

AM Best's Perspectives on the State of the Global Reinsurance Industry

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Global Reinsurance Market – Discussion Outline

Outlook, Main Drivers, Key Themes

Is There Actually a “Capacity Shortage”?

Results Improving, but still Playing Catch-Up / IFRS 17 Transition

Are Previously Insured Risks Becoming “Less Insurable”?

Business Models Evolving – Hybrids, Role of ILS, Distribution

AM Best’s Expectations – The Next 12 Months

Global Reinsurance Market Outlook – Stable

Headwinds

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

**More complex and evolving risk
environment**

Volatile investment markets

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

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

Tailwinds

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

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

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

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

Is There Actually a “Capacity Shortage”?

Why is this Cycle Different?

Leading indicators to historic reinsurance company formations

Single major event:
Hurricanes
Earthquakes
Terrorism

Material capital
erosion

Sharp rates
increase in a short
period of time

New 2023/24 class?

Rising interest rates only
since 2022

Higher cost of opportunity
Gradual rate increases before 1/1/23

Alternative Capital

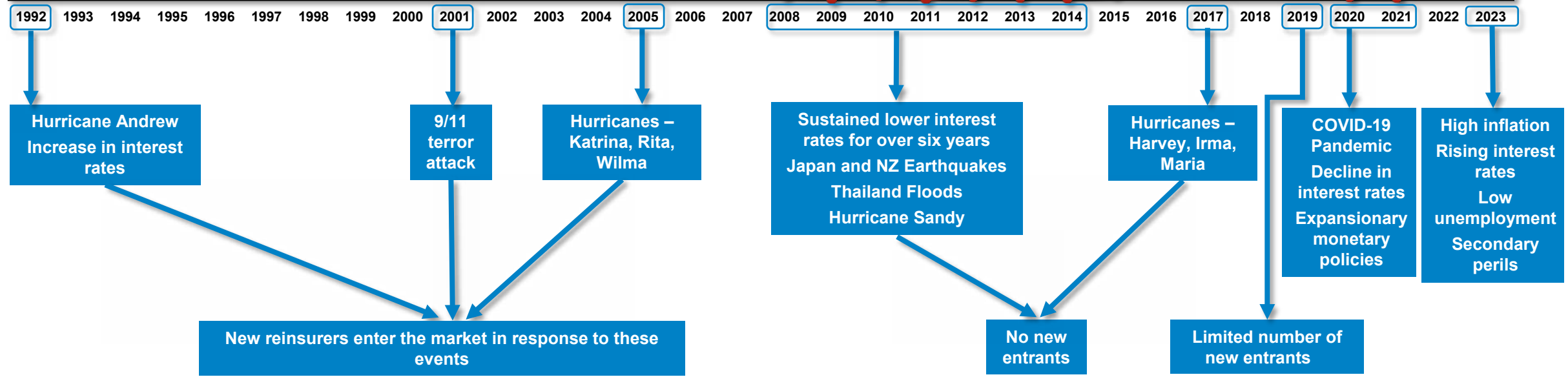
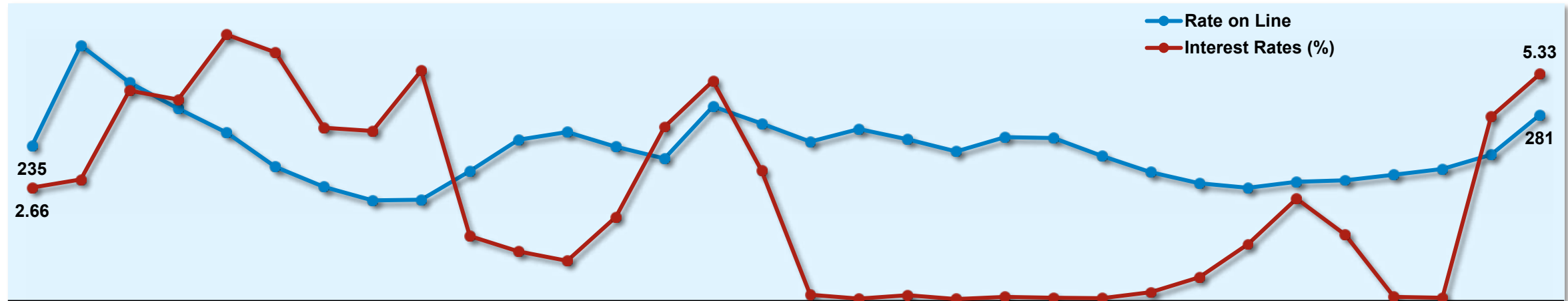
Plateaued since 2018

No single major
catastrophe event

Accumulation of more frequent
secondary perils

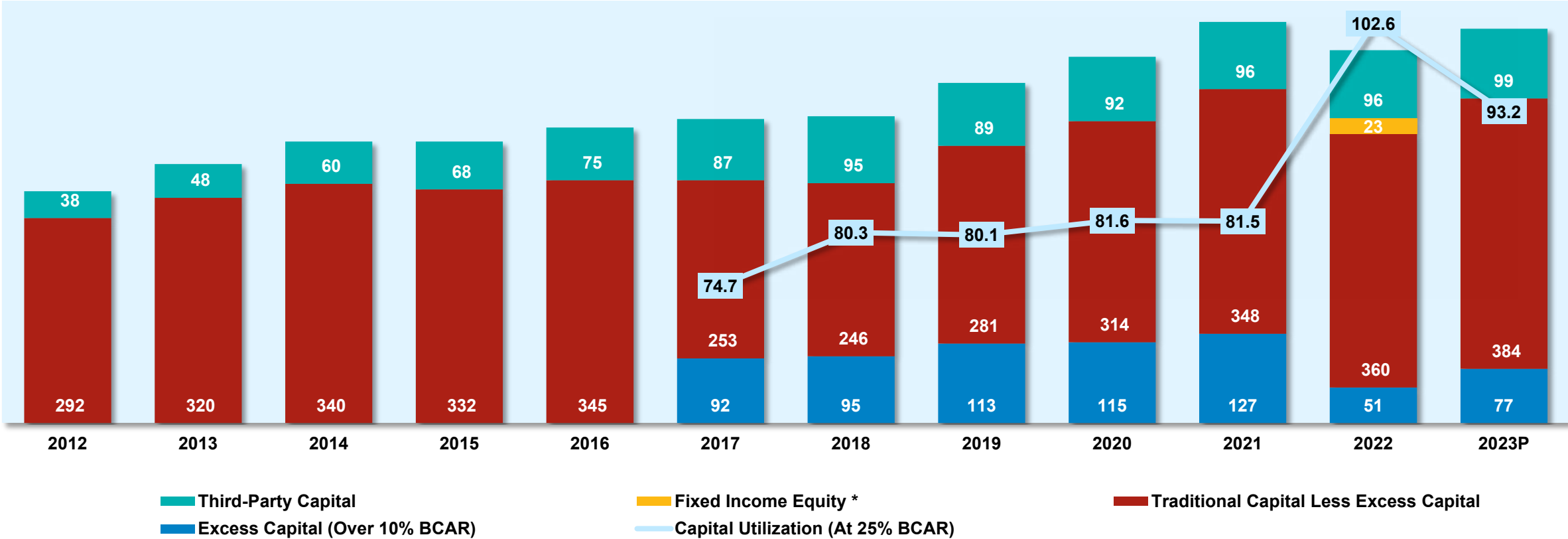
Global reinsurers remain
well capitalised

Why is this Cycle Different?



Global Reinsurance Market Capital

Estimate – Total Dedicated Reinsurance Capital (USD Billions)



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



Ratings – Reinsurers Retain Financial Strength

⬇️ Negative Factors

- Fixed-income unrealized investment losses
- Persistent high claims activity
- Weather-related and secondary perils
- Best's Capital Adequacy Ratios declined, but balance sheet strength remains unchanged
- Operating performance impacted

⬆️ Positive Factors

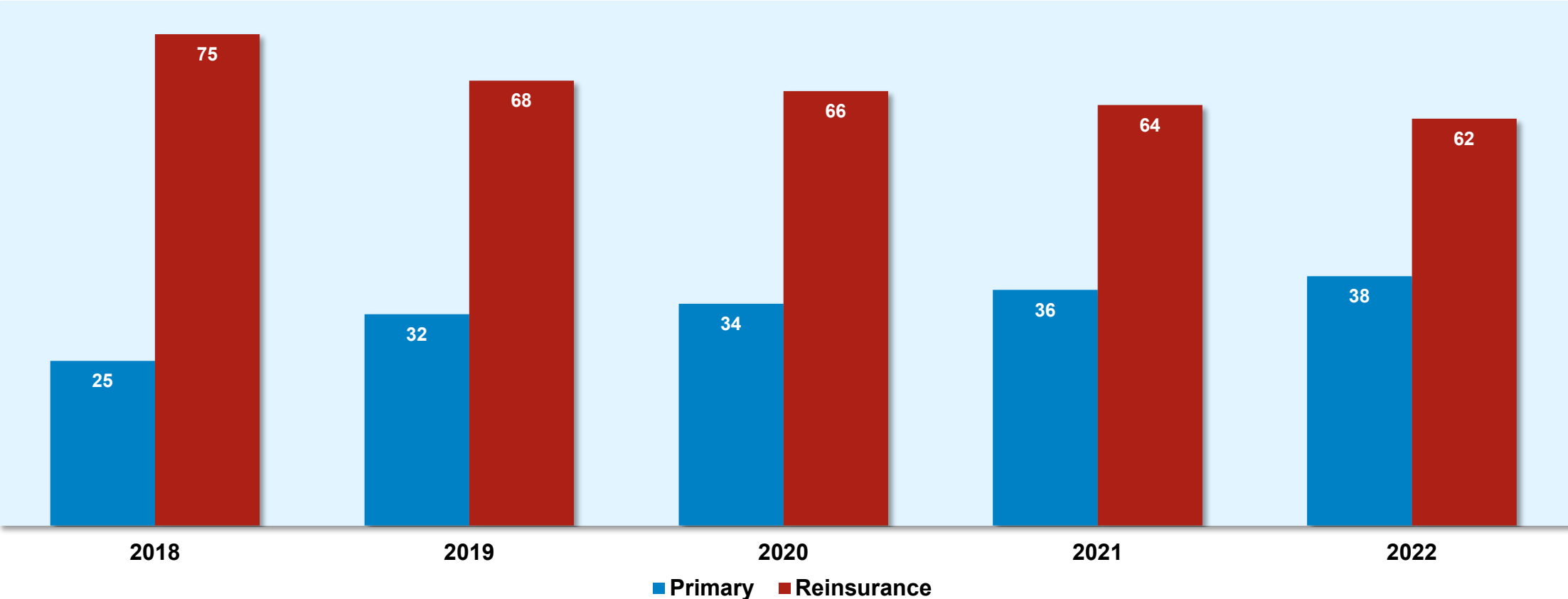
- Capital buffers protection
- Higher interest rates
- Asset Liability Management
- High credit quality of investment portfolios
- Dividend policy / share buybacks unaffected
- Balance sheet strength assessment remains unchanged
- Underwriting discipline

**Results Improving, but
Still Playing Catch-Up**

IFRS 17 Transition

Global Reinsurance – Primary Insurance vs. Reinsurance

Allocation by Net Premium Written (%)



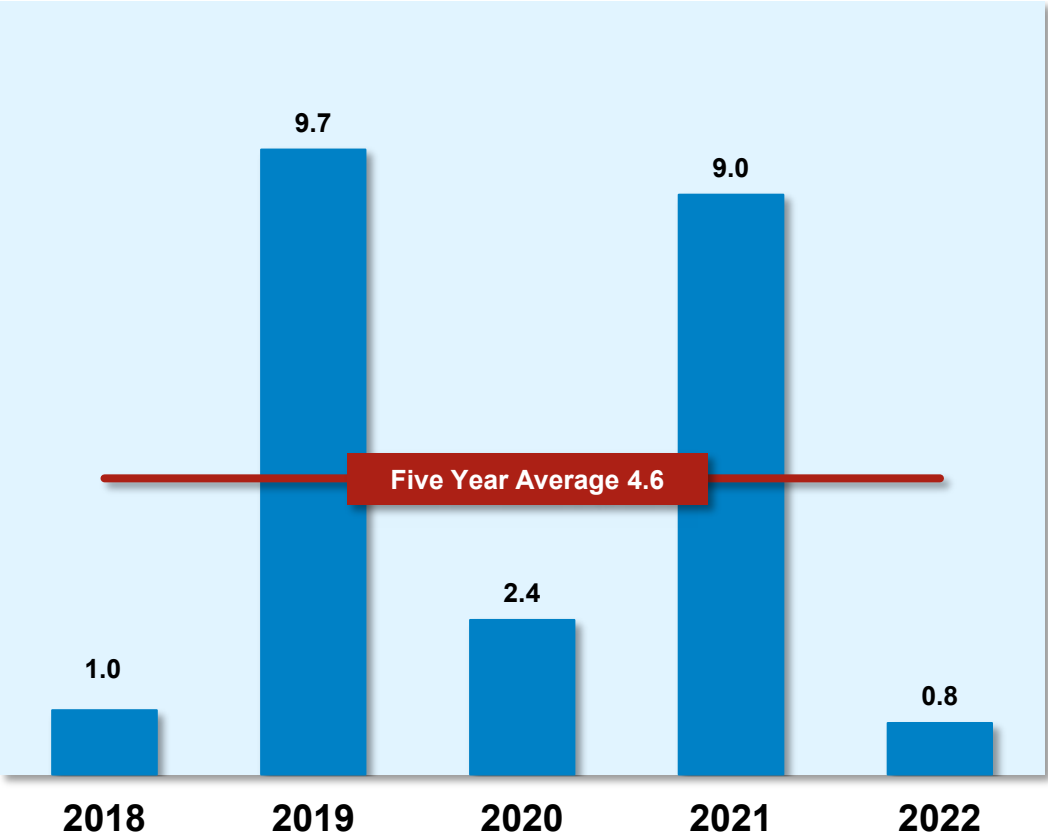
Our Insight, Your Advantage™

Based on the 25 largest reinsurance groups.
Source: AM Best data and research

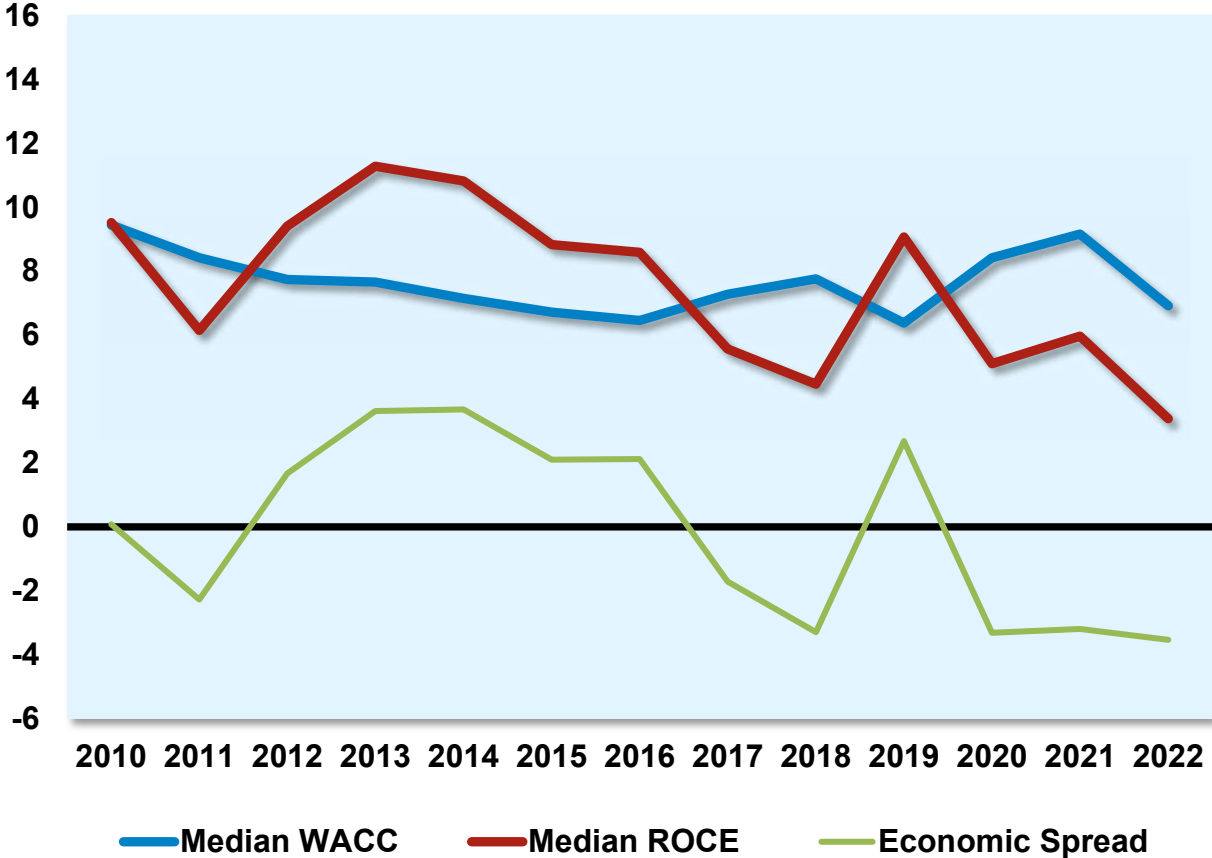


Global Reinsurance Market Performance

Return on Equity (%)

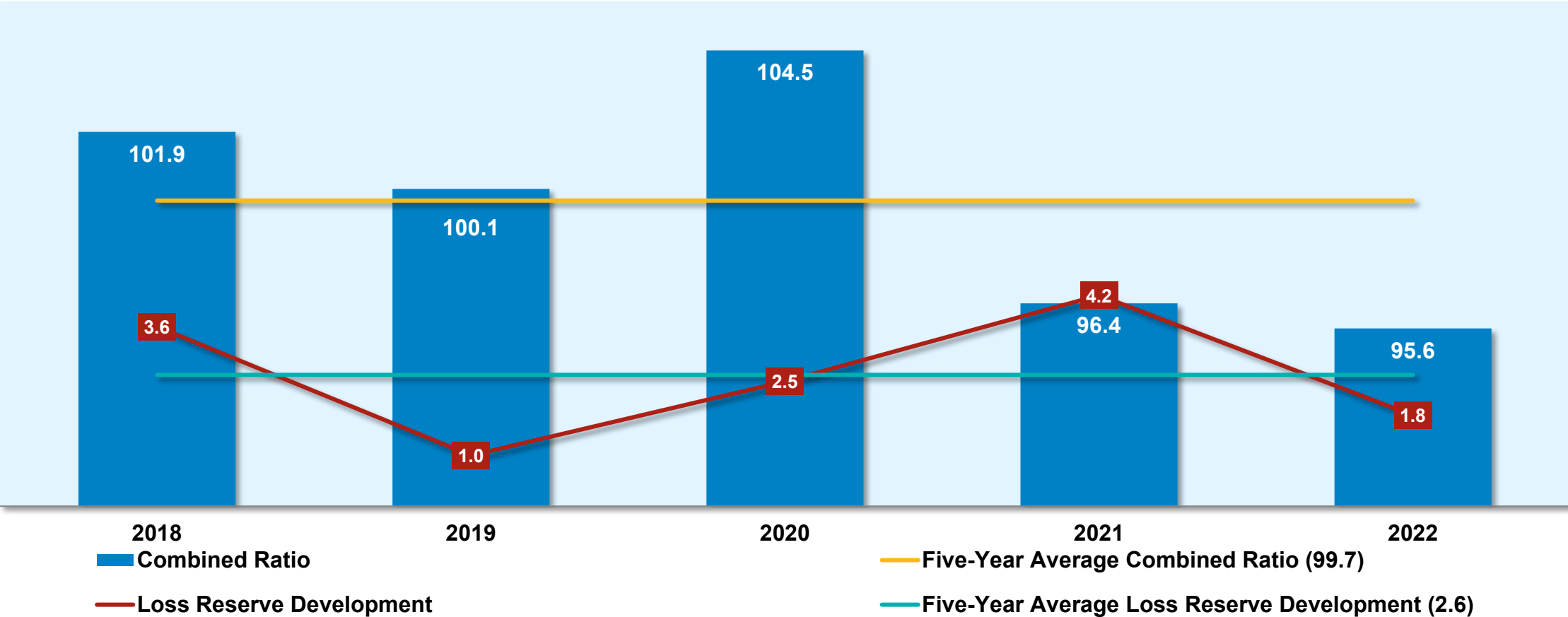


Reinsurers' Median Weighted Average Cost of Capital (WACC) Compared to Median Return on Capital Employed (ROCE) (%)



Global Reinsurance Market Performance

Combined Ratios and Favourable Reserve Development (%)

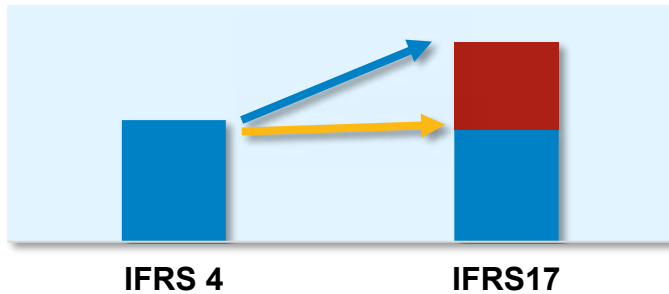


Transition to IFRS 9 and IFRS 17

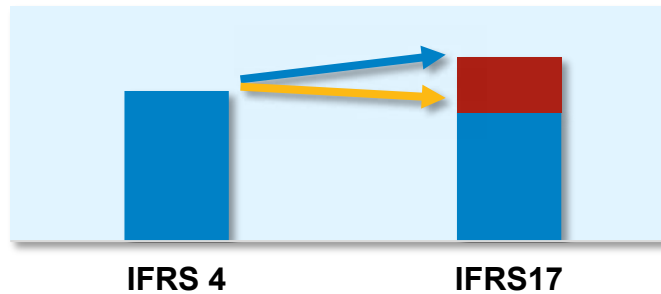
For consistency, AM Best always takes an economic view of a company or group's balance sheet

■ Capital & Surplus ■ Contractual Service Margin
(For illustrative purposes only – Not to scale)

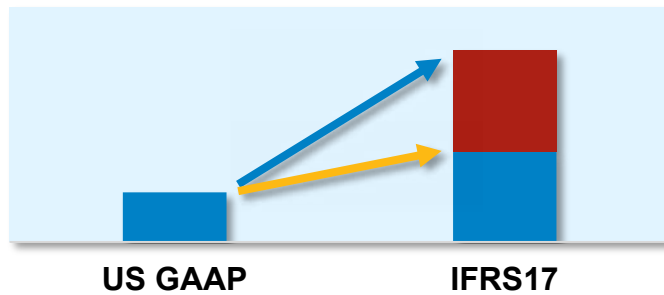
Munich Re



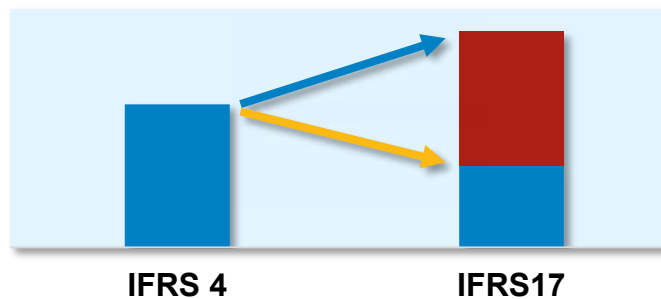
Hannover Re



Swiss Re



SCOR



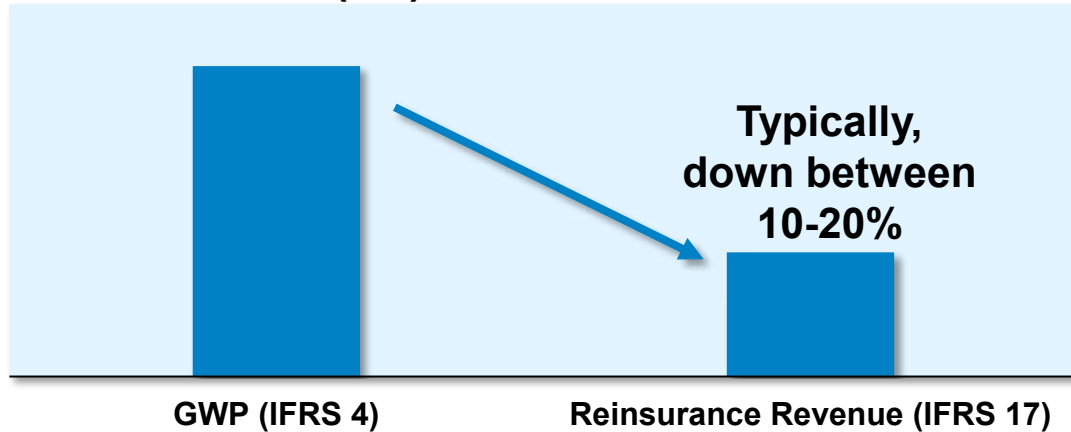
Financial Leverage
(Debt/[IFRS Equity+CSM+Debt])



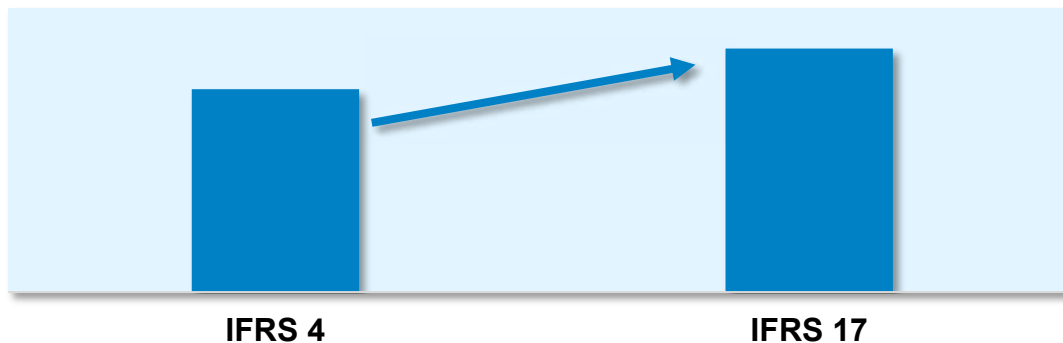
Transition to IFRS 9 and IFRS 17

Comparisons against US GAAP writers will become more challenging

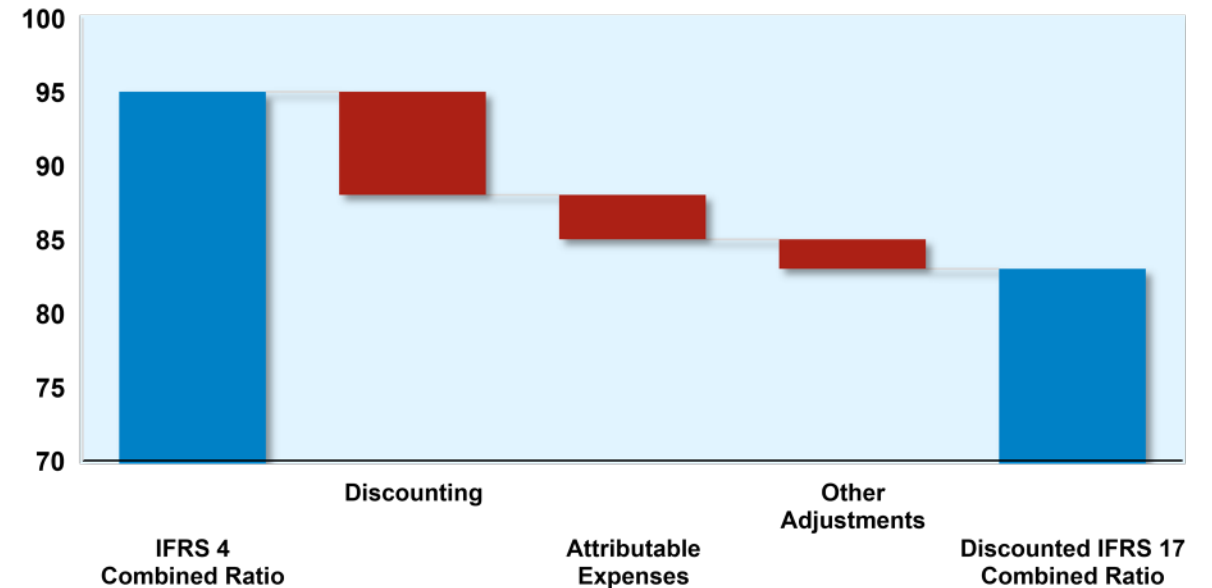
Transitioning from Premiums Written to (Re)insurance Revenue



Return on Equity (Income/IFRS Equity)



Favourable Movements in Combined Ratio



Are Previously Insured Risks Becoming “Less Insurable”?

Business Models Evolving – Hybrids Role of ILS Distribution

Evolution of Business Models

Investors seem to prefer diversified, flexible companies, with a proven track record

High demand for reinsurance, driven by flight to quality. Financial strength is paramount

Well diversified, nimble and established reinsurers in a strong position

Specialised reinsurers have become rare

Expansion of established players more likely than new entrants

Alternative capital has become more of a partner than a competitor

Evolving distribution models critical to expand business

What to Expect for the Next 12 Months?

AM Best's Expectations – The Next 12 Months

**Underwriting profits –
to continue**

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

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

**Emerging risks –
slow expansion**

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

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

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

**Higher retentions –
here to stay**

Key Themes

There is no capacity shortage
just smarter allocation

Results improving
but reinsurers still catching up

Business models evolving
the death of the specialist?

Q&A

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