AM BEST

AM Best's
Germany Insurance Market Briefing – Cologne, Munich

11 & 12 March 2025

Excelsior Hotel Ernst, Cologne
Le Meridien, Munich

Presenters

William Mills
Senior Director
Market Development – EMEA

Dr. Angela Yeo
Senior Director,
Head of Analytics - Amsterdam

Konstantin Langowski
Associate Director,
Credit Rating Criteria
Research & Analytics

Morgane Hillebrandt
Senior Financial Analyst
Analytics

Agenda

15:30 Welcome and Introductory Comments

William Mills, Senior Director, Market Development – EMEA

15:45 The Global Reinsurance Market: Perspectives & Outlook

Dr. Angela Yeo, Senior Director, Head of Analytics - Amsterdam

16:15 Cyber Considerations in the Rating Process

Morgane Hillebrandt, Senior Financial Analyst

16:45 AM Best’s Hot Topics

Dr. Angela Yeo, Senior Director, Head of Analytics - Amsterdam
Konstantin Langowski, Associate Director, Credit Rating Criteria Research & Analytics
Morgane Hillebrandt, Senior Financial Analyst

17:20 Closing Comments and Networking Reception

Disclaimer

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The Global Reinsurance Market: Perspectives & Outlook

Dr. Angela Yeo
Senior Director, Head of Analytics - Amsterdam

Global Reinsurance Market – Discussion Outline

Positive Outlook –
Sustainable results, for longer than usual

Robust Operating Results – Two consecutive years
Despite heightened cat activity, casualty challenges

1/1/25 renewals –
Plenty of capacity, some softening but healthy margins

Expanding dedicated capital –
Internal capital generation. Lack of new entrants.

Challenges ahead –
CA wildfires, economic / geopolitical environment, social inflation

AM Best's 2024 Market Segment Outlook – Global Non-Life Reinsurance

Outlook – Revised to Positive

- Not just re-pricing but de-risking
- Sustainable underwriting margins
- Capital protection instead of earnings stabilisers
- No capital depletion
- Claims activity driven by secondary perils. Strong demand
- Investor pressure behind underwriting discipline for longer

AM BEST SINCE 1899 BEST'S MARKET SEGMENT REPORT

Our Insight, Your Advantage™

June 12, 2024

Market Segment Outlook: Global Non-Life Reinsurance

The outlook is moving to Positive from Stable, as reinsurers continue to reap the benefits of higher interest rates

AM Best is revising its outlook for the global non-life reinsurance segment to Positive from Stable, driven primarily by the following factors:

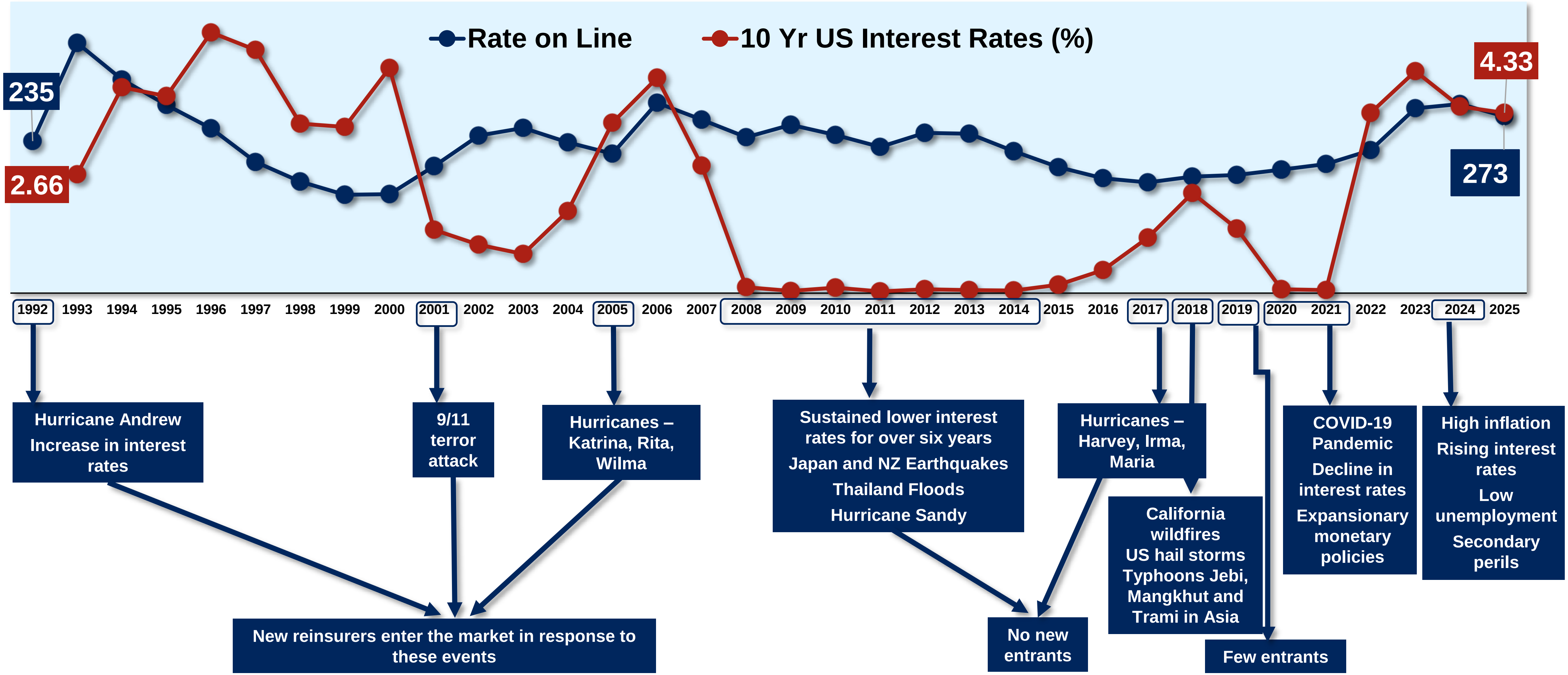
- Improved property reinsurance margins, driven by increased rates and attachment points achieved in 2023. These conditions are unlikely to soften through the 2024 cycle.
- More robust investment income, driven primarily by higher new money yields on fixed-income instruments. A slower drop in rates than originally anticipated should support returns over the short term.
- The segment remains well capitalized, with no new players expected to disrupt current market discipline. Consolidation and a flight to quality are more likely.
- Demand for coverage remains high due to elevated loss frequency in property lines and general economic uncertainty.
- Adverse development reported on US casualty business has been mitigated by strong underwriting gains and redundant property reserves.
- Top performers have been able to raise capital to support growth initiatives.

Margins Continue To Improve; Property Cat Risk Realigns with Primary Carriers

In 2023, non-life reinsurers reported their most favorable year of the past five. The realignment of attachment points in the property reinsurance market allowed reinsurers to limit their losses throughout the year, despite active weather patterns. When combined with healthy increases to rate-on-line, the result was an underwriting margin that hasn't been realized since 2014.

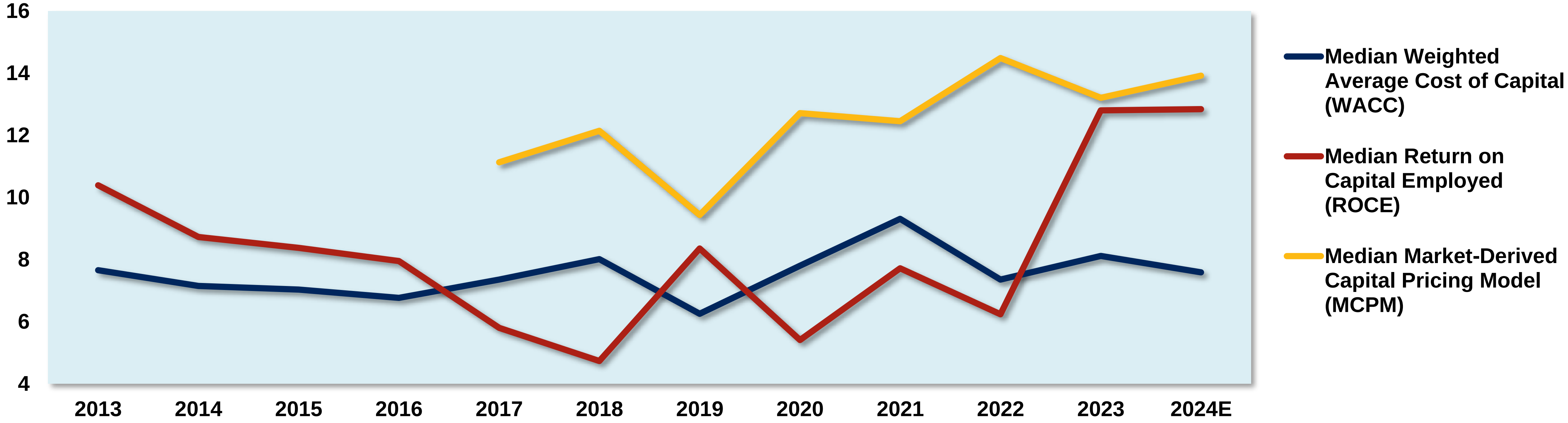
AM BEST SINCE 1899

Why is this Cycle Different?



Sources: Estimates by Guy Carpenter and AM Best

Cost of Capital and Realignment of Risk



Reinsurers meeting cost of capital

Profits → Improved technical profitability

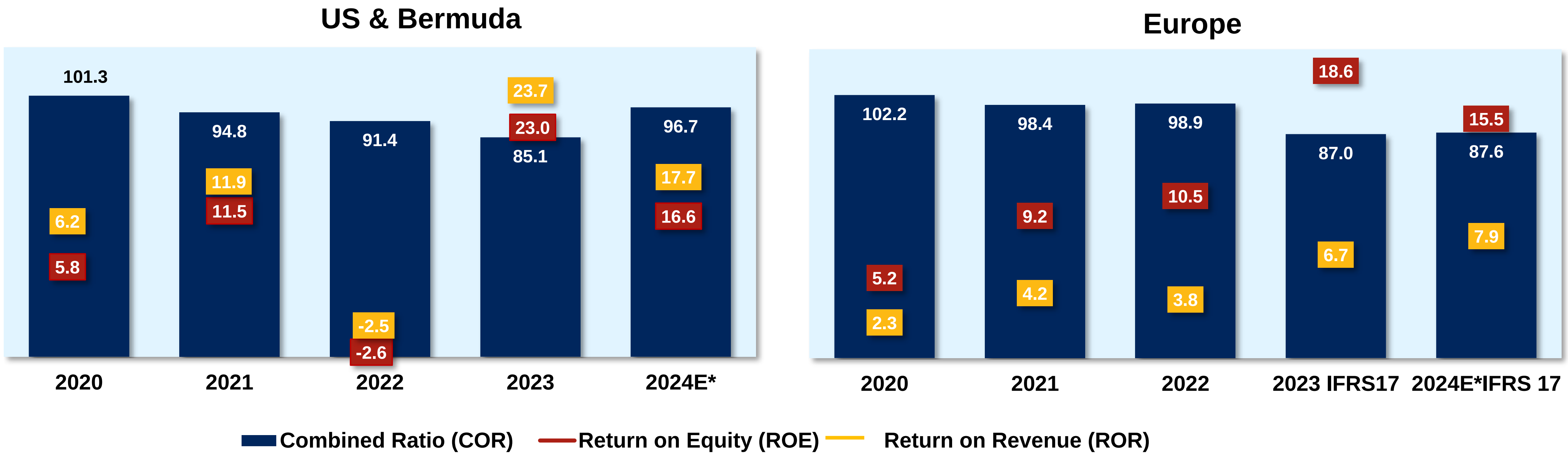
Secular factors → Climate trends

Interest rates → Higher for longer

Outlook → Positive

Market-Derived Capital Pricing Model (MCPM) is based on a smaller sample size and has limited years due to availability of data
Source: Bloomberg

Reinsurers – US & Bermuda, and Europe



- Expected profitability through 2024, despite Hurricane Helene’s impact
- Combined ratio poised to remain below 100

Notes:
* 2024 AM Best Estimation.
Europe IFRS 17 comprises Munich Re, Hannover Re and SCOR.

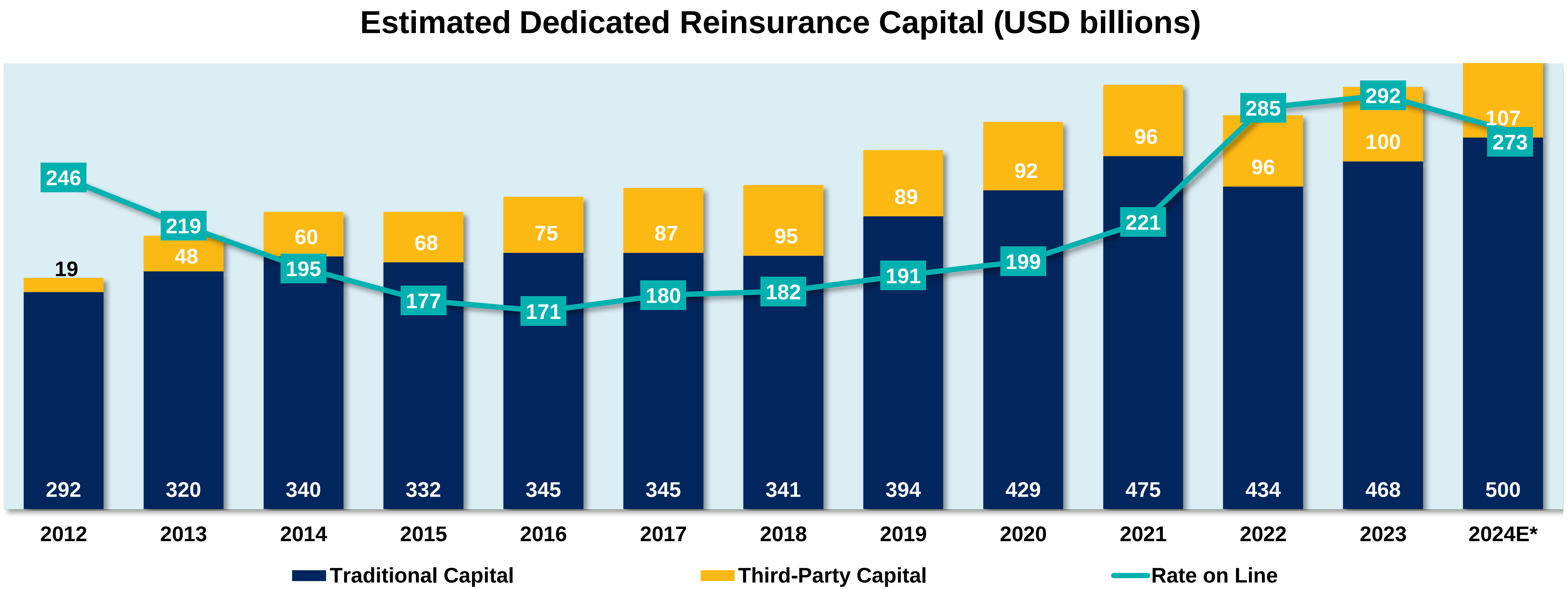
1/1/25 Renewals

- Property reinsurance has started to soften, but margins remain strong
- Casualty while being more scrutinized it was renewed without any capacity constraints
- Traditional reinsurance reach an all time high, mostly due to strong operating earnings and lessened investment volatility
- Third party capital momentum led by reinvestment of gains by investors

California Wildfires

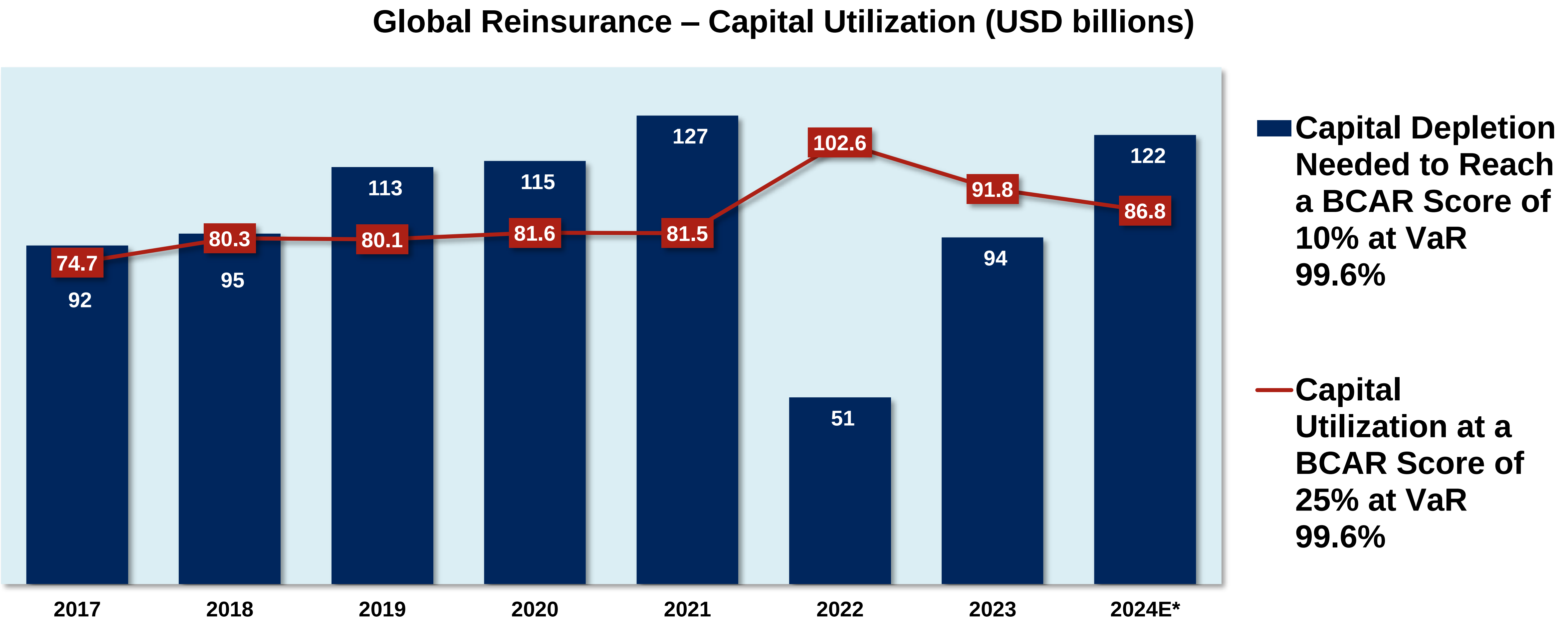
- California Wildfires could become the costliest in history, expected to be ~USD 50 billion industry loss
- Uncertainty around how programs will respond
- The event could drive for increased demand for reinsurance capacity for the remainder of 2025 from ceding companies looking for protection

Global Reinsurance Market Capital



* 2024 AM Best Estimation
Sources: Guy Carpenter and AM Best

A Hard Cycle With Excess Capital



* 2024 AM Best Estimation
Source: AM Best data and research

Near Term – Potential Concerns

- How will 2025 be impacted by early year events
- Economic and geopolitical issues
- US casualty reserves and social inflation

Long Term – Emerging Issues

- Scrutiny of catastrophe models
- Cyber risks
- Artificial intelligence
- PFAS
- Other risks

AM Best’s Expectations – The Next 12 Months

Underwriting profits –
slight reductions, but still strong

Inflationary pressures and interest rates –
Abating and declining, slowly

Rate movements –
modest declines in strong performing risks and higher levels of cover

Significant new capital / number of new entrants –
unlikely

Retention levels –
minor movements into working layers

Increased use of Alternative Capital to flex capital needs

Q&A

Cyber Considerations in the Rating Process

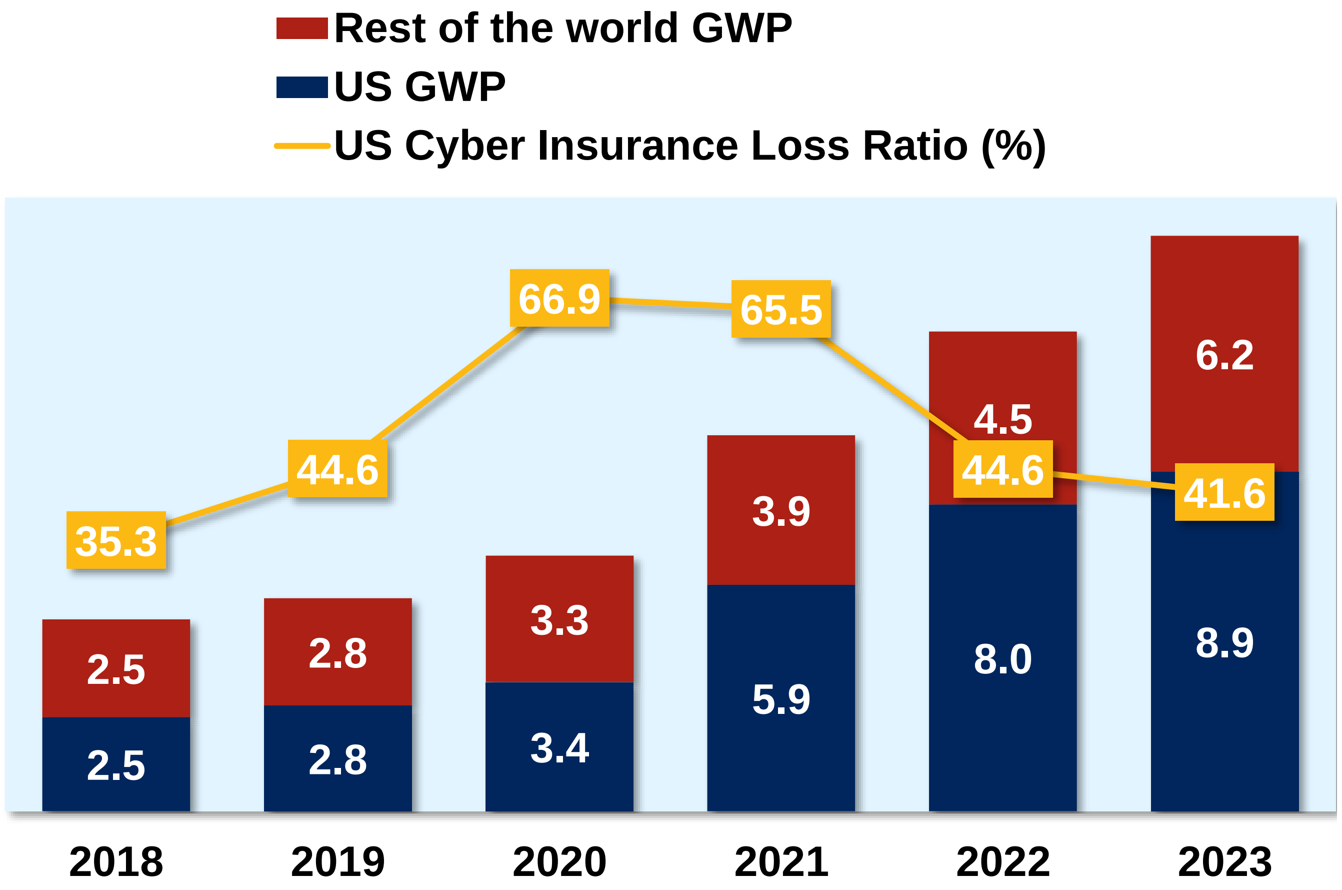
Morgane Hillebrandt
Senior Financial Analyst, AM Best

Global Cyber Insurance Market Outlook – Stable

Tailwinds

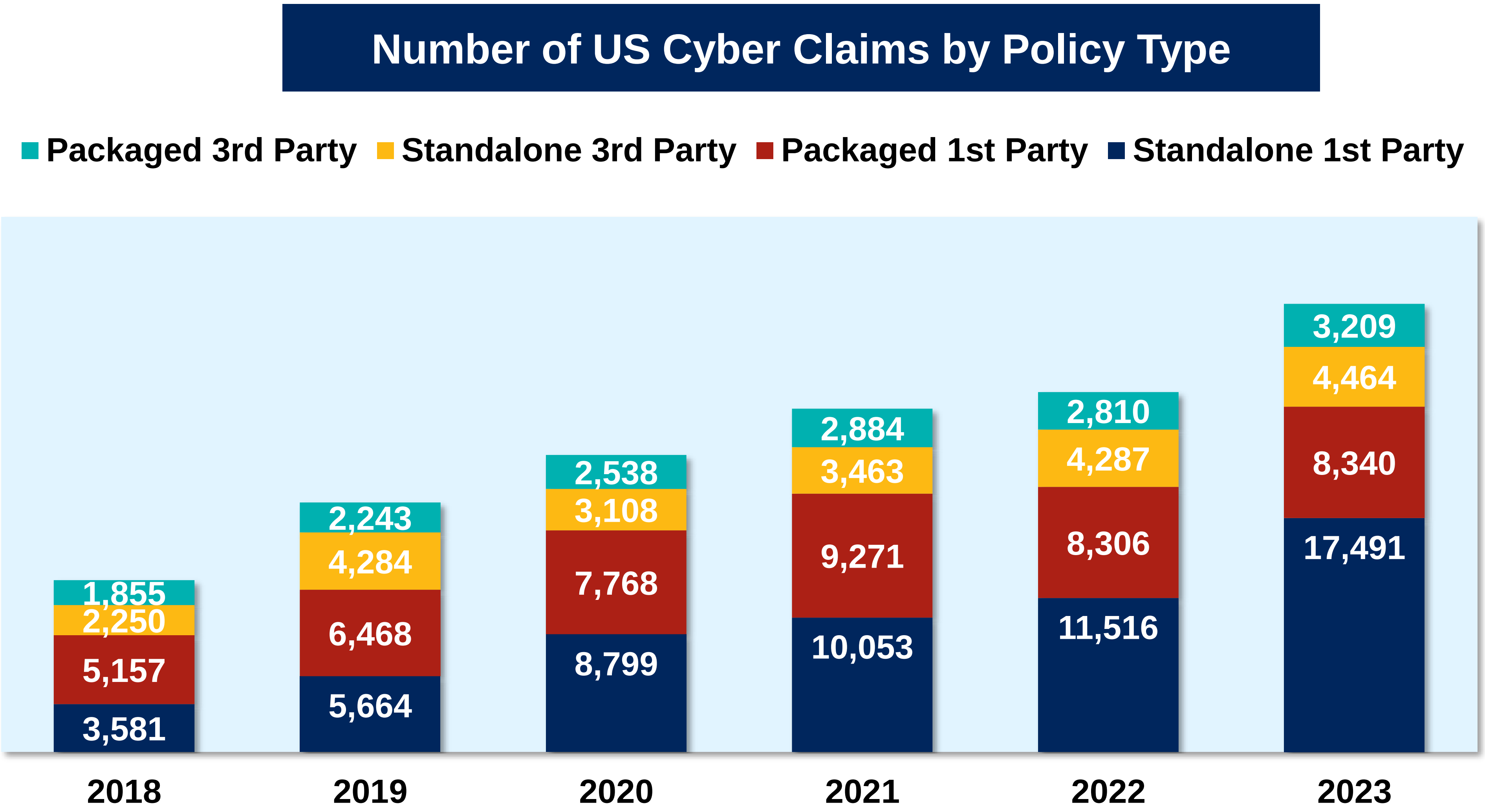
- Greater demand and geographical expansion
- Continual improvements in cyber hygiene
- Improved sophistication among product offering
- Improvements in underwriting practices and policy language
- Traditional reinsurance and alternative capital markets to support growth

Estimated Cyber GWP with Incurred Loss Ratios (USD bn)



Source: NAIC, AM Best data and research

Global Cyber Insurance Market Outlook – Stable



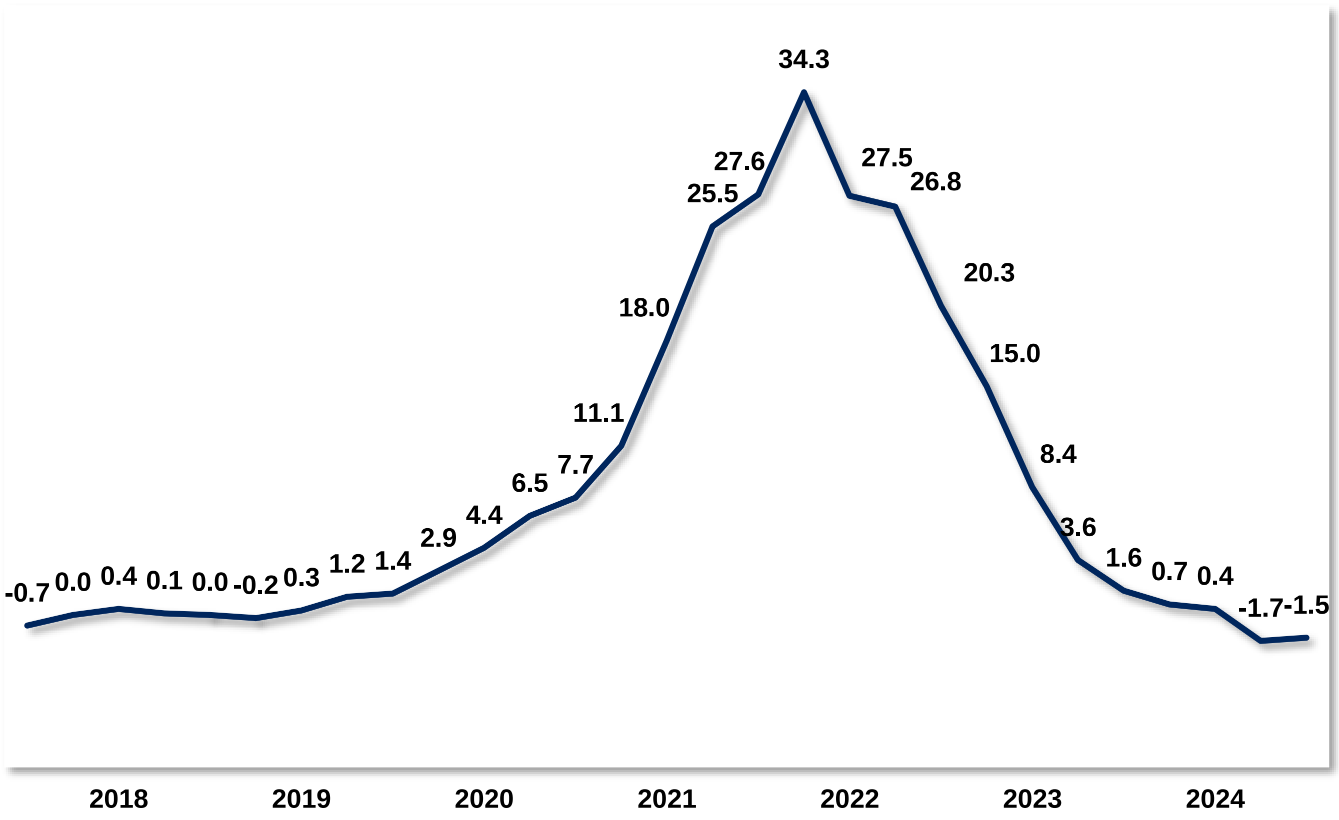
Source AM Best data and research

Global Cyber Insurance Market Outlook – Stable

Headwinds

- Increased competition and rates moderation
- Growing sophistication of attacks using AI
- Aggregation risks
- Model risk and divergence among models
- Heavy dependence on reinsurance

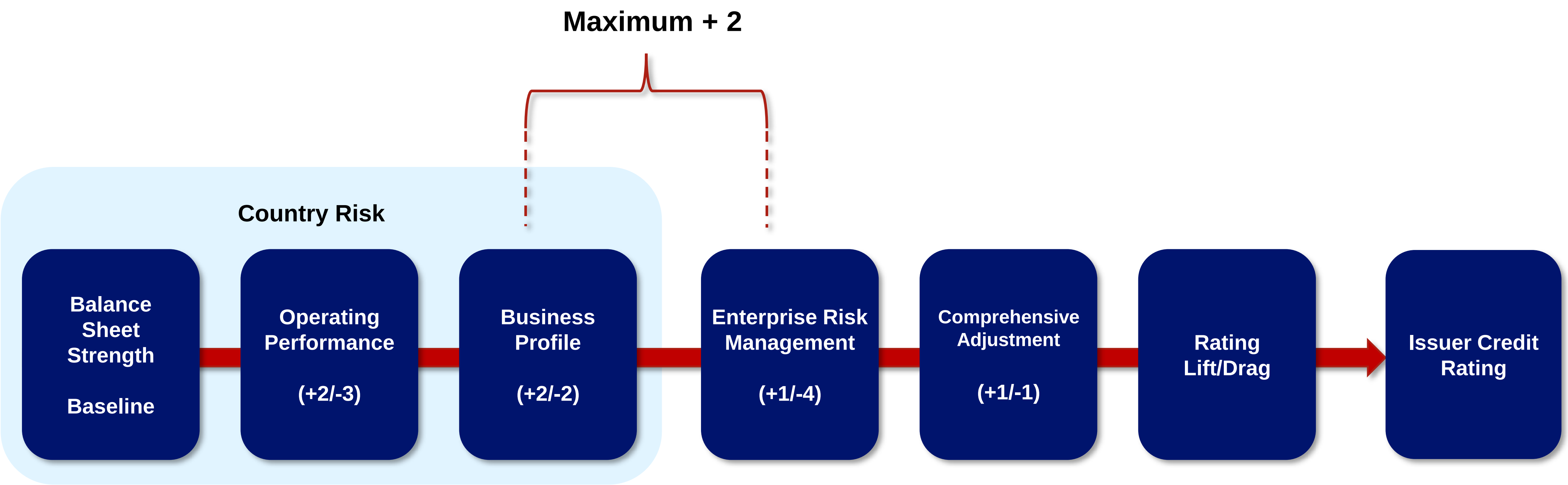
US Cyber Insurance Pricing Changes by Quarter (%)



Source: CIAB

AM Best's Rating Process
&
Rating Considerations for Cyber

Building Block Approach



Source: Best's Credit Rating Methodology (BCRM)

Rating Considerations for Cyber

Balance Sheet Strength

- Risk-adjusted capitalization
- Aggregation management
- Cyber modelling
- Stress testing
- Reinsurance
- Reserve adequacy
- Liquidity

Operating Performance

- Underwriting & earnings volatility
- Business plans and assumptions
- Track record

Business Profile

- Product concentration risk
- High product risk
- Limits offered
- Industries covered
- Size of Insured
- Management expertise

Enterprise Risk Management

- Risk appetite & tolerances
- Risk aggregation
- Risk management capabilities
- Stress testing

Incorporating Catastrophe Risk & Stress Testing into the Rating Process

Why Incorporating Catastrophe Risk & Stress Testing is Necessary?

Catastrophes – both natural and man-made – can abruptly impair (re)insurance companies

Effectively managing exposure to catastrophe events is essential to protect and preserve balance sheet strength

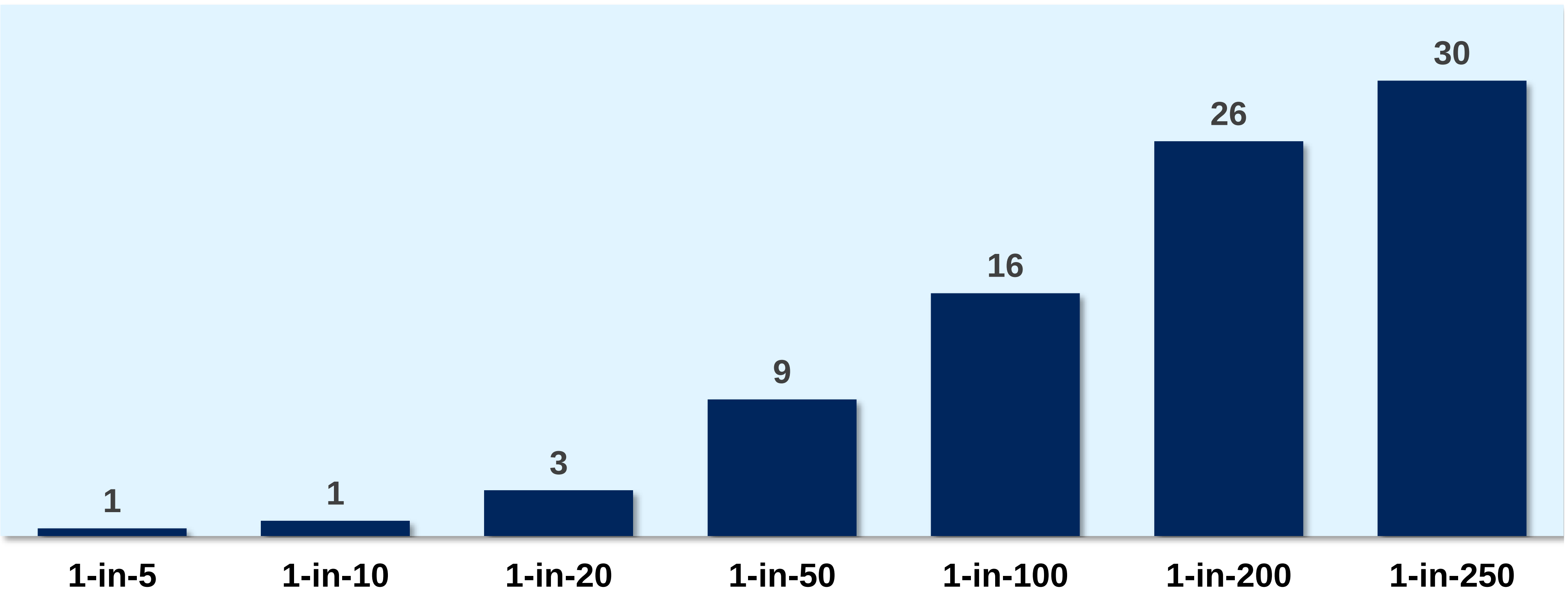
Stress Testing allows AM Best to capture the uncertainties inherent in an insurer's operations and business plans

Rating Considerations

- Aggregate exposure
- Concentration of exposures
- Historical losses
- Deterministic scenarios
- Modelled PMLs
- Management's view

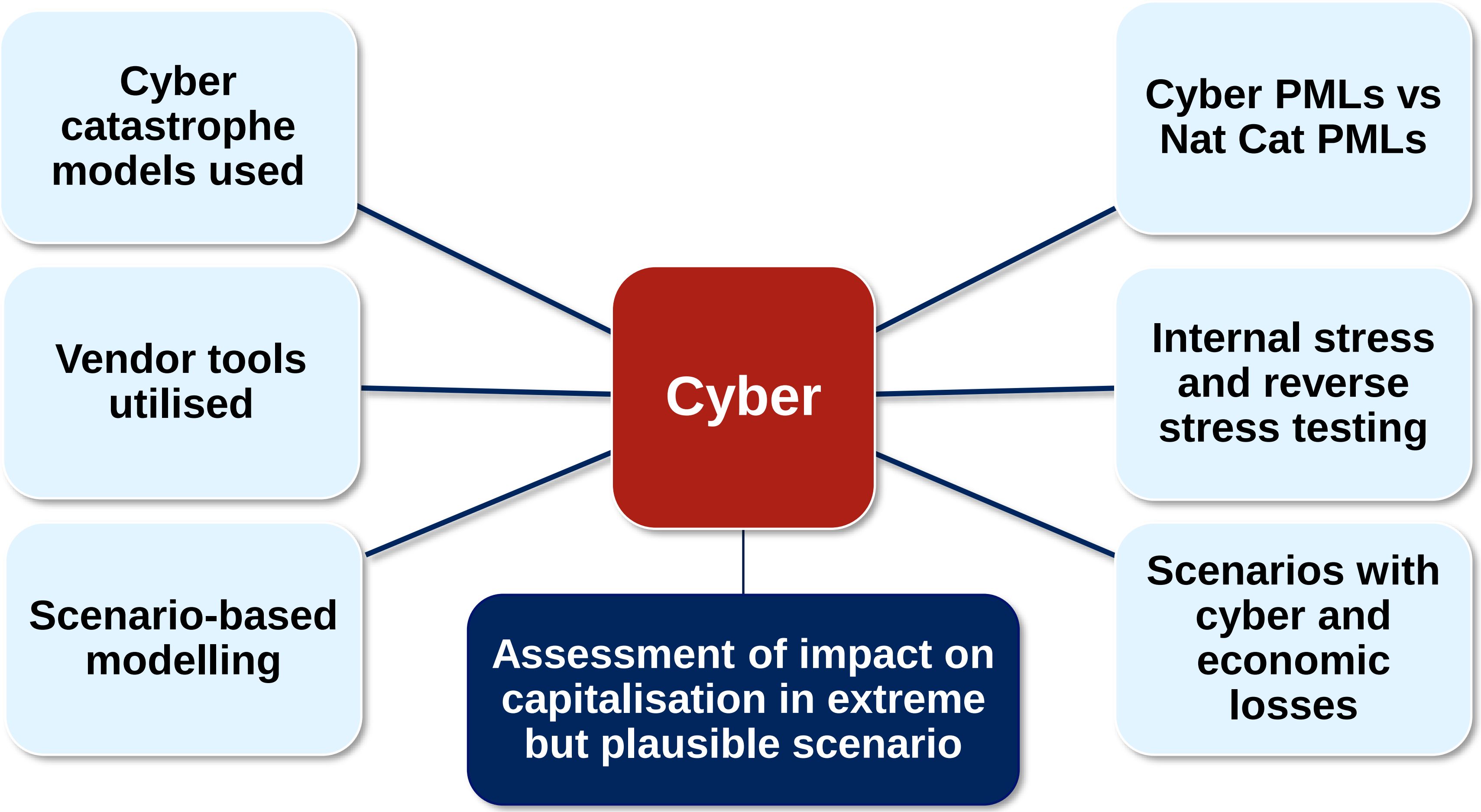
Cyber – Probable Maximum Losses

Simulated Financial Loss to Entire US Economy by Return Period (USD bn)



Source: Active Cyber Risk Modeling Report – Coalition Inc 2023

Cyber Stress Testing – Considerations and Challenges



AM Best's Cyber Questionnaire

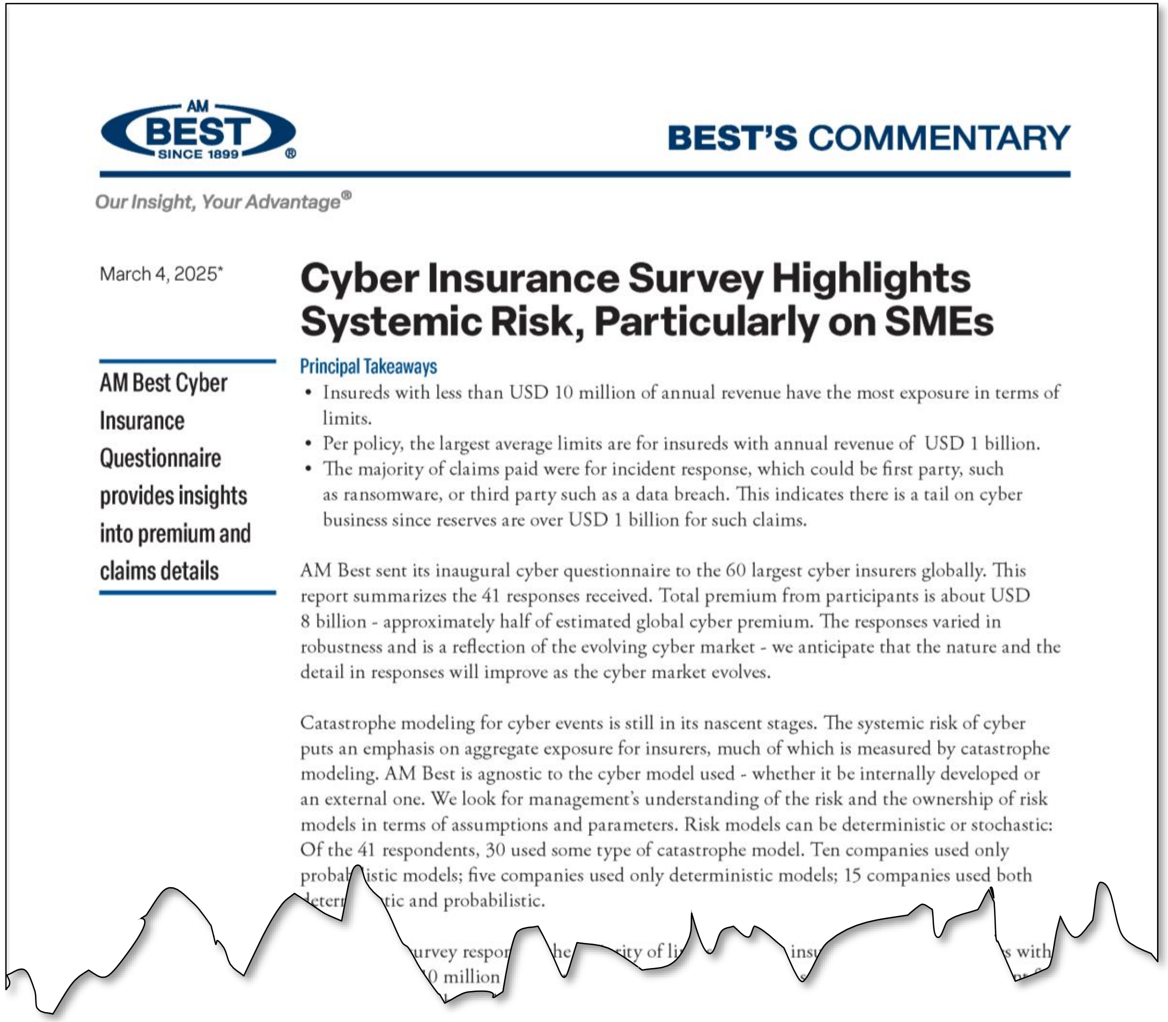
Assessment of the Potential Impact on the Rating

Need to Quantify and Understand Impact

- Cyber is not shown as a separate line of business
- Risk profile of cyber portfolio
- Greater exposure to catastrophic loss
- Potential impact of systemic loss/aggregations on balance sheet

Benchmarking

- Better comparisons



BEST'S COMMENTARY

Our Insight, Your Advantage®

March 4, 2025*

Cyber Insurance Survey Highlights Systemic Risk, Particularly on SMEs

AM Best Cyber Insurance Questionnaire provides insights into premium and claims details

Principal Takeaways

- Insureds with less than USD 10 million of annual revenue have the most exposure in terms of limits.
- Per policy, the largest average limits are for insureds with annual revenue of USD 1 billion.
- The majority of claims paid were for incident response, which could be first party, such as ransomware, or third party such as a data breach. This indicates there is a tail on cyber business since reserves are over USD 1 billion for such claims.

AM Best sent its inaugural cyber questionnaire to the 60 largest cyber insurers globally. This report summarizes the 41 responses received. Total premium from participants is about USD 8 billion - approximately half of estimated global cyber premium. The responses varied in robustness and is a reflection of the evolving cyber market - we anticipate that the nature and the detail in responses will improve as the cyber market evolves.

Catastrophe modeling for cyber events is still in its nascent stages. The systemic risk of cyber puts an emphasis on aggregate exposure for insurers, much of which is measured by catastrophe modeling. AM Best is agnostic to the cyber model used - whether it be internally developed or an external one. We look for management's understanding of the risk and the ownership of risk models in terms of assumptions and parameters. Risk models can be deterministic or stochastic: Of the 41 respondents, 30 used some type of catastrophe model. Ten companies used only probab[...]istic models; five companies used only deterministic models; 15 companies used both determ[...]tic and probabilistic.

Q&A

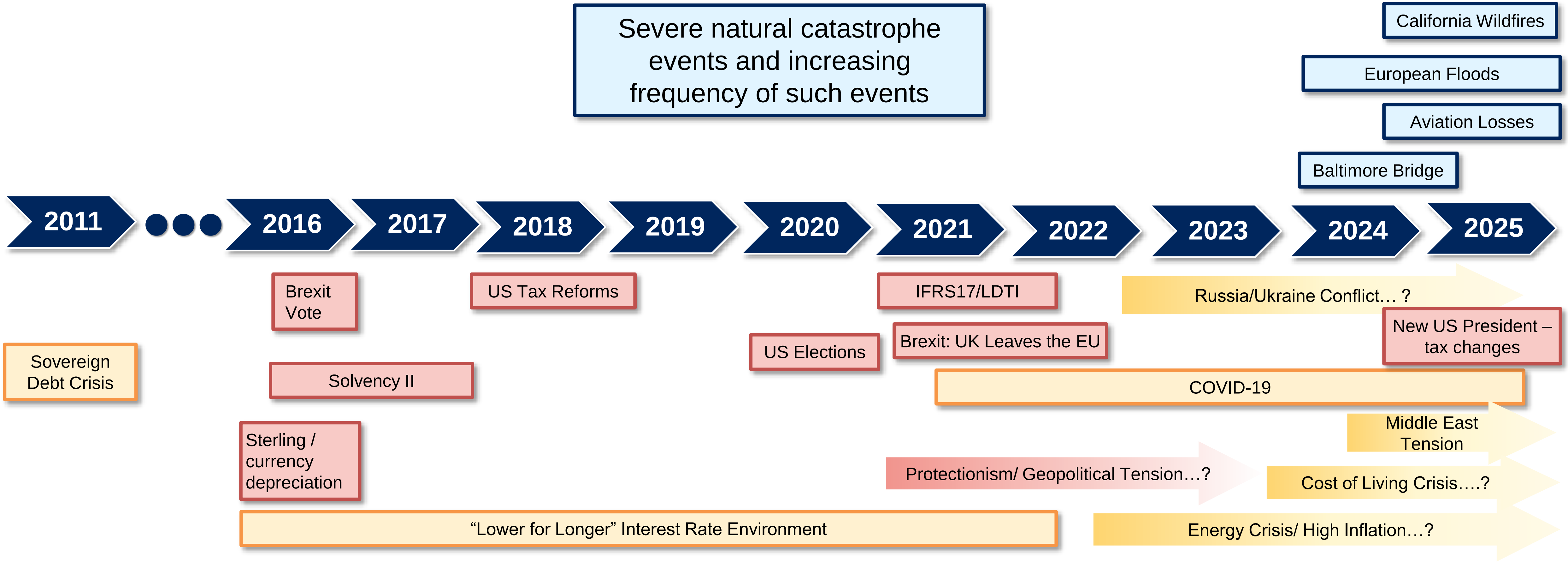
AM Best's Hot Topics

Dr. Angela Yeo, Senior Director, Head of Analytics - Amsterdam
Morgane Hillebrandt, Senior Financial Analyst
Konstantin Langowski, Associate Director,
Credit Rating Criteria Research & Analytics

The Risk Landscape and Stress Testing

Morgane Hillebrandt
Senior Financial Analyst

Recent Market Events



Interconnectivity of Risks 2025

Market Environment –

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

Relative Influences – Edges

- High
- Medium
- Low

Risk Influence – Nodes

- High
- Medium
- Low

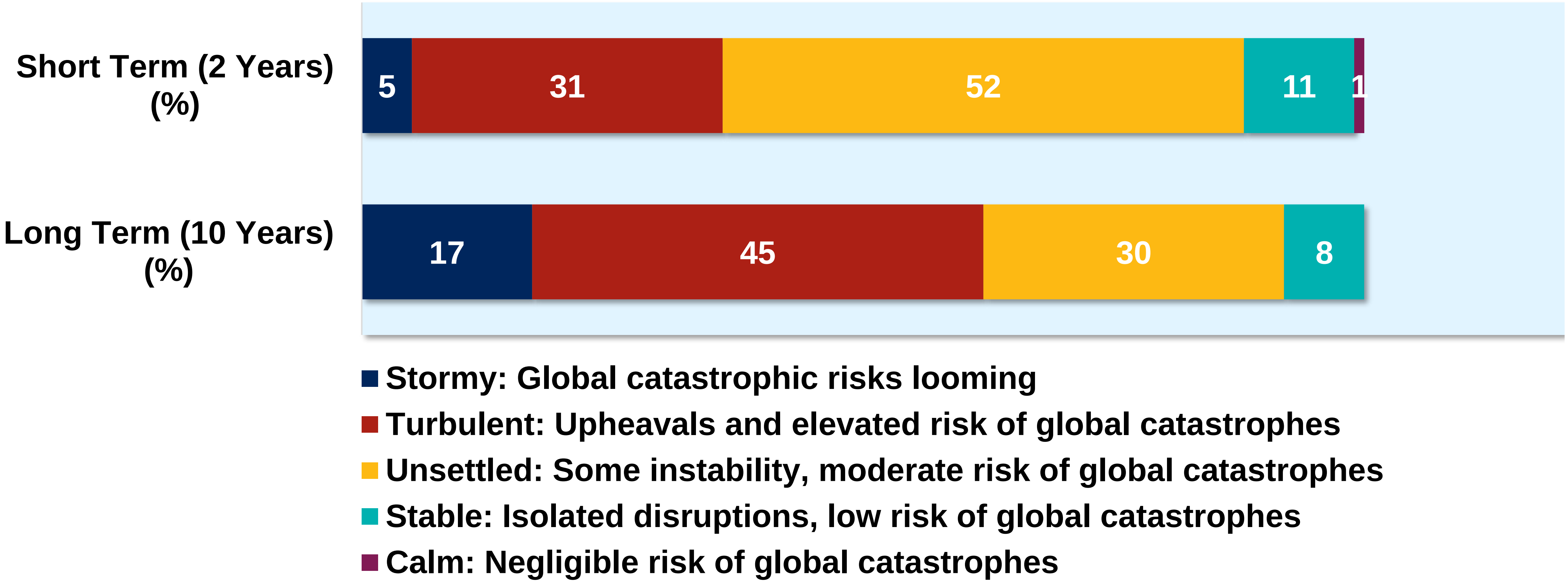
- Economic
- Environmental
- Geopolitical
- Societal
- Technological

Source: World Economic Forum - Global Risks Report 2025

Global Outlook – Risks

Short and Long-Term Global Outlook

"Which of the following best characterizes your outlook for the world over the following time periods?"



Source: World Economic Forum - Global Risks Report 2025

Change in Risk Priorities 2025

2014	2018	2022	2023	2024	2025
BI - Supply Chain Disruptions	BI - Supply Chain Disruptions	Cyber	Cyber	Cyber	Cyber
Natural Catastrophes	Cyber	BI - Supply Chain Disruptions	BI - Supply Chain Disruptions	BI - Supply Chain Disruptions	BI - Supply Chain Disruptions
Fire, Explosion	Natural Catastrophes	Natural Catastrophes	Macroeconomic Developments	Natural Catastrophes	Natural Catastrophes
Changes in Regulation and Legislation	Market Developments	Pandemic Outbreak	Energy Crisis	Changes in Regulation and Legislation	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	Climate Change
Loss of Reputation and Brand Value	Fire, Explosion	Climate Change	Natural Catastrophes	Fire, Explosion	Fire, Explosion
Intensified Competition	New Technologies	Fire, Explosion	Climate Change	Climate Change	Macroeconomic Developments
Cyber	Loss of Reputation and Brand Value	Market Developments	Shortage of Skilled Workforce	Political Risk and Violence	Market Developments
Theft, fraud corruption	Political Risks and Violence	Shortage of Skilled Workforce	Fire, Explosion	Shortage of Skilled Workforce	Political Risk and Violence
Quality deficiencies / defects	Climate Change	Macroeconomic Developments	Political Risk and Violence	Energy Crisis	New Technologies

Source: Allianz Risk Barometer

Resilience to Events is Important to Financial Strength

Some big industry events…

- Financial Crisis
- US Hurricanes
- WTC
- COVID-19
- Asbestos

Increased frequency and severity of risks

- Wildfires
- Floods
- Secondary Perils

Man-made risks / Human error

- Baltimore Bridge
- Cyber Attacks
- Riots
- Single Risk Explosions/Fires
- Aviation Losses

Why Should Companies Stress Test?

Understand interaction with market complexities

Determine need for financial flexibility and reinsurance

Determine balance sheet resilience and ability to absorb shocks

To be proactive about emerging risks and to develop action plans

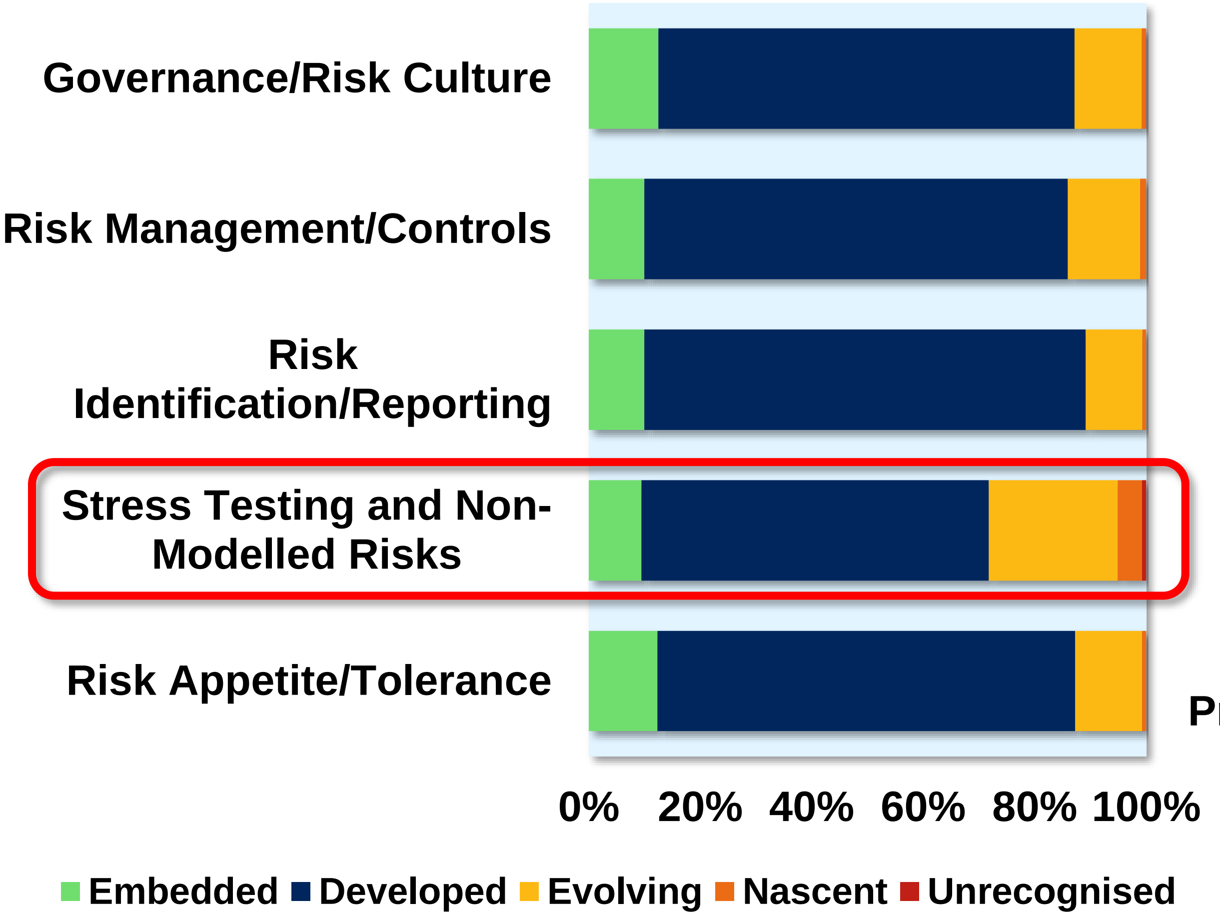
Identify risks/scenarios that may cause insolvency

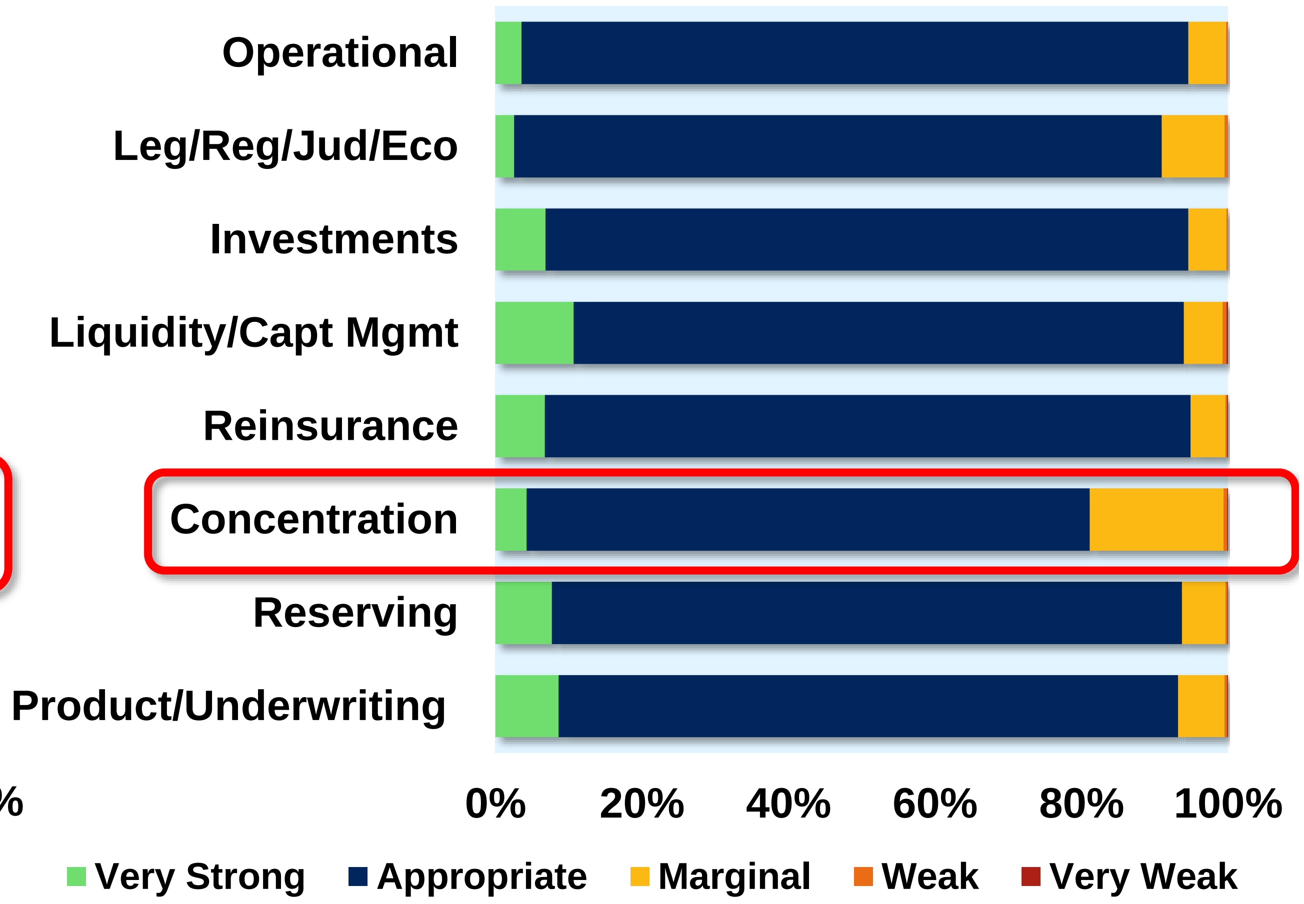
Regulatory requirements

Important component of Enterprise Risk Management – Manage capital and earnings volatility relative to risk appetite

AM Best's ERM Assessment – Global Risk Framework & Profile Evaluation

Stress Testing and Concentration are key elements within risk evaluation





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

Perspectives on Casualty Catastrophes and Emerging Liability

Dr. Angela Yeo
Senior Director, Head of Analytics

The State of the US Casualty Market

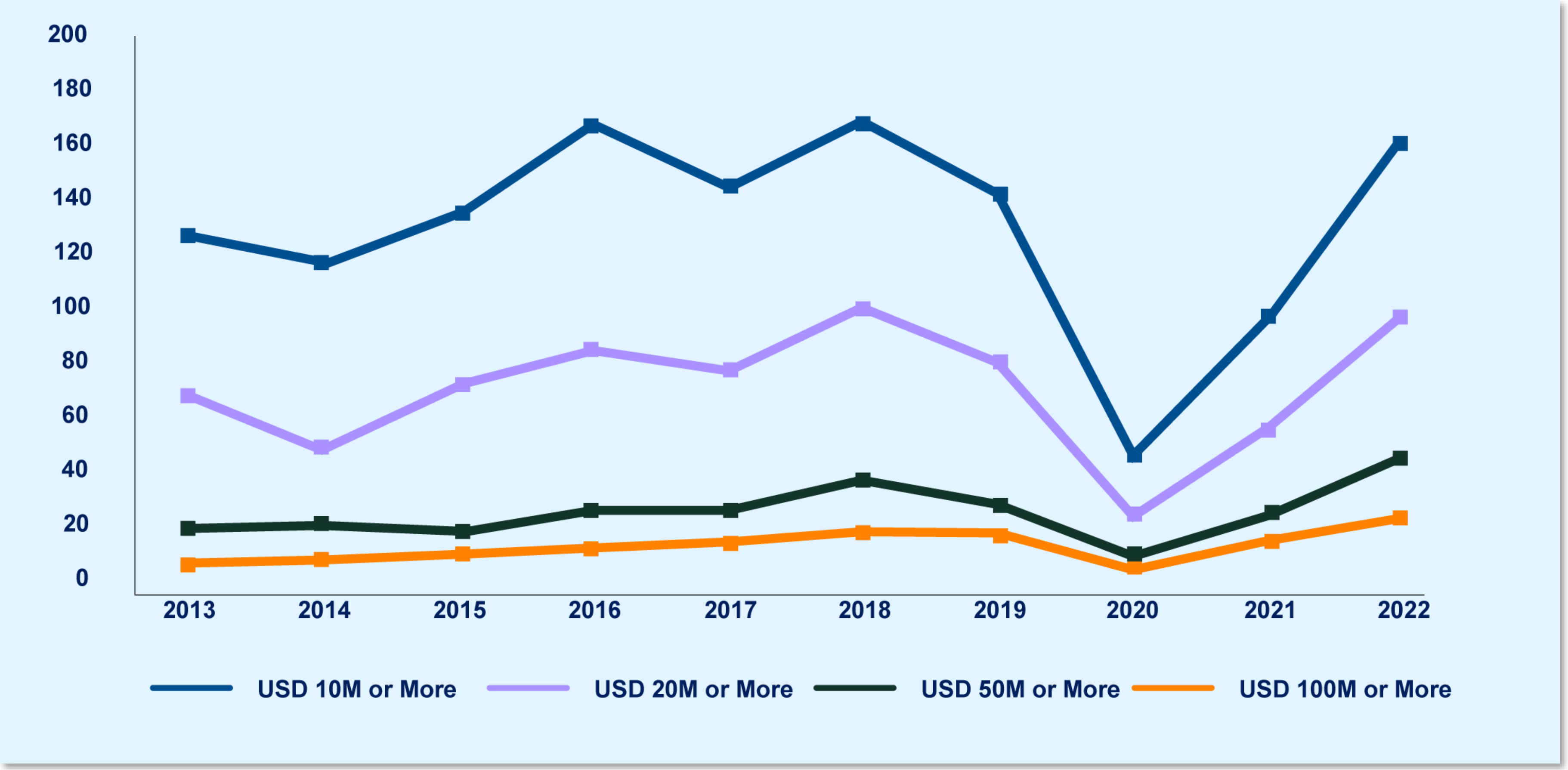
The State of the US Casualty Market

Headwinds	Tailwinds
• Worsening social inflation, medical expenses, and litigation financing • Emerging classes of litigation exposure, with the potential for large-scale class action lawsuits • Moderate pace of premium rate increases, which cannot keep up with increasing loss costs	• Consistent rate increases and tightening of underwriting standards • The high interest rate environment, which will favourably influence total profitability

Source:
AM Best: “Market Segment Outlook: US General Liability Insurance” (April 2024)

The State of the US Casualty Market

Number of Reported Nuclear Verdicts (2013 – 2022)



Source: US Chamber of Commerce Institute for Legal Reform

The Market’s Response

The Market's Response – New Business

- Rate Increases
- Tightening of Underwriting Standards
- Product Segmentation

The Market's Response – Existing Business

Reserve Strengthening

Out of Court Settlements

Loss Portfolio Transfers & Adverse Development Covers

Emerging Risks
Example PFAS

Emerging Risks – PFAS

- **Potential for Harm**
- **Exposure Across Time & Space**
- **Plaintiff Bar Interest in Mass Tort**
- **Challenges for Claims Handling & Reserving**
- **Potential to Impact Many Lines of Business**

Emerging Risks – PFAS

Balance Sheet Strength	Operating Performance	Business Profile	Enterprise Risk Management
• Challenging to reserve for mass torts, long latency and development lag • Potential for accumulation / correlation risk in tail	• Adverse reserve development may be a drag on earnings	• Increase in product risk	• Complex coverage issues might increase risk of reinsurance disputes • Risk identification, reporting and modelling challenges

Looking Ahead

Looking Ahead

Challenges are here to stay	But all is not doom and gloom
• Social inflation	• Some profitable sub-segments
• Increased interconnectivity of risks	• Ability to “underwrite” around the risk
• Interest rates coming down	• Growing interest from capital markets
• Wage inflation, healthcare costs and service inflation remain elevated	

IFRS 17 in Action

Konstantin Langowski
Associate Director,
Credit Rating Criteria Research & Analytics

IFRS 17 and AM Best

Where does AM Best stand after the first year of IFRS 17 reporting:

- AM Best strives for transparency and consistency –
  from implementation to improving and refining IFRS17 infrastructure:
  - Credit Reports/Financial Reports
  - Supplementary Rating Questionnaire (SRQ)
  - Internal data capture tables and benchmark tools
- Further evolution is expected as IFRS 17 reporting evolves

Working with IFRS 17

IFRS 17 – Observations

AM Best's current assessment is:

- Evolution still to come on content and presentation
- Will be viewed more favourably over time
- Complexity to remain a challenge

Some early subjects for discussion:

- Segment reporting
- Expenses
- Contractual Service Margin (CSM)

AM Best's focus is to implement methodology consistently

Working with IFRS 17

Segment Reporting

- Primarily referring to life/non-life
- Different level of detail in some cases
- P&L data set requires segment roll forward tables
- Analysis is generally separate
- Expenses allocation is a long-standing subject

Working with IFRS 17

Expenses

- Practice varies on expenses in roll-forward tables
- Translation from roll-forward tables to management expense data can be unclear
- Composites' non-operating costs segment allocation
- Identification of central costs

Contractual Service Margin (CSM) – A Ratings Perspective

Local GAAP reporters with supplementary value reporting and/or SII	IFRS 17 reporters	US GAAP reporters

- In general, audited quantities are included within available capital calculation in the range of 0 - 100%
- CSM obviously is "loss absorbing", but are CSM movements the same losses that are absorbed by equity?
  - Scaled up for impact on profit over policy duration
  - Assumption changes
- Early experience suggests volatility comparable to VIF in embedded value reporting

- Typically, AM Best's Net Economic Value due to Long-term Business applies to life segment
- Haircut for volatility and fungibility supports level playing field across ratings universe
- Cohort composition of CSM amortization in reporting period would show delivery of new business profit

Wrap Up

- Combination of value-oriented balance sheet with run-rate profit reporting is a welcome innovation
- RoEs with IFRS 17 equity denominator may be characterised as an achieved return on investment. Enhances role of RoE, at expense of estimated new business IRR
- Complexity remains a challenge. Roll forward tables likely to have an increased profile over time

- AM Best's IFRS 17 2025 SRQ for clarity on data requirements.
- AM Best expects expenses reporting to evolve
- Scope for more informative reporting relating to:
  - OCI movements
  - VFA business impact on CSM
  - Cohort composition of CSM amortization in reporting period

Q&A

AM BEST

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11 & 12 March 2025

Excelsior Hotel Ernst, Cologne
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