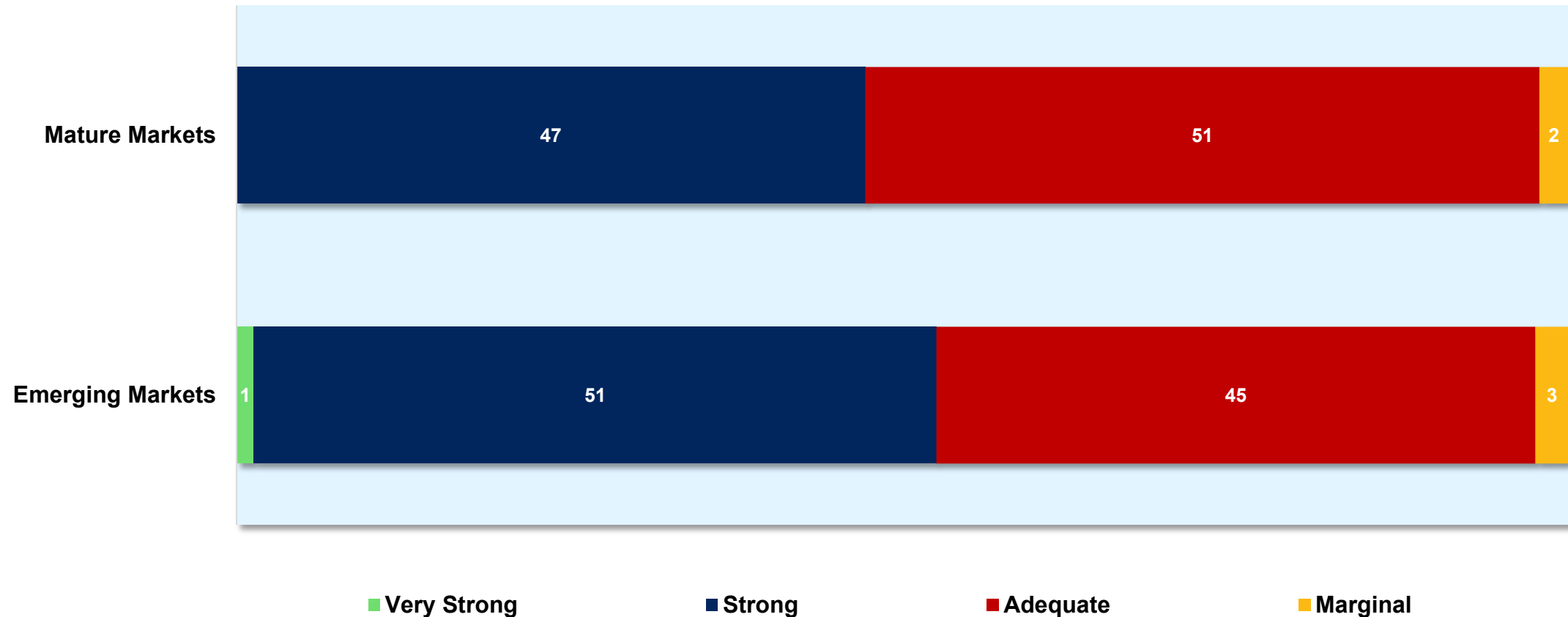
Other Quantitative & Qualitative Considerations

- Asset quality / diversification
- Stress test
- Asset liability matching
- Liquidity
- Reinsurance quality / appropriateness / dependence
- Reserve adequacy
- Fungibility of capital
- Internal capital model

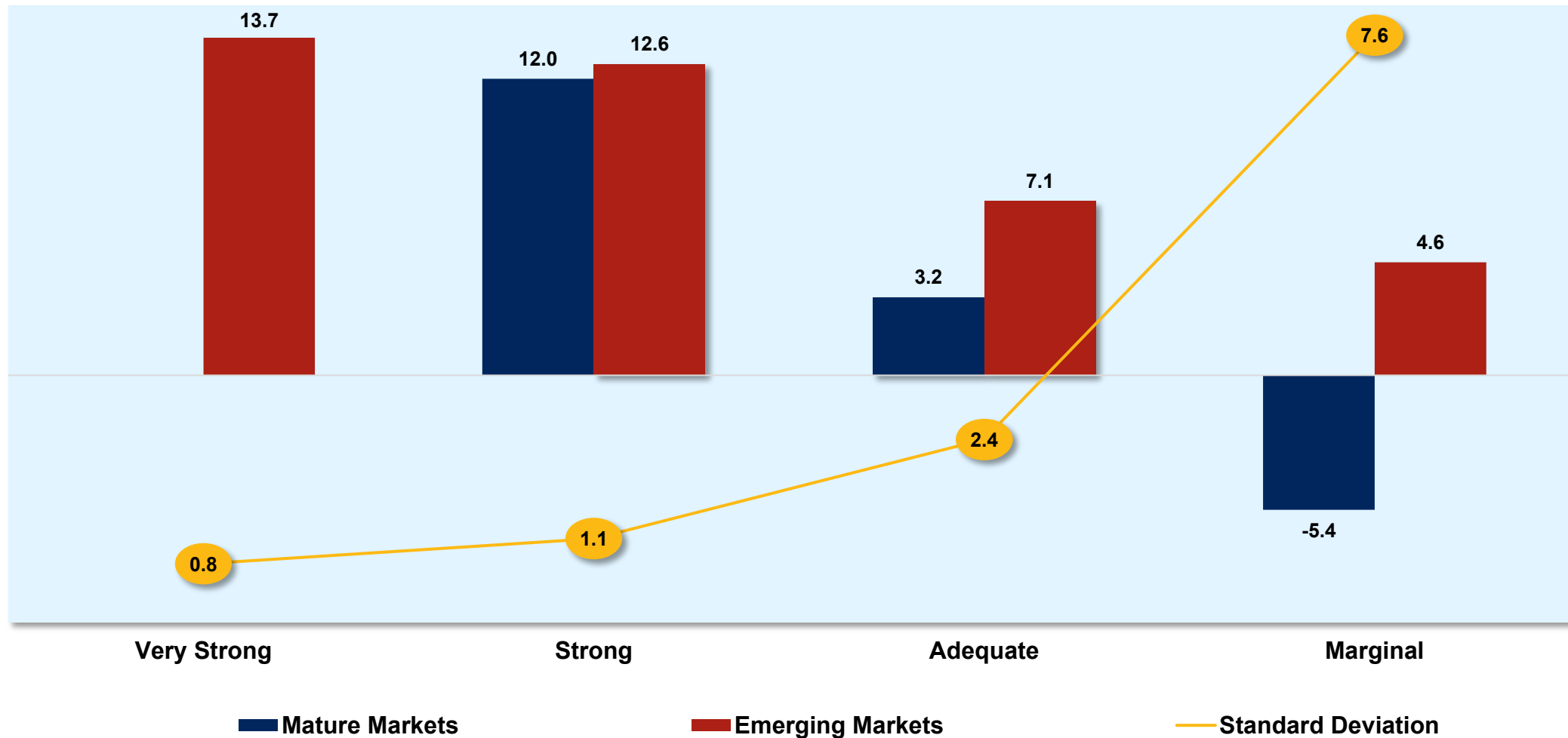
Data as of December 31, 2023
 Source: AM Best data and research



Operating Performance - Distribution of Assessments (%)

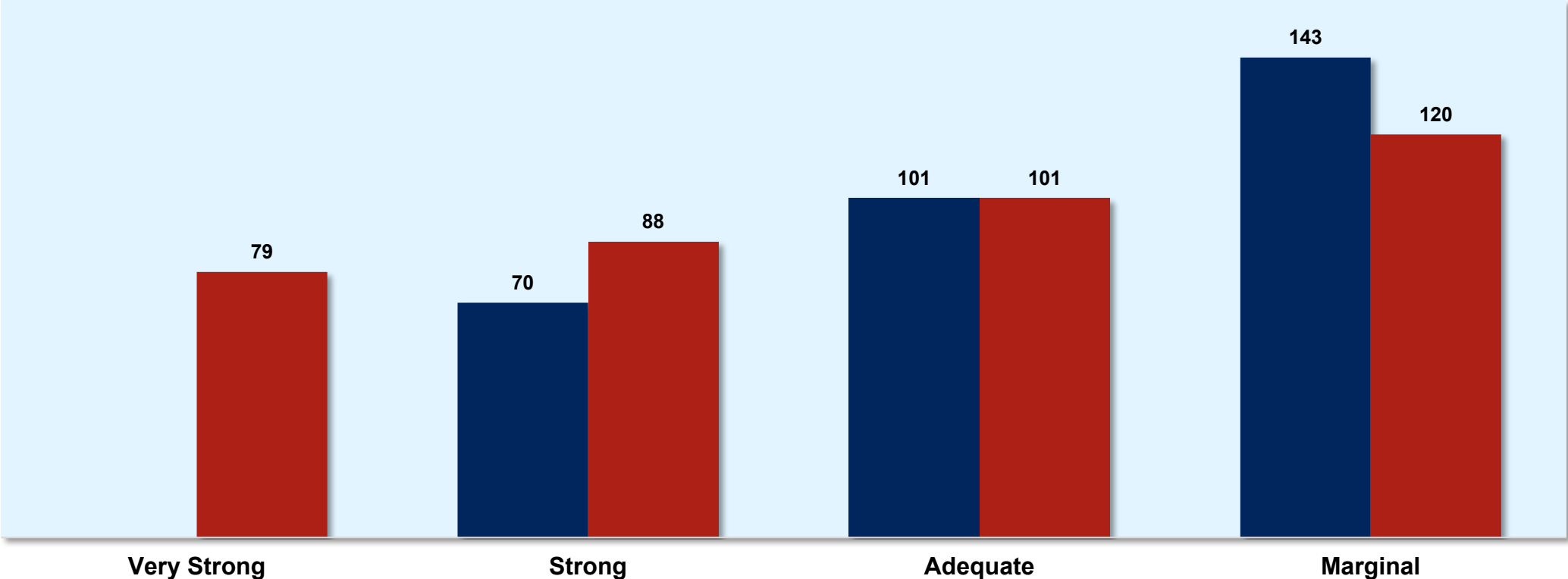


Operating Performance – Five-Year (2019-2023) ROE & Standard Deviation (%)



Operating Performance – Five-Year (2019-2023) Average Combined Ratio (%)

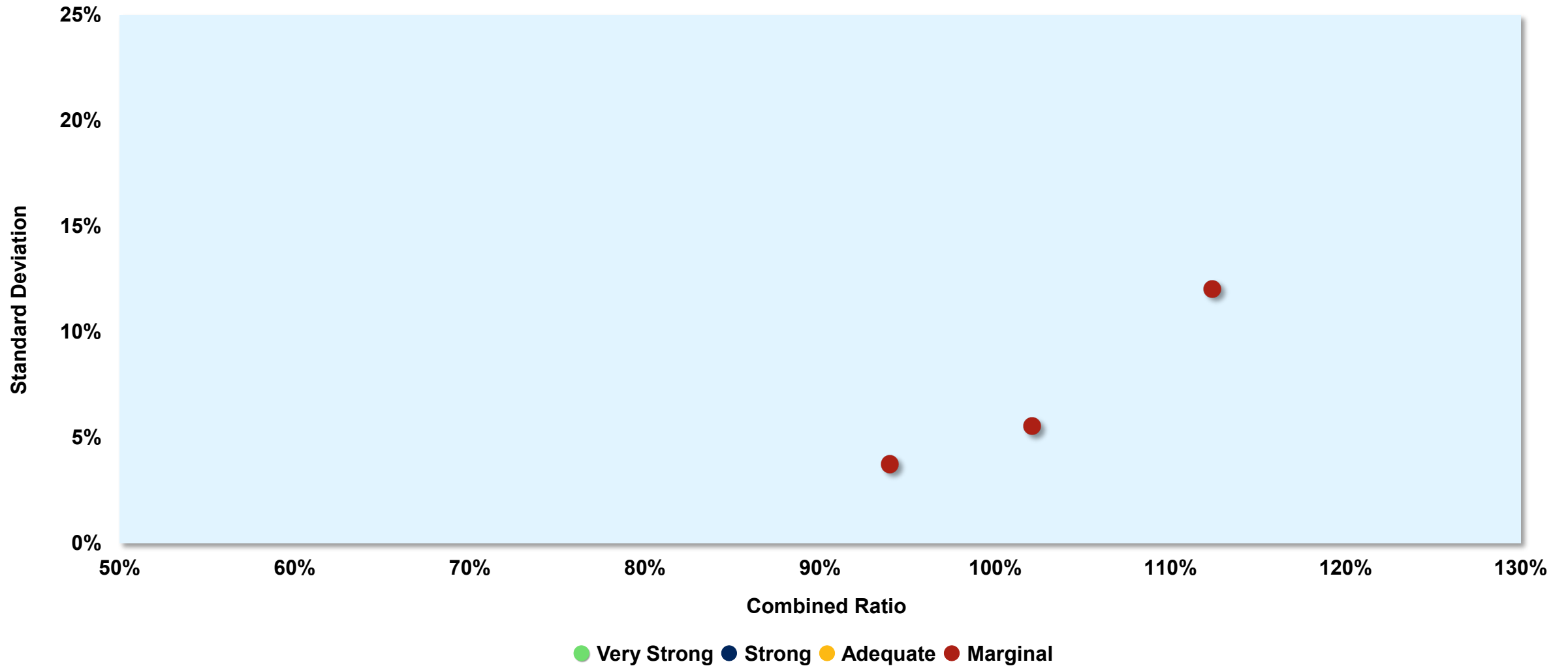
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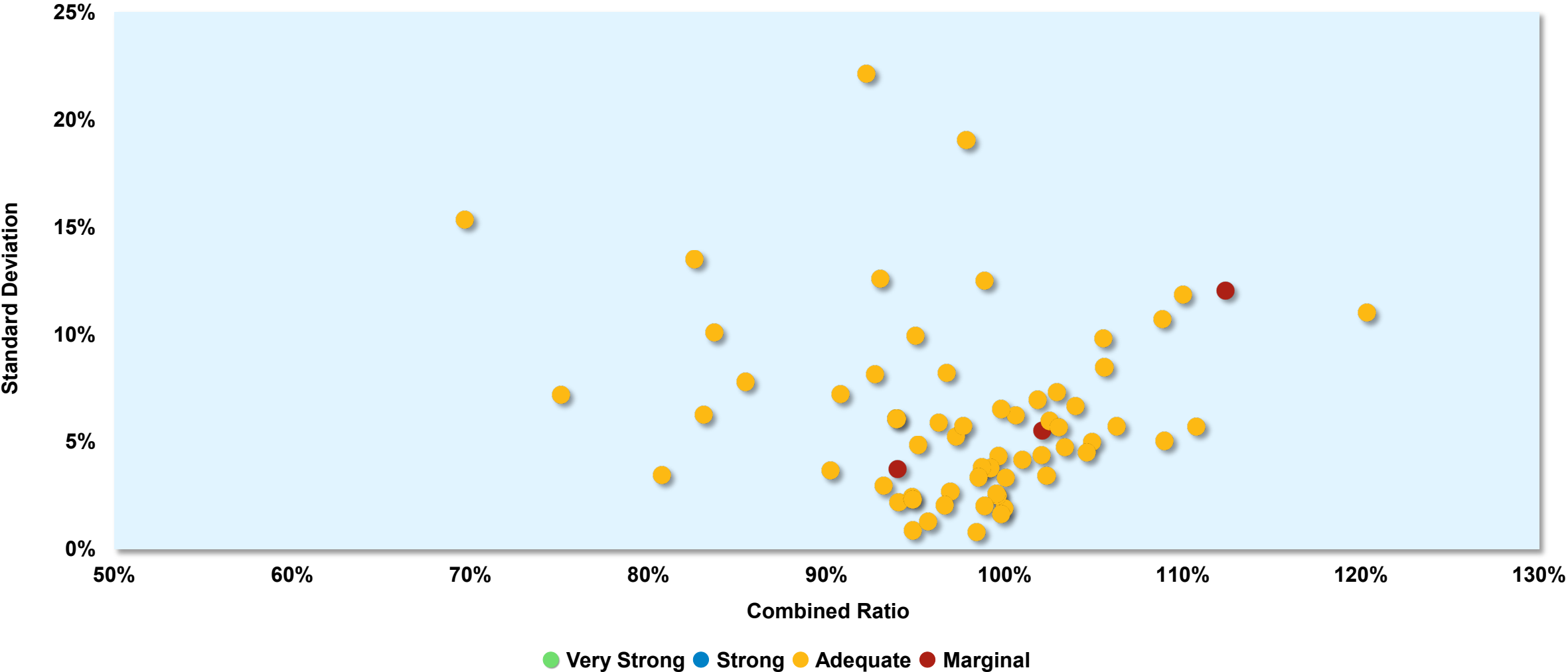
Source: AM Best data and research



Operating Performance – Five-Year (2019-2023) Combined Ratio vs Standard Deviation



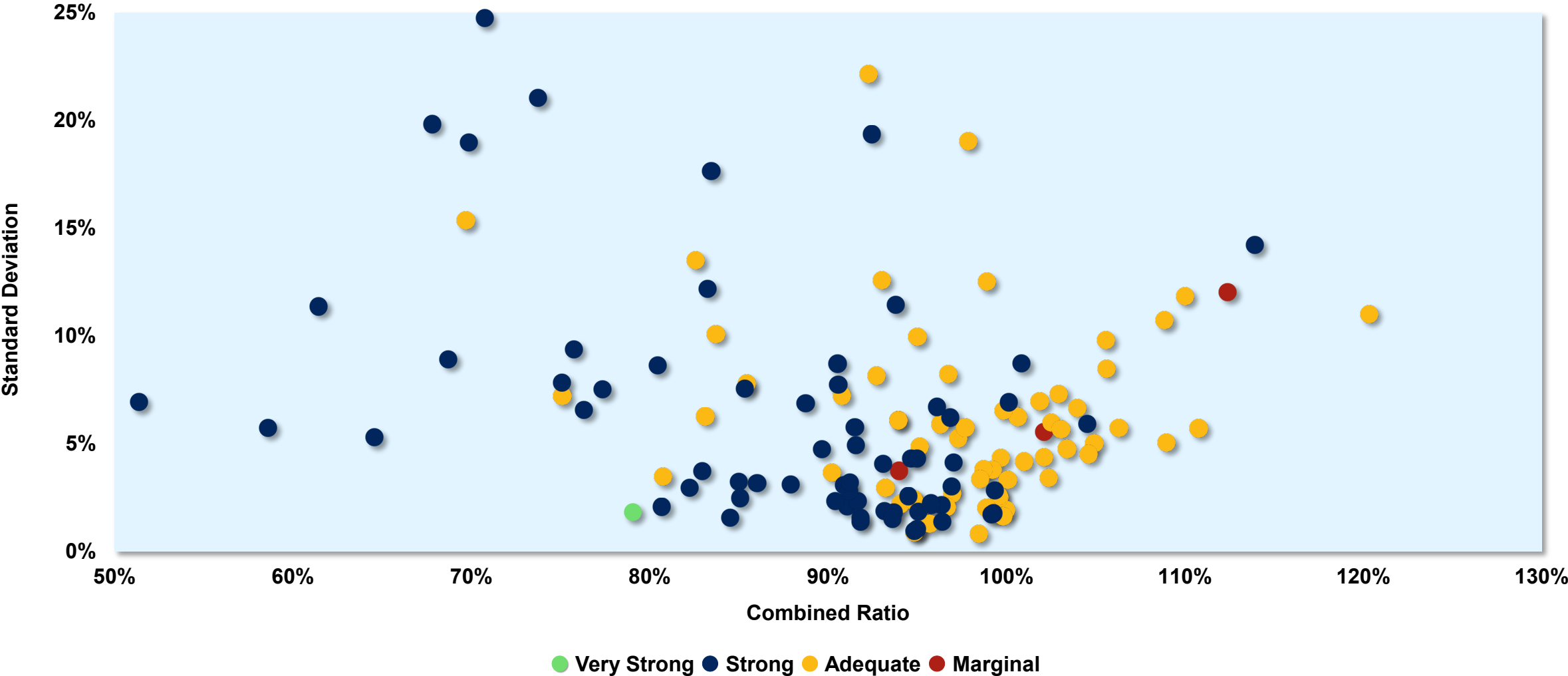
Operating Performance – Five-Year (2019-2023) Combined Ratio vs Standard Deviation



Source: AM Best data and research



Operating Performance – Five-Year (2019-2023) Combined Ratio vs Standard Deviation

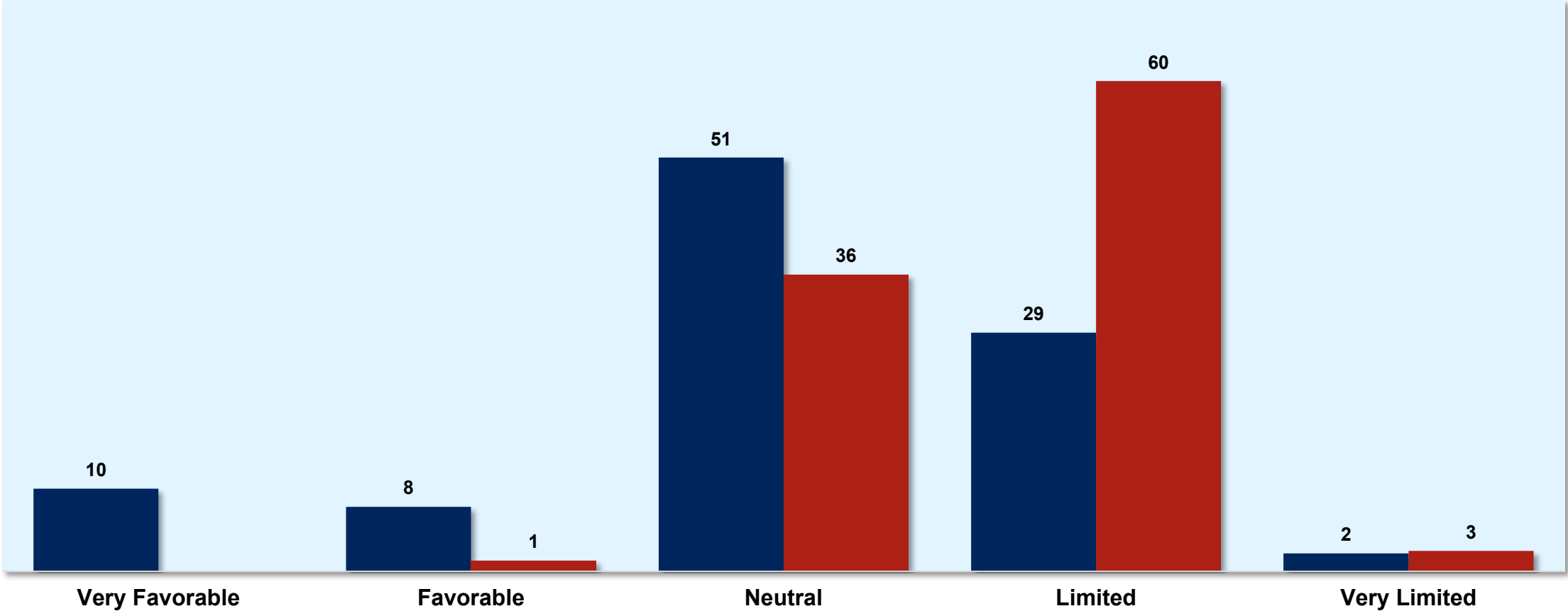


Source: AM Best data and research



Business Profile – Distribution of Assessments (%)

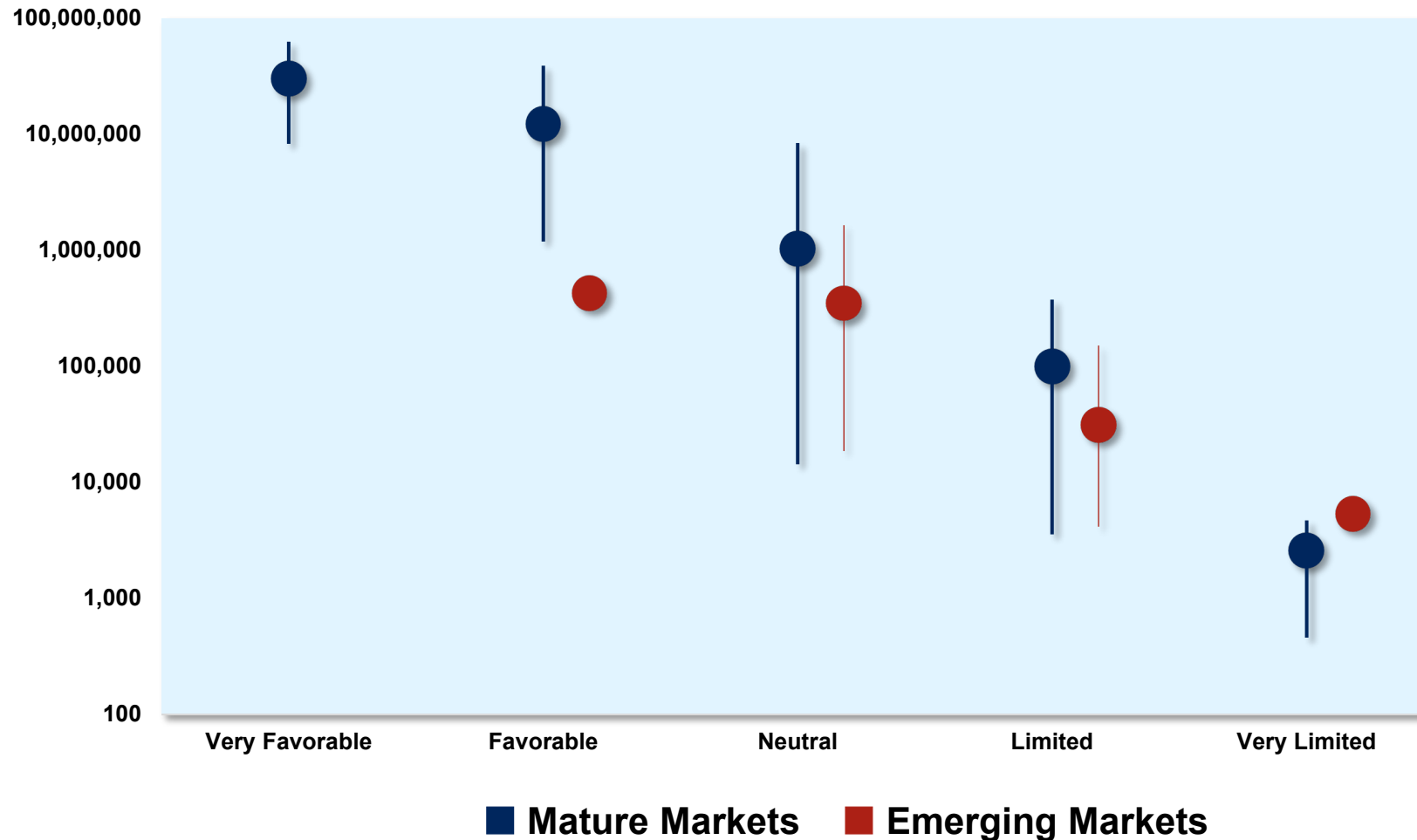
■ Mature Markets ■ Emerging Markets



Data as of December 31, 2023
Source: AM Best data and research



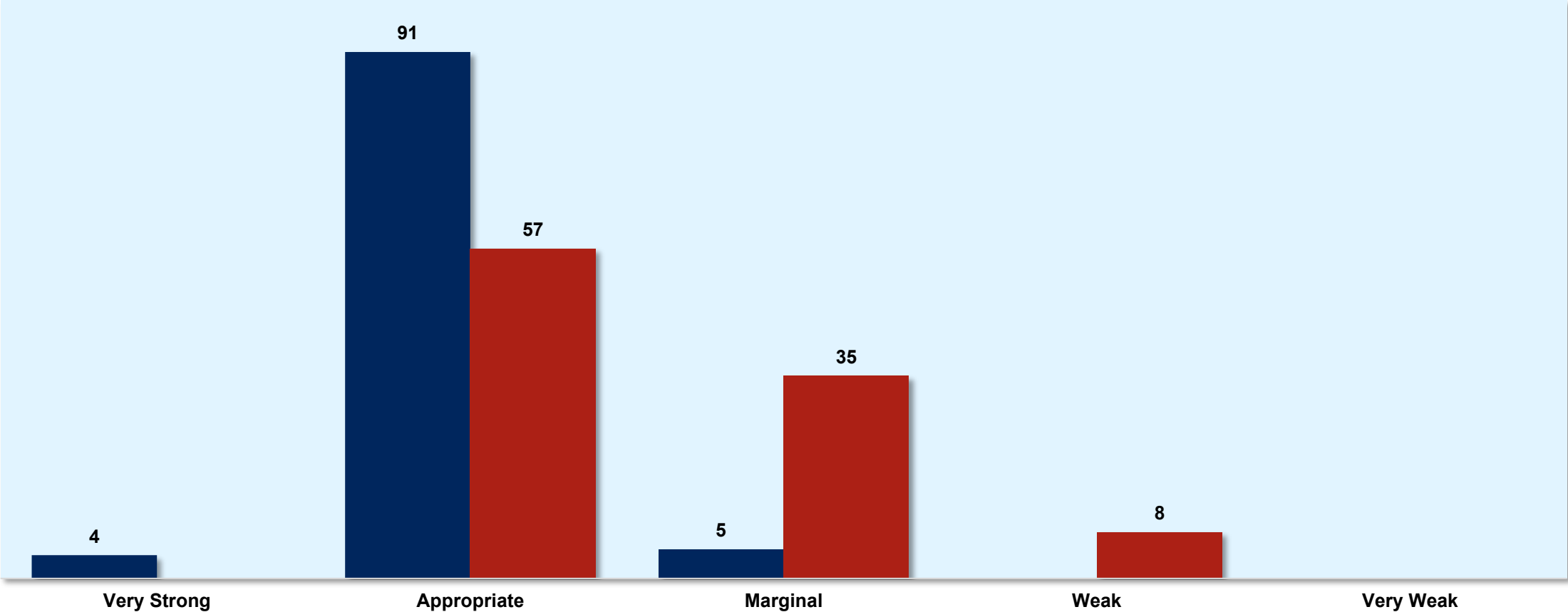
Business Profile – Average Net Earned Premium (USD 000)



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 (%)

■ Mature Markets ■ Emerging Markets

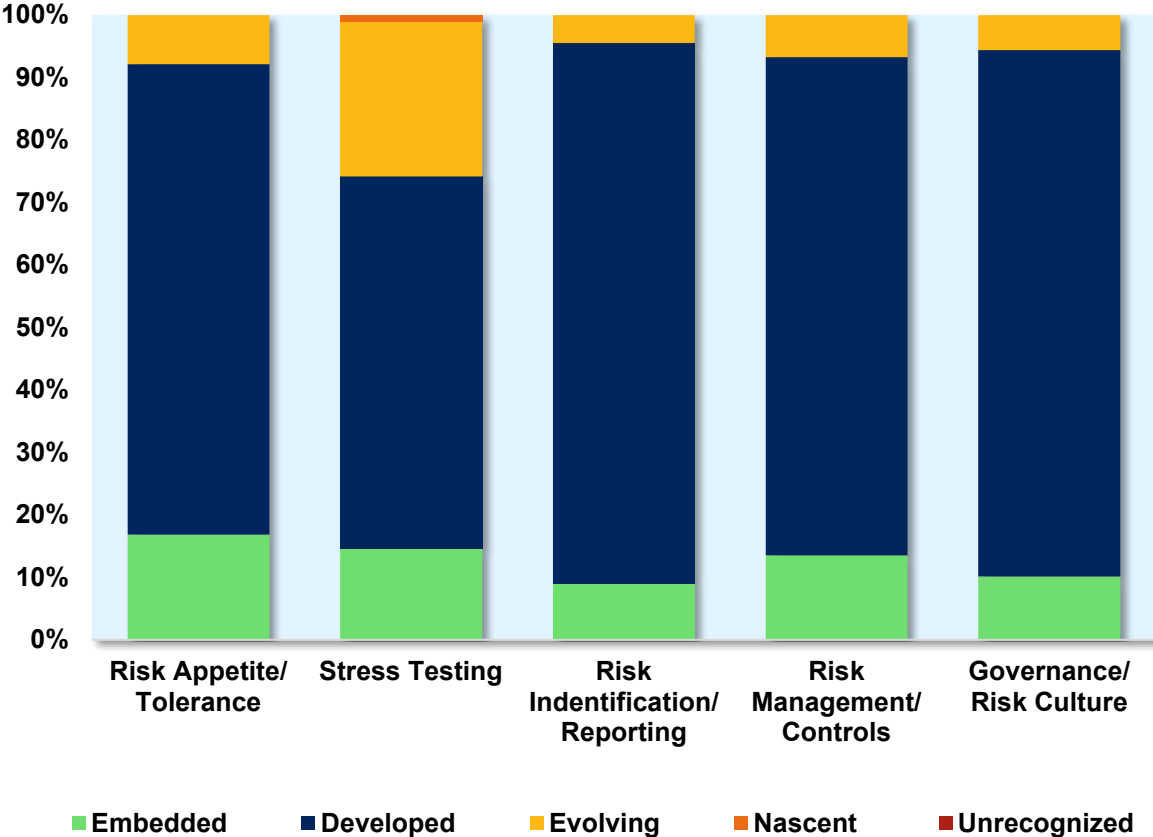


Data as of December 31, 2023
Source: AM Best data and research

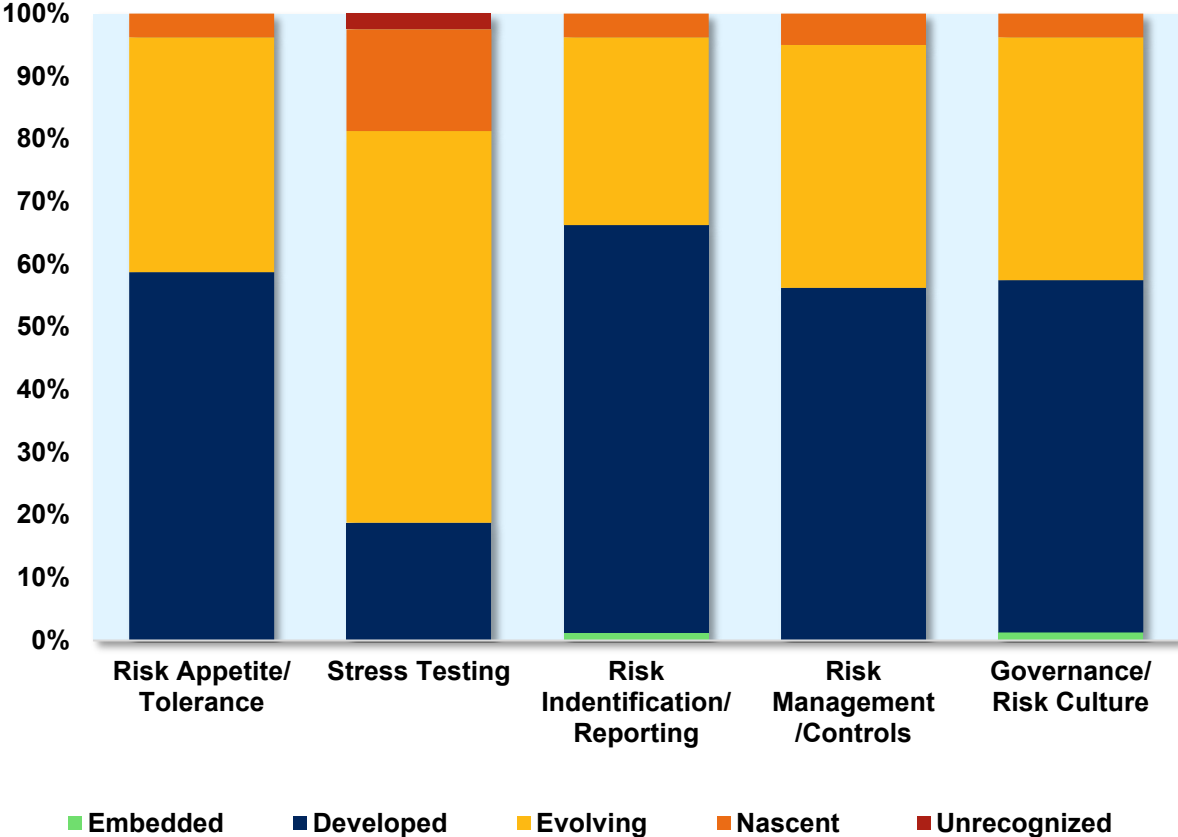


Enterprise Risk Management – Distribution of Risk Framework Assessments

Mature Markets



Emerging Markets

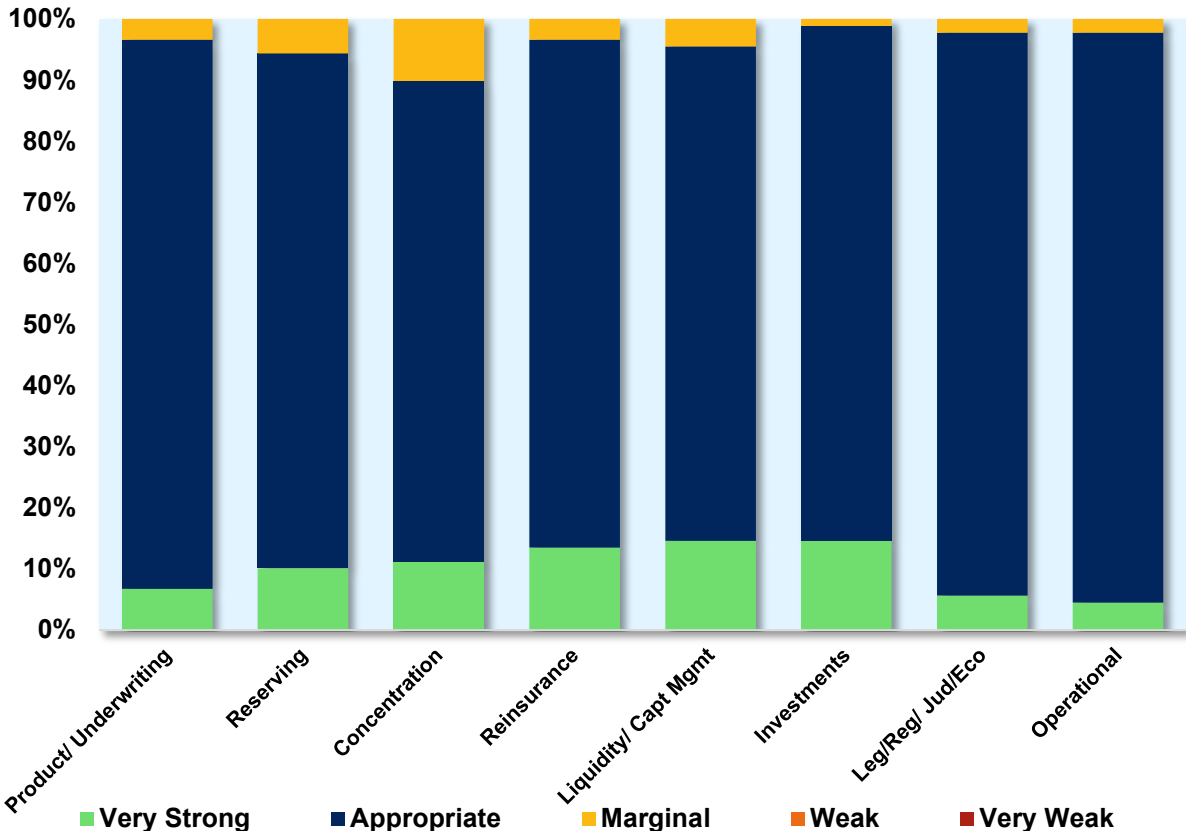


Data as of December 31, 2023
Source: AM Best data and research

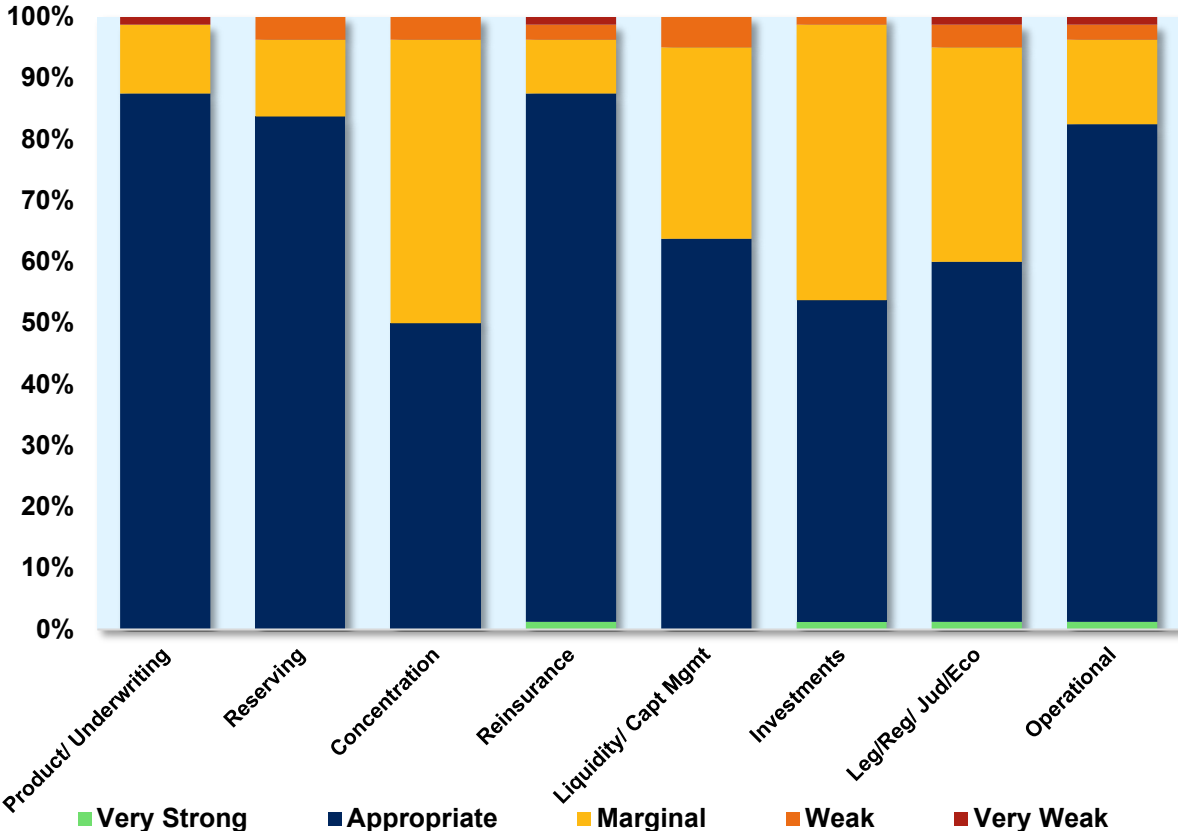


Enterprise Risk Management – Distribution of Risk Capability Assessments

Mature Markets



Emerging Markets



Data as of December 31, 2023
Source: AM Best data and research



Q&A

Workshop

How the Rating Process Works

Riccardo Ciccozzi

Director, Market Development – Europe

William Mills

Senior Director, Market Development – EMEA

Workshop – How the Rating Process Works



Considerations for Obtaining a Rating

Why Companies Get Rated

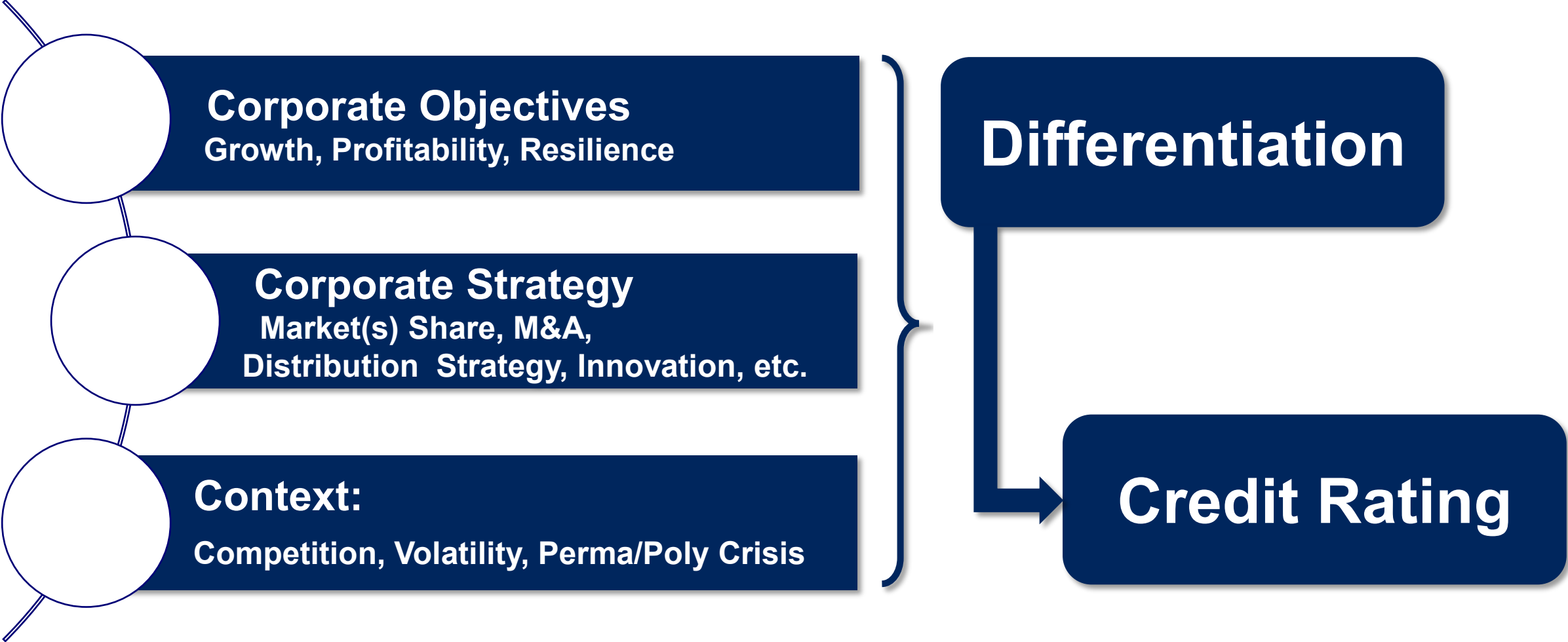
Analytical Process & Timeline

Considerations for Obtaining a Rating

What is an Insurer Credit Rating?

**An internationally recognised
independent benchmark of an
insurer's financial strength**

Example of Decision-Making Process



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



Sanctions Questionnaire

Rating Services Agreement

Pricing & Payment

Information gathering under building block headings



Balance Sheet Strength

Operating Performance

Business Profile

Enterprise Risk Management

Analytical process & timeline



Management Meeting

Analysis & Decision

Rating Communication

Monitoring Best's Credit Rating

Q&A

AM BEST | CELEBRATING
125
YEARS

An aerial photograph of Vienna, Austria, showing a dense urban landscape with red-tiled roofs, a prominent church spire, and modern buildings in the distance under a clear blue sky.

**AM Best's
CEE Insurance Market Briefing – Vienna**

17 April 2024

Vienna Marriott Hotel