

**AM BEST** | CELEBRATING  
**125**  
YEARS



**AM Best's  
France Insurance Market Briefing – Paris**

05 March 2024

Les Salons Hoche, Paris

# Presenters

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**William  
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Senior Director  
Market Development



**Laurent  
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Global Capital Solutions  
Guy Carpenter



**Mathilde  
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**James  
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# Agenda

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**10:00 Welcome and Introductory Comments**

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

**10:10 AM Best's Hot Topics (IFRS 17, Poly/Perma-Crisis, Cyber)**

*Mathilde Jakobsen, Senior Director, Analytics*

*Charlotte Vigier, Senior Financial Analyst*

*Morgane Hillebrandt, Senior Financial Analyst*

**11:20** 

**11:40 Guest Presentation**

*Laurent Rousseau, CEO, EMEA & Global Capital Solutions, Guy Carpenter*

**12:15 AM Best Ratings and Methodology: Benchmarking Study and Rating Actions**

*Morgane Hillebrandt, Senior Financial Analyst*

*James Kenfack, Associate Financial Analyst*

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

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# Disclaimer

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# **AM Best's Hot Topics: IFRS 17 – Current Status and Rating Considerations**

**Dr. Mathilde Jakobsen  
Senior Director, Analytics**

# Agenda

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

# IFRS 17 – Implementation & Market Observations

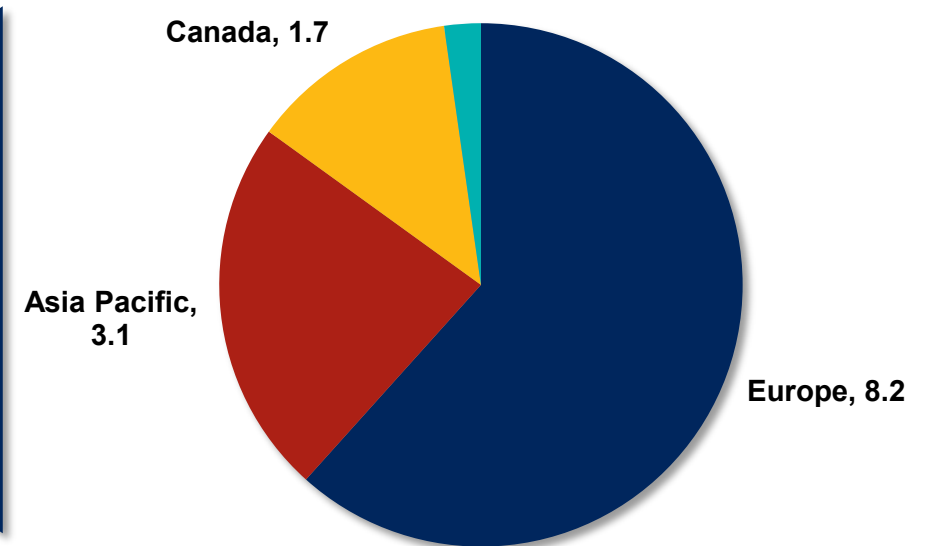


# Who is Affected?

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
	<b>Total</b>	<b>626</b>	<b>22.1</b>

## Total assets of listed IFRS insurers (USD trillions)

Africa, Middle East and Latin America, 0.3



Number of companies:

Europe – 87

Asia Pacific – 156

Canada – 10

Africa, Middle East and Latin America – 196

# Key Observations

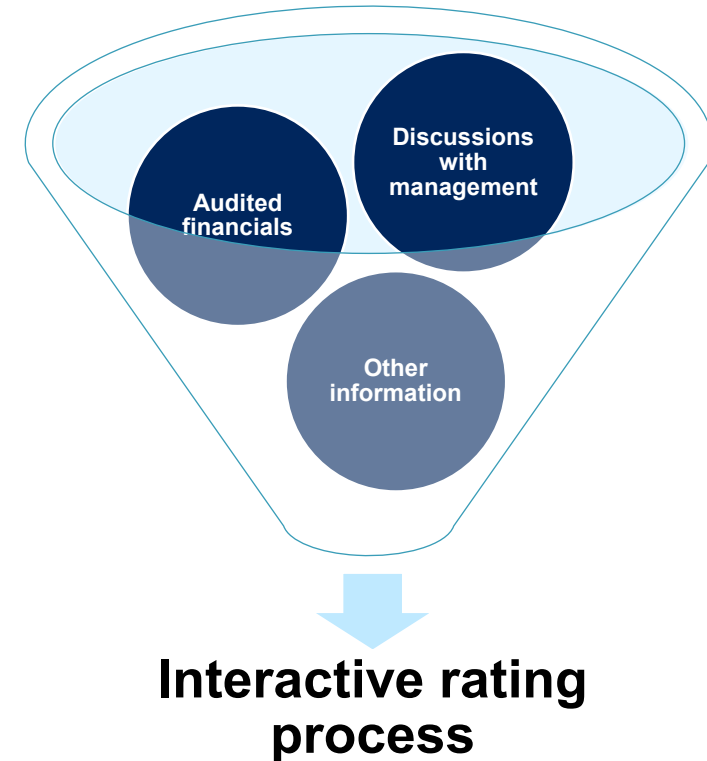
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- Impact of transition is far more pronounced in the life segment
- For non-life insurers, the impact is considerably narrower and biased to the upside
- Significant variation in the IFRS 17 disclosures. Level of aggregation of the disclosures also 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

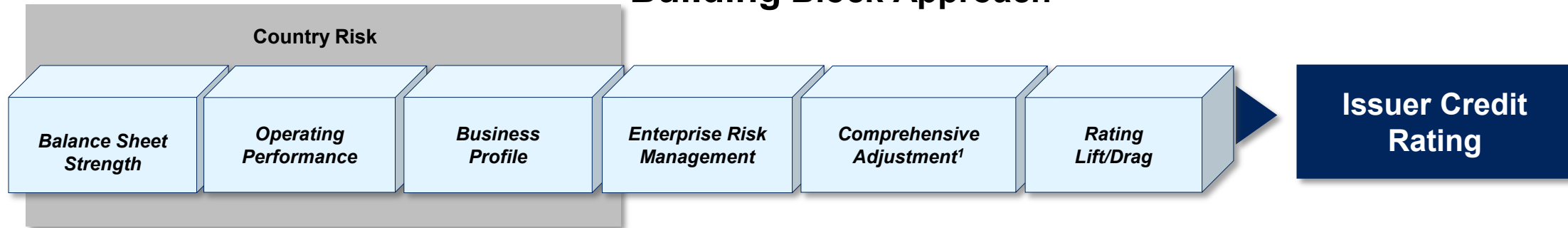
- Audited financial statements are a key input in the ratings process
- Currently, AM Best's ratings are assigned to insurers who report under different standards
- Rating process should be agnostic to the reporting standards



**The change in accounting standards does not impact credit fundamentals**

# IFRS 17 – Analytical Considerations

## Building Block Approach



- 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



**BCAR Model Itself is Unchanged**

**Inputs to BCAR Carefully Identified, Other Quantitative Considerations**

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

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

# Operating Performance – IFRS 17



**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



**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)



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

**Enterprise Risk Management (+1/-4)**

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**

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



# Key Takeaways

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- 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**

**Charlotte Vigier  
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

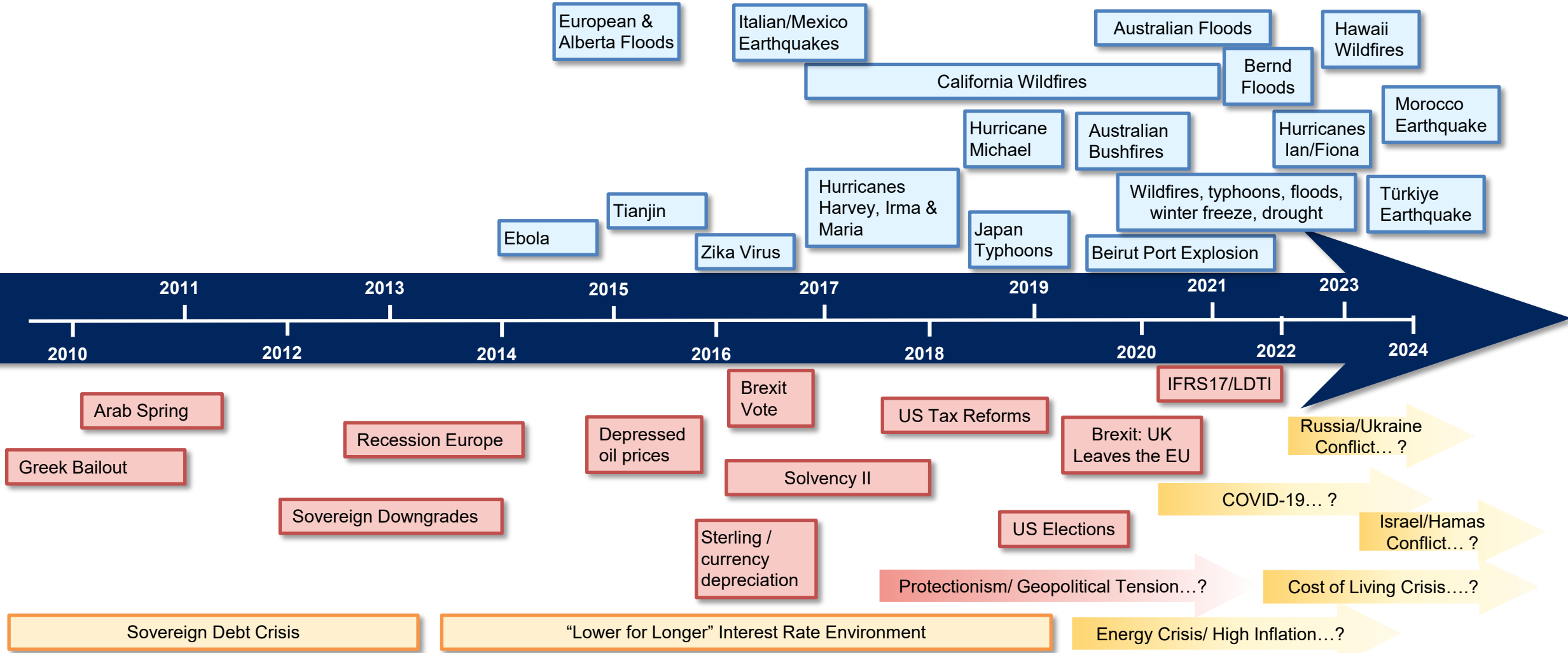
## Permacrisis

(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



# Change in Risk Priorities

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

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

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## Risk Sharing

- PPPs
- ILS

## Capital Management and Profitability

Balance sheets generally remain strong – operating performance generally below expectations

## Macro Economics

Companies were generally in a strong position going into the most recent financial crisis

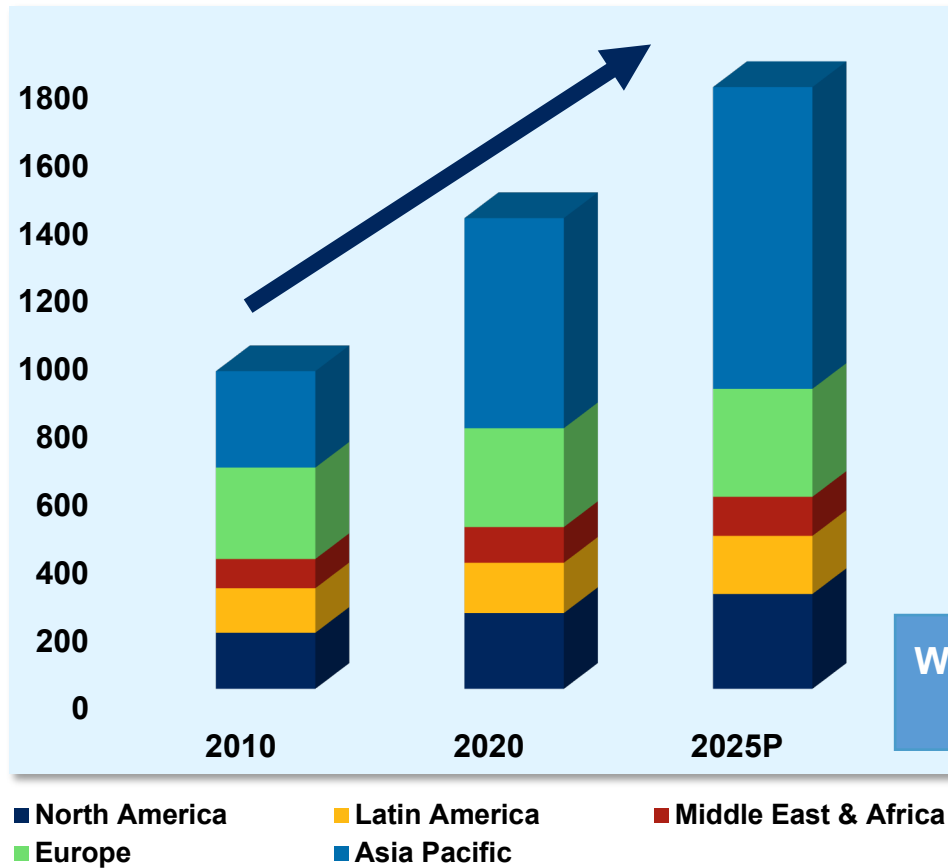
## Geopolitical Changes

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**

Global Protection Gap by Region (billions)



Protection Gap is Constantly Changing

Protection Gap Varies by Type of Event  
 Cost of 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. [Insurance protection gap could hit \\$1.86tn by 2013125: PwC - Artemis.bm](https://www.pwc.com/au/en/issues-and-trends/insurance/insurance-protection-gap-could-hit-1.86tn-by-2013125-pwc-artemis-bm)

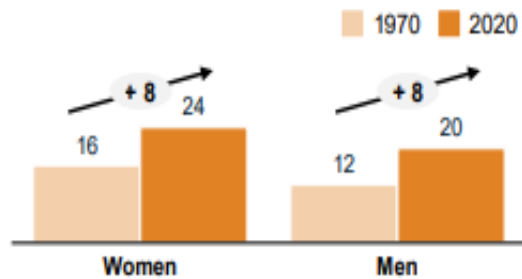


# Protection Gap – Is the Gap Between Economic and Insured Loss Growing?

## Pensions



Expected life years after labour market exit (OECD countries)

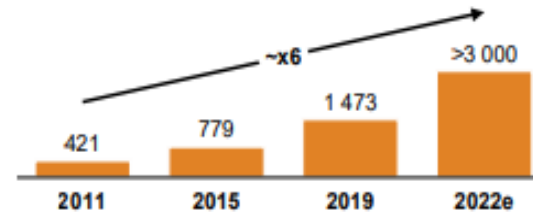


Demographic changes – smaller working population

## Cyber

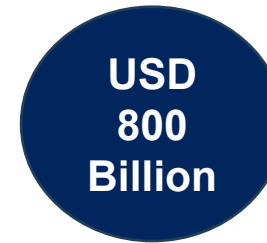


Number of breaches with >50 000 files lost

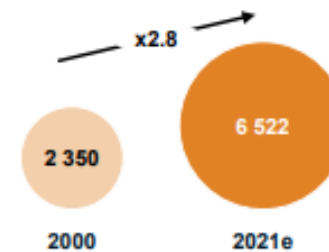


Presence of technology, increasing the number, type and severity of attacks

## Healthcare



Health spending<sup>1</sup> in OECD countries (US\$ per capita)

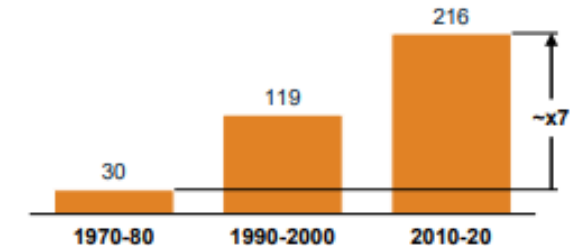


Aging population, rising healthcare needs, increased morbidity, higher costs

## Nat Cats



Average annual natcat losses per decade<sup>2</sup> (US\$bn)



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

# Challenges Ahead

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**Climate Risk**



**Cyber Risk**



**Grèves, émeutes et  
mouvements populaires**



**Litigation**



**Regulatory Risk**



**Frequency and  
severity of events –  
Likely to increase**

**Macro-economic  
environment –  
Remains uncertain and volatile**

# Key Takeaways

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## **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

# AM Best's Hot Topics: Cyber

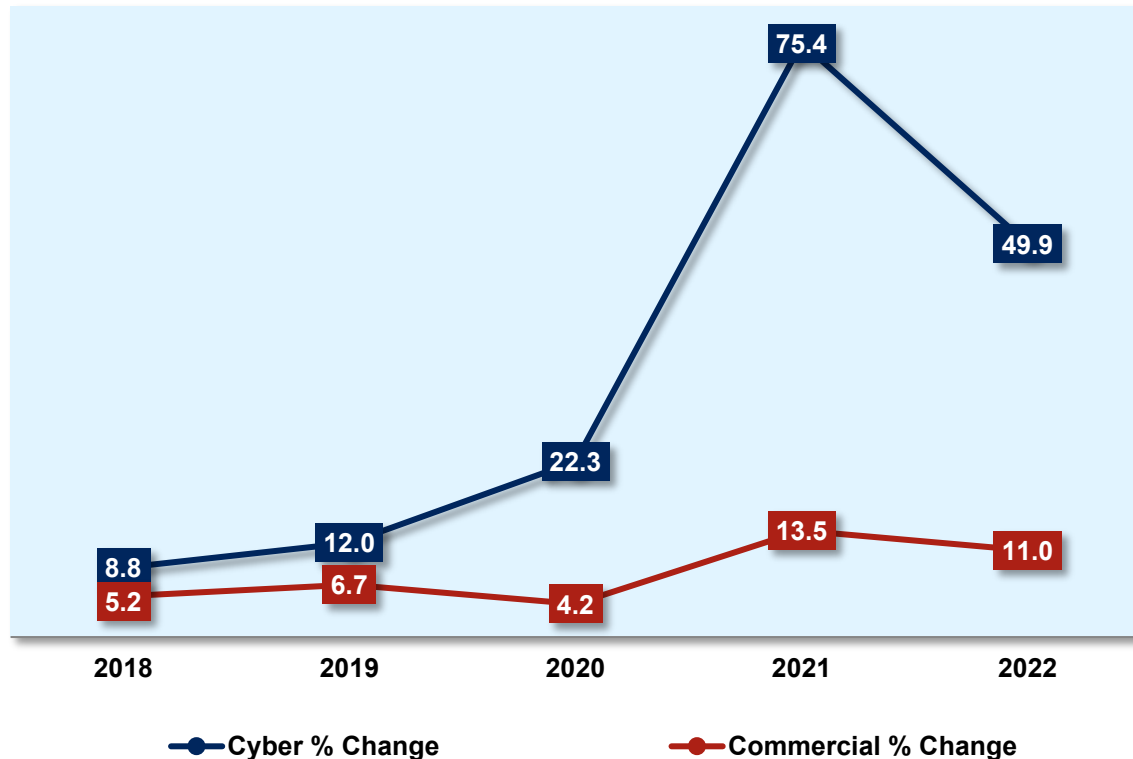
Morgane Hillebrandt  
Senior Financial Analyst





# Market Overview

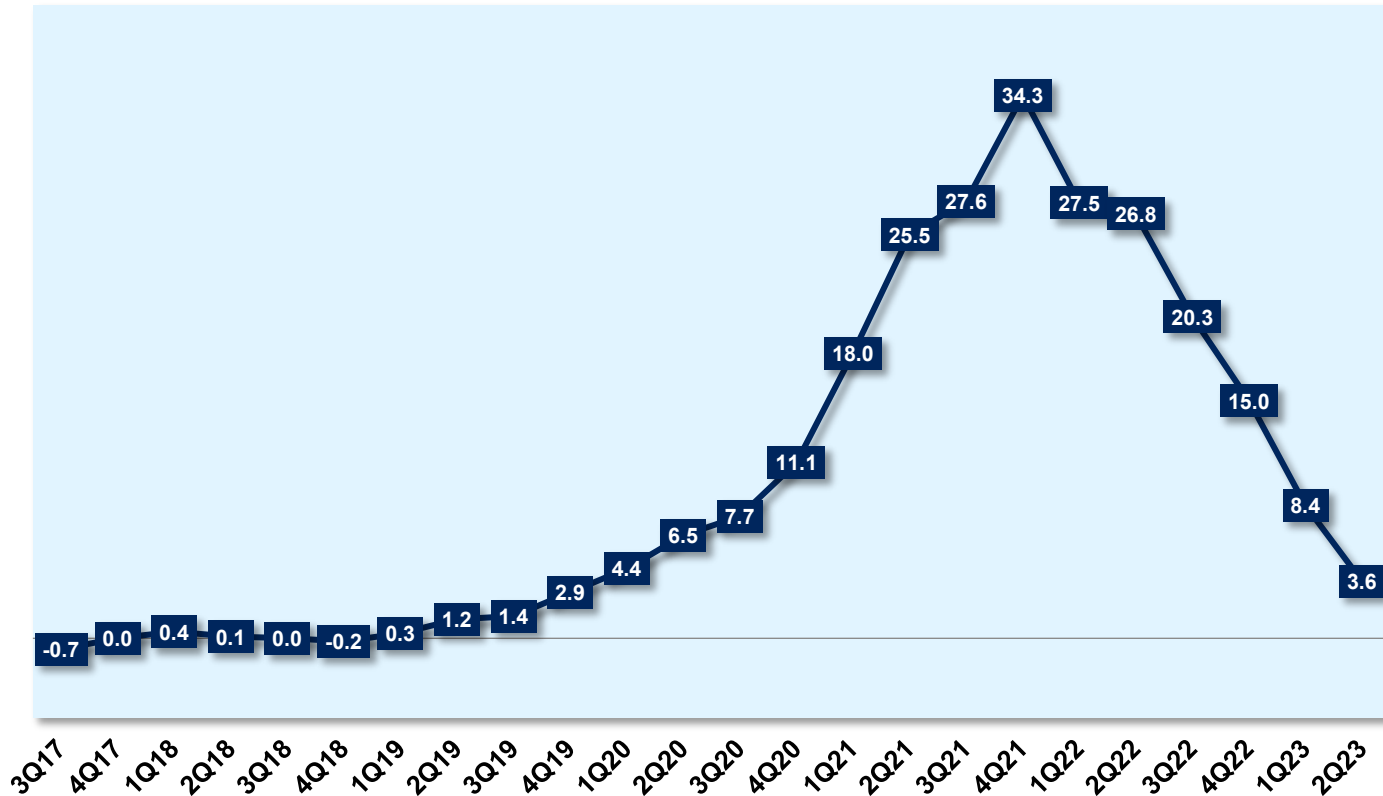
**Change in Direct Premium Written  
Cyber and All Commercial Lines (US),  
2018-2022 (%)**



- Global premiums to reach USD 22.5bn by 2025, and USD 33.3bn by 2027, according to Munich Re
- Up from USD 9.2bn at the beginning of 2022
- Markets outside of the US are expanding and represent an increasing share – Lloyd's, Bermuda, Asia

# Rate Increases (US) – Healthy but Moderating

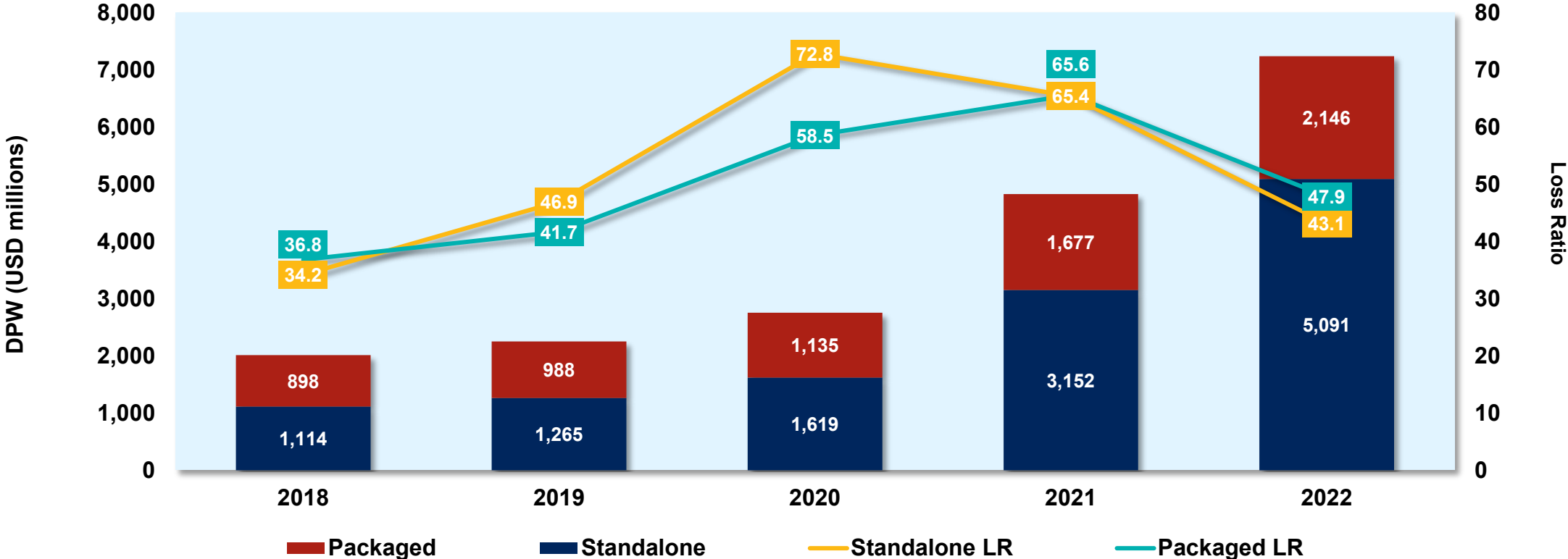
Quarterly Rate Change (%)



- Globally double-digit rate increases in 2021 following a rise in ransomware claims – however, rate rises have begun to moderate, and rates declined in certain segments in 2023
- Focus on strict underwriting and risk management still remains
- Concerns around cyber cat – companies are working to either sub-limit or separate it out

# Direct Premiums Written (US)

Direct Premiums Written (US) – Standalone and Packaged Direct Incurred Loss & DCC Incurred Ratios, 2018-2022



# Global Cyber Market Evolutions – War Exclusions

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- Increased focus on war exclusions following Russia / Ukraine conflict
- One way the industry is responding to aggregation of risk due to “cyber war” is by adding clarity to coverage
  - From 31<sup>st</sup> March 2023, all standalone cyber-attack policies at Lloyd’s must exclude liability for losses from any state-backed cyber-attack
  - This new requirement is likely to lead to some capacity withdrawal from Lloyd’s, potentially into the US
- Individual insurers have also updated war exclusions to capture a systemic risk
- The market will continue to evolve, and over time AM Best suspects standardisation will increase

# Global Cyber Market Evolutions – Modelling and Stress-Testing

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- Greater focus from regulators and supervisors outside of the US around cyber stress testing
- Talks around the need for government involvement and / or pooling arrangement
- Models have been used in various forms, although they all are relatively new and not yet reliable
  - Lack of historical extreme events
- Many models focused on underwriting selection, while some produce PML type data
- The biggest concern is the impact of a significant network outage that may impact numerous policies in the way a CAT would
  - For example, many businesses utilize Amazon Web Services. An extended outage in AWS could lead to significant losses across an entire cyber portfolio
- Deterministic vs. probabilistic modelling
- Affirmative vs. silent

# What Is AM Best Concerned About?

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**Silent Cyber**

**Aggregation Risk**

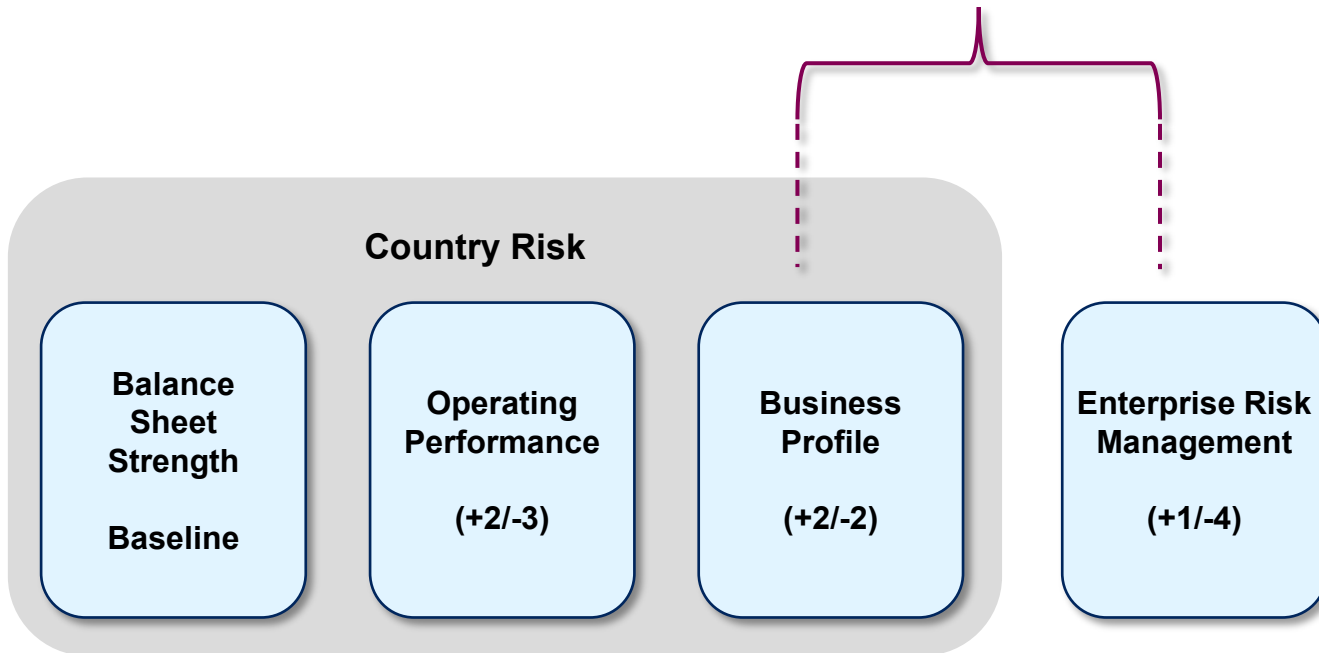
**Ransomware Incidents**

**Highly-Skilled Bad Actors**

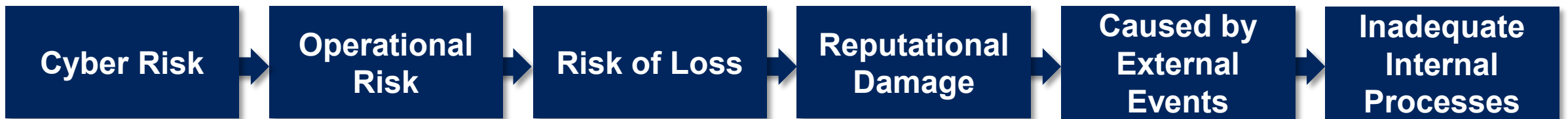
**Large Language Models (AI / Chat GPT)**

# Cyber Rating Process Considerations (New/Affirmative)

Maximum + 2



- Cyber Modeling
- Risk-Adjusted Capitalization Impact
- Prior Loss Experience
- Cyber Incidents
- High Product Risk
- Recovery & Downtime
- Protection Coverage
- Overall ERM Framework
- Costs



# The Future of Cyber

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- More broadly accepted
- Helps close the protection gap
- Positive long-term growth prospects
- Investments in technology and people are critical
- It's more than insurance ... it's a partnership

**Greater market awareness + improved cyber security hygiene =  
safer, more secure overall digital ecosystem**



# Q&A

# Agenda

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**10:00 Welcome and Introductory Comments**

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

# REINSURANCE RENEWALS: A CALM AFTER THE STORM

AM Best, Paris  
March 5, 2024

Laurent Rousseau, CEO of Europe, India, Middle East, Africa and Global Capital Solutions

# Key January 1 2024 Renewals' Findings



Withstanding the ever-changing backdrop of economic risks, a volatile geopolitical environment, and threats posed by climate change, cyber-attacks, and inflation, the reinsurance sector is well positioned heading into 2024.

ALL Reinsurers showed appetite to grow

Capacity is tending towards **ample** as the projected average reinsurer return on equity is nearing

**20%**



Favorable reinsurance results and shifting economic factors are providing tailwinds



Differing from past years following a major market correction, **capital growth was driven by existing reinsurers** with no start-up class of 2023. Guy Carpenter and AM Best's 2023 estimate of traditional capital is USD 461B and alternative USD 100B

Traditional capital

**12%**

Alternative capital

**3.7%**



Guy Carpenter Global Property Catastrophe Rate-on-Line (ROL) Index increased by an estimated **5.4% year-on-year**



The key to driving casualty renewal capacity was differentiating client portfolios and ensuring actuarial assumptions reflected go-forward portfolio strategies

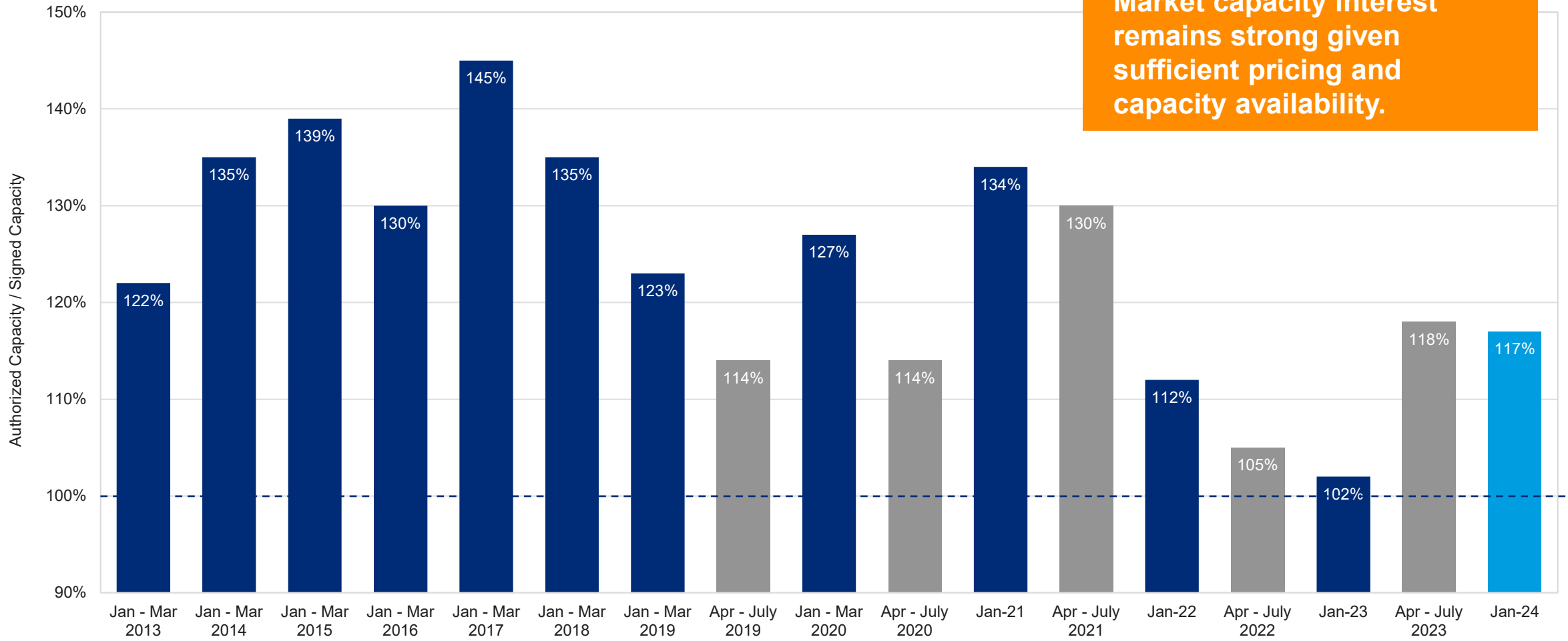


The total outstanding notional amount of P&C cat bonds is at an all-time high of more than: **USD 41.9B**

# January 1 2024 Renewals US Property Catastrophe Excess Capacity

+

Market capacity interest remains strong given sufficient pricing and capacity availability.



# Looking at the (re)insurance industry's strategic questions

**VOLATILITY**

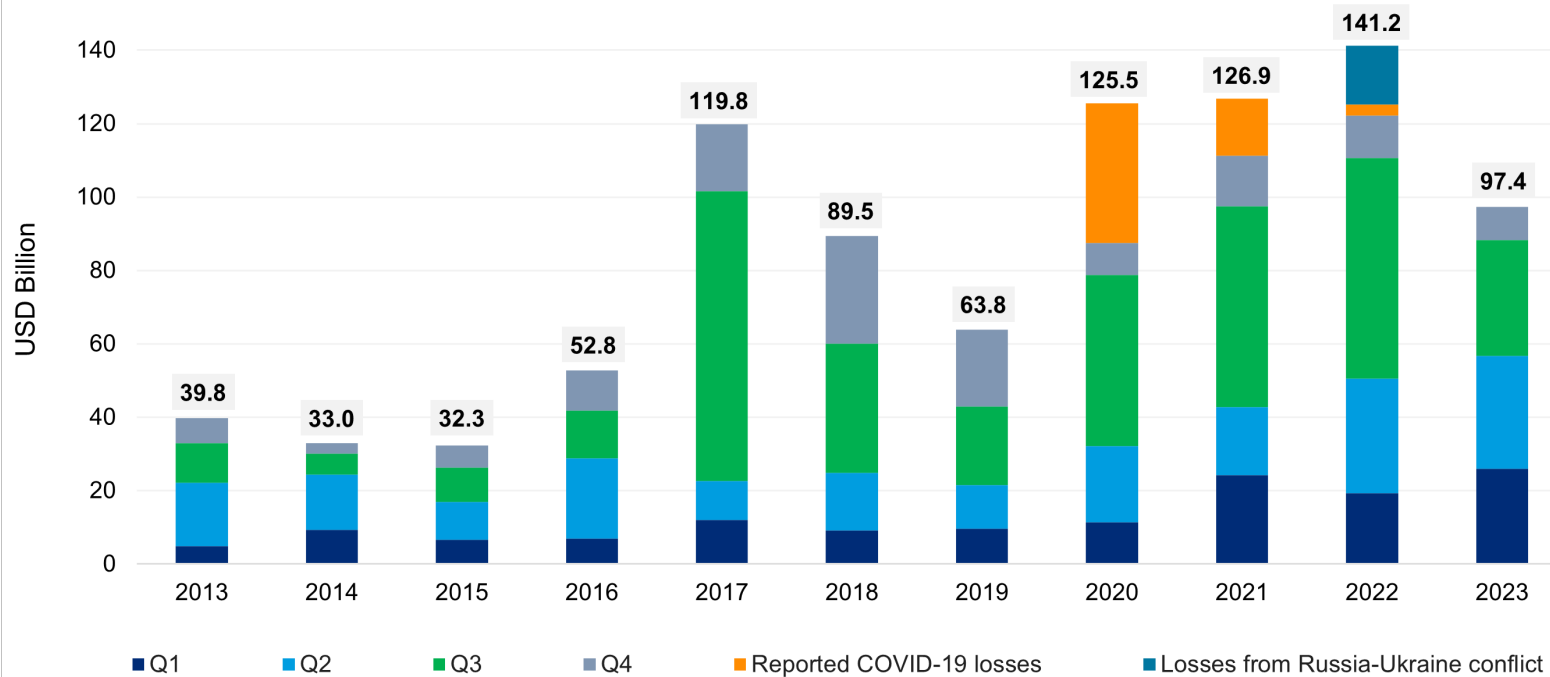
**CAPITAL**

**GROWTH**

# VOLATILITY

## Subdued Large Loss Year for Reinsurers with Cedents Retaining More Losses

Significant Insured Losses 2013 to 2023



Source: PCS, PERILS, Verisk, ICA, GC. Losses from Russia and Ukraine conflict are estimated by S&P Global. The 2023 significant insured loss estimate is updated as of 01/29/2024. \*Significant Insured Losses (Est. losses > \$100M) – Not adjusted for inflation

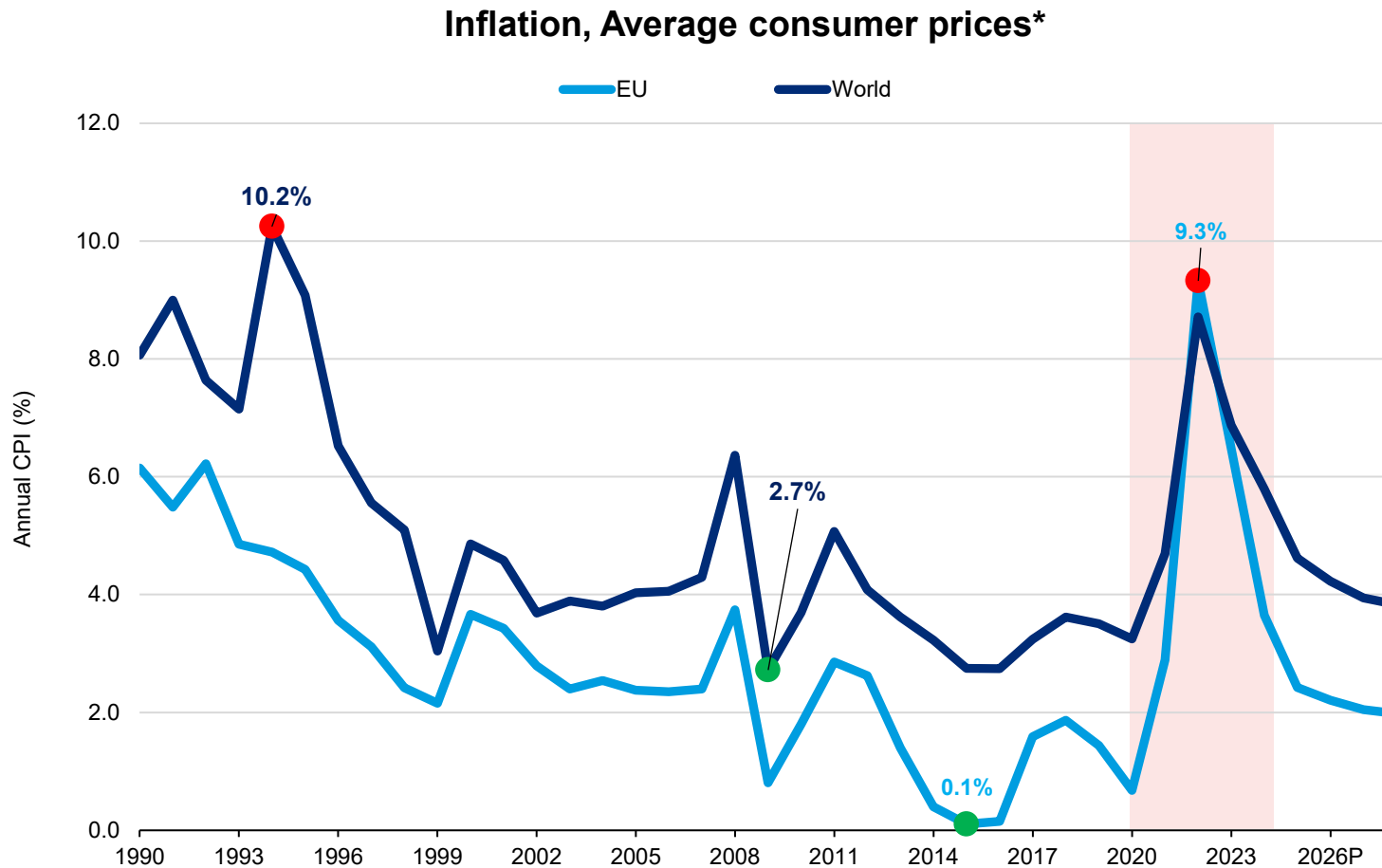


The long term growth rate in real terms back to 1970 has been ~7%pa that's a doubling every 10 years

- The 2023 total insured industry large losses, an aggregation of events in excess of USD 100 million of insured loss, currently exceeds **USD 97B**. Loss drivers include the Turkey earthquake, global wind/hail events, the Hawaii wildfire, New Zealand floods and cyclone and Hurricane Otis.
- The **top five insured loss events for 2023** are currently estimated to be:
  - Turkey Earthquake USD 5.8B
  - Q1 Wind and Thunderstorm Event in Central US USD 4.4B
  - Q2 Wind and Thunderstorm Event in Central US USD 4.3B
  - Q1 Wind and Thunderstorm Event in Central & Eastern US USD 4.3B
  - Wildland Fire Lahaina USD 3.5B
- This insured loss estimate for the full year 2023 is expected to increase as more information becomes available.

# VOLATILITY

## Inflation Rapidly Moderating but Still Above Central Bank Targets



Source: \*Data for EU and World: World Bank (1990-1999) and IMF (2000-2028); IMF report released in October 2023, World Bank data from Nov 2023 report; Note: Average for inflation is calculated based on the compound annual rate of change.



Read across from US inflation data would suggest that inflation could go up again and take longer to reach a sustainable 2% than many in the markets hope for. Likely to keep pressure on higher original rates and need for conservatism in reserving

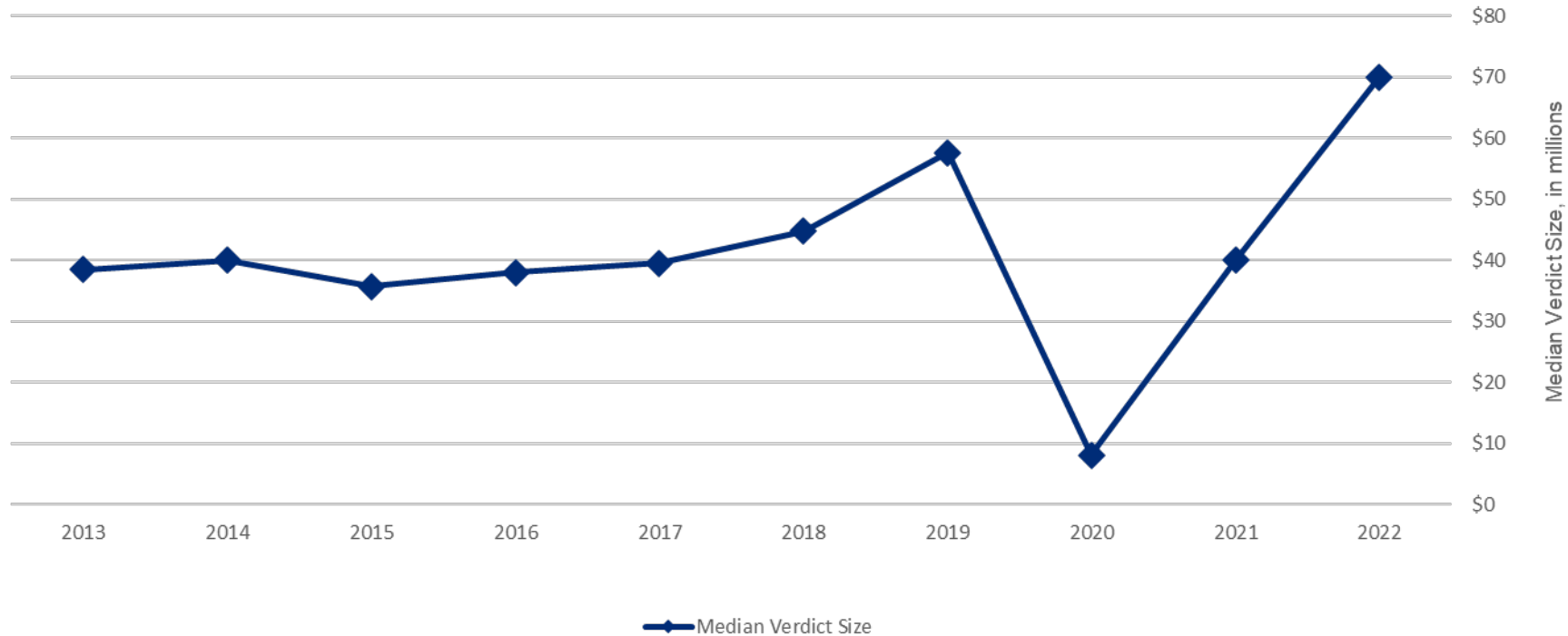
- Globally, inflation has continued to abate in many countries and is expected to fall closer to central bank targets during 2024 as policymakers' actions and slowing economic growth take effect.
- Therefore, the interest rate cycle appears to have peaked, and financial markets have responded favorably to the prospect of several interest rate cuts in 2024. Central banks, though, remain cautious of acting prematurely and are wary of financial market imbalances that could result in significant market volatility.



# VOLATILITY

Median Verdict Declined Sharply in 2020 As Less Court Activity Filtered Verdicts From the Active Months Into the Top 100

Top 100 Verdicts Median Verdict Size



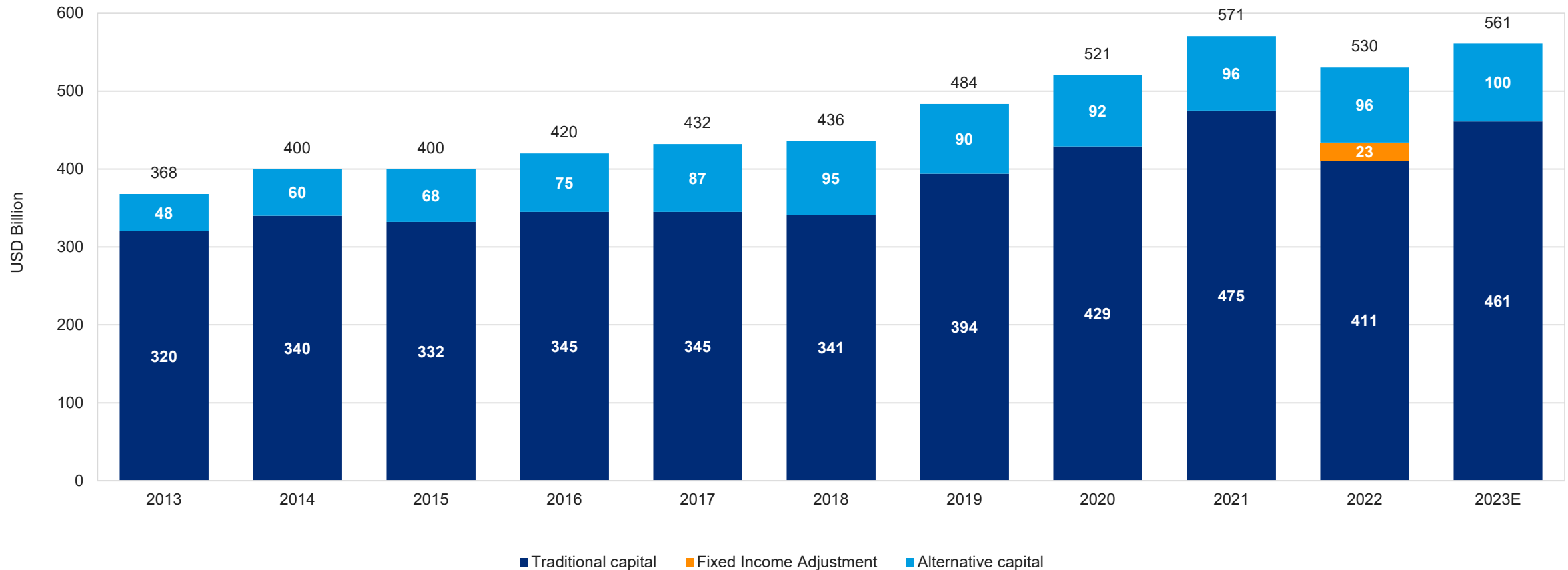
- Reinsurers comment social inflation's continuous increase
- Collective Redress Directive in Europe

# CAPITAL

**Bounced Back in 2023 Due to Strong Underwriting and Investment Earnings and the Absence of Significant Mark-to-Market Investment Losses**



- Solvency II and SST ratios would suggest capital is even more abundant
- Lower interest rates/risk free yields should attract more alternative capital



# CAPITAL

## New Inflows

Period	Key Development	New Capital
Post 2005	Hurricanes Katrina, Rita and Wilma	>USD 20B
2013–2018	Post-financial crisis and environment of low interest rates (US Treasury 10-year yield ~2%)	Doubling of alternative reinsurance capital >USD 45B as investors search out higher uncorrelated returns
2023–	Reinsurance hard market and environment of higher interest rates (2023E RoE ~20%)	Incumbents <sup>1</sup> retained earnings: 2023–2025 >USD50B New capital raised by incumbents in 2023 ~USD 4B

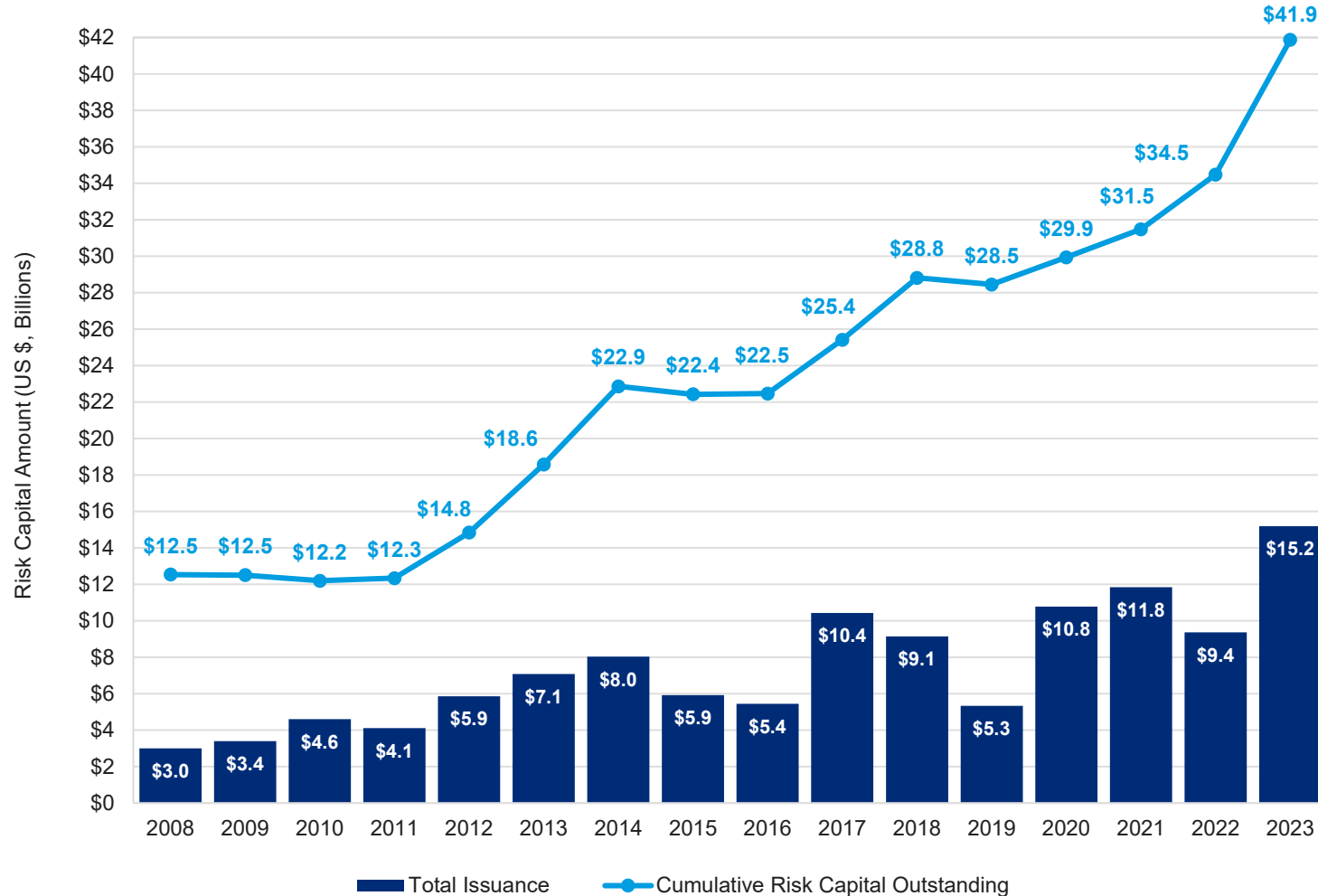


### New Capital Trends 2023–2024

- Investors are eschewing traditional new reinsurance start-ups due to factors that include fatigue, agency costs, and relative attractiveness of other investments (e.g., US Treasury 10-year yield ~4%).
- Investors can gain more direct access to underwriting reinsurance risk than ever through cat bonds (now including cyber), sidecars, and structured solutions (including life).
- Higher market liquidity in these classes has also enabled better price discovery, further reinforcing the liquidity and investment proposition of alternative reinsurance capital.

# CAPITAL

## State of the 144A Catastrophe Bond Market



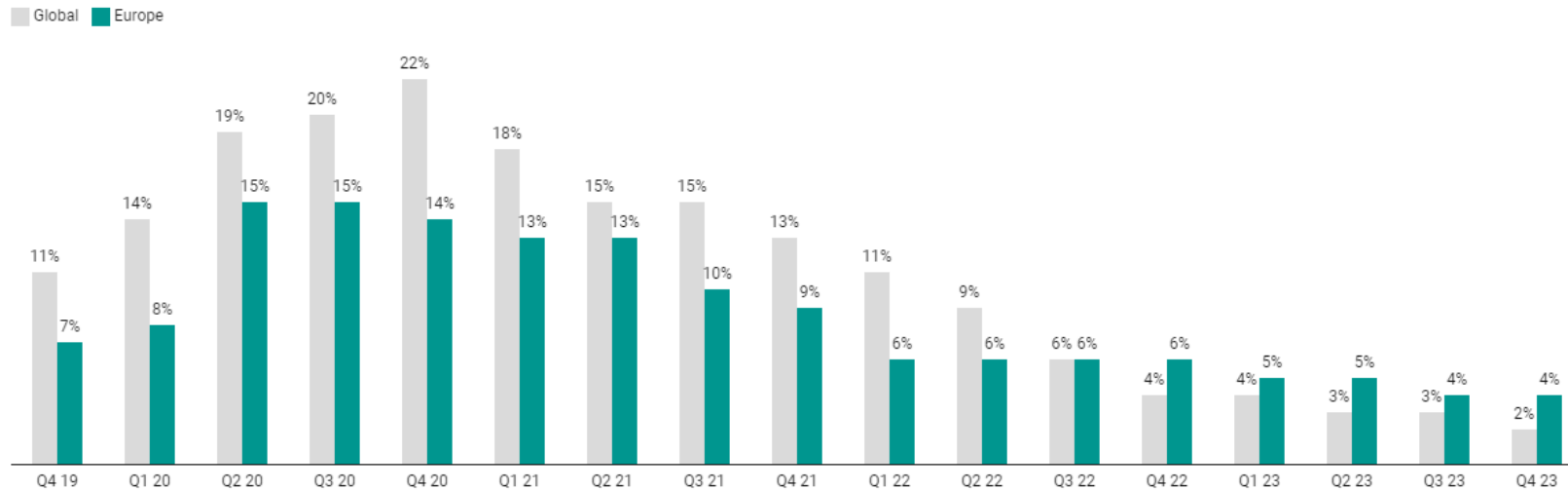
Cat bond market while growing to a new high is also again becoming a lot more price and cost competitive

- The catastrophe bond market had a record year in 2023. Sixty-nine different bonds were brought to the 144A market, totaling more than **USD 15.2B** in limit placed (of which USD 415 million includes cyber limit), taking the total outstanding notional amount of P&C and cyber catastrophe bonds placed to an all-time high of more than **USD 41.9B**.
- There is a heavy schedule for maturities of outstanding catastrophe bonds in the first quarter of Q1 of 2024, totaling **USD 4.6B**. These maturities (along with Q2-Q4 scheduled maturities), new capital inflows, and increased demand for protection are setting a **positive tone for further growth** and competitive market conditions within the catastrophe bond market next year.

# GROWTH

## Rising Insurance Pricing Changes Endure

### Europe composite insurance rate change



Source: Marsh Specialty and Global Placement · [Download SVG](#) · Created with [Datawrapper](#)



- During this economic turmoil, the commercial insurance market has experienced its **twenty-fifth consecutive quarter of hardening prices**. As a result, **the sector is firmly positioned to face ongoing headwinds**.

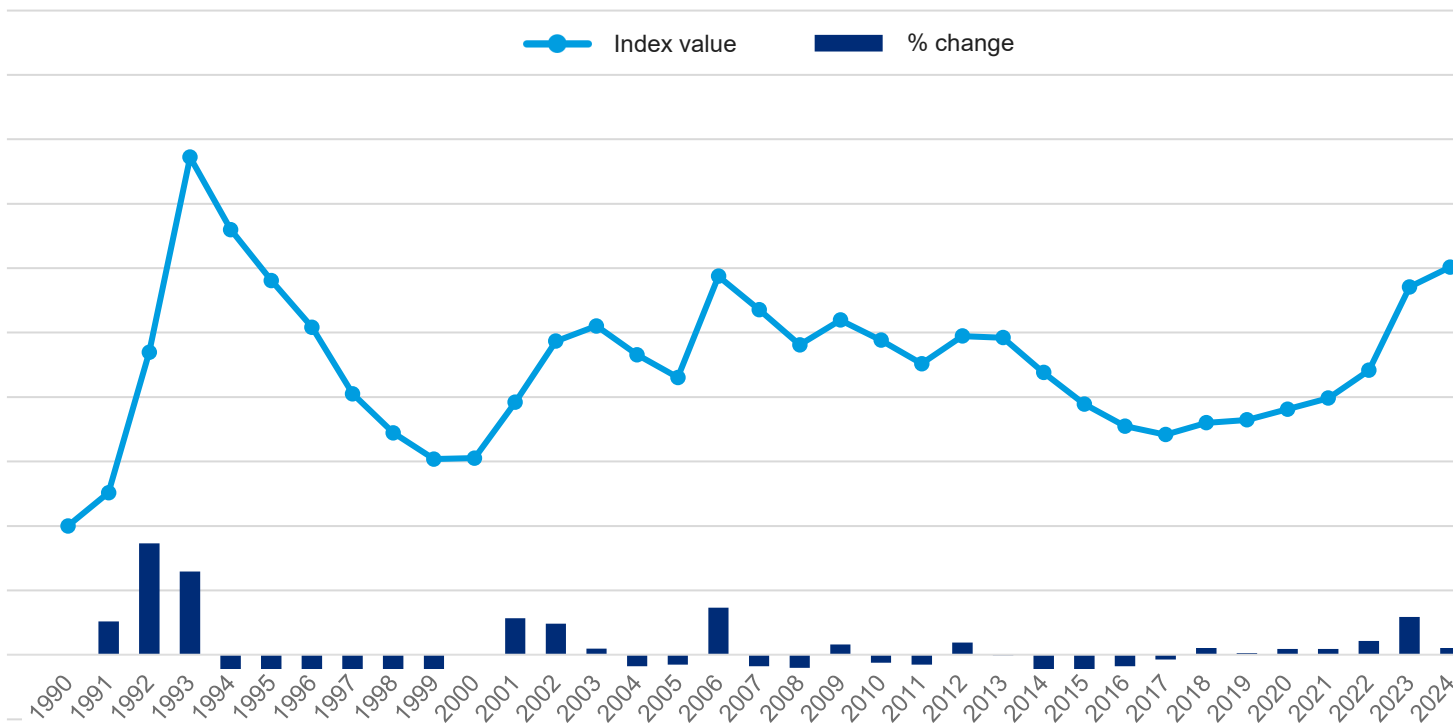
Source: Marsh Specialty and Global Placement; \*Note: All references to pricing and pricing movements in this report are averages, unless otherwise noted. For ease of reporting, we have rounded all percentages regarding pricing movements to the nearest whole number. Global composites aggregate placement data across all regions in which Marsh operates.

# GROWTH 1<sup>st</sup> January Renewal 2024

The Index of global property catastrophe reinsurance pricing is up 76% since its last low in 2017 and has risen every year since then



Global Property Catastrophe Reinsurance ROL Index



## Property Catastrophe Reinsurance ROL Index

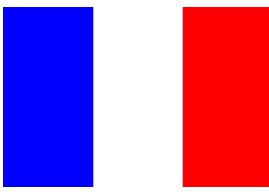
Global **+5.4%**

US **+5.25%**

Europe **+7.6%**

The Guy Carpenter ROL index is a measure of the change in dollars paid for coverage year on year on a consistent program base. The index reflects the pricing impact of a growing (or shrinking) exposure base, evolving methods of measuring risk and changes in buying habits, as well as changes in market conditions. Unlike risk-adjusted measurements, the index is not dependent on the model or method used to measure the amount of perceived risk in a program, which can vary widely.

# How do these strategic questions resonate in France?



## VOLATILITY

## CAPITAL

## GROWTH

### Natural Catastrophes

- Volatility: Natural catastrophes on the rise: frequency of secondary perils
- Capital: a number of insurers face structural questions
- Growth: French system on premiums' levy is akin to a "tax" – risk management best practices and incentives to be considered

### Inflation & Interest Rates

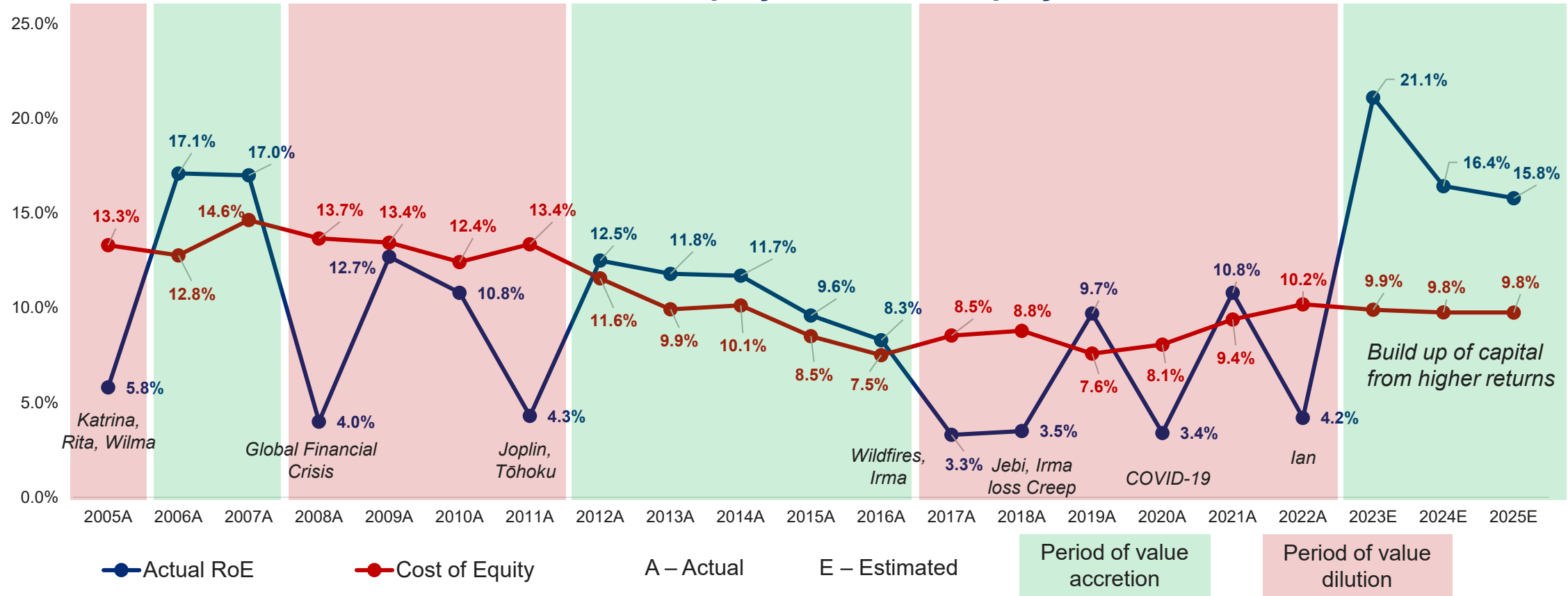
- Volatility: Interest rates' increases have benefited P&C insurers but raise structural issues in Life
- Capital: gap between (economic) solvency ratios and capital fungibility and cashflows generation
- Growth: investment returns' increase should provide strong earnings support to (re)insurers

### Political risks

- Volatility: Global instability and full consequences of systemic risks to be drawn
- Capital: Public-Private partnerships to be explored further and existing schemes to be extended?
- Growth: Cyber market still requires further data sharing and services-driven solutions

# The reinsurance industry's return on equity is estimated to have rebounded sharply

Return on Equity vs Cost of Equity

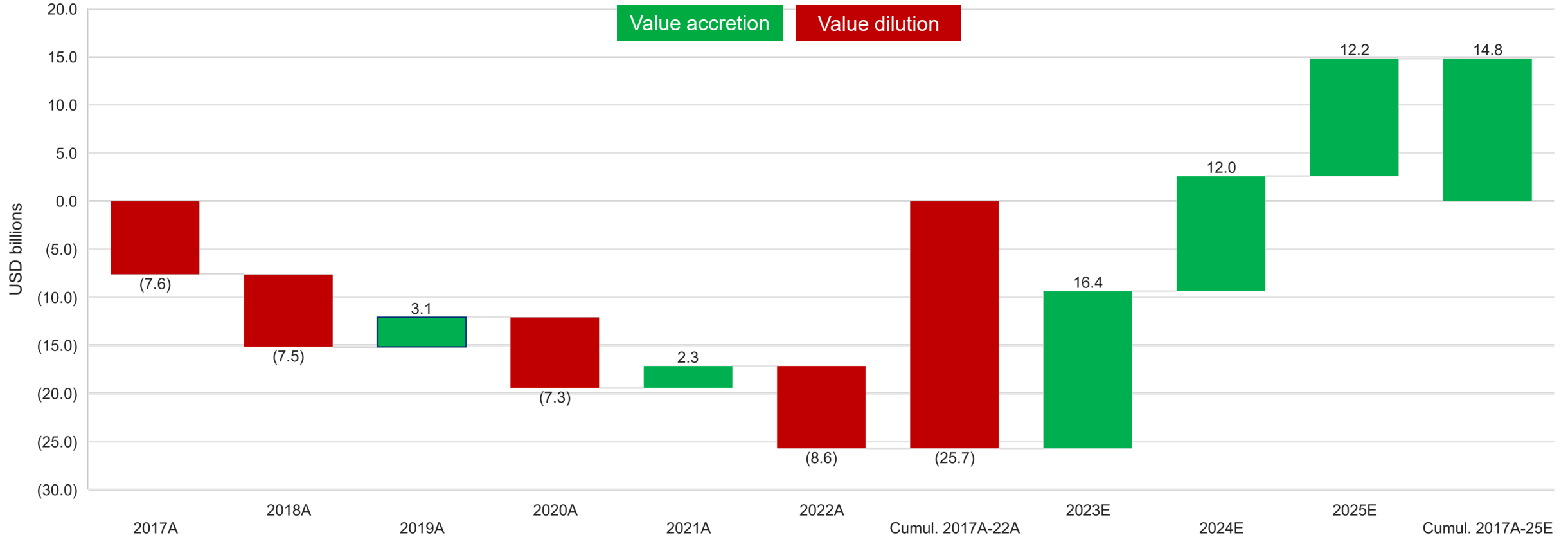


... hardening rates and tighter terms and conditions have contributed to the market's improved profitability



# Reinsurers are expected to more than recover from years of poor profits by end-2025

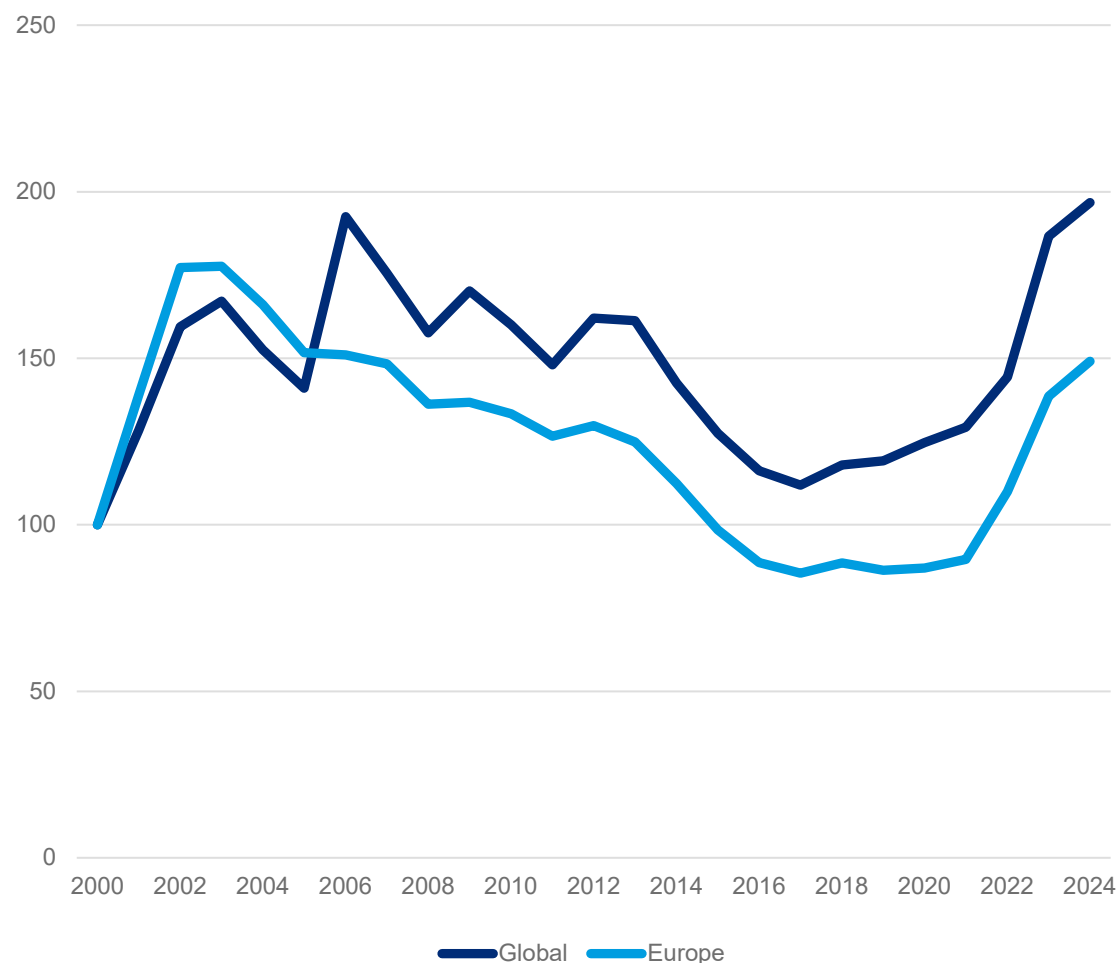
GC RI Composite net income over (below) Cost of Equity cumulative over 2017A-2025E



**2023-2025E expected to generate ~\$92bn in net income, ~\$41bn in excess of cost of equity**

# LOOKING FORWARD

## Price Outlook for Mid Year Renewals and Beyond



### Factors that could put upwards pressure on pricing “headwinds”

- An unexpected surge in inflation, a restriction in retro supply or a major global event, alongside other macros events could push prices higher due to increased pressure on returns or risk appetites.



### Factors that could lead to a stable market

- Rates are currently deemed as ‘adequate’ and without any major loss activity reinsurers should be happy to hold their positions and follow the pricing pattern of the 1 Jan renewals
- Above average loss activity in 2024, combined with a redeployment of capital away from Europe or a material increase in capital returned to shareholders could stabilise rates



### Factors that could put downwards pressure on pricing “tailwinds”

- High RoEs leading to more pressure to grow, which will subsequently increase market supply and put downwards pressure on pricing.
- New capital either through capital injections or new markets entrants either attracted by high RoEs or motivated by lower bond yields.

# Conclusion



**It's about relevance  
of our industry – ability  
to provide solutions  
commensurate to the  
situation before us**



**(Re)insurance has  
focused excessively on  
price (and exclusions)  
rather than value  
(and solutions)**

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Statements or analysis concerning or incorporating tax, accounting or legal matters should be understood to be general observations or applications based solely on our experience as reinsurance brokers and risk consultants and may not be relied upon as tax, accounting or legal advice, which we are not authorised to provide. All such matters should be reviewed with the client's own qualified advisors in these areas.

This presentation (report, letter) is not intended to be a complete actuarial communication. Upon request, we can prepare one. We are available to respond to questions regarding our analysis.

There are many limitations on actuarial analyses, including uncertainty in the estimates and reliance on data. We will provide additional information regarding these limitations upon request.

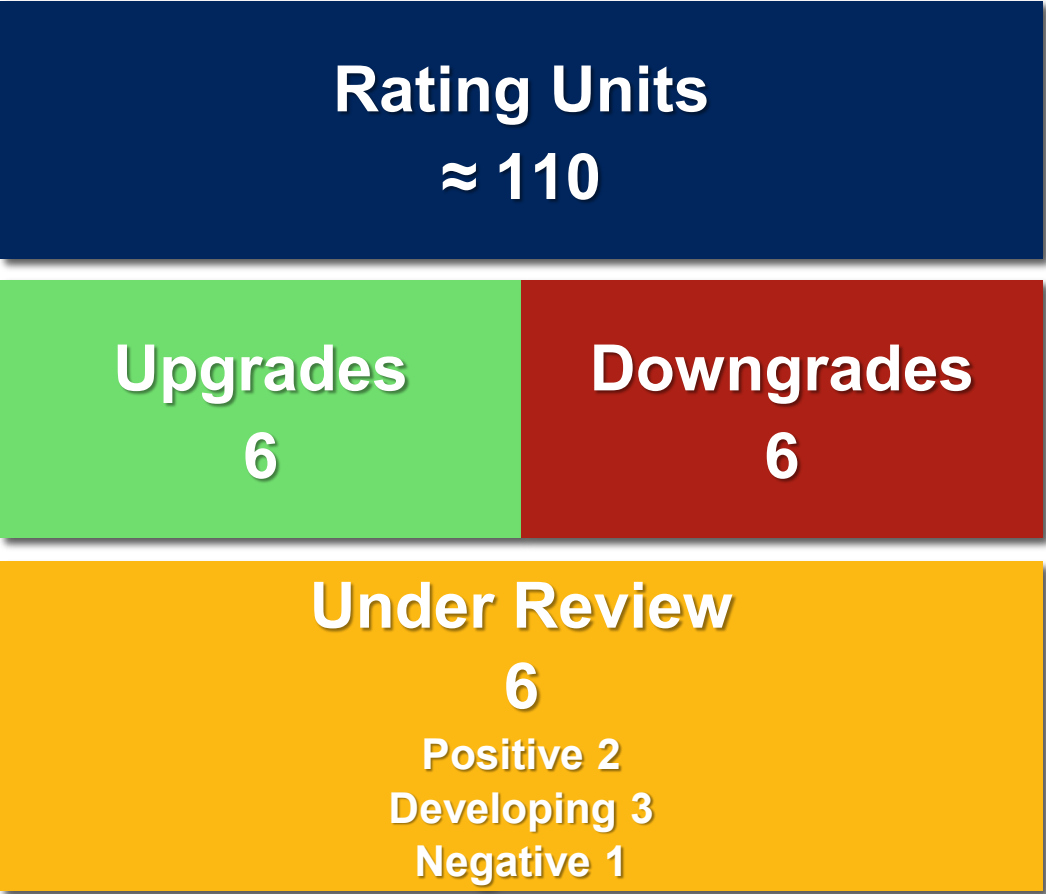
As with any actuarial analysis, the results presented herein are subject to significant variability. While these estimates represent our best professional judgment, it is probable that the actual results will differ from those projected. The degree of such variability could be substantial and could be in either direction from our estimates.

The estimated cash flows may vary significantly from amounts actually collected, particularly in the event that a reinsurer is unwilling or unable to perform in accordance with the terms of the reinsurance contract. In performing this analysis, we relied on the company for estimates regarding the submission. We did not perform an independent review of these estimates.

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

**Morgane Hillebrandt, Senior Financial Analyst  
James Kenfack, Associate Financial Analyst**

# Rating Actions



# Credit Drivers – Causes of Rating Actions 2023

---

**Changes in Balance Sheet Strength**  
1 Upgrade, 3 Downgrades

**Operating Performance**  
2 Downgrades

**Business Profile**  
1 Upgrade

**Enterprise Risk Management**  
1 Downgrade

**Changes to Lift/Drag**  
4 Upgrades

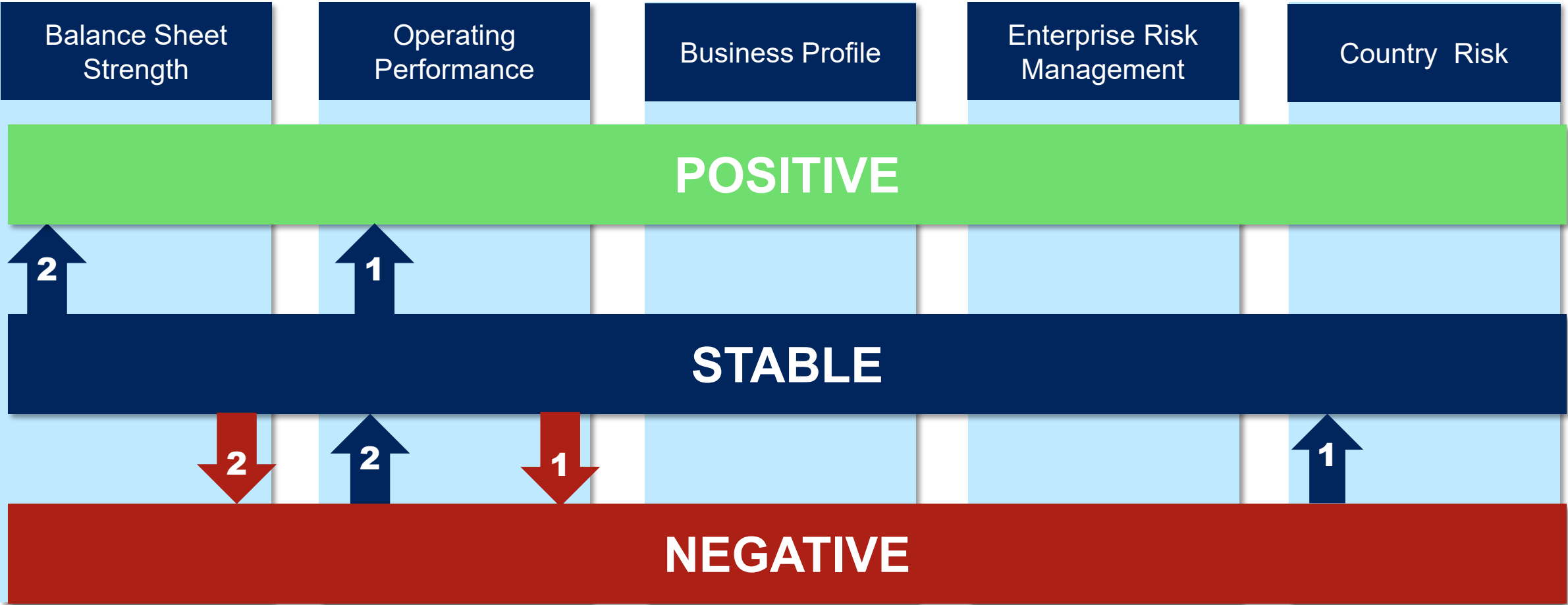
# Outlook Changes

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# Drivers of Outlook Changes



Note: Rating actions 1 Jan 2023 – 31 Dec 2023; Europe and London Market.

# Outlook – Future Credit Drivers

## Centre for the Study of Financial Innovation

2023 Rank	Risk	2021 Rank		2019 Rank
1	Cyber Crime	1	-	2
2	Regulation	2	-	4
3	Climate Change	4	▲	6
4	Technology	3	▼	1
5	Human Talent	6	▲	8
6	Macro-Economy	10	▲	9
7	Artificial Intelligence	-	▲	-
8	Interest Rates	5	▼	10
9	Investment Performance	9	-	5
10	Change Management	7	▼	3



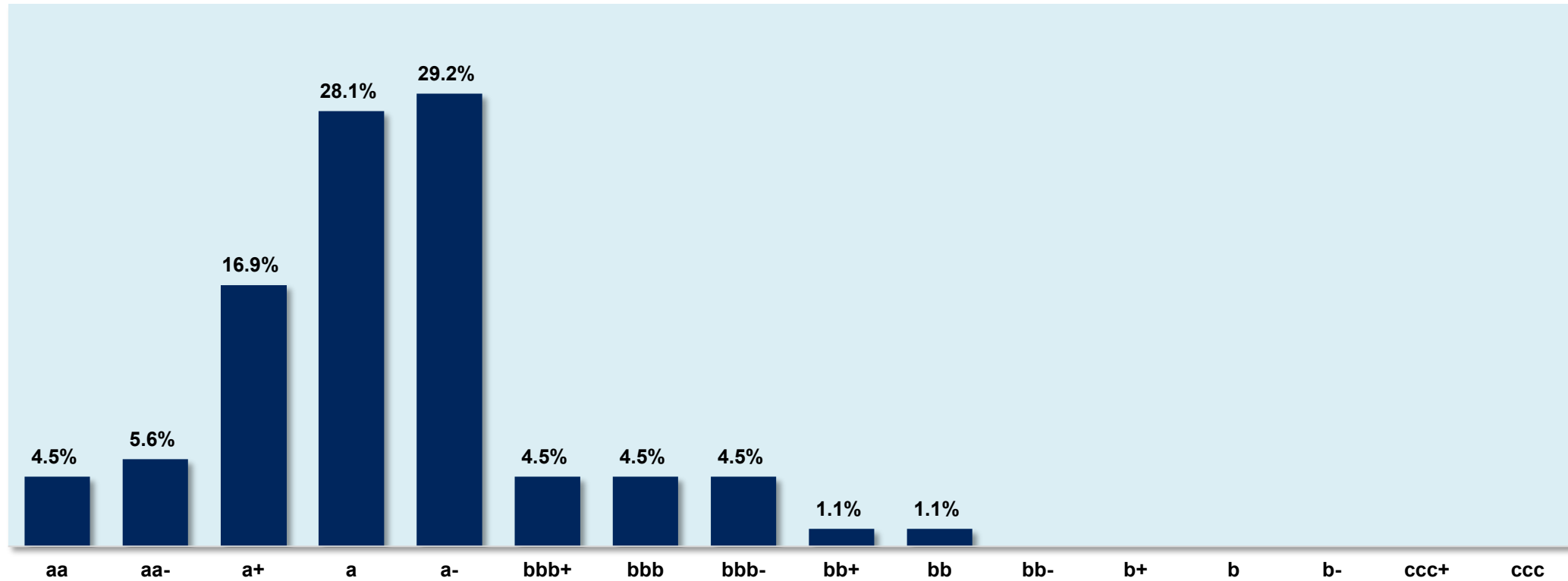
# Possible Impact on Ratings

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

# Benchmarking Ratings

# Issuer Credit Ratings – % of rating count

## ■ Europe & London Market

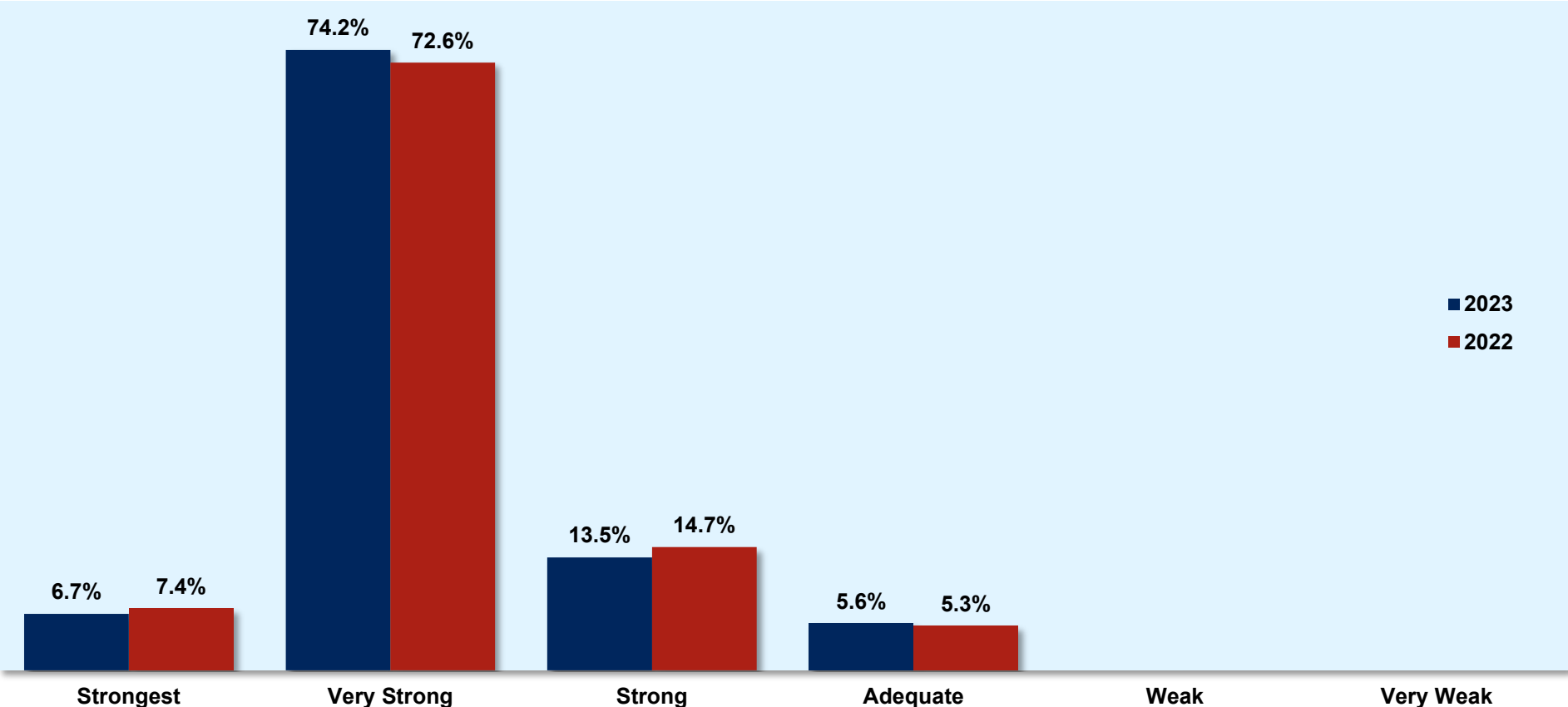


# AM Best's Rating Process - Recap

<b>Balance Sheet Strength</b> Baseline	<b>Operating Performance (+2/-3)</b>	<b>Business Profile (+2/-2)</b>	<b>Enterprise Risk Management (+1/-4)</b>																										
<table border="1"> <thead> <tr> <th>Assessment</th> </tr> </thead> <tbody> <tr><td>Strongest</td></tr> <tr><td>Very Strong</td></tr> <tr><td>Strong</td></tr> <tr><td>Adequate</td></tr> <tr><td>Weak</td></tr> <tr><td>Very Weak</td></tr> </tbody> </table>	Assessment	Strongest	Very Strong	Strong	Adequate	Weak	Very Weak	<table border="1"> <thead> <tr> <th>Assessment</th> </tr> </thead> <tbody> <tr><td>Very Strong +2</td></tr> <tr><td>Strong +1</td></tr> <tr><td>Adequate 0</td></tr> <tr><td>Marginal -1</td></tr> <tr><td>Weak -2</td></tr> <tr><td>Very Weak -3</td></tr> </tbody> </table>	Assessment	Very Strong +2	Strong +1	Adequate 0	Marginal -1	Weak -2	Very Weak -3	<table border="1"> <thead> <tr> <th>Assessment</th> </tr> </thead> <tbody> <tr><td>Very Favorable +2</td></tr> <tr><td>Favorable +1</td></tr> <tr><td>Neutral 0</td></tr> <tr><td>Limited -1</td></tr> <tr><td>Very Limited -2</td></tr> </tbody> </table>	Assessment	Very Favorable +2	Favorable +1	Neutral 0	Limited -1	Very Limited -2	<table border="1"> <thead> <tr> <th>Assessment</th> </tr> </thead> <tbody> <tr><td>Very Strong +1</td></tr> <tr><td>Appropriate 0</td></tr> <tr><td>Marginal -1</td></tr> <tr><td>Weak -2</td></tr> <tr><td>Very Weak -3/4</td></tr> </tbody> </table>	Assessment	Very Strong +1	Appropriate 0	Marginal -1	Weak -2	Very Weak -3/4
Assessment																													
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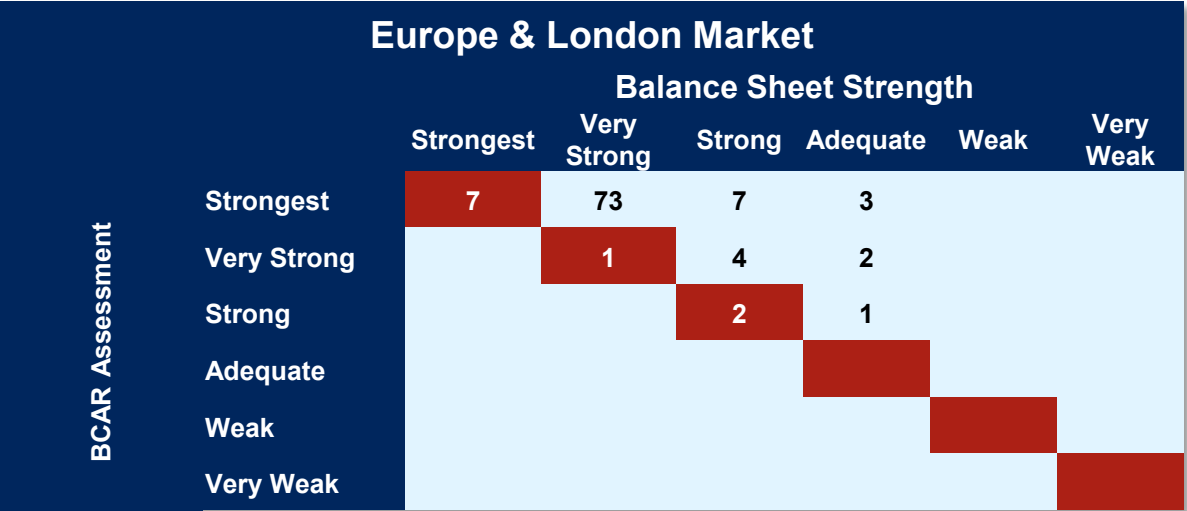
# Balance Sheet Strength - Distribution of Assessments (%)

## Europe & London Market



# Balance Sheet Strength vs BCAR Distribution (%)

## Other Quantitative & Qualitative Considerations



Asset quality / diversification

Stress test

Asset liability matching

Liquidity

Reinsurance quality / appropriateness / dependence

Reserve adequacy

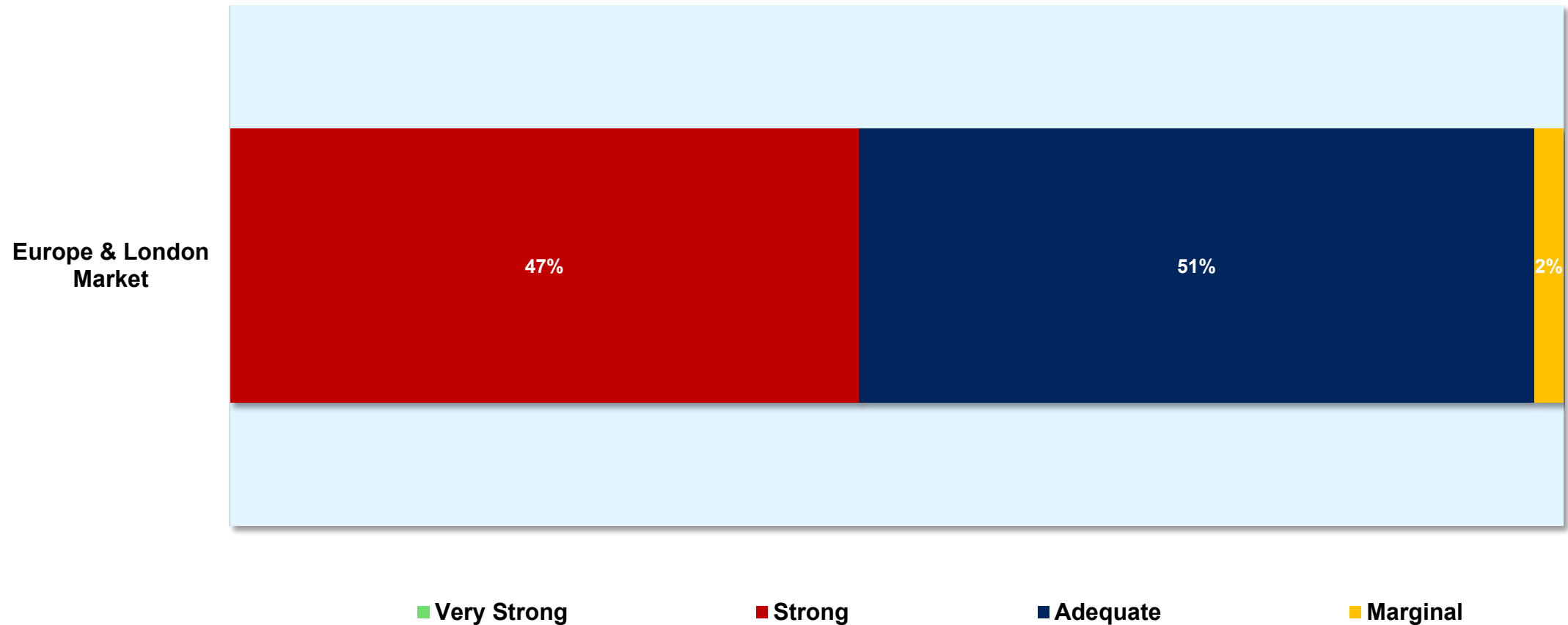
Fungibility of capital

Internal capital model

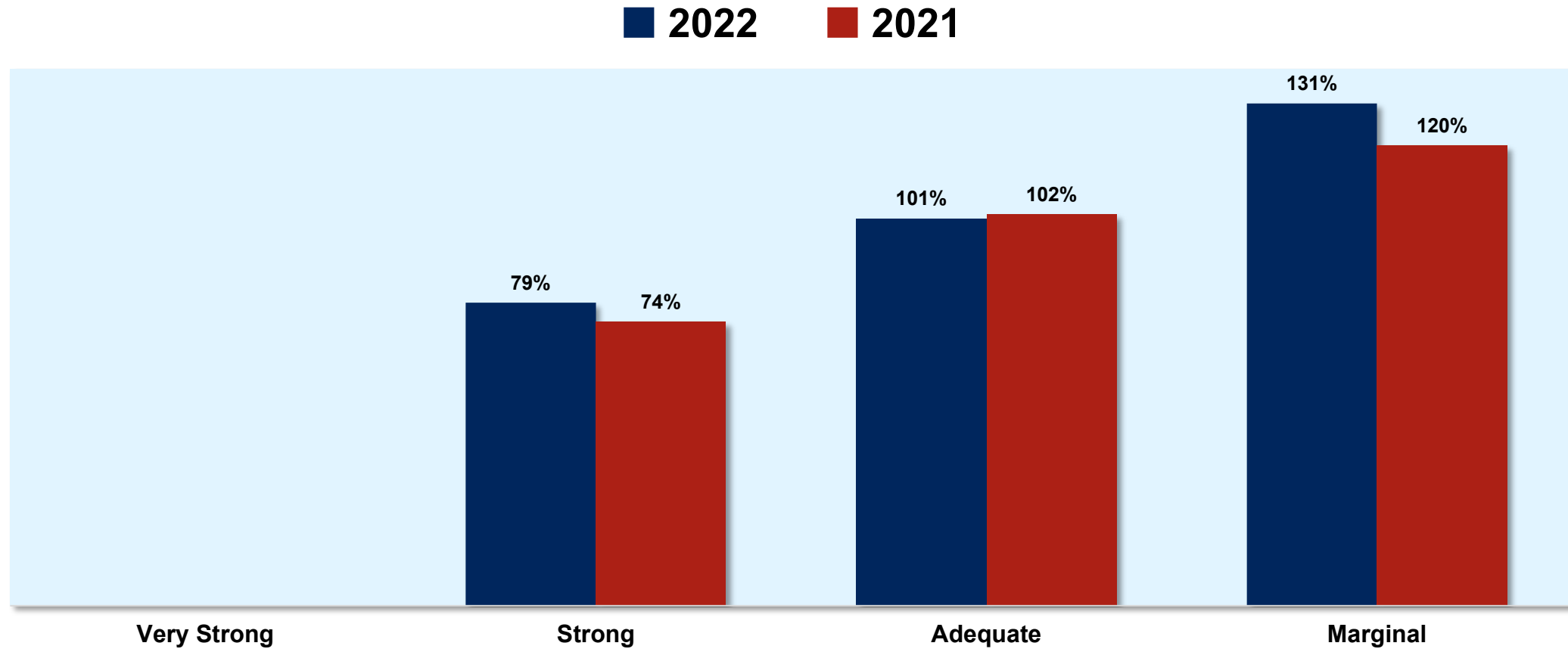




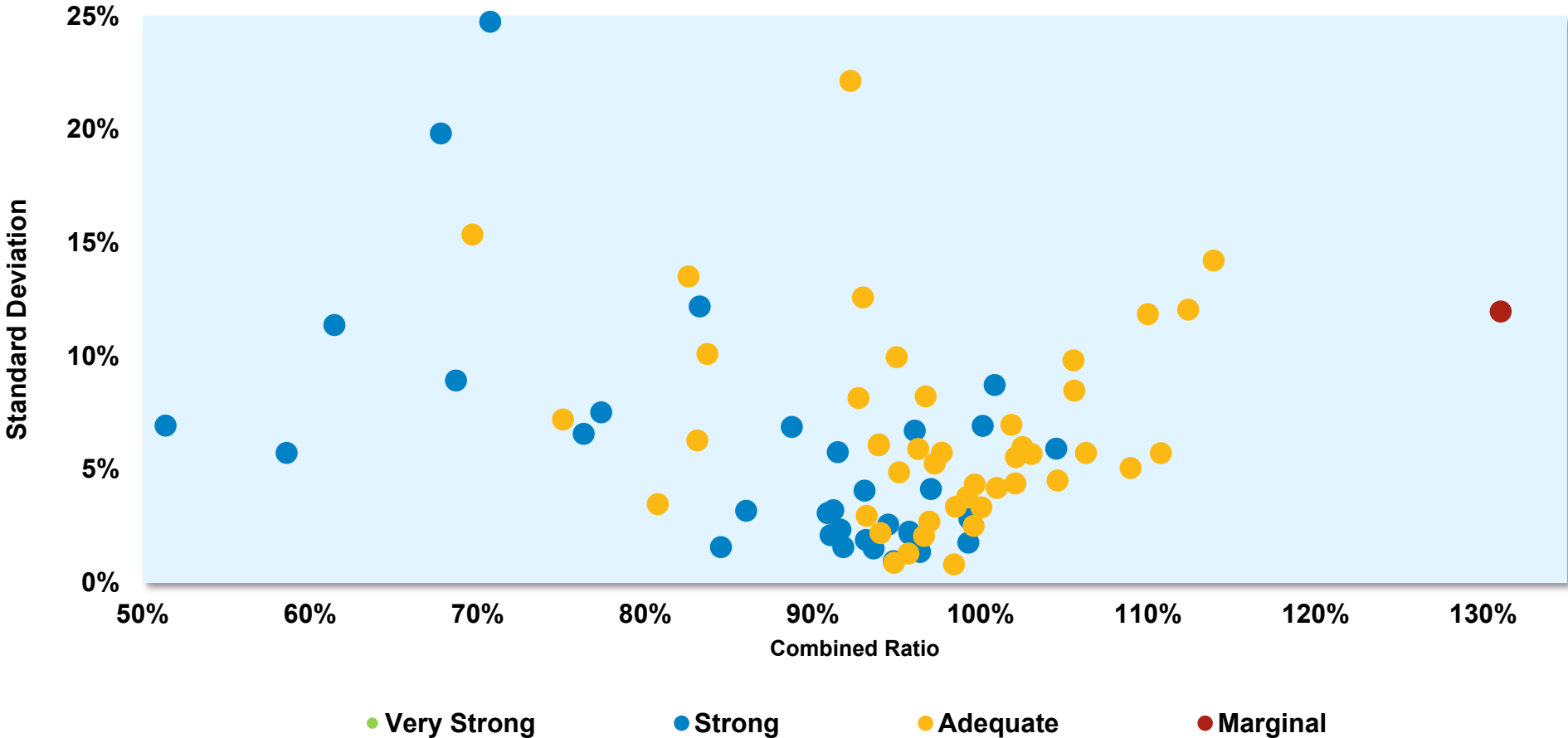
# Operating Performance - Distribution of Assessments (%)



# Operating Performance – Five-Year (2018-2022) Average Combined Ratio (%)

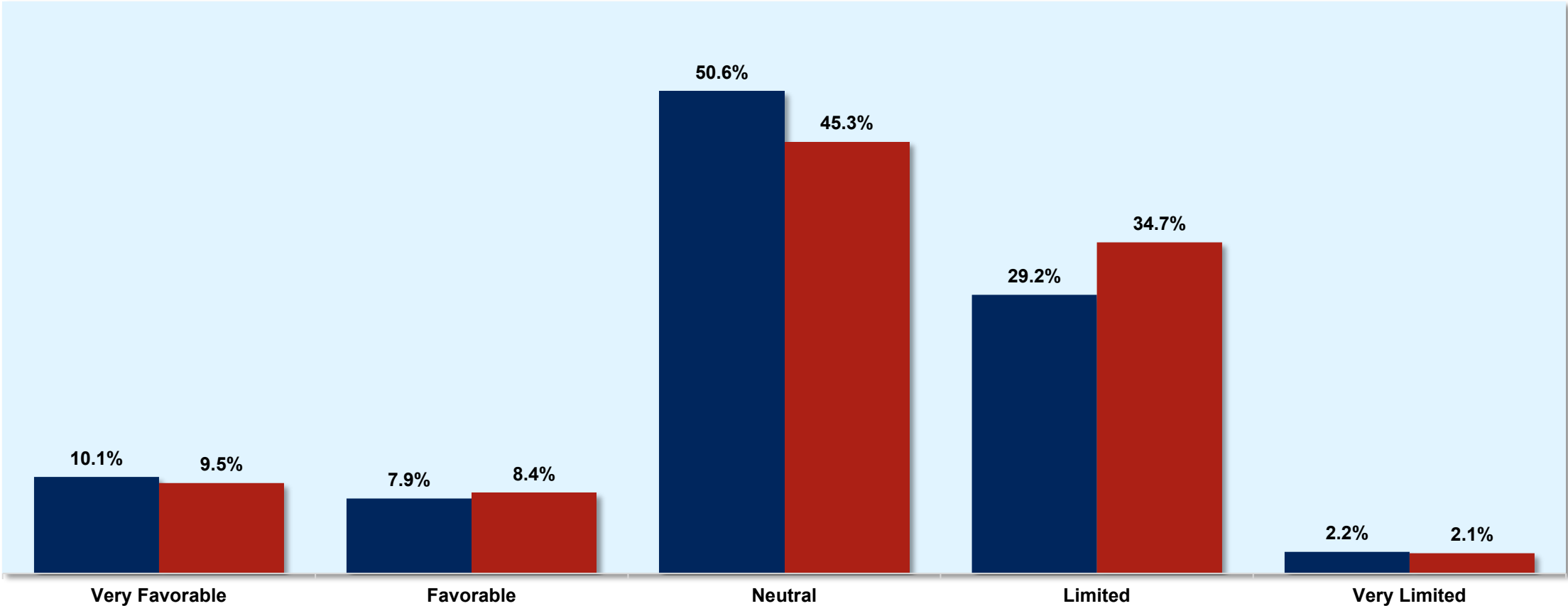


# Operating Performance – Five-Year (2018-2022) Combined Ratio vs Standard Deviation

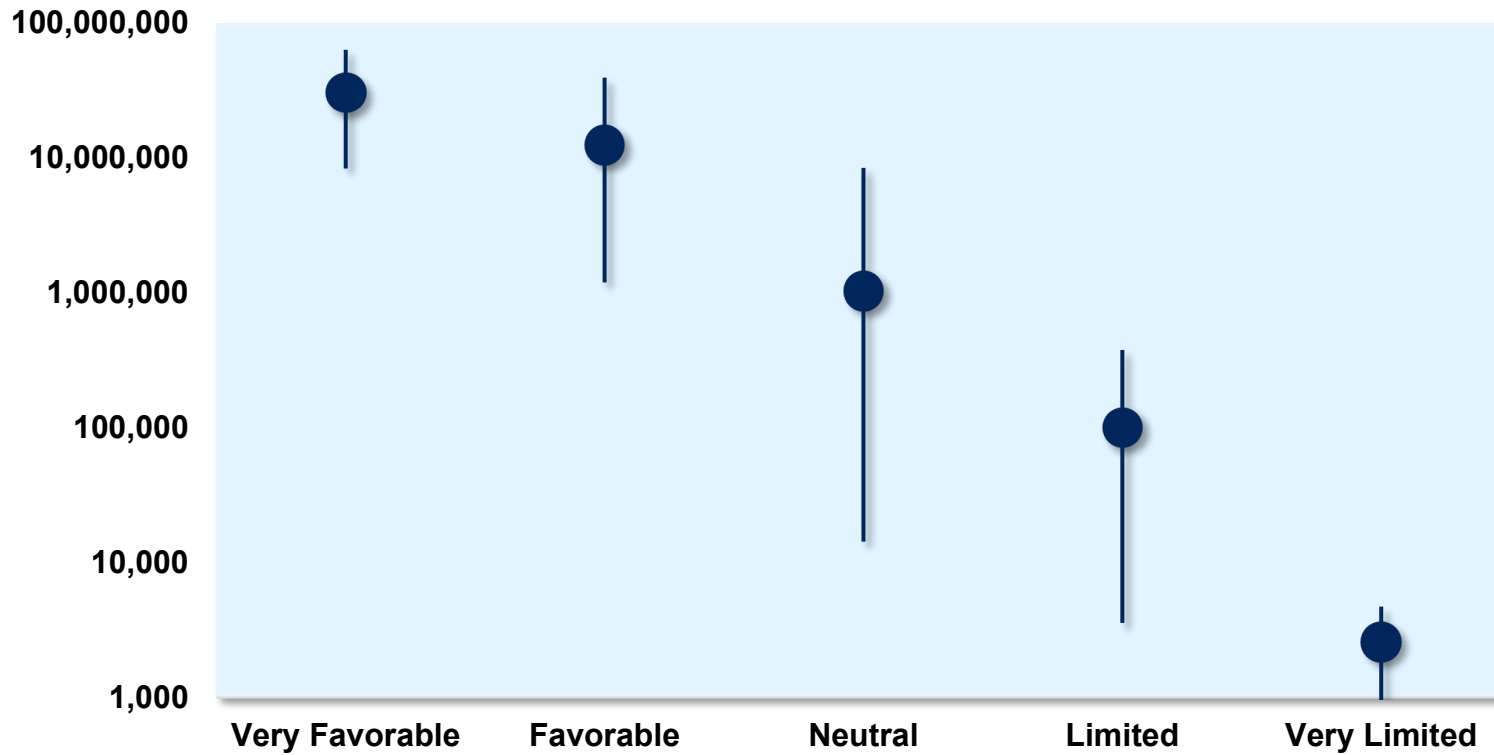


# Business Profile – Distribution of Assessments (%)

■ 2023 ■ 2022



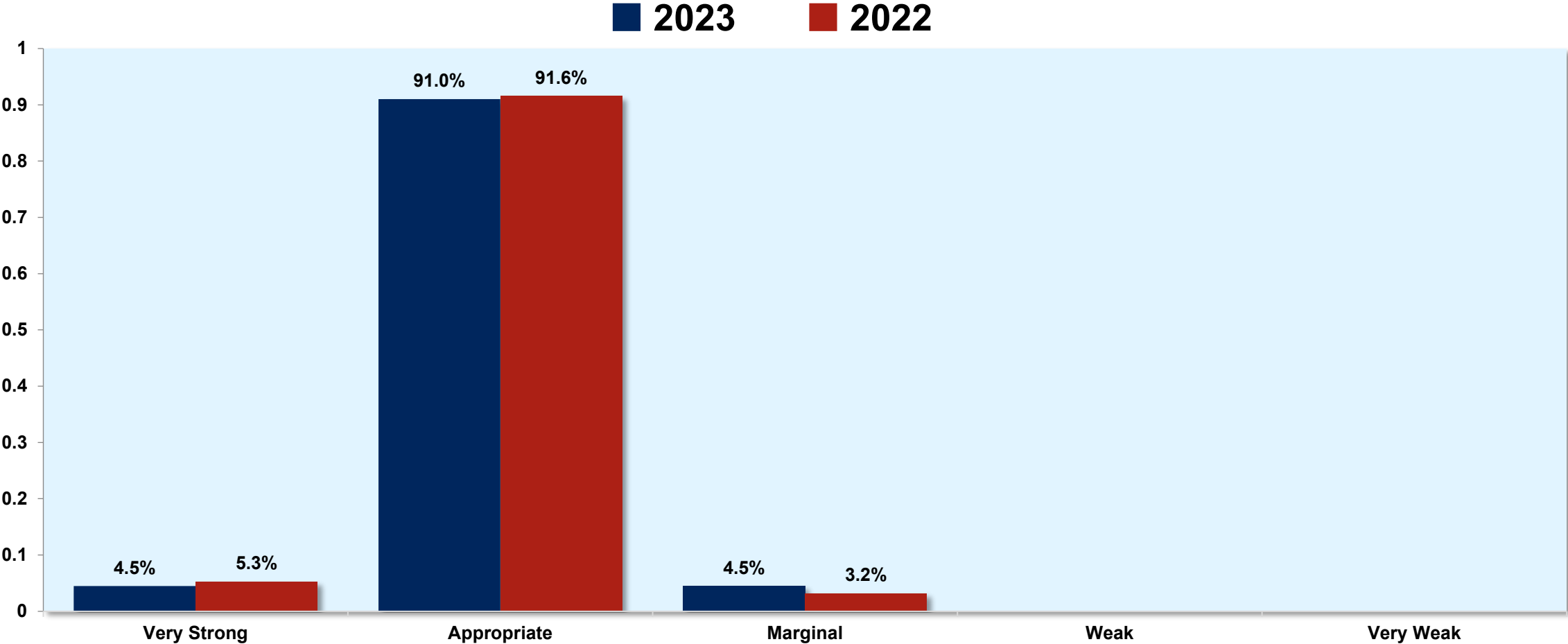
# Business Profile – Average Gross Written Premium (USD 000)



■ Europe & London Market

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 (%)



# Q&A

**AM BEST** | CELEBRATING  
**125**  
YEARS



**AM Best's  
France Insurance Market Briefing – Paris**

**05 March 2024**

Les Salons Hoche, Paris