The Actuarial Profession
making financial sense of the future

GIRO Conference and Exhibition 2012

Global Reinsurance: Rating Agency Review & Outlook 2012-2013

Martyn Street and Harish Gohil, Fitch Ratings

Agenda

Rating Outlook

Expectations

- Capital
  - Alternative Reinsurance Market
- Pricing
- Earnings

Risks & Challenges

Other Developments

What Could Lead to a Negative Outlook?

Summary

Overview of Credit Ratings

- Purpose
  - Security / financial strength
- Meaning
  - Probability of default / loss given default
- Users
  - Brokers
  - Investors
  - Market Security teams
- Implications
  - Influences quality of business
  - Cost of finance

Rating outlook

- Remains Stable, having been revised from Negative in November 2009
- Reinsurers' current ratings will be supported by
  - Continued capital strength
  - Strong earnings recovery through 2012
  - Adequate, if stagnating pricing
- Greatest uncertainty comes from earnings outlook
  - Fundamentals under pressure
    - Low investment income
    - Stagnating pricing
    - Prior-year reserve

Expectations underlying stable outlook

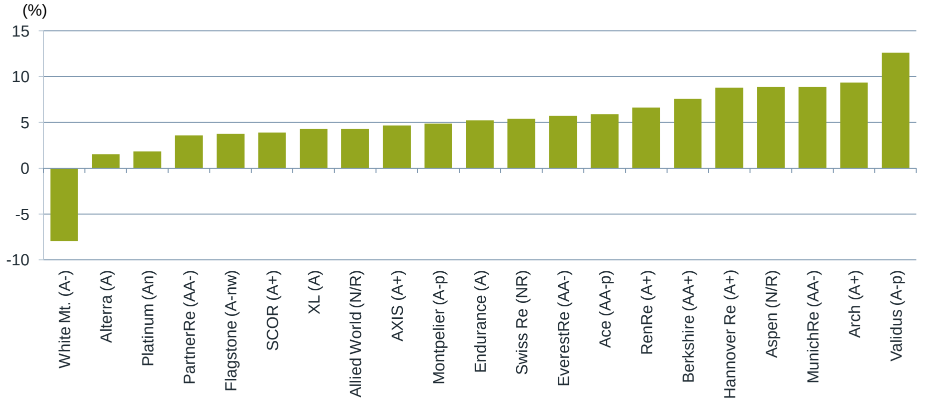
- Capital preservation a priority
  - Deployment more carefully scrutinised
  - Medium term: Earnings environment to become more challenging
- Macroeconomic issues viewed as manageable
  - Low exposure to peripheral eurozone countries, contagion considered a tail event
  - Rapid rise in inflation
- Earnings sustainability to be tested in 2013
  - Pricing viewed as the key lever
- Threat of stagnating prices
  - Dependent on near-term catastrophe experience

Capital expectations

- Capitalisation expected to strengthen further through 2012
  - Lower catastrophe burden to drive recovery in profitability
  - Capital strengthening expected across sector
- Reinsurers exercising greater caution over capital deployment
  - Sensitive to magnitude of catastrophe losses incurred in 2011
  - Uncertainty created by macroeconomic environment
  - Harder to earn back losses

Most reinsurers strengthen capital

Change in H112 equity – reinsurers



Source: Fitch

Reinsurer share repurchase activity stable

(USDm)	H112	H111
Ace Limited	11	68
Arch Capital Group Ltd.	0	267
Allied World Assurance Company Holdings Ltd.	159	60
Alterra Capital Holdings Ltd.	137	144
Aspen Insurance Holdings Ltd.	27	2
Axis Capital Holdings Ltd.	138	15
Berkshire Hathaway Inc.	0	0
Endurance Specialty Holdings Ltd.	0	333
Everest Re Group, Ltd.	225	38
Flagstone Reinsurance Holdings Ltd.	0	0

Source: Company reports

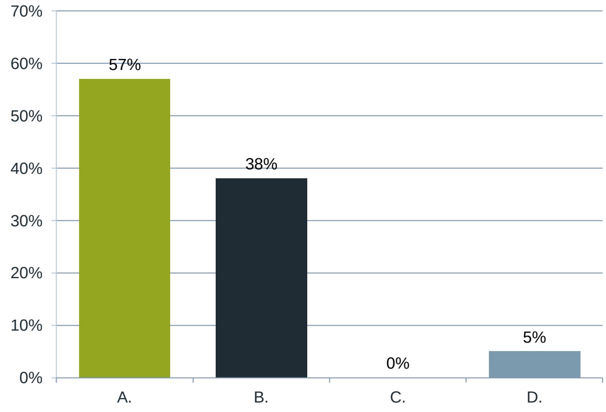
Reinsurer share repurchase activity stable (cont.)

(USDm)	H112	H111
Montpelier Re Holdings, Ltd.	84	63
Munich Re	0	423
RenaissanceRe Holdings Ltd.	90	175
PartnerRe Ltd.	222	244
Platinum Underwriters Holdings Ltd.	90	82
Transatlantic Holdings Ltd.	-	0
Validus Holdings Ltd.	221	6
White Mountains Insurance Group	491	93
XL Group plc	226	259
Total	**2,121**	**2,204**

Source: Company reports

What will reinsurers look to do with surplus capital at the end of the 2012 financial year?

A. Retain on balance sheet
B. Return to shareholders
C. Fund M&A
D. Use for other diversification



Source: Audience survey conducted at Fitch reinsurance investor briefing, 6th September 2012

Alternative reinsurance market

- Alternative reinsurance use grows
- Mixed benefit to reinsurers
- Strong investor demand

Alternative reinsurance market - cat bonds (1)

- Catastrophe bond market sees some new issuers and structures

Catastrophe Bond Issuances (Non-Life) — First-Half 2012

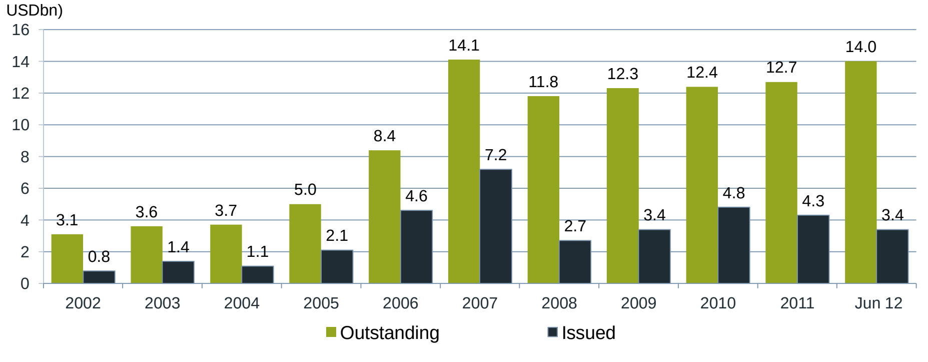
Sponsor	Transaction	Amount ($ Mil.)	2012 Issue Date	Peril
Swiss Re	Successor X Ltd.	63	January	U.S. Hurricane/Europe Wind
Assurant	IBIS Re II Ltd.	130	January	U.S. Hurricane
Zenkyoren	Kibou Ltd.	300	February	Japan Earthquake
CEA	Embarcadero Re Ltd.	150	February	California Earthquake
Munich Re	Queen Street Re V Ltd.	75	February	U.S. Hurricane/Europe Wind
Liberty Mutual	Mystic Re III Ltd.	275	March	U.S. Hurricane and Earthquake
Chubb	East Lane Re V Ltd.	150	March	U.S. Hurricane and Thunderstorm
Country Mutual/NCFB	Combine Re Ltd.	200	March	U.S. Hurricane, Earthquake and Storm
Allianz SE	Blue Danube Ltd.	240	April	Hurricane (U.S., Mexico) and Earthquake (U.S., Canada)
LA Citizens Property	Pelican Re Ltd.	125	April	Louisiana Hurricane
Mitsui Sumitomo	Akibare II Ltd.	130	April	Japan Wind
Citizens Property (FL)	Everglades Re Ltd.	750	April	Florida Hurricane
Swiss Re	Mythen Ltd.	400	May	U.S. Hurricane/Europe Wind
USAA	Residential Re 2012 Ltd.	200	May	U.S. Hurricane, Earthquake and Storm
Travelers	Longpoint Re III Ltd.	250	June	Northeast U.S. Wind

Source: Willis Capital Markets & Advisory, Guy Carpenter Securities.

Alternative reinsurance market – cat bonds (2)

- Catastrophe bond market nears record size

Catastrophe bonds (non-life)



Source: Willis Capital Markets & Advisory

Alternative reinsurance market - sidecars

- Sidecars continue to support property retrocession capacity

Sidecar Transactions — Post Japan 3/11/11 Earthquake

Sponsor	Transaction	Capital ($ Mil.)	Date	Major Other Investors
Alterra	New Point IV	200	April 2011	Stone Point Capital LLC (Trident V L.P.)
Lancashire	Accordion Re	250	May 2011	—
Validus	AlphaCat Re 2011	180	June 2011	Serengeti Asset Management
RenRe	DaVinci Re	100	June 2011	Additonal capital raise
RenRe	Upsilon Re	74	Jan. 2012	—
Lancashire	Accordian Re	75	Feb. 2012	Additional capital raise
Alterra	New Point V	210	June 2012	Stone Point Capital LLC (Trident V L.P.)
Validus	AlphaCat Re 2012	70	June 2012	Serengeti Asset Management
RenRe	Timicuan Reinsurance III	55	June 2012	—

Source: Company press releases and filings.

Alternative reinsurance market – hedge funds

- Hedge fund backed start-up reinsurers entering market

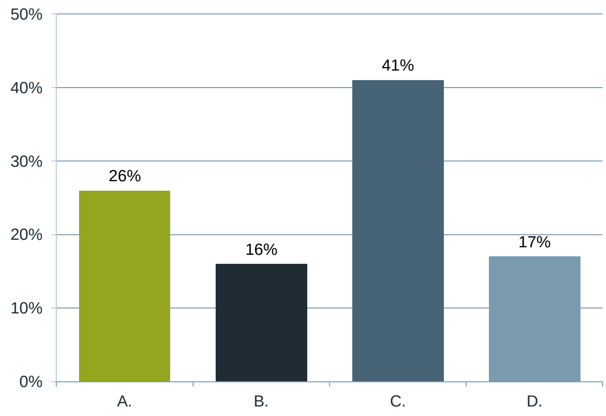
Recent Hedge Fund-Backed Start-Up Reinsurers

Company	Initial Capital ($ Mil.)	Operations Date	Major Investors
Third Point Reinsurance Co. Ltd.	750	Jan. 2012	Third Point LLC, Kelso & Co, Pine Brook Road Partners
PaCRe Ltd.	500	April 2012	Paulson & Co., Validus
S.A.C. Re Holdings Ltd.	500	July 2012	S.A.C. Capital Advisors, Capital Z Partners III LP

Source: Company press releases and filings.

What will be the main driver of future growth in the alternative reinsurance market?

A. Pricing of traditional reinsurance
B. Regulation
C. Investor appetite
D. Standardised instrument structures



Source: Audience survey conducted at Fitch reinsurance investor briefing, 6th September 2012

Pricing expectations

- Price increases to slow at 1 January 2013 renewal and beyond
  – Reinsurance supply expected to exceed demand across the majority of classes
- Most major classes expected to remain adequately priced
  – Property catastrophe rates remain high compared with historical trends
  – Further increases in Asia-Pacific lines expected to be more moderate
- Casualty pricing of greatest concern
  – Prolonged softening/stagnation
  – More exposed to risks posed by currently low interest rates/rising inflation
- Pricing outcomes to remain fragmented
  – Reinsurers seeking to tailor pricing changes based on individual risk profiles

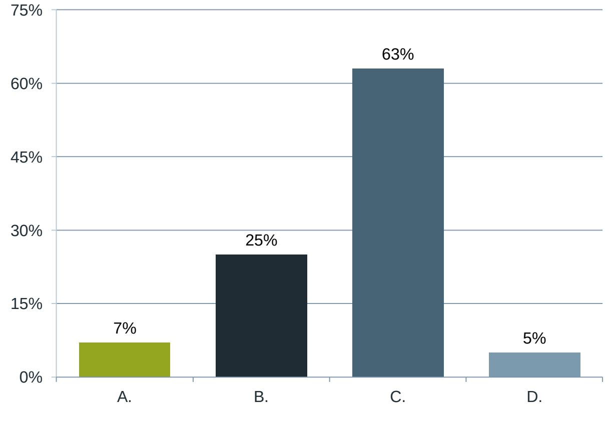
Recent reinsurance renewal pricing trends

Renewal season	Pricing developments
June/July 2012	Wind-exposed US programmes: -10% to +5% US Casualty: Flat to +5%
April 2012	Japanese earthquake (property): +30% to +50% Japanese wind and flood (property): +15%
January 2012	Wind-exposed US programmes: +10% to +15% Eastern Asia: +30% European/US Casualty: Flat

Source: Company and broker reports

What will be the overall trend in pricing at the January 2013 renewal?

A. Higher
B. Lower
C. Flat
D. Unsure

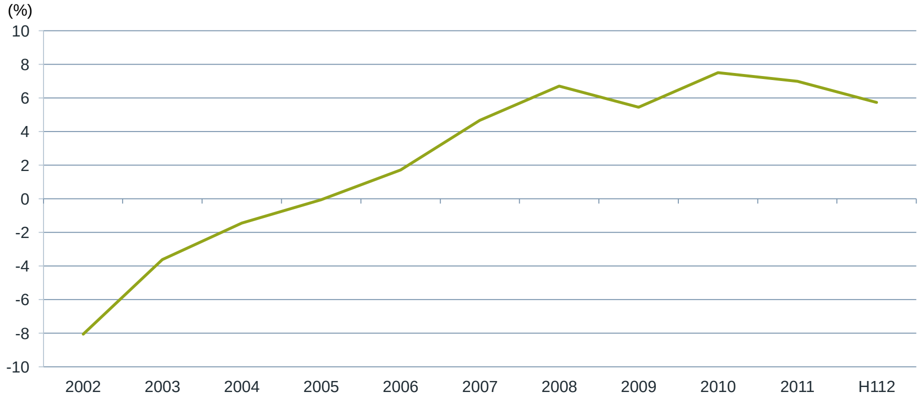


Source: Audience survey conducted at Fitch reinsurance investor briefing, 6th September 2012

Earnings expectations

- Strong recovery in profitability for full-year 2012
  - Lower catastrophe burden (H112: USD12bn vs H111: USD81.7bn)
  - Benefit of improved pricing following 2011 catastrophes
- Earnings sustainability expected to become more challenging in 2013
  - Decline in technical profitability due to reduced pricing margins
  - Higher level of catastrophe burden relative to 2012
  - Reduced contribution from prior-year reserve surpluses
  - Persistence of low investment yields

Continued favourable reserve development



Source: Fitch analysis of reserving data of 18 North American reinsurers

Calendar- & accident-year combined ratios deteriorate

(%)	H112	H111	2011	2010	2009	2008	2007
Calendar year	88.9	114.0	103.6	92.2	88.6	91.6	86.7
Accident year	94.6	117.9	110.6	99.7	94.1	98.3	91.4
Difference (pp)	-5.7	-3.9	-7.0	-7.5	-5.5	-6.7	-4.7

Source: Highline Data. Data is from 18 (re)insurance organisations in North America with significant reinsurance operations

Reduced natural catastrophe losses

Date	Event	Location	Economic loss (USDbn)	Insured loss (USDbn)
Mar 2012	Storm, tornadoes	US	4.0	2.4
Apr 2012	Storm, tornadoes	US	2.0	1.0
Apr 2012	Storm, tornadoes	US	1.8	0.9
Overall H112 Total			**26.0**	**20.0**
Mar 2011	Earthquake, tsunami	Japan	210.0	35.0-40.0
Feb 2011	Earthquake	New Zealand	20.0	13.0
Apr 2011	Storm, tornadoes	US	7.5	5.1
Overall H111 Total			**302.0**	**81.7**

- Crop losses manageable

Source: Munich Re NatCatService

2013/2012 Projections

(USDm)	2013 Forecast	2012 Forecast	2011 Actual
Net premiums written	122,800	118,000	115,716
Catastrophe losses	10,900	6,200	27,900
Net favourable prior-year reserve development	4,700	5,700	7,902
Calendar-year combined ratio (%)	97.2	92.1	109.1
Accident-year combined ratio (%)	101.2	97.1	116.1
Accident-year combined ratio ex cats (%)	91.9	91.7	91.4

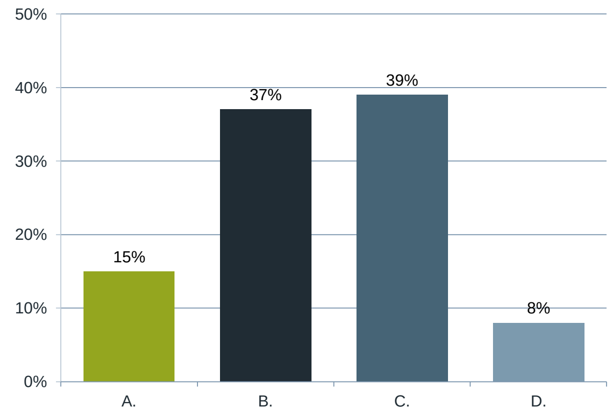
Source: Fitch monitored universe of reinsurers

Risks & challenges

- Eurozone crisis
  - Sector more exposed to contagion effects of sovereign default
  - Currently held exposure viewed as manageable
- Rapid rise in inflation
  - Longer-tail liabilities and long-duration fixed-income portfolios most exposed
  - Protection sought through inflation-linked bonds and inflation swaps
- Low interest rates
  - Subdued investment income limits ability to offset technical losses
  - Puts pressure on earnings

In 2013, the Eurozone crisis will…

A. Improve
B. Stay the same
C. Deteriorate
D. Result in contagion



Source: Audience survey conducted at Fitch reinsurance investor briefing, 6th September 2012

Other developments

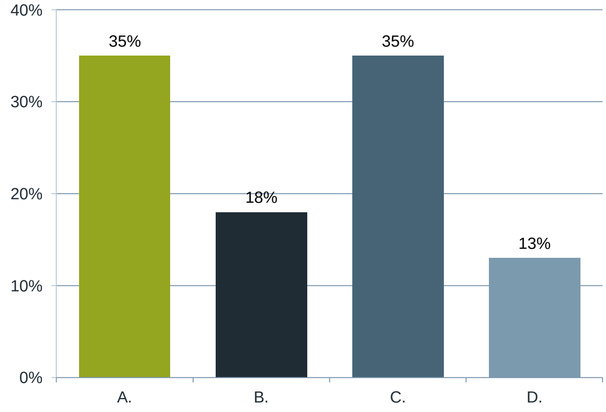
- Catastrophe models
  - Lessons learned from 2011 events
  - Reinsurers have reduced reliance on model assessments
  - Modelling firms working more closely with industry ahead of key model revisions
  - Model functionality improved
- Catastrophe bond market nears record size
  - 2012 issuance likely to exceed that achieved in 2011 and 2010
- M&A activity remains muted
  - Market remains ripe for consolidation

What could lead to a negative sector outlook?

- Inability to replenish capital following a large loss event
  - Single-loss event trigger revised upwards from USD50bn to USD60bn
  - Combination of sizeable loss and inability to replenish capital considered rare
- Sustained underwriting losses over a two- to three-year period
  - Combined ratio in excess of 110%
- Severe dislocation of global financial markets
  - Prevents reloading of capital following a major loss
  - Previous reason for a Negative Outlook on the sector in late 2008

What is the greatest risk faced by the reinsurance sector in 2013?

A. Low investments yields
B. Spike in inflation
C. Major CAT loss
D. Adverse reserve development



Source: Audience survey conducted at Fitch reinsurance investor briefing, 6th September 2012

Summary

- Sector Outlook remains Stable
- Continued capital strength – growing scrutiny over deployment
- Pricing set to stagnate
- Earnings sustainability to be more challenging in 2013
- Direction of pricing continues to be key focus

Fitch Research

- Fitch research can be accessed via our website www.fitchratings.com
  - Global Reinsurers' Mid-Year 2012 Financial Results (September 2012)
  - 2013 Outlook: Global Reinsurance (September 2012)
  - Alternative Reinsurance Market Update (August 2012)
  - Reinsurers More Risk-Focused for Next Asian Catastrophe (Aug. 2012)