

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

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# Global Reinsurance Market – Discussion Outline

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**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

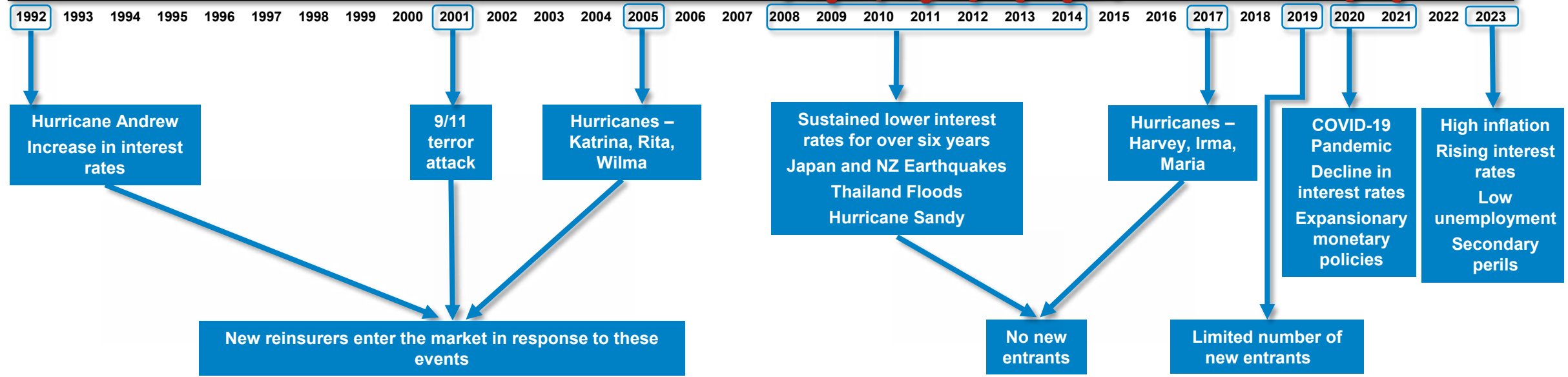
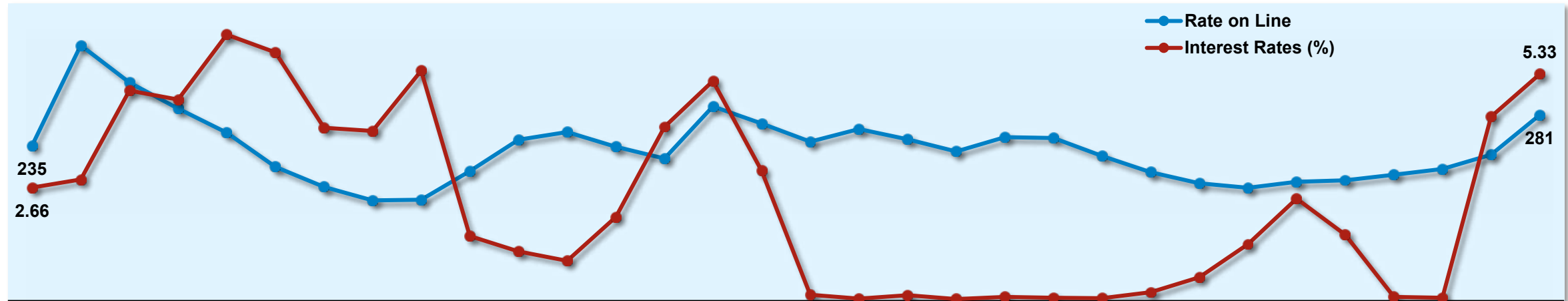
Plateaued since 2018

No single major  
catastrophe event

Accumulation of more frequent  
secondary perils

Global reinsurers remain  
well capitalised

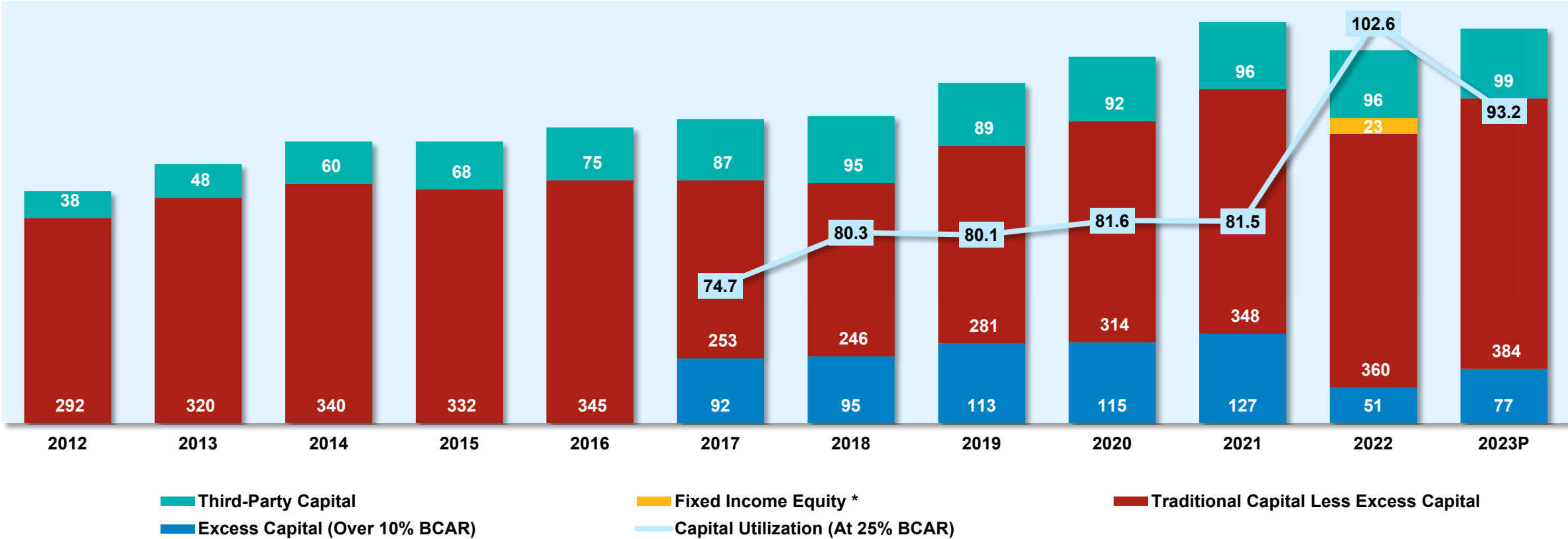
# Why is this Cycle Different?





# 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

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## ⬇ 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

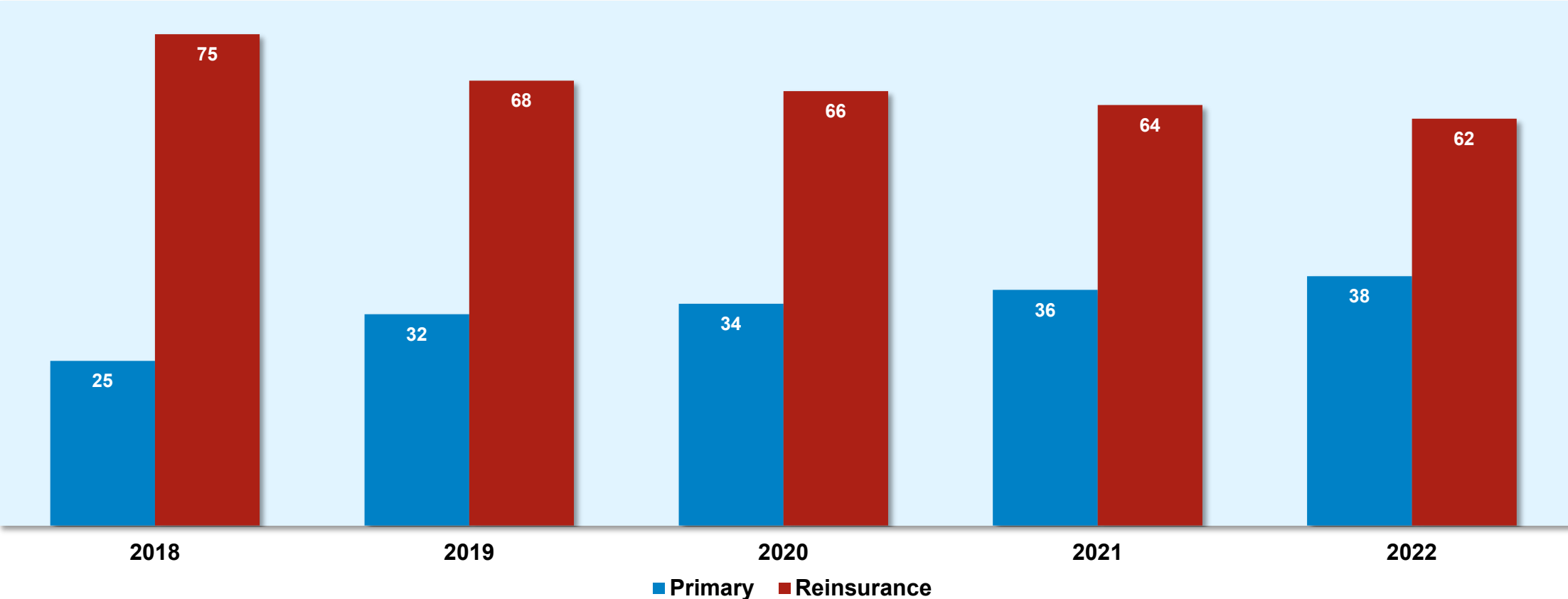
## ⬆ Positive Factors

- 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 (%)



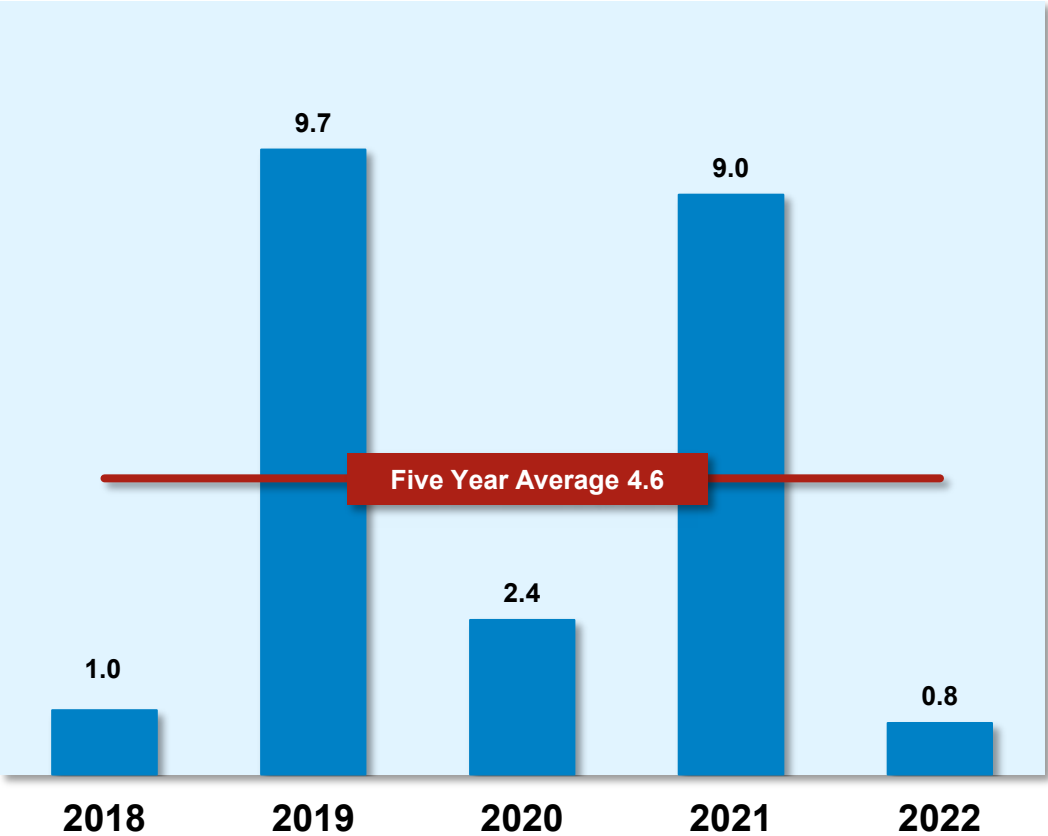
Our Insight, Your Advantage™

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

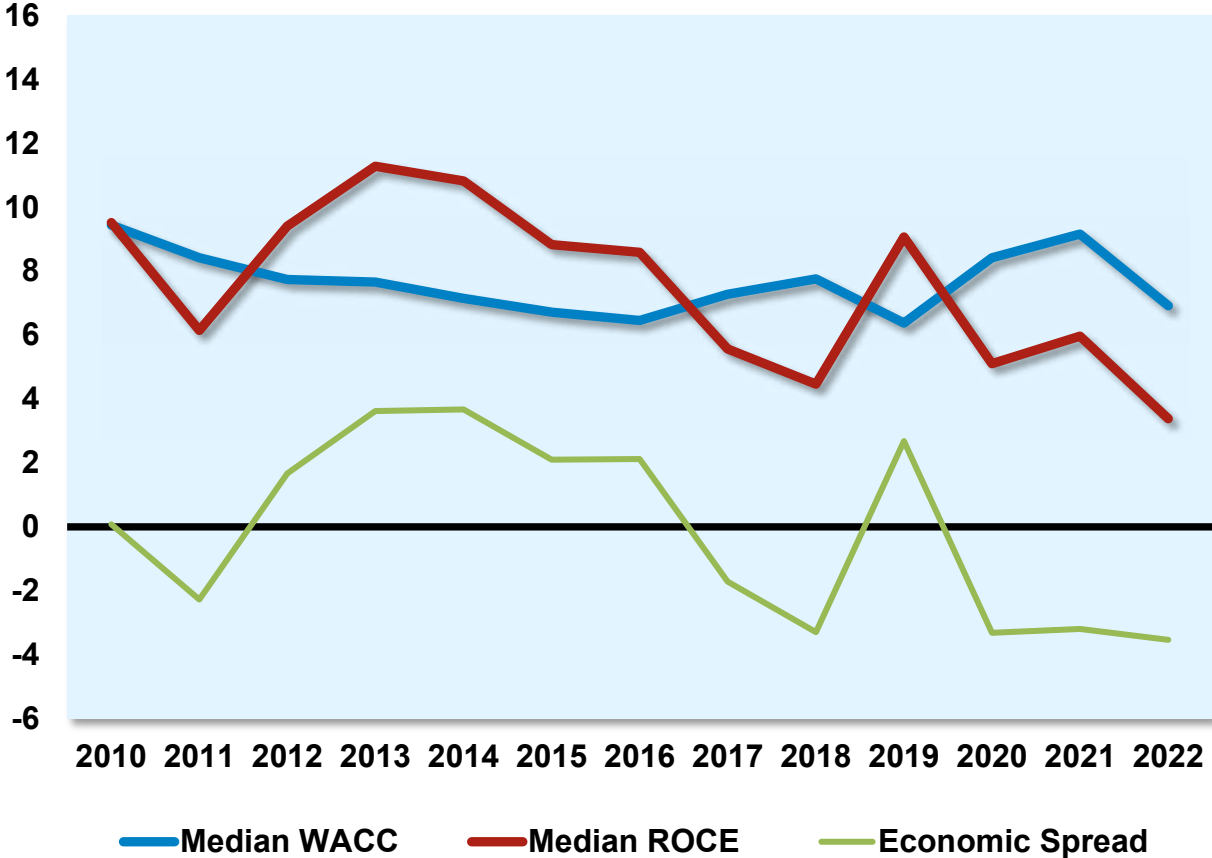


# Global Reinsurance Market Performance

Return on Equity (%)

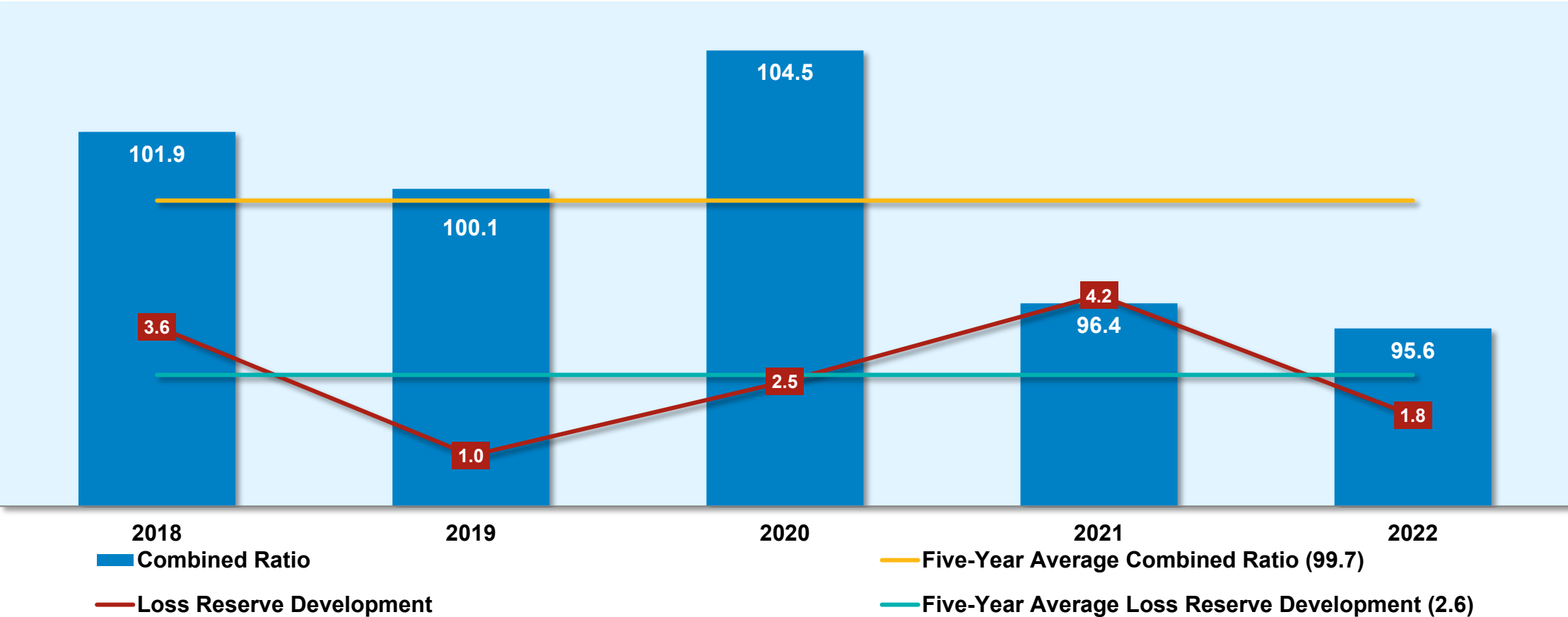


Reinsurers' Median Weighted Average Cost of Capital (WACC) Compared to Median Return on Capital Employed (ROCE) (%)



# Global Reinsurance Market Performance

Combined Ratios and Favourable Reserve Development (%)

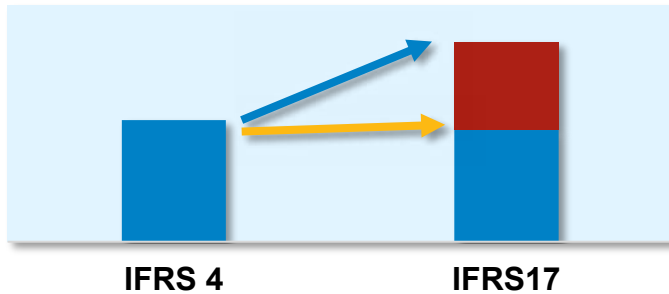


# Transition to IFRS 9 and IFRS 17

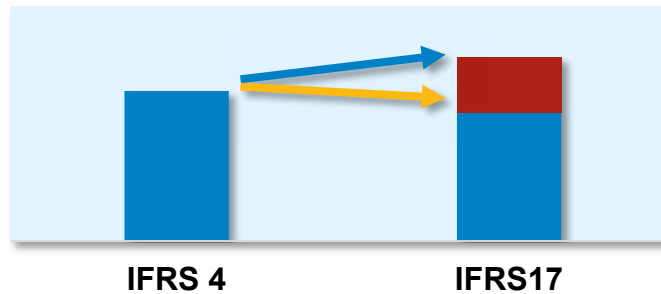
For consistency, AM Best always takes an economic view of a company or group's balance sheet

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

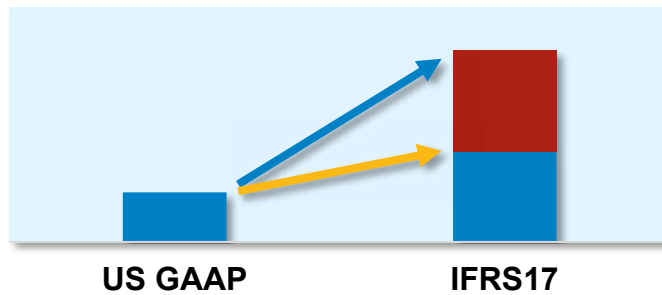
Munich Re



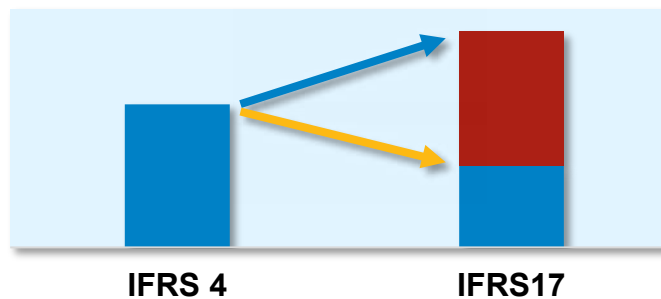
Hannover Re



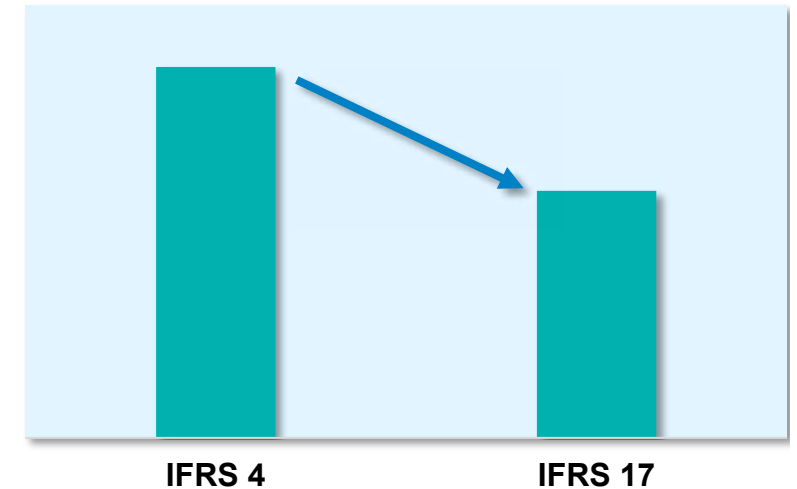
Swiss Re



SCOR



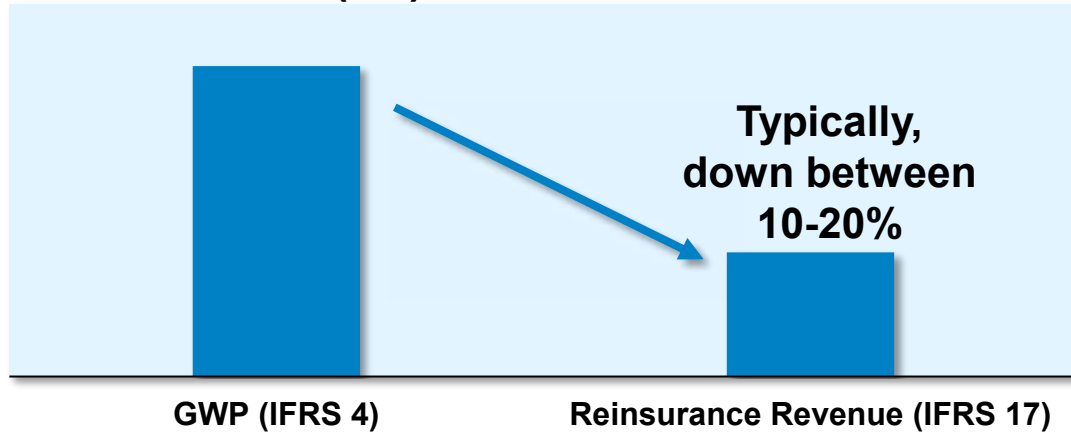
Financial Leverage  
(Debt/[IFRS Equity+CSM+Debt])



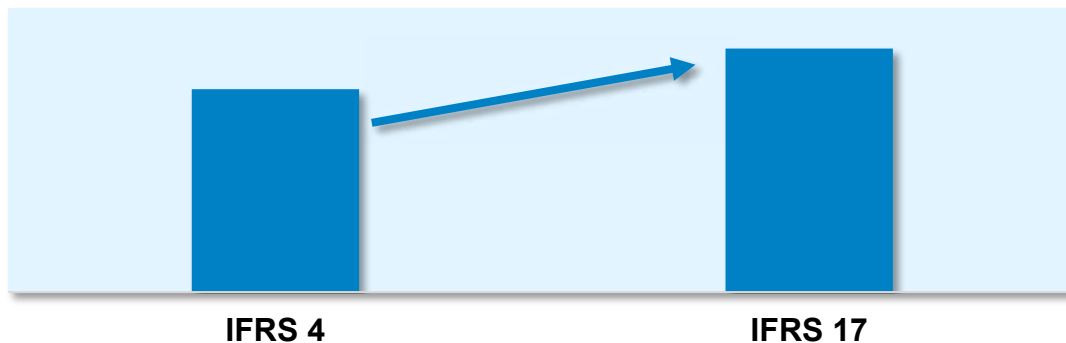
# Transition to IFRS 9 and IFRS 17

Comparisons against US GAAP writers will become more challenging

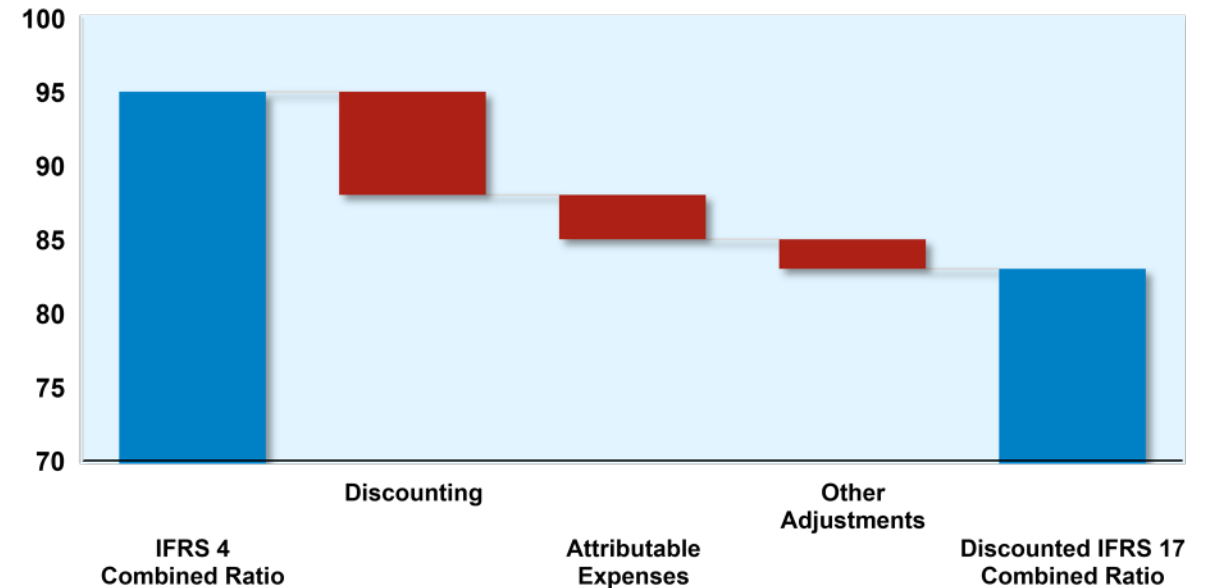
## Transitioning from Premiums Written to (Re)insurance Revenue



## 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

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**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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