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

8 September 2024, Hotel Hermitage

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8 September 2024, Hotel Hermitage

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Introducing Today’s Panel

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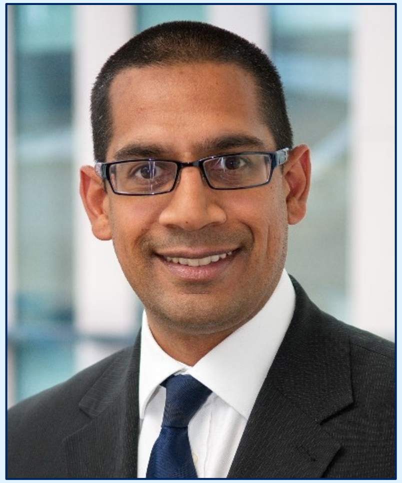

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Global Reinsurance Market – Discussion Outline

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

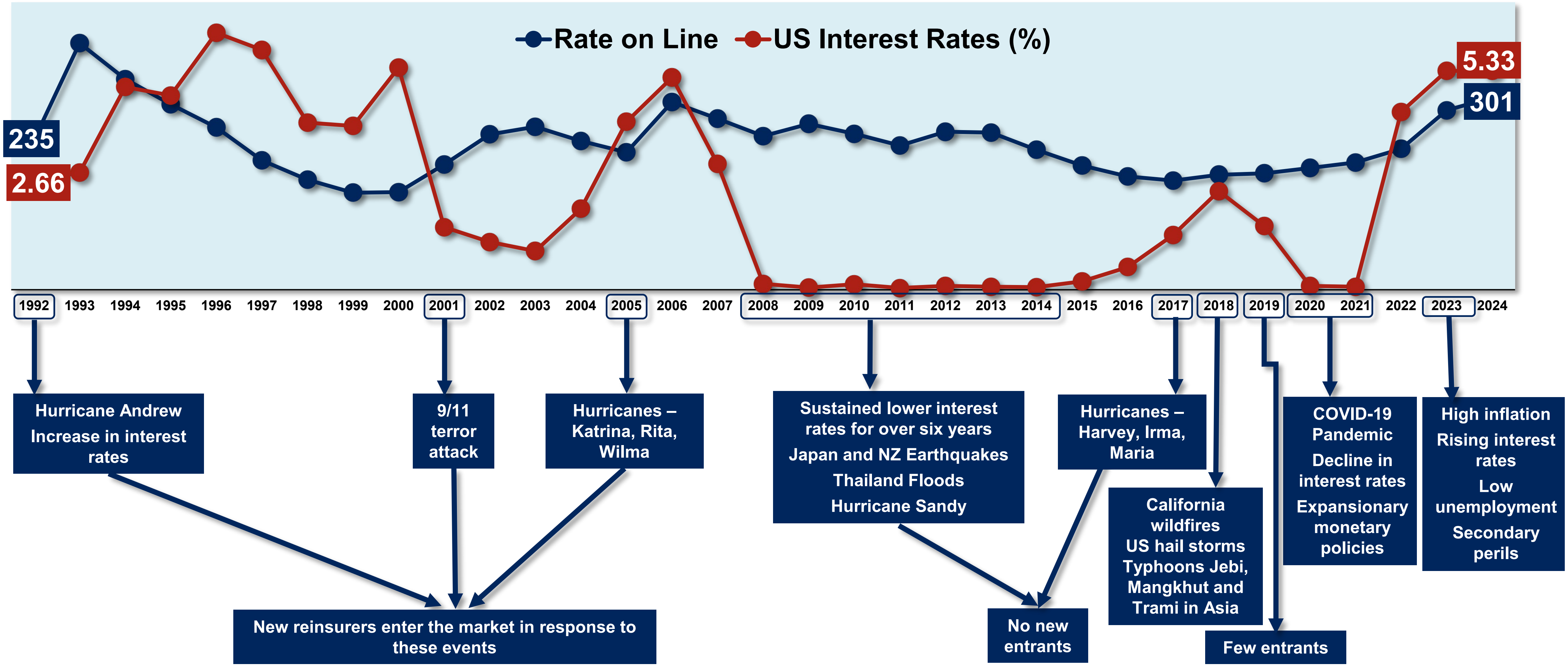
Potential Issues –
What challenges lie ahead?

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?



Sources: Estimates by Guy Carpenter and AM Best

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.

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

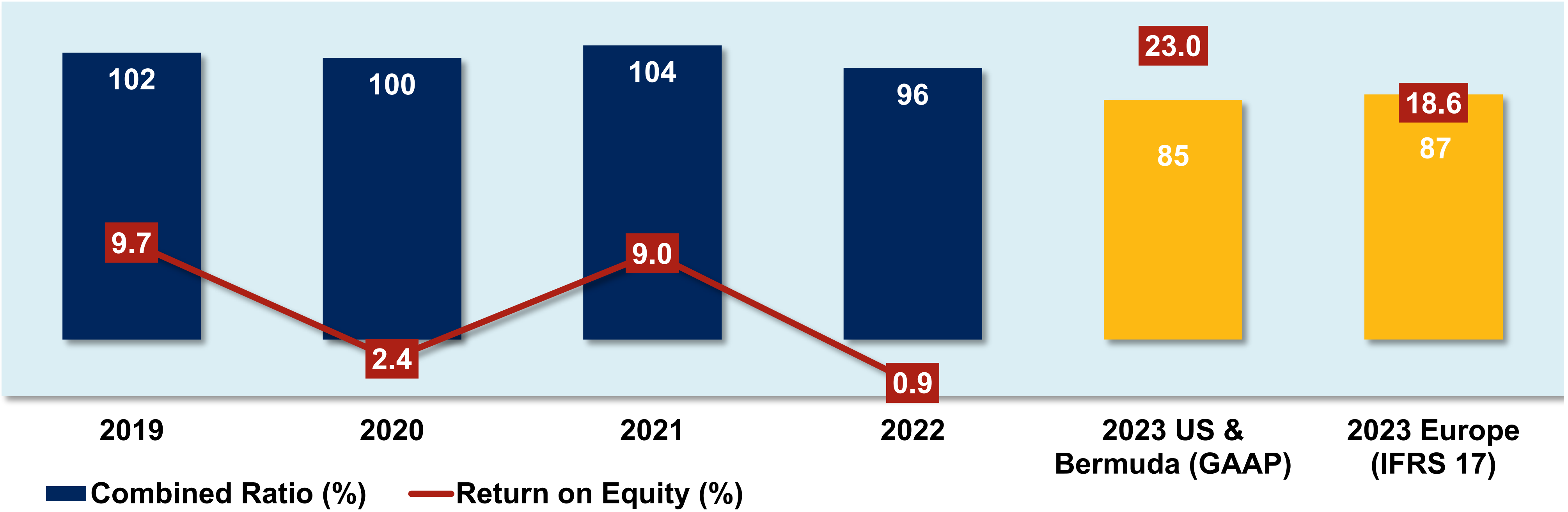
Demand for Complex Risk
- Cedents looking to restore risk transfer
- Emerging risks, cyber and AI challenging risk transfer

Role of Interest Rates
- Not as impactful as in prior cycles

Return on Equity and Combined Ratio

Tighter terms and conditions → **Shift away from high-frequency layers** → **Higher profits**

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

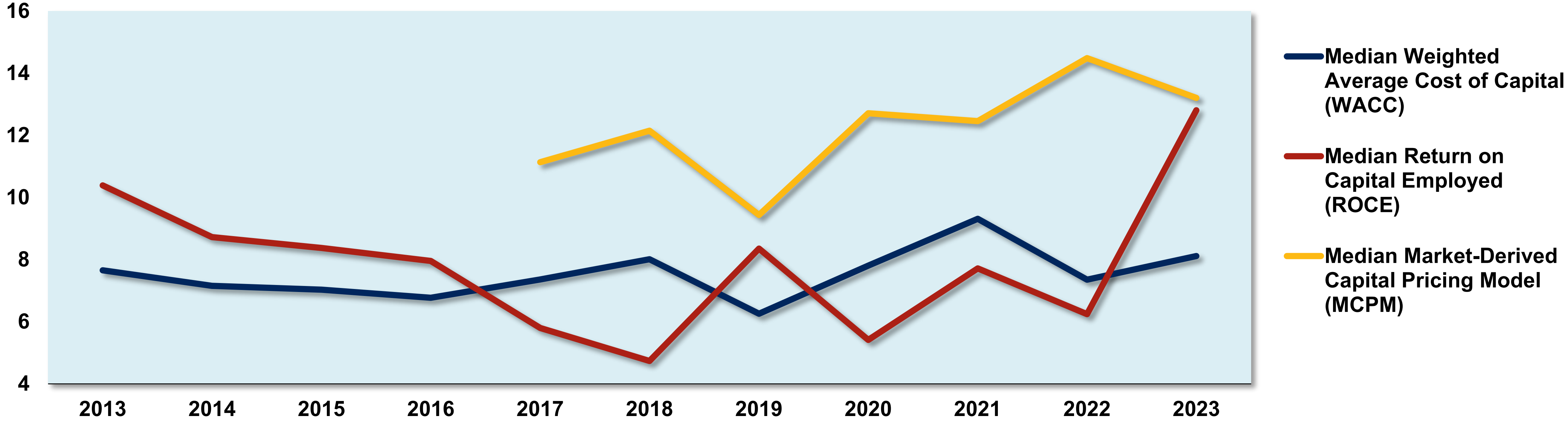


Return on equity and combined ratios are global through to 2022.
US & Bermuda represents a composite of seven large reinsurers.
Europe represents composite of large reinsurers that filed under IFRS 17 at year-end 2023.
Source: AM Best data and research

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

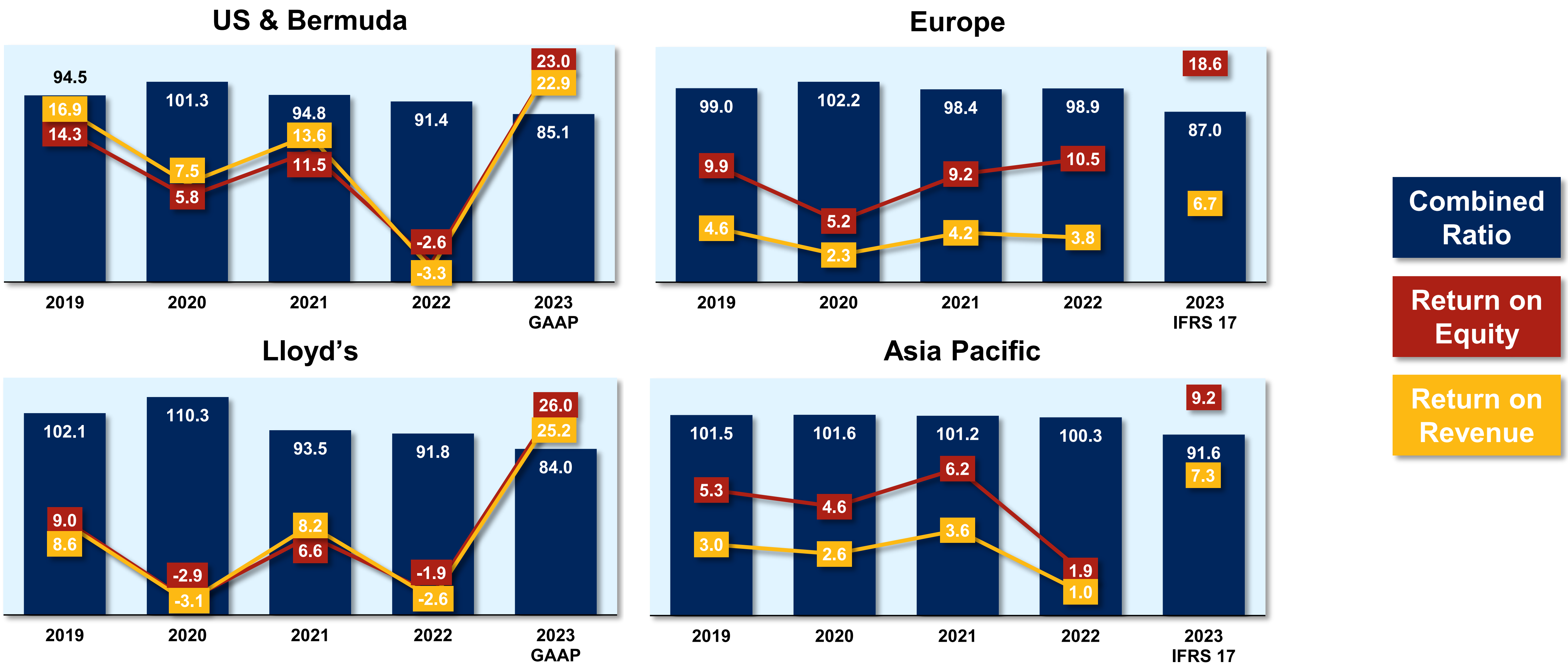


Reinsurers meeting cost of capital

- **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, Europe, Lloyd's and Asia Pacific



Europe IFRS 17 comprises Munich Re, Hannover Re and SCOR.

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


BEST'S MARKET SEGMENT REPORT

Our Insight, Your Advantage™

August 28, 2024

World's 50 Largest Reinsurers

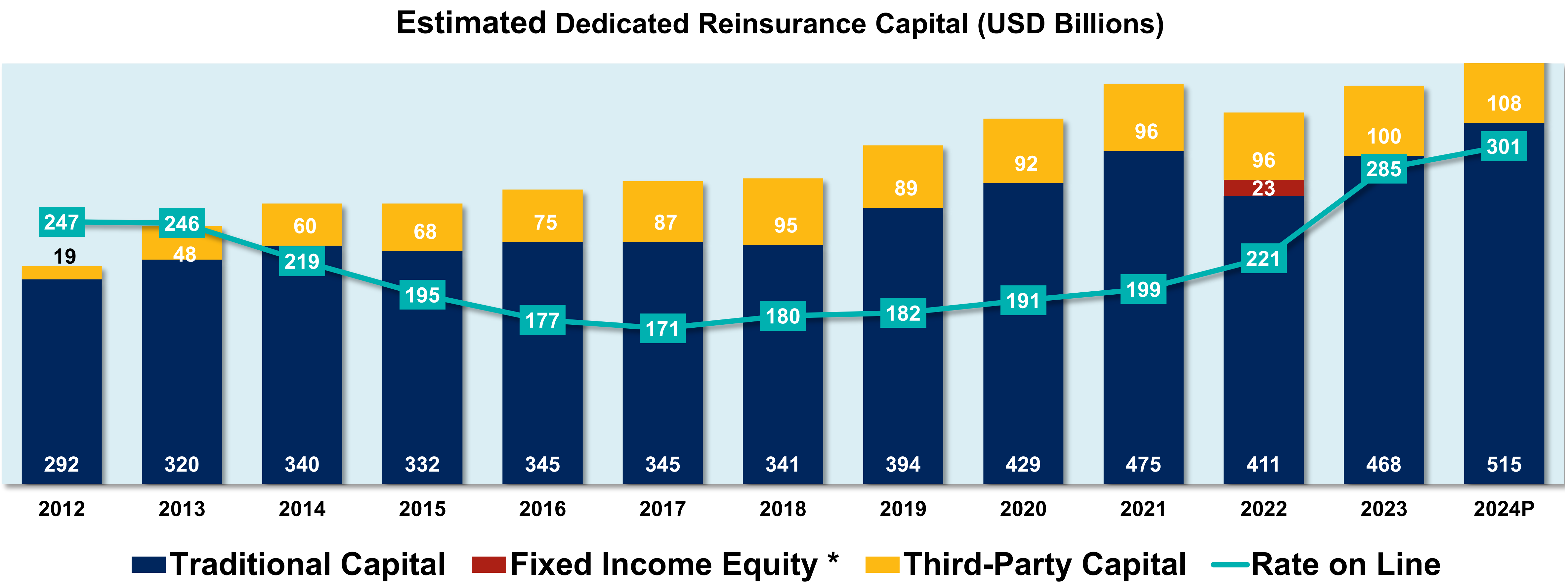
All non-USD currencies converted to USD using foreign exchange rate at year-end 2023.

Source: AM Best data and research

Available Capital –
The Class That Never Was

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

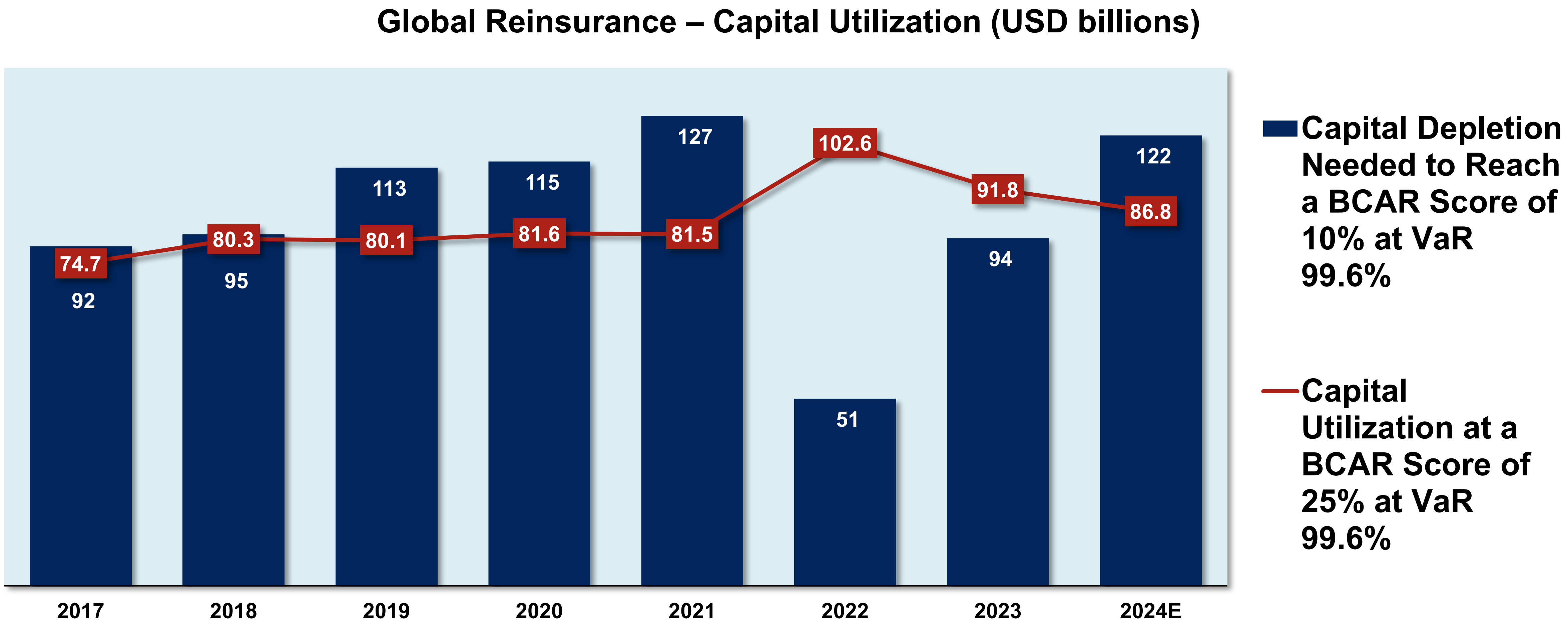
Global Reinsurance Market Capital



* 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.

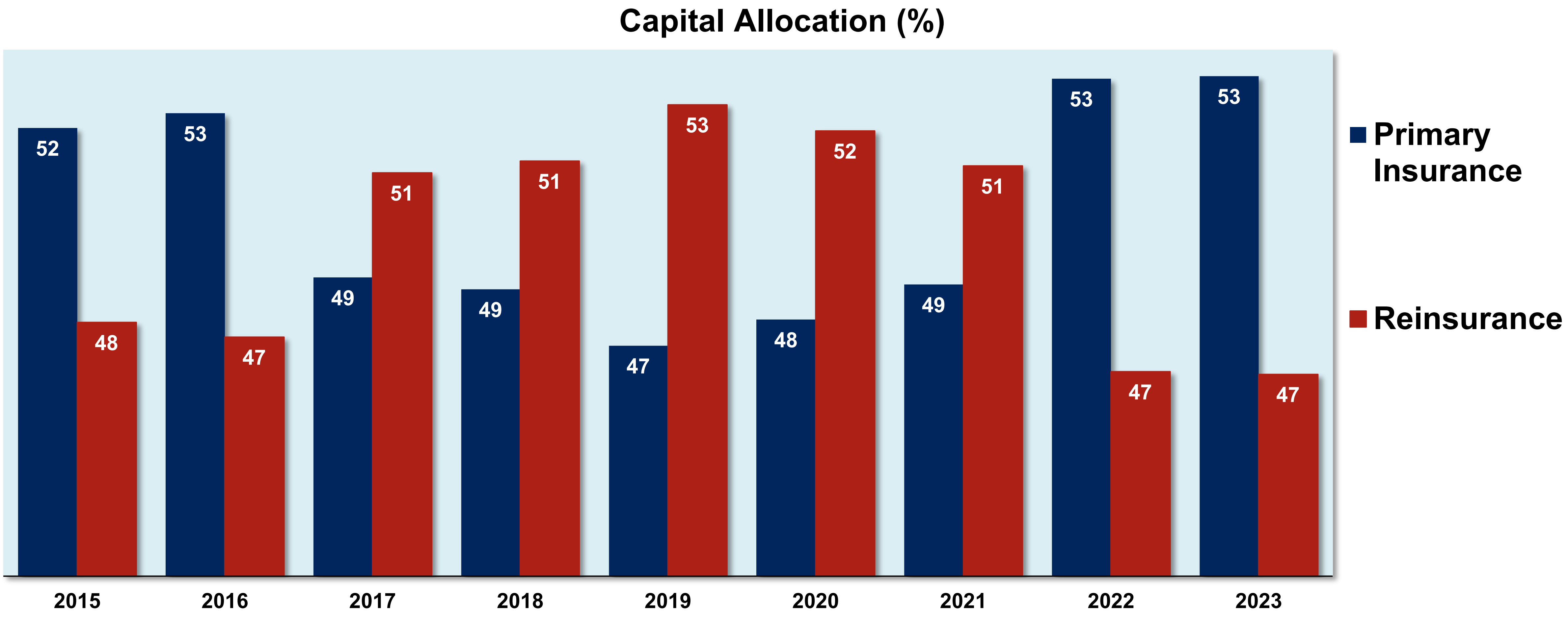
Sources: Guy Carpenter and AM Best

A Hard Cycle With Excess Capital



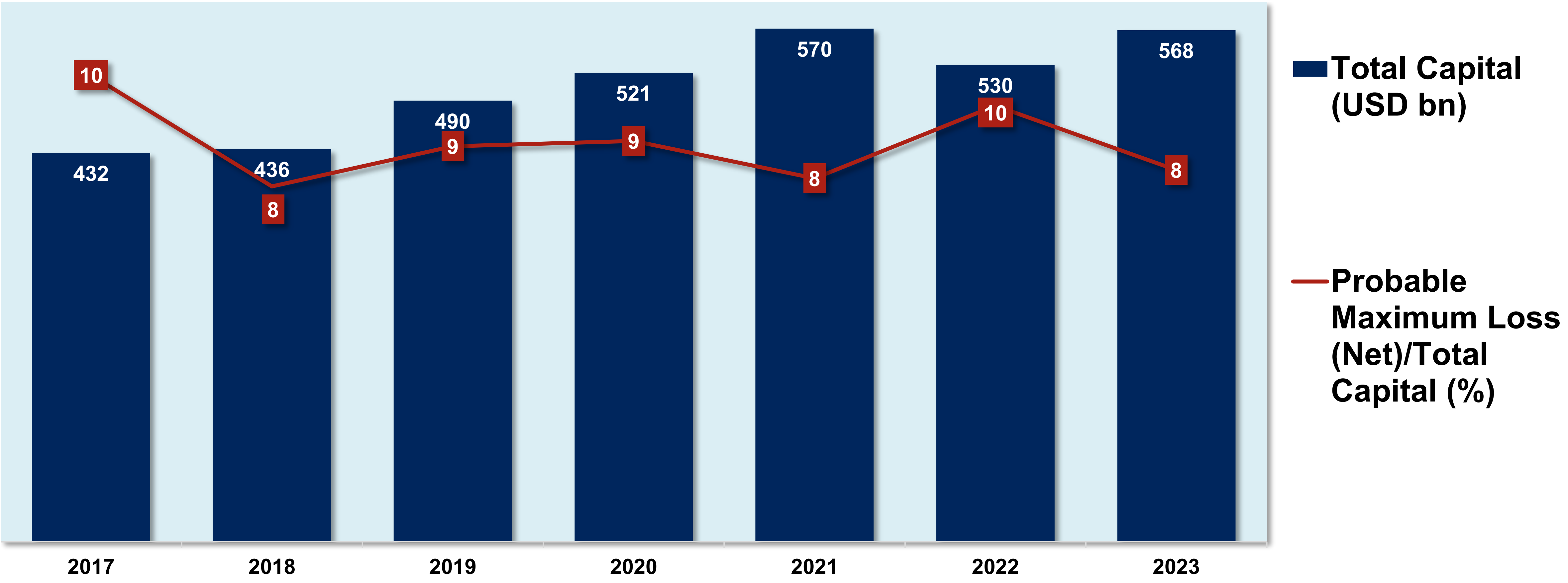
Source: AM Best data and research

Global Reinsurance – Primary Insurance vs. Reinsurance



Source: AM Best data and research

Probable Maximum Loss as a Percentage of Capital



Source: AM Best data and research

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

Rate increases –
to continue at a slower pace

Disciplined expansion of the reinsurance segment –
led by major players

Significant new capital / number of new entrants –
unlikely

Inflationary pressures and high interest rates –
to remain

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

Emerging risks –
slow expansion

Higher retentions –
here to stay

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

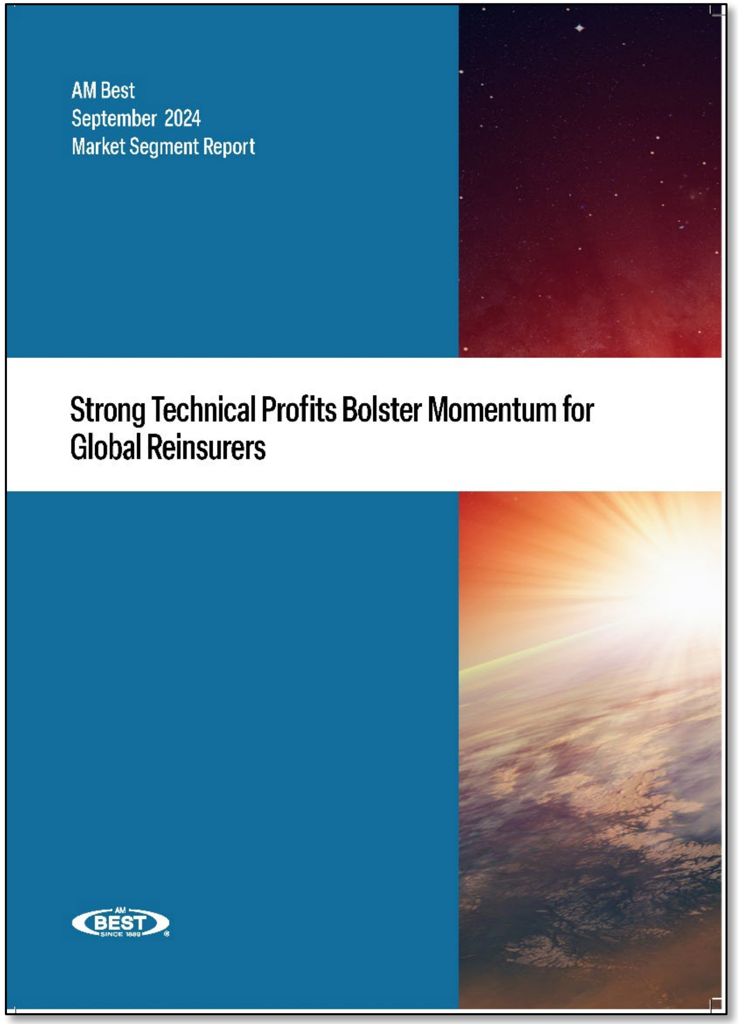
Increased use of Alternative Capital to flex capital needs

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

Click on an event for more details and to register, or visit AM Best's events pages

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