



**FitchRatings**  
**Reinsurance Challenges  
& Expectations for 2014**

**Institute  
and Faculty  
of Actuaries**

**A Rating Agency Perspective**  
Martyn Street, Director  
Harish Gohil, Managing Director  
10 October 2013

## Agenda

- Rating Outlook
- Expectations and Observations
- Reinsurance Risk Radar
- Alternative Reinsurance

## Rating Outlook Stable

- Last revised from Negative in November 2009
- Majority of ratings expected to be affirmed in next 12-24 months
- Supporting factors: Strong capitalisation and continued profitability
- Challenges: Price softening and continued low investment yield

FitchRatings

www.fitchratings.com

## 2014 / 2013 Projections

(USDm)	2014 Forecast	2013 Forecast	2012 Actual
Net premiums written	102,300	100,300	97,339
Catastrophe losses	11,600	7,500	7,100
Net favourable prior year reserve development	4,050	5,950	6,586
Calendar year combined ratio (%)	96.8	90.5	89.3
Accident year combined ratio (%)	100.9	96.5	96.1
Accident year combined ratio ex catastrophes (%)	89.3	88.9	88.8

Source: Fitch monitored universe of reinsurers

FitchRatings

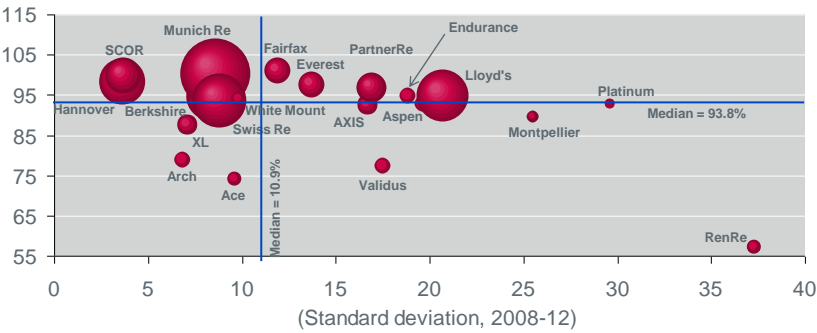
www.fitchratings.com

14/10/2013  
3

## Reinsurance Combined Ratio Volatility

2008-2012

(Average combined ratio, 2008-12)



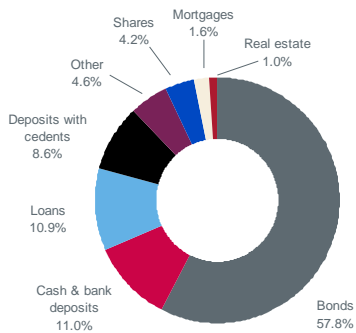
Size of bubble denotes NWP  
Source: Fitch, companies

FitchRatings

www.fitchratings.com

## Invested Asset Allocation

Major Asset Classes - 2012



- Fixed-income remains major class
- Conservative risk appetite
- Key focus for 2014
  - Duration management
  - Increasing risk appetite

Note: Combined composition for Hannover Re, Lloyd's of London, Munich Re, SCOR & Swiss Re. Source: Fitch

FitchRatings

www.fitchratings.com

## Uneven Capital Development

Change H113 Equity – Reinsurers



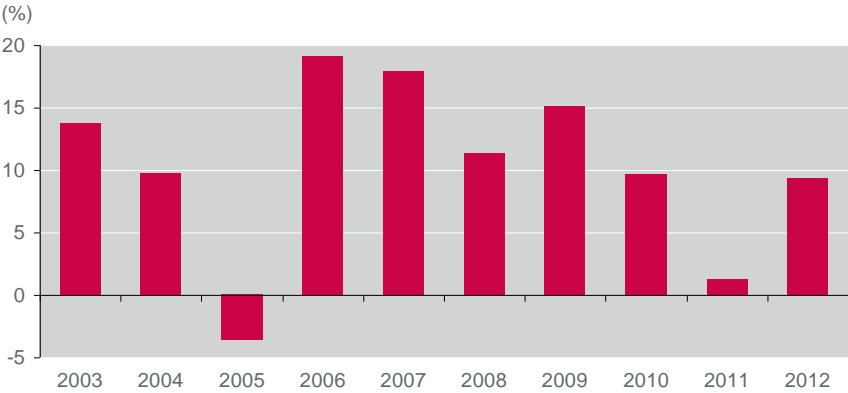
Note: IFS Ratings, N/R - Not Rated, p - Positive Outlook  
Source: Fitch

FitchRatings

[www.fitchratings.com](http://www.fitchratings.com)

## Operating ROE Declines in Recent Years

Average Operating ROE



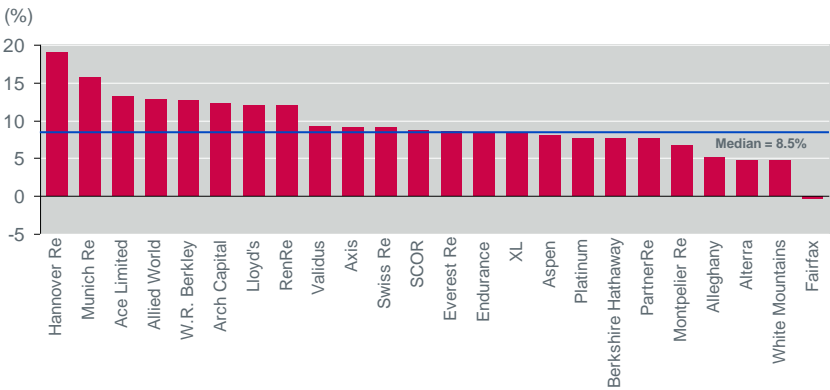
Source: Fitch

FitchRatings

[www.fitchratings.com](http://www.fitchratings.com)

## Significant Variation in ROE

Group Operating ROE 2008-2012 Average



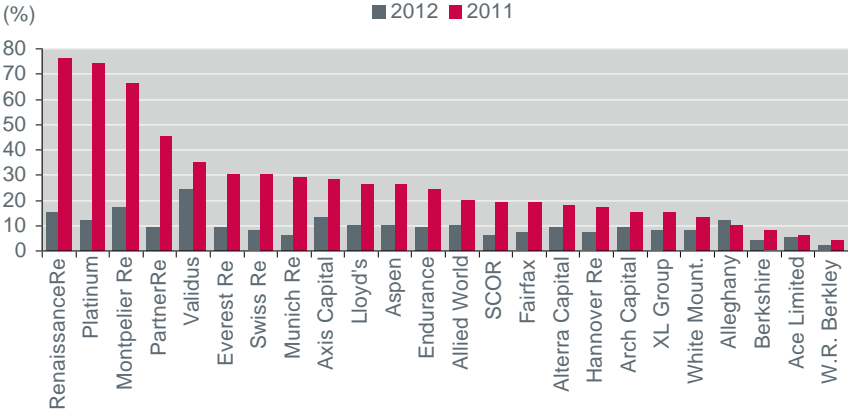
Source: Fitch

FitchRatings

www.fitchratings.com

## Reduced CAT Loss Burden in 2012 vs. 2011

Cat Losses / Premiums Earned



Source: Fitch

FitchRatings

www.fitchratings.com

## Continued Favourable Reserve Development



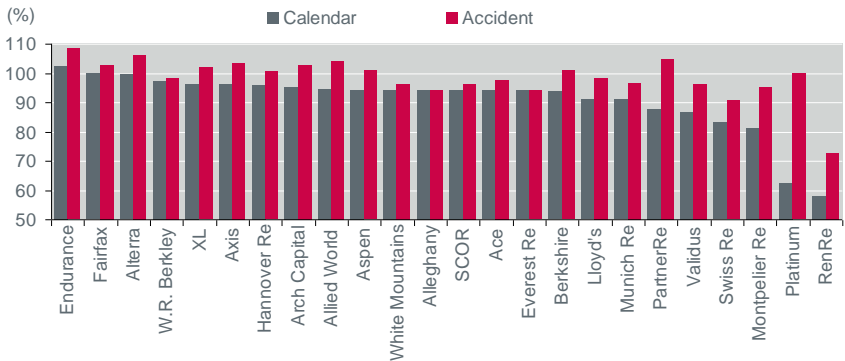
Source: Fitch analysis of reserving data of 17 North American reinsurers

FitchRatings

[www.fitchratings.com](http://www.fitchratings.com)

## Prior Year Development Remains in Surplus

### 2012 – Calendar and Accident Year Combined Ratio



Source: Fitch

FitchRatings

[www.fitchratings.com](http://www.fitchratings.com)

## Recent Reinsurance Renewal Pricing Trends

Renewal Season	Pricing Developments
June/July 2013	US property loss-hit: -5% to +5% US property loss-free: -10% to -20% Florida property loss-free: -15% to -25% Casualty no loss emergence: Flat to declining
April 2013	Japanese property loss-hit: Flat to +10% Japan wind and flood loss-free: Flat to down 2.5% US property loss-free: -5% to -10%
January 2013	US wind programmes loss-hit: +10% US loss-free: Flat to -5% Marine: Up to +30% International property: Flat to -5%

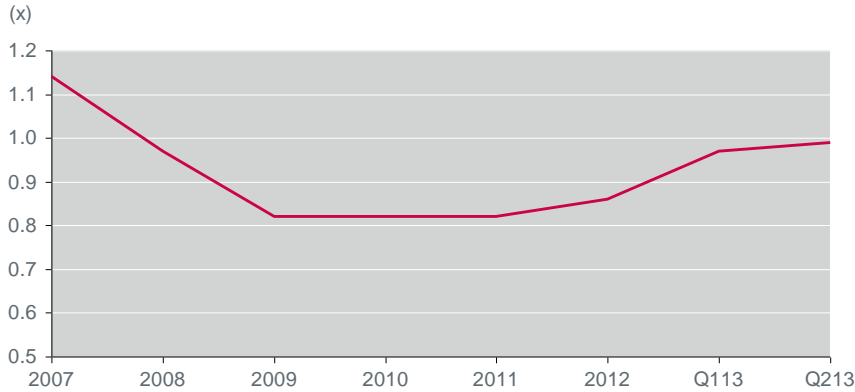
Source: Company and broker reports

FitchRatings

[www.fitchratings.com](http://www.fitchratings.com)

## Valuation Multiples Remain Below Pre-Financial Crisis

Reinsurer Market Price/Tangible Book Value

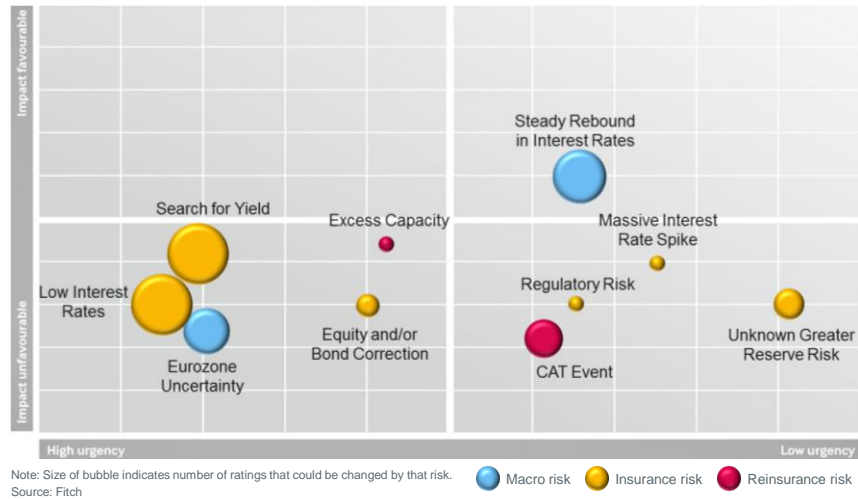


Source: SNL Financial

FitchRatings

[www.fitchratings.com](http://www.fitchratings.com)

## Global Reinsurance Risk Radar July 2013



FitchRatings

[www.fitchratings.com](http://www.fitchratings.com)

## Alternative Capital: Threat or Opportunity?

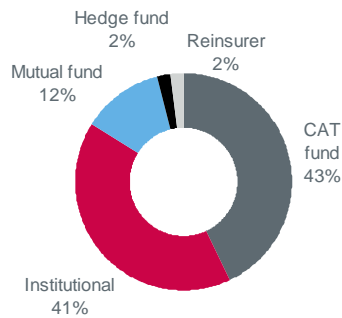
- "We may well be seeing a fundamental shift in the way risk is capitalised", John Nelson, Chairman Lloyd's of London
- "How sustainable is it (ILS)? It hasn't been tested so we don't know", Torsten Jeworrek, Chairman of Reinsurance Committee, Munich Re
- "Reinsurers will have to adapt", Alex Moczarski, CEO Guy Carpenter
- "It will go from being a competitive threat to being part of traditional reinsurers' business plans", Bryon Ehrhart, Chief Strategy Officer, Aon Benfield

FitchRatings

[www.fitchratings.com](http://www.fitchratings.com)

## ILS – Capacity Providers

### Investor by Category – 2013



Note: Year ending June 30  
Source: Aon Benfield Securities

- Institutional and mutual fund provision grows
- Majority of capital continues to come from U.S.
- Opinion divided on what is driving growth

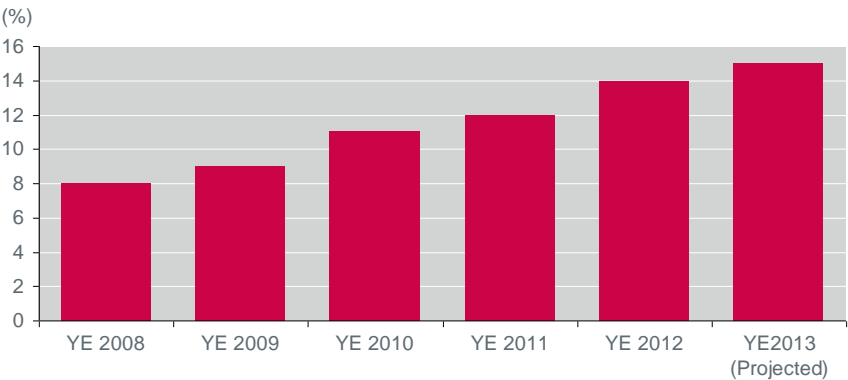
FitchRatings

www.fitchratings.com

## Alternative Reinsurance 2013 Market Update

- Alternative market capacity continues to grow

### Alternative Capacity as a % of Global Property Catastrophe Reinsurance Limit



Source: Guy Carpenter Estimates

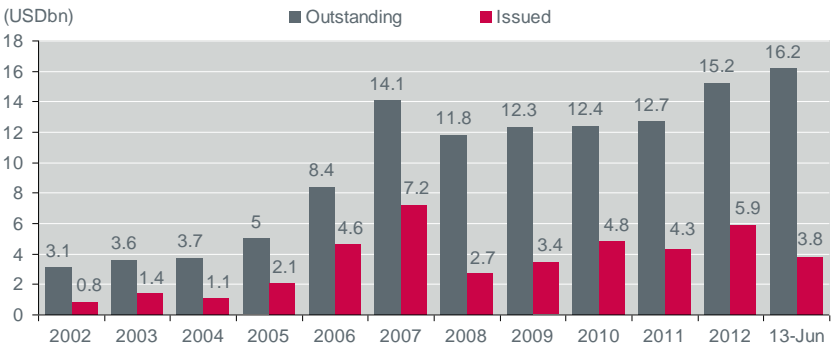
FitchRatings

www.fitchratings.com

## Alternative Reinsurance 2013 Market Update (cont.)

- Catastrophe Bond Market Nears Record Size

### Catastrophe Bonds (Non-Life)



Source: Willis Capital Markets & Advisory

FitchRatings

[www.fitchratings.com](http://www.fitchratings.com)

## Summary of Expectations

- Sector Outlook remains Stable
- Price softening set to continue
- Low yield environment set to continue
- Earnings sustainability to be more challenging in 2014

FitchRatings

[www.fitchratings.com](http://www.fitchratings.com)

## Related Research

Fitch research can be accessed via our website [www.fitchratings.com](http://www.fitchratings.com)

- Alternative Reinsurance 2013 Market Update (September 2013)
- 2014 Outlook: Global Reinsurance (August 2013)
- Global Reinsurers' Mid-Year 2013 Financial Results (August 2013)
- Reinsurance (Global) Sector Credit Factors (August 2013)
- Hurricane Season 2013 – A Desk Reference for Insurance Investors (May 2013)
- Bermuda 2013 Market Update (January 2013)

---

**Fitch**Ratings

[www.fitchratings.com](http://www.fitchratings.com)

## Disclaimer

Fitch Ratings' credit ratings rely on factual information received from issuers and other sources. Fitch Ratings cannot ensure that all such information will be accurate and complete. Further, ratings are inherently forward-looking, embody assumptions and predictions that by their nature cannot be verified as facts, and can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed.

The information in this presentation is provided "as is" without any representation or warranty. A Fitch Ratings credit rating is an opinion as to the creditworthiness of a security and does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. A Fitch Ratings report is not a substitute for information provided to investors by the issuer and its agents in connection with a sale of securities.

Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch Ratings. The agency does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS AND THE TERMS OF USE OF SUCH RATINGS AT [WWW.FITCHRATINGS.COM](http://WWW.FITCHRATINGS.COM).

---

**Fitch**Ratings

[www.fitchratings.com](http://www.fitchratings.com)

