



Global Reinsurance

A Rating Agency Perspective

Martyn Street
Harish Gohil

23 September 2016

FitchRatings

Contents

-
- 1 Key Issues
 - 2 Observations & Expectations
 - 3 Solvency II developments
 - 4 What Could Change the Rating Outlook?
-

Sector Outlook Negative, Rating Outlook Stable

Profit deterioration

1. Quality of earnings expected to deteriorate as underwriting margins and investment returns continue to fall
2. Smaller companies with limited diversification are at greatest risk of negative rating action

Pricing

1. Pricing conditions to remain challenging during 2017
2. Surplus of reinsurance capacity will create further downward pressure on premium prices
3. Slowing rate of price reductions will have limited significance in improving near-term profitability

Alternative capital

1. Growth of alternative reinsurance market has slowed
2. If this trend continues, it could signify reduced appetite for reinsurance risk

M&A

1. Consolidation among reinsurers has waned as companies digest recent deals
2. M&A likely to resume in the near term as companies consider strategic options to combat market stress

2017/2016 Projections

(USDm)	2017 forecast	2016 forecast	2015 actual
Net premiums written	102,060	101,050	99,067
Catastrophe losses	10,135	7,065	2,500
Net favourable prior year reserve development	2,990	3,945	4,833
Calendar year combined ratio (%)	99.2	94.2	86.8
Accident year combined ratio (%)	102.2	98.2	91.8
Accident year combined ratio ex catastrophes (%)	92.0	91.1	89.2
Shareholders' equity (excluding Berkshire)	271,500	268,810	266,146
Net income ROE	8.0	8.5	9.8

Source: Fitch monitored universe of reinsurers

Natural Catastrophe Events, 1H16

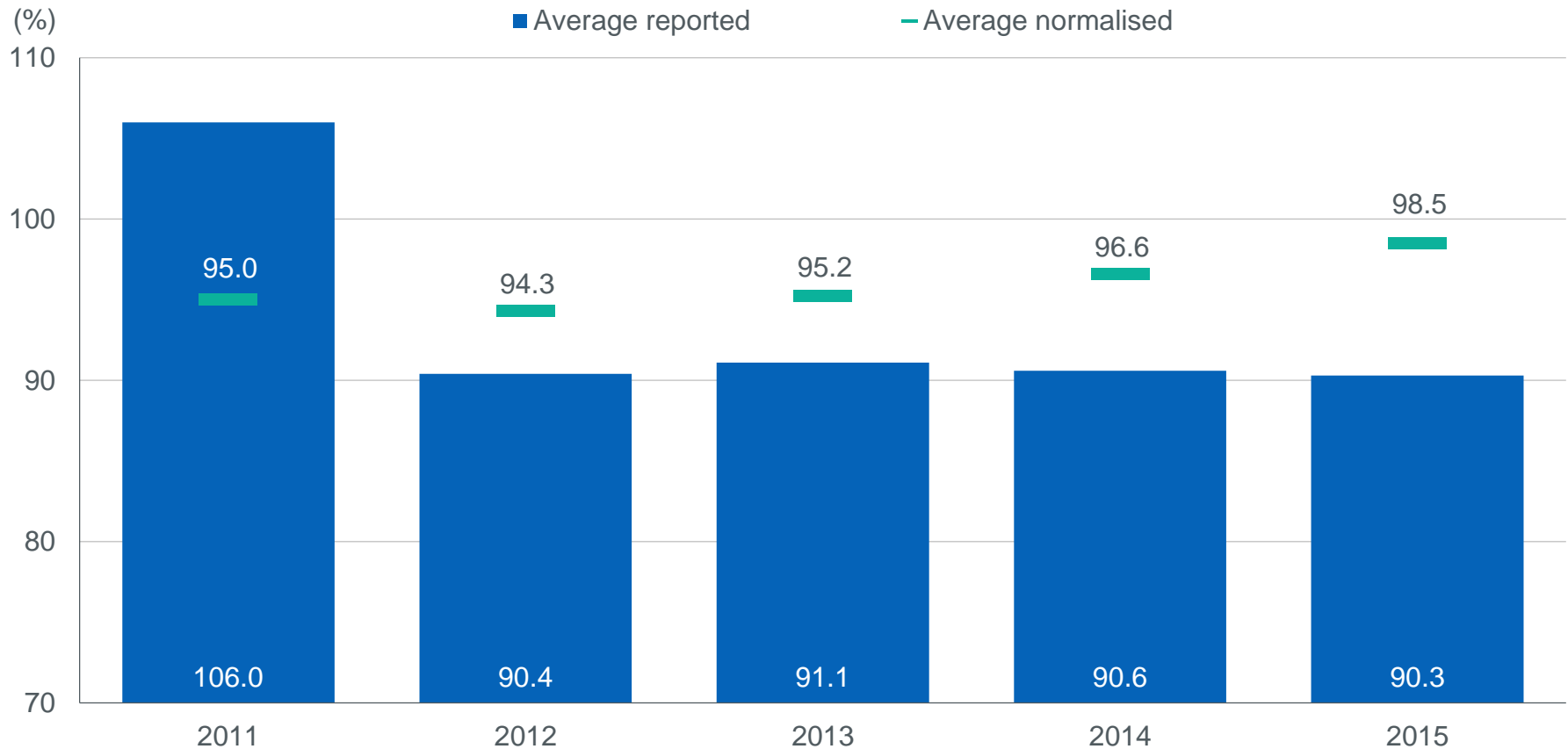
Date	Event	Location	Economic Loss (USDbn)	Insured Loss (USDbn)
April	Earthquakes	Japan	22-48	5.6
April	Storm/hail	US	3.5	3.1
May/June	Storms/floods	Europe	4.0	2.8
April	Storms	US	3.5	2.7
May	Wildfires	Canada	3.6	2.5
March	Storms/hail	US	2.0	1.5
1H16 total			68.0	28.0
1H15 total			46.0	16.0
10-year avg. 1H			102.0	26.0
30-year avg. 1H			63.0	15.0

Source: Swiss Re – except 30-year average 1H, which is attributed to Munich Re NatCatService

Reported vs. Normalised Combined Ratio: 2011-2015 Average

Major European Reinsurers

Reported vs. normalised combined ratio



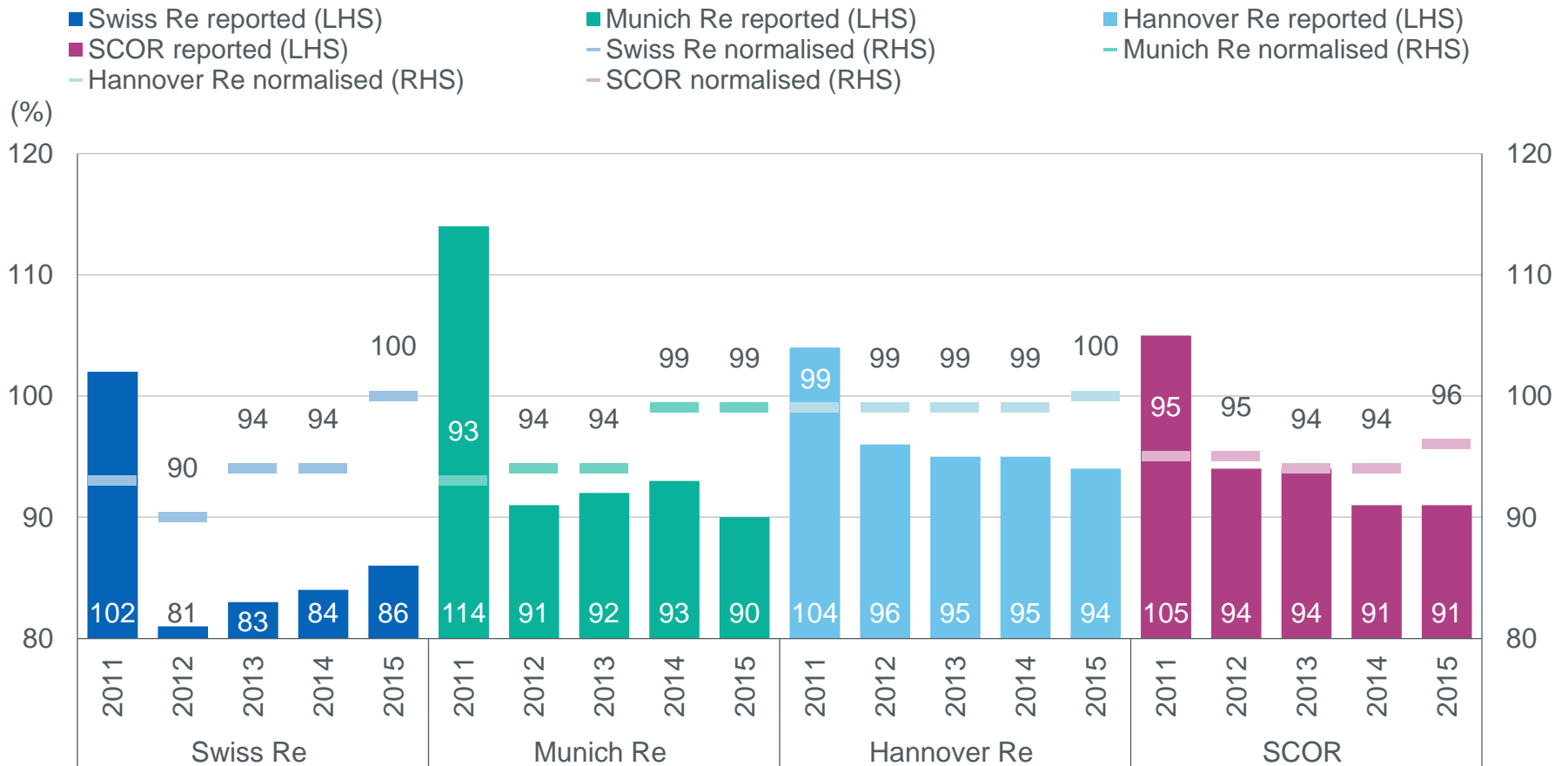
Note: Average for Hannover Re, Munich Re, SCOR and Swiss Re

Source: Company reports, Fitch

Normalised vs. Reported Combined Ratio: 2011-2015 by Co.

Major European Reinsurance

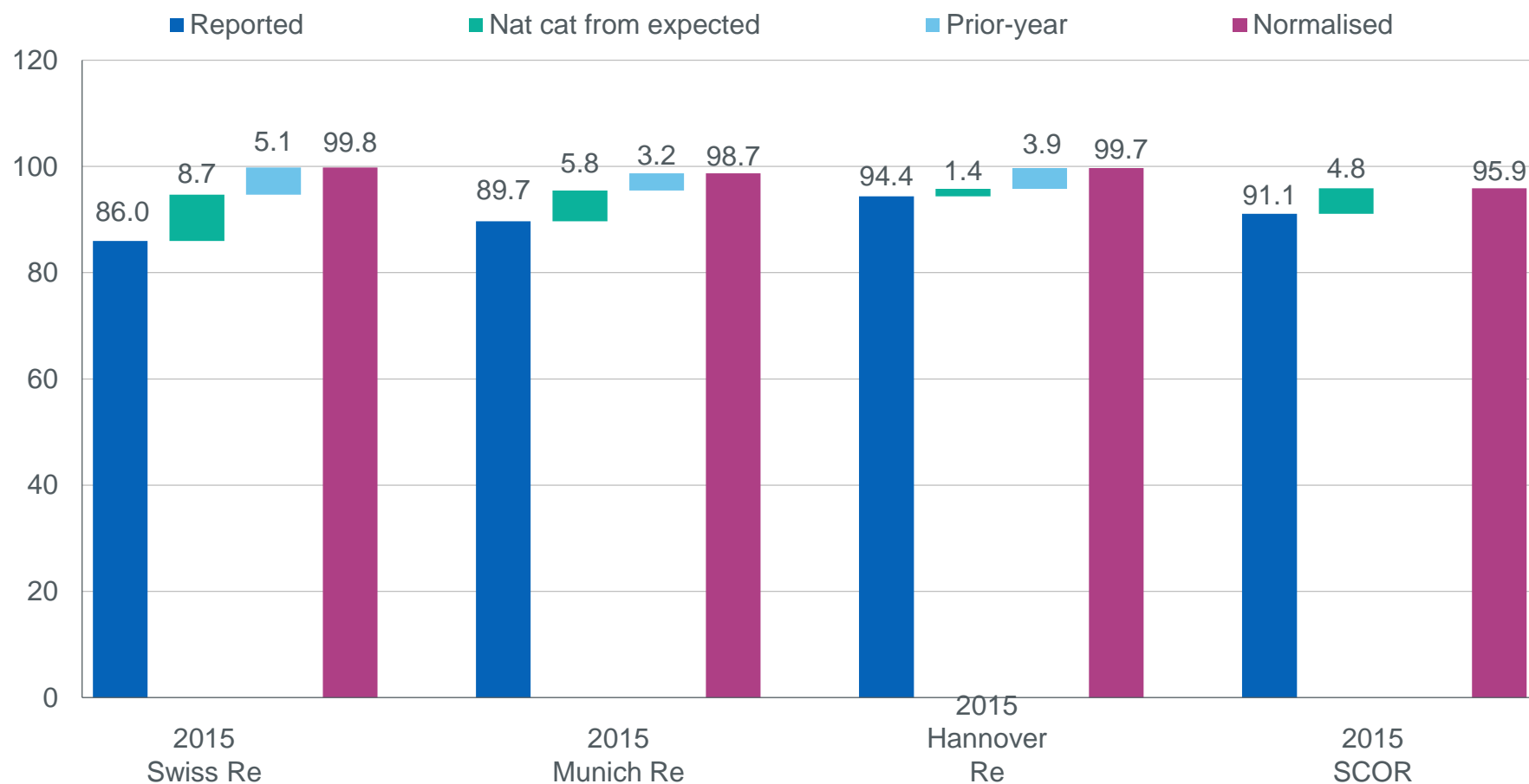
Reported vs. Fitch normalised combined ratio



Note: Reserve and natural catastrophe budgets vary annually for each company, figures rounded

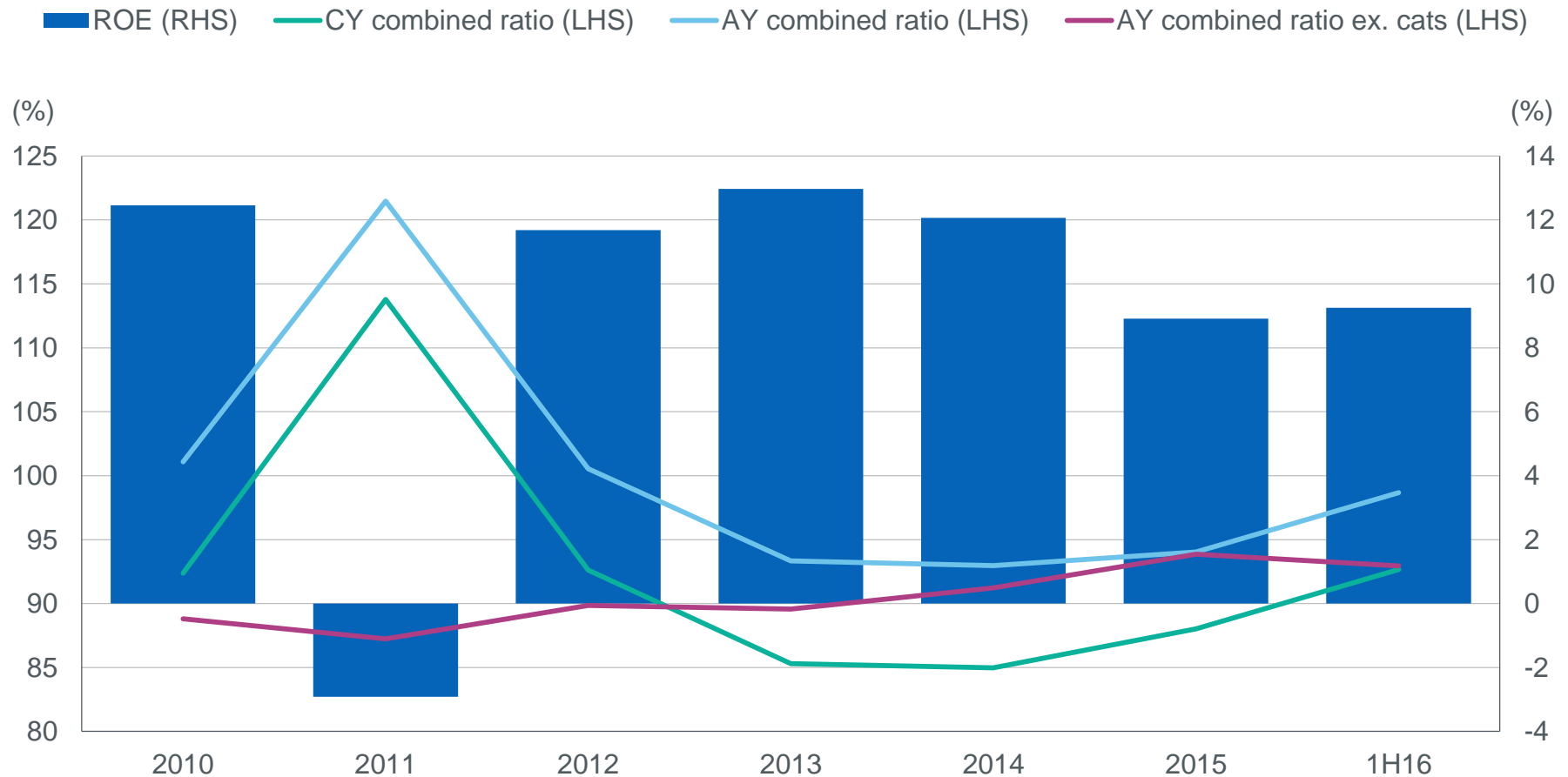
Source: Company reports, Fitch

Reported vs. Normalised Combined Ratio: 2015 Bridge



Source: Fitch

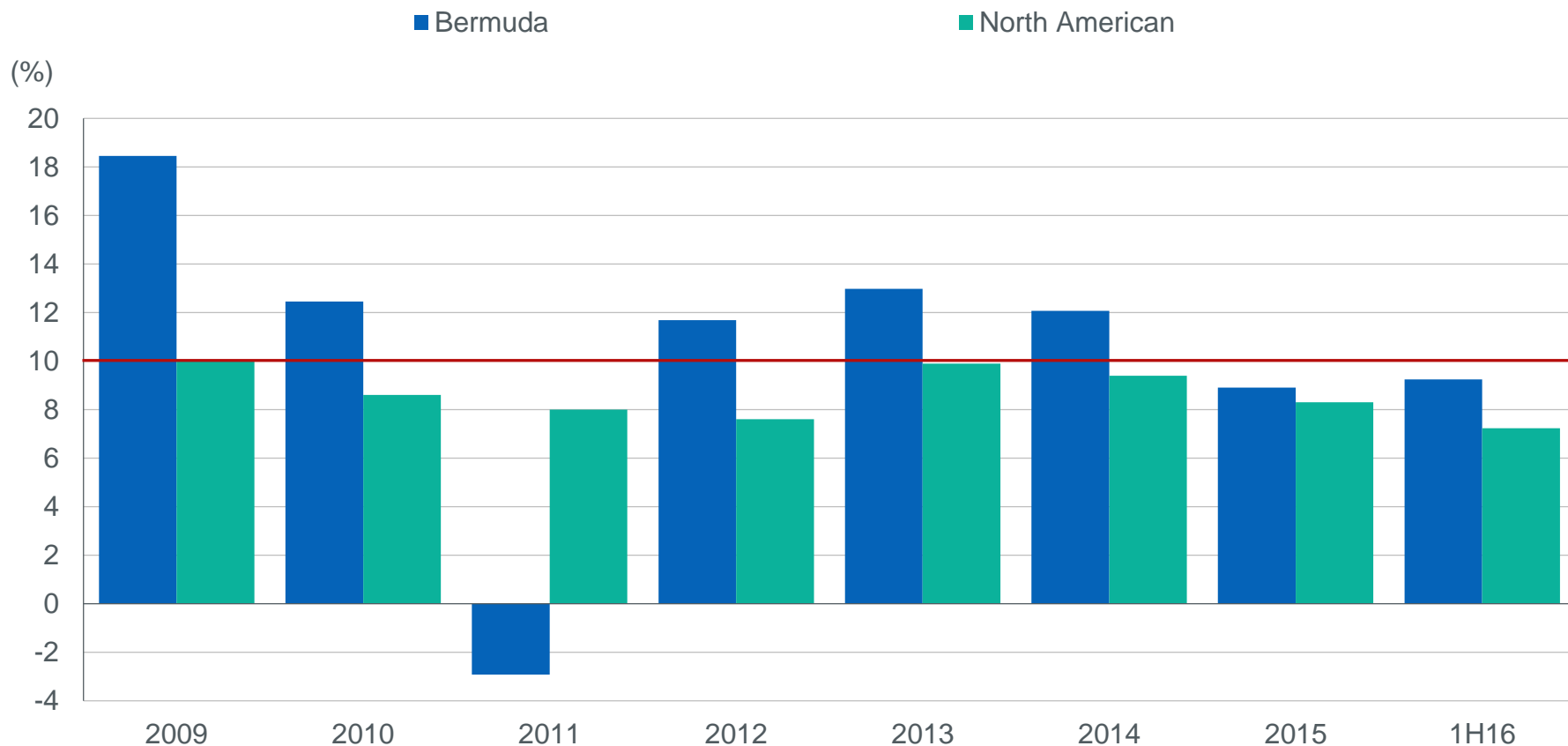
Bermuda (Re)insurers Financial Performance



Source: SNL Financial, company reports

Bermuda vs. North American (Re)insurers

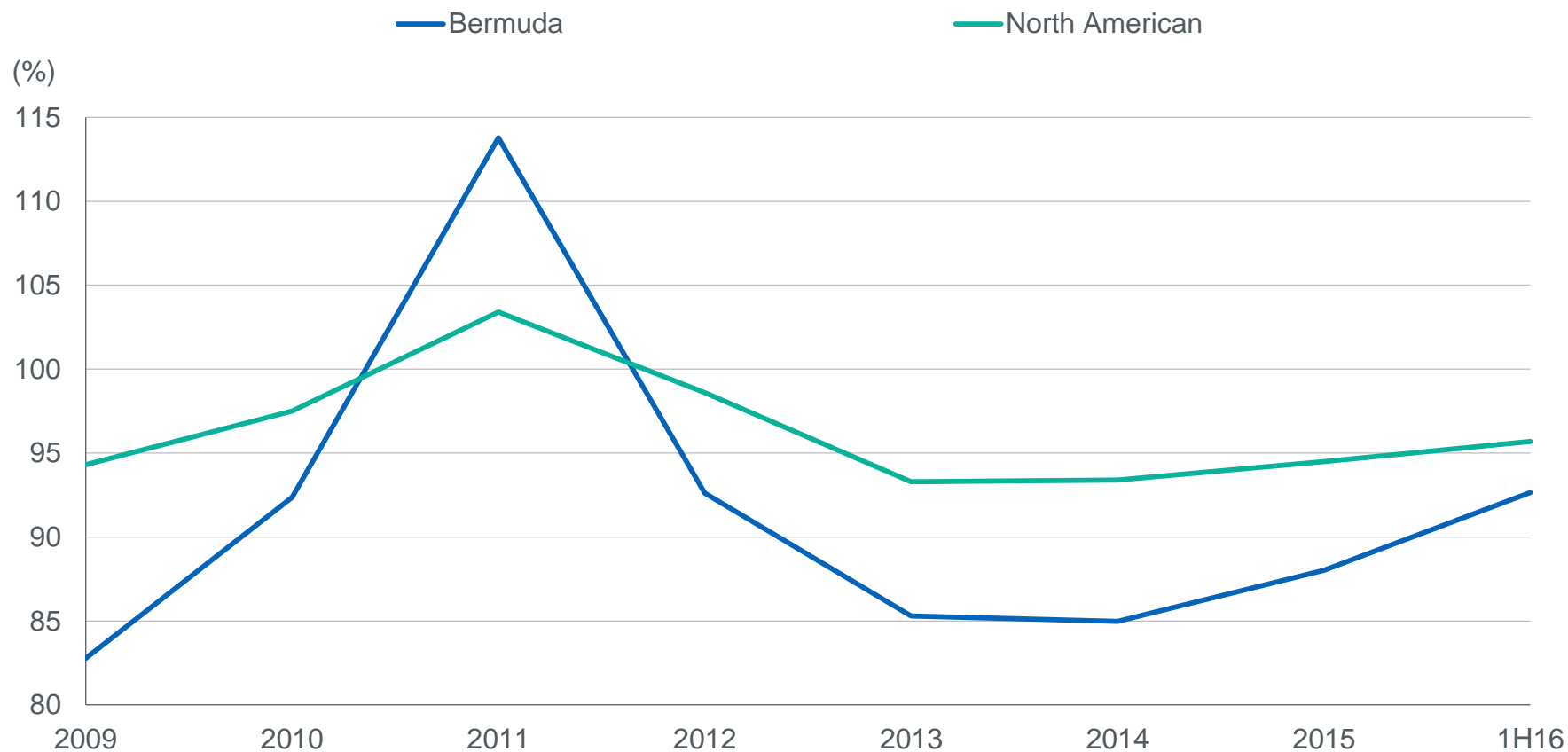
Bermuda ROE Advantage Shrinking



Source: SNL Financial, company reports

Bermuda vs. North American (Re)insurers (Cont.)

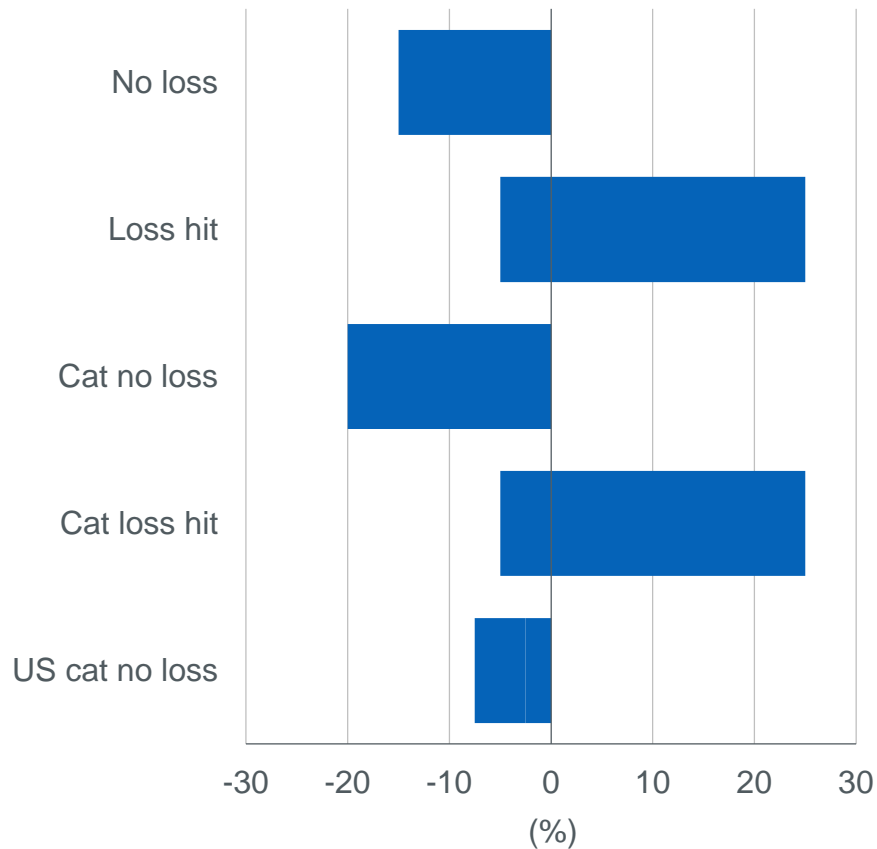
CY Combined Ratios Converging



Source: SNL Financial, company reports

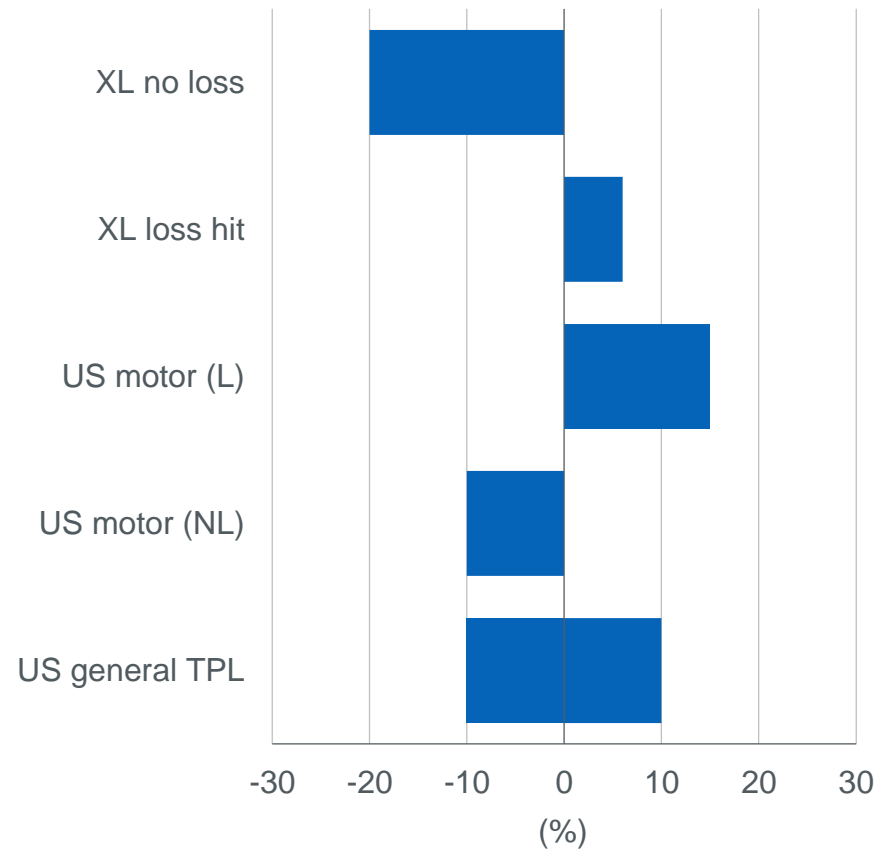
Reinsurance Renewal Pricing Trends

Property (2016)



Source: Company and broker reports

Casualty (2016)

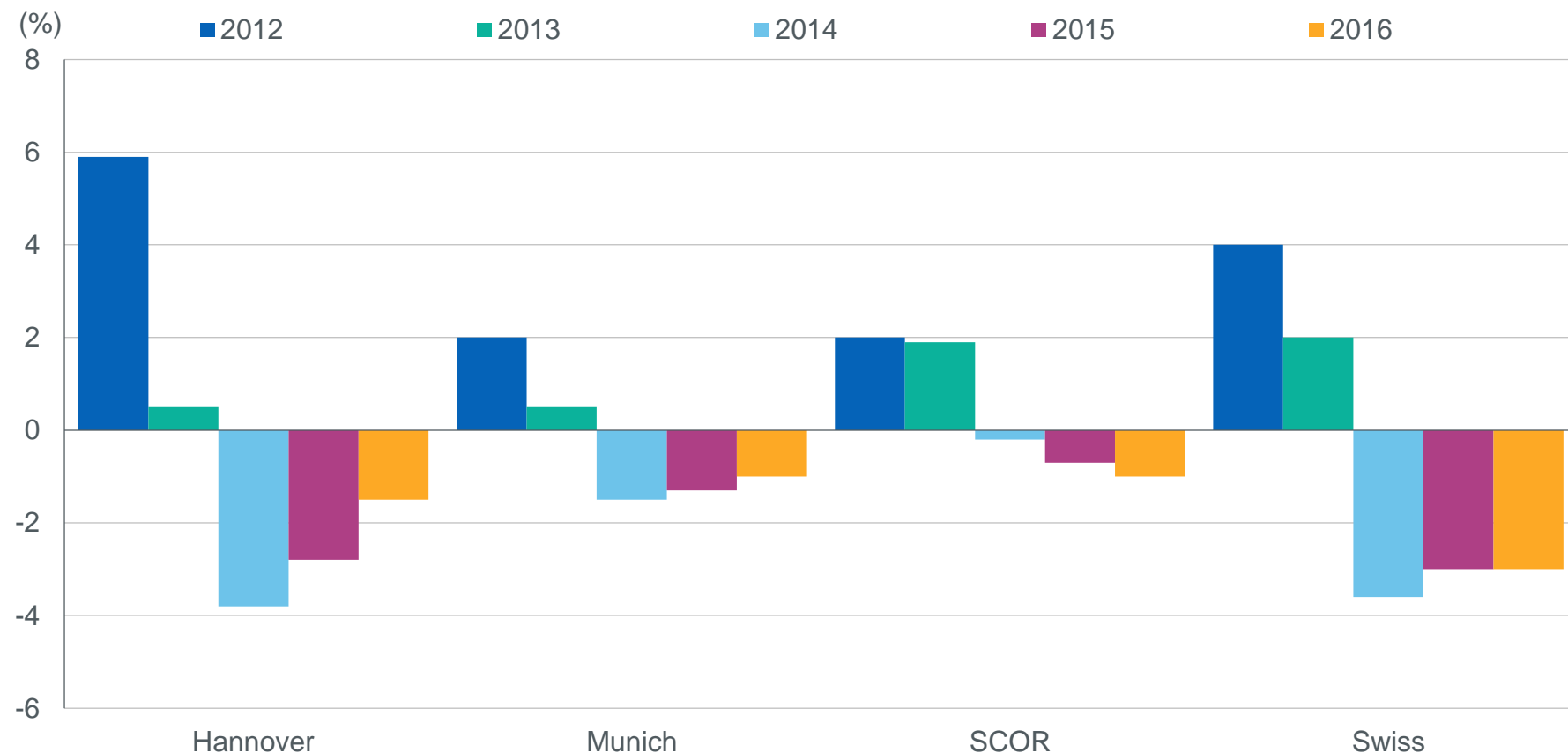


Source: Company and broker reports

Portfolio Price Movements: Major European

Overall Portfolio Price Movements

Softening trend continues but viewed as manageable

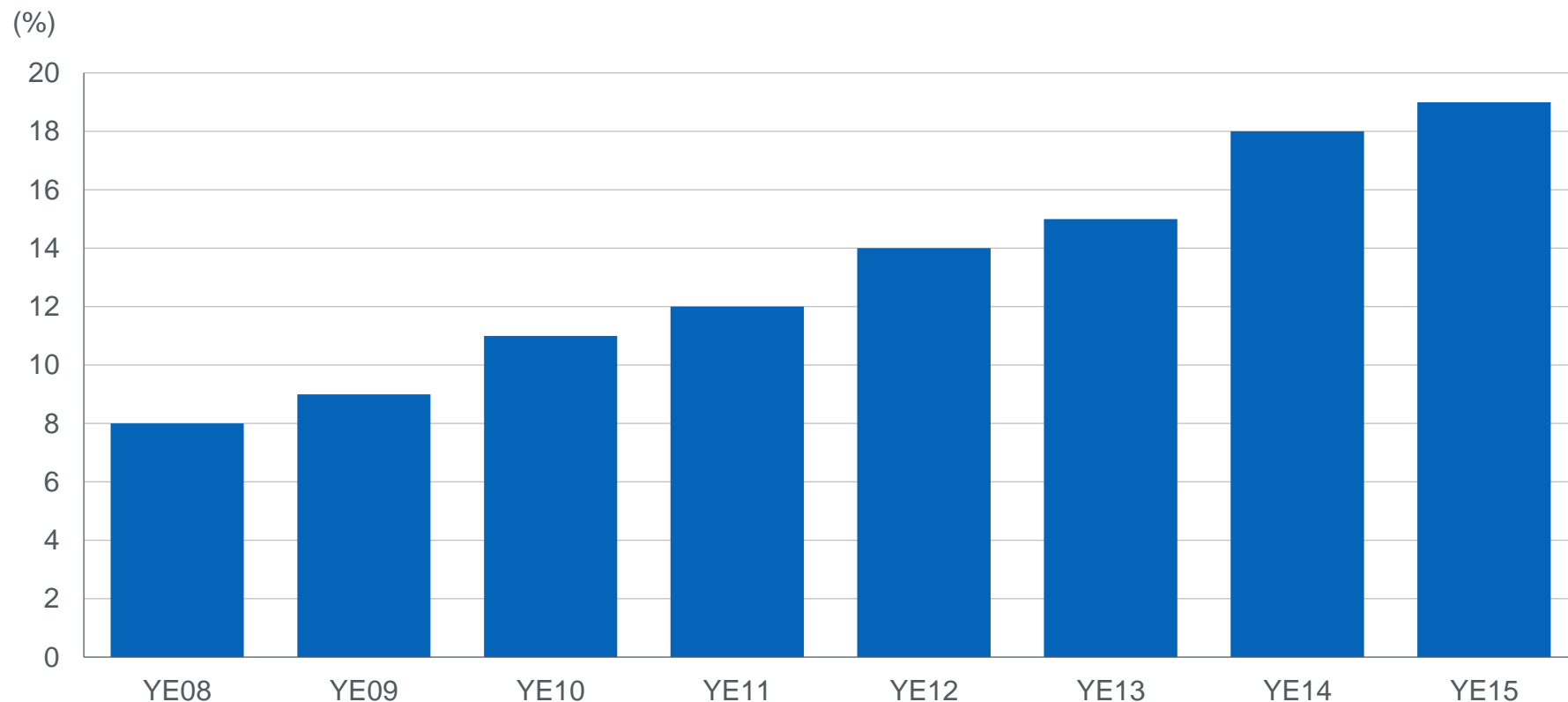


Source: Company disclosure

Alternative Reinsurance Capacity

Alternative Market Capacity Growth Slows

Alternative capacity as a % of global property catastrophe reinsurance limit

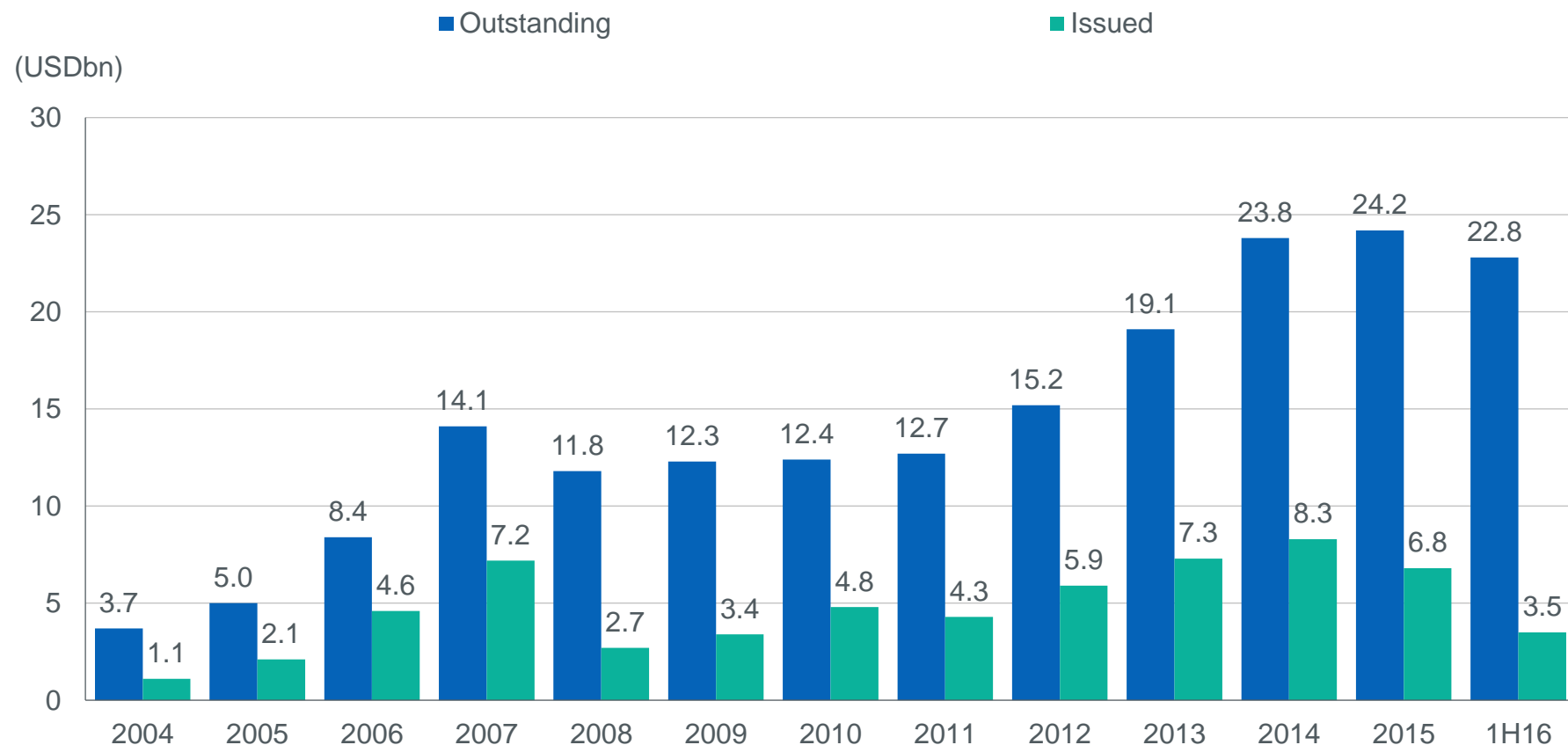


Source: Guy Carpenter Estimates

Catastrophe Bond Issuance

Issuance Slipping

Catastrophe Bonds (Non-Life)



Source: Willis Capital Markets & Advisory

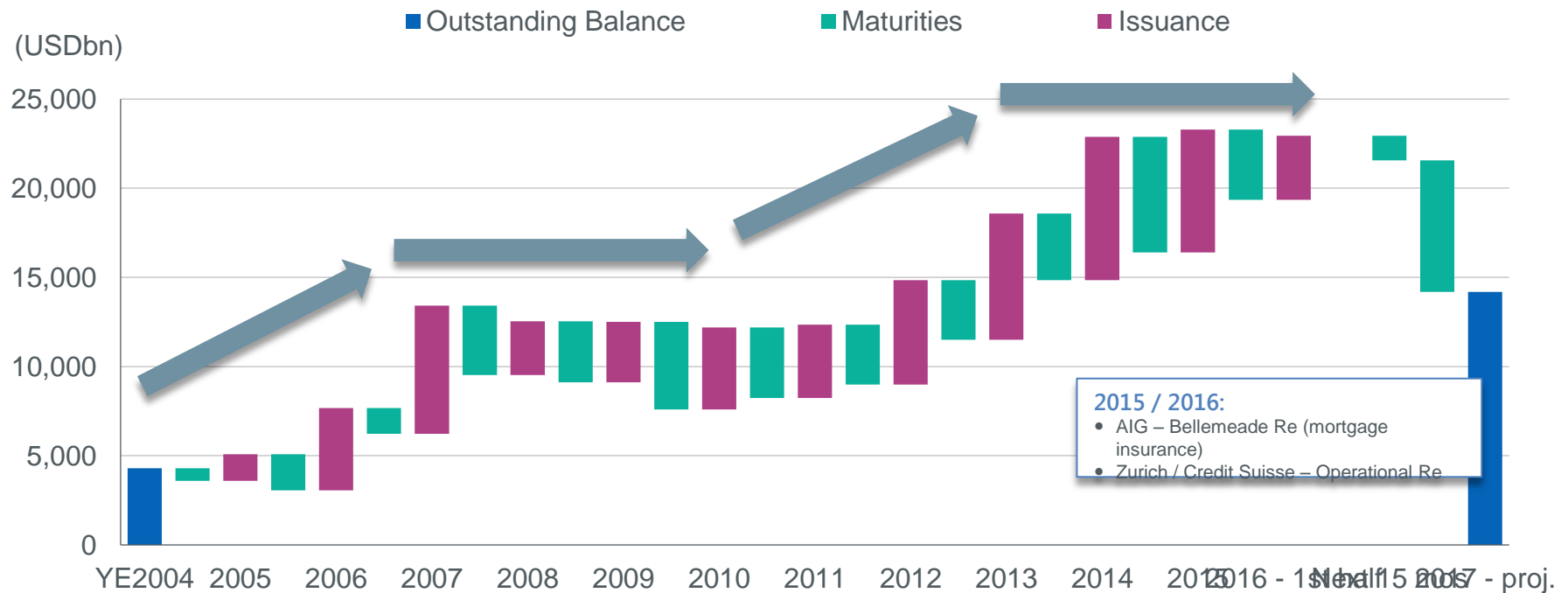
ILS Growth

– *needs a catalyst*

Tough sledding ahead

- What goes up, must come down – significant maturities coming due (\$7 B in 2017)
- Unless there is a paradigm shift, we believe not much more growth

Title



Source: ???

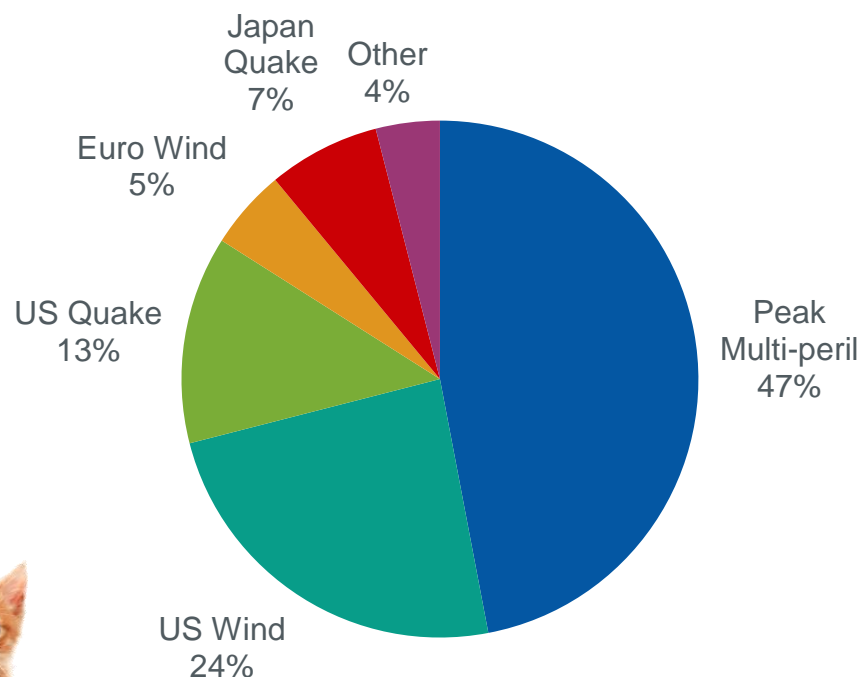
Basic Hurdles Still Exist for Cat Bonds

– *though changes are in the air*

- Niche market
- Expensive to structure
- Lack of robust secondary market
- Seasonality
- Peak perils
- Lack of standardization
- Private placements



Outstanding Perils

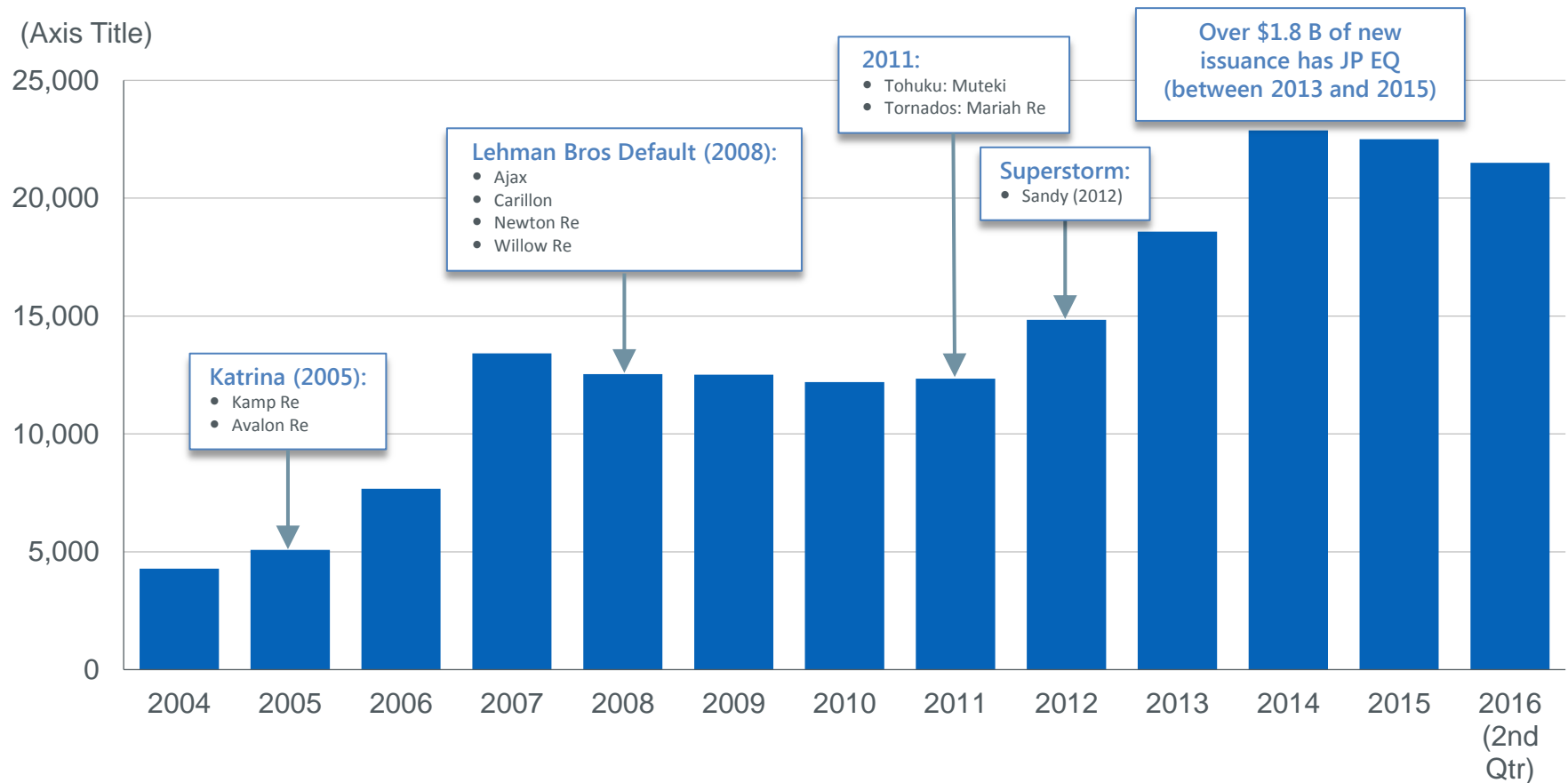


Source: Willis Capital Markets (June, 2016)

Will Investors Leave When Claims Happen?

— *doesn't seem so based on past events*

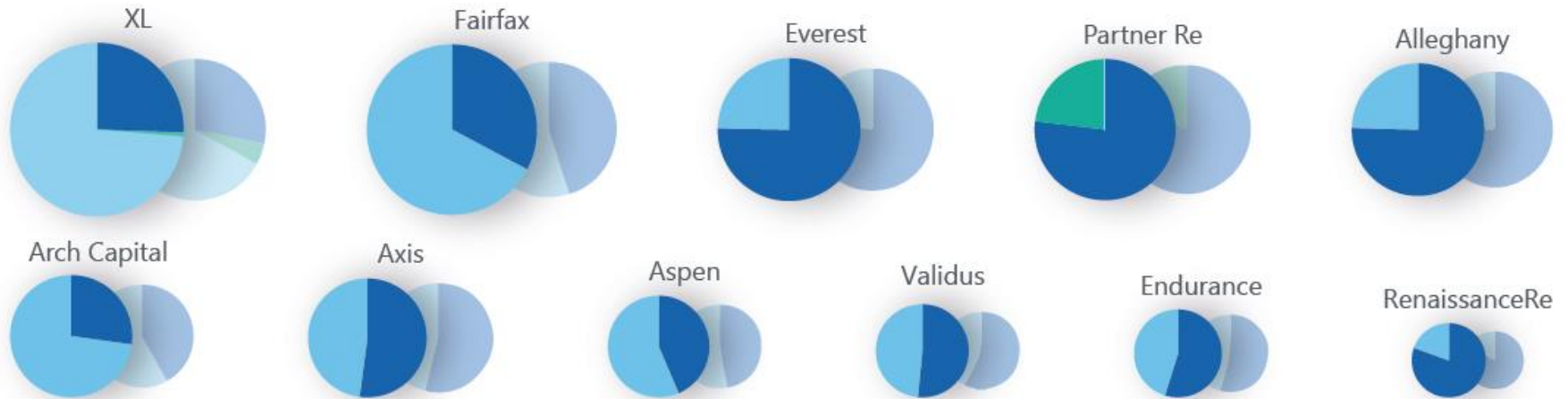
Par Outstanding



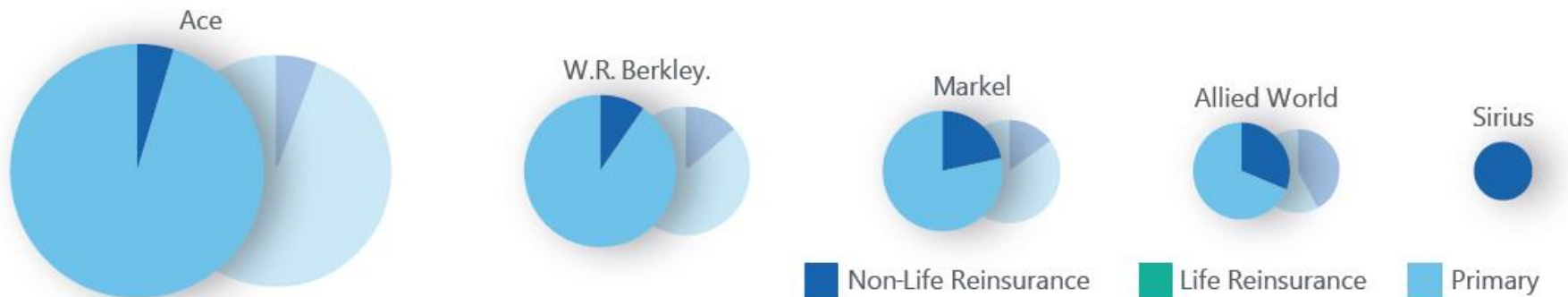
Source: Fitch

Evolution of Reinsurers' Market Position

Medium



Small



Major European Reinsurers' Solvency

Strong Level of Coverage



^a 223% represents coverage under Swiss Solvency Test, the regime that Swiss Re operates under
Source: Fitch

Equivalence

- Three elements separately assessed to determine whether equivalent
 - Reinsurance supervision
 - Solvency assessment
 - Group supervision
- Types of equivalence
 - Full (unlimited), temporary (end-2020, extendable by one year) and provisional (10 years, renewable for 10 year period)
- Third country effects
 - Non-EEA reinsurers when involved in EEA reinsurer contracts
 - Non-EEA subsidiaries of EEA (re)insurers
 - Non-EEA (re)insurers with EEA subsidiaries without EEA sub-group with EEA parent

Global Progress for Equivalence

Bermuda and Switzerland



^a Excludes captives and SPVs

^b Reinsurance supervision granted temporary equivalence for 5 years

Source: Fitch

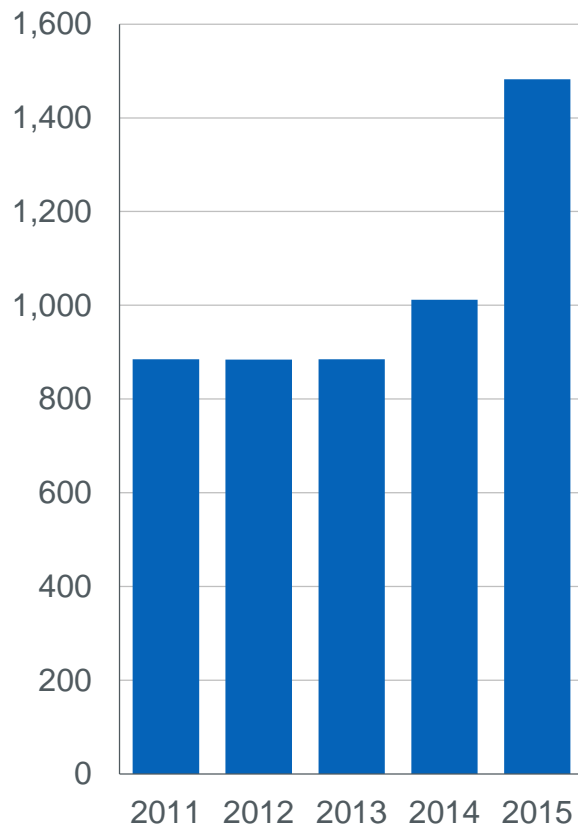
“..it would be unacceptable to us if firms were to use this market (reinsurance) primarily as a tool to achieve regulatory arbitrage..”

(Andrew Bulley, Prudential Regulation Authority 28 April 2016)

Longevity Continues to Develop GWP

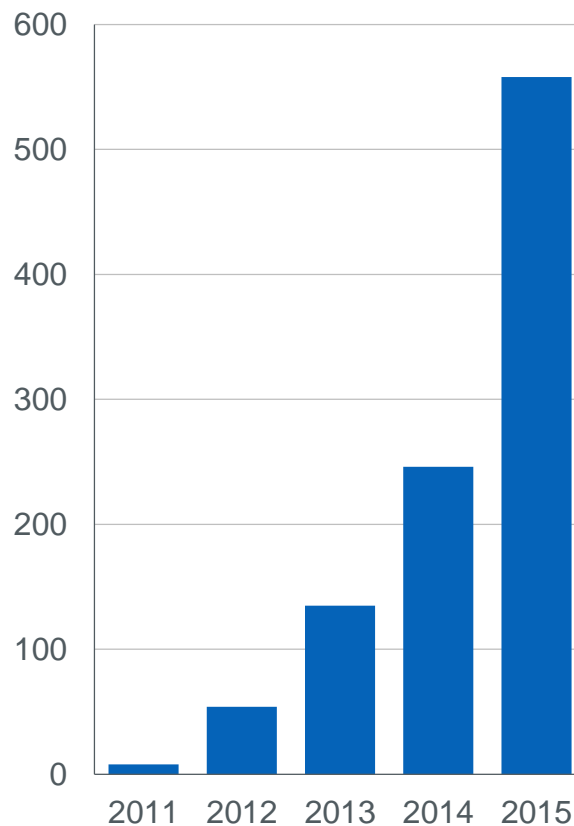
Hannover Re

(EURm)



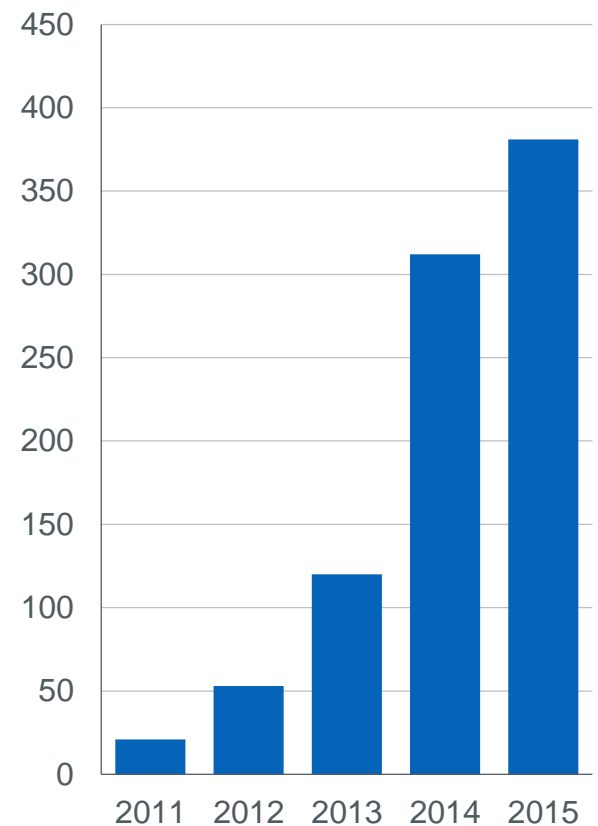
SCOR

(EURm)



Munich Re

(EURm)



Source: Fitch

What Could Lead to a Negative Rating Outlook?

1. Deterioration in sector profitability, even if capital remains strong

- Run-rate combined ratio stay closer to 100% (2017 forecast is 99.2%)
- Return on equity dropped below 10% (2017: 8.0%)

What has changed since sensitivities were first assigned?

- Since first assigning these sensitivities in September 2014, interest rates and the risk profile of many reinsurers have reduced

Where are Negative rating actions most likely?

- Individual negative rating actions are possible if a raised combined ratio or sub-10% ROE indicated a significant impairment in a company's financial condition

2. Catastrophic loss with interest rate spike

- Catastrophic loss in excess of USD70bn coupled with a sudden spike in interest rates of 300bps or more

Fitch research can be accessed via our website www.fitchratings.com

1. Global Reinsurance Guide 2017 (September 2016)
2. 2017 Outlook: Global Reinsurance (September 2016)
3. Bermuda (Re)Insurers' Financial Performance (August 2016)
4. Insurance Peer Review: Major European Reinsurers (August 2016)
5. Global Reinsurers' Mid-Year 2016 Financial Results (August 2016)
6. Asian Reinsurance Markets (August 2016)
7. Latin American Reinsurance (August 2016)
8. Reinsurance in a Solvency II World (June 2016)

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.



New York
33 Whitehall Street
New York
NY 1004

London
30 North Colonnade
Canary Wharf
London, E14 5GN