

AM BEST | CELEBRATING
125
YEARS

AM Best's
Reinsurance Market Briefing –
Rendez-Vous de Septembre

8 September 2024, Hotel Hermitage

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Rendez-Vous de Septembre
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Managing Director, Market Development, EMEA, London

8 September 2024, Hotel Hermitage

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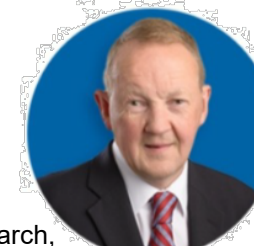
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Introducing Today's Panel



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Global Reinsurance Market – Discussion Outline

Outlook –

Positive: a distinct type of hard cycle

Robust Operating Results –

Global benchmarks clouded by IFRS 17 adoption

Available Capital –

The class that never was

Potential Issues –

What challenges lie ahead?

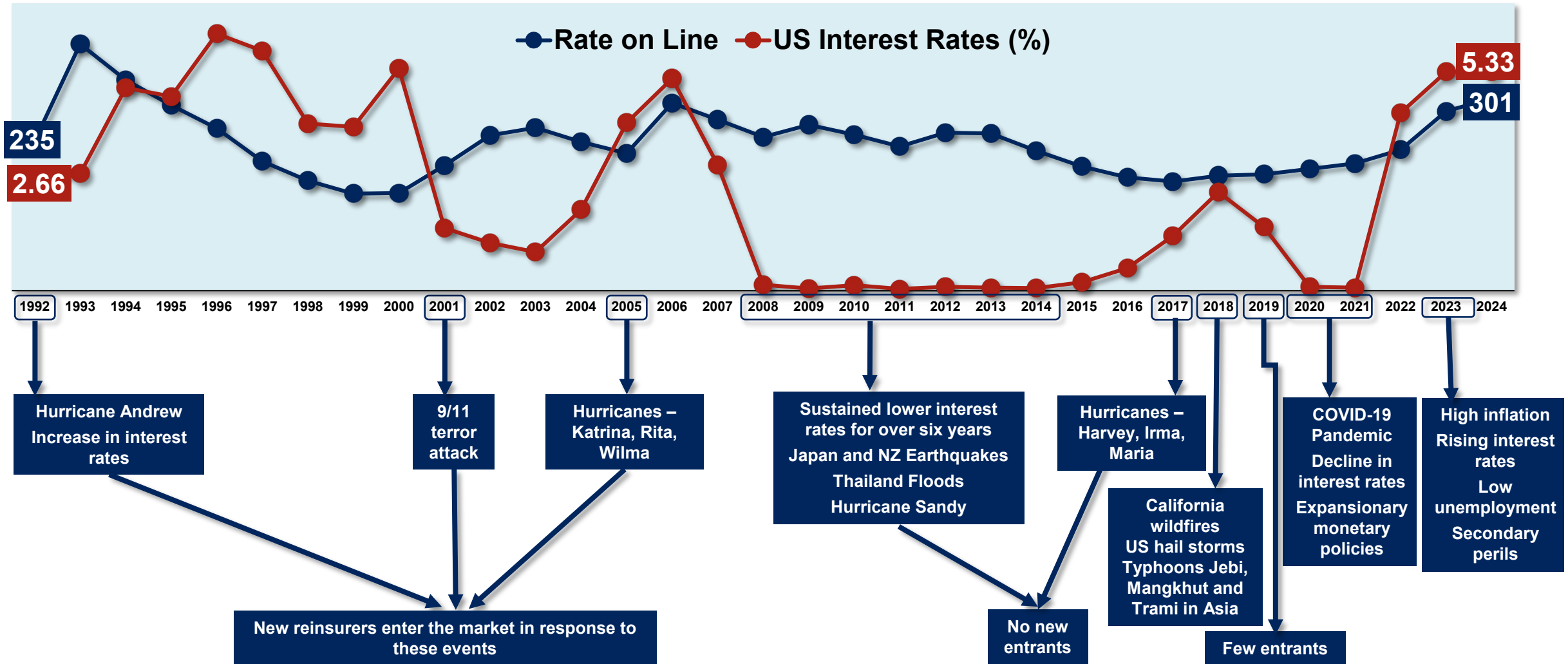
AM Best's Expectations –

Profits: sustainable for longer than in prior cycles

Outlook – Positive: A Distinct Type of Hard Cycle

**Carlos Wong-Fupuy
Senior Director, Global Reinsurance Ratings
New Jersey, US**

Why is this Cycle Different?



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



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-of-line, the result was an underwriting margin that hasn't been realized since 2014.

Improved and stabilized underwriting margins followed a strong result in 2023, despite heavy weather-related losses in the U.S. Hurricane season and other events.



Drivers

De-risking

- Realignment of interests
- Shift away from high-frequency layers
- Tighter terms and conditions

Robust Capitalisation

- Hard pricing to last longer
- More efficient capital management
- No capital depletion

No New Class of 2024

- No new company formations despite attractive pricing
- Capital used for opportunistic use or in ILS

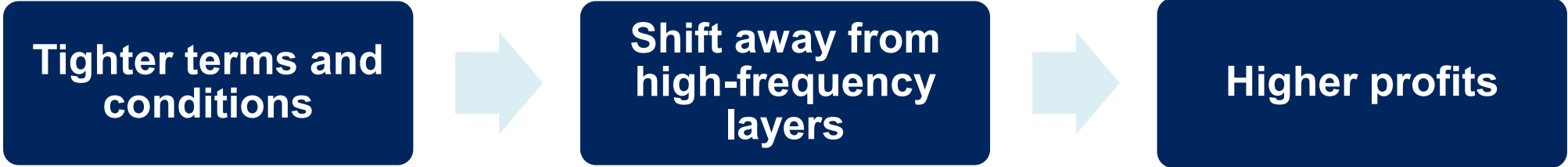
Demand for Complex Risk

- Cedents looking to restore risk transfer
- Emerging risks, cyber and AI challenging risk transfer

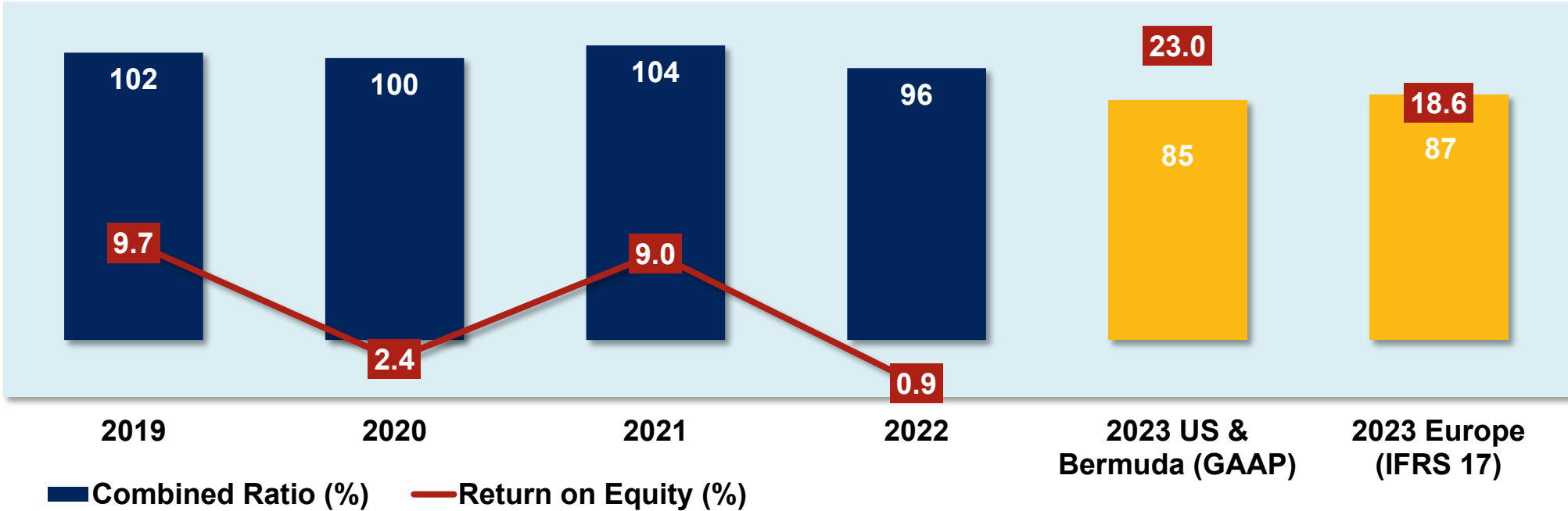
Role of Interest Rates

- Not as impactful as in prior cycles

Return on Equity and Combined Ratio



Global Reinsurance Market 2019-2022 with 2023 Split – US & Bermuda (GAAP) and Europe (IFRS 17)



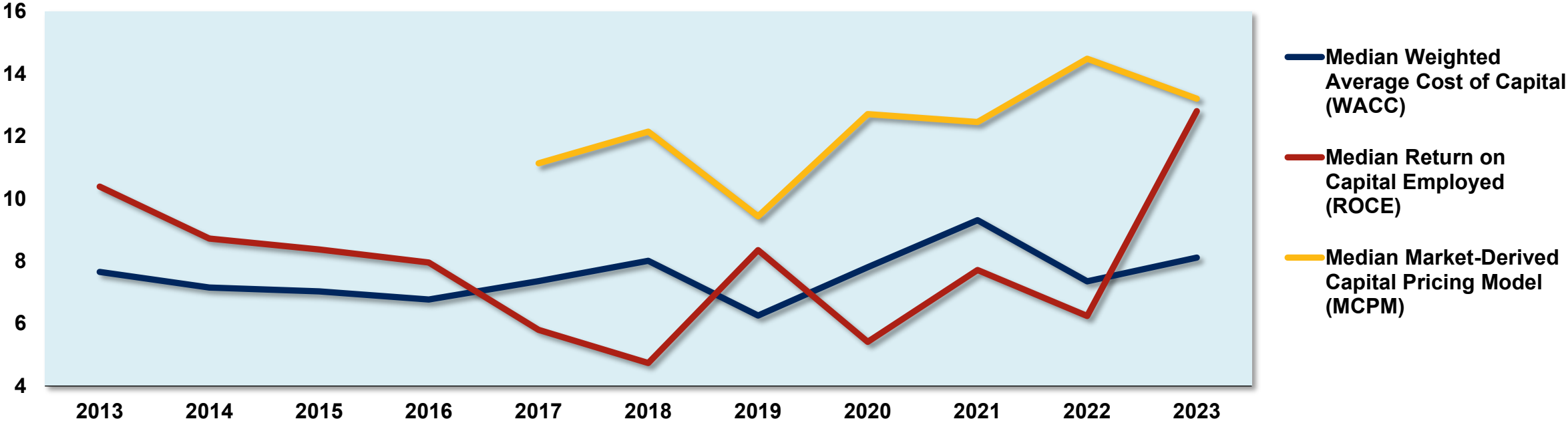
Return on equity and combined ratios are global through to 2022.
 US & Bermuda represents a composite of seven large reinsurers.
 Europe represents composite of large reinsurers that filed under IFRS 17 at year-end 2023.
 Source: AM Best data and research



**Robust Operating Results –
Global Benchmarks
Clouded by IFRS 17 Adoption**

**Mahesh Mistry
Senior Director, Head of Analytics, London**

Cost of Capital and Realignment of Risk



Reinsurers meeting cost of capital

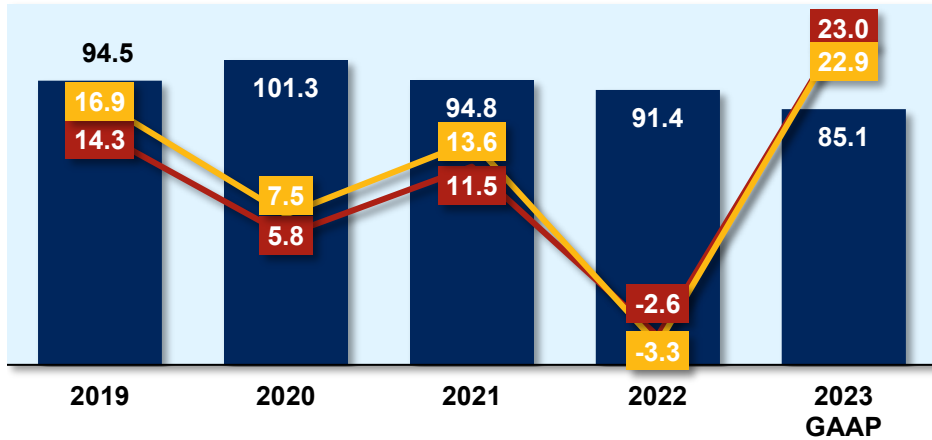


Market-Derived Capital Pricing Model (MCPM) is based on a smaller sample size and has limited years due to availability of data
Source: Bloomberg

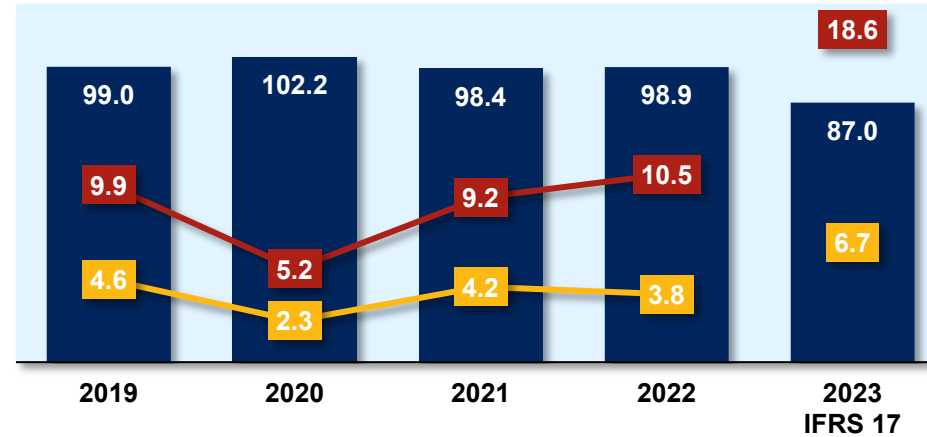


Reinsurers – US & Bermuda, Europe, Lloyd's and Asia Pacific

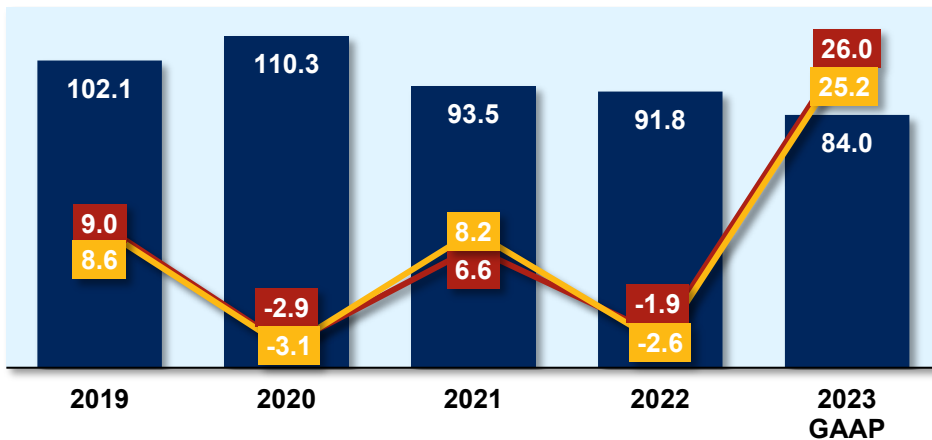
US & Bermuda



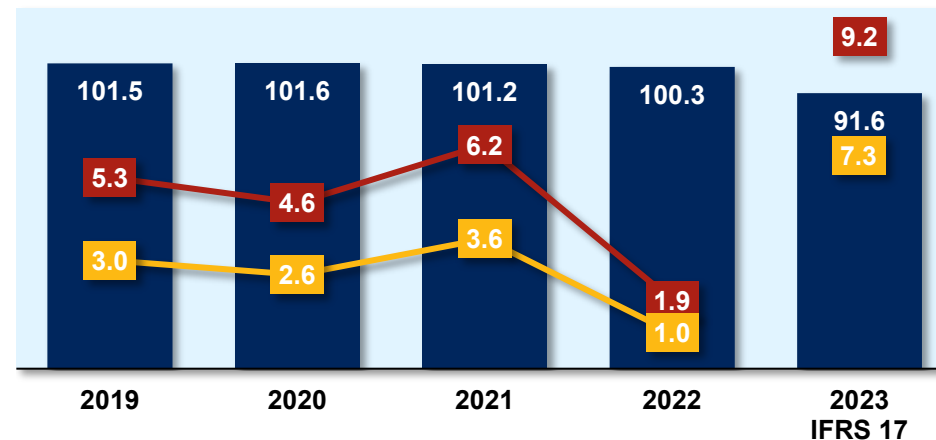
Europe



Lloyd's



Asia Pacific



Combined Ratio

Return on Equity

Return on Revenue

AM Best's Top 50 Reinsurance Groups for 2023

Non-IFRS 17 Rank	IFRS 17 Rank	Company	Life & Non-Life (USD m)			
			Reinsurance Premiums (GPW)	Reinsurance Revenue (Gross)	Total Shareholders' Funds	Combined Ratio (%)
1		Swiss Re	40,503		16,371	94.1
	1	Munich Reinsurance		32,921	32,863	85.2
2		Berkshire Hathaway	27,453		567,509	84.0
	2	Hannover Rück		26,995	12,164	94.0
3		Lloyd's	22,075		56,869	80.2
	3	SCOR		17,575	5,213	85.0
4		Reinsurance Group of America	14,281		9,171	N/A
5		RenaissanceRe Holdings	12,340		9,455	78.0
6		Everest Re Group	11,460		13,202	86.4
7		Arch Capital Group	9,113		18,353	81.5
8		PartnerRe	9,102		8,424	81.7
	4	China Reinsurance (Group)		5,986	14,453	93.5
9		MS&AD Insurance Group Holdings	5,777		13,814	98.7
10		General Insurance Corp of India	4,544		10,283	111.7

Download AM Best's Market Segment Report for the full list of reinsurers and explanatory text



Our Insight, Your Advantage™
 August 28, 2024 **World's 50 Largest Reinsurers**

The change from IFRS 4 to IFRS 17 has material impact on (re)insurers' financial statements

Principal Takeaways

- Munich Re is the largest IFRS 17 reporting reinsurer, followed by Hannover Rück SE and SCOR SE.
- Swiss Re is the largest non-IFRS 17 reporting reinsurer, followed by Berkshire Hathaway and Lloyd's.
- The global reinsurance industry is in the midst of a generational hand market that has driven the significant growth for many reinsurers.
- The transition to IFRS 17 diminishes the comparability among reinsurers.
- On Jan. 30, 2024, AM Best revised its outlook for the global reinsurance segment to Positive from Stable—the first time we have had a Positive outlook on the segment.

Over the past two decades, AM Best's reports have outlined major developments in the global reinsurance segment and ranked the players in the market. Most years, changes have been modest. However, this year, the implementation of IFRS 17 has caused a re-engineering of the rankings due to the lack of comparability introduced by the new accounting standard. To that end, this year's list of the top reinsurers looks different than it has in prior years, as the analysis has evolved to provide the most relevant rankings possible.

The hard market conditions reignited by Hurricane Ian and substantial secondary peril events in 2022 resulted in a continuation of significant rate increases as well as a tightening of terms and conditions that continued through the 2023 renewals. Additional factors in 2023—such as mark-to-market unrealized fixed-income investment losses, loss cost and social inflation, and global macroeconomic uncertainty—caused a substantial imbalance in reinsurance supply and demand dynamics. In aggregate, these factors resulted in significant growth in premium volume, underwriting income, and net income.

The reinsurance segment's top-line growth was strong throughout 2023, as measured by AM Best's annual ranking of the world's largest reinsurance groups. For the top-35 non-IFRS 17 companies, total reinsurance gross premiums written (GPW) rose by more than 6% during 2023, driven primarily by strong rate increases rather than exposure growth.

Despite global investment market turmoil and severe global catastrophic losses, many reinsurers reported strong underwriting results, which was supplemented by significant growth in fixed-income investment yields, driven by increases in reinvestment rates. Notably, Bermuda reinsurers, many of which saw returns on equity higher than 20%, substantially outperformed their cost of capital for the year. Rates remain strong, terms and conditions are tight, and reinsurers have increased their attachment points significantly, and there is little indication in the market that underwriting discipline is waning. Although the US was spared a significant named storm making landfall in 2023, the prolonged period of subpar underwriting returns leading up to the 2023 market hardening has kept up the momentum on risk-adjusted

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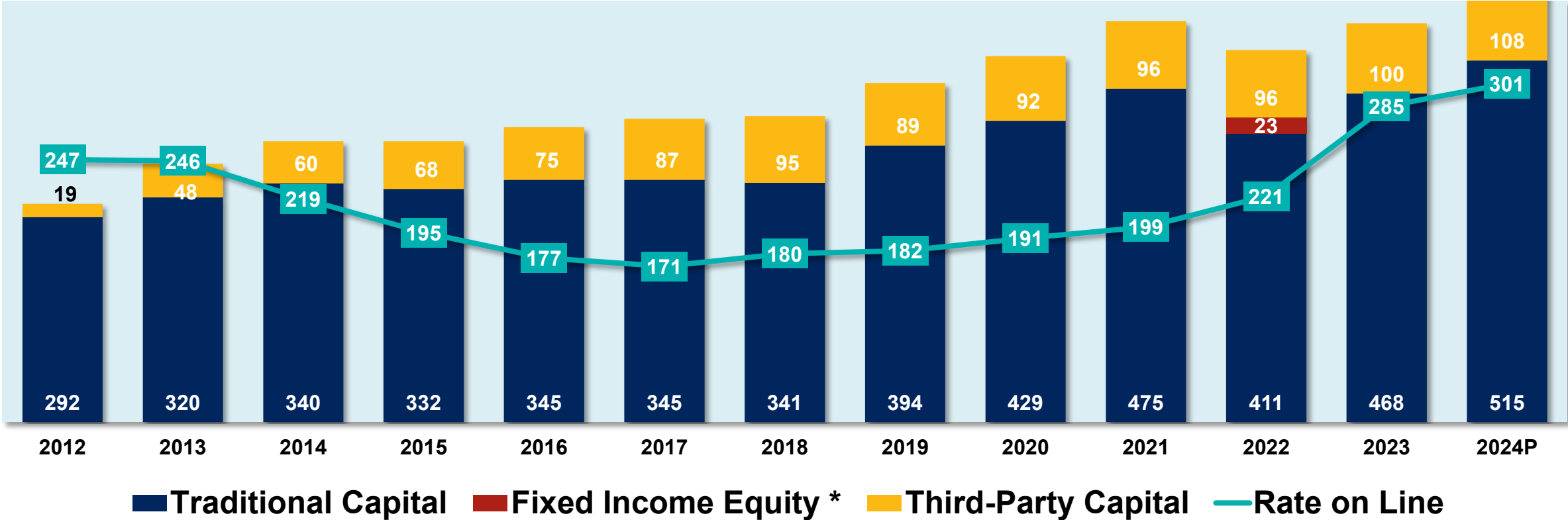


Available Capital – The Class That Never Was

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

Global Reinsurance Market Capital

Estimated Dedicated Reinsurance Capital (USD Billions)

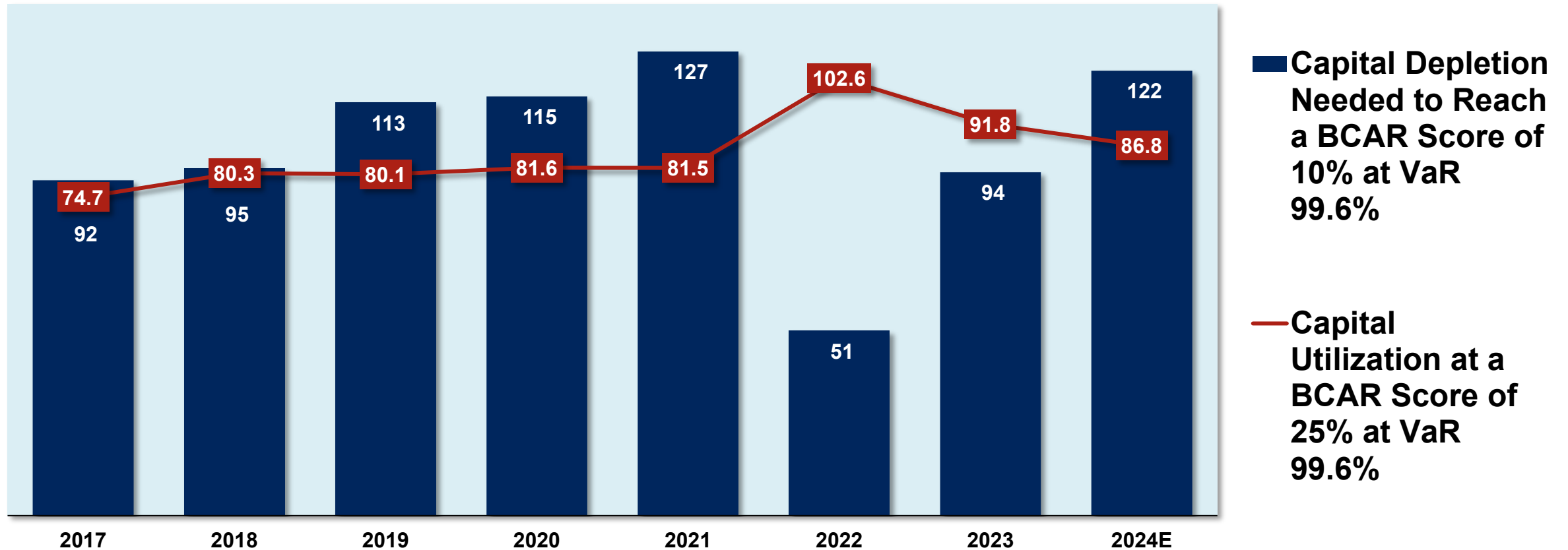


* For reinsurers that have ample cash liquidity to support potential shock losses, the fixed-income equity adjustment captures the amount of capital that AM Best anticipates will be recovered as bonds mature over time.



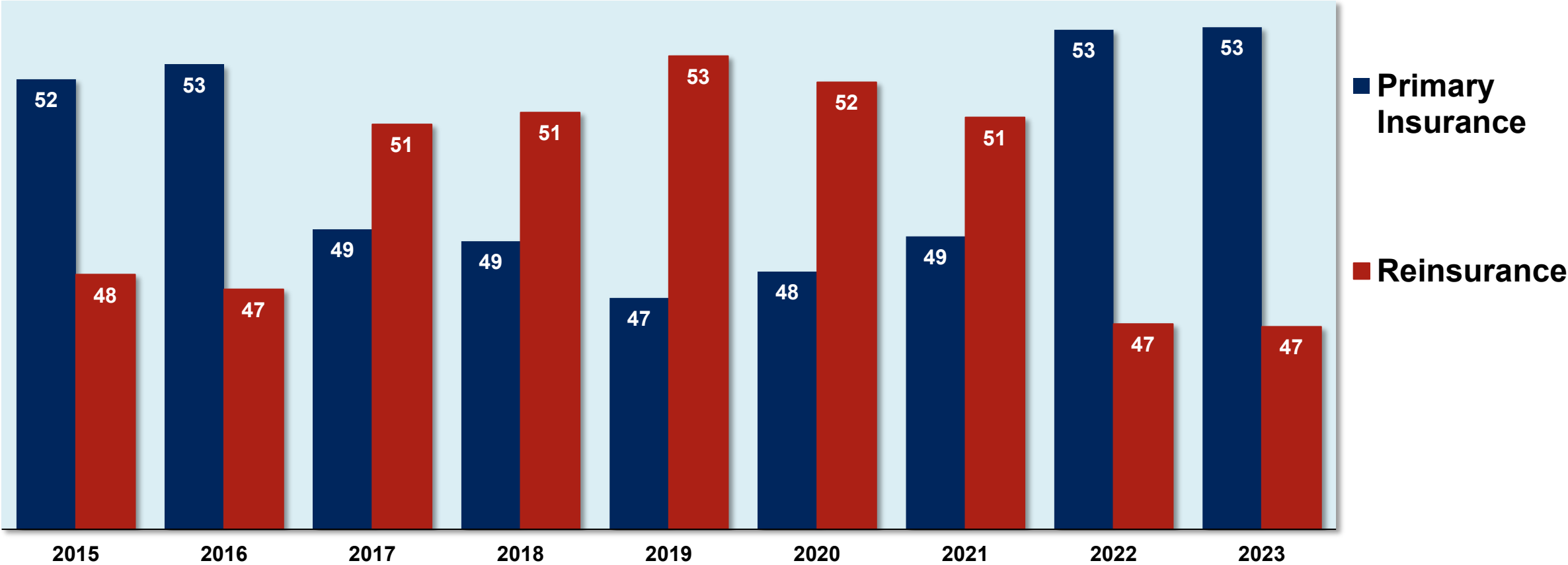
A Hard Cycle With Excess Capital

Global Reinsurance – Capital Utilization (USD billions)

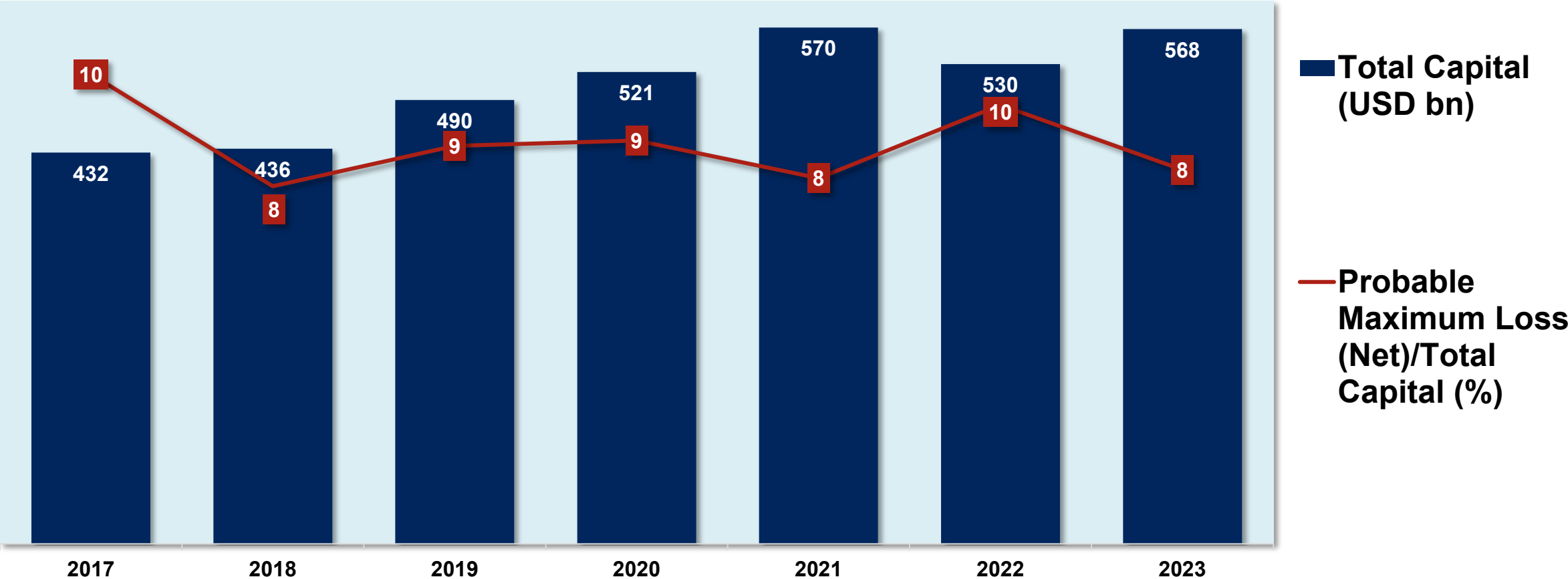


Global Reinsurance – Primary Insurance vs. Reinsurance

Capital Allocation (%)



Probable Maximum Loss as a Percentage of Capital



Potential Issues – What Challenges Lie Ahead?

Greg Carter
Managing Director
Analytics, EMEA & Asia Pacific
Singapore

Near Term – Potential Concerns



What will the remainder of 2024 be like?



Economic and geopolitical issues



US casualty reserve challenges and social inflation

Longer-Term – Emerging Issues

● **Scrutiny of catastrophe models**

● **Cyber risks**

● **Artificial intelligence**

● **PFAS**

● **Other risks**

Price/Book Value (P/BV) Recovering – Driving M&A Activity?



Notes: 2012 to Present. Excludes accumulated other comprehensive income.
Sources: AM Best data and research, Bloomberg, company reports and accounts



AM Best's Expectations – Profits: Sustainable for Longer Than in Prior Cycles

**Carlos Wong-Fupuy
Senior Director, Global Reinsurance Ratings
New Jersey, US**

AM Best's Expectations – What AM Best Said Last Year

**Underwriting profits –
to continue**



**Disciplined expansion of the reinsurance
segment –
led by major players**



**Inflationary pressures and
high interest rates –
to remain**



**Emerging risks –
slow expansion**



**Rate increases –
to continue at a slower pace**



**Significant new capital / number of new
entrants –
unlikely**



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



**Higher retentions –
here to stay**



AM Best's Expectations – The Next 12 Months

**Underwriting profits –
slight reductions, but still strong**

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

**Retention levels –
minor movements into working layers**

**Inflationary pressures and interest rates –
Abating and declining, slowly**

**Significant new capital /
number of new entrants –
unlikely**

**Increased use of Alternative Capital to flex
capital needs**

AM Best's Key Themes – Monte Carlo Rendez-Vous 2024

Strong results maintained

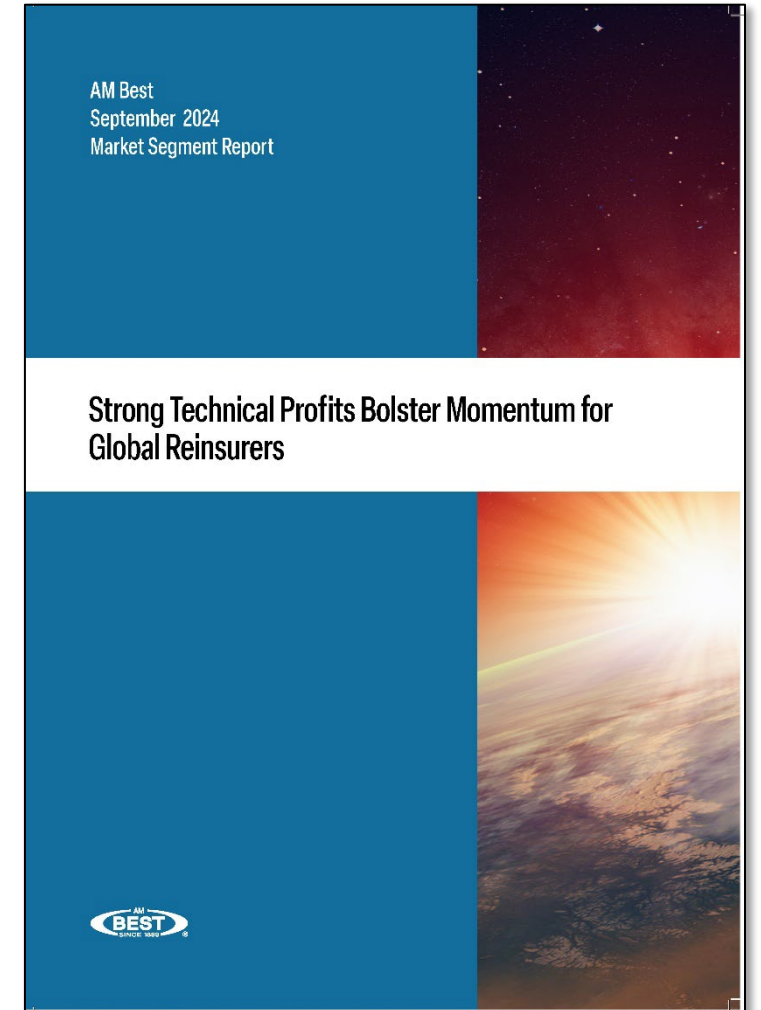
Payback to investors continues

There is no capacity shortage

Maintaining disciplined allocation

Positive outlook

Sustainable profitability



Q&A

AM Best's Upcoming Events – Autumn 2024



November 5

**AM Best's
Insurance Market Briefing – SIRC**

Marina Bay Sands Expo & Convention
Centre, Singapore



November 7

**AM Best's
Europe Insurance Market &
Methodology Briefings – London**

etc. Venues, St. Paul's, London

November 18

**AM Best's
Insurance Market Briefing
– Bahrain**

Crowne Plaza Manama, Bahrain



November 20

**AM Best's
MENA Insurance Market Briefing
– Dubai**

Kempinski Central Avenue Dubai



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