

National Scale Ratings

**Rob Curtis – CEO & Managing Director
Asia-Pacific (Singapore) Pte Ltd, AM Best**

**AM Best Insurance Market Briefing – New Zealand
16th November, 2023**

Regions of Focus

- **AM Best's Credit Rating Coverage:**

- AM Best is one of the industry leaders in credit rating coverage in the Americas, covering majority of the market share.

- **A Rich History:**

- Founded in 1899, AM Best is recognized as the only global credit rating agency specializing in the insurance industry.

- **Geographical Coverage in Asia Pacific**

- Coverage extends from Mongolia to Australia/ New Zealand; from Philippines to India



Legend



New Initiatives: Best's National Scale Ratings (NSR)

- **What is an NSR?**

- Best's National Scale Rating (NSR) is a relative opinion of an insurance company's financial strength within a single country.

- **Objectives:**

- Improve ratings coverage in selective markets through offering NSRs.
- Provide greater differentiation within these markets between local market participants.
- Satisfy market demand for NSRs.

- **Markets:**

- NSRs assigned in Mexico, India, Indonesia, Vietnam, Philippines, Egypt at present.

NSR Mapping Tables



Global ICR Scale	India National Scale
bbb	aaa.IN
bbb-	aa+.IN
bb+	aa.IN
bb	aa-.IN to a+.IN
bb-	a.IN to a-.IN
b+	bbb+.IN to bbb.IN
b	bbb-.IN to bb+.IN
b-	bb.IN to bb-.IN
ccc+	b+.IN
ccc	b.IN to b-.IN
ccc-	ccc+.IN to ccc.IN
cc	ccc-.IN to cc.IN
c	c.IN



Global ICR Scale	Indonesia National Scale
bbb+	aaa.ID
bbb	aa+.ID
bbb-	aa.ID
bb+	aa-.ID to a+.ID
bb	a.ID to a-.ID
bb-	bbb+.ID
b+	bbb.ID to bbb-.ID
b	bb+.ID to bb.ID
b-	bb-.ID
ccc+	b+.ID to b.ID
ccc	b-.ID
ccc-	ccc+.ID to ccc.ID
cc	ccc-.ID to cc.ID
c	c.ID



Global ICR Scale	Philippines National Scale
bbb+	aaa.PH
bbb	aa+.PH
bbb-	aa.PH
bb+	aa-.PH to a+.PH
bb	a.PH to a-.PH
bb-	bbb+.PH
b+	bbb.PH to bbb-.PH
b	bb+.PH to bb.PH
b-	bb-.PH
ccc+	b+.PH to b.PH
ccc	b-.PH
ccc-	ccc+.PH to ccc.PH
cc	ccc-.PH to cc.PH
c	c.PH



Global ICR Scale	Vietnam National Scale
bbb-	aaa.VN
bb+	aa+.VN
bb	aa.VN to aa-.VN
bb-	a+.VN to a.VN
b+	a-.VN to bbb+.VN
b	bbb.VN to bbb-.VN
b-	bb+.VN to bb.VN
ccc+	bb-.VN to b+.VN
ccc	b.VN to b-.VN
ccc-	ccc+.VN to ccc.VN
cc	ccc-.VN to cc.VN
c	c.VN
cc	ccc-.ID to cc.ID
c	c.ID

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AM Best's Insurance Market Briefing

**Andrea Keenan – Executive Vice President & Chief Strategy Officer,
AM Best Rating Services**

**AM Best Insurance Market Briefing – New Zealand
16th November, 2023**



Discussion: Two Parts



History and Purpose



Innovation and DUAE



To strengthen the financial solvency, stability and sustainability of the insurance industry in support of economic growth and the well-being of all stakeholders.

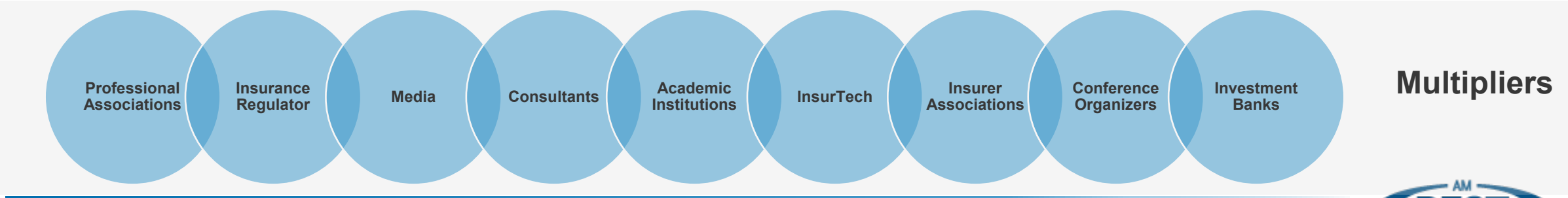
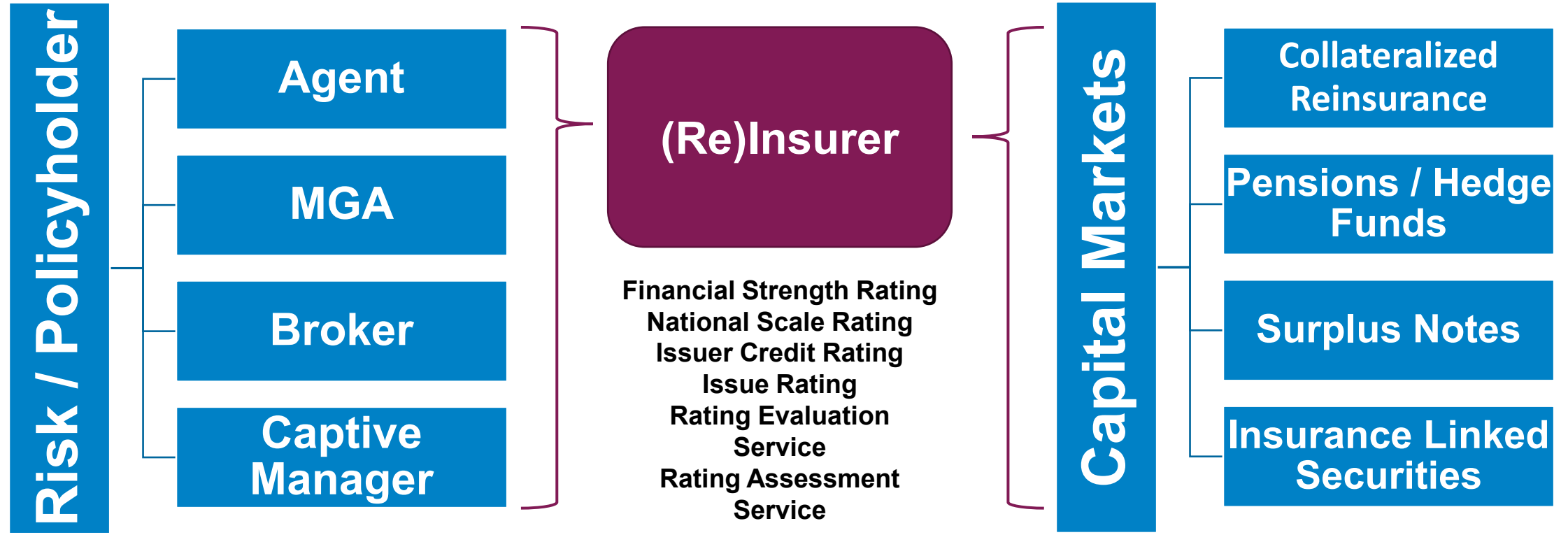
Stability and sustainability of the insurance industry in support of economic growth and the well-being of all stakeholders

Our Purpose





Insurance Ecosystem





Developments Over Time

1990s: Globalization of our business

2000s: Paid particular attention to new capital entering the industry – in all its forms: captives/startups

2010s: Increased transparency with restructured methodology

2020: Added innovation in our methodology

2021: Added ESG in our commentary

2022: Introduced Performance Assessment for Delegated Underwriting Authority Enterprises

2023: Expanded our use of NSRs



Convergence of Factors

The Tech Boom has augmented underwriting

- A generation of new MGAs with tech features emerged
- Even those not intending to underwrite found it easier than SaaS or other options

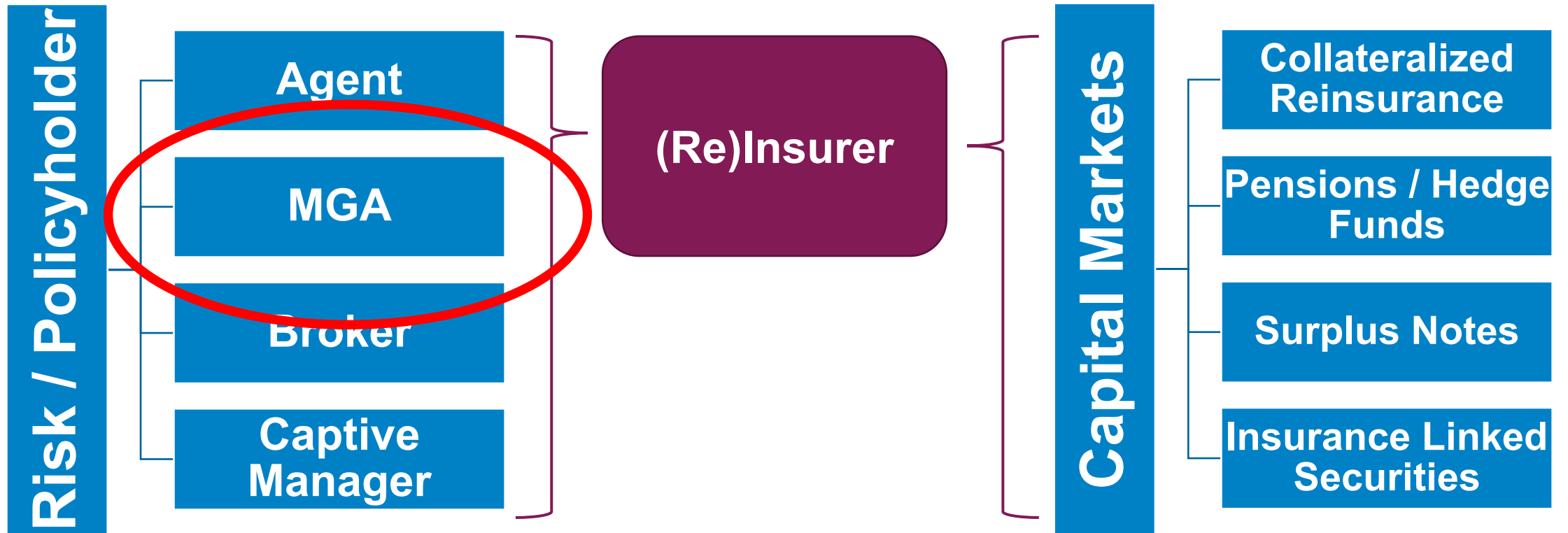
MGA targets are attractive to Private Equity

Fronting and Hybrid Fronting Models Expanding

Distribution methods are evolving for Insurers

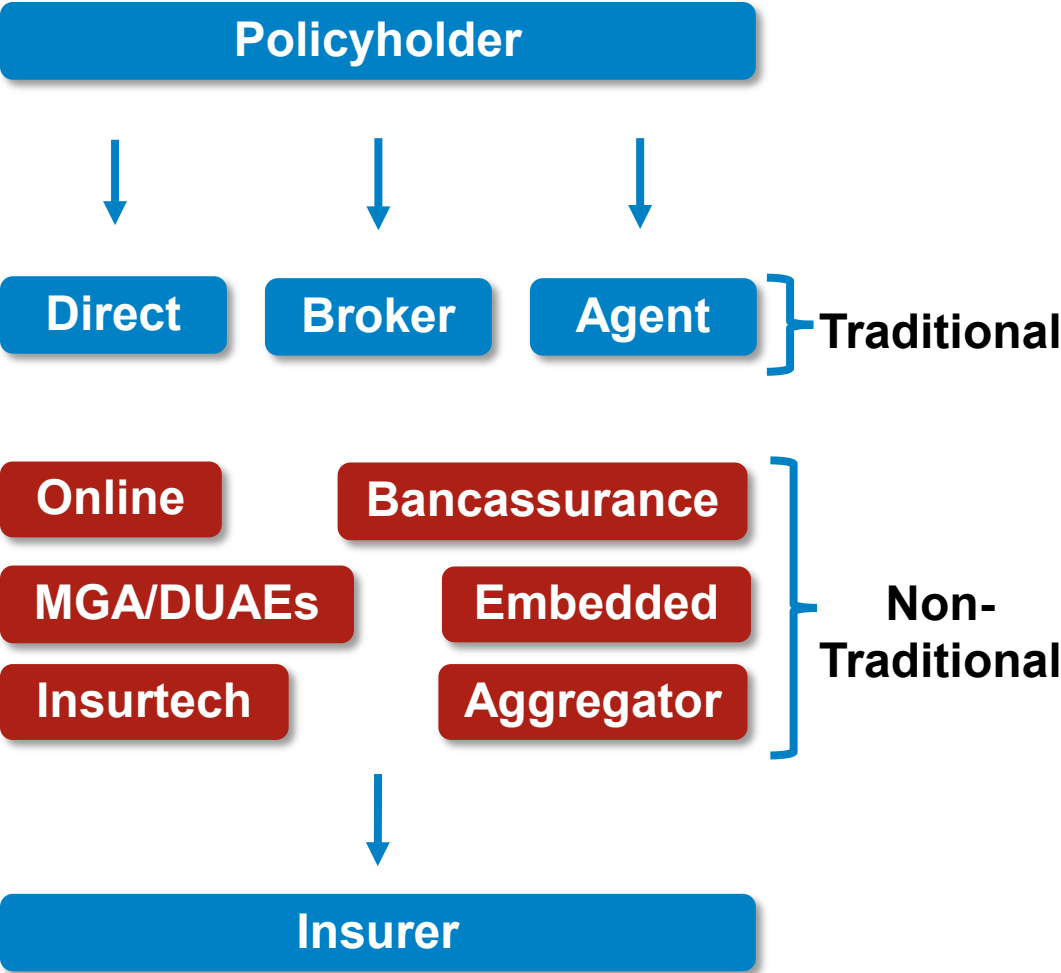
More insurance activity drifting off of the regulated balance sheet

Insurance Ecosystem Revisited



Examining the Evolution in the Insurance Distribution Model

Evolution of Insurance Distribution



- ### Distribution Trends
- Multi-channel
 - Non-traditional channels
 - Technology
 - Delegated authority / coverholder model

- ### Channel Considerations
- Growth & Access
 - Cost
 - Segment
 - Competition

Growth of DUAEs/MGAs in the Value Chain

**US Property & Casualty
MGA Direct Premiums Written (USD billions)**



Growth of this distribution channel:

US – leading the way

**UK
(including London Market) – also significant**

Continental Europe – in select countries

Hotspots in Asia-Pacific include:

- Australia
- New Zealand
- Hong Kong
- Singapore





The DUAЕ/MGA ‘Value Proposition’ for Insurers

Talent

Providing insurers indirect access to experienced and specialist underwriters

- Agile and entrepreneurial strategies
- Business model has proven attractive to seasoned underwriters

Technology

Incubators for digital processes and new technologies distribution, underwriting and data analytics

- Generally unencumbered by legacy systems
- Often technology-led strategy from the outset

The DUAE/MGA 'Value Proposition' for Insurers

Access

Supports targeted growth and diversification for insurers

- Product line and geographical expertise
- Niche market relationships & business access
- Engage in new product areas with limited investment

Alignment

Effective alignment of interest supports balanced risk-taking by the MGA/DUAE

- Profit commission structures
- Risk-sharing features



To strengthen the financial solvency, stability and sustainability of the insurance industry in support of economic growth and the well-being of all stakeholders.

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Our Purpose



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Global Reinsurance Market Outlook & Highlights

Victoria Ohorodnyk – Director, AM Best

**AM Best Insurance Market Briefing – New Zealand
16th November, 2023**

Global Reinsurance Market – Discussion Outline

Outlook, Main Drivers, Key Themes

Is There Actually a “Capacity Shortage”?

Results Improving, but still Playing Catch-Up

AM Best’s Expectations – The Next 12 Months

Global Reinsurance Market Outlook – Stable

Headwinds

**“Available” capital ≠ “Deployed” capital
Investor caution**

**More complex and evolving risk
environment**

Volatile investment markets

**Inflationary pressures, rising interest rates
Higher cost of capital**

**Protection gap bound to widen
Pressure to innovate to maintain relevance
in broader economy**

Tailwinds

**Reinsurers remain well capitalized despite
buffers having shrunk**

**Demand remains strong, characterized by
flight to quality**

**Technical results continue to improve
Underwriting discipline expected to last**

**Reinsurers have shown in the past their
ability to innovate and re-invent
themselves**

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 before 1/1/23

Alternative Capital

Plateaued since 2018

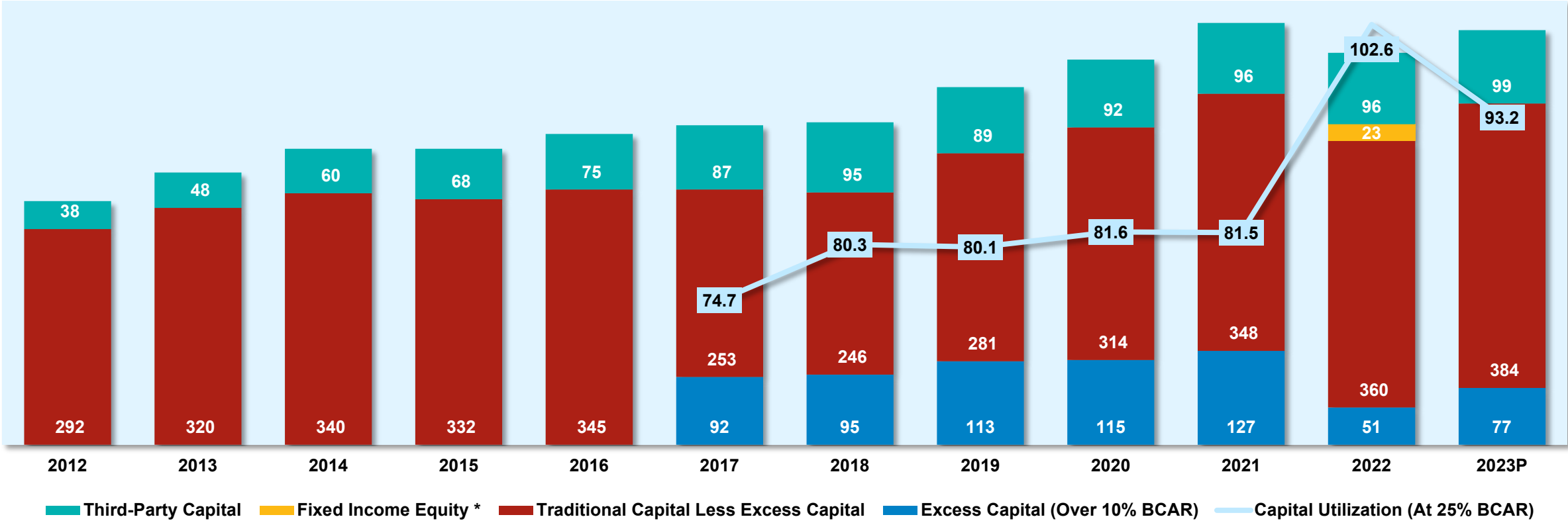
No single major
catastrophe event

Accumulation of more frequent
secondary perils

Global reinsurers remain
well capitalised

Global Reinsurance Market Capital

Estimate – Total Dedicated Reinsurance Capital (USD, Billions)



Notes: *: 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

Our Insight, Your Advantage™



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

Q&A

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New Zealand Non-Life Market Segment Outlook

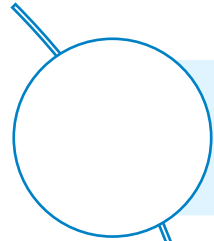
Victoria Ohorodnyk – Director, AM Best

Yi Ding – Senior Financial Analyst, AM Best

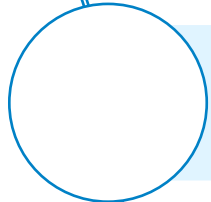
Ken Lau – Senior Financial Analyst, AM Best

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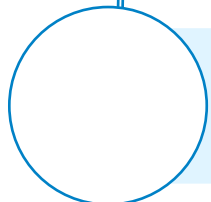
Agenda



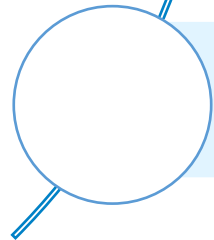
What an AM Best Market Segment Outlook Covers



Snapshot of AM Best's Market Segment Outlooks



Best's Market Segment Report – New Zealand Non-Life Insurance



Regulatory Update

Market Segment Outlooks - Definition

- Our market segment outlooks examine the impact of current trends on companies operating in particular segments of the insurance industry over the next 12 months. Typical factors we would consider include;
 1. Current and forecast economic conditions;
 2. The regulatory environment and potential changes;
 3. Emerging product developments;
 4. Competitive issues that could impact the success of these companies;
 5. Other items

Market Segment Outlooks - Definition

- A **Positive** market segment outlook indicates that AM Best expects market trends to have a positive influence on companies operating in the market over the next 12 months. However, a Positive outlook for a particular market segment does not mean that the outlook for all the companies operating in that market segment will be Positive.
- A **Negative** market segment outlook indicates that AM Best expects market trends to have a negative influence on companies operating in the market over the next 12 months. However, a Negative outlook for a particular market segment does not mean that the outlook for all the companies operating in that market segment will be Negative.
- A **Stable** market segment outlook indicates that AM Best expects market trends to have a neutral influence on companies operating in that market segment over the next 12 months.

Snapshot of AM Best's Market Segment Outlooks

AM Best currently publishes 59 market segment outlooks, across life, non-life, reinsurance markets and Delegated Underwriting Authority Enterprises (DUAEs).

Global Breakdown Asia Pacific Breakdown

33 **Stable**
25 **Negative**
1 **Positive**

5* **Stable**
4 **Negative**

Some Challenge Facing Different Markets

- Reinsurance availability, capacity, costs
- Climate risk, natural catastrophes
- High competition in personal lines
- Economic uncertainty, slowdown
- Weak fiscal conditions
- Inflation and interest rates
- Pressure on household income
- Impact arising from COVID

*Non-life markets only, 6 including life

Best's Market Segment Report – New Zealand Non-Life Insurance

AM Best has Assigned a Stable Outlook to New Zealand's Non-Life Insurance Segment

Positive Factors:

- Solid premium growth despite economic slowdown
- Resilient performance
- Good buffer in risk-adjusted capital

Offsetting Factors:

- Reinsurance capacity tightening and rate increase
- Increasingly volatile weather conditions

Positive Factors

Good Buffer in Risk-Adjusted Capital

- Robust risk-adjusted capitalization, as measured by AM Best's BCAR model
- Generally conservative capital management, driven by New Zealand's strong regulatory framework

Solid Premium Growth Despite Economic Slowdown

- We expect the non-life industry to see GWP growth exceeding general inflation in the coming years

Resilient Performance

- Despite material impact of weather-related events in 2023, reinsurers are expected to bear most of the gross costs
- Significant premium rate adjustments in the insurance industry
- Increased focus on risk management

Offsetting Factors

Increasingly Volatile Weather Conditions

- **Technical performance highly correlated with weather events**
- **Climate risk pose challenges to non-life insurers' profitability**

Reinsurance Capacity Tightening & Rate Increase

- **Hard global reinsurance market**
- **New Zealand non-life insurers are more vulnerable to reinsurance pricing and appetite changes**
- **Increased volatility in primary insurers' earnings in the future**

New Zealand Regulatory Updates

Conduct of Financial Institutions (CoFI)

- Requires registered banks, licensed insurers, and licensed non-bank deposit takers to hold a conduct licence issued by the Financial Markets Authority

Potential Impact

- Internal reviews of conduct and governance have been one of the top priorities of non-life insurers in New Zealand
- The market players are in a better position to comply with the new licensing requirements

Review of the Insurance Prudential (Supervision) Act (IPSA)

- Supporting a more proactive and intensive approach to supervision
- Treatment of overseas insurers
- Statutory purposes and the scope of the legislation
- Policyholder security

Potential impact

- The regulator is expected to be more empowered by the new legislation for closer supervision
- Non-life insurers in New Zealand are expected to review their practices against the proposed new rules and close any gap they identify

Q&A

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