AM Best
September 2024
Market Segment Report

Strong Technical Profits Bolster Momentum for Global Reinsurers

BEST'S MARKET SEGMENT REPORT

Our Insight, Your Advantage™

Welcome to AM Best's annual report on the global reinsurance market.

In last year's report, we noted growing optimism in the global reinsurance segment owing to steep price increases and tighter terms and conditions in the property/catastrophe market. The life reinsurance industry continues to display healthy levels of risk-adjusted capital and liquidity. Mortality appears to have leveled off in 2023 although it is still elevated relative to pre-pandemic times. In June 2024, AM Best released our first-ever Positive outlook for the overall global reinsurance segment, driven primarily by a renewed focus on the technical profitability of the last few years.

IFRS 17, which became effective on January 1, 2023, has been adopted by many reinsurers. The move from IFRS 4 has created challenges for users of the new financial standard as they adjust to its provisions. This change prompted AM Best to modify how we determined our rankings this year, depending on the financial reporting standard used.

Traditional reinsurance capital dropped sharply in 2022 but has since been on an upswing and is expected to reach its highest level, USD 515 billion, for 2024. Meanwhile, reinsurers' return on equity exceeded the cost of capital (by a comfortable margin) for the first time in four years, as capital gains and underwriting profits rebounded.

In the non-life segment, we believe that comprehensive de-risking measures, a realignment of interests between reinsurers and primary carriers, and improved pricing will be sustainable in the medium term and contribute to technical profits.

Higher interest rates and mortality that has moderated since the COVID-19 pandemic have been tailwinds for the global life/annuity (L/A) reinsurance segment, which remains well capitalized and positioned for robust growth. Reinsurers continue to evaluate underwriting practices, including premium rate increases, to mitigate the impact of higher claims in certain segments.

For the insurance-linked securities (ILS) market, capacity has grown modestly, mostly matching demand. ILS managers have successfully structured transactions to reduce exposure to more frequent severe convective storms.

In 2023, nearly 47% of US life/annuity statutory ceded reserves were transferred offshore, with Bermuda accounting for over one-third of all in-force business and 60% of new business.

The demand for health reinsurance has grown due to growing healthcare utilization and increasing medical inflation. In the US, the growth in 2023 was driven by the commercial and stop-loss segments. Asian markets exhibited strong growth in line with growing economies and the need for solutions in the healthcare segment.

Lloyd's continues to improve on its underwriting results every year since 2020 and remains a vital part of the global reinsurance and specialty markets. Reinsurance is Lloyd's largest segment, accounting for about a third of premiums.

Reinsurers in Latin America have shifted their post-pandemic focus and are adapting to different political landscapes, monetary policy, and the global economy. Meanwhile, the use of managing general agents (MGAs) as a significant player in the reinsurance value chain continues to increase across the globe, especially in the Latin American market.

The Asia-Pacific reinsurance composite achieved strong growth in 2023, up over 10%, owing mostly to China Re's international expansion. In response to the challenging retro hard market conditions of the past two years, large reinsurers in the region adjusted their catastrophe capacity offerings to reduce their catastrophe exposure accumulation.

In the Middle East and North Africa (MENA), reinsurers reported strong premium growth due primarily to reinsurance pricing momentum, high economic inflation, and new business opportunities. In Sub-Saharan Africa, most reinsurers have successfully leveraged the global hardening rate environment, reporting robust underwriting profitability despite a complex economic environment.

AM Best is committed to sharing our expertise to address the wide range of challenges that reinsurers face. I hope you find our latest report to be valuable to your understanding of AM Best's views on issues that impact the reinsurance industry, as well as our ratings, and welcome your thoughts. Please feel free to reach out to me or my colleagues with any questions.

Jim Gillard
Executive Vice President & Chief Operating Officer, AM Best Rating Services

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BEST'S MARKET SEGMENT REPORT

Our Insight, Your Advantage™

Strong Technical Profits Bolster Momentum for Global Reinsurers

Even as benchmarking is challenged globally by the adoption of IFRS 17, the reinsurance segment continues to expand, with ROEs comfortably exceeding cost of capital

Principal Takeaways

- Our revised outlook anticipates improved underwriting margins being sustainable over the next few years.
- Reinsurers are focusing more on providing capital protection than stabilizing earnings.
- Reinsurers took corrective measures after several years of sub-par underwriting underperformance.
- Current claims activity is being driven more by elevated medium-sized events and secondary perils than by single large-scale events.
- Hard pricing conditions are expected to last longer than in past cycles.

In June 2024, AM Best revised its outlook for the global reinsurance segment from Stable to Positive, representing the first such Positive outlook for the segment. The main driver for the change has been the refocus on technical profitability experienced over the last few years. Unlike previous boom and bust cycles, there are a number of factors—climate trends, an increasingly complex risk environment, and a prolonged period of higher interest rates—that make us believe these improved underwriting margins are likely to last for at least another couple of years if underwriting discipline is maintained.

Not Just Repricing, but De-risking

The segment's strong technical profits are the result of a comprehensive set of de-risking measures, a realignment of interests between reinsurers and primary carriers, and improved pricing. A much-needed shift away from high-frequency layers, the adoption of tighter contract wording, and a better-defined scope of cover has repositioned the historical role of reinsurers to focus on providing capital protection rather than stabilizing earnings. These corrective actions took place in response to several years of lackluster underwriting performance, with reinsurers struggling to meet their cost of capital even in what was a very low interest rate environment until only three years ago.

Capitalization Remains Robust

Hard pricing conditions are likely to last longer than in previous cycles for several reasons. Persistently high claims activity is being driven more by the accumulation of medium-sized losses and secondary perils than by single, major catastrophic events. The segment remains well capitalized and, although companies have implemented measures to manage their capital more efficiently, their solvency positions have not been under meaningful pressure, other than the temporary reduction in capital and surplus as a result of the unrealized investment losses on fixed-income instruments triggered by the increase in interest rates in the second half of 2022 (**Exhibit 1**). When ratings of global reinsurers have been under negative pressure, the main driver has been technical underperformance, not balance sheet strength.

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Analytical Contacts:

Carlos Wong-Fupuy, Oldwick
+1 (908) 882-2438
Carlos.Wong-Fupuy@ambest.com

Mathilde Jakobsen, Amsterdam
Tel: +31 20 808 3118
Mathilde.Jakobsen@ambest.com

Dan Hofmeister, Oldwick
+1 (908) 882-1893
Dan.Hofmeister@ambest.com

Antonietta Iachetta, Oldwick
+1 (908) 882-1901
Antonietta.Iachetta@ambest.com

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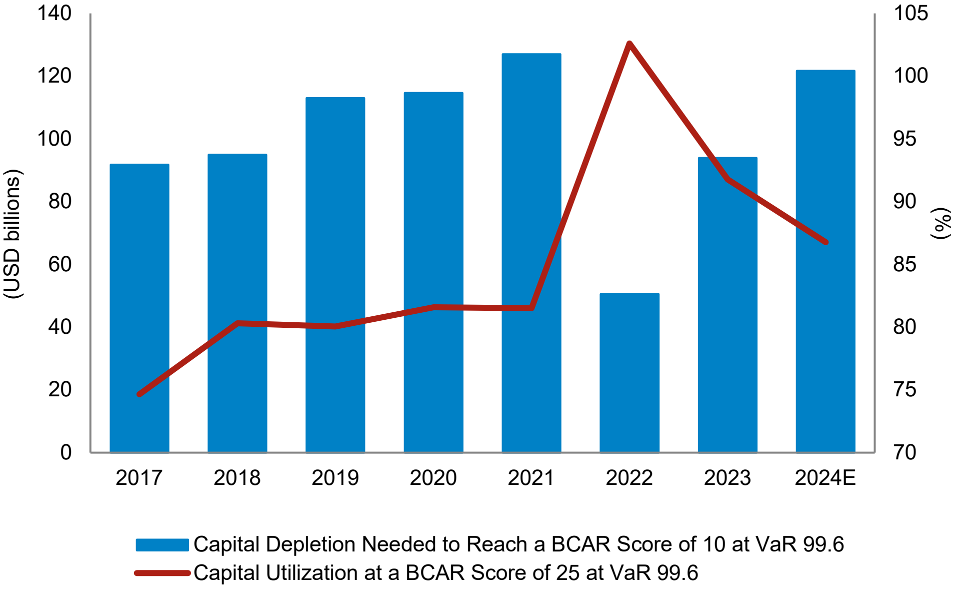
Exhibit 1
Global Reinsurance – Capital Utilization



Source: AM Best data and research

The current hard cycle has not been characterized by capital depletion. The market dislocation in the early 2023 renewals was caused by a sharp withdrawal of capacity. Companies restricted the deployment of their existing capital, while maintaining very comfortable buffers in their balance sheets. This has meant not only that well-established, strongly capitalized players have been in a strong position to benefit from the hard pricing environment, but also that there hasn't been significant appetite to fund new start-ups.

No New Class of 2024 Yet

Unlike previous hard cycles and despite the very attractive pricing environment, new company formations have not materialized, particularly in the property catastrophe space. Disappointing results during the previous prolonged soft market deterred potential investors. Capital has become more nimble and opportunistic, focused either on already well-established and successful rated balance sheets with a proven track record or on short-term insurance-linked securities (ILS) vehicles. Higher interest rates have contributed to this behavior, given the availability of investment alternatives much more attractive on a risk-adjusted basis than in the past.

Strong Reinsurance Demand in a Complex Risk Environment

AM Best expects reinsurance demand to remain strong. Even as the risk environment becomes more difficult to quantify, cedents are looking to restore the generous risk transfer conditions that they enjoyed until just a few years ago. Traditional catastrophe models are under heightened scrutiny. The COVID-19 pandemic showed how unexpected secondary effects—such as claims due to business interruption—can be inadvertently ignored by the models. Geopolitical instability has led to unforeseen developments that have tested contract wordings. Emerging risks related to cyber and artificial intelligence (AI) require not only risk transfer mechanisms such as reinsurance, but also the technical support needed to develop new products.

AM Best believes that, although not all risks are insurable, the global reinsurance segment faces a golden opportunity to maintain its critical role in the broader economy. Whether as a risk carrier, provider of services related to risk management, or developer of alternative solutions, the segment is in a strategic spot to leverage its knowledge and experience.

The Critical Role of Interest Rates

The current hardening conditions started to emerge slowly in 2017 in the aftermath of Hurricanes Harvey, Irma, and Maria. At the time, property cat reinsurance rates were at their lowest (the lowest Rate-On-Line (ROL) index since 2000, according to Guy Carpenter). At that point, the global reinsurance segment was already awash with capital due to the low interest rate environment, with investors looking for higher yields and diversification away from the broader economy's volatility. This was most clearly evidenced by the rapid expansion of ILS capital, which almost doubled over the previous five-year period.

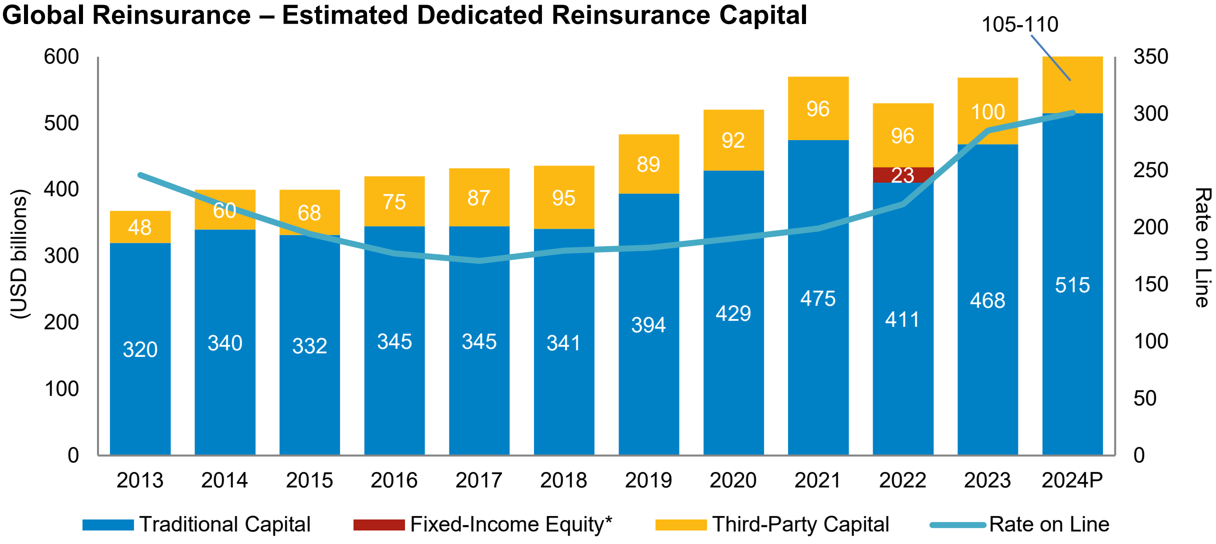
The catastrophe events of 2017, while significant, did not translate into a material reduction in traditional capital available. In fact, according to AM Best and Guy Carpenter figures, the reduction of just more than 1% in traditional capital year over year was more than offset by a slightly larger expansion of ILS capital. In the following years, as the previous expansion in ILS capacity stalled, traditional reinsurance continued to grow. Balance sheets remained strong as a significant share of the claims burden was transferred to the ILS market. As a result, a slow gradual process of repricing and diversification developed. In 2019, a few new entrants anticipated a more drastic hardening than what actually occurred. Between 2017 and 2020, the ROL index improved cumulatively by just 11% from a very low starting point, only reaching a similar level as that seen in the middle of the soft market in 2014 (**Exhibit 2**).

The period of low interest rates lasted from the 2007-2008 financial crisis through the economic stimulus that occurred during the pandemic. Conditions were not ripe for new company formations and existing players struggled to meet their cost of capital during the 2017-2021 period. AM Best estimates average ROE for the segment at around 4.5%, well below the cost of capital **(Exhibit 3)**.

Gradually, companies started repricing, tightening terms and conditions, moving away from property cat reinsurance by elevating attachment points and reducing limits, and expanding their primary and reinsurance operations as well as casualty books. The first signs of recovery occurred in 2021, when, for the first time in several years, AM Best's global reinsurance composite had combined ratios below

Exhibit 2

Global Reinsurance – Estimated Dedicated Reinsurance Capital



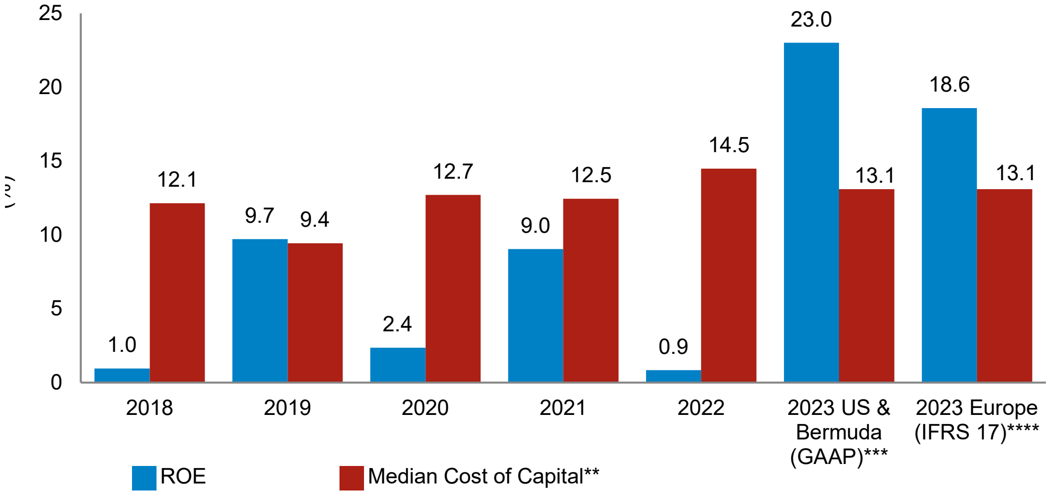
P=Projected

* 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: AM Best data and research, Guy Carpenter

100. Despite continuing the positive trend in technical profitability, underwriting results were heavily countered by the unrealized investment losses on fixed-income investments in the second half of 2022, following sharp increases in interest rates.

Exhibit 3
ROE and Cost of Capital for Global Market*



* ROE for 2018 to 2022 refers to the global reinsurance market. ROE for 2023 is reported separately for US & Bermuda and Europe.
** Cost of capital as measured by the Market Derived Capital Pricing Model (MCPM), which is based on a smaller sample size and has limited years due to availability of data.
*** US & Bermuda represents a composite of seven large reinsurers.
**** Europe represents a composite of large reinsurers who filed under IFRS 17 at year-end 2023.Sources: AM Best data and research; Bloomberg

In 2023, following the market dislocation during the January renewals—after the uncertainty caused by Hurricane Ian just a few months earlier—we observed an unequivocal change confirming the current hard market conditions **(Exhibit 4)**. The benchmarking of reinsurers across the globe is now being challenged by the adoption of IFRS 17, but, regardless of accounting standards, the segment continues to expand and is generating ROEs well in excess of its cost of capital. Meanwhile, combined ratios show very strong profit margins, more than offsetting concerns about adverse reserve development on certain legacy books of business, particularly US casualty. Most companies are benefiting from enhanced reinvestment rates.

Riskier Environment More Difficult to Model and Price

Until 2017, the global reinsurance segment had been deploying some of its sizable amount of capital to support high frequency layers that historically had been retained by primary carriers, but claims activity related to natural catastrophes became less predictable. Over the last 30 years, the number of small and medium-sized events (less than USD 5 billion of insured losses, according to Swiss Re) has increased steadily. Secondary perils (such as floods, wildfires, and severe convective storms), which tend to be less understood and more difficult to model, continue to drive losses. Every year since 2017 (except 2019) has generated insured losses in excess of USD 100 billion. Despite no major hurricanes in 2023, natural catastrophe losses totaled an estimated USD 108 billion. The costliest single event was the Türkiye and Syria earthquake at USD 6.2 billion. There was also an increase in frequency of USD 1 billion-plus convective storms costing (mainly in the US), which caused total damage of USD 64 billion.

The absence of a single major natural catastrophe event in 2023 is one of the main reasons global reinsurers generated excellent technical results. Higher attachment points, lower limits, added exclusions, and narrower contract wording generally signify that most of the working layers' claims costs are being retained by the primary carriers. Rate softening is restricted to the most remote protection layers in the best performing accounts in the US. Pricing is still considered attractive and the required discipline to stick to the current terms and conditions seems to be here to stay.

Reinsurance cover for high frequency risks has either become cost-prohibitive or is severely restricted to the best-performing books only.

The industry became increasingly skeptical about catastrophe models beginning in 2017. Prior to that, comfort in catastrophe modeling was reflected in the volume of ILS (which depends on cat models), which doubled between 2013 and 2018. A number of major events in 2017 (including Hurricane Irma) and 2018 (including California wildfires and Typhoon Jebi) triggered concerns about model adequacy, loss creep, and trapped collateral. Complacency and an over-reliance on cat modeling during the previous years of benign claims activity was finally challenged. From that point forward, ILS capacity plateaued, hovering around the USD 95 billion mark. It took until 2023 to attract renewed investor interest in catastrophe bonds, with record issuance as a result of very attractive prospective returns, the need to refinance maturing instruments, and the inherent liquidity of this asset class.

Quantifying risk has become more challenging beyond the property cat space, where well-established commercial models for primary risks have been in place for more than three decades. Losses from the pandemic were impacted by secondary factors such as lockdowns, which triggered unforeseen business interruption claims, the result of political decisions typically outside model scopes and almost impossible to predict.

Cyber risk models continue to evolve rapidly but remain at an early stage of development. While useful tools for risk management, data quality issues, accumulation exposure management, and the very fluid nature of the risk still limit a more direct application for pricing purposes. An area of rapid growth given the expanding predominance of a digital economy and the concentration on intangible/knowledge-based assets, most carriers approach cyber exposures cautiously, with primary companies heavily dependent on reinsurance, both as a risk transfer mechanism and as a provider of technical support.

Geopolitical instability will continue to test contract wording under unpredictable circumstances, affecting several lines of business simultaneously. This has been the case with the Russia-Ukraine war, with substantial (and still very uncertain) losses impacting a broad range of business lines such as aviation, marine, trade credit, and political risks. Existing tensions around the world suggest a higher frequency of these types of events.

Traditional liability risks are more difficult to price due to US social inflation trends. In addition, a higher dependence on technological advances and growing awareness of environmental risks make the potential for liability accumulation more relevant. From per- and polyfluoroalkyl substances (PFAS) and microplastics, to the adoption of AI tools, driverless vehicles, and the development of new technologies and infrastructure to satisfy needs related to climate change, the stakes are immense. The need for global reinsurers to develop new products to participate in these risks is as important as the caution required to avoid them when not properly managed or priced.

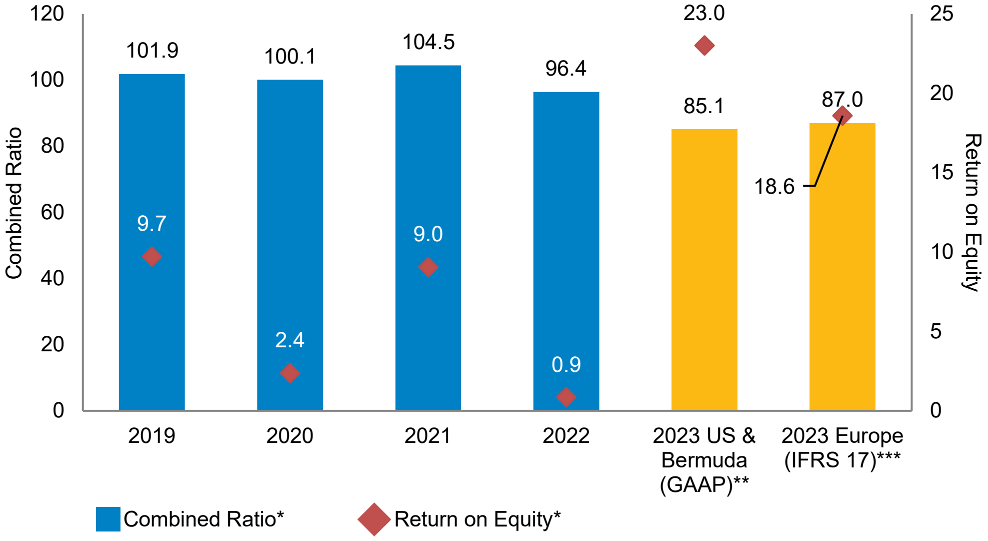
Strong Financial Results + Smoother Renewals = Positive Expectations

The main factor in AM Best's decision to assign a Positive outlook to the global reinsurance segment has been the positive technical results that the composite has generated for a third year in a row and the expectation that these will be sustainable for at least another couple of years.

Following the major losses of 2017, the combined ratio for the segment exceeded 110. Repricing, de-risking, and diversifying strategies took time to settle. In 2021, the segment started to generate positive

Exhibit 4

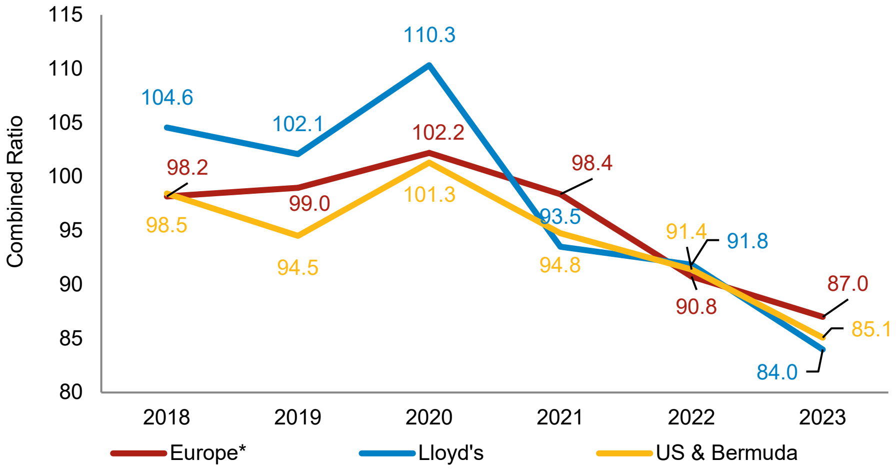
Global Market with 2023 Split US & Bermuda and Europe



* Returns on equity and combined ratios are global.
** 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

Exhibit 5

Combined Ratios



* Europe combined ratio calculated under IFRS 17 starting in 2023.
Source: AM Best data and research

profit margins, although still relying on favorable reserve development. The much-improved underwriting performance of 2022 was heavily negated by unrealized investment losses on fixed-income portfolios as a result of interest rate increases, leading to ROEs close to nil.

For 2023, average combined ratios for the reinsurance subsegments in Europe, the US & Bermuda, and Lloyd's each stood comfortably below 90 **(Exhibit 5)**. Starting in 2024, reinsurers' performance benchmarking across the globe is being challenged due to the adoption of IFRS 17 by most non-US and Bermuda-domiciled groups.

Despite the benefit discounting claims reserves has on IFRS 17 key performance indicators (the average impact for European reinsurers was an 8-point reduction in their combined ratio for 2022), European reinsurers reported a combined ratio almost two points higher than their US and Bermuda peers (87.0 for Europe vs. 85.1 for the US and Bermuda). With a much more diversified and stable mix of business, the European players have benefited less in relative terms from the sizable performance gains stemming from property cat business.

The Lloyd's market, with a larger share of highly profitable primary specialty business and following a trend that started three years ago, focused on more defined underwriting and client selection, generating even better results than the other two subsegments, with a combined ratio of 84.0. Across the global reinsurance segment, results were still supported by overall favorable reserve releases, despite material reserve strengthening in US casualty business written between 2016 and 2019.

Bottom-line results have improved sharply, with several companies reporting ROEs in excess of 20% (a figure boosted for Bermuda-domiciled carriers by a one-off deferred tax asset following implementation of the Bermuda Corporate Income Tax Act of 2023), clearly meeting their cost of capital after several disappointing years. Although the European players generally have lower ROEs than their US and Bermuda counterparts, it is difficult to tell how much of this is distorted by the change in accounting standards and non-recurrent effects, or simply a reflection of the more stable and diversified profile of the Big Four, whose results have historically been less volatile. What is clear is that improved technical returns, compounded by higher reinvestment rates, were the key components for the strong results.

AM Best believes that, following the corrective measures taken in the last few years (combined with current market and economic conditions), profit margins, albeit unlikely to be repeated at such high levels, will be sustainable over the medium term. Higher return expectations from investors, both to make up for previous lackluster years and to match higher yields from competing alternatives, plus the lack of new disruptors should support ongoing hard market conditions.

Renewals Suggest Continued "Orderly" and Disciplined Market Conditions.

Catastrophic claims activity hasn't slowed down. In the US, medium-sized severe convective storms are occurring with greater frequency. Internationally, natural catastrophe losses appear to be in line with historical averages. However, given the magnitude of the losses and the repositioning of reinsurers, most of these are likely to remain below the retention levels of primary carriers. This also seems to be the case for Hurricane Beryl, estimated to have caused insured losses in the USD 2.5-4.5 billion range.

Renewals in 2024 have been smoother than in 2023, attributable more to better management of cedents' expectations than to reduced demand. Risk-adjusted rate increases clearly slowed at mid-year 2024 (and for the best performing books, they were even slightly negative), which has led to mixed reactions—particularly from US and Bermuda reinsurers as opposed to the largest Europeans—toward highly exposed areas such as the Florida market. Nonetheless, underwriting discipline, strict terms and conditions, and emphasis on client selection are being maintained.

Following recent insurance legislative reforms in Florida, there is cautious renewed interest, partly explaining the stabilization in rates at what is already considered a very attractive level. However, forecasts of a very active hurricane season, if proven correct, may have a material impact on rates for property cat in general. For the reinsurance segment to be significantly affected, the actual magnitude of the potential losses from a single event will be critical. After the de-risking measures adopted in the last couple of years, AM Best believes that the segment is in a much stronger position than in the past to absorb such an impact.

Financial Results on Track for Another Profitable Year

Despite the above-average cat loss activity during second-quarter 2024 and a few large losses such as the collapse of the Baltimore Bridge in March, results remain strong and on track for another profitable year. After the sharp increases over 2023, the pace of hardening clearly slowed during mid-year renewals, but Guy Carpenter's Global Property Cat Rate-On-Line Index has already surpassed the hard levels from 2006, which followed hurricanes Katrina, Rita, and Wilma.

While we monitor the current Atlantic hurricane season, severe convective storms, the most dominant small to medium-sized peril, are less seasonal and frequency continues to rise. Outside the natural catastrophe space and following some reserve strengthening actions, concerns remain about the performance of legacy US casualty and some life books. The big question is how industry-wide these issues might be, as well as how promptly and thoroughly the affected carriers have reacted to correct any issues.

AM Best believes, however, that following the de-risking and diversifying measures the global reinsurance segment was forced to adopt during the slowly hardening path that started in 2017, companies are much more resilient than in previous cycles. A combination of positive underwriting margins, higher reinvestment rates, and diversification contributes to this.

The potential adverse development of historical liability books, while impacting performance metrics, is unlikely to have a material effect on risk-based capitalization in a segment characterized by players with very strong Best's Capital Adequacy Ratio (BCAR) scores or earnings. Concerns about social inflation with respect to US liability have led to stricter underwriting, client selection, and price adjustments for new business.

The stellar results recorded in 2023 are unlikely to be repeated, and most of the companies' own targets, although optimistic, are more modest. Performance for the first half of 2024 is very comparable on an annualized basis, providing a comfortable margin for uncertainty.

Cautious Capital Deployment Contributes to Discipline

A key factor behind the underwriting discipline that we continue to observe in the market is the lack of new entrants typically featured in previous hard cycles. Historical underperformance, a riskier environment that is more difficult to model and price and, most importantly, a new phase of more elevated interest rates, all contribute to a higher risk premium for potential investors looking to fund new ventures.

In the meantime, dedicated capital in the global reinsurance segment continues to recover and expand. After the sharp reduction from unrealized investment losses due to the increase in interest rates in 2022, maturing fixed-income instruments, higher reinvestment rates, and retained technical profits have all contributed to surplus growth. At no point, however, has there been a shortage of capital available. Although we saw a decline in the buffer in companies' balance sheets, BCAR scores at all times were in line with the "Strongest" level of capitalization. When global reinsurers' ratings have been under pressure, the main driver has been disappointing operating performance, not a fragile capital position.

And it isn't that new capital has not been entering the market. It's simply that the preferred beneficiaries are either well-established rated balance sheets—with strong track records and excellent market positions—or opportunistic, highly liquid alternatives in the ILS space. Shareholders' equity for most of the segment players continues to expand. This is happening more rapidly at the top, in a market where scale and the ability to provide a broad and comprehensive offer has become more critical.

What we are seeing is the organic consolidation of a segment able to generate profits to finance further expansion. Dominated by the largest players, scale, diversification, and flexibility to adapt to fluid market conditions have become keys to success. Sophisticated risk management, strong balance sheets, and partnerships with the ILS/retrocessional markets are contributing to consistent and more stable results. Although a cautious deployment of capital and a certain level of retrenchment have been necessary to restore profitability, the market position, balance sheet strength, and expertise that the leading players enjoy put them in an ideal position to gradually assume more of the emerging risks that are becoming dominant in a rapidly evolving economy.

World's 50 Largest Reinsurers

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 hard market that has driven the significant growth for many reinsurers.
- The transition to IFRS 17 diminishes the comparability among reinsurers.
- On June 10, 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.

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

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 2022—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, Bermudian 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 premium rates. Severe convective storms and other secondary perils continue to challenge

Analytical Contacts:
Christopher Pennings, CPCU, ARM, ARE, AIAF, Oldwick
+1 (908) 882-2237
Christopher.Pennings@ambest.com

Dan Hofmeister, Oldwick
+1 (908) 882-1893
Dan.Hofmeister@ambest.com

Carlos F. Wong-Fupuy, Oldwick
+1 (908) 882-2438
Carlos.Wong-Fupuy@ambest.com

Steve Chirico, Oldwick
+1 (908) 882-1694
Steven.Chirico@ambest.com

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World's Largest Reinsurers Ranking – Methodology

AM Best's ranking of leading global reinsurers has evolved over time, but the primary intention of the top reinsurer exercise is to isolate a reinsurer's business profile using GPW or insurance revenue as the metric. To obtain the most accurate figures possible, we make a number of assumptions and adjustments as we navigate through different financial statements, accounting standards, and segment reporting. Capturing only third-party business and excluding affiliated or intergroup reinsurance are perhaps the most essential adjustments.

AM Best converts all reporting currencies to USD using the foreign exchange rate as of year-end 2023. Currency exchange rate fluctuations have a meaningful impact on companies' rankings.

Finally, when financial statements and supplements do not provide a proper breakdown of reinsurance premiums/revenue, AM Best obtains data directly from the reinsurer. In these instances, the data may be unaudited.

primary insurers' performance, although reinsurers are less exposed following the widespread increases in attachment points in prior years.

Ranking the Top Global Reinsurance Groups

In prior years, we ranked the top 50 global reinsurers in a single list, with additional sub-lists to highlight rankings based on life and non-life premium. With the adoption of IFRS 17, our approach has changed. Companies that report under IFRS 17 are ranked 1 to 15 based on gross reinsurance revenue. Companies that report under non-IFRS 17 are ranked 1 to 35 based on gross written reinsurance premium. All companies that provided non-group reinsurance financial data were considered (**Exhibit 1**).

The largest companies in the market remain the same. However, because of the impact of the adoption of IFRS 17, there is little to compare when discussing ranking differences between 2022 and 2023. We expect this to change over time.

AM Best conducted analyses to determine the best approach to ranking the top global reinsurers. When compiling the companies into one list, there was significant negative movement for IFRS 17 reporters. Users of the list in Exhibit 1 should refer separately to the rankings in the non-IFRS 17 and IFRS 17 columns.

Munich Re and Swiss Re remain the largest global reinsurers. They are using different accounting standards this year, but this will change once Swiss Re adopts IFRS 17.

In 2022, Munich Re reported GPW of USD 51.3 billion. This included global specialty insurance, which was removed from gross insurance revenue for 2023. However, the segment has grown in recent years, and the company now provides segmented information. Excluding the global specialty insurance business, Munich Re's third-party reinsurance revenue came to USD 32.9 billion in 2023. The company also reported growth in reinsurance revenue, attributable primarily to P/C reinsurance, driven by the expansion of existing business, but countered in part by negative currency translation effects.

Swiss Re, ranking the highest among non-IFRS 17 reporting companies, had gross life and non-life premium growth of 1.9% in 2023, driven largely by life premium growth of 5.8%, as non-life premium declined slightly, by 0.7%. Swiss Re's gross life premium was essentially flat in 2022, while its non-life gross premium rose 2.7%.

IFRS 17 Adoption Complicates Rankings

Complicating the analysis of the world's largest reinsurers is the adoption of IFRS 17. Although the new standard impacts only 15 of the companies included in the list in 2023, the change from IFRS 4 to IFRS 17 has added complexity to financial performance comparison amongst all reinsurers. Under IFRS 4, (re) insurers reported information about premiums written and earned, which was generally comparable with GAAP reporting peers. Under IFRS 17, (re)insurers report information about insurance revenue, which is composed of different components from premium written and earned in IFRS 4. It reflects the expected amount earned for insurance service as it is rendered. Ultimately, insurance revenue is different from premium received or written during the period.

To illustrate the contrast, AM Best used audited financial statements in 2022 and compared them to the restated 2022 figures under IFRS 17 that were released with the 2023 audit. Fourteen global IFRS reporting (re)insurers of varying financial sizes were analyzed. The aggregate increase in equity was 11.2% for the 14 companies. Eight of the 14 reported lower equity under IFRS 17 than IFRS 4, while six reported higher equity. The aggregate increase for companies reporting higher equity was 29.6%, while the average decline for companies reporting lower equity was 8.1%. Further analysis and discussion of the key factors impacting insurers' balance sheet and operating performance metrics can be found in AM Best's IFRS 17 — Economic View Adds Complexity to Reinsurers' Financial Statements.

In some respects, the change in reported GPW compared with reported insurance revenue was more significant than the change in balance sheets. Reinsurers' equity changed substantially, but the result varied, with equity declines more concentrated among insurers with larger life insurance portfolios, while property/casualty insurers' equity positions typically benefitted somewhat. Reported insurance revenue compared to gross premiums written was down by an aggregate of 31.3%. Non-life reinsurers with a large proportional treaty book tend to see a larger reduction. Under IFRS 17, part of the commission is considered an investment component, an amount that will be paid to cedents regardless of whether an insured event occurs, and such amounts are excluded from insurance revenue.

The impact on insurers' financial statements of the transition to IFRS 17 can also be illustrated by key performance indicators (KPI). Our analysts compared reported 2022 annual financial statements with restated performance under IFRS 17 in 2023 annual reports. The combined ratios are generally lower under IFRS 17, and factors contributing to the decrease may include discounting of claims reserves, changing the management expense definition, and changing the denominator from net earned premium to net reinsurance service revenue.

AM Best remains agnostic about the move to IFRS 17 from a ratings perspective. Despite significant differences among IFRS 17 and IFRS 4, GAAP, and statutory accounting, the challenge presented by IFRS 17 for this report relates to premium volume and insurance revenue not being comparable for ranking purposes.

Berkshire Hathaway saw 24% growth in third-party reinsurance premium, to USD 27.5 billion in 2023, up from USD 22.1 billion in 2022. The group acquired Alleghany in late 2022 for USD 11.6 billion, in a transaction that included TransRe, which wrote USD 5.9 billion of gross premium in 2023, an increase of 2.5% compared to USD 5.8 billion written in 2022.

Hannover group reported gross reinsurance revenue rising by 4.9% over 2022, adjusted for exchange rate effects. Gross reinsurance revenue for life grew 1.6% and grew 6.5% for non-life reinsurance revenue compared to 2022, adjusted for exchange rate effects.

Lloyd's saw premium growth of 19.1%, from USD 18.5 billion to USD 22.1 billion. The premium growth benefited from the depreciation of the pound against the dollar; based on the same exchange rate in 2022, growth was 12.8%—nearly double that from 2021 to 2022. When using consistent exchange rates, growth came to 7.2%.

Exhibit 1

Top Reinsurance Groups, 2023

(USD millions[1])

			Life & Non-Life		Total	
Non-			Reinsurance	Reinsurance	Share-	
IFRS 17	IFRS 17		Premiums	Revenue	holders	Combined
Rank	Rank	Company Name	(GPW)	(Gross)	Funds[2]	Ratio[3]
1		Swiss Re Ltd.	40,503		16,371	94.1
	1	Munich Reinsurance Co[4]		32,921	32,863	85.2
2		Berkshire Hathaway Inc	27,453		567,509	84.0
	2	Hannover Rück SE		26,995	12,164	94.0
3		Lloyd's[5,6]	22,075		56,869	80.2
	3	SCOR S.E.		17,575	5,213	85.0
4		Reinsurance Group of America Inc	14,281		9,171	N/A
5		RenaissanceRe Holdings Ltd.[7]	12,340		9,455	78.0
6		Everest Re Group Ltd.	11,460		13,202	86.4
7		Arch Capital Group Ltd.	9,113		18,353	81.5
8		PartnerRe Ltd.	9,102		8,424	81.7
	4	China Reinsurance (Group) Corp		5,986	14,453	93.5
9		MS&AD Insurance Group Holdings, Inc[8, 9,12]	5,777		13,814	98.7
10		General Insurance Corp of India[8]	4,544		10,283	111.7
11		MAPFRE RE, Compañía de Reaseguros S.A.[10]	4,295		2,553	97.2
	5	Assicurazioni Generali SpA		4,204	34,532	107.4
	6	Korean Reinsurance Co		3,979	2,505	95.5
12		Odyssey Group Holdings, Inc	3,741		5,963	89.5
	7	Canada Life Re		3,560	22,535	N/A
13		R+V Versicherung AG[11]	3,447		2,646	98.1
14		Pacific LifeCorp	3,212		9,767	N/A
15		Liberty Mutual[13]	3,029		25,060	95.9
	8	Sompo International Holdings, Ltd.		2,974	10,371	75.5
	9	AXA XL		2,814	12,651	80.0
16		The Toa Reinsurance Co, Limited[8,9]	2,344		2,689	98.4
17		AXIS Capital Holdings Limited	2,216		5,263	107.6
18		Convex Group Limited	2,115		3,157	74.6
19		Deutsche Rückversicherung AG[12]	1,945		364	99.6
20		American Agricultural Insurance Co	1,896		712	102.0
21		Allied World Assurance Co Holdings, Ltd.	1,849		5,670	88.9
22		Tokio Marine & Nichido Fire Insurance Co., Ltd.[8,14]	1,571		16,622	95.9
	10	Peak Reinsurance Co Ltd		1,556	1,282	87.3
23		Aspen Insurance Holdings Limited	1,521		2,909	81.4
24		W.R. Berkley Corp[15]	1,411		7,455	82.1
25		Qianhai Reinsurance Co., Ltd.	1,372		500	99.6
26		Ascot Group Ltd.	1,362		1,869	92.0
	11	IRB - Brasil Resseguros S.A.		1,344	878	99.5
27		CCR Re	1,309		885	96.9
	12	QBE Insurance Group Limited		1,301	9,953	100.7
28		DEVK Gruppe	1,277		2,835	95.1
29		SiriusPoint Ltd.	1,271		2,531	80.0
	13	Taiping Reinsurance Co. Ltd[9]		1,206	1,410	94.9
30		Chubb Limited	1,151		63,691	75.6
31		Somers Re Ltd.	1,048		1,111	94.1
32		Markel Corp	1,047		15,056	101.9
	14	African Reinsurance Corp		1,046	1,066	87.7
33		Core Specialty Insurance Holdings, Inc	1,037		1,124	106.4
	15	Hiscox Ltd		970	3,297	68.3
34		Ark Insurance Holdings Ltd.	966		1,107	92.5
35		Hamilton	839		2,048	68.4

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

[2] As reported in the group's annual statement.

[3] Non-life only.

[4] Munich Re's results in prior years included global specialty insurance; the revenue associated with this line was removed from reinsurance revenues for year-end 2023.

[5] Reflects total reinsurance premium written by all syndicates in the Lloyd's market. The above list includes insurance groups that write reinsurance business in the Lloyd's market. As such, reinsurance premium is included in both the insurance group's premium figure and the Lloyd's market's premium figure.

[6] Shareholders' funds includes Lloyd's members' assets and Lloyd's central reserves.

[7] RenaissanceRe Holdings Ltd completed its acquisition of Validus Re in October of 2023. 2023 Premiums for Validus were included on a pro-forma basis.

[8] Fiscal year ended March 31, 2024.

[9] Net asset value used for shareholders' funds.

[10] Premium data excludes intragroup reinsurance.

[11] Ratio is as reported and calculated on a gross basis.

[12] Ratio is based on the group's operations.

[13] Ratio is based on Liberty Mutual Insurance Europe SE financial statements.

[14] Ratio is based on Tokio Marine & Nachido Fiscal Year 2023 reported combined ratio.

[15] Ratio includes monoline excess business in addition to reinsurance.

Source: AM Best data and research

Underwriting Performance and Investment Performance Bolster Balance Sheets

The global reinsurance market did not meet its cost of capital for many years leading up to 2023. In 2022, the sharp increase in the risk-free rate significantly increased the cost of capital for the reinsurance industry. The worsening pressure further fueled hard market conditions that resulted in 2023 improved reinsurers underwriting performance, and across the board combined ratios declined. For GAAP or equivalent companies that were included in the top reinsurers list in 2022 and 2023, the average combined ratio was 100.9%. This declined 8.7 points to 92.2% for 2023.

Improved underwriting results contributed to the growth in capital for GAAP or equivalent reinsurers. For this population (included in both 2022 and 2023), shareholders' equity rose 19.5% in 2023. The largest contributor to the growth was Berkshire Hathaway, whose equity rose 18.1% from USD 480.6 billion to USD 567.5 billion. IFRS 17 reporters were not included in this part of the analysis due to the impact of the standard's adoption on equity.

Further bolstering capital was the improvement in the equity markets from 2022 to 2023 and the unrealized losses owing to rising interest rates rolling off balance sheets. The risk-free rate remains high compared to recent historical averages, however, this continues to provide opportunities to grow capital at an accelerated rate as it comes in from premium revenue and maturing fixed income.

Premium Growth in a Hard Market

In 2023, there was a significant change in premium among companies, driven by those making strategic shifts in their portfolio mixes and others taking advantage of the favorable rate environment for property catastrophe reinsurance. Market conditions for non-life reinsurance saw improvement over 2022, providing all reinsurers with significant opportunities.

Everest Re saw significant growth, with gross premiums rising 23%, to USD 11.5 billion from USD 9.3 billion. Renaissance Re displaced Everest in the overall ranking, attributable largely to its 33.9% growth, which includes the impact of its recent acquisition of Validus Re. We noted in last year's report that if 2022 financial statements were consolidated for Renaissance Re and Validus Re, Renaissance would have ranked higher than Everest. The outsized growth at both companies was supported by capital-raising at the onset of the market hardening.

Convex's gross premiums grew 48.6%, from USD 1.4 billion in 2022 to USD 2.1 billion in 2023. Founded in 2019, the group is still relatively new but has been growing quickly, with surplus nearly doubling from its initial start-up capital in 2023. The company reached underwriting profitability three years after inception. (Convex was first included in the top global reinsurers report last year.)

Not all reinsurers reported growth during the hard market. Qianhai Re saw its premium decline by 25.5%, to USD 1.4 billion in 2023 from USD 1.8 billion, owing to its business initiative of rebalancing its life reinsurance portfolio. Sirius Point saw a decline of 16.5% in premium, reporting USD 1.3 billion in 2023, from USD 1.5 billion in 2022. Markel's gross premiums declined 15%, to USD 1.0 billion from USD 1.2 billion in 2022.

New Entrants to The Top Global Reinsurers List

There was one new addition to the largest global reinsurers list this year: Ascot Group Limited, which ranked 26th among non-IFRS 17 reporters. Founded in 2001, Ascot is a global specialty insurance and reinsurance group headquartered in Bermuda, with operations expanding in the US markets in 2019. The group focuses on catastrophe-related risks in the United States.

Another addition to the largest global reinsurers list this year is Ark Insurance Holdings, ranked 34th among non-IFRS 17 reporters. Ark is a property, casualty, and specialty insurance and reinsurance group. Founded in 2007, the company operates through an established Lloyd's platform.

***Updates to the Report**

This report was updated on August 28, 2024, to correct the text.
This report was updated on August 29, 2024, to correct Exhibit 1.

Trend Review

The 2023 Reinsurer Class — The Class That Never Was

The existence of a healthy ILS market appears to have eliminated the franchise value of property catastrophe business for investors

Principal Takeaways

- The current hard market for reinsurers is generating the greatest returns in more than three decades.
- The reinsurance market tends to shift from soft to hard following catastrophic events such as major hurricanes and the September 11, 2001, terrorist attacks.
- A new class of reinsurers has yet to form in this hard market, despite conditions similar to when prior classes formed.
- The insurance-linked securities market may offer more efficient opportunities for new entrants to the reinsurance space.

The insurance industry in general and the reinsurance market in particular tend to be cyclical. Currently, the reinsurance segment is experiencing a hard market that has generated risk-adjusted returns not seen since 1993. Each reinsurer has its own unique set of opportunities, but the market has improved almost all reinsurers' prospects for enhanced returns on surplus and capital.

What usually precipitates the change from the soft pricing part of the cycle to the birth of a hard pricing cycle is a large-scale loss, which manifests in significant underwriting losses and surplus erosion. This generates investor appetite to allocate funds to the reinsurance market to enjoy the benefits of the expected hardening of underwriting conditions and resulting outsized returns. A class of start-up reinsurers usually quickly forms to capitalize on the interruption in the reinsurance supply/demand equilibrium. Many of these new reinsurer formations merge or are acquired as the market cycle returns to the soft phase of the cycle as the supply/demand equilibrium is reached at a lower price level after the new capital is used.

However, whether it's the great fire of Glarus (1861), Hurricanes Hugo (1989), Andrew (1992), or Ike (2008), September 11, or Hurricanes Katrina, Rita, and Wilma (2005), reinsurance market shifts from soft to hard have historically incorporated the formation of many reinsurers that have become leaders in the market today—that is, until the current hard market cycle, which is noticeably devoid of new reinsurer formations.

The elevated property catastrophe activity since 2017 (after an extended period of relatively benign years), coupled with a substantial increase in secondary perils, caused reinsurance pricing and reinsurance contract terms and conditions to improve notably, continuing, albeit at a decelerating rate, through the June 1, 2024, renewal. Additionally, capital market volatility precipitated by quickly rising interest rates in 2022 resulted in a mark-to-market shock loss that significantly decreased available capital across the industry. Although the capital losses were viewed as temporary, rising interest rates meant reinsurers needed to generate substantially higher underwriting income to compensate investors for the risk being assumed, which led to a chaotic reinsurance market. The gap between reinsurance sellers' and reinsurance purchasers'

Analytical Contact:
Dan Hofmeister, Oldwick
+1 (908) 882-1893
Dan.Hofmeister@ambest.com

Contributors:
Steven Chirico, Oldwick
Carlos Wong-Fupuy, Oldwick

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expectations and assumptions going into renewal widened. This resulted in a generational hard reinsurance market that has persisted into 2024 and is expected to continue through at least 2025.

This hard reinsurance market is different from many of the prior hard markets in that it was not caused by a single large loss, but by the accumulation of a series of property catastrophe events, which led to significant underwriting losses and resulted in earnings events for almost all reinsurers. Ultimately, the hard market was driven by a persistent softening of the market from 2017 through 2021. During this period, interest rates were at historical lows and resulted in an abundance of capital for both traditional reinsurers and insurance-linked securities. With the low costs of capital, reinsurers pushed for business growth while driving margins down and attachment points to unsustainable levels. This all shifted in 2022, after another mediocre underwriting year. The industry reevaluated underwriting positions as interest rate spikes drove substantial changes in market capital positions.

The substantial mark-to-market losses on reinsurers' balance sheets was largely viewed as temporary, as the duration of fixed-income investment portfolios remained relatively short. Most non-life, fixed-income portfolios had an average duration of three to five years. Coupled with a capital cushion to allow them to pull to par, the mark-to-market losses would disappear when each fixed-income security matured and face value was realized—barring any defaults. Fixed-income securities backing life liabilities have longer durations and are more sensitive to interest rate changes. The longer-term cause of the hard reinsurance market was the lackluster returns over a prolonged period, with investment losses and higher opportunity costs acting as catalysts.

Regardless of the causes and differences with prior hard reinsurance markets, the market has hardened and it will take at least a few years for pricing and conditions to soften. And, yet, no new reinsurers were formed to capitalize on the turning market. This was not for a lack of effort or talented executives, as some high-profile management teams publicly announced their intentions to form new reinsurers, while many more were rumored to be seeking funding. Ultimately, none of the potential entrants have made it past the fundraising stage.

Lack of Venture Capital Interest

Successful new company formations depend on strong leadership teams. Executives with strong track records have yet to see commitments from private equity or venture capital partners. AM Best has issued a number of preliminary credit assessments on business plans from high profile management teams, which have had similar difficulties in fundraising. Many of them note that large, passive capital investors (such as sovereign wealth funds, endowments, and pension funds) still have healthy levels of interest in the industry and have made commitments contingent upon management teams partnering with reputable private equity firms. However, private equity/venture capital investors do not appear to be interested in supporting start-up non-life reinsurers.

More Competition and Higher Barriers To Entry

A few primary drivers in could be behind the shift in private equity appetite. The first is the competition in the reinsurance market. Although many players restricted coverage with the market turning, the competitive landscape, both domestically and internationally, is still healthy. Despite the capital declines from investment losses in 2022, there were no material adverse credit outcomes that would have driven the opportunity for new reinsurers to enter the market. Some larger reinsurers were able to raise significant amounts of new equity capital to deploy in the hard market, creating a dilemma—investors need to be certain that a newly funded reinsurer will have a place in this market once it turns, otherwise it will be difficult to liquidate its holdings and realize profits or avoid capital losses.

The scale and capitalization levels of established reinsurers make it increasingly difficult for start-up reinsurers to compete at historical funding levels. In the past, reinsurers could viably enter the market with USD 1 billion of new, unencumbered equity capital, consistent with typical levels that new companies are seeking today (and now even less in some cases). However, this capital is insufficient to enter the market in as meaningful a way as in the past. Assuming that companies could write as much as USD 1 of premium for every USD 1 of equity, ten years ago USD 1 billion reinsurance premium volume would place a reinsurer in the 37th position on AM Best's ranking of top reinsurers in the industry—today, that same USD 1 billion of premium would place them at #47 (**Exhibits 1 and 2**). At the lower position in the market, it's difficult to visualize what value a new company would meaningfully add to the market dynamic, and how it would be perceived when it comes time for private equity investors to exit their positions.

On the other hand, many publicly traded reinsurers with established operating platforms could be invested in hard reinsurance market exposures with less operational risk. Although returns for successful start-ups have been better than those for established players, recent IPO data suggest that start-up capital is better suited for other sectors of the insurance value chain.

Exhibit 1

Global Reinsurance Groups

Ranked by gross premium written in 2012

(USD millions)

2012 Ranking	Company Name	Reinsurance Premiums Written				Total Shareholders' Funds	Ratios[1]		
		Life & Non-Life		Non-Life Only					
		Gross	Net	Gross	Net		Loss	Expense	Combined
35	Endurance Specialty Holdings, Ltd.	1,119	1,087	1,119	1,087	2,711	62.8	32.0	94.8
36	ACE Limited	1,070	1,025	1,070	1,025	27,531	55.2	22.3	77.4
37	American Agricultural Insurance Company[2]	955	284	955	284	440	86.3	13.1	99.4
38	Alterra Capital Holdings Ltd.	899	727	899	727	2,840	57.8	33.7	91.5
39	Pacific LifeCorp	882	882	0	0	9,497	N/A	N/A	N/A
40	Maiden Holdings, Ltd.	864	765	864	765	1,015	73.4	29.1	102.5

[1] Non-life only.

[2] Data and ratios based on US statutory filings.

N/A = Information not applicable or not available at time of publication.

Source: AM Best data and research

Exhibit 2

Global Reinsurance Groups

Ranked by gross premium written in 2022

(USD millions)[1]

2022 Ranking	Company Name	Reinsurance Premiums Written				Total Shareholders' Funds[2]	Ratios[3]		
		Life & Non-Life		Non-Life Only					
		Gross	Net	Gross	Net		Loss	Expense	Combined
45	Hiscox Ltd	1,038	268	1,038	268	2,417	54.8	30.9	85.6
46	Somers Group Holdings, Ltd.	1,019	855	1,019	855	772	71.3	29.2	100.5
47	African Reinsurance Corporation	952	773	861	695	990	59.4	34.9	94.3
48	DEVK Re Group	848	759	841	752	2,614	72.4	27.1	99.4
49	Lancashire	842	629	842	629	1,268	71.0	26.4	97.5
50	Nacional de Reaseguros, S.A.	737	610	619	493	469	72.9	31.2	104.1

[1] All non-USD currencies converted to USD using foreign exchange rate at company's fiscal year-end.

[2] As reported on balance sheet, unless otherwise noted.

[3] Non-life only.

Source: AM Best data and research

Alternative Entry Points

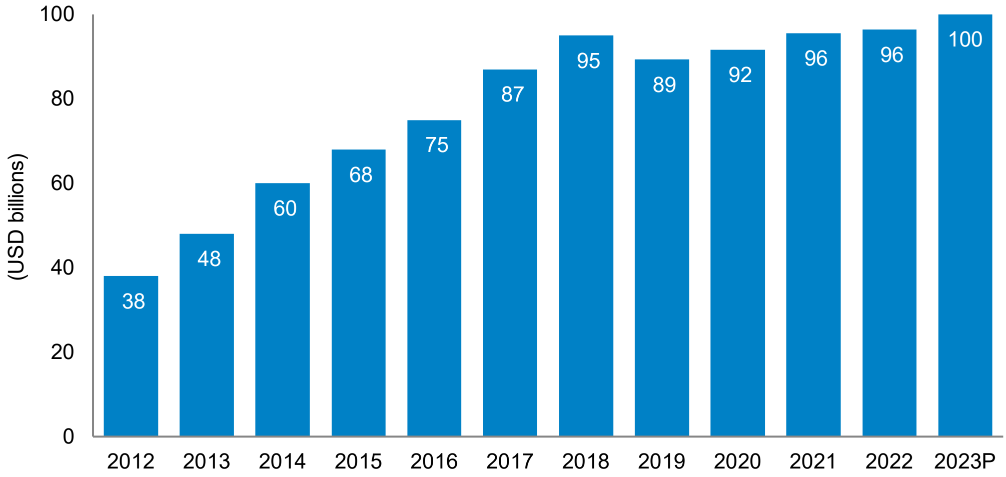
The availability of insurance-linked securities (ILS) makes the current hard reinsurance market a better opportunity for investors than prior hard market cycles. The ILS market offers a concentrated investment opportunity to supplement investments in large reinsurers that write global, well-diversified business and often primary and mortgage insurance, in addition to property catastrophe coverage. The expansion of ILS capital began in the early 2010s, with assets now valued at nearly USD 100 billion (**Exhibit 3**).

Over time, ILS products have been fine-tuned to attract investors. Most recently, the market experienced a material expansion of investments in the CAT bond market, given that the property catastrophe reinsurance market has benefitted from significant hardening of rates and terms. An estimated USD 8.2 billion in new CAT bond issuance in second-quarter 2024 contributed to the segment's record issuance of USD 12.6 billion through June. These CAT bonds allow investors to participate in the market's strong rates while limiting investment time horizons.

Investors currently have the opportunity to access exposures to the hard property catastrophe reinsurance market through either established ILS products or large, well-diversified balance sheets of rated companies with proven risk management platforms. These factors have diminished the attractiveness of start-up reinsurance investment opportunities, where capital can be committed for at least a five-year time horizon in an unproven platform, despite high levels of start-up capitalization and experienced management teams.

As seen from start-up reinsurer formations during the soft reinsurance market pricing cycle that lasted roughly a decade starting in 2008, new formations focused primarily on writing casualty and specialty lines of business, usually matched with a partial alternative investment strategy. The way to whet investor appetite during this period of anemic property catastrophe rates and terms and conditions, coupled with historically low fixed-income investment returns, was apparently to bring a credible solution to the market in the form of a total return reinsurer. Total return reinsurers, despite lackluster performance, attracted capital and represented a logical response to conditions in the reinsurance industry and the capital markets at the time.

Exhibit 3
Estimated Third-Party Reinsurance Capital



Source: AM Best data and research

The existence of a healthy ILS market appears to have diminished the franchise value of property catastrophe business to investors. Investors today appear much keener to allocate funds to shorter-term ILS instruments to capitalize on the hardened underwriting conditions, rather than in a rated balance sheet. As long as these alternative entry points exist, we don't foresee capital flowing into the new reinsurers to support hardened property rates and conditions.

Rising Risk-Free Rates

Perhaps the most significant deterrent to investor capital for start-up reinsurers is the precipitous rise in risk-free rates. Since the start of 2022, 10-year Treasury rates have nearly tripled, with credit spreads also widening. This raises the minimum rate of return that a new company would need to justify investor risk. Additionally, a new reinsurer would likely be writing property catastrophe business to capitalize on market conditions, which inherently carry volatile earnings, thus requiring a heightened risk premium for investors to find the potential return attractive. The expected return required to attract investors to address the liquidity, volatility, and operational risks associated with a start-up reinsurer remains elusive.

Even with well-experienced management teams with proven track records, how sustainable are the currently favorable reinsurer and capital market conditions compared to the required typical holding period of new reinsurer capital commitments? After several years of the current hard market cycle, the time horizon to launch and fund a start-up reinsurer is narrowing—which benefits the existing rated reinsurers and ILS market participants.

New company formations typically experience challenges dictated by market conditions and investment opportunity costs. These factors may not apply to all current opportunities, but capital has not yet flowed into the market to fund new reinsurer formations. It will be interesting to see if any experienced management team overcomes these challenges to achieve their desired funding. This may become more difficult as the hard reinsurance market fades and softens, and fixed-income investment yields decline along with the expected decrease in the risk-free rate. New reinsurer formation likely will decline as the established rated balance sheets and ILS market players reap the rewards of allocating capital to the reinsurance industry, enhancing their own operating returns and capital positions.

Dedicated Reinsurance Capital Thrives in Hard Market

Principal Takeaways

- Traditional reinsurance capital recouped the majority of its prior year losses through year-end 2023, approaching the year-end 2021 high water mark.
- Third-party capital expanded due to healthy interest in the cat bond market.
- Uncertainty about capital actions emerged, as companies adapted to reporting metrics under the new IFRS 17.
- AM Best expects capital levels for both traditional reinsurance capital and third-party capital to reach all-time highs by year-end 2024.

Traditional reinsurance capital increased roughly USD 57 billion (14%), from USD 411 billion at December 31, 2022, to USD 468 billion at December 31, 2023

The global reinsurance market has garnered attention since the market shifted in 2022. Although AM Best has not seen new capital enter the market from start-up reinsurers, capital has flowed into the market via secondary public offerings, higher retained earnings, and new cat bond issuances. Much of the impact of interest rate volatility on fixed-income assets was recouped throughout 2023 and 2024. For years now, AM Best has noted the gradual shift in reinsurers toward more balanced business profiles, which incorporates growing allocations to primary and specialty lines of business. This trend, although somewhat subdued by heightened rates in property reinsurance markets, continued in 2023 and is expected to continue through 2024.

Both traditional and third-party reinsurance markets had a good year in 2023. Various reinsurers raised capital throughout the year to support their growth initiatives, while more opportunistic investors funneled money into the shorter-duration cat bond market. The bulk of the 2022 mark-to-market fixed-income valuation losses were either recouped or realized and reinvested. As a result, there is no reported value for fixed-income equity in the year-end 2023 estimate.

The implementation of IFRS 17 and how that impacts capital levels is now front and center for the industry. AM Best has long contended that a change in accounting methods should not affect our view of capitalization and overall balance sheet strength. Nor do we expect any changes in market capital owing to the shift to IFRS 17.

Traditional Reinsurance Capital Grows as Bermuda Thrives

AM Best's estimate of dedicated reinsurance capital is based on comprehensive analysis and consistent aggregation methods. Our estimate takes into account allocations by business classification. Since year-end 2018, traditional reinsurance capital has been less than 60% of the

For the past 12 years, AM Best has estimated the amount of global capital dedicated to supporting the reinsurance market. This estimate is a joint effort between AM Best and Guy Carpenter, for which AM Best provides an estimate of traditional reinsurance capital and Guy Carpenter provides an estimate of third-party capital.

Analytical Contacts:
Dan Hofmeister, Oldwick
+1 (908) 882-1893
Dan.Hofmeister@ambest.com

Antonietta Iachetta, Oldwick
+1 (908) 882-1901
Antonietta.Iachetta@ambest.com

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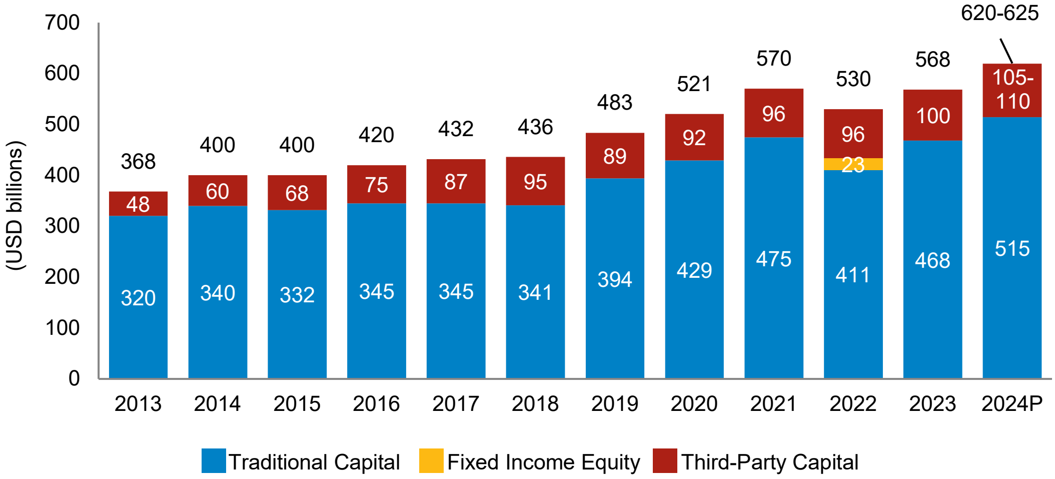
Exhibit 1

Global Reinsurance – Estimated Dedicated Reinsurance Capital



P=Projected
Sources: AM Best data and research, Guy Carpenter

consolidated shareholders' equity of the groups identifying as reinsurance writers. This figure dropped to 49% of shareholders' equity in 2023, as reinsurers continued to expand their primary and specialty insurance lines.

Traditional reinsurance capital increased roughly USD 57 billion (14%), from USD 411 billion at December 31, 2022, to USD 468 billion at December 31, 2023, on an absolute basis (**Exhibit 1**). Aside from Berkshire Hathaway's National Indemnity, the bulk of the capital growth was generated in Bermuda in 2023, owing in large part to robust operating returns reported by various Bermudian companies. Additionally, RenaissanceRe and Everest Group both completed new capital issuances in 2023 to fund growth opportunities. AM Best's Bermuda Reinsurers Composite reported shareholders equity growth of 33.7%, on a 23% average return on equity in 2023. Although Bermudian reinsurers on average outperformed all other segments of the global reinsurance market, the market generally reported favorable trends in nearly every region. US- and Bermuda-domiciled companies, however, have not historically experienced the same investor pressure to return excess capital as their European counterparts have. If Bermudian reinsurers continue to perform at this pace, the gap in capital levels may narrow.

The top five companies (by capital) in our composite have historically accounted for over 60% of the composite's capital. However, this measure has been declining, and 2023 marked a third annual decline. At year-end 2023, the top five companies accounted for 57.5% of the total composite, the lowest total since year-end 2018.

The largest European reinsurance groups also reported improved operating returns at year-end 2023. However, some of those groups have more sizable primary insurance operations and more robust dividend/share buyback policies than their Bermudian peers, which moderates their capital growth. Additionally, the largest European groups have mostly transitioned to IFRS 17 or are in the process of doing so. Although this has not impacted their contributions to our estimate, it has resulted in volatility in key performance indicators historically used to benchmark their results against those of their global peers. How metrics evolve as the standard becomes more widely used in financial statements will be key.

Third-Party Capital Meets Market Demand

The hardening of the property cat market benefited traditional reinsurers and insurance-linked securities investors alike. Entering 2022, the ILS market had experienced loss fatigue and rising uncertainty about modeled losses. The market appeared to be at a crossroads, as interest rates rose and investors reevaluated their positions. However, the improved rates and terms offered in 2022 eventually garnered the attention of more opportunistic investors such as hedge funds, which viewed the cat bond market as a way to quickly capitalize on higher expected returns without locking into multi-year investments. This investment avenue has somewhat dampened the flow of capital to start-up non-life reinsurers, further insulating the position of traditional reinsurers in the market.

Guy Carpenter has estimated a slight increase of only 3.7% in net third-party capital in 2023, to USD 100 billion. In 2024, third-party capital is expected to increase in the range of USD 5-10 billion, driven mainly by healthy growth in cat bonds and collateralized reinsurance. Historically, this estimate included a fair amount of trapped capital. As time has passed without significant loss events, and terms and conditions were tightened, the amount of trapped capital has declined significantly, resulting in even stronger capital growth than the numbers may indicate.

2024: A Crossroads

The reinsurance market realigned its position by the January 2023 renewals, after years of mediocre underwriting and operating returns that failed to meet their cost of capital. Some reinsurers chose to exit the property cat space altogether, while many others curbed their risk profiles by raising rates and increasing attachment points. The shift in appetite impacted operating returns, which have been reported at a roughly three-decade high. Capital in the industry has expanded quickly, due to higher retained earnings and lower mark-to-market investment losses. Additionally, the absence of start-up reinsurers has allowed traditional reinsurers to maintain their market shares without compensating with softening conditions. The property reinsurance market has stabilized through the first half of 2024—and even softened slightly at the highest attachment points.

AM Best expects that the reinsurance market will continue to thrive throughout 2024. With higher rates of returns on investments and relatively similar underwriting risk positions as in 2023, the market should again be able to generate 10%+ returns on capital by year-end 2024. Returns could always be dampened by dividends, as they were in 2023, as well as a highly active hurricane season. Underwriting risk may result in losses, but the reinsurance market seems well positioned to absorb a reasonable level of losses and still grow capital.

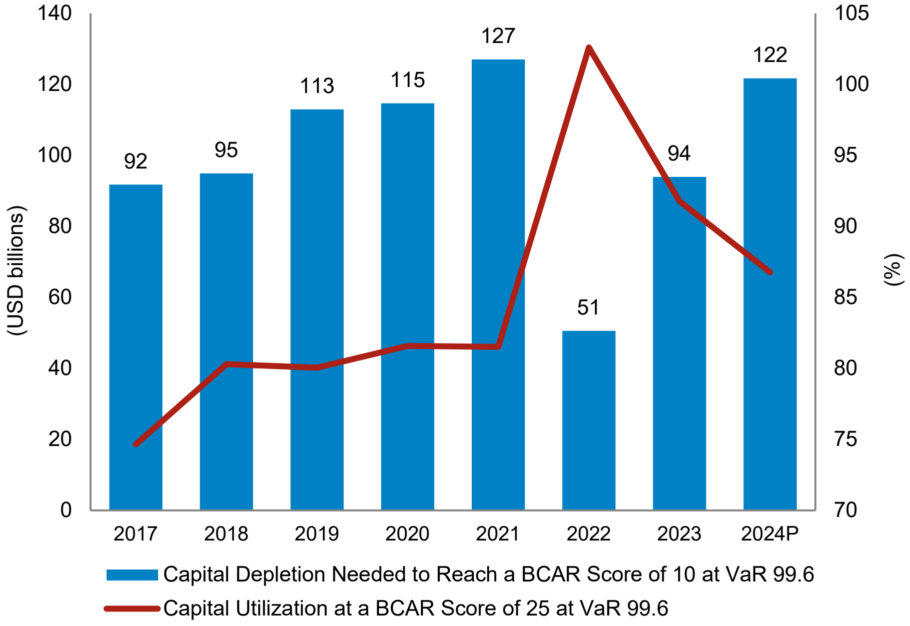
As we approach the height of the US hurricane season, which many forecasters have predicted would be much more severe than in prior years, the results may affect not just the reinsurance market, but also the insurance market as a whole. Cedents have been stressed the last two years by frequent severe weather activity. Reinsurers have avoided much of the severe weather activity, due primarily to underwriting actions taken in 2022 and 2023. If reinsurers can again avoid losses and generate returns similar to those in 2023 while primary insurers struggle, long-term partnerships could become stressed in the absence of some concessions. A hurricane season that impacts everyone would test the resilience of the insurance market as whole. Many believe there is not much more hardening the primary insurers can withstand at this point. With neither side in a position to concede, placing programs could be more challenging than it has been for some time.

Optimal Capitalization

Measuring dedicated reinsurance capital in a silo helps explain how nominal capital levels have evolved over time. However, given the inflationary pressures and rapidly evolving underwriting conditions of recent years, understanding how well the market is capitalized on a risk-adjusted basis is key. We examine risk-adjusted capitalization by measuring capital utilization. We determine required risk-adjusted capital levels and compare them to available capital levels. Capital utilization approximates how much of the available capital of the market is required to maintain risk-adjusted capitalization at the strongest BCAR score (Best's Capital Adequacy Ratio) of 25% at a 99.6% VaR (Value at Risk) level. Additionally, we track how much capital depletion is needed to reduce BCAR to 10% at 99.6% VaR. This measure approximates the tolerance afforded to companies in extreme stress scenarios (**Exhibit 2**).

Exhibit 2

Global Reinsurance – Capital Utilization

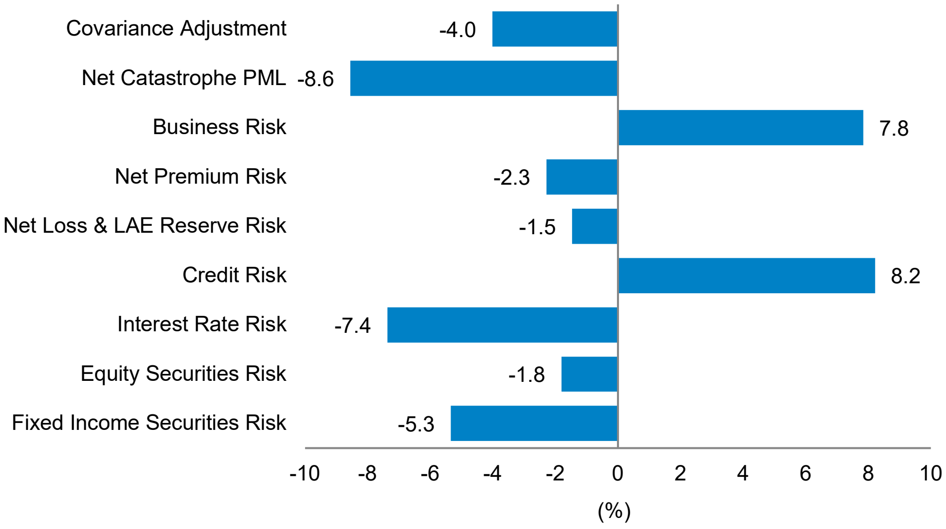


Source: AM Best data and research

At year-end 2022, traditional reinsurers' capital utilization increased sharply, to 103% from 82%, driven by a 10.7% increase in required capital, which was compounded by a decline in available capital. Capital utilization exceeding 100% indicates that risk-adjusted capitalization levels have dropped below the "Strongest" level. However, AM Best expected this to revert over the near term, as the market's unrealized losses were recouped by year-end 2023 and capital utilization had improved to 92%, driven primarily by market capital growth and a decline in required capital.

Exhibit 3

2023 Required Capital Growth by Risk Factor



Source: AM Best data and research

Required capital, as measured in BCAR at the VaR 99.6% level, can be broken down into eight separate risk factors: fixed-income securities, equity securities, interest rate, credit, net loss & loss adjustment expense (LAE) reserves, net premiums, business, and catastrophic, with an additional covariance adjustment that lowers the amount of capital required, taking into account underlying correlations (**Exhibit 3**). In 2023, the largest relative decline in risk was for catastrophic risk, at 8.6%. This aligns with the underwriting actions taken in earlier years to increase attachment points and restrict terms and conditions in contracts. The decrease was offset partly by an 8.1% relative increase in credit risk, which represents the impact of weakening credit ratings in various jurisdictions. Although the relative changes are similar, credit risk represents less than 4% of the total risk in the segment, and thus has far less of an impact on the amount of required capital, from an absolute perspective. The 1.8% decline in equity securities valuations was the second biggest change from a nominal perspective, as equity securities risk accounts for over a third of total required capital.

AM Best expects many of the same industry conditions seen thus far to continue through the remainder of 2024. Barring multiple major catastrophic events, reinsurers are on pace to report capital growth in line with 2023. This would be countered in part by increased asset risk from a growing investment base and potentially higher reserve charges stemming from US social inflation and adverse development. Nevertheless, reinsurers are well positioned to absorb a normal level of volatility in the market. An outsized level of volatility would likely stress cedents' credit positions as well, making both available and required capital levels more difficult to estimate.

How We Calculate Total Dedicated Capacity

To calculate the amount of dedicated capacity, we analyze the BCARs of the top reinsurers, which quantify a company's available capital and required capital. To adjust for organizations that provide capacity in both primary and reinsurance markets, we apply a haircut based on a split of the company's business, based on net premiums earned. The haircuts for all companies are then consolidated and grossed up by 10% to account for organizations that are not in the group. The consolidation of these figures results in AM Best's estimate of traditional reinsurance capital, which we then combine with Guy Carpenter's estimate of third-party capital, for total global reinsurance market capital.

AM Best also estimates excess capital in the market. The calculation of excess capital is similar to that of traditional reinsurance capital—the difference being that BCARs incorporate the impact of a catastrophic event at the company level. We then make the same haircut, consolidation, and gross-up adjustments to the catastrophe-stressed BCARs. The consolidated figures are then examined to determine how much available capital must decline before the market's BCAR ratio falls below 25%, the strongest BCAR measure in AM Best's criteria.

Reinsurers Meet Cost of Capital for First Time in Four Years

Reinsurers generated returns well above the cost of capital in 2023 due to positive underwriting results, driven by repricing and portfolio de-risking

Principal Takeaways

- Reinsurers met their cost of capital for the first time in four years, thanks to a rebound in capital gains and underwriting profits.
- High interest rates, equity market volatility, and economic uncertainty resulted in another increase in the cost of capital.
- Reinsurers that balance long-term strategies with effective tactical decisions and sound risk management can still meet or exceed return expectations.

Sound risk management, strategic use of technology, and a maturing partnership with alternative capital have subdued the cyclical nature of the reinsurance market by narrowing the extremes. To meet or go above the cost of capital, reinsurers must remain flexible with regard to market conditions and balance opportunistic moves (taking advantage of market conditions, retreating when pricing is not right) over the short term, with strategic long-term goals (maintaining relationships, building expertise, and being relevant and dependable over the long run).

Rising interest rates and stock market volatility, as well as weather events and inflation, have raised the cost of both debt and equity in recent years. The reinsurance industry's weighted average cost of capital had decreased from 9.5% in 2010 to 6.25% in 2019, before spiking up to 9.31% in 2021. After falling in 2022, it rose again in 2023 to 8.12%. However, in 2023, reinsurers generated returns well above the cost of capital due to positive underwriting results, driven by repricing and de-risking of reinsurance portfolios.

The current hard market came about due to prolonged underperformance and economic and social inflation, and despite a relative abundance of capital, due to the prolonged low interest rate environment. Rate increases are slowing down—Guy Carpenter calculated a 5.4% increase in Rate-On-Line (ROL) at January 1, 2024, for both US and European property catastrophe reinsurers, compared with nearly 30% in 2023—but reinsurers have also implemented thorough de-risking measures such as tightening terms and conditions and sharply increasing attachment points, which are unlikely to be relaxed. The hardened market has led to more sustainable pricing momentum, enhancing reinsurers' ability to meet their cost of capital over the medium term.

Analytical Contacts:
Sridhar Manyem, Oldwick
+1 (908) 882-2087
Sridhar.Manyem@ambest.com

Helen Andersen, Oldwick
+1 (908) 882-1629
Helen.Andersen@ambest.com

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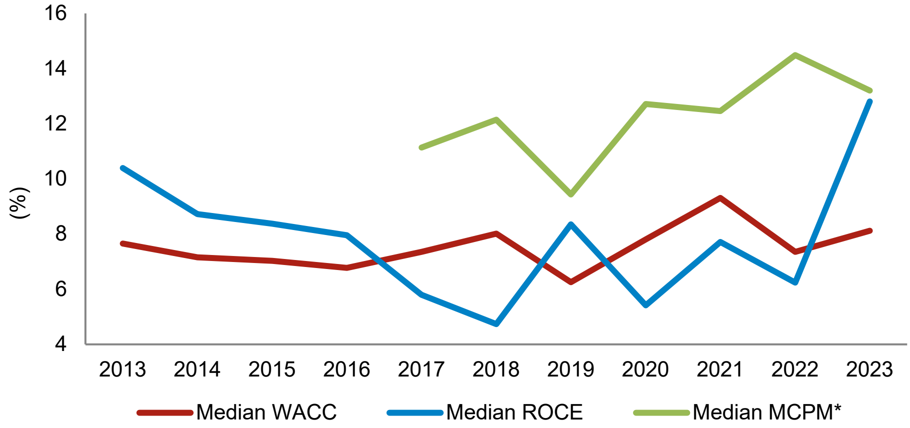
Rebounding Capital Gains Drive High Returns

For reinsurers that take on high severity risks, meeting their cost of capital during years of severe catastrophe losses is a challenge (**Exhibit 1a**), which is especially evident when comparing the median return on capital employed (ROCE) and the median weighted average cost of capital (WACC). WACC measures a company's cost of both debt and equity, whereby the weights are the relative proportion of financing based in each source. ROCE measures how well a company generates profits from its capital, including both debt and equity. ROCE is calculated by dividing earnings before interest and taxes (EBIT) by capital employed, whereby capital employed is equal to total assets minus current liabilities.

Exhibit 1a

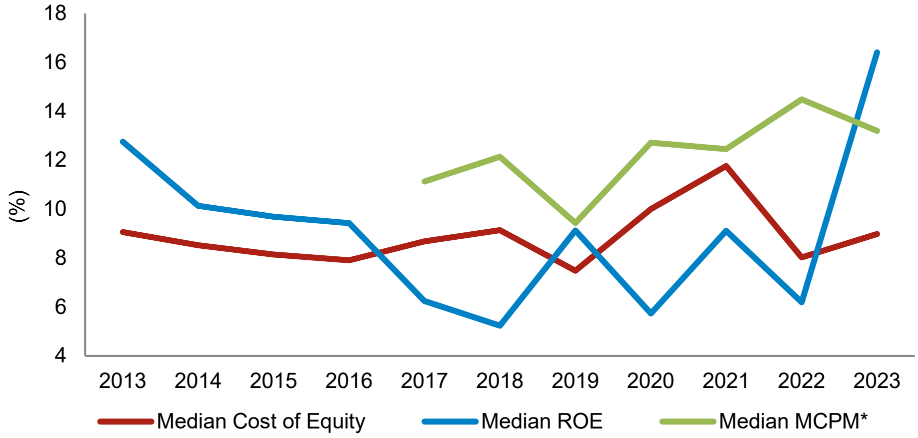
Reinsurers' Median ROCE Compared to Median WACC



* MCPM is based on a smaller sample size and has limited years due to availability of data.
Source: Bloomberg

Exhibit 1b

Reinsurers' Median ROE Compared to Median Cost of Equity



* MCPM is based on a smaller sample size and has limited years due to availability of data.
Source: Bloomberg

The years when returns exceed the cost of capital are generally the ones with a lower frequency and severity of natural disasters. According to Swiss Re, 2023 marked the third year in a row in which global insured losses exceeded USD 100 billion. However, the insured losses were due mainly to numerous small to medium-sized events and, owing to higher attachment points, most of the impact was retained by primary insurers.

Despite the higher median WACC, reinsurers met the cost of capital in 2023 for the first time in four years, as well as the median return on equity (ROE) compared to the cost of equity (**Exhibit 1b**). ROE is another measure of how efficiently a company generates profits. Unlike ROCE, ROE does not take debt into account—it is calculated by dividing net income by average shareholders' equity.

Most reinsurance players had an excellent ROE in 2023, with a median of 16.41%—the highest in 12 years by a margin of about 3.7 percentage points. These returns are due to ongoing positive underwriting results, as well as recoupment of unrealized investment losses from previous years thanks to higher reinvestment rates. The exceptional ROE in 2023 is unlikely to be repeated, although reinsurers are expected to maintain underwriting discipline over the near term.

During the prolonged low interest rate environment, investors' interest in reinsurance through traditional equity, third-party capital, and insurance-linked securities (ILS) grew, as investors diversified their portfolios. However, reinsurers' failure to meet their cost of capital consistently in recent years has tested investors' risk appetite. Moreover, ILS capacity, flat for the last five years, has shown signs of expanding, driven by the record issuance of catastrophe bonds in 2023.

MCPM Suggests Higher True Cost of Capital

There are multiple methods used to estimate the cost of equity, the most popular of which is the Capital Asset Pricing Model (CAPM). The CAPM divides risk into systematic risk (the risk of being in the market) and unsystematic risk. Systematic risk is measured by beta, a portfolio's relationship to the overall market, and cannot be diversified. Unsystematic risk is specific to a company's fortunes and can be mitigated through appropriate diversification, making beta the more important factor in the CAPM. The cost of debt is simpler to calculate: Averaging the yield to maturity for a company's outstanding debt.

By contrast, the Market-Derived Capital Pricing Model (MCPM) uses the price of options rather than historical data to estimate future volatility. MCPM relies on the same forward-looking market expectations that are built into a company's stock price and may provide a more accurate figure for firms to use when making decisions about capital allocations.

For global reinsurers for which options data was available, the MCPM cost of capital differed markedly from the CAPM cost of capital (**Exhibit 2**). The average CAPM cost of capital for these reinsurers was 7.4%, versus the MCPM's 16.6%. A majority of reinsurers generated returns that met or exceeded their MCPM cost of capital in 2023, but with a narrower margin compared to the CAPM cost of capital.

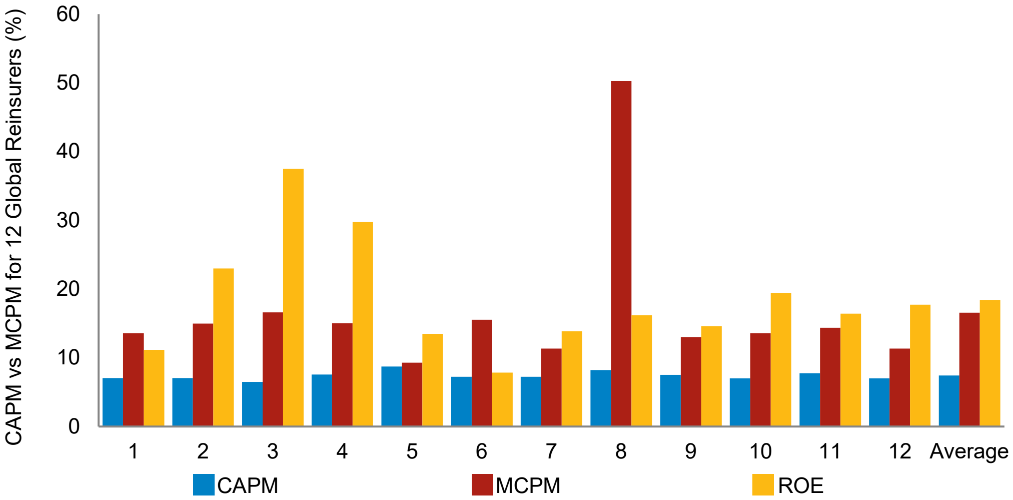
Dispersion of Returns Reflects Differences in Risk Management

The spreads on ROCE have varied the past 12 years. In 2011, a severe tornado season in the United States, earthquakes in New Zealand and Japan, and floods in Thailand resulted in global insurance losses of approximately USD 150 Billion. Between 2011 and 2016, the reinsurance industry's ROCE was pretty steady, despite Superstorm Sandy in 2012.

Generally, in years when losses were more severe, the variance in the spread of returns was wider (**Exhibit 3**). In 2022, a year with high catastrophe losses, returns ranged from -15% to 16%. Similarly, in 2017 (industry losses estimated at more than USD 150 billion), the variance was wide, between -8% and 17%. By contrast, in years such as 2014, when global insured catastrophe losses were below average (less than USD 35 billion according to various estimates), the range of returns was between

Exhibit 2

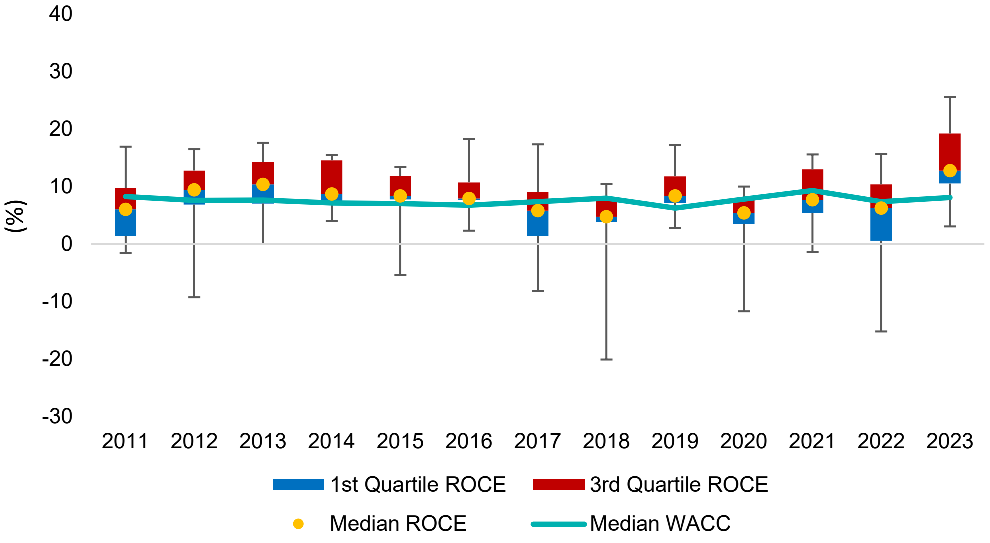
2024 YTD* Cost of Capital for 12 Reinsurers – CAPM vs MCPM



* Data as of June 3, 2024.
Source: Bloomberg

Exhibit 3

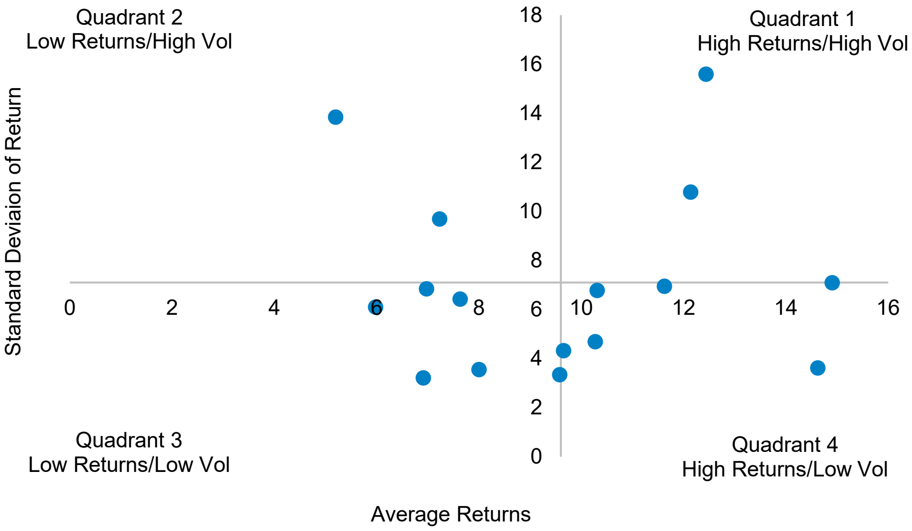
Reinsurers -- ROCE Dispersion



Source: Bloomberg

Exhibit 4

Average Returns vs. Volatility of Returns



Source: Bloomberg

4% and 15%. The year 2023 was an exception, when the wider spread was due not to higher losses but to a few exceptional returns, with the minimum being 3% and the maximum being 26%.

Reinsurers in the third quartile experienced more volatility in these cases, due to the lack of effective risk management and exposures to risk outside investors' risk appetite. In contrast, reinsurers in the first quartile tend to rely on effective risk management, appropriate portfolio concentration, and diversification. They are more likely to see a narrower spread of returns, often meeting or exceeding the cost of capital. These reinsurers do a much better job of communicating their risk profiles to investors. When losses occur, investors are not surprised.

Managing Risk/Return Trade-Off Impacts Cost of Capital

Reinsurers look to optimize their cost of capital and maximize their returns while taking risks commensurate with their risk appetites. Significant volatility in returns can indicate inefficiencies with regard to managing risk, resulting in a higher cost of capital. **Exhibit 4** shows 16 reinsurers and their returns. Only a handful of companies have been able to attain high returns while exhibiting low volatility of those returns, placing them in a coveted spot in Quadrant 4.

An insurer's ability to raise capital (especially in times of stress) and the potential cost of capital are important considerations in the ratings process. When assessing operating performance, we look at an insurer's returns on equity in comparison to its peers and vis-à-vis cost of capital, as well as return on revenue, combined ratio, return on assets, and underwriting expenses. We also examine the absolute level of these metrics and their historic volatility.

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BEST'S MARKET SEGMENT REPORT

Our Insight, Your Advantage™

US-Bermuda Reinsurers' Results Maintain Positive Momentum

The US-Bermuda composite's underwriting results improved for a third straight year

Principal Takeaways

- The US-Bermuda reinsurance composite's strong 2023 performance should be sustainable in the near term.
- Catastrophe pricing has moderated but capacity remains selectively constrained.
- Companies in the composite have ample capital to pursue attractive market opportunities.
- Strong investment results have bolstered underwriting margins.

Sustained Underwriting Improvement Reflects Favorable Market Conditions

AM Best's composite of US and Bermuda reinsurers consists of seven reinsurance groups domiciled in either the US or Bermuda, for which the reinsurance business accounts for the majority of their underwriting portfolios. In past years, this report analyzed results for a larger number of companies, which included groups for which reinsurance represented a meaningful portion, but not the majority, of their business. As of this year, the US and Bermuda report will focus on a smaller, reinsurance-specific composite to better discern market trends. The seven companies in the US-Bermuda composite are now Arch Capital Group Ltd.; Everest Group, Ltd.; General Re Corporation; Odyssey Group Holdings, Inc.; PartnerRe Ltd.; RenaissanceRe Holdings Ltd.; and Transatlantic Holdings, Inc.

The composite's underwriting results improved for a third year in 2023, which also represents the group's third straight year of underwriting profitability. The 2023 combined ratio of 85.1 was a 6.4 point improvement over the prior year (**Exhibit 1**). Reported underwriting margins included 3.7 points of favorable loss reserve development, compared with 3.0 points of favorable development in 2022.

Overall profitability grew significantly as strong investment performance complemented the expanding underwriting margins. The composite's total net premiums written (NPW) grew by 3.3% in 2023, down from 15.5% in 2022 and 19.7% in 2021. Aggregate NPW growth for these companies was impacted by significantly higher reinsurance cessions from Transatlantic to Berkshire Hathaway Inc. affiliates. Gross premiums written for the composite climbed by 11% in 2023. Slower top-line growth also likely reflected the diminishing pace of rate improvement in several lines of business, particularly property exposures, as well as a shift to more remote layers of catastrophe reinsurance towers and a move away from pro rata agreements and into excess structures for some companies. AM Best expects that premiums for the composite will increase in 2024 at a similar pace as in 2023, reflecting the high ongoing demand for reinsurance capacity, bolstered by underlying exposure growth.

Strong Results Despite Continued Catastrophe Activity

In 2023, natural catastrophe activity continued at a fast pace, with global insured catastrophe losses exceeding USD 100 billion for a third year. However, unlike the two previous years,

Analytical Contact:
Gregory Dickerson, Oldwick
+1 (908) 882-1737
Gregory.Dickerson@ambest.com

Contributor:
Antonietta Iachetta, Oldwick

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catastrophe losses were borne disproportionately by primary carriers rather than their reinsurers. This reflects not only the lower severity of catastrophes during the year, but also changes made to the structures of most catastrophe reinsurance programs, which started in earnest at the January 1, 2023, renewal season. Specifically, reinsurers significantly curtailed available capacity in lower layers of catastrophe programs and aggregate reinsurance covers, which has meaningfully reduced their exposure to small and medium-sized events.

Exhibit 1

Global Reinsurance – US & Bermuda Market Financial Indicators

	2019	2020	2021	2022	2023	5-Yr Avg
NPW Growth (Total) (%)	15.4	6.7	19.7	15.5	3.3	12.1
NPW Growth (P/C only) (%)	16.1	6.7	18.4	19.0	5.3	13.1
Reinsurance % of NPE	77.4	77.3	78.6	82.0	82.1	79.5
Shareholders' Equity Growth (%)	16.0	7.2	3.7	-11.3	33.7	9.8
Loss Ratio	65.3	72.4	65.6	63.9	56.4	64.7
Expense Ratio	29.2	29.0	29.2	27.5	28.7	28.7
Combined Ratio	94.5	101.3	94.8	91.4	85.1	93.4
Reserve Development – (Favorable)/Unfavorable (%)	-2.2	-3.9	-10.0	-3.0	-3.7	-4.5
Net Investment Ratio[1]	11.0	8.7	9.1	7.7	12.5	9.8
Operating Ratio	83.5	92.6	85.6	83.7	72.6	83.6
Return on Equity (%)	14.3	5.8	11.5	-2.6	23.0	10.4
Return on Revenue (%)	16.9	7.5	13.6	-3.3	22.9	11.5
NPW (P/C only) to Equity (End of Period)	58.5	58.2	66.5	89.3	70.3	68.6
Net Reserves to Equity (End of Period)	133.9	127.5	128.9	159.4	130.1	136.0
Gross Reserves to Equity (End of Period)	140.7	160.3	170.8	209.7	169.5	170.2

[1] Net investment ratio based on P/C NPE.
Ratios may vary slightly due to rounding.
Source: AM Best data and research

In 2023, catastrophe losses were impacted by an accumulation of smaller losses, due most notably to severe convective storms in the US. This stands in contrast to the preceding two years, each of which included several individual loss events of greater magnitude, including Hurricane Ian in 2022, as well as Hurricane Ida and European flood losses in 2021. As a result, despite elevated natural catastrophe activity, the composite's 2023 accident year (excluding prior year reserve development) combined ratio of 88.8 was 5.6 points better than the 94.4 posted in 2022.

Perhaps reflecting the strong results recorded in 2023, pricing in the reinsurance market has largely stabilized at generally attractive levels in 2024. The pause in upward rate movement follows a period during which rates rose sharply in property-exposed lines at each of the key reinsurance renewal dates in 2023, after more modest gains in 2022. Importantly, there has been no indication that terms and conditions have been relaxed. Notably, the National Oceanic and Atmospheric Administration (NOAA) and other widely respected weather forecasters have projected an extremely active Atlantic hurricane season in 2024. If the 2024 hurricane season is as active as predicted, AM Best would still expect the composite to generate strong results in 2024, although likely more modest than their stellar performance in 2023. In this case, the pricing environment would likely respond, which would help sustain consistent results for this composite for a longer period. If natural catastrophe activity is fairly normal in the second half of 2024, the US and Bermuda composite appears poised to achieve another very strong year of performance, and the potential for an easing of rates would increase.

Strong Investment Performance Bolsters Operating Results

Significant realized and unrealized investment gains and higher net investment income also contributed to strong net earnings in 2023. The composite posted a 23.0% return on equity in 2023, versus a -2.4% ROE in 2022, when substantial pre-tax realized/unrealized investment losses more than counterbalanced the group's solid operating performance. Although the group is still recouping the unrealized fixed-income investment losses from 2022, net investment income has already benefited from significantly higher reinvestment rates on fixed-income asset classes, providing a strong earnings tailwind in 2023 that has continued in 2024. As discussed further below, the composite's 2023 ROE also benefited from one-time accounting gains related to the transition to a global minimum tax regime in Bermuda.

Underwriting and Reserve Leverage Improve

In 2023, underwriting and reserve leverage improved from already manageable levels, as GAAP equity rose by a robust 34%, far outpacing increases in NPW and loss reserves. The rise in equity in 2023 was driven primarily by a recovery in unrealized investment losses and net income of almost USD 16 billion, double the previous ten-year high of USD 8 billion recorded in 2019. Notably, share repurchases were negligible during the period, and dividends paid as a percentage of net income were dramatically lower in 2023 than in previous years, as reinsurers opted to retain capital to take advantage of favorable reinsurance market conditions. If market conditions remain favorable, AM Best expects risk-adjusted capitalization to remain more than sufficient to support organic growth opportunities into 2025.

Global Minimum Tax Rate Provides One-Time Boost to Bermudians' Capital/Earnings

On December 27, 2023, the Bermuda Corporate Income Tax (CIT) Act of 2023 became law, imposing a 15% corporate income tax rate (previously 0%) on Bermuda businesses that are part of multinational enterprise (MNE) groups with annual revenue of EUR 750 million or more. The tax is effective as of January 1, 2025, but beginning at year-end 2023, companies were allowed to establish deferred tax accounts (DTA) for provisions in the CIT Act that allow for an equitable transition to the new regime, including the Economic Transition Adjustment (ETA) and the opening tax loss carry-forward (OTLC).

The ETA election allows for an adjustment equal to the difference between the fair market value and carrying value of assets and liabilities (as of September 30, 2023). The OTLC allows losses from 2020 to 2024 to be carried forward. The DTA is expected to be used over a 10-year period, although amortization periods vary somewhat by company.

The 2023 ROEs of the four Bermuda-based reinsurers in the composite improved between 5% and 8%, due to early recognition of the future tax benefits expected to be realized from OTLCs. As a percentage of equity, DTAs accounted for 4% to 7% for these four reinsurers as of year-end 2023. While recognizing that DTAs are intangible assets that cannot be liquidated to pay claims, AM Best views DTA levels of less than 10% of total equity as manageable and expects these assets to be converted into tangible equity over time, as the OTLCs are used to offset taxes on future earnings.

Catastrophe Pricing Is Flattening but Capacity Remains Selectively Constrained

The pricing environment for property catastrophe risks has moderated in 2024, after improving substantially in 2022 and 2023. Capacity nevertheless remains constrained in frequency layers of natural catastrophe programs and aggregate covers. As has been the case for several years, US and Bermuda reinsurers remain interested in growing their specialty portfolios where pricing remains attractive, especially in the excess and surplus markets.

Despite the group's strong performance in 2023, new company formation in the US-Bermuda reinsurance market has largely stalled. In AM Best's view, this trend reflects the abundance of capital, along with deployed capacity, as well as investors' continued skepticism that reinsurers will be able to consistently meet or exceed their cost of capital. If the group posts another year of strong performance in 2024 and reinsurance underwriters remain disciplined, new capital could enter the market in a meaningful way. However, AM Best expects that capital flows to the reinsurance segment in the US and Bermuda market will more likely still be driven by established franchises with strong track records, while opportunities for new company formations will remain limited.

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BEST'S MARKET SEGMENT REPORT

Our Insight, Your Advantage™

Lloyd's Market Delivers Robust Underwriting Results Amidst Strong Pricing Conditions

Lloyd's property and casualty reinsurance segments have demonstrated improved combined ratios in each year since 2020

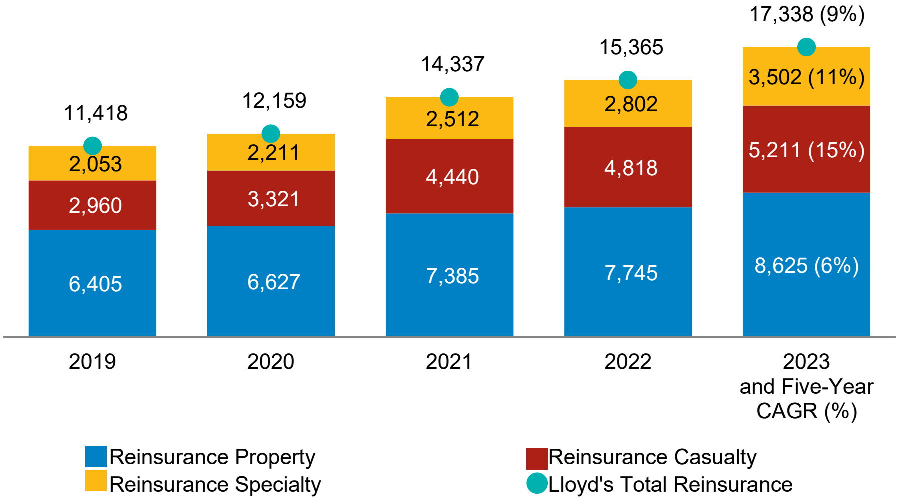
Principal Takeaways

- Excellent pricing conditions and improved reinsurance terms and conditions continued through January 2023, although moderating pressures are emerging.
- Remedial work undertaken by the market, along with performance oversight by the Corporation, have supported measurable improvements in underwriting discipline.
- Lloyd's continues to outperform peers in terms of loss experience; however, underwriting performance is subject to volatility due to its exposure to catastrophe risks and long-tail lines of business.

Reinsurance is the Lloyd's market's largest segment and accounts for approximately one-third of its gross written premium (GWP). In 2023, GBP 17.3 billion of inwards reinsurance business was written across the market (see **Exhibit 1**). Reinsurance business comprises property (approximately 50% of Lloyd's reinsurance business), casualty (30%) and specialty (20%) (primarily marine, aviation and energy reinsurance).

Lloyd's reinsurance business has grown strongly in recent years, with a five-year compound average growth rate of 9%. In 2023, the market's reinsurance premiums grew by 12.8%, driven by material growth in property and specialty lines, and benefitting from a strong risk-adjusted

Exhibit 1
Lloyd's – Reinsurance Segment by Line of Business, 2019-2023
Line of business: GBP millions. Five-year compound annual growth rate: %



Source: AM Best data and research

Analytical Contacts:
Kanika Thukral, London
+44 20 7397 0327
kanika.thukral@ambest.com

Tim Prince, London
+44 20 7397 0320
timothy.prince@ambest.com

Editorial Managers:
Richard Banks, London
+44 20 7397 0322
richard.banks@ambest.com

Richard Hayes, London
+44 20 7397 0326
richard.hayes@ambest.com

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rate change. Nonetheless, casualty reinsurance has been the fastest growing line in Lloyd's reinsurance business over the past five years, with a compound annual growth rate of 15%.

The distribution of Lloyd's business is dominated by insurance brokers, and by the three largest global brokers in particular. Lloyd's brokers play an active part in the placement of risks and in providing access to regional markets.

The Lloyd's distribution model is expensive, with business often passing through several distribution links before arriving at Lloyd's. The market's reliance on brokers also makes it vulnerable to price-based competition. Although in overall terms, Lloyd's is important to the large global brokers (as well as to the specialised London market brokers), the importance of individual syndicates is less so.

Capital at Lloyd's

Syndicates operating at Lloyd's follow a robust market-wide capital-setting regime, which incorporates a risk-based approach to setting member-level capital, as well as a 35% capital uplift. Moreover, there is a requirement for members to replenish their Funds at Lloyd's (FAL) after a loss, through the "Coming into Line" process, which helps protect risk-adjusted capitalisation against volatility. In effect, this means that capital depleted following a large catastrophic loss event is typically replenished quickly during the year, making Lloyd's risk-adjusted capitalisation less volatile than that of peers.

Member-level capital in the form of FAL and members' balances are held on a several rather than a joint basis, meaning that any member needs only to meet its share of claims. However, Lloyd's central assets are available, at the discretion of the Council of Lloyd's, to meet policyholder liabilities that any member is unable to meet in full. This link in the Chain of Security comprises the Central Fund and other central assets, as well as subordinated debt. These central assets can be supplemented by funds called from members of up to 5% of their overall premium limits. Currently, Lloyd's has in place insurance for the Central Fund through a multi-year cover. This provides protection to the Central Fund, and therefore the market, against severe tail events.

Lloyd's good financial flexibility is enhanced by the diversity of its capital providers, which include corporate and individual investors. Traditional Lloyd's businesses remain committed to the market. In addition, Lloyd's continues to attract new investors, drawn by its capital efficient structure and global licences. As the capital to support underwriting at Lloyd's is supplied by members on an annual basis, it is important that the market is able to attract and retain the capital required for continued trading.

To this end, as detailed in the Future at Lloyd's prospectus in 2019, one of Lloyd's objectives is to improve the ease of doing business and, specifically, to make it easier for capital to enter the marketplace, making it flexible to access a diverse set of insurance risks on the Lloyd's platform.

In 2021, Lloyd's sponsored a Special Purpose Vehicle, London Bridge Risk PCC Ltd, to act as a reinsurance risk transformation vehicle onshore in the UK and facilitate the participation of institutional investors.

Lloyd's sponsored a second transformation vehicle in 2022, London Bridge 2 PCC Ltd (LB2), which allows the issuance of both preference and debt securities to fund the reinsurance obligations. By the end of 2023, the London Bridge vehicles had raised over USD 750 million in capital to support underwriting at Lloyd's, and in early 2024, LB2 issued its first catastrophe bond, to provide multi-year protection for named storm and earthquake events affecting the United States, Canada and parts of the Caribbean.

Strong Reinsurance Performance Supported by Favourable Pricing Environment

Between 2017 and 2020, the market's reinsurance business performed poorly, with underwriting losses reported each year and an accumulated underwriting loss approaching GBP 3.0 billion during the four-year period. However, remedial work undertaken by syndicates across the market, together with close performance oversight by the Corporation, as well as improving market conditions, have supported measurable improvements. The market's reinsurance segment reported a combined ratio of 80 for 2023, significantly improved from 117 in 2017 (see **Exhibit 2**).

The property and casualty reinsurance segments have improved combined ratios each year since 2020. For property reinsurance, rate hardening helped drive an excellent combined ratio of 73 in 2023. Good rate adequacy in casualty and specialty reinsurance also contributed to Lloyd's reporting favourable combined ratios of 90 and 84, respectively, for these segments in 2023.

The impact of prior years' reserve development on the combined ratio of Lloyd's reinsurance business has been mixed, with experience among business lines notably different. The property reinsurance segment has generally benefitted from favourable reserve releases, with a release in 2023 equivalent to almost seven percentage points of the segment's combined ratio; this compares with a five-year average release closer to four percentage points. Development of prior year specialty and casualty reinsurance reserves has been more volatile, with years of strengthening and releases between 2019 and 2023 for both segments. In 2023, combined ratios for both segments were favorable despite reserve strengthening of 6.0 percentage points for specialty and 6.8 percentage points casualty.

Overall, Lloyd's total reinsurance segment reported relatively modest underwriting profits of GBP 489 million in 2021 and GBP 636 million 2022, given the combined ratio in the mid-nineties range. In 2023, the market's reinsurance business generated a strong underwriting profit of GBP 2.5 billion.

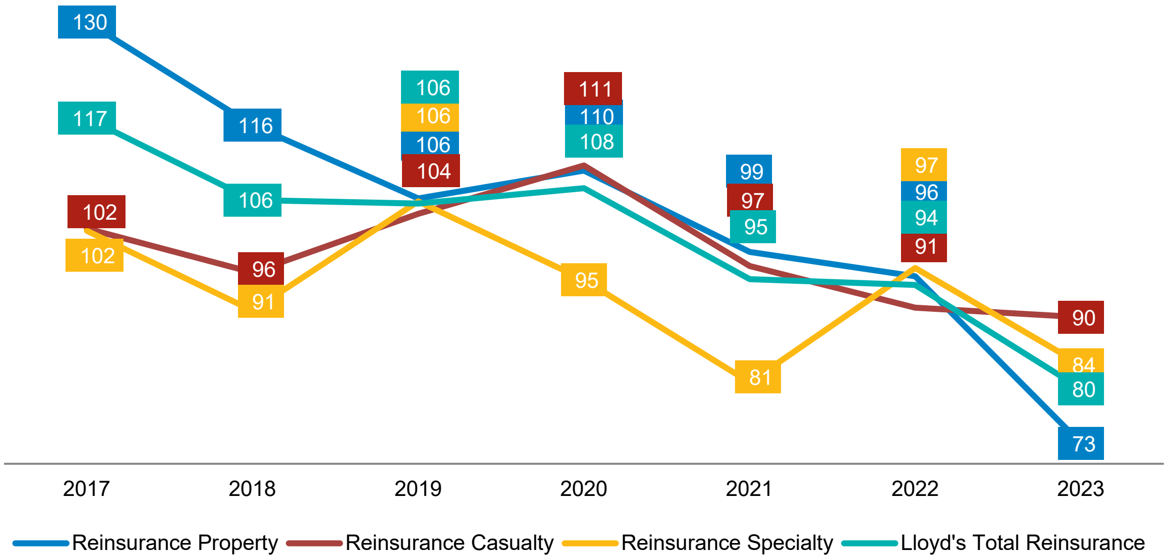
Lloyd's Market (Including Primary Insurance and Reinsurance) Continues To Outperform Peers

The overall Lloyd's market generated a combined ratio of 84.0 in 2023. This compared well to that of

Exhibit 2

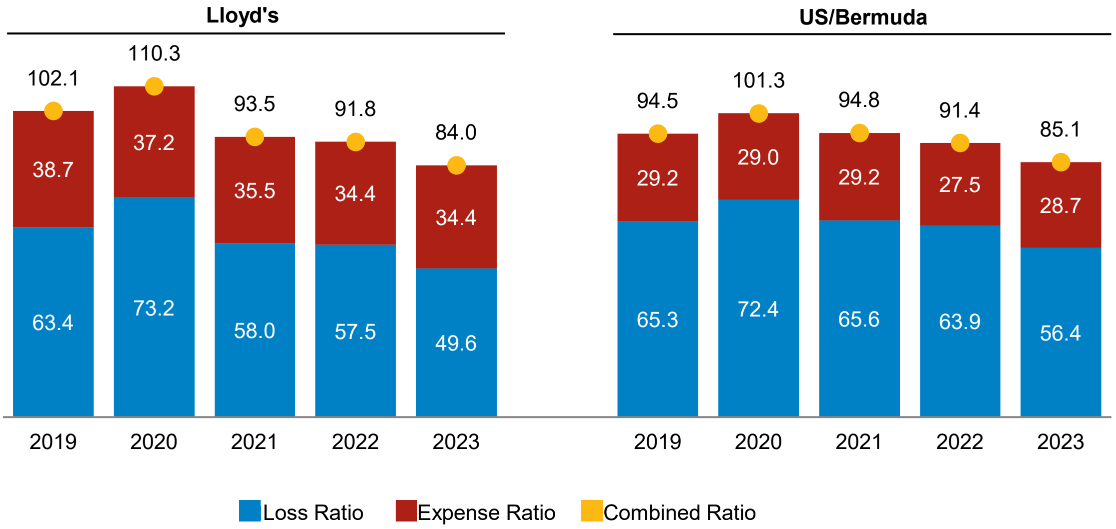
Lloyd's – Reinsurance Segment's Combined Ratios by Line of Business, 2017-2023

(%)



Source: AM Best data and research

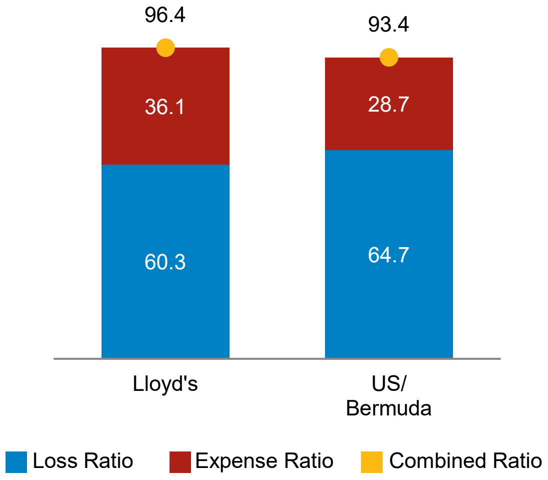
Exhibit 3
Lloyd's – Peer Comparison – Loss, Expense and Combined Ratios, 2019-2023
(%)



Ratios for Lloyd's and US/Bermuda markets include primary and reinsurance business.
Ratios may vary slightly due to rounding.
Source: AM Best data and research

the US and Bermudian reinsurance market, which reported a combined ratio of 85.1 (see **Exhibit 3**). Given that the majority of large European reinsurers implemented IFRS-17 in 2023, their discounted combined ratios are not perfectly comparable with that of Lloyd's—which reports results on a UK GAAP basis—or the US and Bermudian reinsurance market (the majority of which report results under US GAAP). Nonetheless, the large European reinsurers also saw material improvements in their underwriting performance in 2023 compared with 2022.

Exhibit 4
Lloyd's – Peer Comparison – Loss, Expense and Combined Ratios, Five-Year Averages, 2019-2023
(%)



Ratios for Lloyd's and US/Bermuda markets include primary and reinsurance business.
Ratios may vary slightly due to rounding.
Source: AM Best data and research

Lloyd's continues to outperform the US and Bermudian reinsurance market on loss experience, as evidenced by its five-year (2019-2023) weighted average loss ratio of 60.3%, versus 64.7% for the US and Bermuda (see **Exhibit 4**). Although Lloyd's expense ratio has persistently underperformed those of its peers, it has improved meaningfully over the past five years (2023: 34.4%). As part of its key objectives of driving down operating costs and its vision of developing a digitised marketplace, Lloyd's continues to work on delivery of phase one of Blueprint Two, albeit with delays.

Lloyd's underwriting performance is subject to volatility due to the nature of business underwritten. The 2023 year was benign for the market in terms of natural catastrophe claims activity, with major claims accounting for only 3.5% of the overall combined ratio (including primary and reinsurance business), as compared to 12.7% in 2022, which was impacted by Hurricane Ian, Hurricane Fiona and Australian floods. Performance in 2022 was also weakened by losses from the conflict in Ukraine, estimates for which increased modestly in 2023.

The profitability of the market was bolstered by improved investment returns due to high interest rates in 2023. Overall, the market recorded a strong return on equity of over 25%, with a pre-tax profit of GBP 10.6 billion (2022: loss before tax of GBP 769 million, driven by unrealised investment losses), underpinned by an underwriting profit of GBP 5.9 million and investment income of GBP 5.3 billion. The robust results of 2023 have helped offset previous low returns when the market struggled to meet its cost of capital.

After an exceptional reinsurance rate strengthening in 2023, there are signs of moderating pressures in certain lines in 2024. However, good overall rate adequacy is expected to persist, and the market continues to focus on prudent risk selection. Underwriting results for 2024 are likely to remain strong but will be subject to natural catastrophe claims experience in the remainder of the year. Plus, with interest rates remaining higher for longer, Lloyd's is looking to achieve another year of strong overall earnings.

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BEST'S MARKET SEGMENT REPORT

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Global Reinsurance – The Big Four European Reinsurers

The Big Four European reinsurers continue to benefit from hard reinsurance market conditions in 2024

Principal Takeaways

- Europe's four largest reinsurers reported strong results in 2023 and the first half of 2024 for their non-life reinsurance segments, benefitting from continued strong pricing and terms.
- The performance of life portfolios overall also improved in 2023, benefitting from a reduced impact from pandemic-related deaths.
- The Big Four European reinsurers—Munich Re, Swiss Re, Hannover Re and SCOR—on average reported lower returns on equity for 2023 than the average for the US and Bermuda market players.

Europe's four largest reinsurers (the Big Four) benefit from their global reach, strong brands and diversified portfolios. These four reinsurers also benefited from the hard reinsurance market in 2023, with better pricing, terms and conditions, and a general increase in attachment points leading to an improvement in performance metrics compared to 2022.

The performance of life portfolios also improved in 2023, benefitting from a reduced impact from pandemic-related deaths, although excess mortality in the US, in particular, continued.

Munich Re, Hannover Re and SCOR all reported under IFRS 17 for 2023, while Swiss Re reported under US GAAP. This makes comparisons among these companies—as well as comparisons of metrics for years prior to 2022—difficult. Discounted combined ratios under IFRS 17 are, for example, not directly comparable with the undiscounted combined ratios reported under US GAAP or IFRS 4.

Munich Re

In 2023, Munich Re reported a net profit of EUR 4.6 billion, with a return on equity (ROE) of 15.7% (as calculated by the company). The P/C reinsurance segment, which includes global specialty insurance (GSI) business, generated strong net profits of EUR 2.4 billion, with a net/net combined ratio of 85.2%, positively impacted by major loss expenditures below budget. Life performance improved over 2022, with a net result of EUR 1.4 billion, compared to EUR 1.3 billion in 2023, with positive performance in most core markets, except for the US.

During 2023, insurance revenue from insurance contracts grew by 4.5%, amounting to EUR 57.9 billion. Insurance revenue for the P/C segment stood at EUR 27 billion (+6.9%), approximately

Munich Re, Swiss Re, Hannover Re SCOR are composite reinsurers, writing both life and non-life reinsurance business. Munich Re, SCOR and Swiss Re are also active in the primary insurance space, writing commercial and specialty insurance business; Munich Re also writing retail primary business via ERGO. Hannover Re writes reinsurance business exclusively.

Analytical Contacts:
Mathilde Jakobsen, Amsterdam
+31 20 808 3118
mathilde.jakobsen@ambest.com

Jessica Botelho-Young, CA, London
+44 20 7397 0310
jessica.botelho-young@ambest.com

Contributors:
Morgane Hillebrandt, Amsterdam
Jose Berenguer, Amsterdam
Angela Yeo, Amsterdam

Editorial Managers:
Richard Banks, London
+44 20 7397 0322
richard.banks@ambest.com

Richard Hayes, London
+44 20 7397 0326
richard.hayes@ambest.com

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EUR 8 billion of which was attributed to GSI business. Insurance revenue for life and health reinsurance contracts declined to EUR 10.7 billion (-3.9%), driven by currency translation effects.

Total equity stood at 29.8 billion at year-end 2023, up from EUR 27.2 billion at year-end 2022, as a result of strong capital generation.

Hannover Re

Hannover Re's insurance revenue under IFRS 17 grew by 1.8% in 2023 over 2022 (restated under IFRS 17). The group benefited from good technical performance in 2023, which allowed it to bolster its reserves. As a result, its net/net combined ratio was 94.0 in 2023 (2022 restated under IFRS 17: 94.5), boosted by lower-than-budgeted large losses during the year (net: EUR 1.6 billion).

Life technical results improved in 2023, driven by better mortality experience, rate improvements and favourable claims experience. Technical results were supported by investment income. As a result, net income amounted to EUR 1.8 billion in 2023 (2022: EUR 1.0 billion), with an ROE of 19.0%.

Capital generation was good, with an increase in capital tied mostly to retained earnings.

SCOR

SCOR's insurance revenue under IFRS 17 was stable in 2023 compared with 2022 (as restated under IFRS 17). The group benefited from better technical performance in 2023 than the previous year, with a net/net combined ratio under IFRS 17 of 85.0 in 2023 (compared with 114.9 in 2022). The improvement was driven by lower losses owing to catastrophe events during the year, helped by a more benign year. In addition, there was a recalibration of exposure to natural perils (particularly in the US), aimed at reducing the volatility of earnings. In 2022, the result was also impacted by inflation-related reserve strengthening.

Life activities were profitable in 2023, benefitting from a reduced COVID-19 impact. Net income amounted to EUR 0.8 billion in 2023 (2022: EUR 1.4 billion loss). As a result, the group's ROE reached 18.1%, leading to a recovery in capital relative to 2022. The group's capital developed positively in 2023, driven by good capital generation.

Swiss Re

Swiss Re increased its net income to USD 3.2 billion for 2023 from USD 0.5 billion, equivalent to an ROE of 22.3%. The improved result was supported by better underwriting margins across the group's three main business segments: Property & Casualty Reinsurance (P/C Re), Life & Health Reinsurance (L&H Re) and Corporate Solutions (CorSo). Moreover, higher interest rates drove an increase in investment income.

P/C Re reported a combined ratio of 94.8 for 2023, which compared favourably to the 102.4 reported in 2022, reflecting improved margins and lower-than-expected large natural catastrophe losses, which absorbed the reserve strengthening in casualty. Property and specialty lines of business reported sub-100 combined ratios, although casualty was still loss-making due to reserve strengthening for US liability.

L&H Re reported net income of USD 1.0 billion for 2023, benefitting from active in-force portfolio management and a strong investment result, which offset elevated mortality claims in the US.

CorSo reported a combined ratio of 91.7 for 2023, which outperformed the prior year's combined ratio of 93.1 and a target of below 94 for 2023. The continued improvement in performance reflects actions taken by management to strengthen its portfolio through stringent portfolio steering and disciplined underwriting. Management actions were helped by lower overall large losses and higher investment results.

Overall, the group reported growth in gross written premium of 4.3%, to reach USD 50.0 billion in 2023, compared with USD 47.9 billion in 2022—again, with growth reported across all three main business segments. The main drivers of growth in 2023 include the favourable rate environment, coupled with targeted new business growth.

Taking a First Look at 2024

The Big Four European reinsurers have continued to report strong results for their non-life reinsurance segments in 2024, benefitting from continued strong pricing and terms, and from below budget catastrophe and large losses.

However, SCOR issued a profit warning in July 2024 related to the performance of its life business, for which the group is conducting an ongoing reserve review. The group announced that this reserve review will lead to a negative impact on insurance service results in the second quarter of the year, combined with a decline in its life pre-tax contractual service margin (CSM).

Reporting Differences Make Comparisons Difficult

As noted, comparison among groups reporting under IFRS 17 and those reporting under US GAAP is made difficult by the differences in reporting standards. In addition, comparisons between IFRS 17 reporters are also complicated by differences in disclosures, measurement models and other variability allowed by the standard. Nonetheless, with those caveats in mind, AM Best can make some general comparative observations.

The Big Four European reinsurers have on average reported lower ROEs for 2023 than the average for the US and Bermuda market composite (see **Exhibit 3** in *Strong Technical Profits Bolster Momentum for Global Reinsurers*). Lloyd's ROE of 25.3% is also higher than the European average.

Nonetheless, the European players' ROEs also tend to be more stable over time. Notwithstanding SCOR's recent announcement regarding its life business, their life books have generally had a stabilising effect, and the players are very diversified. In addition, unrealised gains and losses on fixed-income investments are typically reported through other comprehensive income (OCI) for the Big Four European reinsurers, but through profit and loss for the US and Bermuda players, and Lloyd's. This also leads to less variation to both the up and down sides in the ROEs of the European players.

Risk Appetite and Diversification Strategies

With the hard reinsurance market conditions continuing in 2024, the Big Four European reinsurers have good appetites for property catastrophe. This follows a period of right-sizing of portfolios, increases in attachment points, and a move away from aggregate covers and working layers. Although there is no sign yet of this discipline disappearing, the mood has shifted somewhat to focus on taking advantage of the good pricing while it lasts.

At the same time, the Big Four European reinsurers are also aiming for growth in specialty segments such as cyber, marine, engineering, and other lines in both insurance and reinsurance. The growth in these lines is aimed at achieving increased levels of diversification and more stable earnings.

Concerns regarding adverse development in US casualty books persist for the Big Four European reinsurers, although this seems to be limited to particular years (2014-2019).

In 2023 and continuing in 2024, all have taken the opportunity, given the strong operating performance trends, to further strengthen non-life loss reserves, mostly incurred but not reported (IBNR), to increase the confidence level of reserves. Reserve strengthening charges have been comfortably absorbed by profit margins in other non-life lines of business.

On the life side, the pandemic has highlighted the composite's significant exposure to US mortality trends. In response, the groups are seeking growth in other regions and products to create more balanced portfolios. Mortality pricing has also been adjusted to take into account the pandemic and post-pandemic mortality experience.

Contrasting the Big Four's Retrocession Strategies

The European Big Four reinsurers have different retrocession strategies: Munich Re makes relatively little use of retrocession compared with the other three. Swiss Re has shifted in recent years to increase its use of retrocession protection, while significant use of retrocession has long been a feature of SCOR and Hannover Re's strategies.

All four tap into the index-linked securities (ILS) market as part of their retrocession strategies, and in all forms available—catastrophe bonds, collateralised reinsurance, sidecars and industry loss warranties (ILWs). The Big Four European reinsurers' traditional cat bonds provide primarily retro protection for peak risks such as named US windstorms and US earthquakes, as well as European windstorms.

AM Best also sees reinsurance sidecar structures in place, such as collateralised quota share arrangements, alongside traditional retrocession covers.

The segment has also been among the first wave of cyber cat bond sponsors.

In December 2023, Swiss Re sponsored a cyber cat bond for USD 50 million. Matterhorn Re Ltd. is the first of its kind to feature an industry loss trigger and provides retro protection for exposures to US cyber industry insured losses (as reported by Perils AG) on an occurrence basis.

Hannover Re issued the first cat bond (on a private basis) to cover cloud outage—a segment that seems to have been lacking protection from the retro markets—which represents the peak risk in the company's cyber portfolio. Cumulus Re provides a single-year retrocession cover against the accumulation of cloud outages in certain US cloud regions. The cat bond of USD 13.75 million has a clearly defined parametric trigger.

These issuances signal both strong demand from issuers and strong interest from investors in securities that are linked to cyber, driven in part by the typically short-tail nature of the risks and by improvements in modelling.

In addition, spreads are currently double compared with natural catastrophe bonds, as they would include a risk charge for the modelling uncertainties, and also factor in a novelty premium.

The amounts issued for cyber bonds are still comparatively low and the issues to date can be considered part of an initial 'testing' phase. AM Best would expect a further increase in appetite from investors once more clarity is provided about systemic risk exposures, war and other event definitions, and once additional comfort about the maturity of cyber modelling has been reached.

Exhibit 1

Global Reinsurance – European Market – IFRS 17 Reporters (Munich Re, Hannover Re, SCOR) Trend Summary

(%)

IFRS 4	2019	2020	2021	2022	IFRS 17	2022	2023
Net Written Premium (P&C only)	9.3	18.6	5.2	15.9	Insurance Revenue[1]	N/A	12.1
Net Earned Premium (P&C only)	8.7	19.4	4.5	16.1			
Total Revenue	10.7	13.7	1.2	2.1	Total Revenue[1]	N/A	13.4
Shareholders' Equity (End of Period)	13.1	9.0	-3.8	-34.2	Shareholders' Equity (End of Period)[1]	N/A	13.6
Loss Ratio	66.9	72.1	68.6	69.7			
Expense Ratio	32.0	30.1	29.8	29.2			
Combined Ratio	99.0	102.2	98.4	98.9	Combined Ratio	90.8	87.0
Reserve Development (Favourable)/Unfavourable	-4.6	-3.1	-3.3	-2.2	Reserve Development (Favourable)/Unfavourable	-4.2	-3.5
Net Investment Ratio[2]	18.7	15.4	13.7	8.6	Net Investment Ratio[3]	8.2	13.7
Operating Ratio	80.3	86.8	84.7	90.3	Operating Ratio	82.6	73.3
Return on Equity	9.9	5.2	9.2	10.5	Return on Equity	10.3	18.6
Return on Revenue	4.6	2.3	4.2	3.8	Return on Revenue	4.8	6.7
Net Written Premium (P/C only) to Equity (End of Period)	97.5	106.1	116.0	204.3	Insurance Revenue to Equity (End of Period)	130.8	129.1
Net Reserves to Equity (End of Period)	520.5	526.9	544.4	795.1	Net Reserves to Equity (End of Period)	640.0	610.8
Gross Reserves to Equity (End of Period)	541.7	546.4	571.1	837.3	Gross Reserves to Equity (End of Period)	667.0	628.4

[1] 2022 calculations not available due to changeover to IFRS 17.

[2] Net investment ratio based on P/C net earned premium.

[3] Net investment ratio based on non-life insurance revenue.

Results based on reported currencies converted to USD.
Source: AM Best data and research

ILS Capacity Grows, as CAT Bonds Issuance Breaks Record

Capacity growth for the ILS market is modest and, except for the more remote layers of risk, appears to mostly match demand rather than exceed it

Principal Takeaways

- ILS capacity continues to grow, albeit modestly, and appears to mostly match demand rather than exceed it.
- The 144A property cat bond market broke its single-quarter issuance record in second-quarter 2024—nearly USD 8 billion—beating last year's record, owing to demand from new sponsors and upsized renewal deals.
- Parametric loss triggers in the spotlight following Hurricane Beryl.
- The CrowdStrike IT outage highlights uncertainty of cyber cat bonds.

ILS Market Capacity Grows

At year-end 2023, Guy Carpenter and AM Best estimated the capacity of the ILS market at approximately USD 100 billion. ILS capacity increased by mid-year because capacity from maturing deals was recycled into 2024 transactions, some capital created out of the record-breaking 2023 earnings was deployed, and a modest amount of new capacity entered the space.

AM Best estimates the size of the outstanding property cat bond market at approximately USD 45 billion at mid-year 2024, representing growth of about USD 3 billion. Although precise estimates are difficult, AM Best estimates the capacity of the remaining segments of the ILS market as follows:

- Sidecar capacity is estimated to be between USD 6 billion and USD 8 billion and may well have shifted to the higher end of that range, as capacity providers find those deals more attractive given underlying improvements in rate adequacy.
- Industry loss warranty (ILW) capacity is estimated to be between USD 5 billion and USD 7 billion. ILW capacity going into the mid-year renewals may have been slightly higher than in other recent renewal periods and that capacity was quickly used to hedge against an Atlantic hurricane season that is forecast to be very active.
- Collateralized reinsurance capacity is estimated at approximately USD 46 billion to USD 50 billion. Capacity growth in this segment had lagged that of cat bonds. However, as fundraising begins to rebound from the sluggish pace of the past two years, capacity growth could speed up.

Capacity growth for the ILS market is modest and, except for the more remote layers of risk, appears to mostly match demand rather than exceed it. One year of great returns is probably not enough to draw in material amounts of new capacity that would significantly soften the market. Retained earnings led to some capacity growth, but not all of the 2023 earnings were redeployed into new deals—some investors chose to redeem profits instead. In some cases, opportunistic investors who dipped into the ILS market in 2023 because of the record return potential have exited the market in 2024 based on the premise that the 2023 returns will not be repeated this year. ILS managers have built efficient platforms to facilitate this type of more nimble cat risk

Analytical Contacts:
Emmanuel Modu, Oldwick
+1 (908) 882-2128
Emmanuel.Modu@ambest.com

Wai Tang, Oldwick
+1 (908) 882-2388
Wai.Tang@ambest.com

Matt Tuite, Oldwick
+1 (908) 882-2403
Matt.Tuite@ambest.com

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trading by investors. Whereas in past years institutional ILS investors may have followed an approach to ILS investing more akin to "set-and-forget," quick-moving cat risk trading may become more prevalent in the ILS market.

Overall Stability in Pricing and Terms and Conditions

Risk-adjusted rate changes were flat to slightly down overall at mid-year renewals. Rate decreases in the more risk-remote layers of reinsurance towers were more pronounced, but rates tended to rise slightly at the lower layers of the tower, where capacity is scarcer. The dampened rate activity was not unexpected given the strong returns achieved by traditional reinsurers and ILS managers in 2023, as well as the lack of a major peak-peril catastrophe event since Hurricane Ian in 2022, which reduces the pressure to achieve reinsurance rate increases of the magnitude seen in 2023. Terms and conditions and retentions at mid-year 2024 were consistent with where they were at mid-year 2023 and January 2024 renewals. Tighter terms and conditions and higher retentions are believed to be even more responsible than price increases for the stellar reinsurance returns in 2023, so appetite to broaden them or to lower retentions appears to be minimal.

Capacity providers are negotiating from a position of strength given the substantial rate increases and other de-risking efforts taken in 2023. They can negotiate on different parameters, lowering price while holding firm on terms and conditions or allowing an additional peril, while keeping attachment points elevated to mitigate the risk. To cover risk at a materially lower section of the reinsurance tower, capacity providers would be inclined to limit the coverage to one named peril. Additionally, not all segments of the reinsurance or ILS markets would soften in the same way. With respect to covered perils, ILS managers believe that the coverage for all-natural perils may return for collateralized reinsurance but may be less likely to return for cat bonds.

Renewal outcomes varied by layer of coverage sought, the quality of underlying program, and the timing of placement. On coverage, occurrence was still easier to place than aggregate, and higher layers easier to place than lower layers. On program quality, outcomes between loss-free and loss-hit programs diverged, with rates for loss-free programs ranging from flat to down 10%, and rates for loss-hit programs rising from +5% to +15%. The timing of placement also seemed to impact the renewal outcome. Many cedents began preparing for the mid-year renewals in November and December of 2023. Deals placed earlier in the renewal cycle saw more abundant capital at more favorable prices, with more availability of ILW and retro covers. However, deals placed toward the end of the renewal cycle saw tighter availability of capacity given the dynamism of the market over the course of May.

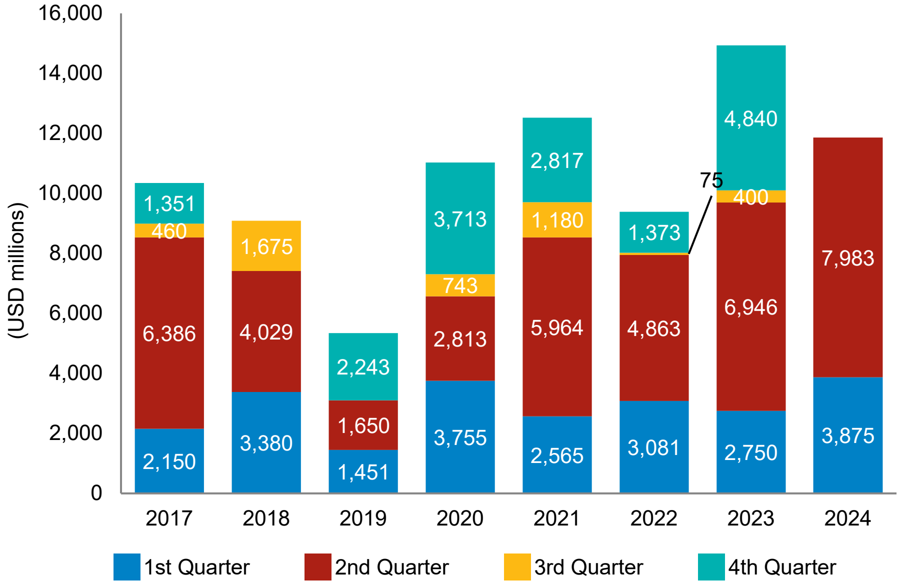
ILS managers reported that retrocession and ILW capacity was relatively more abundant at the mid-year 2024 renewals than in other recent renewal periods. But retro demand also increased as a result of early season hurricane forecasts. As demand increased, so too did ILW pricing in the second quarter, reversing the decline from the second half of 2023 and the first quarter of 2024, due largely to higher demand resulting from forecasts for a very active hurricane season.

Barring a major peak peril loss event in 2024, cedents will have more room to negotiate at the January 1, 2025, renewal season. However, capacity providers are highly motivated to maintain discipline because the poor returns of recent years are still fresh in their minds. Any material softening is more likely to begin with the traditional reinsurers that are working with a larger (and leveraged) capital base and have more flexibility to use their retained earnings to further expand that base. ILS managers, in contrast, may not be able to retain earnings to deploy into new deals because they may need to return money to investors at contract expiry.

Record-Breaking Cat Bond Issuance

The 144A property cat bond market broke its single quarter issuance record in second-quarter 2024, with issuance of nearly USD 8 billion, beating the record set just last year (**Exhibit 1**). The trend is expected to continue as sponsors appreciate the additional protection from capital markets, and capital providers recognize the opportunity to invest in cat bonds while spreads are still at historically high levels. Total issuance volume for 144A property cat bonds hit USD 11.9 billion in first-half 2024. Growth is coming from both new sponsors and renewal deal upsizing. In first-half 2024, there was issuance from nine new sponsors, including the Government of Puerto Rico, Texas Farm Bureau Insurance, American European Insurance Company, and several Florida-focused risks. With half the year remaining and the current YTD issuance volume just USD 3 billion shy of the record, 2024 issuance volume is likely to break the record set last year.

Exhibit 1
ILS – 144A Property Cat Bond Issuance by Quarter, 2017-1H2024

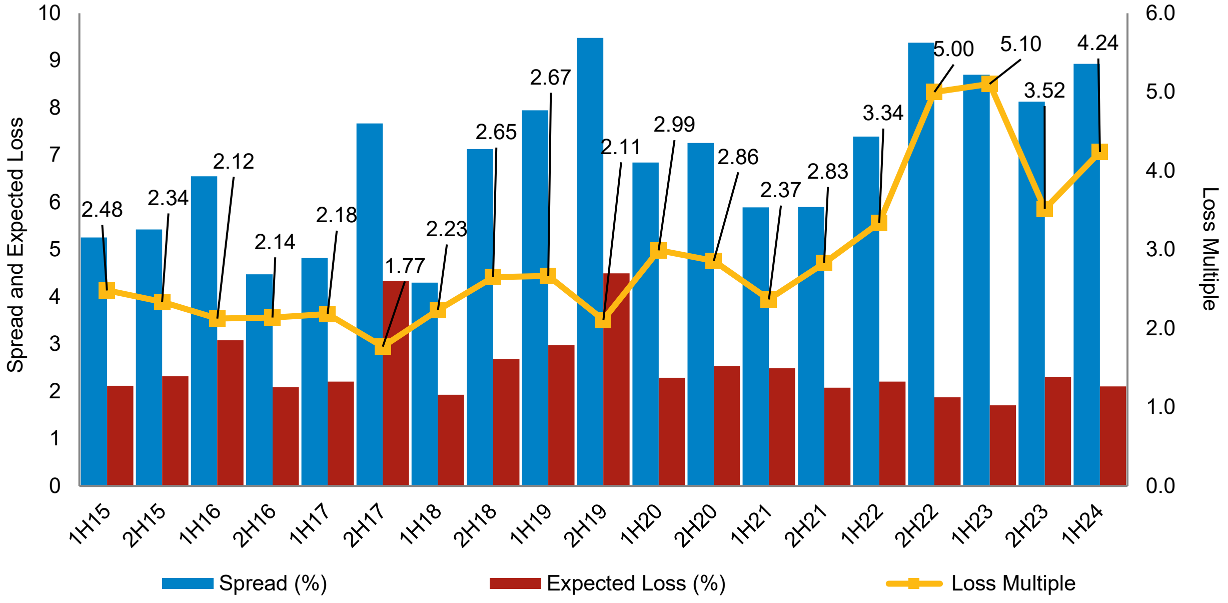


Sources: Artemis, AM Best data and research

Cat Bond Loss Multiples Fall YoY but Resume Rising

The record 144A property cat bond issuance volume coincides with higher average loss multiples—the ratio of the spread (premium paid to investors) to the expected loss—than in most other periods the

Exhibit 2
ILS – 144A Property Cat Bond Loss Multiple, 1H15-1H24



Sources: Artemis, AM Best data and research last ten years. The average loss multiple, after declining in the second half of 2023, rose higher in the first half of 2024 but remained well below the level in the first half of 2023 (**Exhibit 2**).

The rebound in the loss multiple can be attributed to a few factors, with supply and demand dynamics perhaps the largest contributor. Cedent demand remained high for reinsurance in the remote layers of risk covered by cat bonds, as reflected in the record issuance volume. Only so much of that demand could be satisfied with capital from prior year deals maturing in first-half 2024. The loss multiples had to move higher to pull the roughly USD 3 billion of additional capacity into the cat bond market. ILS managers remain mindful of the need to secure adequate pricing for the capacity being deployed and have not been willing to chase deals down to unacceptable pricing levels. Forecasts for a very active hurricane season and cat model updates also motivated ILS managers to hold the line on pricing.

The spread widening in first-half 2024 might abate and return to the tightening seen in second-half 2023. However, absent a flood of new capital into the cat bond market, the average loss multiple seems unlikely to fall to 2021 levels anytime soon. Some investors, although pleased with the returns made in 2023, have redeemed profits rather than redeploy all of their gains into new transactions.

YTD ILS Market Returns Down YoY but Still Historically Strong

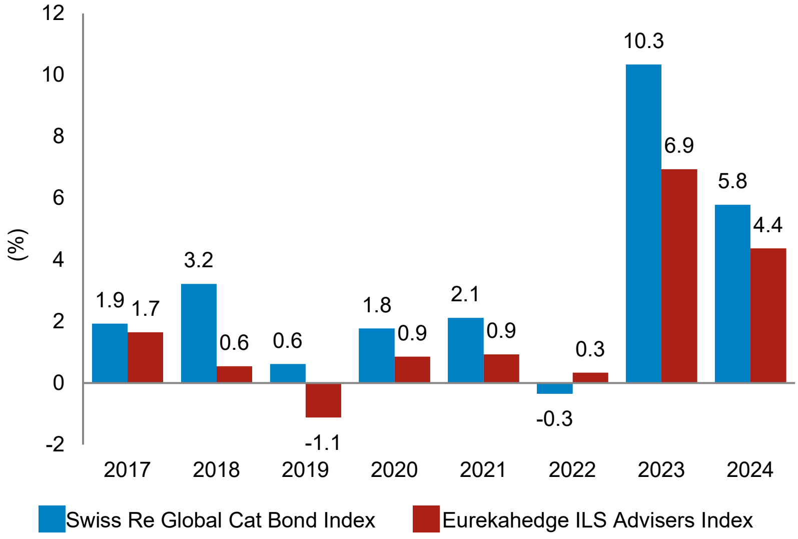
Cat bond spreads are an important factor driving cat bond returns. ILS market returns through June 2024 are down from the level over the same period in 2023 but are still high (**Exhibit 3**). Aside from 2023, the YTD returns indicated by the Swiss Re Global Cat Bond Index and Eurekahedge ILS Advisers Index are at their highest levels since 2007. The lower return so far in 2024 is not unexpected, given that returns are coming off a record high in 2023, a year in which returns benefited from favorable loss development on Hurricane Ian.

Monthly returns declined from January through May 2024, before rebounding in June. The Swiss Re index even posted a small negative return in May, the first negative monthly return since September 2022, driven by price declines in the secondary market, which may be due to ILS capacity supply and demand dynamics as well as catastrophe model updates. For investors, the upside is that price declines on outstanding cat bonds were associated with spread-widening in the primary market, providing another opportunity to invest in new deals at attractive spreads.

Cat bond prices stabilized in June, so monthly returns were more robust—1.12% for the Swiss Re index and 0.76% for the Eurekahedge index—as of August 5, 2024. These two indices continue to outpace the Barclays US Corporate High Yield Total Return Index (**Exhibit 4**).

Exhibit 3

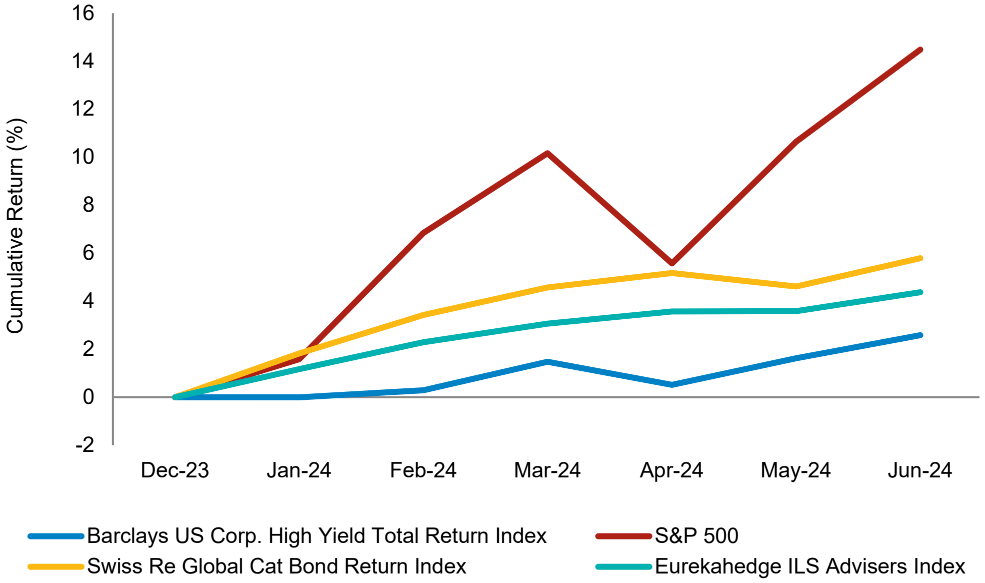
YTD January-June Returns, 2017-2024



Sources: Bloomberg, Eurekahedge (reported as of August 5, 2024)

Exhibit 4

ILS – YTD Returns, Various Indices, January-June 2024



Sources: Bloomberg, Eurekahedge (reported as of August 5, 2024)

Strong premium for cat bonds and high short-term interest rates on the collateral provide the asset class with a foundation for solid returns over the next year. However, to a large extent, full-year 2024 returns will depend on whether a major peak-peril event occurs, particularly an Atlantic hurricane landfall in an area dense with insured exposures.

First-Half 2024 Natural Catastrophe Insured Losses

Munich Re estimates global insured natural catastrophe losses at USD 62 billion for the first half of 2024, with severe convective storms in the US driving most of the losses. Despite the high severe convective storm losses, the ILS market posted relatively strong returns, reflecting that ILS managers have insulated their deals from frequency-driven losses, partly through the use of higher attachment points. The Atlantic hurricane season in the US tends to be the more consequential phase of the year for ILS deals, and early forecasts suggested a very active season. By early July, Hurricane Beryl had impacted a number of locations, from the Caribbean islands to Mexico to the US, inflicting insured losses in the low to mid-single-digit billions. Initial modeled loss estimates for Hurricane Debby also suggest a low insured loss tally, in the low single-digit billions. These overall modeled loss estimates suggest that most losses will not pierce ILS attachment points. Ultimately, whether the season is active or not, a single large hurricane landfall in a location dense with insured exposures could materially impact the ILS market.

The current hard market conditions were caused by an accumulation of losses from multiple events spanning several years and the resulting anemic performance of reinsurance and ILS portfolios. In contrast, other historical hard market periods were catalyzed by a single large catastrophe loss event. Hurricane Ian was the last straw for capacity providers after a difficult five-year period—Ian accelerated the hardening of the market, which had been hardening more gradually until that point. Ian was perhaps the least unexpected of the catastrophe loss events that precipitated the hard market; it was the type of event that investors originally believed they were signing up to cover. Less expected was the steady stream of severe convective storm losses that took a toll on lower attaching covers and aggregate covers, as well as events such as COVID-19, Winter Storm Uri, and civil unrest. A significant hurricane loss event in 2024 could influence the market, but any novel or unanticipated losses could have a greater impact.

Further Developments on Parametric Covers

Record cat bond issuance volume and persistently large cat bond spreads demonstrate that demand for reinsurance capacity remains high. To satisfy that demand, reinsurance and ILS covers with parametric triggers continued to see interest from cedents and capacity providers in the first half of 2024.

Sponsors issued six natural catastrophe bond tranches with parametric triggers in first-half 2024, accounting for approximately 7% of volume during the period, just above the 6.2% issuance volume during first-half 2023. Once again, government sponsors are sourcing parametric reinsurance from the cat bond market. The first half of 2024 also saw the first issuance of a cyber cat bond with a parametric trigger, Hannover Re sponsored Cumulus Re (Series 2024-1), a privately placed cat bond believed to cover a cloud outage. The Cumulus Re transaction serves as evidence of the interest in deploying the concepts and techniques of parametric risk transfer, originally rooted in meteorological and seismic phenomena, to other types of risk. On the legislative front, Vermont passed an update to its protected cell law to allow for use of different parametric structures, further illustrating the heightened interest in these types of covers.

Government usage of parametric coverages was on display in July, after Hurricane Beryl moved through the Caribbean. The Caribbean Catastrophe Risk Insurance Facility (CCRIF) reported making payouts on parametric policies covering countries in the Caribbean Sea, with a USD 42 million payment to Grenada being the largest single payout in the facility's history. The transparency of the parametric trigger permits CCRIF to make the appropriate payouts within 14 days of an event.

The transparency of these triggers makes them appealing to capacity providers as well as cedents. The lower uncertainty of the triggers may motivate capacity providers to expand coverage to other perils and other geographies, allowing investors to benefit from potentially greater diversification in their ILS portfolios.

Reinsurance covers based on parametric triggers complement indemnity-based covers, rather than directly substitute for them. They can be used by insurers to plug holes in reinsurance towers for earnings protection, particularly in the harder-to-place lower layers. Or they may be used when indemnity coverage is simply not practical, as in the case of the parametric cat bonds reinsuring governments. Sponsors that use parametric coverage must be comfortable with basis risk and the potential for over- and under-recoveries. However, advances in data and analytics may help sponsors better understand the extent to which a parametric trigger correlates with the magnitude of loss they might incur during an event.

Cyber Cat Risk: CrowdStrike IT Outage and Two Additional Cyber Cat Bond Issuances

The most significant development in cyber risk this year was the CrowdStrike IT outage. As of this writing, it is still too soon to say what the ultimate insured loss impact will be from CrowdStrike, but initial estimates suggest it will be relatively modest. Regardless, this incident serves as a real-life example for stakeholders to further their understanding of cyber coverages, policy language, and event definitions, as well as to understand how accumulation risk can be modeled and managed.

The CrowdStrike outage could bolster demand for cyber reinsurance coverage, and cyber ILS will continue to play a part in providing that capacity. To that end, there were new developments in cyber cat bonds in first-half 2024. Beazley sponsored its second 144A cyber cat bond with PoleStar Re Ltd. (Series 2024-2) and Hannover Re's Cumulus Re cloud outage cat bond mentioned earlier. PoleStar Re brings the outstanding 144A cyber cat bond volume to USD 575 million.

Exhibit 5

ILS – Loss Multiples of Cyber Cat Bonds

	Issuer	Balance (USD billions)	Loss Multiple
Natural Cat Bonds Issued in 4Q23	20 Issuers	4,840	3.4
East Lane Re VII Ltd. (Series 2024-1)	Chubb	150	6.7
Matterhorn Re Ltd. (Series 2023-1)	Swiss Re	50	7.0
PoleStar Re Ltd. (Series 2024-1)	Beazley	140	10.3
Long Walk Reinsurance Ltd. (Series 2024-1)	Axis Capital	75	5.0

Source: Artemis, AM Best data and research

The insurance industry has been educating investors about cyber risk and the appetite for that risk appears healthy. Helping to fuel investor interest in cyber cat risk is the general perception that such risk is relatively uncorrelated with the broader capital markets, except perhaps in the extreme tail of the loss distribution. Investors also perceive the cyber risk loss development lag to be relatively short. Cyber cat bonds are also uncorrelated with property natural catastrophe cat bonds, which helps diversify an ILS portfolio.

Although investors find several features of cyber cat bonds appealing, the CrowdStrike outage highlights the persistent uncertainty for this asset class, which is also demonstrated by the high loss multiples of the cyber cat bonds issued so far, compared with the average loss multiple of natural cat bonds issued during the same period. The high loss multiples demonstrate that investors want to explore this asset class prudently by receiving adequate compensation for the uncertainty they are accepting (**Exhibit 5**). Demand for cyber coverage in the primary market is expected to increase, and the current primary market relies heavily on reinsurance. The need for cyber reinsurance capacity will continue to grow, as the primary market grows and the capacity sourced from the capital markets will become a more material component of cyber reinsurance towers.

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BEST'S SPECIAL REPORT

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Trend Review

IFRS 17 — Economic View Adds Complexity to Reinsurers' Financial Statements

When using IFRS 17 data, comparisons across accounting standards require a high level of interpretation

Principal Takeaways

- A key difference between IFRS 17 and IFRS 4 is the focus of IFRS 17 on recognition of an insurance contract's profit over the duration of the insurance coverage. Early recognition of losses on onerous contracts is mandatory under IFRS 17. This is a considerably more significant change from previous practice for the life segment than for non-life.
- Under IFRS 17, discounting is now normally required for all insurance contract liabilities. Although this is offset by the requirement for an explicit risk margin, the impact may be seen in lower liability levels on the balance sheet as well as in reported combined ratios. Under IFRS 17, reinsurers have typically seen a greater overall impact on combined ratios than the direct market has. The impact on profitability is further dampened by a lower investment result than previously (due to the investment expense from unwinding the discounting).
- IFRS 17 introduced new elements to account for the liability components of insurance contracts: risk adjustment and contractual service margins for longer duration policies.
- Insurance service revenue replaces premium written as the revenue line in income statements.
- Traditional profitability metrics such as loss and expense ratios may change significantly under IFRS 17, particularly for reinsurers; and the combined ratio can be based on net/net or net/gross.

In the midst of one of the hardest reinsurance markets in decades, reporting under the long-discussed International Financial Reporting Standards (IFRS) 17 has finally started. The broader insurance industry has debated the potential impact and challenges related to the move from IFRS 4 for years, but many still struggle to understand the new standard. IFRS 4, for all of its limitations, allowed analysts to use metrics common in the analysis of reinsurers' financial statements under US GAAP. The consistent message from analysts, regulators, and AM Best was that a change in accounting standard should not have an impact on a company's financial strength. Nevertheless, the new standard has brought about considerable challenges.

The move from IFRS 4 to IFRS 17 is a significant change for those in the insurance industry adopting the new accounting standard. Although the transition brings about changes to metrics for all types of (re)insurers, it is a far more radical change for life and composite (re)insurers. For the life business specifically, the standard allows for a more meaningful and accurate representation of earnings. The move will also impact some longer-tailed lines of property and casualty business, albeit to a smaller extent.

IFRS 17 became effective on January 1, 2023, although some European and Asian reinsurers are adopting it over the next three years. It completely overhauled prior approaches for measuring and reporting insurance results and introduced new nomenclature, creating challenges for insurance companies as they prepare financial statements. It alters the way users of financial

Analytical Contacts:
Antonietta Iachetta, Oldwick
+1 (908) 882-1901
Antonietta.Iachetta@ambest.com

Dan Hofmeister, Oldwick
+1 (908) 882-1893
Dan.Hofmeister@ambest.com

Contributors:
Jessica Botelho-Young, London
Mathilde Jakobsen, Amsterdam
Christie Lee, Hong Kong
Anthony Silverman, London
Carlos Wong-Fupuy, Oldwick

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statements—whether policyholders or investors—understand, interpret, and compare these new statements. Although IFRS 17 allows for more detailed disclosures about specific insurance contracts, users of the new standard, from all stakeholder constituencies, will need to become acquainted with the new components used to assess a company.

The reinsurance market and the broader insurance industry are adjusting to these changes, which has necessitated some segmentation of performance analysis in the reinsurance market. Many of the largest reinsurers are domiciled in Europe and Asia and have moved to IFRS 17. However, most of the Bermuda-domiciled reinsurers, which have become substantial capacity providers in recent years, will continue to report according to US GAAP. Furthermore, the large European and Asian reinsurers typically write substantial life business, the line of business most impacted by the new standard. Understanding the relative performance among various segments and standards under IFRS 17 is challenging and requires considerably more interpretation than previously.

New Look Liabilities

IFRS 17 requires discounting of future cash flows for all insurance contracts, including non-life, and establishing a "risk adjustment" portion of the reserve, which differ significantly from the rules established in US GAAP accounting. In many cases, this discounting has led to significantly lower loss reserves (now called insurance contract liabilities) and, as a result, has driven equity positions up and leverage ratios down. The impact of the discounting could be partly dampened with a Risk Adjustment (RA), an adjustment for the level of uncertainty about the timing and amount of cash flows.

The effect of the time value of money (unwinding the discount) and the effect of *changes* in the time value of money (effect of changes in discounting assumptions/yield curve change) are presented in the insurance finance result, separately from insurance service result. This component can be significant. The separate presentation allows users to better compare the sources of income.

In a new approach, IFRS 17 combines a current view of the value of insurance contracts on the balance sheet, with a simultaneous recognition of profit over the period insurance services are provided to policyholders. The gains or losses earned from underwriting are reported separately, with detailed disclosures that explain financial statement lines such as new business written, experience for the year, claims and payments, and changes in assumptions that impact the value of the insurance contracts.

CSM, the new component, represents the present value of unearned profit on a contract expected to be earned as insurance services are provided. CSM is set up as a liability on the balance sheet but adds a level of complexity relative to traditional best estimate reserves seen in the property/casualty segment. Nonetheless, the CSM is similar to value of in-force (VIF) in embedded value reporting, which has historically been one of the key performance indicators (KPIs) life insurers use to measure the long-term value creation in their business.

The CSM may not be substantial for many non-life reinsurers' capital, but it is substantial for a life reinsurer's capital. Some debate exists on how to treat CSM in performance metrics and capital structures. It has economic value for balance sheets but isn't necessarily tangible capital an insurer can immediately pay claims with.

For general measurement model (GMM) reported business, part of the RA is a component of the "Liability for Remaining Coverage" (LRC), which is similar to unearned premium reserves, with the remaining part being a component of the "Liability for Incurred Claims" (i.e., claims reserves estimates). In other words, the RA functions as a reserve margin. IFRS 17, however, does not prescribe a specific method to calibrate risk adjustment. Margins in reserves also vary for non-IFRS 17 reporters, but the advantage of IFRS 17 is explicit reporting of the margin.

The final model is the VFA, which is a modification of the GMM for contracts with direct participation features. It allows insurers to pass the insurer's share of the investment result through the CSM, instead of taking what can be a volatile item directly to the income statement.

Although discounting liabilities is meant to more adequately support reinsurers' asset-liability matching (ALM)—which in the past wasn't aligned due to assets being carried at fair value and liabilities at amortized cost—there is a clear cost in terms of complexity. However, the advantage of discounting is that economic capital is more transparent.

Profitability Trends Under IFRS 17

Overall profitability isn't expected to change materially under IFRS 17 for non-life (re)insurers; however, the timing of profit recognition can differ significantly under the new approach, particularly for life reinsurers. Previously, we would often see a trend of higher earnings at the beginning of a policy period and slower earnings later in the life of the contract.

Under the new standard, the expectation is that, as the insurance service is provided over time, earnings will be recognized in the income statement, which is expected to produce a more stable earnings trend that is more representative of an underlying run rate. For example, if we looked at a company writing a new life policy with a ten-year time horizon, we would see that at time zero, the profits under IFRS 17 would be zero (assuming the contract is not onerous), due to setting up a CSM reserve to capture the expected future profits. Under the prior standard, the difference between premiums paid and setting up reserves would be recognized as profit. In this respect, IFRS 17 moves life reporting onto a more similar basis to non-life than was previously the case.

Same Names, Different Metrics

Historically, the reinsurance industry has relied on a variety of measures to compare the performance of market participants, such as combined ratios, return on revenue, and return on equity (ROE). Although these metrics are still used under IFRS 17, they differ from the past, and in most cases are not directly comparable to local GAAP reporters.

For IFRS 17 reporters, the standard brings about the sunset of gross premium written and the introduction of insurance service revenue in income statements. As such, the ability to comparably measure premium leverage based on claims and expenses is diminished—and considerably more so for reinsurers than for the direct market. Insurance carriers are no longer required to report premium written; instead, the top line is now captured in insurance service revenue. As is currently the case for non-life earned premiums, insurance revenue comprises the amortisation into revenue of provisions that, at inception, sums to premiums. For GMM business, these provisions comprise expected claims, the risk adjustment, the CSM and deferred acquisition costs (DAC). The CSM may be viewed as a balancing item at inception. Perhaps surprisingly, the DAC provision is not a required disclosure and is not part of the LRC (except for the any part allocated to future new business). A split of revenue among these four components is required disclosure for GMM business. For PAA, there is a single revenue figure that comprises amortisation of the LRC and DAC.

Combined ratios had typically been divided into loss and expense ratios when examining underlying profitability metrics. However, under IFRS 17, expenses are not required to be allocated to the insurance/underwriting activity in a manner consistent with IFRS 4/local GAAP reporting, significantly hindering comparative analysis. Users are dependent on voluntary disclosure of non-operating cost splits among life and non-life and other expenses. Additionally, the definition of expenses in IFRS 17-incurred claims may differ from previous practice for loss adjustment expenses.

AM Best notes that identifying a consistent allocation of group expenses to non-life expense ratios has always been an exercise with some challenges. Nevertheless, at the current stage of development for reporting under IFRS 17, separate loss ratios and expense ratios are losing relevance and there is a greater reliance on the combined ratio, which remains the primary measure of underwriting performance for non-life reinsurers under IFRS 17. However, the combined ratio is not the same as under IFRS 4 or US GAAP. The new view takes into account the time value of money and the uncertainty of future cash flows, which is considered useful in assessing economic profitability. However, challenges lie in interpreting and understanding what the new inputs in the calculation mean when comparing companies and historical trends using different accounting regimes.

A greater level of understanding is needed, not just for discounting, but also for the two different ways of calculating combined ratios—the net/gross and net/net bases. Although we've found that net/net combined ratios track more closely with IFRS 4/US GAAP computations of combined ratio, some companies have elected to report on one basis, while others use the other. Whether a reinsurer will pick one or the other will typically depend on its business strategy. When comparing combined ratios under IFRS 17 to those under IFRS 4 and US GAAP, the impact of the change will be directly tied to the duration of liabilities, the scale of reinsurance held assets and expenses, the reinsurance held result and the impact of reinsurance ceding commissions (**Exhibit 1**).

Although the combined ratio historically has been the primary measure for non-life underwriting profitability, the overall operating performance of all types of reinsurers has historically been measured by the ROE. The basic calculation for ROE remains consistent with previous practice; however, it's important to note how much variability can emerge under IFRS 17 if assets are not matched to liabilities by duration or if credit spreads move. The numerator component (net income) of ROE now recognizes earnings in a different pattern under IFRS 17, while the impact on the denominator (shareholders' equity) varies depending on the companies' transition approach.

Some companies have reported ROE measures that add the value of the CSM to the equity value in the denominator. A consistent numerator is also required for these ratios. For non-life reinsurers, the discounting of loss reserves can cause slight increases in overall equity positions, thereby slightly lowering ROEs, although they are still generally more comparable to IFRS 4 measures than for life companies.

Exhibit 1
Claims and Expense Ratios Under IFRS 17

1. Net/Gross

Net Claims Ratio	Net Expense Ratio
$\frac{\textit{Gross Claims + Reinsurance Held Loss (Profit)}}{\textit{(Re)insurance Services Revenue}}$	$\frac{\textit{Expenses}}{\textit{(Re)insurance Services Revenue}}$

Note: The net expense ratio is the same as the gross expense ratio.

2. Net/Net

Net Claims Ratio	Net Expense Ratio
$\frac{\textit{Gross Claims – Reinsurance Held Recoveries}}{\textit{(Re)insurance Services Revenue – Reinsurance Held Expenses}}$	$\frac{\textit{Expenses}}{\textit{(Re)insurance Services Revenue – Reinsurance Held Expenses}}$

Source: AM Best data and research

For life companies, the identification of run-rate profitability means the ROE is more akin to an achieved return on investment in a manner similar to ROEs in other economic sectors. AM Best's analysis is that this ratio should become more important, mostly at the expense of the estimated internal rate of return for new business. The newly matched revenue and claims, which both relate to the reporting period for life companies under IFRS 17, should increase the importance of profit to revenue ratios.

Composite reinsurers present a level of complexity that leads to being heavily dependent on segment disclosure. In AM Best's view, this is an aspect of reporting that will naturally evolve over the next few years.

Additional Analysis Needed

The adoption of IFRS 17 has provided benefits in terms of comparability of profit with other industries, smoother earnings, and greater alignment with economic value. However, users of financial statements need to be mindful of the characteristics of IFRS 17 and make sure they fully understand how and why the financial data has changed. In past years, IFRS 4 and US GAAP had been compared against one another and even consolidated into composites. Many in the market might attempt to consolidate and compare IFRS 17 and US GAAP financial statements, but doing so will very likely result in distorting what the numbers are really telling us. For example, two companies might report a 90.0 combined ratio, but those may be very different under IFRS 17 and GAAP now. That's not to say that companies under various standards can't be compared, but that their results require careful interpretation.

We are still in the early days of reporting under IFRS 17, as only one year has been reported. AM Best expects that disclosures will continue to evolve over the near to medium term—we will continue to monitor how results and comparability across sectors evolve over time.

For additional details about the IFRS 17 changes, please see Frequently Asked Questions: IFRS 17 (January 4, 2024).

Life/Annuity Reinsurers Face Growing Competition as Conditions Improve

Risk-adjusted capitalization for L/A reinsurers is expected to remain healthy through 2025, despite risks in investment portfolios and elevated mortality for some

Principal Takeaways

- Large, global traditional life reinsurers that operate in the US face increased competition from newer players that are finding their niche or expanding their footprint.
- Annuity growth has largely driven the growth in ceded reserves by US insurers, as well as an increasing share ceded offshore.
- Block reinsurance transactions remain robust.
- The life reinsurance segment maintains capitalization within target levels.

Higher interest rates and mortality that has moderated since the COVID-19 pandemic have been tailwinds for the global life/annuity reinsurance segment, which remains well capitalized and positioned for robust growth. Elevated mortality claims have leveled off and are manageable in aggregate, but pinpointing direct causes and determining future direction remain difficult for some. Reinsurers continue to evaluate underwriting practices, including premium rate increases, to mitigate the impact of higher claims in certain segments. Reinsurers also continue to monitor trends in artificial intelligence and digitization, to see what future role they will play.

Competition for Capital Solutions

L/A reinsurers focus on the different sub-segments of the market—traditional yearly renewable term life reinsurance, asset-intensive life reinsurance, asset-intensive annuity reinsurance, and structured reinsurance—to different degrees, depending on their business strategies and competitive advantages. Very few aim to provide a full gamut of solutions and services across these sub-segments, highlighting their different structural needs.

L/A reinsurers concentrate on helping primary carriers optimize their capital, accelerate growth, and transfer diminished levels of biometric claims. New capital continues to flow into the segment, primarily via reinsurers owned by investment managers focusing on annuity business. The influx of capital has been viewed positively but with some caution. The key to deploying this capital is the sponsor's understanding that L/A insurance is a long-term play. New market participants must understand the long-term nature of the segment and be prepared to provide the appropriate customer and capital support for the underlying business. Capital from new entrants seeks to earn a spread when investing the premiums in higher-yielding, less liquid assets, which makes products more competitive for consumers.

L/A reinsurers provide solutions typically through structured, remote-risk liability transfers or more full-risk asset transfers, helping insurers unlock trapped capital. AM Best monitors this for its rated companies because it affects companies' risk-adjusted capitalization, as measured by Best's Capital Adequacy Ratio (BCAR). Over the last several years, additional competition from new entrants sought to capitalize on the challenges associated with the post-2008 low interest rate environment, causing a gradual strategic shift in the L/A reinsurance market. In the US,

Analytical Contacts:
Edward Kohlberg, Oldwick
+1 (908) 882-1979
Edward.Kohlberg@ambest.com

Stratos Laskarides, Oldwick
+1 (908) 882-1995
Stratos.Laskarides@ambest.com

Stephen Vincent, Oldwick
+1 (908) 882-1705
Stephen.Vincent@ambest.com

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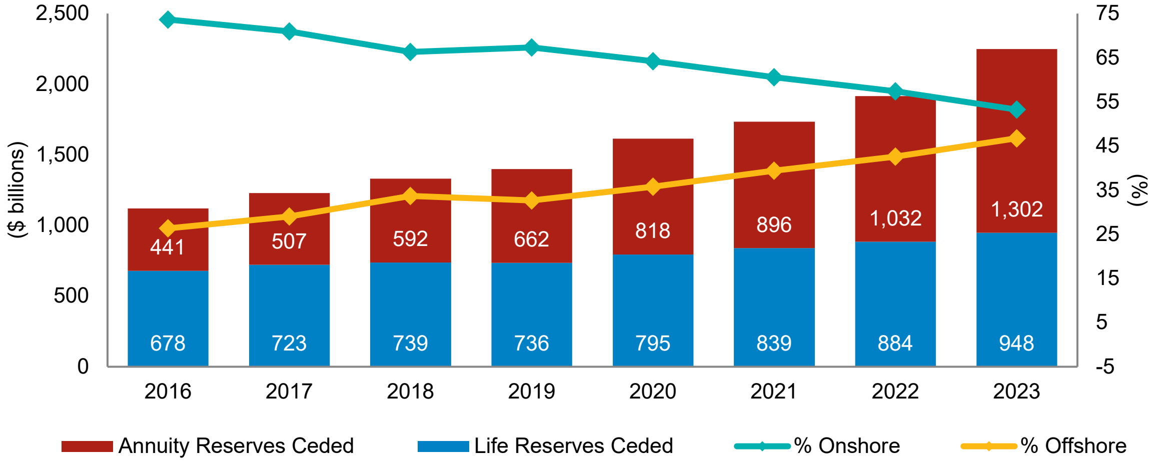
Exhibit 1
US Life/Annuity Ceded Reserves



Note: Includes separate accounts.
Source: BESTLINK

the world's largest L/A insurance market, the flagship carriers of global reinsurance groups have thus faced greater competition. Offshore reinsurance—especially annuity business—to jurisdictions with more economic reserves and required capital has also gained heightened focus (**Exhibit 1**).

Annuity Growth Drives Growth in Ceded Reserves

With higher interest rates driving strong annuity growth over the last few years, the amount of annuity reserves has grown over 10% in each of the last three years, and ceded annuity reserves have doubled from 2016 to 2023. With new company formations, partnerships, and private capital entering the market, the reinsurance market remains competitive and a larger share of business is being ceded to affiliates, as seen in Exhibit 1. The notable annuity growth is likely to continue, and more companies may look to reinsurers to manage growth and capital.

Newer entrants backed by private equity/asset managers typically focus on annuity business and seek to coinsure assets that can be rolled into high-yielding positions, mainly in public, private, or alternative fixed-income products. These reinsurers can offer attractive ceding commissions based on higher anticipated investment returns once the transferred assets are rolled into a wider set of investment opportunities.

AM Best will continue to watch this growing trend and assess each transaction on its merits. Concerns occur when a more aggressive asset strategy is taken by these offshore entities and if capitalization and access to capital for growth for these companies diminish.

Sidecar Use Grows

AM Best has observed greater use of sidecars. An important factor is the market value of the assets transferred, which depends on the credit spreads of the underlying fixed-income securities on the treaty's effective date—the greater the value of the transferred assets, the more likely the asset-intensive reinsurer can make the pricing work. Questions remain, however, on how newer entrants will alter their strategies over the long term depending on macro-economic trends, the availability of deals, and regulatory changes. By all indications, this "new capital" is here to stay, with billions more committed but on the sidelines waiting for the next opportunity.

Traditional Reinsurers Dominate US Life Reinsurance Market

In the higher interest rate environment, some traditional reinsurers are less competitive in certain lines of business (e.g., permanent life coinsurance), owing to their conservative pricing frameworks, which are based on European accounting standards that typically adopt the lower, risk-free interest rate. Nonetheless, traditional reinsurers still grew the total amount in force for individual life business in 2023, highlighting how carriers still value their services and biometric risk transfer solutions post-COVID. The traditional life reinsurers function in a stable market landscape, maintaining leading market positions based on reinsured face amounts in force. These top-tier companies account for the majority of the US individual (**Exhibit 2a**) and group life (**Exhibit 2b**) in-force reinsured.

Several reinsurers continue to implement retrocession strategies to shield risk and protect or enhance capital, particularly when reinsured to a highly rated third-party, as highlighted in **Exhibit 3**, which shows the face amount retroceded has generally increased over time. Primary carriers would still be required to honor claims should their reinsurers fail, which underscores the importance of a carrier's enterprise risk management (ERM) on counterparty credit risk measurement, mitigation, and monitoring.

Exhibit 2a

Top US Life Reinsurers by Individual Life Insurance in Force, 2023

(USD thousands)

AMB#	Company Name	Total Individual Amount in Force	Individual Life Reserves	Net Amount at Risk
007283	Swiss Re Life & Health America Inc.	1,989,814,741	2,876,777	1,986,937,964
009080	RGA Reinsurance Company	1,836,595,438	9,488,250	1,827,107,188
006746	Munich American Reassurance Company	1,435,542,183	1,695,708	1,433,846,475
068031	Hannover Life Reassurance Co of America	1,213,822,359	196,826	1,213,625,533
009189	SCOR Global Life USA Reinsurance Company	1,038,945,518	77,617	1,038,867,901
009791	Canada Life Assurance Company USB	781,755,615	1,738,078	780,017,537
006555	SCOR Global Life Americas Reins Co	521,216,259	295,539	520,920,720
006234	General Re Life Corporation	396,138,688	1,391,669	394,747,019
061745	PartnerRe Life Reinsurance Co of America	149,512,909	47,688	149,465,221
008863	Optimum Re Insurance Company	89,444,227	145,608	89,298,619
060560	Wilton Reassurance Company	87,670,311	2,591,623	85,078,688
060212	SCOR Global Life Reinsurance Company DE	80,616,768	127,326	80,489,442

Source: BESTLINK

Exhibit 2b

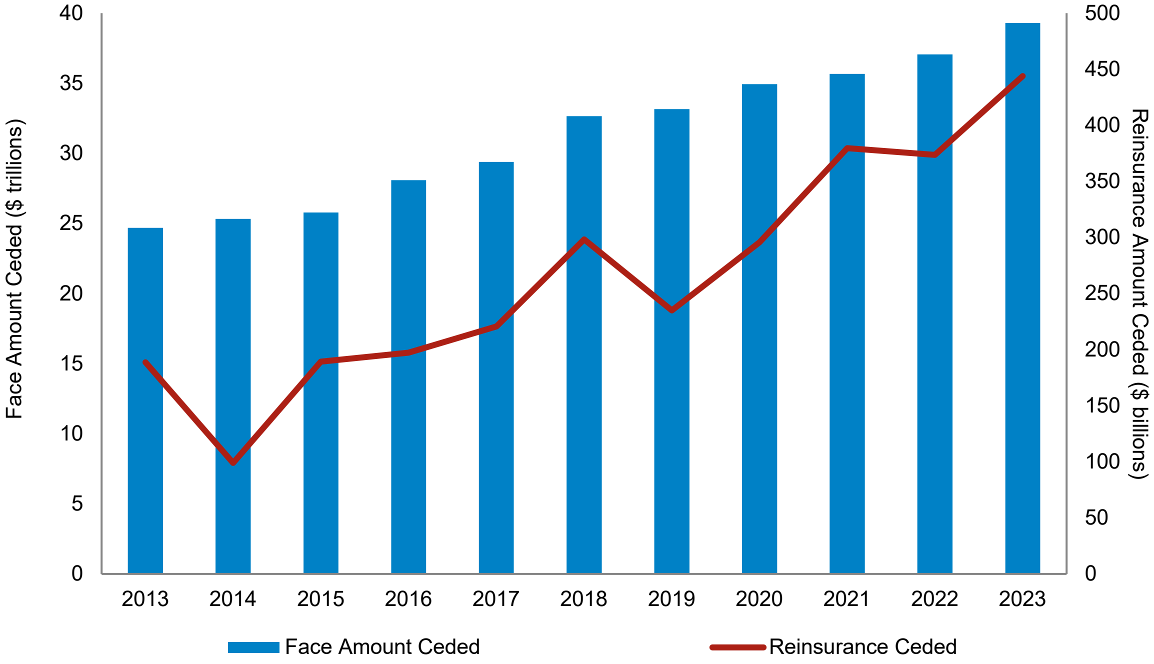
Top US Life Reinsurers by Group Life Insurance in Force, 2023

(USD thousands)

AMB#	Company Name	Total Group Amount in Force ($000s)	Individual Life Reserves	Net Amount at Risk
009791	Canada Life Assurance Company USB	4,764,727,261	29,949	4,764,697,312
006746	Munich American Reassurance Company	427,687,237	3,658	427,683,579
007283	Swiss Re Life & Health America Inc.	108,911,689	-	108,911,689
009080	RGA Reinsurance Company	98,372,155	6,378	98,365,777
009189	SCOR Global Life USA Reinsurance Company	38,193,293	2,406	38,190,887
006234	General Re Life Corporation	22,541,276	43,662	22,497,614
006555	SCOR Global Life Americas Reins Co	2,271,355	1,844	2,269,511
060212	SCOR Global Life Reinsurance Company DE	1,576,550	14,992	1,561,558
068031	Hannover Life Reassurance Co of America	1,457,181	2,017	1,455,164
007086	First Allmerica Financial Life Ins Co	524,774	2,921	521,853
006297	Union Fidelity Life Insurance Company	182,928	55,399	127,529
008491	Commonwealth Annuity and Life Ins Co	123,749	2,029	121,720

Source: BESTLINK

Exhibit 3
US Life Reinsurance Ceded



Source: BESTLINK

Historically, the US life reinsurance market had been pressured as primary insurers transferred less risk to third-party reinsurers, which led to a long decline in cession rates. Over time, primary insurers generally have enhanced their balance sheet strength and business diversification. With greater access to data, they can price more accurately and retain more risk. However, the rise in US business ceded over the past few years continued in 2023. The absolute amount of business ceded generally rises over time due to inflation, but other factors are also driving this trend. To varying degrees, top-tier reinsurers have invested in innovative products and services to differentiate themselves in a competitive market. This drives profitable revenue from primary insurers seeking access to additional expertise to grow and compete in new markets and distribution channels or looking at new or refinements to existing underwriting methods. Several reinsurers have adopted automated and accelerated underwriting, using more sophisticated tools such as data analytics to determine pricing. As more companies relaxed their underwriting standards during the pandemic, including rising policy size thresholds for fluidless underwriting, life insurers looked for guidance from traditional reinsurers.

AM Best notes that reinsurance remains a convenient tool for mutual or fraternal insurance companies that are effectively owned by their policyowners. Some mutuals have attempted to demutualize and merge into stock or privately owned insurers, to enhance risk-adjusted capitalization or be part of a larger platform that supports growth or mitigates volatility. However, some merger agreements have recently been terminated, highlighting challenges to obtaining regulatory approvals to demutualize. In contrast, the mutuals have enhanced their risk-adjusted capitalization or economics for their participating policyowners through reinsurance. AM Best expects some reinsurers will maintain their focus on providing capacity for large one-off full or structured remote risk reinsurance transactions on in-force blocks that help primary insurers manage their capital and accelerate the delivery of their strategic and financial targets for investors.

Heightened Focus on Biometric Risk Transfer Solutions to Support Sustainable Growth

Another headwind for traditional life reinsurers has been uncertainty about ultimate future mortality rates (after the selective effect of underwriting wears off). Total US deaths attributable to COVID-19 has exceeded 1.2 million as of the summer of 2024, according to the Centers for Disease Control and Prevention (CDC). Seasonal increases are noticeable each winter but continue to decline in magnitude. The overall impact of COVID-19 on excess mortality (deaths above what is expected under normal conditions) is declining, but not uniformly. A recent Society of Actuaries (SOA) study on excess mortality (*COVID-19 and the Short-Term Impact on Future U.S. Mortality—An Expert Opinion Survey,* August 2022) projected that COVID-19 would contribute more to excess mortality through 2030 in the general population for those ages 65 and older than for those 45 and younger. External causes such as drug overdoses and accidents have also increased since 2019. The study noted that the top drivers of declining excess mortality in the insured population from COVID through 2030 are expected to be less virulence from COVID 19 strains, as well as new COVID treatments.

Over the near term, the top drivers of excess mortality in the life insurance industry not attributable to COVID are expected to be cancer and cardiovascular disease deterioration. By the end of the projection period, these drivers are expected to turn around, such that improvements in cancer and cardiovascular disorders will be the main drivers of changes in excess mortality.

For most companies, COVID-19 mortality has impacted earnings (as opposed to balance sheets), suggesting no significant impact on reserves or capital. The impact of COVID-19 on mortality has declined since the Omnicron variant in early 2022. Mortality remained elevated in early 2022 due to the Omicron variant but then reverted to pre-pandemic levels. According to research by the Society of Actuaries (*U.S. Individual Life COVID-19 Reported Claims Analysis, 2Q 2023 Update*, November 2023), claim counts began to come down toward pre-pandemic levels. In a Society of Actuaries survey, *Impact of COVID-19 on Future U.S. Mortality - Expert Opinion Survey 2* (August 2023), actuaries still expected mortality to remain elevated over pre-pandemic levels but to continue to decline toward those levels through the rest of the 2020s.

Most carriers had higher mortality rates than usual between 2020 and 2022, resulting in slightly favorable development for long-term care and annuities. In 2021, mortality was higher for working age populations, which affected both individual and group life claims. The longer-term implications of COVID-19 and other mortality factors on liabilities and future pricing assumptions are still uncertain, with most primary carriers not expecting to make significant changes to their mortality assumptions. Mortality rates have risen for certain carriers, products, or population segments more recently, but whether this was seasonal or temporary (e.g., as part of a colder winter in the first quarter of each year) or a function of the carrier's business profile, instead of part of a long-term mortality trend for insured lives, remains to be seen.

Some reinsurers have commented that they have seen spikes and potential effects from "long COVID," but carriers will have different claims experience depending on their target markets, the products they sell, and the underwriting methods they use. For example, some reinsurers may have exposures to larger or non-standard policies or to certain large claims in excess of the cedent's surplus point or corporate retention. As a result, a reinsurer's claims experience in absolute terms and relative to the premiums it collects may be different. Insured lives' mortality levels have run lower than the general population's, owing to the selective effect of underwriting and the sales methods insurers have adopted over many years.

COVID-19 raised awareness of the need for life insurance, which, combined with the higher demand for medical treatments in an inflationary environment, drove an increase in demand for reinsurance. The life insurance industry saw a marked increase in annualized premium sales beginning in the first quarter of 2021, continuing through the second quarter of 2022 due mainly to the COVID-19 pandemic, with whole life and indexed products leading the way as of the first quarter of 2024. Demand, however, is changing. Whole life volumes are reverting toward pre-pandemic levels. Indexed products are maintaining their pandemic gains, likely attributable to strong stock market returns. Term and fixed UL did not see a noticeable spike during the pandemic and are maintaining their pre-COVID volumes. Overall, sales are up from pre-pandemic levels, but increases have leveled.

Healthy Risk-Adjusted Capitalization Amid Risks in Investment Portfolios

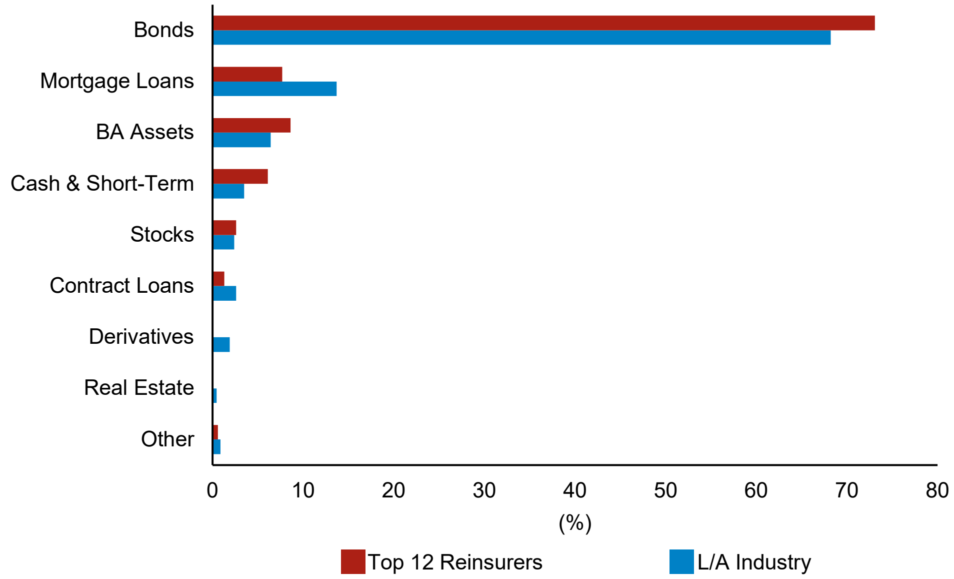
L/A reinsurers are well capitalized and their risk-adjusted capitalization is expected to remain healthy through 2025, despite risks lingering in their investment portfolios and elevated mortality for some. Most life reinsurers have traditionally avoided the investment risks associated with many products on the primary life insurance side. Primary life insurers' diversification strategies typically include the annuity and retirement business, which is seen as a natural hedge to their mortality business but also adds to their financial market risk. The operating models of the major traditional global life reinsurers differ significantly, and some rely on their property/casualty business to balance earnings. Life reinsurers have historically been less exposed to financial market risk than primary writers have.

Reinsurers owned by asset managers, on the other hand, are more comfortable taking on investment risks using the investment experience of their parent companies in structured products, mortgages, private credit, or other alternatives. These higher-risk assets do reflect unfavorably on Best's Capital Adequacy Ratio (BCAR) results, but overall scores remain typically within the Strong to Very Strong levels, slightly below scores achieved by the rest of the industry but favorable on a stand-alone basis. Furthermore, a focus on liquidity and a large backing parent willing and able to support the operating entities qualitatively helps the overall balance sheet strength assessment of these companies. Although annuities are a very capital-intensive product, asset managers have thus far supported rapid growth by providing the needed capital and not constraining growth with material dividends. In contrast, some insurers deliberately maintained large cash allocations before rates started rising, and they are benefiting from the spike in short-term yields in money market instruments without being exposed to the risk associated with legacy illiquid investments in alternative asset classes that have lower Sharpe ratios. These insurers have stronger operating performance, financial flexibility, and ERM assessments.

The credit profiles of the bond portfolios of US-domiciled flagship life reinsurers have historically been more conservative and of higher quality than the overall US life/annuity industry, with larger allocations to investment-grade bonds and smaller allocations to below-investment-grade bonds. These reinsurers increased their allocations to NAIC-1 bonds in 2022 and 2023 owing to higher interest rates, which helped improve credit quality and made the corporate bond and government agency-backed markets more attractive (**Exhibit 4**). Life reinsurers have the same objective as primary writers—well-matched yields with mortgage loans (7.7%)—an asset class that AM Best views as less liquid than investment-grade bonds, although this allocation remains below that of direct writers in aggregate (13.7%) (**Exhibit 5**). Commercial mortgage loan portfolios with large exposures to the office sector remain concerning.

Key ratios used to measure reliance on reinsurance to support capital needs are the *reinsurance leverage ratio*, *surplus relief ratio*, and *adjusted surplus relief ratio.*

Exhibit 4
Distribution of US Life Reinsurance Invested Assets - 2023



Source: BESTLINK

The *reinsurance leverage ratio* is defined as aggregate reserves ceded to unaffiliated reinsurers plus amounts recoverable and funds held, divided by statutory capital and surplus. This ratio measures the cedent's dependence on the security provided by its reinsurers and the potential exposure to adjustments on such reinsurance.

The *surplus relief ratio* is defined as reinsurance commissions (also referred to as expense allowances) on reinsurance ceded (recorded as income on the statutory statement), divided by C&S, illustrating the degree to which a cedent depends on reinsurance to maintain its solvency ratios (e.g., NAIC risk-based capital and BCAR).

The *adjusted surplus relief ratio* simply nets out commissions on reinsurance assumed (recorded as a statutory expense) before dividing by C&S. As a result, the adjusted surplus relief ratio for the industry is less volatile and lower than the surplus relief ratio.

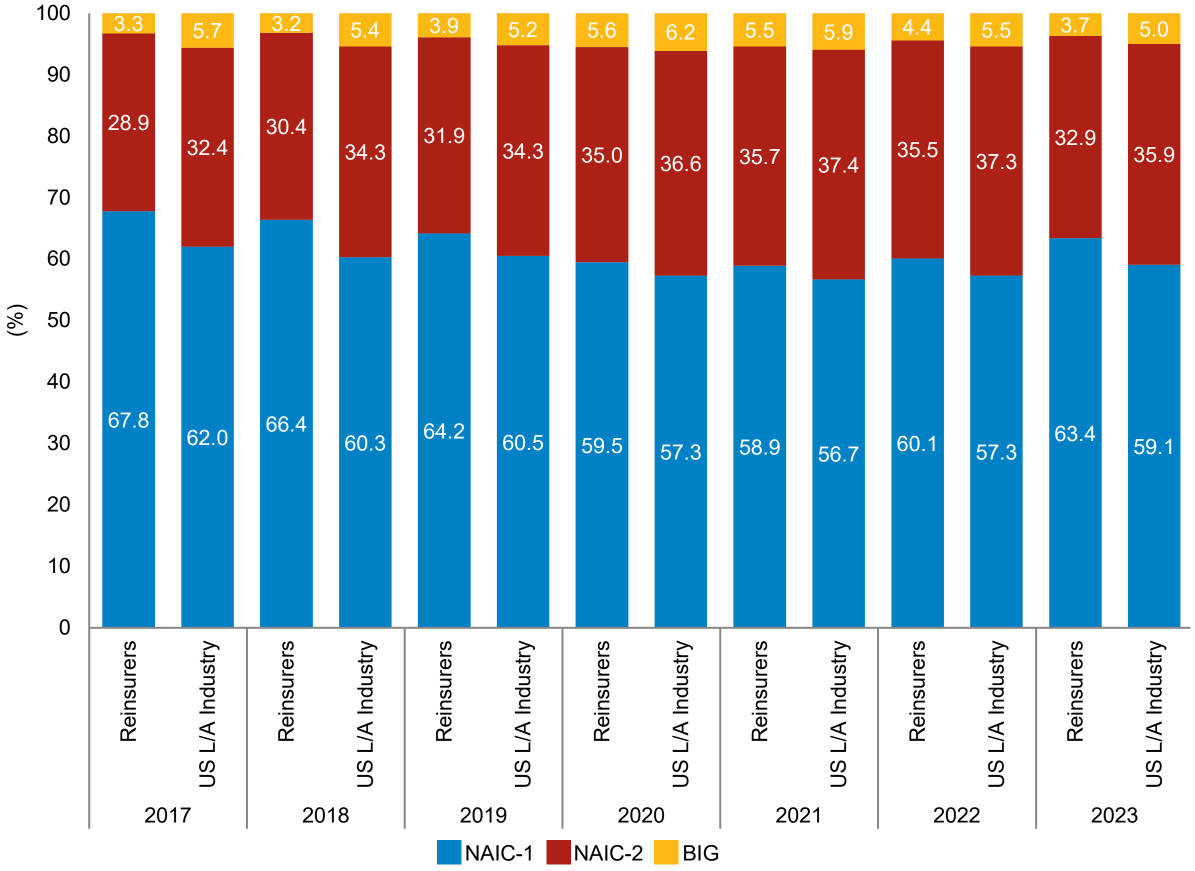
Best's Credit Rating Methodology (BCRM) for L/A insurers considers the level of a company's dependency on reinsurance. The BCAR captures reinsurance dependence using the reinsurance leverage ratio. The base reinsurance risk charge is increased on a graded basis for companies having a reinsurance leverage ratio of 500% or more, capped at reinsurance leverage ratios exceeding 900%. A more qualitative factor in the company's overall balance sheet strength assessment is the appropriateness of the company's reinsurance strategy.

The reinsurance leverage ratio for the US L/A industry has increased steadily over the last 10 years, a trend that points to the growing use of third-party reinsurance by US-domiciled carriers relative to their C&S (**Exhibit 6**). The ratio increased the most in 2020 (by approximately 7%, from 237.2% in 2019, to 252.8% in 2020), 2022 (by approximately 11%, from 259.4% in 2021, to 287.2% in 2022), and 2023 (by approximately 7% to 307.7% in 2023), which were periods with somewhat different interest rate environments. Despite the typically long lead time until reinsurance transactions close, this may suggest reinsurance demand and supply remain robust in both declining and rising yield environments, as in 2020 and 2021 through 2024.

The adjusted surplus relief ratio increased modestly in 2023 to 3.8%, as carriers were slightly more reliant on net reinsurance commissions received for their operating performance. The higher surplus relief ratio of 8.3% in 2023 could imply that this was driven more by higher commissions received on more business ceded through reinsurance, as opposed to lower commissions paid on less business assumed. Other than in 2016, the surplus relief ratio remained in a relatively narrow band of 4.8% to

Exhibit 5

US Life Reinsurance Bond Portfolio Quality

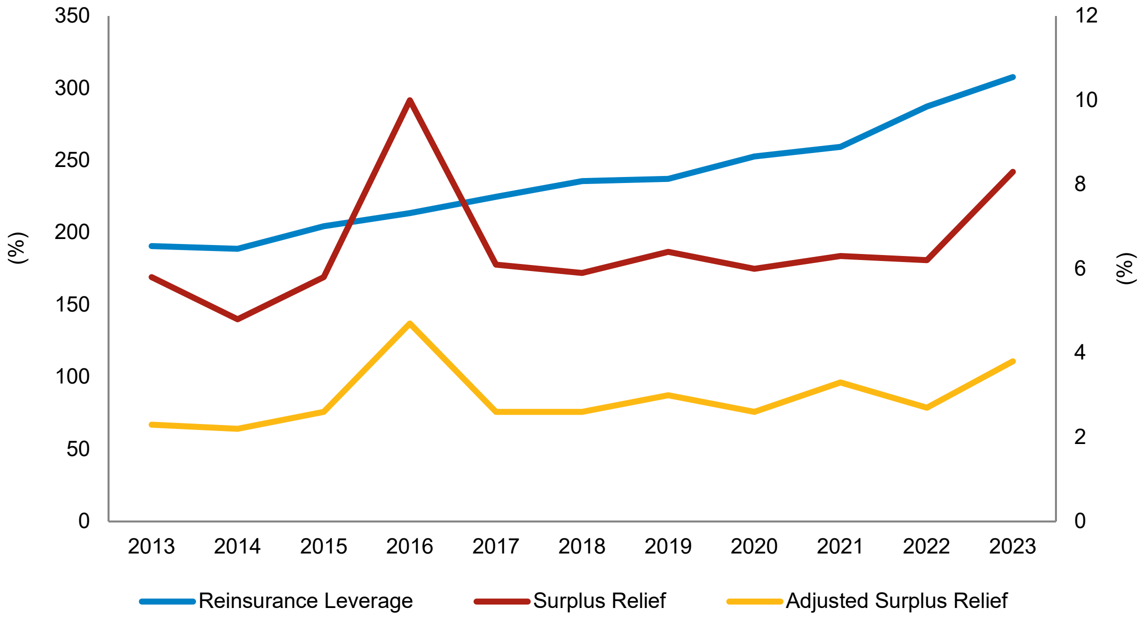


BIG = Below investment grade

Source: AM Best data and research

Exhibit 6

L/A Industry – Reinsurance Leverage & Surplus Relief



Source: BESTLINK

6.4% (an anomaly occurred in 2016 because large cessions by several companies related to strategic/ M&A resulted in elevated commissions received on reinsured business, raising the surplus relief ratio to almost twice the longer-term average). One year does not make a trend, but this highlights that additional reinsurance relative to aggregate C&S is also having a more material impact on the industry's operating performance.

The group's ERM framework remains paramount. Prudent asset-liability matching is a key element of the ERM frameworks of life reinsurers, whose asset portfolios tend to be dominated by longer-duration, fixed-income securities of high credit quality. AM Best believes that strong capital buffers will be able to absorb potential asset revaluations amid volatile capital markets. After years of generally investing in securities with shorter-than-average liability durations during the prolonged low interest rate environment, asset-intensive reinsurers and other newer entrants have been extending their asset durations by buying higher-rated, on-the-run bonds with more attractive coupon rates. Modest declines in the ten-year Treasury rate (from a peak of 4.998% on October 19, 2023) during certain periods also presented some respite for insurers who could sell some securities at a gain, to at least partly offset realized losses for securities in unrealized capital loss positions or on watch lists, to enable portfolio repositioning in the higher interest rate environment. The exact impact of the oscillating capital markets will depend on each insurer's asset mix and liability profile, which AM Best considers in its building block methodology for rated entities.

Counterparty Credit Risk Is Critical

Several high profile insolvencies in the reinsurance space underscore counterparty risk. Reinsurers should expect strong counterparty and collateral review due diligence efforts to limit the counterparty credit risk exposure, especially as more reserves are ceded offshore. With new company formations, partnerships, and private capital entering the market, the reinsurance market remains competitive. To gain more unaffiliated business, reinsurers backed by private equity are offering attractive ceding commissions based on higher anticipated investment returns once the transferred assets are rolled into a wider set of investment opportunities.

The rise in the number of transactions by reinsurers (according to Schedule S, Part 5 in US carrier statutory statements) could also drive greater concentrations of reinsurance leverage, which is accounted for with a cedent's concentration charge once the leverage reaches 500% of C&S.

For risk management, a ceding company may request additional collateral above the regulatory requirements, and the reinsurer may be willing to offer the same over-collateralization for commercial reasons, which provides additional security for policy owners' benefits.

Although the volume of business reinsured on a certified basis to offshore reinsurers is relatively small compared with total third-party cessions, certified reinsurer status could benefit reinsurers as it provides another layer of credibility. It will allow greater flexibility to structure deals, including more straightforward coinsurance treaties instead of Modified Coinsurance (MODCO) and Funds Withheld (FWH) transactions, which can cause accounting friction and investment-related restrictions. Discussions between regulators and carriers under the covered agreement that primarily relates to one jurisdiction regulating a group's parent company could alter the collateral required by offshore reinsurers. AM Best will continue to monitor this emerging trend, with a greater focus on how future transactions are structured.

Trend Review

Strong Annuity Growth Continues Shift to Bermuda Reinsurers

AM Best considers the quality and appropriateness of reinsurance programs, as well as reinsurance dependence, in the rating process

Principal Takeaways

- The amount of life and annuity reserves ceded to reinsurers has grown 56% since 2019 and has doubled since 2016.
- Nearly 47% of ceded reserves were transferred offshore in 2023, up from 26% in 2016.
- Asset manager/private equity sponsors account for almost 44% of reserves ceded to offshore affiliates.
- Bermuda accounted for over a third of all in-force business, as well as over 60% of new business, in 2023.

In an attendee poll at AM Best's annual Review & Preview conference in March, more than 70% of insurance industry executives stated that tax efficiency is the primary business rationale for using offshore reinsurance, with most of the remainder—22%—stating the need to remain competitive. With higher interest rates driving strong annuity growth, the amount of annuity reserves ceded has grown over 10% in each of the last three years, and ceded reserves have doubled from 2016 to 2023. This growth is likely to continue, and more companies may look to reinsurance to manage growth and capital. With new company formations, partnerships, and private capital entering the market, the reinsurance market remains competitive and a larger share of business is being ceded to affiliates. The quality and appropriateness of reinsurance programs, as well as reinsurance dependence, are factors considered when assessing balance sheet strength in our rating process.

Large Transactions Drive 2023 Ceded Reserves

The ten largest transactions in 2023 totaled $103.2 billion in reserves ceded, representing nearly half of new activity during the year (**Exhibit 1**). The vast majority of these were offshore transactions, totaling $96.8 billion. Reinsurance deals to offshore entities often complicates accounting, but AM Best captures these risks at the consolidated level by looking at the ceding and affiliated captive reinsurance company in its global Best's Capital Adequacy Ratio (BCAR) calculations.

Prismic Life Reinsurance Ltd and CNO Bermuda Re Ltd, which accounted for some of the 10 largest transactions in 2023, are part of the many offshore entities that launched in 2023. Prismic Life Reinsurance is a Bermuda-based company majority-owned by Nomura, while Prudential Financial and Warburg Pincus own minority shares—about 20% and 15%, respectively. This is also an example of a reinsurer technically categorized as unaffiliated, despite the ceding company owning a stake in or having strategic partnership with the reinsurance company. CNO Bermuda Re is also based in Bermuda and was created by CNO Financial. In recent years, many private equity-owned insurers have started creating offshore reinsurance entities; mutual companies have also entered this space to remain competitive.

Analytical Contacts:
Kaitlin Piasecki, Oldwick, NJ
+1 (908) 882-2458
kaitlin.piasecki@ambest.com

Jason Hopper, Oldwick, NJ
+1 (908) 882-1896
jason.hopper@ambest.com

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Exhibit 1

US Life/Annuity – Ceded Reinsurance Reserves by Legal Entity

AMB#	Company Name	Reinsurer Name	Jurisdiction	Ceded Reserves ($ billions)	Affiliated/ Non-affiliated
006199	Athene Annuity and Life Co	Athene Annuity Re Ltd.	Bermuda	19.4	Affiliated
006664	Lincoln National Life Ins Co	Lincoln National Reins Co (Barbados) Ltd	Barbados	12.0	Affiliated
006885	Pacific Life Ins Co	Hannover Life Reassurance Bermuda Ltd	Bermuda	11.3	Non-affiliated
006974	Prudential Ins Co of America	Prismic Life ReIns Ltd	Bermuda	10.0	Non-affiliated
006830	Allianz Life Ins Co of North America	Talcott Life Re, Ltd.	Bermuda	9.9	Non-affiliated
006664	Lincoln National Life Ins Co	Fortitude ReIns Co Ltd.	Bermuda	9.9	Non-affiliated
006664	Lincoln National Life Ins Co	Hannover Life Reassurance Bermuda Ltd	Bermuda	9.8	Non-affiliated
006199	Athene Annuity and Life Co	Athene Annuity Re Ltd.	Bermuda	8.0	Affiliated
006149	Bankers Life and Casualty Co	CNO Bermuda Re Ltd	Bermuda	6.4	Affiliated
006341	Equitable Financial Life Ins Co	Equitable Financial Life Ins Co of Amer	Arizona	6.4	Affiliated

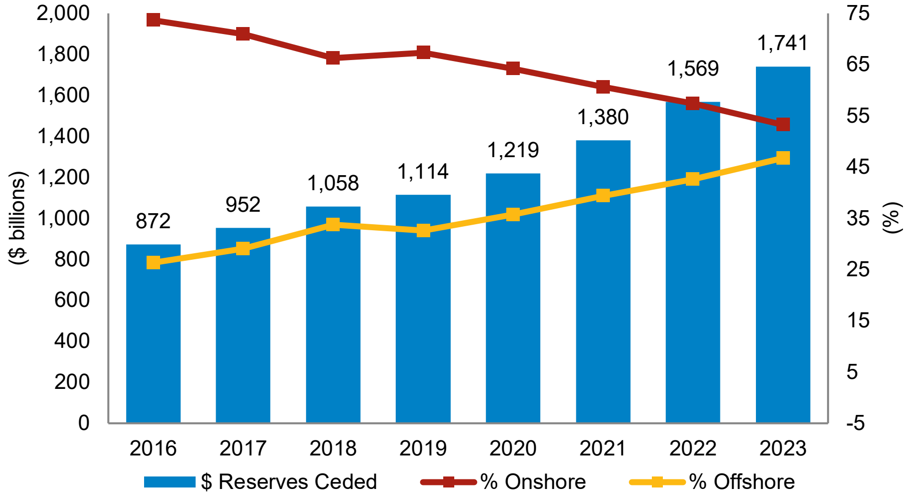
Source: BESTLINK

Significant Increase in Offshore Transactions

Nearly 47% of ceded reserves were transferred offshore in 2023, after climbing steadily from 26% in 2016 (**Exhibit 2**). About two-thirds of reserves ceded offshore go to affiliates. Companies with asset manager/private equity sponsors account for almost 44% of reserves ceded to offshore affiliates. Companies that ceded more than half their ceded reserves to offshore affiliates are largely asset manager/private equity-sponsored insurers or are part of global reinsurance companies (**Exhibit 3**).

Exhibit 2

US Life/Annuity Reserves Ceded



Source: BESTLINK

Exhibit 3

US Life/Annuity Insurers with >50% Reserves Ceded to Offshore Affiliates

For those with >$100 million ceded reserves

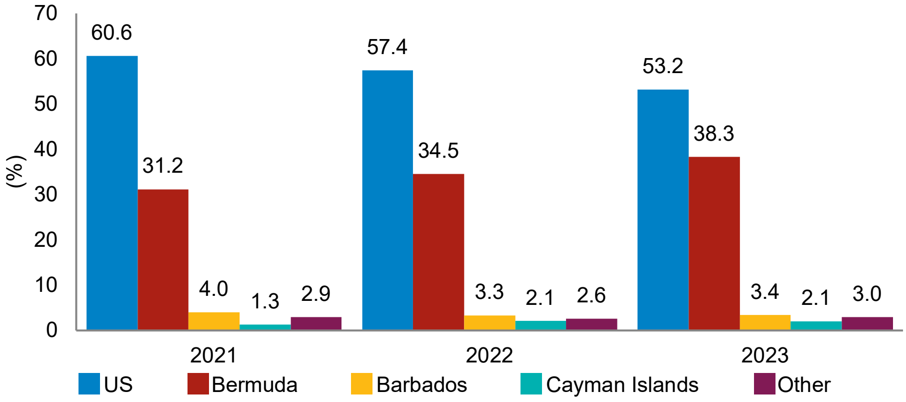
	AM/PE Sponsor	Total Ceded Reserves ($ millions)	Ceded to Offshore Affiliates ($ millions)	% Ceded to Offshore Affiliates
CL Life and Annuity Ins Co	Crestline Mgmt, L.P.	187.8	187.8	100.0
Aspida Life Ins Co	Ares Mgmt Corp.	552.8	552.8	100.0
Upstream Life Ins Co		128.7	128.4	99.7
Oceanview Life and Annuity Co	Bayview Asset Mtmt, LLC	1,713.4	1,707.6	99.7
PartnerRe Life ReIns Co of America		729.8	726.0	99.5
American National Grp	Brookfield Corp.	22,921.7	22,728.2	99.2
Munich American Grp		5,962.8	5,898.7	98.9
Swiss Re Life Grp		15,002.9	13,645.5	91.0
Ibexis Life & Annuity Ins Co	Investcorp	502.6	445.0	88.5
Athene US Life Grp	Apollo Global Mgmt, Inc.	144,908.3	121,843.0	84.1

Source: BESTLINK

Bermuda and the Cayman Islands have gained in popularity due to their stable political and economic environments and regulatory landscapes, as well as access to talent, mainly legal and financial professionals. They also have flexible accounting regimes and can choose which accounting system works best, whether IFRS 17, GAAP, modified GAAP, or statutory.

Exhibit 4

US Life/Annuity Reserves Ceded by Region



Source: BESTLINK

Bermuda accounted for over a third of all in-force business, as well as 60% of new business, in 2023 (**Exhibit 4**). This was driven heavily by the large transactions listed in Exhibit 1. The Bermuda Monetary Authority (BMA) registered 67 insurers in 2023 and 26 through June 2024. In December 2019, the National Association of Insurance Commissioners (NAIC) placed the BMA on its list of qualified reciprocal jurisdictions. This designation allows non-US reinsurers operating across borders to post less than 100% of the US statutory reserves as collateral for US-reinsured business, depending on the non-US reinsurer's financial strength, business diversification, and several other prerequisites. Previously, state insurance regulators had required non-US reinsurers to hold 100% collateral in the US for the risks they assumed from US insurers.

Entities will also need to consider the extent to which deferred taxes for the Bermuda effect of temporary differences under non-Bermuda regimes should be recognized, when those non-Bermuda temporary differences reverse. For example, a Bermuda entity for which a US federal Section 953(d) election is in place may generate a foreign tax credit for the US federal current tax incurred, and the credit generated may be affected by an adjusted amount of the US federal deferred tax recognized by the entity. We believe deferred taxes for the Bermuda effect of such temporary differences under non-Bermuda regimes should be measured using either the dollar-for-dollar or lesser-of approach.

Some insurers have begun to consider the Cayman Islands as a domicile for reinsurance purposes. The Cayman Islands Monetary Authority (CIMA) issued licenses to 41 new international insurers in 2023. The country has rejected the global minimum tax rate, which could make the island even more appealing to reinsurers seeking capital efficiency. Unlike Bermuda, the Cayman Islands does not have a Solvency II equivalency, given that 90% of their insured risks are based in North America. (Bermuda currently plans to adopt the global minimum tax rate of 15% in 2025.)

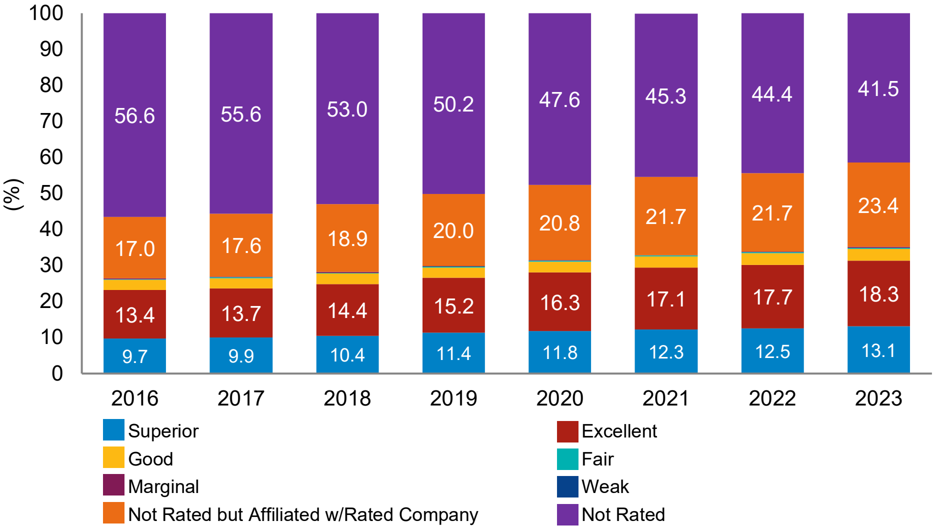
Counterparty Credit Management Is Critical

Just over a third of reserves ceded by US-domiciled life/annuity companies was ceded to reinsurers with an AM Best Financial Strength Rating (FSR) of Superior or Excellent in 2023, up from 23% in 2016 (**Exhibit 5**). The share ceded to companies that are not rated but affiliated with companies that are has also grown, from 17% in 2016 to 23% in 2023. Just over 41% is ceded to non-rated companies, down from 56% in 2016.

Strong counterparty due diligence is necessary to manage counterparty credit risk exposure, especially as more reserves are ceded offshore. Counterparty diversification, the use of collateral, and ratings triggers can help mitigate the impact of a reinsurer's insolvency and potential for an unexpected recapture event and absorbed loss. AM Best looks more favorably on ceding insurers that analyze risks by conducting cash flow testing gross of reinsurance and running scenarios in which reinsurer claims might not be paid, as well as calculating capital requirements to ensure strong overall risk-adjusted capital and maintaining strong investment guidelines.

Exhibit 5

US Life/Annuity Counterparty Risk, by Rating Category



Source: AM Best data and research

As consolidation over the last decade has reduced the number of organizations (consolidated by ultimate parent) receiving ceded business, recent new company formations, partnerships, and private capital entering the market have continued to make the market competitive. Additionally, the top 10 reinsurers by ultimate parent make up 55% of the market (**Exhibit 6**). To gain more unaffiliated business, private equity-backed reinsurers are able to offer attractive ceding commissions based on higher expected investment returns once the transferred assets are rolled into a wider set of investment opportunities.

Exhibit 6

Reserves Assumed from US Life/Annuity Insurers by Ultimate Parent, 2023

Total in-force reserves

Ultimate Parent Name	Reserves Assumed ($ billions)	Affiliated %	Market Share %
Athene Holding Ltd.	183.4	80.1	10.5
Prudential Financial, Inc.	167.6	82.6	9.6
KKR & Co. Inc.	164.5	40.7	9.4
HDI V.a.G.	147.6	33.5	8.5
Reinsurance Grp of America, Inc.	77.9	41.5	4.5
Great-West Lifeco Inc.	53.4	42.4	3.1
FGH Parent, LP	46.7	0.0	2.7
Brookfield Reinsurance Ltd.	39.1	75.3	2.2
Swiss Re Ltd	38.8	35.6	2.2
Dai-ichi Life Holdings, Inc	35.5	27.6	2.0
Top 10	**954.5**	**53.4**	**54.8**

Source: BESTLINK

Vesttoo Fallout Highlights Collateral Reviews

Cedents should conduct appropriate due diligence on counterparties and contracts, as well as collateral reviews—the importance of which was underscored by the Vesttoo fraudulent letter of credit (LOC) scandal. Collateral can take the form of assets held in trust, an LOC, a parental guarantee, or funds withheld. Funds withheld are the most common form of collateral (70%) when ceding to unauthorized insurers, compared with less than 8% for letters of credit, down from 20% in 2016.

Changing Trends Continue To Push Up Demand for Health Reinsurance

Growing healthcare utilization and medical inflation are expanding the role of health reinsurance

Principal Takeaways

- Globally, health reinsurance premium continues to rise, albeit at a moderated pace in the last three years.
- In the US, the increase in health reinsurance was driven by commercial and stop-loss segments in 2023.
- Asian markets are the fastest growing health insurance segment, pushing the need for reinsurance support.

Although health insurance remains one of the faster growing segments in the global insurance markets, accounting for about half of global insurance premiums, the role and global volume of health reinsurance are still relatively modest compared with other reinsurance segments. The need for health reinsurance tends to be less than for other segments owing to obligations that are typically short-term, pricing flexibility, and minimal catastrophe exposure. However, the recent global rise in healthcare utilization, coupled with medical inflation, is expected to expand the role of health reinsurance.

In the US, the use of health reinsurance has grown owing to the lower profitability of primary health insurers, a continued increase in high-cost claims, and primary carriers' needs to optimize capital structure. US health carriers faced new challenges in 2023. The profitability of Medicare Advantage (MA), now the largest line of business by premium volume for health writers, declined substantially, driven by higher utilization across multiple types of services. Earnings pressures in the MA line continued into 2024. Additionally, changes in MA regulations, and growing scrutiny by the public and legislators of MA revenue generation may pressure the segment's future profitability.

Underwriting earnings from the Medicaid segment also declined, but that was expected given the eligibility redeterminations by the states following the end of the COVID-19 Public Health Emergency. The decline in earnings in the government segments were partly offset by robust results in the commercial line of business. Overall, underwriting earnings were flat year over year, while the margin narrowed.

In 2023, health insurance utilization and claims were no longer directly impacted by COVID. However, the interruptions in regular medical care during the pandemic resulted in increased utilization of medical services post-COVID not only in the US, but also globally. The postponement of diagnostic tests led to a higher-than-normal number of cancer and heart disease cases being identified over the past two years. In addition, the pandemic increased awareness of health and physical wellbeing, prompting people to visit their doctors and get preventive care. Medical inflation has led to increases in both the frequency and severity of claims and overall costs have gone up—in the US, medical cost trend for 2024-2025 is projected to be the highest

Analytical Contact:
Doniella Pliss, Oldwick
+1 (908) 882-2245
Doniella.Pliss@ambest.com

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in more than a decade. This dynamic creates potential opportunities for reinsurers, as primary carriers face lower profitability, combined with inflationary premium growth, and may turn to reinsurance for both protection against larger losses and capital support.

Emerging markets, particularly in Asia, also continue to generate material growth of health reinsurance premium. However, the demand for basic health products has moderated due to market saturation, while more sophisticated comprehensive products are still too expensive for mass consumption. Reinsurers are actively engaged in supporting new product development in partnership with local primary carriers.

Growth at Leading Global Reinsurers Moderated

Global reinsurers have reported significant health premium growth over the past decade, although the rate of growth has slowed the past three years. In 2021 and 2022, health reinsurance premiums declined somewhat owing to disruptions caused by COVID-19 in primary health product sales, especially in some emerging markets. Still, positive results have helped offset the losses from COVID-19 mortality claims over the past two years. In 2023, global medical cost pressures and the decline in the profitability of the health segment made it less attractive for reinsurers.

Swiss Re's health reinsurance premium as a share of total premium increased from 11% to 14% between 2011 and 2020 but declined to 11% in 2021 and to around 10% in both 2022 and 2023. In 2023, health premium grew 7%. Earnings before interest and taxes (EBIT) for the health business grew by almost 50% in 2023 after dropping by about 25% in 2022. Combined 2022 and 2023 EBIT from health business was around USD 770 million. The 2023 net operating margin for health business was 8.8%, compared with 6.4% for life. Swiss Re expects the share of health business in its global portfolio to increase, as there are opportunities for closing health protection gaps. In addition, increased exposure to accident & health is part of its portfolio mix strategy.

Hannover Re's reinsurance revenue for morbidity solutions declined 4.7% in 2023. Morbidity premium grew 31% from 2018 to 2022, but the rate of growth slowed to 2.9% in 2022, from 17.6% in 2019. During the same period, total life and health reinsurance premium grew by 25%; mortality premium, by 17%; and longevity, by 18%. In 2023, mortality premium declined by 3.2%, and longevity increased by 3.9%. The company indicated some pressures on the morbidity segment and it will be less of a focus on the business in the near term.

Munich Re's health reinsurance premium has declined for the past two years. In 2023, health reinsurance premium dropped by 11%, and the combined ratio for health segment improved to 91, from 97 in 2022. The decline in premium was due to the termination of reinsurance contracts in Asia, although this was partly offset by business growth, primarily in Canada—the improvement in underwriting can be traced primarily to positive business development in Canada. In 2022, health premium declined 2.7%, driven by the termination of insurance contracts in the UK and the US.

RGA's morbidity risks grew from 9% in 2005 to 24% in 2022 and declined to 20% in 2023, while mortality declined from 89% to 59%, and then rose to 65% in 2023. In 2022, morbidity risks provided 23% of adjusted operating income, compared with 34% for mortality risks. In 2023, the results reflected favorable individual health and group experience in the US and Latin America markets.

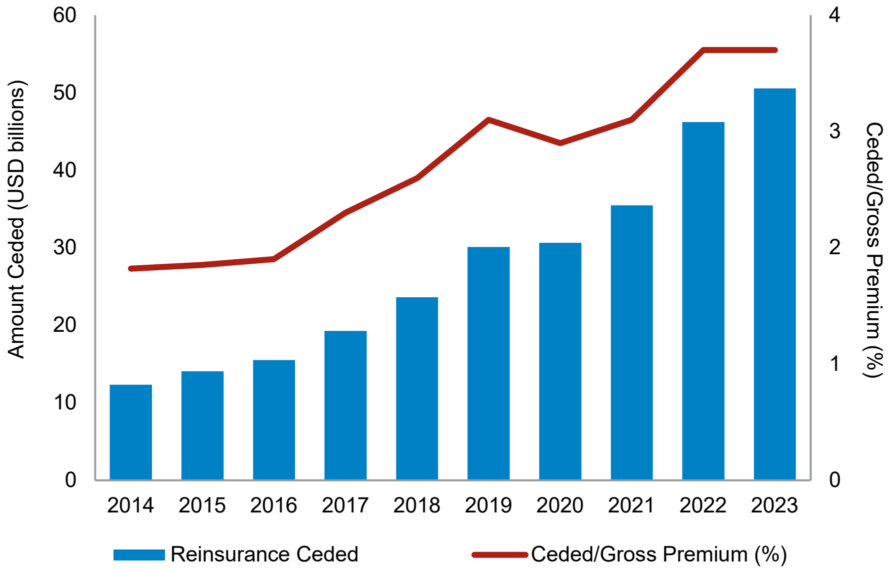
Despite recent fluctuations in health reinsurance premium and profitability levels, global reinsurers continue to view the health segment as an important part of ESG (environmental, social, and governance) and sustainability initiatives. This includes closing the protection gap in emerging markets, improving wellbeing solutions, and supporting solutions for aging populations. In addition, mental health has come into focus due to the pandemic's severe impact on individuals, societies, and businesses, and has been added to the list of major risks by several global reinsurance carriers. Reinsurers provide enhanced support to primary carriers to improve mental health assessments, expand available resources, and implement solutions to curb future claims costs.

US Health Reinsurance Continues To Grow

The US health reinsurance market has grown in terms of both quota share and excess of loss reinsurance arrangements. For health statutory filers, the volume of ceded health premium has grown more than four times over the past ten years (**Exhibit 1**), and ceded premium as a share of gross premium increased from 1.8% to 3.7%. For combined health and life/health statutory filers, ceded premium volume was close to $110 billion in 2023, compared to $49 billion in 2014. Ceded premium as a share of gross premium has been growing gradually, reaching 7% in 2022 and remaining at the same level in 2023 (**Exhibit 2**).

Exhibit 1

US Health Reinsurance Ceded (Health Filers Only, including DMHC*)

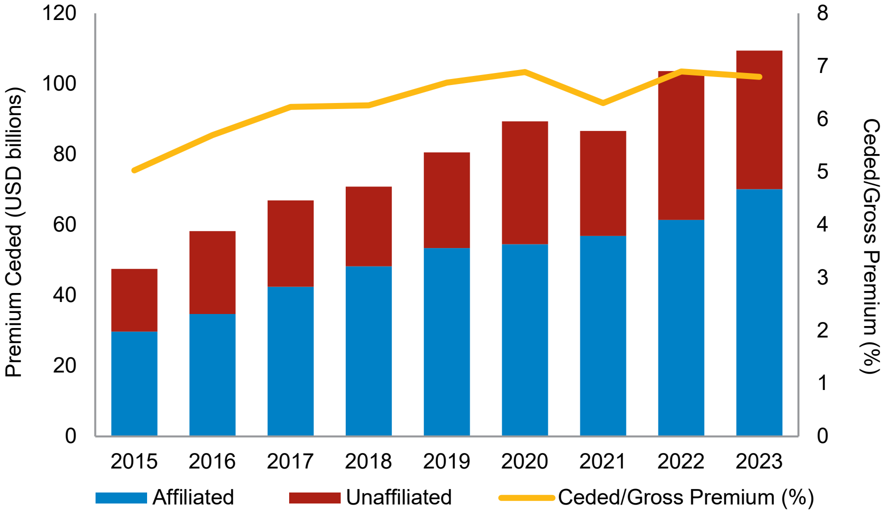


* DMHC = Department of Managed Health Care, a government agency in the state of California in charge of regulating health insurance plans in the state.

Source: BESTLINK

Exhibit 2

US Health Re – Health Insurance Premiums Ceded



Note: Includes A&H business from life/health filing companies.

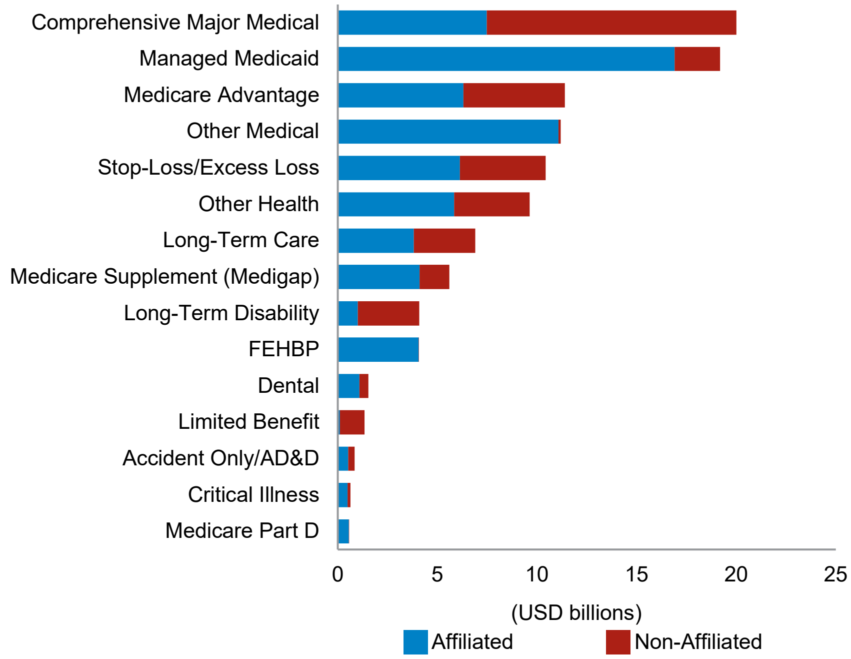
Source: BESTLINK

A sizable amount of ceded premium in the US health market is reinsured with affiliates, as large health insurers usually have multiple subsidiaries and use the flexibility to optimize their internal capital structures and business flow. Premium ceded to affiliates has fluctuated between 32% and 41% over the past ten years and was at 64% in 2023. Many carriers have established new subsidiaries, including captives and reinsurers, or started using previously inactive subsidiaries to expand the capacity for internal reinsurance to grow various lines of business while managing consolidated capital positions.

Ceded premium for the commercial segment increased to USD 20 billion in 2023, from USD 16 billion in 2022, and slightly over 60% was ceded to non-affiliated companies in 2023, a significant increase compared to 2022. At least two companies (Bright Health and Friday Health Plan) that ceded material amounts of commercial premium to non-affiliates in 2022 were no longer participating in the commercial market in 2023. In a large new reinsurance transaction in 2023, a subsidiary of Horizon Blue Cross Blue Shield of NJ ceded close to USD 3 billion of commercial premium to Hannover Re Life.

Exhibit 3

US Health Re – Health Premium Ceded by Product



Source: BESTLINK

Exhibit 4

Top 10 Largest Non-Affiliated Reinsurers

Based on US statutory filings

Rank	Reinsurer Name	Jurisdiction	Premium (USD)
1	Canada Life Assurance Company USB	Michigan	13,864,726,150
2	Hannover Life Reassurance Co of America	Florida	7,873,937,894
3	RGA Reinsurance Company	Missouri	1,603,126,991
4	Wellpoint Life and Health Insurance Co	Delaware	1,588,107,082
5	EyeMed Insurance Company	Arizona	1,359,240,213
6	Fresenius Medical Care Reins Co	Cayman Islands	663,060,175
7	Munich American Reassurance Company	Georgia	548,359,251
8	RGA Reinsurance Co (Barbados) Ltd	Barbados	489,775,485
9	Mutual of Omaha Insurance Company	Nebraska	400,647,384
10	John Alden Life Insurance Company	Minnesota	365,613,100

Source: AM Best data and research

For the Medicaid segment, only 12% was ceded to non-affiliates in 2023, down from 40% in 2022, but still higher than the less than 10% in 2021. Carriers expected the Medicaid segment to be profitable in 2023 and premium to decline, so the need for external reinsurance was lower than in 2022. Ceding to non-affiliates for the stop-loss, dental, and long-term care lines of business also declined in 2023 (**Exhibit 3**).

The top two unaffiliated health reinsurers in the US market in 2023 were Canada Life, with premiums of USD 14 billion, and Hannover Life Re, with USD 8 billion (**Exhibit 4**). Canada Life had a mix of cedents of various sizes and lines of business, with over USD 4 billion of premium coming from several subsidiaries of CVS/Aetna with both commercial and stop-loss business. Other large cedents were UnitedHealth, Oscar Health, and Health Insurance Plans of Greater NY (HIP).

Burgeoning Use of Captives for Capital Management

Affiliated reinsurance companies—especially large carriers with significant resources and multiple subsidiaries—are developing more sophisticated arrangements. In the past several years, Elevance Health, Inc., has been using its long-established captive to assume Federal Employee Program (FEP) premium written at multiple Elevance affiliates. Elevance established a segregated cell at the captive for health premium. FEP premium is a cost-plus program with relatively low risk, but many states treat it as a commercial product and impose higher capital requirements. Total FEP premium ceded to the captive came to USD 1.9 billion in 2022 and USD 2.1 billion in 2023. The captive cell structure allows Elevance to add other lines of business to the cell in the future.

Similarly, Blue Cross Blue Shield of Michigan uses its captive to cede some of its stop-loss premium. The amounts are relatively modest, with USD 238 million in 2022 and USD 253 million in 2023. Because reinsurance through a captive provides an opportunity for material capital relief at insurance subsidiaries, ceding commercial premium allows companies to send extra capital to the parent and use it for the needs of the enterprise. The use of captives by large health carriers is expected to expand as margins narrow, and as companies look to use the capital for various initiatives, including non-insurance operations.

CVS/Aetna continues to use its wholly owned captive, Health Re, for insurance-linked securities (ILS) transactions to protect against potential spikes in the commercial medical loss ratio. The ILS arrangement has been in place for over a decade and has allowed Aetna to hold less capital at the lead regulated entity.

In 2022, Aflac, Inc., established a reinsurance entity in Bermuda to transfer liabilities for the old cancer policies of its Japanese subsidiary Aflac Life Insurance Japan Ltd. To support required capital ratios, the Bermudian entity received capital contributions from the parent of USD 197 million in 2022 and USD 240 million in 2023. Reserves for the old block of cancer policies in Japan were established under very different assumptions about the nature and duration of cancer care, as over the past two decades treatments have shifted from inpatient to outpatient settings. As a result, Aflac has seen consistently positive reserve development for these policies.

The internal reinsurance of these liabilities allows Aflac to both unlock the value of reserves and bring additional profitability forward, and to lower the capital requirements for the Japanese subsidiary. By lowering the cost of capital, Aflac can offer more favorable pricing and become more competitive, which puts Aflac on a more equal footing with competitors in Japan that have already executed similar transactions. The transaction has allowed Aflac to take extra dividends from its Japanese subsidiary.

Commercial Segment Has the Highest Ceded Premium, but All Lines Contribute to Growth

The average annual growth of ceded premium between 2012 and 2021 was about 8% but rose notably to almost 20% in 2022 and moderated to about 10% in 2023. Over the past decade, the growth of ceded premium has been driven largely by government programs for which premium expansion was more robust. However, in 2022 and 2023, the commercial line of business contributed significantly to ceded premium growth.

Ceded commercial premium increased materially from USD 11.6 billion in 2021 to USD 15.8 billion in 2022 and USD 20 billion in 2023. The growth in ceded commercial premium was due partly to primary carriers turning to reinsurance arrangements for capital relief following operating losses in the commercial segment, especially in individual exchange products, in 2021 and 2022.

Although underwriting results for commercial segment improved significantly in 2023 and several poorly performing companies exited the market, the volume of ceded premium still increased. One large new contributor to the growth was a reinsurance transaction in which Horizon Healthcare

Services, a subsidiary of Horizon BCBS of NJ , ceded USD 3 billion to Hannover Re. As the cost of capital rose due to the higher interest rate environment, reinsurance arrangements became a more attractive tool to provide capital relief and enhance financial flexibility.

The increase in ceded premium in 2023 was driven by multiple lines of business.

Combined ceded premium for MA and Medicare Supplement grew from USD 14 billion in 2022 to USD 17 billion in 2023. Medicare ceded premium is likely to see further growth over the near term, as carriers will use reinsurance to support ongoing premium growth and bolster depressed profitability. CVS/Aetna continues to increase MA premium ceded to Hannover Re, an arrangement that has been in place since 2019 and has allowed CVS/Aetna to grow MA membership while preserving capital flexibility to de-leverage and invest in other ventures. The amount grew to USD 4.6 billion in 2023 up from USD 3.7 billion in 2022.

Medicaid ceded premium increased from USD 12 billion to USD 19 billion. Medicaid gross premium growth will decline in 2024 and possibly in 2025 as more states complete eligibility verifications, which may lower their reinsurance needs. However, the majority of Medicaid ceded premium goes to affiliates. Reinsurers don't consider Medicaid an attractive segment due to potential earnings volatility.

High-Cost Claims Rising

The growing exposure to high-cost claims has been another trend prompting demand for reinsurance support. It has been ten years since the Affordable Care Act removed the lifetime caps on individuals' medical claims, and the industry has seen continuous growth and wider adoption of more expensive medical interventions.

According to Sun Life's most recent high-cost claims report, from 2020 to 2023, members with claims above USD 1 million increased 50%. Growth of claims over USD 1 million has moderated more recently, growing by 8% from 2022 to 2023, compared with 15% from 2021 to 2022. In addition to looking at claims over USD 1 million, the report now tracks claims above USD 3 million and shows that the number of these claims almost doubled in 2023 over 2022. Moreover, the age distribution of high-cost claims has been shifting toward children as new therapies emerge for some severe genetic diseases—in 2023, around 28% of claims over USD 1 million were for children under the age of two.

An emerging category of high-dollar claims is related to newly approved gene and cell therapies whose cost per treatment can easily exceed USD 1 million. The number of these therapies more than doubled over the past year to 36. However, the utilization remains very limited, and the overall cost of these medications is lower than previous industry projections. Sun Life's report identifies the top 20 injectable drugs by total spend in 2023, and none of the gene/call therapies made the list. The US federal Food and Drug Administration (FDA) plans to approve more of these types of drugs. Early cell and gene therapies targeted extremely rare conditions, but some of the more recently approved drugs are for diagnoses with much higher prevalence. Some of these treatments are not a cure, meaning that once the condition is diagnosed, the catastrophic costs may continue for several years, if not for the rest of an individual's life.

The industry now has had several years to prepare for the possibility of more active utilization of these therapies. Following initial gene therapy approvals, some reinsurance companies implemented exclusions and limitations for these costs; others introduced various riders and carve-out coverages for these drugs. With limited utilization and various special pricing options, the industry has reported no material losses in that segment.

Notably, when responding to a request from the US Senate Committee on Health, Education, Labor and Pensions in January 2024, about access to gene therapies, the Society of Actuaries (SOA) pointed out that to provide wide access for the commercial market, there might be a need for a public risk mitigation mechanism such as a federal reinsurance program. If sufficient federal support is implemented, private markets—and specifically reinsurance carriers—will have more flexibility and less uncertainty when it comes to gene/cell therapy coverage.

Stop-Loss Segment Impacted by High-Cost Claims

The growth in high-cost claims disproportionately impacts the stop-loss line of business, increasing demand for reinsurance. The number and cost of stop-loss claims hitting reinsurance has been rising continuously, resulting in a substantial hardening of reinsurance rates. Primary carriers have gradually been raising deductibles for their excess-of-loss reinsurance to balance the rate increases.

Stop-loss ceded premium grew over 30% and reached USD 10.4 billion in 2023. Smaller stop-loss and major medical carriers have traditionally relied on excess-of-loss reinsurance protection, even before the rise in large claims. In recent years, however, even large insurers have begun purchasing high-cost claims protection, owing to the growing number, duration, and severity of catastrophic claims. In 2024, HM Life Insurance Company, a subsidiary of Highmark Inc., announced a reinsurance transaction with Canada Life whereby HM Life will cede up to 80% of certain stop-loss policies. The goal of this arrangement is to reduce the capital requirements for the enterprise. HM Life is one of the leading providers of stop-loss insurance in the US.

Changing Trends in Asian Markets

Globally, health reinsurance has been used to support premium growth and provide expertise for local players. In many emerging markets with limited penetration of health insurance and a high share of healthcare expenses paid out-of-pocket, health insurance premium has grown by double-digits the past decade. Most of the growth in reinsurance demand for health products in emerging markets has been generated in Asia, owing to fast premium expansion of fixed-benefit products such as critical illness and personal accident. The Asian markets are still the fastest growing health insurance segment, pushing the need for reinsurance support, but new trends are emerging.

In China, a multi-year critical illness product, which reached high levels of penetration over the past decade, recently showed an increase in medical cost. Hannover Re, which stopped underwriting this product in 2016, recently reported a material increase in reserves related to this block. The reason for the new development is increased incidents of cancer driven by more frequent screenings as more people are utilizing their old policies. In addition, there have been some issues with proper diagnosis and treatment of heart disease due to COVID-19. Further, medical inflation has pushed claims costs higher. Hannover Re communicated that after a period focused on morbidity risks, they will reduce their exposures until the segment shows more stability.

Critical illness proved to be a very popular product in China, but COVID-19 pushed demand for more comprehensive indemnity-type health products. To meet market demand, primary carriers have been introducing new products targeting certain demographic segments such as seniors, youth, and women. The accumulation of vast amounts of data contributes to better underwriting and pricing capabilities. The Chinese government is providing private insurance carriers with access to population health data and, in some cases, is supporting insurers' operational capabilities.

Health reinsurers tend to be local or regional carriers, but global players continue to participate as well. The formation of new reinsurers has been limited due to regulatory difficulties in obtaining a license and a lack of active interest from capital markets toward that segment.

Overall, health products continue to be profitable, reducing the need for reinsurance support. Reinsurance cessions for health products in China has been around 10%. However, given the vast size of the market, that still presents a significant opportunity for reinsurers. In addition, when primary carriers develop new products, reinsurance support tends to be significantly higher than 10%. Reinsurers provide underwriting expertise and allow primary carriers to accumulate experience before retaining more premium.

In smaller Southeast Asian (SEA) markets, reinsurers continue to support the growth of health insurance products. The level of cessions is relatively small, but reinsurers play a role in product development, data analytics, underwriting, and claims management. Similar to global trends, SEA has experienced higher frequency of health insurance claims and medical inflation further drives overall medical cost. Primary carriers have implemented substantial rate increases to keep up with a growing cost trend. Premium growth may result in additional demand for reinsurance to provide capital relief and allow further product expansion.

Over the past decade, reinsurers have viewed the health insurance segment in Asian emerging markets as a good diversification opportunity. The post-COVID environment of greater healthcare awareness and enhanced interest in health insurance products are likely to support further demand for health insurance solutions. But this new environment can put pressure on profitability and require more sophisticated risk selections and population health management. Reinsurers are in a good position to provide support in that more complex environment.

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BEST'S MARKET SEGMENT REPORT

Our Insight, Your Advantage™

Asia-Pacific Reinsurers Achieve Strong Results in Improved Investment Environment

Underwriting performance benefitted less directly from rate hardening market conditions, but stability over the years is remarkable

Principal Takeaways

- In 2023, the Asia-Pacific reinsurers recorded strong top-line growth and favourable earnings, supported by a more stable investment environment and benign catastrophe activity.
- For the Asia-Pacific reinsurance composite, insurance revenue grew by 8.8% under IFRS 17. The composite's combined ratio improved from 94.5 in 2022 to 91.6 in 2023. Return on equity surged from 0.1% to 9.2%.
- Asian reinsurers' underwriting performance benefits less directly from rate hardening and the high interest rate environment, but the stability of operating performance over the years has been remarkable.
- Optimism has returned to the lower layers in South and Southeast Asia in 2024, driven by reinsurers' growing confidence in current pricing levels.
- South/Southeast Asian reinsurers are incorporating stricter terms and conditions to limit their risk in the event of treaty underperformance.
- Retrocession costs remain high, although rates are moderating. Reinsurers have strengthened their accumulation management; some South/Southeast Asian reinsurers have adopted the use of multi-year agreements and named-peril coverages to manage retrocession costs.

Asia-Pacific Reinsurance Composite

AM Best's Asia-Pacific reinsurance composite consists of a group of leading reinsurers domiciled in the region. Given the varying implementation dates for IFRS in different Asian markets and the limited comparability of IFRS 17 financial results to previous accounting standards, this year we have refined the Asia reinsurance composite to contain only IFRS 17 reporting companies. The composite results for prior financial years in **Exhibit 1** have been restated accordingly.

The composite achieved strong growth in non-life insurance revenue in 2023, up 8.8%, much of it attributable to China Re's international expansion. China Re's overseas subsidiary, Chaucer, recorded over 20% gross premiums written growth under IFRS 4 in 2023, benefitting from favourable market conditions.

The Asian reinsurers' underwriting strategies for 2024 are diverse and depend on their ability to secure retro capacity, as well as their ability to manage the underwriting cycle. Given the challenging retro hard market conditions of the past two years, the large Asian reinsurers have adjusted their catastrophe capacity offerings in their home markets to shrink their catastrophe exposure accumulation. Others have deployed a mature market growth strategy to capture the benefits of material rate increases.

Analytical Contacts:
Christie Lee, Hong Kong
+852 2827 3413
Christie.Lee@ambest.com

Chris Lim, Singapore
+65 6503 5018
Chris.Lim@ambest.com

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Exhibit 1

Asia Pacific Reinsurance Composite – IFRS Reporters – Trend Summary

(%)

IFRS 4	2019	2020	2021	2022	IFRS 17	2022	2023
Net Written Premium (P/C only)	17.5	14.3	7.3	7.8	Insurance Revenue[1]	N/A	8.8
Net Earned Premium (P/C only)	16.1	15.4	5.6	8.4			
Total Revenue	22.8	13.5	7.1	4.4	Total Revenue[1]	N/A	4.7
Shareholders' Equity (End of Period)	8.3	18.0	-0.4	-9.6	Shareholders' Equity (End of Period)[1]	N/A	21.0
Loss Ratio	72.7	74.2	74.6	75.0			
Expense Ratio	28.8	27.4	26.6	25.4			
Combined Ratio	101.5	101.6	101.2	100.3	Combined Ratio	94.5	91.6
Net Investment Ratio[2]	6.6	7.2	7.3	5.6	Net Investment Ratio[3]	5.7	8.5
Operating Ratio	94.9	94.5	93.9	94.8	Operating Ratio	88.8	83.1
Return on Equity	5.3	4.6	6.2	1.9	Return on Equity	0.1	9.2
Return on Revenue	3.0	2.6	3.6	1.0	Return on Revenue	0.1	7.3
NWP (P/C only) to Equity (End of Period)	161.0	156.0	168.0	200.0	Insurance Revenue to Equity (End of Period)	101.0	91.0
Net Reserves to Equity (End of Period)	200.0	198.0	230.0	280.0	Net Reserves to Equity (End of Period)	131.0	120.0
Gross Reserves to Equity (End of Period)	257.0	260.0	292.0	351.0	Gross Reserves to Equity (End of Period)	178.0	157.0

[1] 2022 calculations not available due to changeover to IFRS 17.

[2] Net investment ratio based on P/C net earned premium.

[3] Net investment ratio based on P/C insurance revenue.

Results based on reported currencies converted to USD.

Source: AM Best data and research

Under IFRS 17, the net/net combined ratio improved from 94.5 in 2022 to 91.6 in 2023. Additionally, the reported return on equity (ROE) increased significantly from 0.1% in 2022 to 9.2% in 2023. This improvement is due to the recovery of realised/unrealised investment losses and higher investment income in a higher interest rate environment (except for China), as well as improved underwriting results.

Global peers are benefitting from a higher interest rate environment and favourable investment returns, but China faces distinct challenges. The country's post-COVID recovery remains weak, exacerbated by the property crisis. As a result, China's interest rates are moving in the opposite direction from the rest of the world. Limited overseas investment channels confine most of China Re's investment funds to domestic investments, which are only partly offset by Chaucer and its Hong Kong subsidiary capturing overseas investment opportunities. Overall, Chinese reinsurers' ability to achieve historic investment yields is more difficult in the country's current environment, so enhancing underwriting profit is crucial. However, low interest rates help insurers raise capital at a lower cost. In 2023, China Re redeemed its capital supplementary bond issued five years ago at a 4.97% annual coupon rate and refinanced with an issuance of capital supplementary bonds at a 3.45% annual coupon rate. In addition, Taiping Reinsurance (China) Company Ltd. raised capital via capital supplementary bonds with a 3.88% annual coupon rate in 2023.

Given that Asian reinsurers' liability lines are proportionally smaller and the liability duration in the Asian market is shorter than in other mature markets, the ratio of Asian reinsurers' net reserves to equity is low in comparison with its international peers. Many international peers had extraordinarily good operating results in 2023 and 2024 year-to-date, supported by benign large catastrophe experience and benefitting from investment returns on their large liability reserve pools in the high interest rate environment. However, Asian reinsurers' business profiles, characterised by a more traditional property line focus, as well as a relatively large book of proportional treaties, have benefitted less directly from rate hardening and the high interest environment of past years.

Nevertheless, the stability of operating performance of Asia's reinsurers over the years has been remarkable, and they are working to improve profitability by expanding business overseas.

The capital position of the major reinsurers in the Asia-Pacific composite remains robust. All of their consolidated Best's Capital Adequacy Ratio (BCAR) scores remain at the "Strongest" levels. Diversification will remain the business philosophy and strategy for Asia's large reinsurers. In addition to geographic expansion, diversifying their lines of business from traditional property treaties such as building liability, life and health, and specialty books, will allow reinsurers to better manage the reinsurance cycle.

China — Capacity Needs Are Filled by Onshore and Domestic Primary Insurers

The dynamics of China's reinsurance market have shifted notably in 2024, characterised by a smoother placement process than in 2023, attributed largely to the strong support of onshore reinsurers as well as primary insurers with inward treaty books, which have provided stable capacity for the non-life segment. In addition, there has been an uptick in lower-rated reinsurers underwriting China reinsurance business through fronting partners, and in medium-sized primary insurers expanding their portfolios to inward treaties upon obtaining a credit rating.

The loss-free programmes have seen a flat to single-digit risk-adjusted rate increase, while programmes hit by Typhoon Doksuri in 2023— the costliest event in 2023 in Asia (a USD 2 billion insured loss as estimated by Munich Re)—have experienced significantly higher rate hikes. Nevertheless, 2024 renewals were more orderly than in 2023. Overall, attachment points have increased in the past few years, placing greater rate pressure on the lowest-attaching catastrophe layers. By contrast, the upper layers have enjoyed ample capacity supply in the 2024 renewals, leading to more favourable positions. This environment has prompted some cedents to consider multi-year options for the bottom layers, to lock in pricing and secure capacity for the next three years.

Lastly, the focus on reviewing the Chinese Interest Abroad exposures following losses incurred in recent years has grown, reflecting the global expansion of Chinese firms. The Belt and Road-related overseas risks require a comprehensive risk management and underwriting strategy.

Taiwan — The Silicon Island

Taiwan's insurers face a dilemma: whether to allocate their reinsurance budget to the top layers to manage the RBC ratio and balance sheet or invest their reinsurance budget in the lower layers to improve their profits from frequent but less severe events to help rebuild capital strength.

Taiwan is home to suppliers of the world's most advanced semiconductor chips, exported to tech giants such as Apple and NVIDIA. However, due to its location, Taiwan is prone to natural disasters such as floods, typhoons, and earthquakes. The semiconductor manufacturing plants are particularly vulnerable to earthquakes and floods. A major event could lead to high insured losses from property damage owing to the high insured values of the equipment and the potential business interruption if production is suspended. Given the high insured values, these mega-risks depend on international reinsurance players to provide capacity.

Insured losses from the magnitude 7.2 earthquake in Taiwan in April 2024 came predominantly from high-tech firms, which sustained considerable property damage. However, thanks to robust risk management and business contingency planning, these firms resumed production swiftly, minimising their business interruption losses. The domestic primary insurers participating in these commercial risks that may have been impacted by the earthquake are seeing incurred losses in the catastrophe excess-of-loss (XOL) treaties. After challenging renewals in 2024, particularly for per-risk XOL treaties, the focus for the January 2025 renewals is shifting toward the catastrophe XOL layers. To protect their balance sheets from further losses due to natural catastrophes for the rest of 2024, some primary insurers have already purchased back-up cover. Unfortunately, Typhoon Gaemi swept across the island of Taiwan at the end of July. The potential impact on Taiwan primary insurers' catastrophe XOL layers is still too early to determine.

Nevertheless, a noticeable risk-adjusted rate increase is expected in forthcoming renewals for both catastrophe excess of loss XOL treaties for domestic insurers and facultative contracts for large commercial risks. The renewal of large, high-tech policies in the fourth quarter of 2024 will serve as a crucial indicator of how much support facultative reinsurers are willing to extend in terms of reinsurance capacity.

For primary cedents, reinsurance demand has increased since the settlement of pandemic-related claims that came close to USD 9 billion in 2022 and 2023. The claims losses led to an industry-wide capital erosion of around 20% below 2021 levels for the non-life primary insurance market (as of year-end 2023), with some insurers exhausting or significantly depleting their contingency reserves for paying pandemic-related claims. This has led to an increase in reinsurance demand for capital relief to improve insurers' risk-based capital (RBC) position and protect capital from further volatile underwriting results.

Japan — A Turning Point in Supply & Demand

For Japan's non-life insurers, 2023 was relatively benign in terms of natural catastrophes. The magnitude 7.5 earthquake on 1 January 2024 did not materially affect the pro-rata reinsurance commissions rate in April renewals and exerted a very limited impact on the catastrophe XOL treaties. Given the more than double increase in the compound rate of wind XOL programme since 2018, coupled with the improving operating performance of global reinsurance buyers, reinsurers were eager to protect their existing positions or expand their market shares in April 2024 renewals, which tipped the scales in favour of insurers.

The renewals saw a noticeable increase in reinsurers' appetites for catastrophe risks, signalling a turning point for Japan CAT capacity supply and demand. This environment resulted in stable to minor risk-adjusted reductions in pricing. Although property CAT capacity was more than sufficient, placement of property risk, engineering, and casualty lines continued to present challenges. Cedents could strategically leverage the competitive environment to negotiate on pricing and terms and conditions for their portfolios on a broader scale, to support the placement of more challenging treaties. The marine hull and cargo reinsurance market has also undergone significant changes in the past two years, including adjustments to terms and conditions to reflect the evolving landscape of international sanctions and geopolitical tensions.

South Korea — A Landscape of Contrast and Adaptation

South Korea's non-life market saw substantial adjustments in 2023, following a series of man-made and natural catastrophe losses. The property treaty reinsurance market faced a steep increase in premium rates and retention levels for XOL covers, while commission rates for pro-rata reinsurance were reduced significantly. This adjustment reflected a market in flux, in response to the pressure of recent loss events.

In stark contrast, the 2024 renewal season unfolded with greater predictability. South Korean non-life insurers entered renewals with a comprehensive understanding of reinsurers' expectations, which were, in turn, more attuned to the insurers' requirements. Although there were no major changes to catastrophe pricing, programme structures, or conditions during the 2024 renewals, insurers secured limited improvements.

The market for catastrophe reinsurance in 2024 was characterised by ample capacity, due partly to the improved pricing and terms in 2023, which attracted additional capacity into the Korean market. Both new entrants and existing players sought to increase their market shares. Despite the influx of capacity, catastrophe XOL pricing remained largely stable, with flat to low single-digit increases. Capacity for the per-risk excess of loss market, however, remained constrained. Reinsurers became more selective following several large fire losses in 2021 and 2022. The per-risk market experienced significant adjustments in 2023, with some accounts seeing further increases in deductibles at the 2024 renewals. The selectivity and adjustments in the per-risk market underscore the ongoing recalibration as the South Korean reinsurance market continues to navigate the aftermath of past events and prepare for future risks.

South/Southeast Asia/Australia/New Zealand

Reinsurers based in Singapore and South/Southeast Asia reported favourable earnings in 2023, supported by strong investment returns amid elevated interest rates, as well as by robust underwriting results. In line with global trends, monetary policies tightened considerably in many of the region's economies, including Singapore, where interest rates climbed steeply from mid-2022 to early 2023. Despite significant unrealized losses recorded in 2022 due to rapidly rising interest rates, the same rate increases helped generate healthy interest income from recently purchased fixed-income instruments now offering higher rates. Reinsurers' underwriting results also improved in 2023, owing to effective portfolio remediation measures.

Hard market conditions during the 2023 reinsurance renewals bolstered the full-year results of reinsurers writing regional business out of Singapore. Like the global reinsurance players, Singapore-domiciled reinsurers generated solid underwriting margins for a third year in 2023. According to statistics from the Monetary Authority of Singapore (MAS), underwriting profits for the reinsurers' Offshore Insurance Fund (OIF)[1] increased by 23% in 2023, to reach SGD 1.1 billion (USD 0.8 billion).

Underwriting results for the reinsurers' OIF in recent periods benefitted from lower insured catastrophe losses, underwriting discipline, and a more favourable pricing environment. Property reinsurance, which accounted for more than half the gross premiums of reinsurers' OIF, saw the biggest improvement, with the loss ratio declining by approximately ten points. Hard market conditions became evident for cedents in the 2023 renewals, when excess reinsurance capacity dried up. During the 2023 renewals, non-proportional reinsurance programmes reported meaningful double-digit rate increases while terms tightened for proportional treaties. Capacity scaled back considerably, as reinsurers re-evaluated their appetites for regional catastrophe exposures, given growing concerns about climate risk. Reinsurers' underwriting discipline, coupled with benign catastrophe loss activity in the region, bolstered results significantly.

The underwriting performance of regional reinsurers writing Association of Southeast Asian Nations (ASEAN) and other international business from outside of Singapore has generally improved, albeit to a smaller extent than that of Singapore-domiciled reinsurers. With some exceptions, reinsurers with a larger property reinsurance focus benefitted more from the favourable market conditions. Regional

[1] OIF records the results of Singapore-based reinsurers, including branches, with respect to offshore policies and includes results from direct business written by these reinsurers.

reinsurers with more diversified underwriting portfolios saw a more modest improvement in combined ratios, given that the underwriting improvements are predominantly in property reinsurance. In some instances, these regional reinsurers were also partly affected by large risk losses, as well as by losses arising from the non-property lines in their domestic markets.

Reinsurance renewals in January 2024 and throughout the first half of the year have been more orderly than in 2023, generally aligning with market expectations. Rates in most markets flattened, with improvements in either direction largely range-bound in the low single digits. Renewals were stable, with few material changes in reinsurance structures, although capacity for property catastrophe reinsurance has grown. Following the rate hikes and tightened underwriting discipline in 2023, market conditions have improved, prompting reinsurers to return to the market. In some markets, oversubscriptions for reinsurance treaty placements contrasted sharply with the experience of one year prior, when it was a challenge for some players to fully place their programmes.

In 2024, renewed interest has emerged for lower-layer reinsurance coverage, reflecting reinsurers' growing confidence in prevailing rate adequacy, as well as higher reinsurance attachment points since recent hardening. In recent periods, reinsurers have become significantly more cautious about the frequency of severe catastrophe losses. Between late 2021 and early 2023, the region was affected by numerous costly weather-related events: floods in southern India, Malaysia, eastern Australia, and New Zealand; Super Typhoon Rai in the Philippines; and Cyclone Gabrielle in New Zealand. As catastrophe losses became more frequent, reinsurers moved away from the lower XOL layers during the 2023 renewals, particularly for areas more prone to weather events, such as the Philippines, Australia, and New Zealand. At this level, risk-return dynamics become more palatable, as demonstrated by the favourable results of the past year, resulting in capacity becoming more readily available in 2024.

The shift in sentiment underscores the cyclical nature of the reinsurance market. However, reinsurers' acute awareness of the ongoing challenges posed by changing climate risk indicates that the players will likely maintain a vigilant approach to risk assessment and pricing.

Despite reinsurers' greater willingness to deploy capacity, this has not yet reverted to a buyers' market. Favourable reinsurance market conditions provide the foundation for reinsurers to dictate terms. Contract terms tightened considerably in the 2022/2023 renewal season and have been maintained in 2024.

Reinsurers are now incorporating stricter terms and conditions, to limit their risk in the event of treaty underperformance. Apart from lowering commissions, reinsurers continue to impose sliding-scale commissions and loss participation clauses on proportional reinsurance treaties. Although these measures limit the level of protection and risk transfer for cedents, they help minimise excessive risk and catastrophe losses accruing on reinsurers' books; they also incentivise cedents to ensure the underwriting quality and rate adequacy of the underwriting portfolio.

Reinsurers writing risks in Vietnam and the Philippines applied minimum conditions for property reinsurance treaties during the 2024 renewals to ensure price adequacy for the risks borne. In the Philippines, the minimum conditions include terms to enforce minimum regulatory tariff rates. In Vietnam, reinsurers have incorporated minimum conditions in response to a recent local regulation that allows for discounting on several lines, including property risks. These measures are designed to mitigate the underperformance of proportional treaties, particularly when excessive market competition in the primary market leads to inadequate technical rates to cover the costs of underwriting.

Although reinsurers may want to optimise returns and minimise risks, their ability to do so can be limited by regulatory pressures. Reinsurance placements in India have used burning costs as minimum rates in the past, although the insurance regulator has requested that they remove minimum rates in reinsurance contracts since the 2023 renewals. The inability to impose desired terms in reinsurance contracts may expose reinsurers to greater pricing risk, but the risk may be mitigated in part by favourable market conditions in general.

Reinsurers have taken actions to not only improve the quality of inward business, but also manage their own underwriting, to support cost-effective retrocession purchases. Declining capacity and sharply rising retrocession rates in prior periods have led retrocedents to increase retentions, limit the reinsurance capacities they offer, and strengthen their accumulation management to minimise peak zone accumulations. To optimise retrocession purchases, some reinsurers have also adopted the use of multi-year agreements and named peril coverage at higher layers to lower retrocession costs and ensure stability, apart from simply buying less protection to lower costs. Although retrocession costs remain high, rates have moderated. Retrocession capacity is also more readily available, supported by retrocessionaires' renewed appetites for natural catastrophe risks, as well as greater comfort with retrocedents' catastrophe risk management.

Appendix

Asia Pacific Reinsurance Composite – AM Best Rated Reinsurers

Ratings as of August 8, 2024

AMB#	Company Name	Country of Domicile	FSR	Long-Term ICR	FSR & ICR Rating Action	FSR Outlook	ICR Outlook	FSR Effective Date
85568	Asian Reinsurance Corp	Thailand	B+	bbb-	Affirmed	Positive	Positive	13-Jun-24
86496	Central Reinsurance Corp	Taiwan	A	a	Affirmed	Stable	Stable	7-Aug-24
90957	China Life Reinsurance Co Ltd.	China	A	a+	Affirmed	Stable	Stable	17-Nov-23
88692	China P&C Reinsurance Co Ltd	China	A	a+	Affirmed	Stable	Stable	17-Nov-23
90955	China Reinsurance (Group) Corp	China	A	a+	Affirmed	Stable	Stable	17-Nov-23
71783	China Reinsurance (Hong Kong) Co Ltd.	Hong Kong	A	a+	Affirmed	Stable	Stable	17-Nov-23
74619	FuSure Reinsurance Co Limited	Hong Kong	A-	a-	Affirmed	Stable	Stable	24-May-24
86041	General Insurance Corp of India	India	B++	bbb+	Affirmed	Positive	Positive	22-Nov-23
86052	General Reinsurance Australia Ltd.	Australia	A++	aa+	Affirmed	Stable	Stable	2-May-24
86652	General Reinsurance Life Australia Ltd.	Australia	A++	aa+	Affirmed	Stable	Stable	2-May-24
91541	Hanoi Reinsurance Joint Stock Corp	Vietnam	B++	bbb	Affirmed	Stable	Positive	28-Mar-24
74846	Himalayan Reinsurance Limited	Nepal	B+	bbb-	Upgraded	Stable	Stable	24-Jan-24
85225	Korean Reinsurance Co	South Korea	A	a	Affirmed	Stable	Positive	8-Dec-23
86913	Labuan Reinsurance (L) Ltd	Malaysia	A-	a-	Affirmed	Stable	Stable	25-Oct-23
78303	Malaysian Reinsurance Berhad	Malaysia	A-	a-	Affirmed	Stable	Stable	2-Feb-24
86771	National Reins Corp of the Philippines	Philippines	B++	bbb	Affirmed	Stable	Stable	22-Sep-23
91406	Peak Reinsurance Co Limited (CS)	Hong Kong	A-	a-	Affirmed	Negative	Negative	19-Oct-23
95077	Qianhai Reinsurance Co., Ltd.	China	A-	a-	Affirmed	Stable	Stable	15-Dec-23
88684	SCOR Reinsurance Asia-Pacific Pte Ltd	Singapore	A	a+	Under Review	Developing	Developing	24-Jul-24
85224	Singapore Reinsurance Corp Ltd	Singapore	A	a	Affirmed	Stable	Stable	31-Aug-23
85830	Swiss Re Asia Pte. Ltd.	Singapore	A+	aa	Affirmed	Stable	Stable	8-Sep-23
94637	Taiping Reinsurance (China) Co Ltd.	China	A	a	Affirmed	Stable	Stable	29-Sep-23
85029	Taiping Reinsurance Co Limited (CS)	Hong Kong	A	a	Affirmed	Stable	Stable	29-Sep-23
85179	The Toa Reinsurance Co, Limited	Japan	A	a+	Affirmed	Stable	Stable	31-Aug-23
92785	Tune Protect Re Ltd.	Malaysia	B++	bbb	Affirmed	Stable	Positive	7-Dec-23
91508	Vietnam National Reinsurance Corp	Vietnam	B++	bbb+	Affirmed	Stable	Stable	31-May-24

FSR = Financial strength rating; ICR = Issuer credit rating.

Source: BESTLINK

BEST'S MARKET SEGMENT REPORT

Our Insight, Your Advantage™

Latin American Reinsurers Benefitting from GDP Growth

Hurricane Otis, a 2023 Category 5 storm that made landfall in Mexico near Acapulco, highlighted the need for greater capacity

Principal Takeaways

- (Re)insurers that have focused on COVID-19 the past few years now face challenges related to changing political landscapes, monetary policy decisions, and a global economy still regaining its footing post-pandemic.
- The use of managing general agents to provide capacity to the Latin American market or to take risks by regional reinsurers from abroad is gaining traction.
- The reinsurance hard market continues but has softened a bit from its high levels.

Insurance markets in Latin America continue to benefit from the region's GDP growth, with improving forecasts for the remainder of 2024. Insurers in most countries have recovered from COVID-19 but now face changing political landscapes, important monetary policy decisions, and a global economy still trying to return to its pre-pandemic equilibrium.

In 2023 and the first half of 2024, reinsurance markets in Latin America continued to support primary insurers. The region's global players were mostly the same, although some have shifted their risk appetites based on global mandates or have become more risk-averse. Most shortfalls in placing contracts have been covered by other large global players with similar credit profiles or by regional reinsurers. In a few instances, programs were not 100% placed.

AM Best expects a greater need for reinsurance capacity in the future, as companies continue to refine their risk mitigation strategies. At the same time, the intrinsic need for capacity—highlighted by Hurricane Otis, the fastest hurricane ever to reach Category 5—remains paramount.

The use of managing general agents (MGAs), to either provide capacity to the Latin American market or take risks by regional reinsurers from abroad, continues to gain popularity. Since global interest rates continue to fall, the region's attractiveness may generate more demand for delegated underwriting authority enterprises (DUAEs).

The hard market continues although it softened a bit in 2023 owing to the lack of severe catastrophe events in 2022. Renewals for 2024 are being affected by significant events in the region, including flooding in Brazil, the aftermath of 2023 Hurricane Otis in Mexico, and weather events related to global warming.

Reinsurance renewal experience has varied, differentiated mostly by rated insurers with more comprehensive enterprise risk management (ERM) capabilities, which are able to negotiate reinsurance contracts more effectively due to better claims experience. However, rated insurers with marginal ERM capabilities or very basic procedures have faced growing pressures due to deteriorating loss ratios, which has led companies to rethink their capital management,

Analytical Contacts:
Elí Sanchez, Mexico City
+52 55 1102 2720 ext. 122
Eli.Sanchez@ambest.com

Ricardo Rodriguez Perez,
Mexico City
+52 55 9085 2708
Ricardo.Rodriguez@ambest.com

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by either shifting to quota share programs, lowering limits on excess-of-loss contracts, or curbing their risk appetites.

The need for better risk modelling has gained traction among highly rated reinsurers, providing a tool to better price reinsurance and manage the cost of capital, given that the high interest rate environment continues to make capital a more expensive way of funding. Additionally, alternative risk transfer vehicles such as parametric coverages and captives have become more popular among rated companies, although issuance has been limited. Social inflation, a continuously evolving political landscape, and regulatory changes are additional factors that AM Best continues to monitor with respect to the business profile of rated entities.

Brazil's Reinsurance Industry

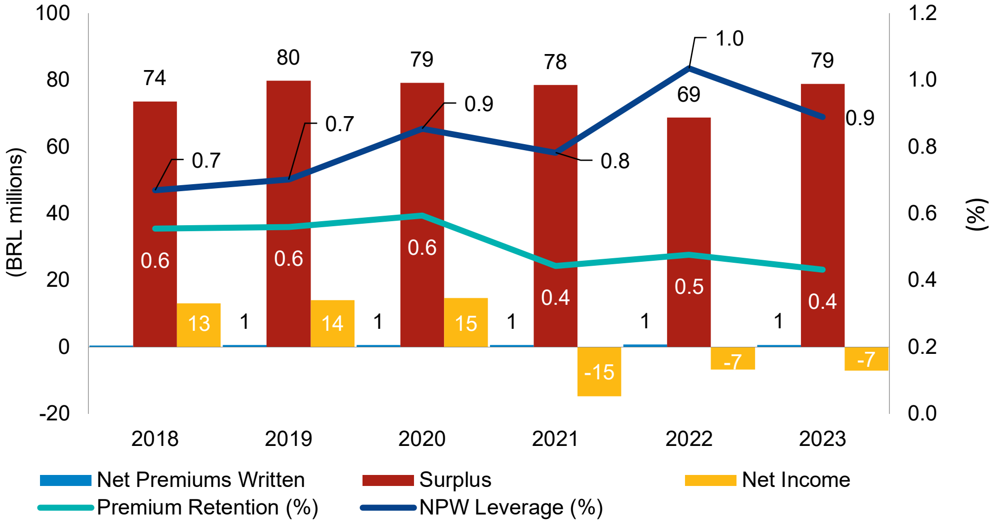
In Brazil, the major catastrophe exposure is from flooding as there are no other significant natural catastrophe exposures covered by reinsurance. Reinsurers with international catastrophe exposures are trimming their property catastrophe exposures in line with global trends. However, these actions must result in meaningful underwriting profits.

Domestic reinsurers have been focusing on specialty lines (such as surety, auto, transports, and agricultural) and property, as there are opportunities to grow. The profitability of Brazil's primary insurance industry is higher than that of the reinsurance industry. However, the most significant player in the country, which accounted for 33% of domestic gross premium written in 2023, is dedicated exclusively to reinsurance, while most of the remaining domestic reinsurance companies have a presence in the primary insurance market. The most significant player in the country has begun to reduce its underwriting volume as it has revised its guidelines, which has provided other market participants with opportunities to diversify risks.

In Brazil, the average inflation rate for 2023 was 4.59% and is forecast at 4.11% for 2024. Net premiums decreased by 6%, with premium retention of 40% (after a slight rise to 48% in 2021 and a drop to 43% in 2022), contributing to the decline in underwriting leverage of 78%, from 89% in 2022 (**Exhibit 1**). The 12% increase in investment income from 2022 to 2023 mitigated the underwriting losses incurred the past four years, as high interest rates stabilized. Lower net premium retention has helped leverage claims that occurred during the year, which fell due mainly to agricultural, property, and financial risks, resulting in positive bottom line results (which were negative from 2020 to 2022) for 2023. The increase in share capital resulted in growth in surplus in the

Exhibit 1

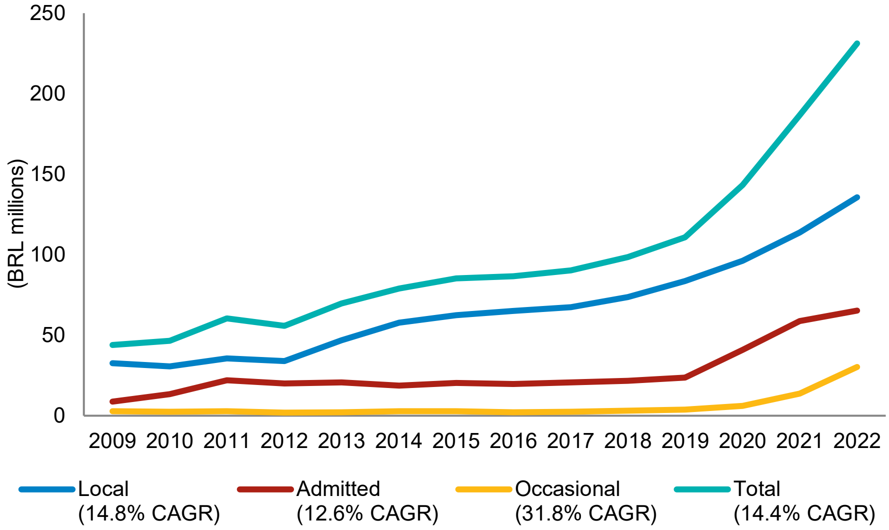
Brazil Reinsurers – NPW Leverage and Premium Retention



Source: AM Best data and research

domestic industry, up 7.7% in 2023, in Brazilian *reais*.

Exhibit 2
Brazil Reinsurance – Premiums Ceded to Reinsurers by Type of Reinsurer



Source: AM Best data and research

The ongoing growth in the volume of ceded premiums (8.9% in 2023) to local reinsurers, admitted and occasional, reflects the maturation of the insurance market and the growing need for risk dilution. The number of local reinsurers was nine in 2009, increasing to 13 in 2023. For Brazil's domestic reinsurance industry, surplus growth and the retention of profitable business remain key, while they consider slowly exiting from cat businesses. Pricing remains favorable, with the help of the hard global reinsurance market. Due to a high interest rate (11.8% in 2023), interest income has offset unfavorable underwriting performance, which has contributed to a favorable trend in net income.

The most significant lines of business contributing to annual growth in 2023 were transport, special risks, and property reinsurance. Agricultural reinsurance can be considered a natural catastrophe-like exposure, but innovative techniques are being used to monitor the climate risks the sector is vulnerable to. Despite these initiatives, the underwriting of agricultural business for reinsurance industries declined by 26%. New technologies may improve the operating performance of the agricultural line, which continues to incur underwriting losses. As a result, reinsurance companies have cut back on their exposures in this segment, led by offshore players that wanted to minimize their overall risk exposure.

As the industry continues to evolve, insurers' and domestic reinsurers' gross premium cession limits to occasional reinsurers skyrocketed at the end of 2019, to 95% from 10%. As of 2020, the volume of premiums ceded to occasional reinsurers has been growing much faster due to the increase in limits for ceding premiums from local insurers and reinsurers to occasional reinsurers. As a result, occasional reinsurers have posted significantly higher growth in the past three years, with a compounded annual growth rate of 102.2%, compared with 40.3% for the admitted reinsurers and 17.5% for the domestics. In 2023, local reinsurance companies had ceded approximately 51% of premiums to offshore reinsurance companies, versus 47% in 2022.

Brazil's regulatory framework continues to evolve toward a more open and less restrictive reinsurance market, allowing occasional and admitted global participants to access the market more efficiently while maintaining strict regulatory metrics to protect policyholders.

Brazil – Types of Reinsurers

Domestic: Fully compliant with local reinsurance rules; partial right of first refusal in local primary business; a minimum mandatory percentage of business is ceded to them.
Admitted: Domiciled abroad; files local financial statements; representative office.
Occasional: Domiciled abroad (except for tax havens); recent regulatory change makes it practically equal to admit.

BEST'S MARKET SEGMENT REPORT

Our Insight, Your Advantage™

MENA Reinsurer Performance Benefits from Pricing Environment, Higher Interest Rates

Principal Takeaways

- Strong growth in Gross Written Premium (GWP) / insurance revenue (for those reporting under IFRS 17) reported at year-end 2023, with reinsurers benefitting from favourable global reinsurance pricing momentum, high economic inflation, and new business opportunities.
- Reinsurance capacity for the region remains plentiful, sourced through large global reinsurers, regionally domiciled reinsurers, and carriers domiciled elsewhere in Africa and Asia.
- Regional reinsurers are further adapting pricing and modelling capabilities, following greater incidences of weather-related losses.
- The impact of individual operational challenges and difficult economic landscapes, particularly for those domiciled in non-oil producing countries, are reflected in the wide range of credit ratings among reinsurers in the region.

Performance has been adversely impacted in recent years by an increasing volume of natural catastrophe losses

Reinsurers domiciled in the Middle East and North Africa (MENA) region continued to benefit from positive pricing momentum over the recent renewal periods, albeit to a lesser extent than the global reinsurance market.

The reinsurance pricing environment in the region largely reflects the positive global reinsurance market response to rising claims inflation and the elevated frequency of both large losses and weather-related events. Improving pricing, underwriting discipline and risk appetite have benefitted the market, though local economic factors have also contributed.

The operating landscape of the MENA reinsurance market has shifted in recent years. The region is not homogenous, and countries are facing fresh and varying challenges, from high interest rates in response to inflationary pressures and monetary pegs to the US dollar, to elevated regional instability that has the potential for escalation. For example, inflation varies significantly by country, ranging between 0.9% for Oman to 71.6% for Türkiye as reported in June 2024. A primary differentiator is between the hydrocarbon-producing economies and those that import energy.

Diverging Economic Conditions to Impact Reinsurance Markets

Several of the economies in the region are heavily reliant on revenues from the hydrocarbon sector. The sustained buoyant oil price environment, attributable to elevated political risk, supply concerns, and OPEC+ production cuts, has had a substantial impact on the region's economies. Insurance markets in the region are reliant on government spending—notably on infrastructure projects—for a sizeable share of premium growth. These risks are typically heavily ceded by primary insurers to reinsurance partners and have thus far provided profitable underwriting opportunities for the region's reinsurers. Nevertheless,

Analytical Contacts:
Emily Thompson, London
+ 44 20 7397 0291
emily.thompson@ambest.com

Jessica Botelho-Young, CA, London
+44 20 7397 0310
jessica.botelho-young@ambest.com

Editorial Managers:
Richard Banks, London
+44 20 7397 0322
richard.banks@ambest.com

Richard Hayes, London
+44 20 7397 0326
richard.hayes@ambest.com

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greater volatility in performance may become a feature of the market as natural catastrophe losses become more frequent.

Conversely, AM Best notes that certain markets in the region are experiencing significant levels of economic deterioration. For those countries that are net importers of energy, the current oil price environment is challenging fiscal maneuverability, while inflationary pressures and high interest rates are compounding economic challenges.

In AM Best's view, the current geopolitical volatility has exacerbated the vulnerabilities of already weak countries. Examples of jurisdictions that are experiencing heightened country risk challenges include Türkiye, Tunisia, and Lebanon.

Elevated Natural Catastrophe Losses Drive Continued Rate Hardening and Greater Underwriting Discipline

Achieving consistently strong underwriting returns has been a historical challenge for MENA reinsurers. However, sustained hard market conditions favour the region's reinsurers, allowing companies to take advantage of global market price rises to re-price and review business. As a result, underwriting profitability and returns on equity have generally improved.

The MENA region's locally domiciled reinsurers lack both scale and diversification when compared with their international counterparts, and their participation is often limited to being a follower on reinsurance programmes, which restricts their ability to influence pricing and terms.

As with other markets globally, the MENA region saw elevated, albeit reducing, levels of economic inflation across the region in 2023. In general, tight monetary policies have been effective at bringing down inflation across the MENA region, with inflation close to historical averages in most countries.

Supply-side inflation is weighing on loss cost trends for the region's reinsurers over the near term, and as the inflationary environment develops, the region's reinsurers will need to effectively forecast inflation. They will need to continue to adjust premium rates and reserves to ensure loss cost inflation is adequately covered in order to protect underwriting margins.

Market-wide performance has been adversely impacted in recent years by an increasing volume of natural catastrophe losses and several single, large loss events. Following greater incidences of weather-related losses, such as flood events (particularly in the Gulf Cooperation Council (GCC) countries), reinsurers in the region are having to further adapt pricing and modelling capabilities to ensure these exposures are appropriately factored into underwriting decisions and risk appetites.

Single large event losses include several high-profile fire events, the February 2023 Turkish earthquakes, and the April 2024 UAE floods which have weighed particularly on property, engineering and energy lines that in general are heavily ceded by the direct market. In response, reinsurers have attempted to reduce exposure through changes to structures and retentions at renewals in 2024, this includes increases in retentions to higher return periods and reductions in profit commissions and event limits.

Government-backed natural catastrophe schemes are becoming a common feature of North African reinsurance markets, in response to a growing number of events in recent years. Common perils for the region include earthquake, drought, wildfires, and floods. Schemes are already in place across countries such as Algeria, Morocco, and Türkiye, with the latter two being triggered and working as expected in 2023. The development of such schemes often sees mandatory cessions boosting premium for local

Exhibit 1

MENA Reinsurance – Investment Yield and Return on Equity, 2021-2023

(%)

			Investment Yield				Return on Equity			
AMB #	**Company Name**	**Country**	**2021**	**2022**	**2023**	**3yr Avg**	**2021**	**2022**	**2023**	**3yr Avg**
89190	Arab Reinsurance Co. SAL	Lebanon	2.3	2.5	2.9	2.6	4.7	4.5	4.6	4.6
90777	Compagnie Centrale de Réassurance	Algeria	5.4	5.1	5.4	5.3	16.2	13.9	14.9	15.0
78849	Hannover Re Takaful B.S.C. (c)	Bahrain	1.2	-3.1	0.5	-0.5	9.9	1.6	29.2	13.6
85585	Kuwait Reinsurance Co. K.S.C.P.	Kuwait	2.6	3.0	4.2	3.3	10.5	12.0	14.4	12.3
85454	Milli Reasurans Turk Anonim Sirketi	Turkey	15.3	28.1	41.5	28.3	20.1	24.1	44.1	29.4
93609	Oman Reinsurance Co. SAOC	Oman	4.1	4.2	4.5	4.2	4.9	5.6	8.4	6.3
90005	Saudi Reinsurance Co.	Saudi Arabia	2.5	3.3	3.8	3.2	4.0	4.2	11.5	6.6
84052	Société Centrale de Réassurance	Morocco	3.2	3.1	N/A	3.2	14.9	10.9	N/A	12.9
83349	Société Tunisienne de Réassurance	Tunisia	7.2	7.3	8.2	7.6	7.7	9.1	8.5	8.4

N/A: Year-end 2023 financial statement not yet available

IFRS 17 figures (for applicable reporters) from 2023

Sources: BESTLINK

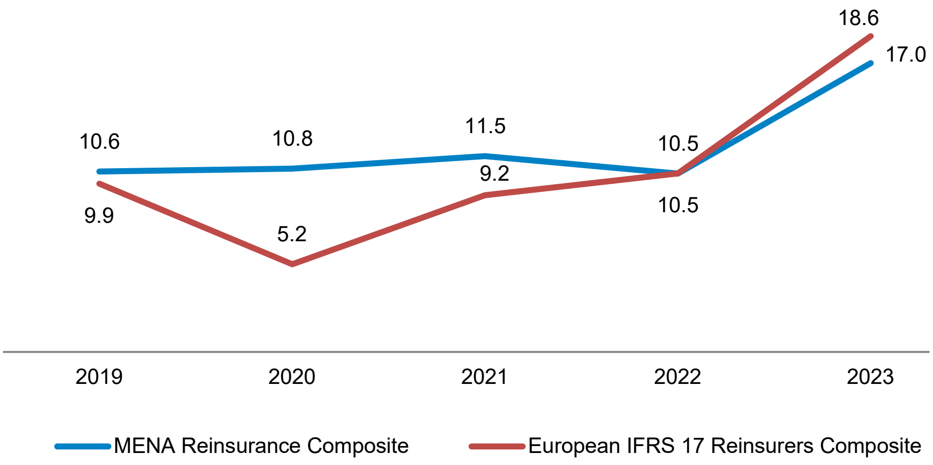
Best's Financial Suite - Global, AM Best data and research

reinsurers, while smoothing volatility in underwriting results as catastrophe risk is shared more widely across the market.

Exhibit 2

MENA Reinsurance – Return on Equity, 2019-2023

(%)



European IFRS 17 Reinsurers Composite comprises Hannover Re, Munich Re and SCOR.

IFRS 17 figures (for applicable reporters) from 2023

Sources: BESTLINK

Best's Financial Suite - Global, AM Best data and research

Exhibit 1 shows the individual performance of reinsurers domiciled in the region, and highlights that returns on equity (ROE) have generally strengthened. Supported by the improved market conditions, most MENA-domiciled reinsurers recorded stronger underwriting returns in 2023. This has been driven by improvements on loss ratios. Rate improvements as well as premium growth in local currencies provided strong scale benefits and pushed down expense ratios. Additionally, regional reinsurers have reported strong investment yield, boosted by a higher interest rate environment. On a company-by-company basis, the comparability of ROE is somewhat skewed by the inflationary and interest rate environment in their respective countries of operation.

When compared with a composite of the largest European IFRS 17 reinsurers, the MENA reinsurers cohort has historically delivered greater levels of profitability to their shareholders as measured by ROE (see **Exhibit 2**). However, investment returns have been a key driver of overall results. Moreover, the investments generating the strong returns are associated with higher risk assets, typically concentrated portfolios of local equities and real estate investments, which have the potential to introduce volatility.

In 2022, global reinsurers reported strong underwriting margins, resulting in returns on equity in the low to mid-20% range. This has been driven by widespread underwriting actions with increases in attachments points, higher rates, and tightened terms and conditions. As a result, in 2023, global reinsurers outperformed the composite of MENA reinsurers, despite the latter group's higher asset risk.

Dynamic Reinsurance Capacity

Whether the hardening reinsurance landscape can be maintained in the region is largely dependent on reinsurance capacity, pricing, and underwriting discipline. Reinsurance capacity in the region is dynamic. Capacity on a year-on-year basis depends on performance, and the impact global market trends have on international reinsurers ability to take on risk. As a result of the open and liberal MENA reinsurance markets, which have few regulatory restrictions concerning the provision of reinsurance capacity, the level of competition—a result of easy access to the market—can vary considerably.

The region's capacity comes from many sources, including global reinsurers, regionally domiciled reinsurers, and reinsurance capacity from elsewhere in Africa and Asia. Moreover, since 2020, a growing number of the region's primary insurers have shown a renewed interest in participating in the regional reinsurance market on an inward facultative basis. This is based on the rationale that primary insurers are seeking to selectively grow their revenues and diversify their underwriting portfolios. AM Best notes that the inward facultative segment has been a source of underwriting losses and volatility in the past for several insurance companies across these markets, demonstrating the risks presented by this diversification strategy for the region's insurers.

MENA Reinsurers – Rating Considerations

AM Best's credit ratings of reinsurers domiciled in the region encompass Financial Strength Ratings (FSR) of "C" through to "A-". The wide range in FSRs is evidence of the varied nature of the MENA reinsurance markets, with diverging country risk conditions across the region having an important impact on creditworthiness. AM Best defines country risk as the risk that country-specific factors could adversely affect an insurer's ability to meet its financial obligations. Countries are placed into one of five tiers, ranging from Country Risk Tier 1 (CRT-1), denoting a stable environment with the least amount of risk, to Country Risk Tier 5 (CRT-5) for countries that pose the most risk and, therefore, the greatest challenge to an insurer's financial stability, strength, and performance. The MENA region encompasses countries assessed between CRT-3 and CRT-5.

AM Best's ratings on MENA-domiciled reinsurers incorporate the operational challenges and deteriorating country risk landscapes in several countries (see **Exhibit 3**). A high level economic, financial system and political risk is prevalent in several of the region's countries, typically the non-oil-exporting nations.

Increased public debt burdens, coupled with persistent high oil and other commodity prices, and currency devaluations against the US dollar, have contributed to, among other things, weakening current account balances, sovereign debt downgrades, high inflation and, in some cases, the need to secure external funding to improve fiscal positions. Reinsurers with concentrated operations, underwriting exposures, and/or asset portfolios in these markets have faced financial pressure.

In this context, **Exhibit 3** includes two companies whose Long-Term Issuer Credit Ratings outlooks have improved from Negative to Stable, and one company whose outlook has improved from Stable to Positive over the past year. These outlook changes reflect the fact that AM Best expects companies' rating fundamentals to remain resilient against the backdrop of challenging economic and political conditions.

Exhibit 3

MENA Reinsurers – AM Best-Rated Companies

Ratings as of August 18, 2024

AMB #	Company Name	Country	Long-Term Issuer Credit Rating (ICR)	Financial Strength Rating (FSR)	ICR & FSR Action	ICR & FSR Outlook	Rating Effective Date
89190	Arab Reinsurance Co. SAL	Lebanon	bb-	B-	Affirmed	Stable	30-Aug-23
90777	Compagnie Centrale de Réassurance	Algeria	bbb-	B+	Affirmed	Stable	28-Sep-23
85585	Kuwait Reinsurance Co.K.S.C.P.	Kuwait	a-	A-	Affirmed	Positive	18-Jul-24
85454	Milli Reasurans Turk Anonim Sirketi	Türkiye	ccc	C	Affirmed	Stable	18-Oct-23
84052	Société Centrale de Réassurance	Morocco	bbb	B++	Affirmed	Stable	12-Jan-24
83349	Société Tunisienne de Réassurance	Tunisia	bb	B	Affirmed	Negative	5-Jun-24

Sources: BESTLINK

Best's Financial Suite - Global, AM Best data and research

Exhibit 4

MENA Reinsurers – AM Best-Rated Companies – Assessments

As of August 18, 2024

AMB #	Company Name	BCAR @ VaR 99.6	BCAR Assessment	Balance Sheet Strength Assessment	Operating Performance Assessment	Business Profile Assessment	Enterprise Risk Management Assessment
89190	Arab Reinsurance Co. SAL	30%	Strong	Strong	Adequate	Limited	Marginal
90777	Compagnie Centrale de Réassurance	55%	Very Strong	Very Strong	Strong	Neutral	Marginal
85585	Kuwait Reinsurance Co.K.S.C.P.	39%	Very Strong	Very Strong	Adequate	Neutral	Appropriate
85454	Milli Reasurans Turk Anonim Sirketi	-47%	Very Weak	Very Weak	Adequate	Neutral	Marginal
84052	Société Centrale de Réassurance	43%	Strong	Strong	Strong	Neutral	Appropriate
83349	Société Tunisienne de Réassurance	29%	Strong	Strong	Adequate	Limited	Marginal

Sources: BESTLINK

Best's Financial Suite - Global, AM Best data and research

On the whole, AM Best-rated MENA reinsurers tend to demonstrate strongest levels of risk-adjusted capitalisation, as measured by Best's Capital Adequacy Ratio (BCAR), reflective of significant capital buffers relative to their operational exposures (see **Exhibit 4**).

Most AM Best-rated MENA reinsurers typically enjoy preferred or dominant positions in their operating markets, resulting in "Neutral" business profile assessments.

As already highlighted in this report, the performance of MENA-domiciled reinsurers has benefitted from a hard reinsurance pricing environment and a higher-interest rate environment, albeit elevated natural catastrophes and large losses continue to introduce volatility. AM Best-rated MENA reinsurers carry operating performance assessments that range from "Adequate" to "Strong".

Growing Takaful Market Increases Demand for Retakaful Capacity

Retakaful (Islamic reinsurance) capacity has underserved the market for many years, with operators failing to gain traction and capitalise on the growing Islamic insurance sector. While operational challenges have troubled retakaful operators in the past, the demand for retakaful products remains and opportunities are plentiful for dynamic market participants.

A shift in retakaful providers has been noted in recent years, with a growing proportion of capacity offered through branches and retakaful windows of conventional reinsurers (e.g., retakaful windows have been established by Société Centrale de Réassurance and Oman Re). Such arrangements can allow reinsurers to leverage from their existing conventional operations, creating efficient and lean models whilst better serving policyholders through an expanded product offering. In addition, this strategy avoids the many hurdles experienced by standalone retakaful operators who have failed to establish sustainable operating models in the region due to high capital requirements and lack of economies of scale. Capital efficient models provide the ability to service the growing reinsurance demands of the takaful market.

AM Best expects conventional reinsurance capacity to remain a key feature of retakaful panels going forward, albeit, the growing MENA takaful segment is viewed as an opportunity for the retakaful market. The recent establishment of primary takaful regulation and operators in several North African countries—such as Morocco and Algeria—demonstrates the increasing demand for takaful products, and is indicative of the general support by consumers of the segment. If successful, recent initiatives should ultimately generate more contributions that would increase the demand for retakaful capacity.

AM Best Ratings and Country Risk

AM Best specialises in insurance ratings; it does not rate the ability of sovereign governments to service their financial obligations, including debt issues.

A company can be more financially secure than the government of the country in which it is domiciled. Placing a sovereign ceiling on an issuer credit rating (ICR) would ignore a company's ability to manage country risk by avoiding risk or by hedging, or by accepting what cannot be controlled and using counter measures such as additional capital, strong underwriting performance, or diversification.

AM Best also believes that a sovereign default, while clearly creating a more difficult operating environment, would not necessarily lead to an insurance company in the domicile failing to meet its policyholder obligations.

AM Best employs a system of country risk tiering that considers the overall operating environment of a country in which an insurer operates. Country risk encompasses economic, political, and financial system risks, to create a more accurate picture of an insurance company's operating environment in a specific domicile.

Country risk is factored into all of AM Best's ICRs, during the review of balance sheet strength, operating performance, and business profile**.**

AM Best recognises that every insurer is unique and the impact of the overall operating environment on companies may differ, as well as the options for mitigating that impact. Therefore, during the ratings process, the impact of country risk on a particular insurer is considered case by case.

AM Best does not set ceilings in its ICR ratings process, although movements from one country risk tier (CRT) level to another has the potential to affect the overall assessment of balance sheet strength.

For full details of Best's Credit Rating Methodology visit: *Best's Methodology and Criteria–Evaluating Country Risk*

AM BEST SINCE 1899 ®

BEST'S MARKET SEGMENT REPORT

Our Insight, Your Advantage™

Sub-Saharan Africa's Reinsurers Resilient Amid A Complex And Challenging Risk Environment

The underwriting results of AM Best-rated SSA reinsurers have on aggregate shown steady improvements since combined ratios peaked in 2019

Principal Takeaways

- Creditworthiness of many African debt issuers remains under pressure, which is driving heightened levels of asset risk and is continuing to test the balance sheets of sub-Saharan Africa's reinsurers.
- Underwriting results continue their trend of year-on-year improvement, benefitting from robust pricing actions on loss-affected lines of business, as well as the global hardening of the reinsurance market.
- Even with solid growth in capital in recent years, the capacity offered by Africa-domiciled reinsurers remains insufficient to meet market demand and local players often rely on support from global carriers.

High commodity prices, volatile and double-digit inflation, and a general deterioration in macroeconomic conditions in the aftermath of recent external shocks, have tested the financial strength of sub-Saharan Africa (SSA) reinsurers in recent times. Analysis of AM Best-rated reinsurers across the continent shows the impact of the significant headwinds that the region has faced.

The economic environment across SSA has been challenging. Inflationary pressures, exacerbated by the Russia-Ukraine conflict and COVID-19-related supply chain difficulties, led to a global rise in interest rates that has aggravated the debt-repayment burden for many African countries. As a consequence, the creditworthiness of African debt issuers has continued to remain under pressure, leading to increased levels of asset risk for reinsurers in the region.

Given SSA reinsurers' long-standing role to retain risks locally, individual reinsurance companies are typically concentrated in one or a relatively small number of countries. This includes the source of assets, which are often held domestically to match the location or currency of liabilities and to satisfy regulatory requirements. This limited global footprint leaves SSA reinsurers susceptible to potentially rapid changes in their operating environment.

Recent indications from institutions such as the International Monetary Fund (IMF) suggest a stabilisation could be emerging. According to the IMF, tighter monetary policy has supported a reduction in the region's median inflation, which has reduced from almost 10% in November 2022 to 6% in February 2024. Meanwhile, real GDP growth is expected to bounce back throughout 2024, which may help alleviate pressures on SSA countries' external financing positions.

In general, SSA reinsurers have been successful in leveraging the global hardening rate environment, reporting another year of robust underwriting profitability, despite the complex economic environment.

Analytical Contacts:
Dale Kirby, London
Tel: +44 20 7397 0276
dale.kirby@ambest.com

Ben Diaz-Clegg, London
+44 20 7397 0293
ben.diaz-clegg@ambest.com

Editorial Managers:
Richard Banks, London
+44 20 7397 0322
richard.banks@ambest.com

Richard Hayes, London
+44 20 7397 0326
richard.hayes@ambest.com

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Over the long run, AM Best believes the SSA reinsurance segment has substantial potential for continued and profitable growth. The region has considerable, untapped reserves of natural resources, solid long-term economic growth prospects, and increasing insurance penetration, all of which stand to benefit Africa's reinsurance markets.

Political and Economic Backdrop Across SSA Remains Challenging

(Re)insurance companies operating in Africa and other emerging markets are typically exposed to heightened levels of economic, political and financial system risks. In recent years, these risks have been exacerbated by external shocks.

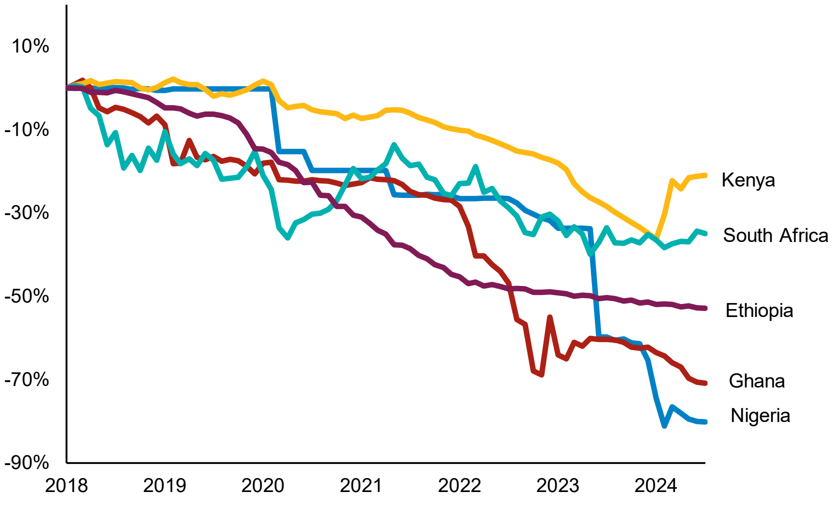
A number of countries in the region are facing high debt servicing burdens and weak fiscal positions. Concurrently, the sharp devaluation of many emerging market currencies has increased the repayment burden of foreign currency-denominated debt, further compounding the region's debt vulnerabilities (see **Exhibit 1**).

In 2023, Ethiopia became the latest country in the region to default, after missing a Eurobond coupon payment in December, joining Ghana and Zambia, which defaulted in 2022 and 2020, respectively.

Exhibit 1

Cumulative Change in Value of Selected Currencies Against the US Dollar, Jan 2018 to Jul 2024

(% using 1 Jan 2018 as the base reference rate)



Source: Yahoo Finance

The impact of such events varies greatly across companies. It has been most pronounced for reinsurers with high levels of geographical concentration of operations and/or investments in countries experiencing sovereign debt distress. In those isolated cases, materially exposed SSA reinsurers have seen their solvency and liquidity diminish.

With many SSA reinsurers exposed to multiple currency exposures given their regional business profiles, heightened foreign exchange (FX) volatility and hard-currency FX shortages have tested the soundness of their asset liability management strategies. The resulting FX gains/losses have introduced volatility to bottom-line results. However, companies that opt to hold large surpluses of hard currency assets have fared relatively well.

Political and social tensions across the region have also increased, with several countries experiencing military coups since 2020. More recently, three countries signaled their intention to withdraw from the Economic Community of West African States (ECOWAS), a political and economic union of 15 states. AM Best expects (re)insurance markets in the region to remain largely unaffected by these events; however, as the situation generates increased risks for reinsurers, it is likely reinsurance and retrocession rates will need to be adjusted accordingly.

While the easing of global financing conditions has supported certain SSA countries' return to international capital markets in the first quarter of 2024, financing positions remain fragile, and the risk of debt distress continues to be elevated. Should global interest rates remain higher for longer, or if geopolitical tensions escalate, more countries may be forced to consider debt restructuring or outright default.

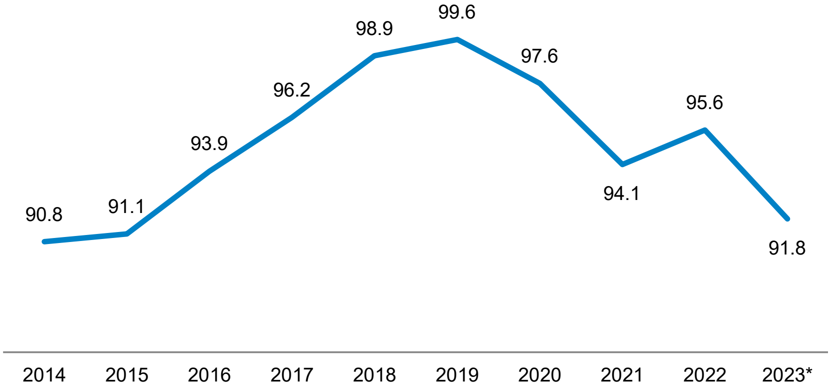
On the whole, AM Best-rated SSA reinsurers have demonstrated a level of resilience amid these challenging conditions, particularly those which have successfully mitigated risks through diversification and proactive risk management. Nonetheless, as systemic risk remains heightened, AM Best expects these reinsurers to continue to develop their risk management capabilities to ensure they are well-placed to absorb, or even take advantage of, these challenges.

Local Focus and Favourable Reinsurance Market Conditions Underpin Underwriting Results

The long-standing focus on local African risks by SSA reinsurers has largely underpinned their consistently profitable underwriting results (see **Exhibit 2**). However, business tends to be concentrated in some of the largest markets on the continent, including South Africa, Nigeria and Kenya, giving rise to some concern about risk accumulation.

SSA reinsurers are often able to sustain favourable loss ratios over the cycle, largely explained by the highly protectionist regimes in certain local reinsurance markets, which typically reduces competition, as well as the relatively lower catastrophe risk across large parts of the continent.

Exhibit 2
Sub-Saharan Africa – AM Best-Rated Reinsurers, Weighted Average Combined Ratio, 2014-2023
(%)



* 2023 is based on IFRS 17, with the exception of CICA Re which reports under local GAAP. The data may include life business in instances where it has not been possible to segregate the segment due to limited disclosure in audited financial statements.

Sources: BESTLINK

Best's Financial Suite – Global, AM Best data and research

Conversely, the high cost of doing business in SSA, along with the relatively small size of locally domiciled reinsurers, tends to temper overall underwriting results. Many market participants are unable to realise the economies of scale that larger global companies can achieve.

The years 2017 to 2020 marked a turbulent period for the region's players. Many of the cohort of AM Best-rated SSA reinsurers looked overseas for growth and diversification. Most notably, some grew their exposures within the Indian subcontinent, and subsequently were hit by losses from state-subsidised crop insurance schemes. In the wake of unfavourable results, there has been a decline in appetite of SSA reinsurers to write non-African business.

Despite a modest level of volatility in underwriting results, the market has been consistently profitable for more than a decade. In part, volatility can also be explained by negative FX movements—particularly of the Nigerian naira—given that a significant portion of premiums derived from Nigeria is priced and transacted in US dollars. For certain classes of business that operate entirely in US dollars, accounting practices can result in loss ratio volatility, even when the underlying economics of the risks being reinsured are stable.

The underwriting results of AM Best-rated SSA reinsurers have on aggregate shown steady improvements since combined ratios peaked in 2019. This largely reflects stricter risk selection by reinsurers, strong pricing actions in loss-affected countries such as Kenya, and a general hardening of premium rates/terms and conditions across most of the continent's largest reinsurance markets.

SSA Reinsurers to Play a Key Role in Managing the Continent's Protection Gap

Outside of South Africa, exposure to catastrophe risk is generally considered to be low relative to global reinsurance markets, which has supported the trend of positive underwriting results over the cycle. However, there has been an uptick in natural catastrophe events across the African continent in recent times, particularly in 2023, with Cyclone Freddy, floods in Libya and the Earthquake in Morocco cumulatively leading to billions of US dollars of economic losses.

SSA reinsurers' exposure to these events was relatively muted and within appetite levels, mostly a result of the large protection gap between economic and insured losses across the continent. Nonetheless, AM Best expects SSA reinsurers to increase their efforts regarding the management of accumulation risk, particularly in those areas more prone to catastrophe events.

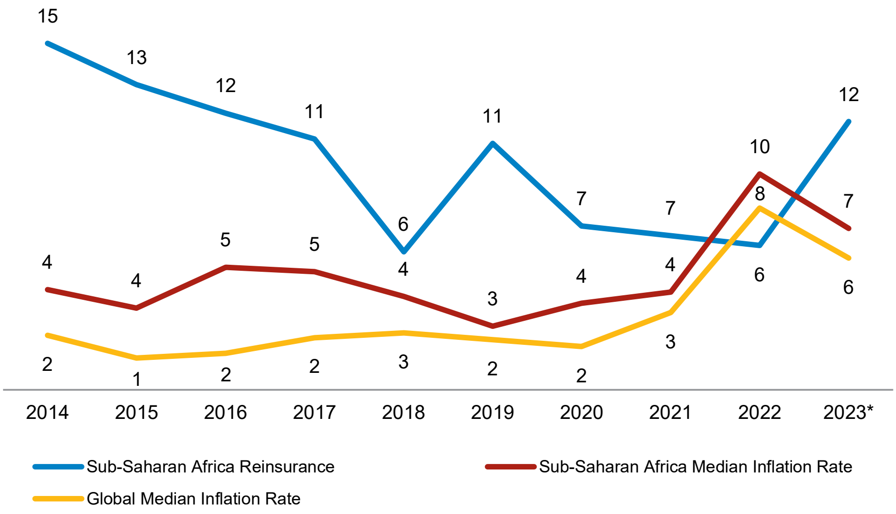
At the same time, recent losses have highlighted the need to expand the provision of insurance protection across the continent, which could present organic growth opportunities for the region's reinsurers.

Double Digit Return on Equity Keeping Pace with Median Inflation

Measured by return on equity (ROE), in nominal terms, AM Best-rated SSA reinsurers have returned good levels of profitability to their shareholders (see **Exhibit 3**), generating a ten-year (2014-2023) weighted average ROE of over 10%. When adjusting for median inflation, ROEs remain robust in real terms, though this gap has closed in recent years due to a spike in inflation experienced since 2021.

The ROE for SSA reinsurers must be considered with care. Several of the larger AM Best-rated SSA reinsurers report in US dollars and the majority of incumbents have generally high levels of risk-adjusted capitalisation (see **Exhibit 4**), as measured by Best's Capital Adequacy Ratio (BCAR), both of which temper ROE, and make comparison against local market inflation challenging.

Exhibit 3
Sub-Saharan Africa – AM Best-Rated Reinsurers, Return on Equity, 2014-2023
(%)



Return on equity figures are calculated on a weighted average basis for the purposes of this report.
* 2023 is based on IFRS 17 with the exception of CICA Re which reports under local GAAP.
Sources: BESTLINK
Best's Financial Suite – Global, AM Best data and research

Limited Regional Capacity

The larger reinsurers in SSA (excluding South Africa) tend to be either national or supranational entities, and often benefit from compulsory cessions and/or have a mandate to develop the local (re)insurance industry. With a few exceptions, African reinsurers tend to focus on local and regional markets. Further competition comes from a relatively small group of sophisticated global reinsurers, and a handful of smaller privately-owned African companies.

Exhibit 4
Sub-Saharan Africa – AM Best-Rated Reinsurers, Capital & Surplus

Company Name	2023 Total Capital & Surplus (USD millions)	2022 Best's Capital Adequacy Ratio (VaR 99.6%)	Assessment Effective Date
African Reinsurance Corporation	1,066	60.0	30-Nov-23
CICA Re	176	55.1	22-Mar-24
Continental Reinsurance PLC	99	27.5	7-Dec-23
East Africa Reinsurance Co. Ltd.	44	46.8	22-Sep-23
Ethiopian Reinsurance S.C.	36	56.3	22-Aug-24
Ghana Reinsurance PLC*	52	36.5	10-Aug-23
Kenya Reinsurance Corporation Ltd.	308	44.6	14-Jul-23
Tanzania Reinsurance Co. Ltd.	48	42.3	2-Oct-23
WAICA Reinsurance Corporation PLC	159	36.3	26-Jul-23
ZEP-RE (PTA Reinsurance Co.)	337	59.4	10-Nov-23

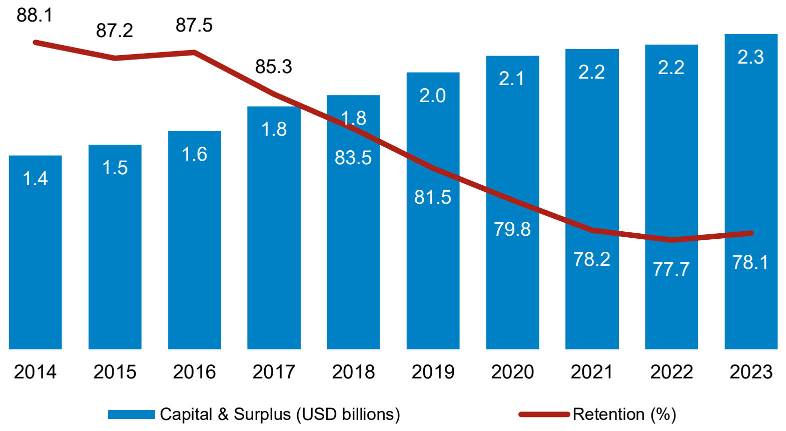
*: Based on 2022 IFRS 4

Sources: BESTLINK
Best's Financial Suite - Global, AM Best data and research

Despite solid growth in capital in recent years, the capacity offered by Africa-domiciled reinsurers remains low, and insufficient to meet the needs of local primary markets fully, particularly where major property and energy risks are concerned. As the region's economies have industrialised, their insurance needs have grown at a faster pace than the local market's capacity. This is evidenced by rising levels of premium written but declining levels of retention for SSA reinsurers who have relied on retrocession to provide capacity (see **Exhibit 5**). As well as capacity, local players often lean on more sophisticated global reinsurers for the expertise needed to underwrite complex risks.

Exhibit 5
Sub-Saharan Africa – AM Best-Rated Reinsurers, Capital & Surplus vs. Retention, 2014-2023

(C&S: USD billions; Retention: %)



IFRS 17 used for 2023, with the exception of CICA Re which reports under local

Sources: BESTLINK
Best's Financial Suite – Global, AM Best data and research

AM Best-rated Reinsurers in the Region

AM Best rates a number of reinsurers in the region (see **Exhibit 6**). Best's Credit Rating Methodology (BCRM) provides a comprehensive explanation of AM Best's rating process. Key rating factors—including a reinsurer's balance sheet strength, operating performance, business profile, and enterprise risk management (ERM)—are qualitatively and quantitatively evaluated during the rating process. Full details of the process can be found in *Best's Credit Rating Methodology (BCRM)* on AM Best's website.

Exhibit 6

Sub-Saharan Africa – AM Best-Rated Reinsurers

(Ratings as of August 30, 2024)

			Long-Term	Financial	Best's	Best's	
			Issuer	Strength	ICR &	ICR &	Rating
			Credit	Rating	FSR	FSR	Effective
AMB #	**Company Name**	**Domicile**	**Rating (ICR)**	**(FSR)**	**Action**	**Outlook**	**Date**
83411	African Reinsurance Corporation	Nigeria	a	A	Affirmed	Stable	30-Nov-23
93852	CICA Re	Togo	bbb-	B+	Affirmed	Stable	22-Mar-24
78723	Continental Reinsurance PLC	Nigeria	bbb-	B+	Affirmed	Stable	7-Dec-23
77803	East Africa Reinsurance Co. Ltd.	Kenya	bb+	B	Affirmed	Stable	22-Sep-23
71489	Ethiopian Reinsurance S.C.	Ethiopia	bb	B	Assigned	Stable	22-Aug-24
90035	Ghana Reinsurance Co. Ltd.	Ghana	bb-	B-	Affirmed	Negative	10-Aug-23
85416	Kenya Reinsurance Corporation Ltd.	Kenya	bb+	B	Affirmed	Stable	19-Aug-24
95201	Tanzania Reinsurance Co. Ltd.	Tanzania	bb+	B	Assigned	Stable	2-Oct-23
94468	WAICA Reinsurance Corporation PLC	Sierra Leone	bb+	B	Affirmed	Negative[1]	26-Jul-23
78388	ZEP-RE (PTA Reinsurance Co.)	Kenya	bbb+	B++	Upgraded[2]	Stable	10-Nov-23

[1] ICR Outlook - Negative, FSR Outlook - Stable

[2] ICR Upgraded, FSR Affirmed

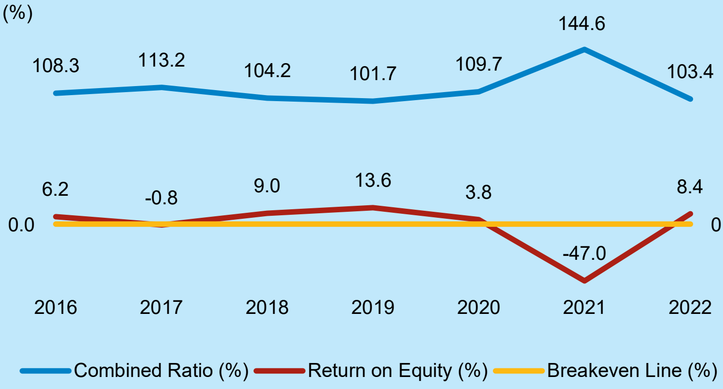
Sources: BESTLINK

Best's Financial Suite – Global, AM Best data and research

South Africa

South Africa, the continent's largest reinsurance market, generated GWP in excess of ZAR 40 billion (USD 2.4 billion) in 2022, according to AM Best's data and research.

Exhibit 7
Sub-Saharan Africa – South Africa, Reinsurance, 2016-2022
(%)



Sources: KPMG Insurance Survey (includes life business), AM Best data and research

The weighted average combined ratio for the South African reinsurance market was 103% in 2022, and has consistently exceeded 100% in each year since 2015 (see **Exhibit** 7). Over the review period, performance of the market's reinsurers was significantly impacted by soft pricing conditions, a spate of severe weather events, and incidents of social unrest.

Over recent years, the resilience of South Africa's insurance sector has been tested by multiple adverse weather events, and the accumulation of increasing secondary perils is pressuring both performance and their ability to manage these risks. The industry has incurred losses from multiple flood events throughout 2023-24. The Johannesburg hailstorm in November 2023, and tornados in the KwaZulu-Natal (KZN) province during June 2024, all have caused significant property damage. This follows increased activity in the two years prior, which saw major losses associated with Cyclone Eloise and various secondary perils, particularly the severe floods in KZN in April 2022, which marked one of the largest natural catastrophe losses in the market's history.

Corrective underwriting actions and stricter risk mitigation measures, including geo-mapping and climate modelling, are among some of the measures that the industry has implemented to combat these events. Meanwhile, the reinsurance market has looked to mitigate these trends through implementing rate hikes and increasing deductibles, leading the primary market to retain a greater portion of the risk.

Unless the (re)insurance industry can materially strengthen its risk selection and pricing adequacy, earnings are likely to remain pressured should adverse weather events persist.

South Africa's reinsurance market has also faced heavy losses from the settlement of contingent business interruption claims associated with the COVID-19 pandemic. In addition, claims stemmed from the social unrest that followed the arrest of former South African president, Jacob Zuma, in 2021. Ultimately, a material proportion of those losses fell on the world's largest reinsurers through their South African subsidiaries, along with the Lloyd's market.

The May 29, 2024 election results marked a significant landmark for South African politics, with the African National Congress (ANC) losing the parliamentary majority that it had held since 1994. The ANC formed a government of national unity (GNU) with a number of parties, principally its main opposition, the Democratic Alliance (DA) party. While it is still early days for the GNU, broad policy continuity is widely expected given the general alignment of views regarding liberal economic policies, and markets have generally reacted positively to the outcome.

Nonetheless, it remains to be seen whether the parties can reconcile their ideological differences, and short-term uncertainty remains elevated as member parties must now agree on a policy agenda.

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AM Best does not set ceilings in its ICR ratings process, although movements from one country risk tier (CRT) level to another has the potential to affect the overall assessment of balance sheet strength.

For full details of Best's Credit Rating Methodology visit: *Best's Methodology and Criteria–Evaluating Country Risk*.

For more information about AM Best's ratings in the Africa region, please contact Dr. Edem Kuenyehia at +44 20 7397 0280 or Edem.Kuenyehia@ambest.com.

Analytical Contacts/Contributors

Helen Andersen, Oldwick
Jose Berenguer, Amsterdam
Jessica Botelho-Young, London
Steve Chirico, Oldwick
Ben Diaz-Clegg, London
Greg Dickerson, Oldwick
Morgane Hillebrandt, Amsterdam
Dan Hofmeister, Oldwick
Jason Hopper, Oldwick
Antonietta Iachetta, Oldwick
Mathilde Jakobsen, Amsterdam
Dale Kirby, London
Edward Kohlberg, Oldwick
Stratos Laskarides, Oldwick
Christie Lee, Hong Kong
Chris Lim, Singapore
Sridhar Manyem, Oldwick
Emmanuel Modu, Oldwick
Christopher Pennings, Oldwick
Ricardo Rodriguez Perez, Mexico City
Kaitlin Piasecki, Oldwick
Doniella Pliss, Oldwick
Timothy Prince, London
Elí Sánchez, Mexico City
Anthony Silverman, London
Wai Tang, Oldwick
Emily Thompson, London
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AMERICAS
WORLD HEADQUARTERS
A.M. Best Company, Inc.
A.M. Best Rating Services, Inc.
1 Ambest Road, Oldwick, NJ 08858
Phone: +1 908 439 2200

MEXICO CITY
A.M. Best América Latina, S.A. de C.V.
Av. Paseo de la Reforma 412, Piso 23,
Col. Juárez, Alcadía Cuauhtémoc, C.P. 06600, México, D.F.
Phone: +52 55 1102 2720

EUROPE, MIDDLE EAST & AFRICA (EMEA)
LONDON
A.M. Best Europe - Information Services Ltd.
A.M. Best Europe - Rating Services Ltd.
12 Arthur Street, 8th Floor, London, UK EC4R 9AB
Phone: +44 20 7626 6264

AMSTERDAM
A.M. Best (EU) Rating Services B.V.
NoMA House, Gustav Mahlerlaan 1212, 1081 LA Amsterdam, Netherlands
Phone: +31 20 308 5420

DUBAI*
A.M. Best Europe - Rating Services Ltd. - DIFC Branch*
Office 102, Tower 2, Currency House, DIFC
P.O. Box 506617, Dubai, UAE
Phone: +971 4375 2780
*Regulated by the DFSA as a Credit Rating Agency

ASIA-PACIFIC
HONG KONG
A.M. Best Asia-Pacific Ltd
Unit 4004 Central Plaza, 18 Harbour Road, Wanchai, Hong Kong
Phone: +852 2827 3400

SINGAPORE
A.M. Best Asia-Pacific (Singapore) Pte. Ltd
6 Battery Road, #39-04, Singapore
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6 Battery Road, #39-04, Singapore
Phone: +65 6303 5000