The Actuarial Profession
making financial sense of the future

GIRO Conference and Exhibition 2012

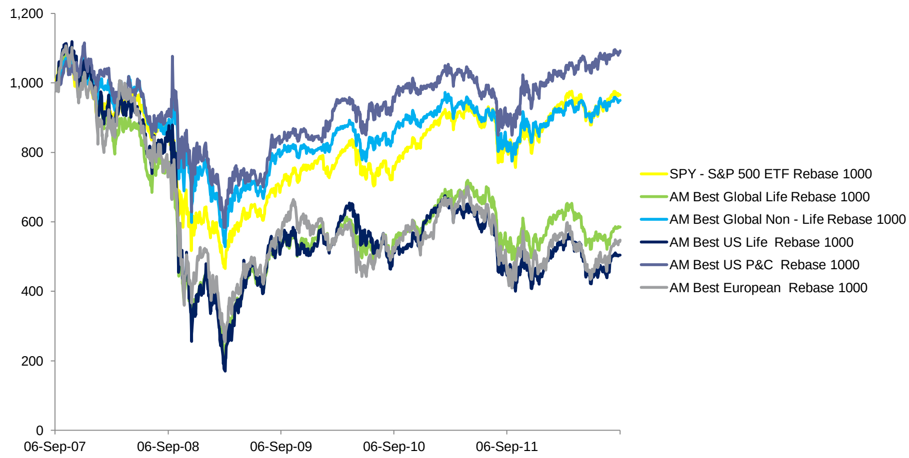
Are investors interested?

James Quin, PwC

Setting the scene

Setting the scene

The insurance sector underperforms the market – fact or myth? What about the GI sector?



Setting the scene

- General insurers have generated decent returns for investors
- Consistent insurance sector stock market 'winners' all come from the mid-tier P&C sector:
  - Sampo
  - Admiral
  - Topdanmark
  - Amlin
  - Hiscox

Why are investors interested?

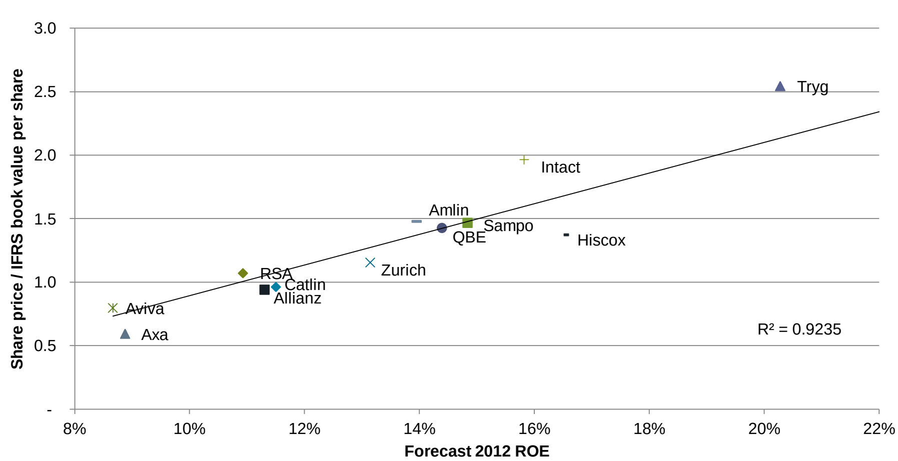
- Cash generative
- Decent returns with reasonable visibility
- Limited economic or market correlation and low-ish asset risks
- Stable demand for core product

Investors quite happy with low growth

"Pensions and endowments place a higher priority on preserving assets than reaching for extraordinary returns and taking extraordinary risks to do so. We are experiencing that positive uncorrelated returns are more important for institutional investors than large returns" (hedge fund manager)

Asset allocation trends impacted by numerous variables:
• Increased correlations between asset classes
• Lower market liquidity
• Unpredictable political intervention

Price/book correlates very strongly with ROE



Contrast with life sector

- Cash generative abilities open to doubt
- High economic and market correlation
- More intrusive regulation
- Products under threat
- Long-term view
- Too complex

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6

Investor enthusiasm is not universal

- Some markets obviously far tougher places to do business (especially UK and US, but also Germany and Italy)
- Disruptive technology an issue in some markets (eg UK)
- No evidence to support the view that bigger is better:
  - diversification leaves investors cold
  - evidence points to diversification as a *negative* factor

Single country, well run insurers tend to trade at a premium to broadly based groups; conglomerate discounts are the norm

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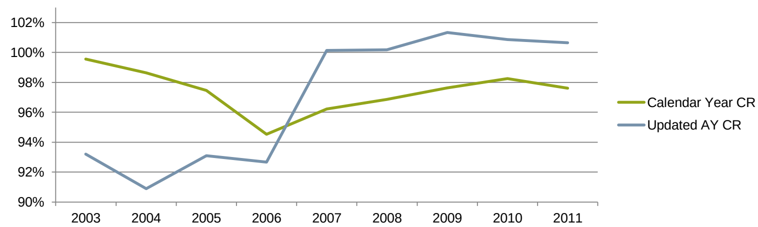
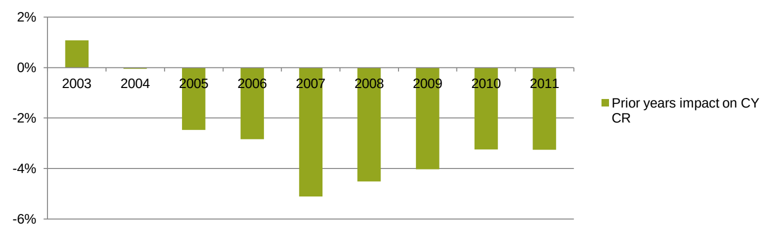
7

Still a cyclical business





Understanding of cycle drivers is not good

Focus on pricing and pure supply vs demand is misplaced

- **Relatively few changes to supply except over the long-term**
- **Accident year results show cyclicality even in 'stable' markets**
- **Real driver of good profitability is benign claim trends**

- **Where did all the claims go?**
- **Are insurers better run in the past or have they just been lucky?**
- **Understanding this will determine where the sector goes next**

Key points

- Bigger isn't better...stick to what you are really good at
- Big insurers invariably too slow to react to disruptive change (web distribution and telematics an obvious issue for the future)
- PE ratios more important than blunt price/book metrics; share prices correlate strongly with ROE
- Claims cycles arguably much more important than rate cycles, but this isn't well understood – a key sector vulnerability

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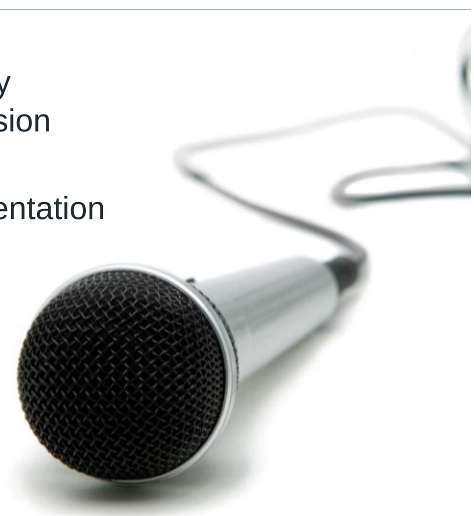
10

Questions or comments?

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenter.



11