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**Fitch**Ratings

# Fitch Ratings: 2018 Global Reinsurance Outlook

Graham Coutts, Director, Insurance, Fitch Ratings

Harish Gohil, Managing Director, Insurance, Fitch Ratings

ertise  
ponsorship  
Thought leadership  
Progress  
Community  
Sessional Meetings  
Education  
Working parties  
Volunteering  
Research  
Shaping the future  
Networking  
Professional support  
Enterprise and risk  
Learned society  
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International profile  
Journals  
Support



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## Agenda

Operating Environment

Focus on European Market

Focus on Bermuda Market

Alternative Capital

Sector and Rating Outlooks

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# Key Themes

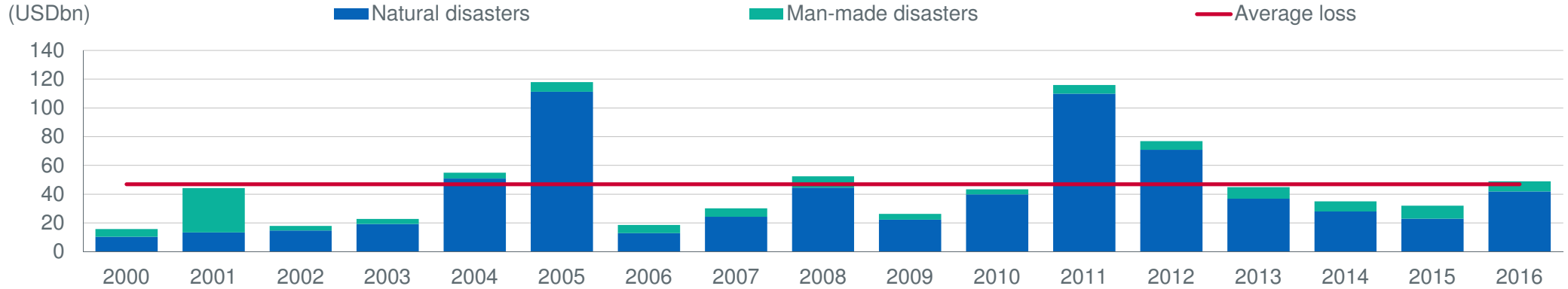
- Operating Profits Under Pressure
  - Rate Declines Continue
  - Alternative Capital Capacity Growing
  - Market Conditions Remain Conducive to M&A Activity
-

# Hurricane Harvey, Irma & Maria

- Types of Losses
- Main Exposures
- Factors Affecting Potential Losses
- Early Indications
- Impact on Pricing

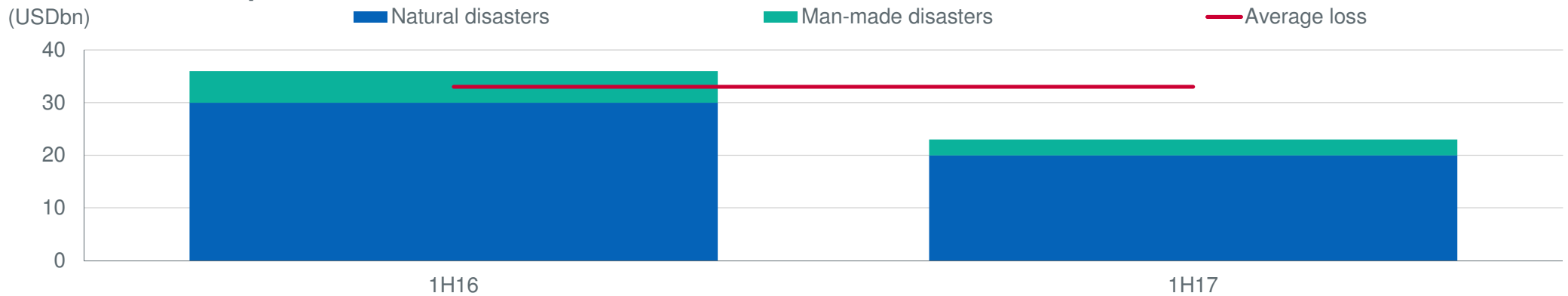
# Natural Catastrophe Losses

## Annual Catastrophe Losses



Source: Swiss Re Sigma

## Half Year Catastrophe Losses



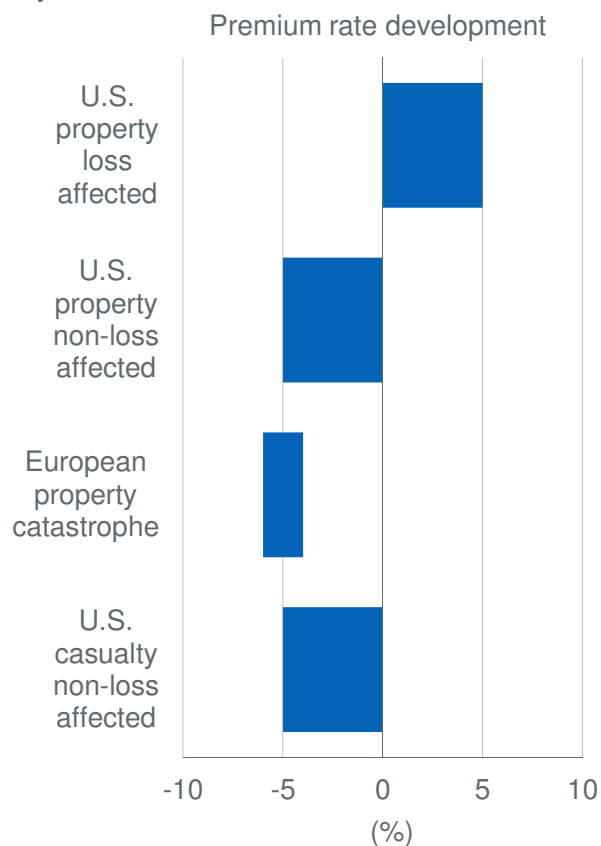
Source: Swiss Re Sigma

# Rate Reductions Continue



## Renewal Season

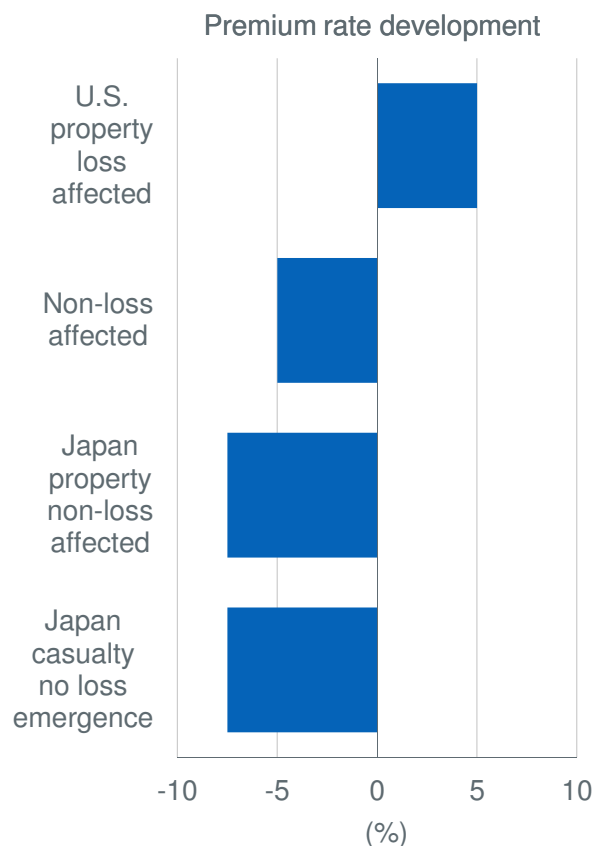
January 2017



Source: Company and broker reports

## Renewal Season

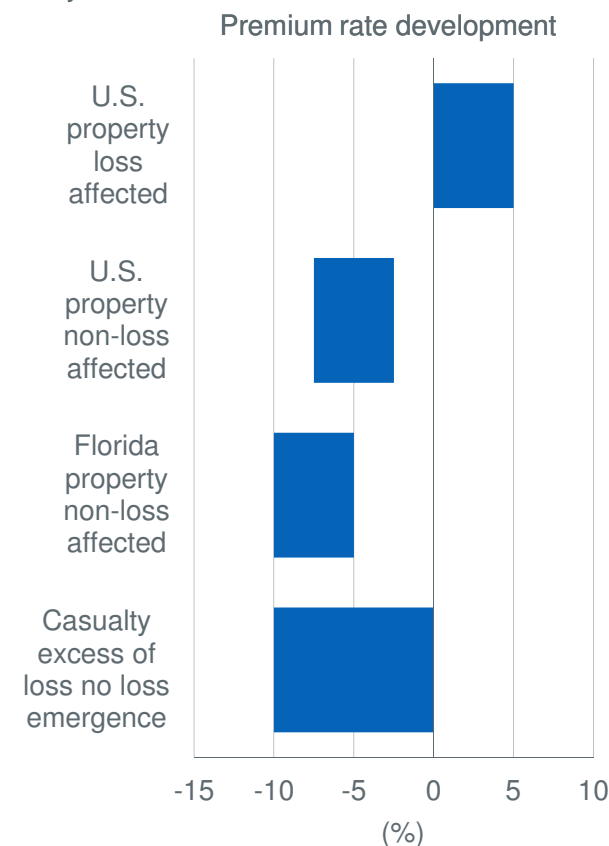
April 2017



Source: Company and broker reports

## Renewal Season

June/July 2017

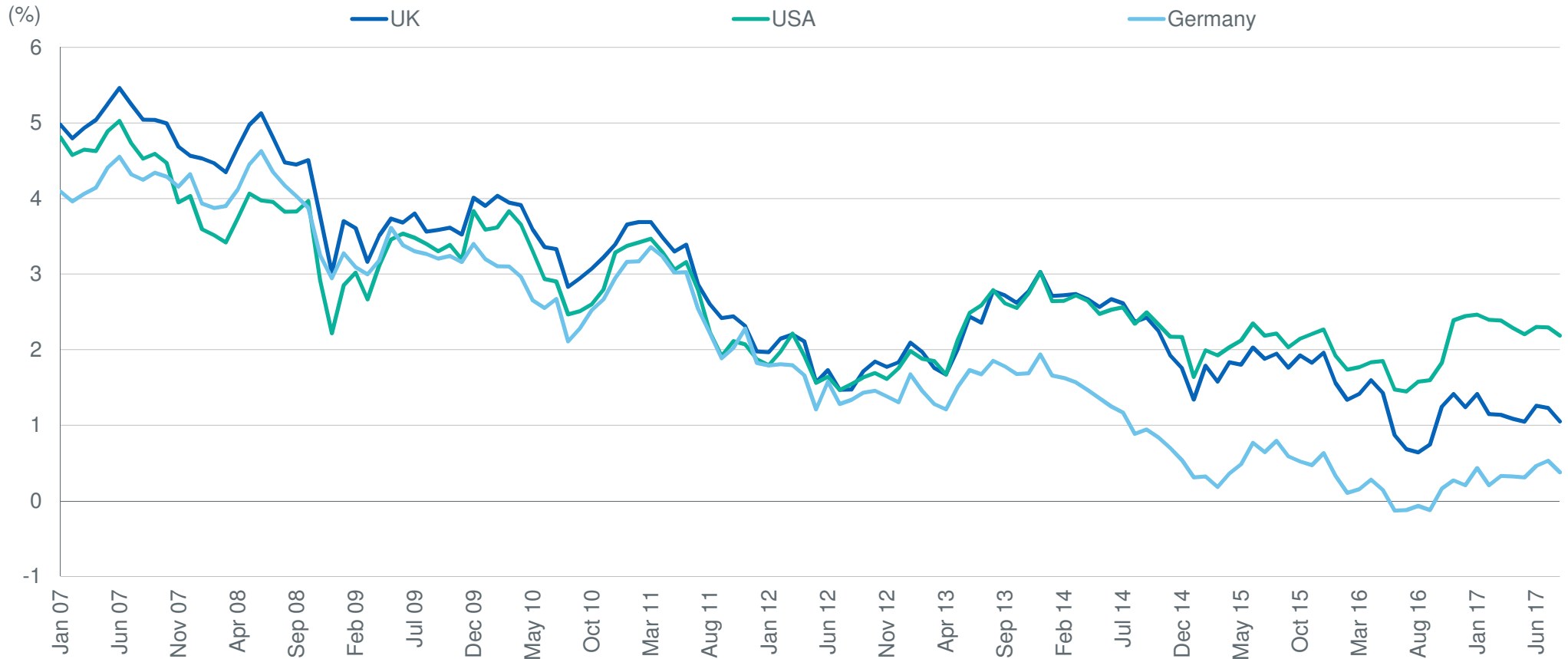


Source: Company and broker reports

# Investment Returns Remain Low



Low Yields Maintain Earnings Pressure/Attract External Capital



Source: 10 year government bond yields



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## Focus on European Market

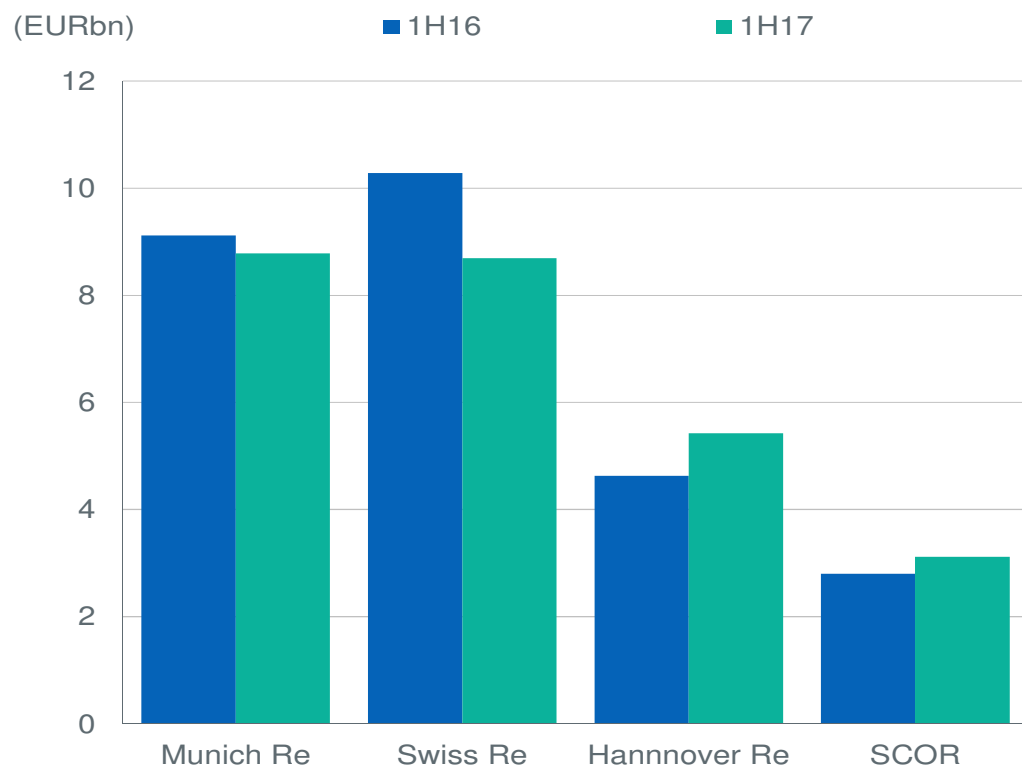
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# European Reinsurers: 1H17 Reinsurance Premium Written

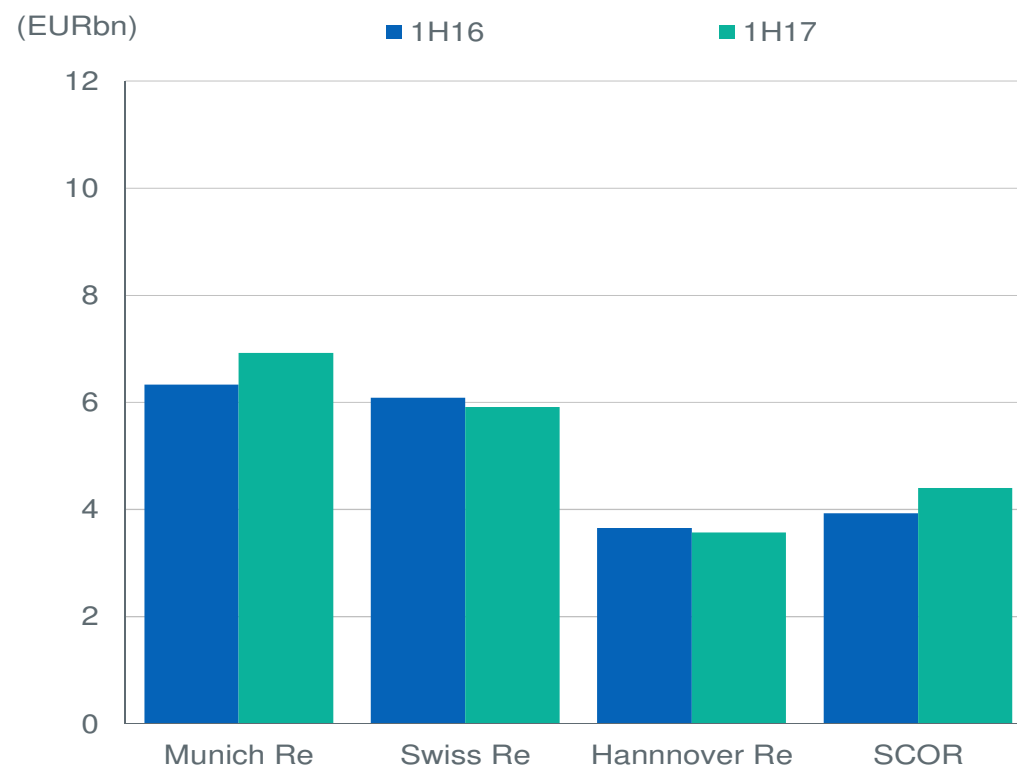


## Gross Written Premium P&C Reinsurance



Source: Company reports, Fitch

## Gross Written Premium Life Reinsurance

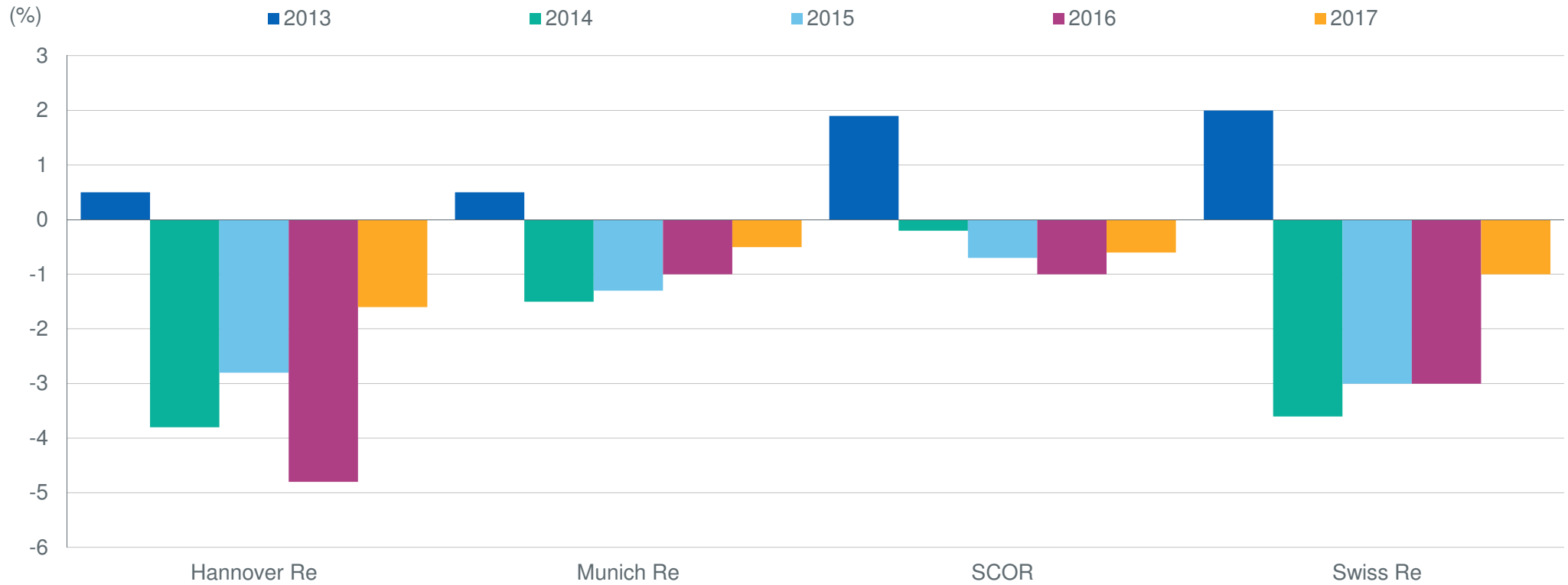


Source: Company reports, Fitch

# Rate Declines Continue to Moderate

## Overall Portfolio Price Movements

Softening trend continues but viewed as manageable

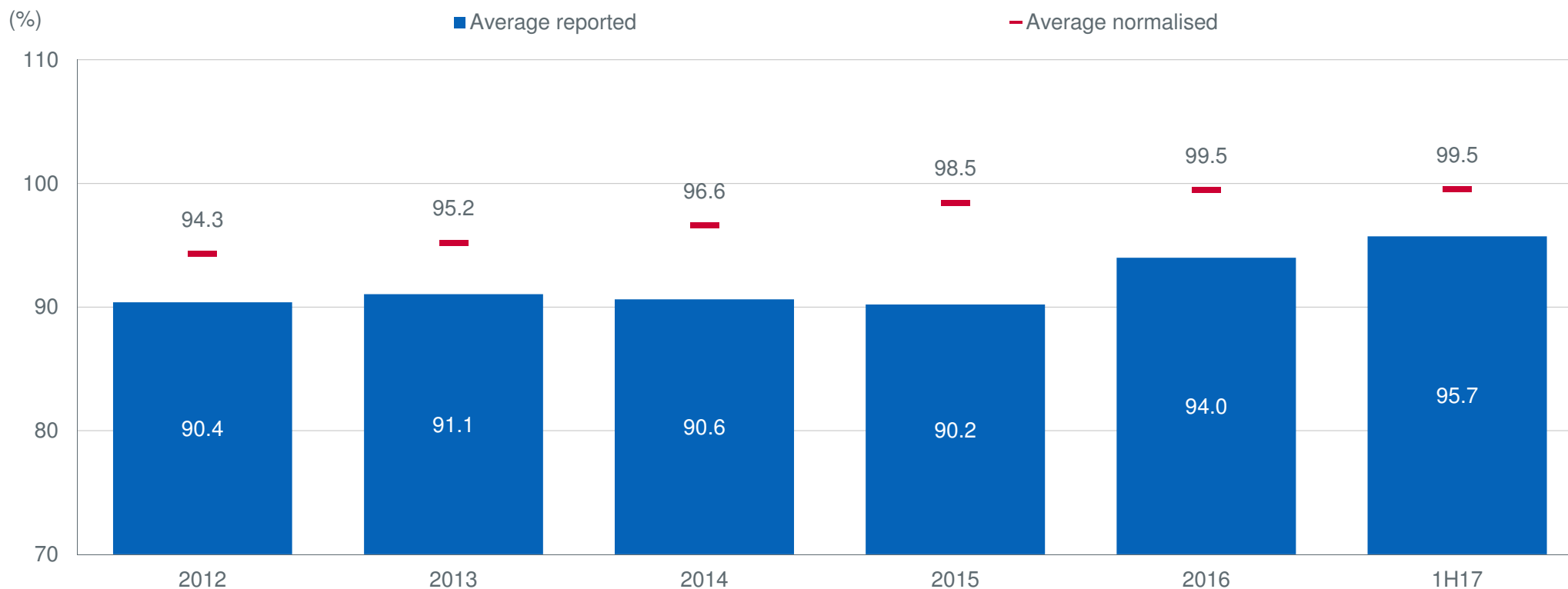


Source: Company disclosure

# Normalised Combined Ratios

## Major European Reinsurers

Reported vs. normalised combined ratio



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

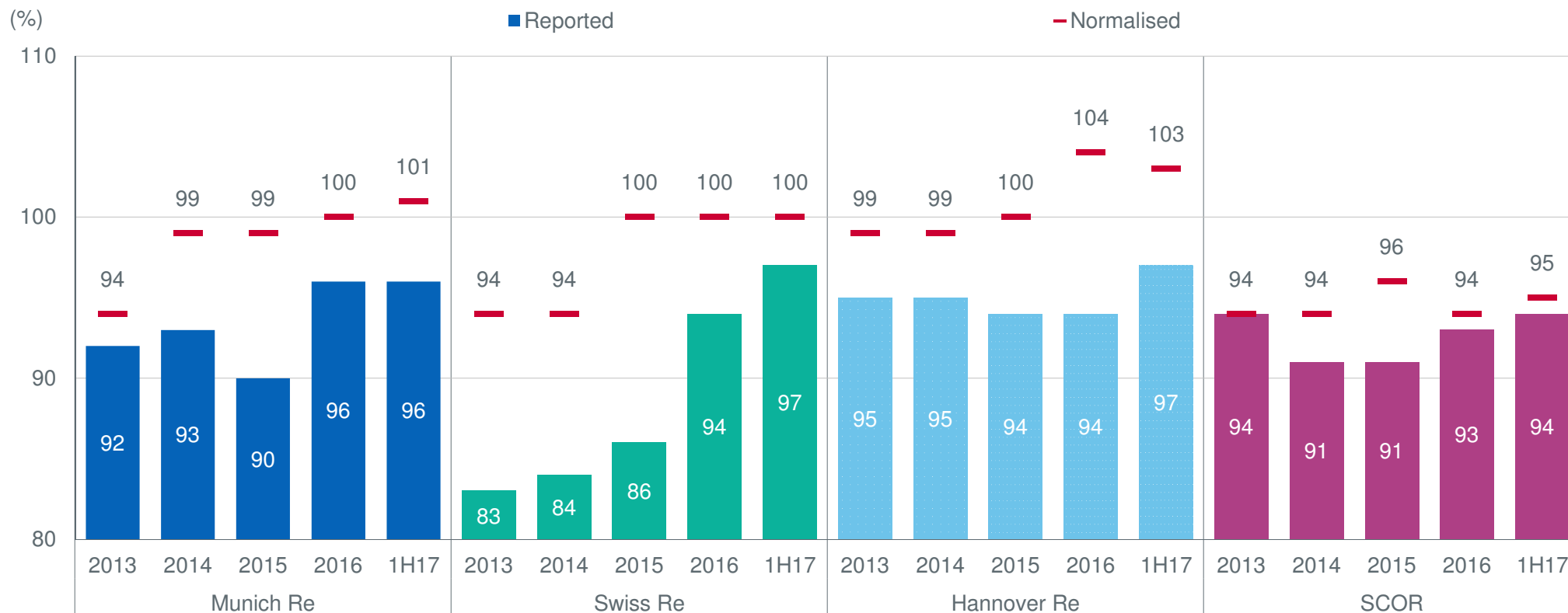
Source: Company reports, Fitch

'Normalised' for variances from reinsurers' budgeted totals, for both major losses and prior-year reserve development

# Individual Reinsurers

## Major European Reinsurers

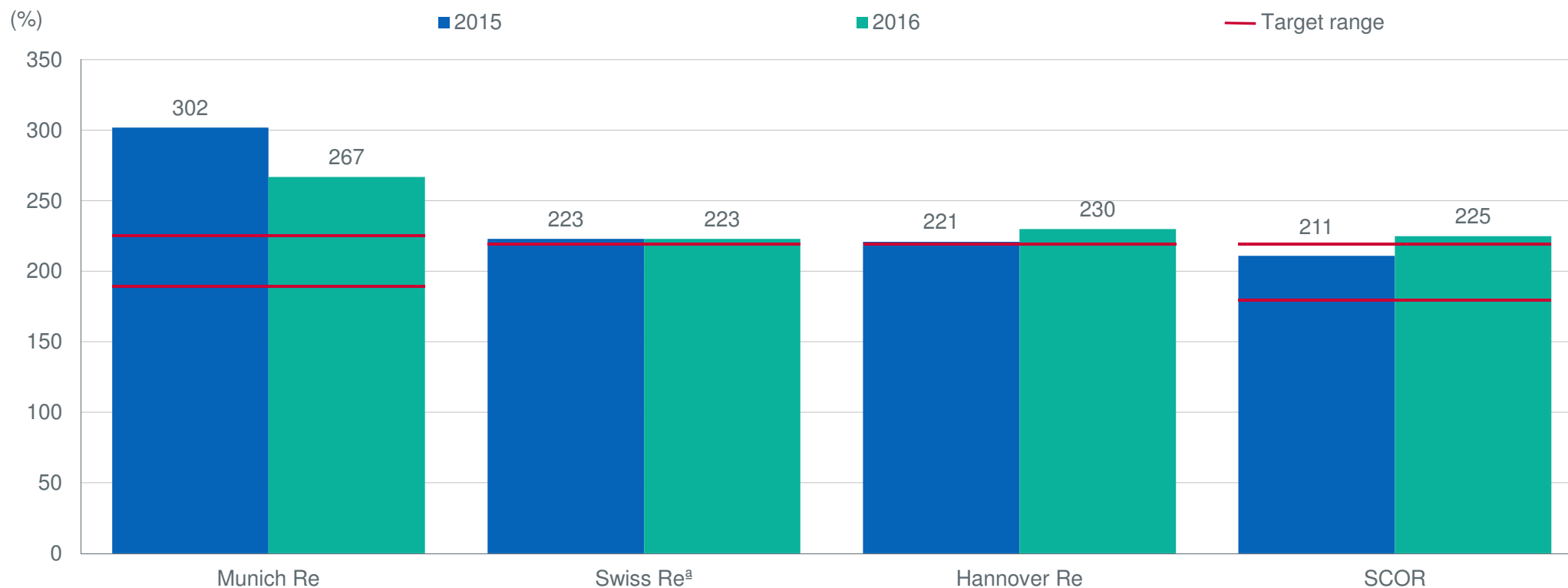
Reported vs. Fitch normalised P&C combined ratio



Source: Company reports, Fitch

# Reinsurers Remain Well Capitalised

## Regulatory Solvency Ratio



<sup>a</sup> 223% represents coverage under Swiss Solvency Test, the regime that Swiss Re operates under  
Source: Fitch, Companies' annual reports



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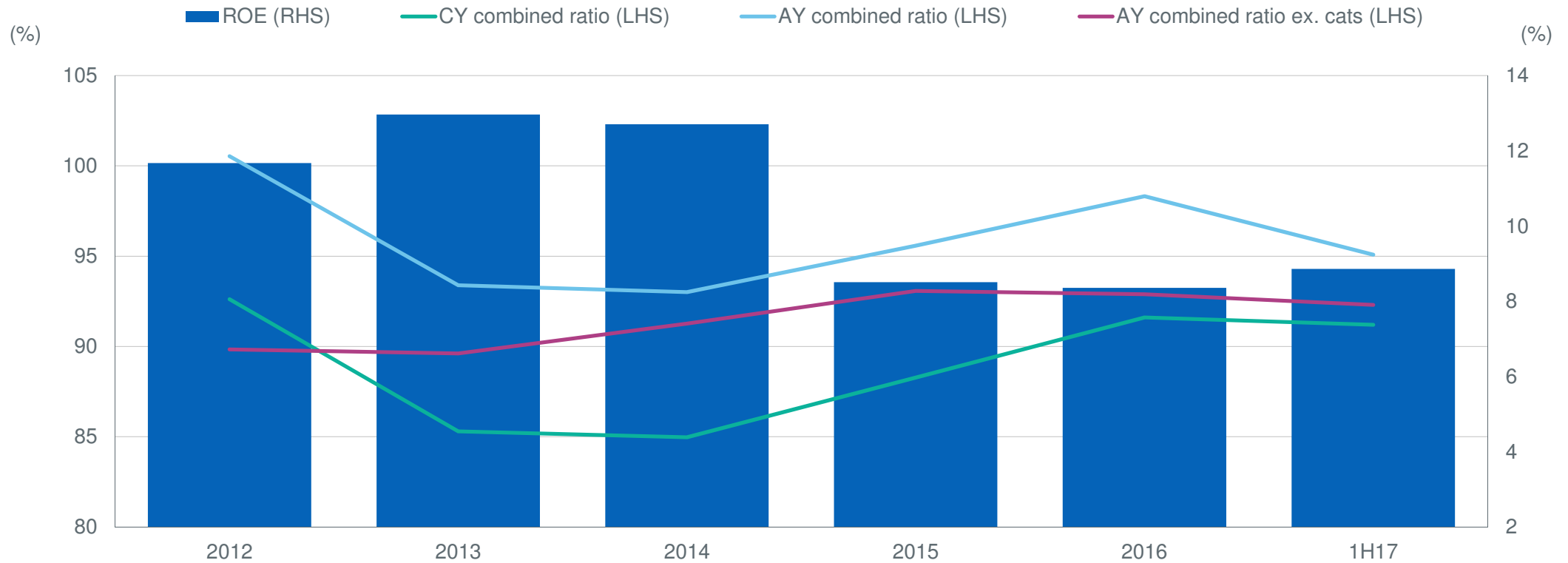
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# Bermuda Performance



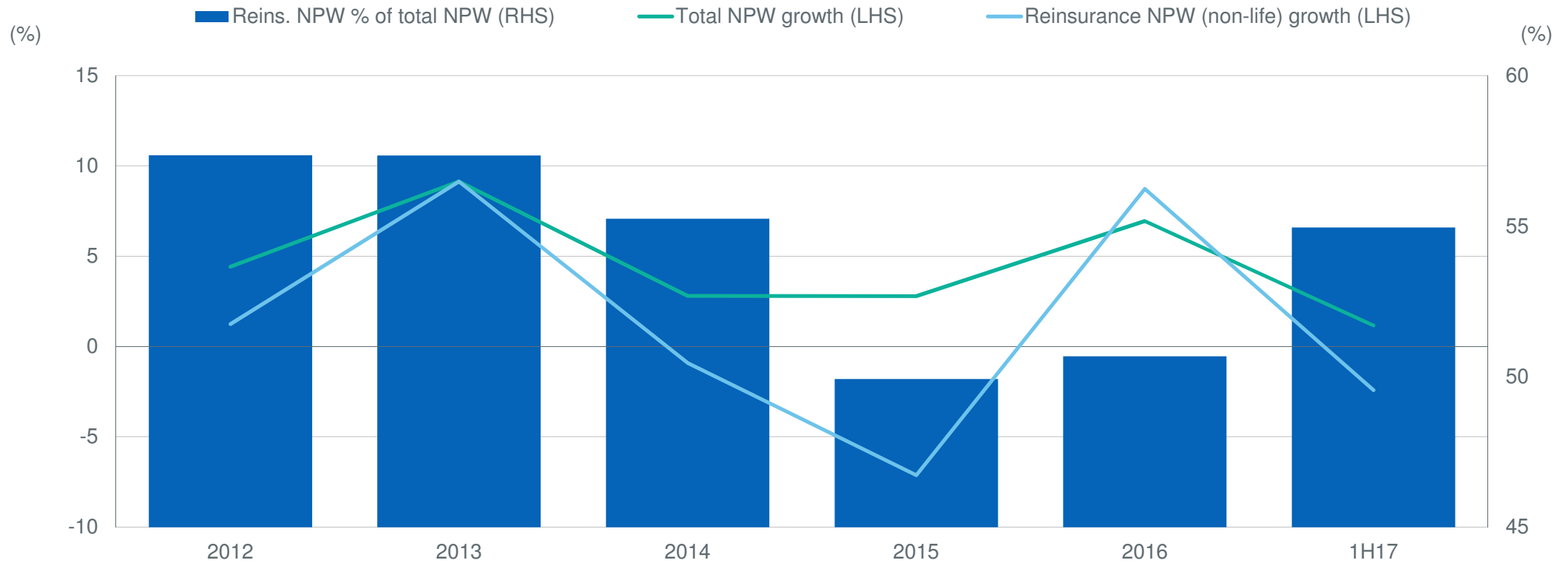
## Bermuda (Re)insurers Financial Performance



Source: SNL Financial, company reports

# Bermuda Performance

## Bermuda (Re)insurers Growth in Net Premiums Written



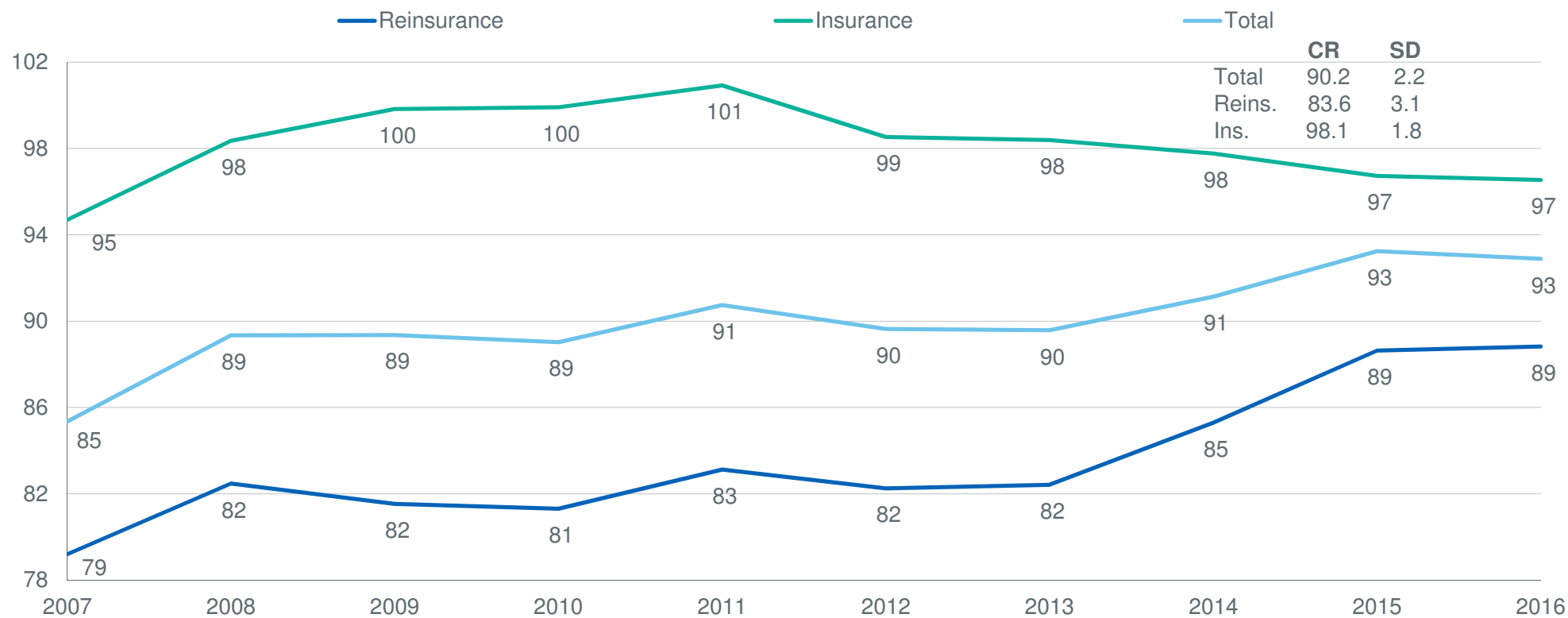
Source: SNL Financial, company reports



# Bermuda Market Long-Run Performance



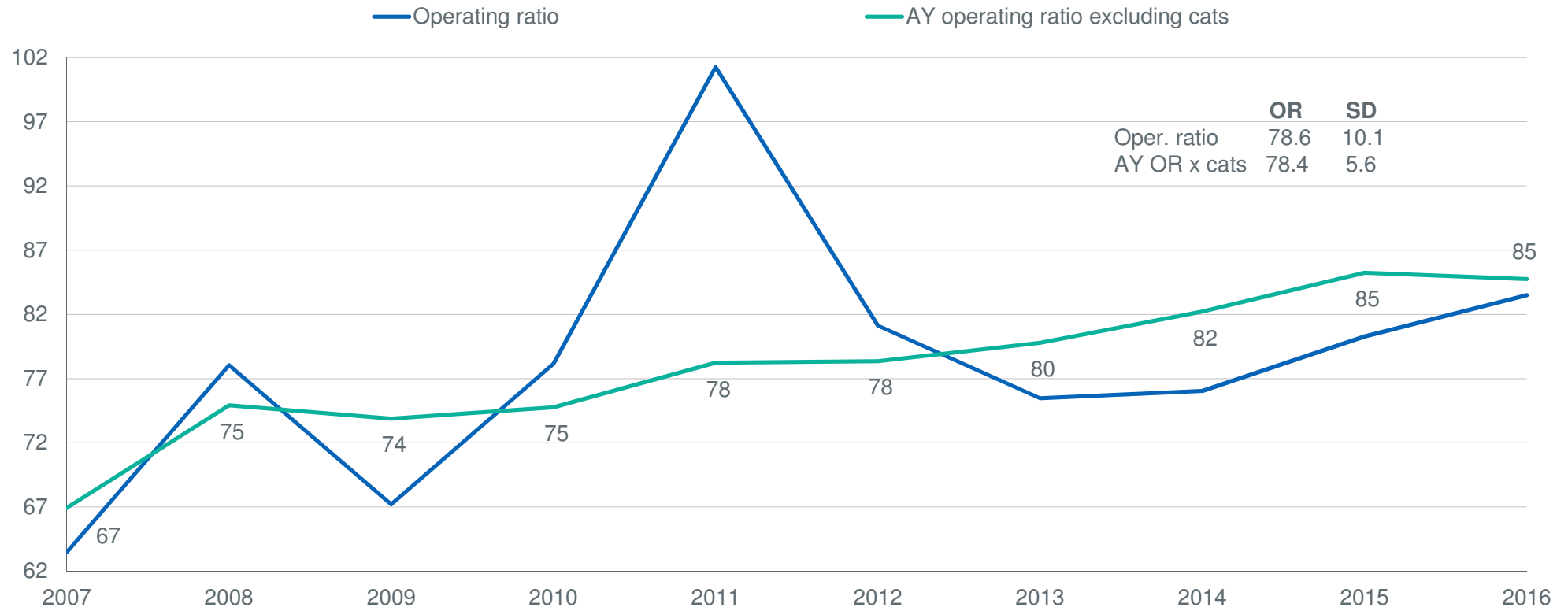
## AY Combined Ratio ex. Cats



Note: GAAP. Aggregate results for 15 Bermuda-based (re)insurers  
 Source: Company reports, Fitch

# Bermuda Market Long-Run Performance

## Operating Ratio



	OR	SD
Oper. ratio	78.6	10.1
AY OR x cats	78.4	5.6

Note: GAAP. Aggregate results for 15 Bermuda-based (re)insurers  
 Source: Company reports, Fitch



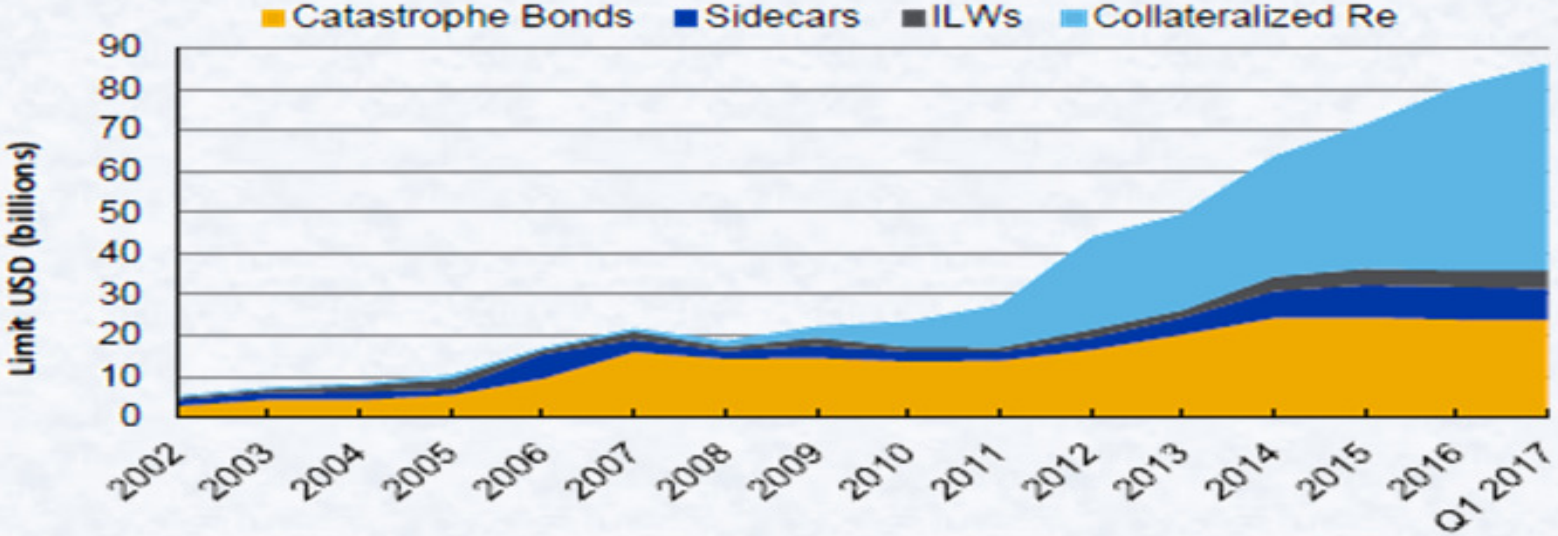
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# Alternative Capital Update

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# Alternative Capital Deployment



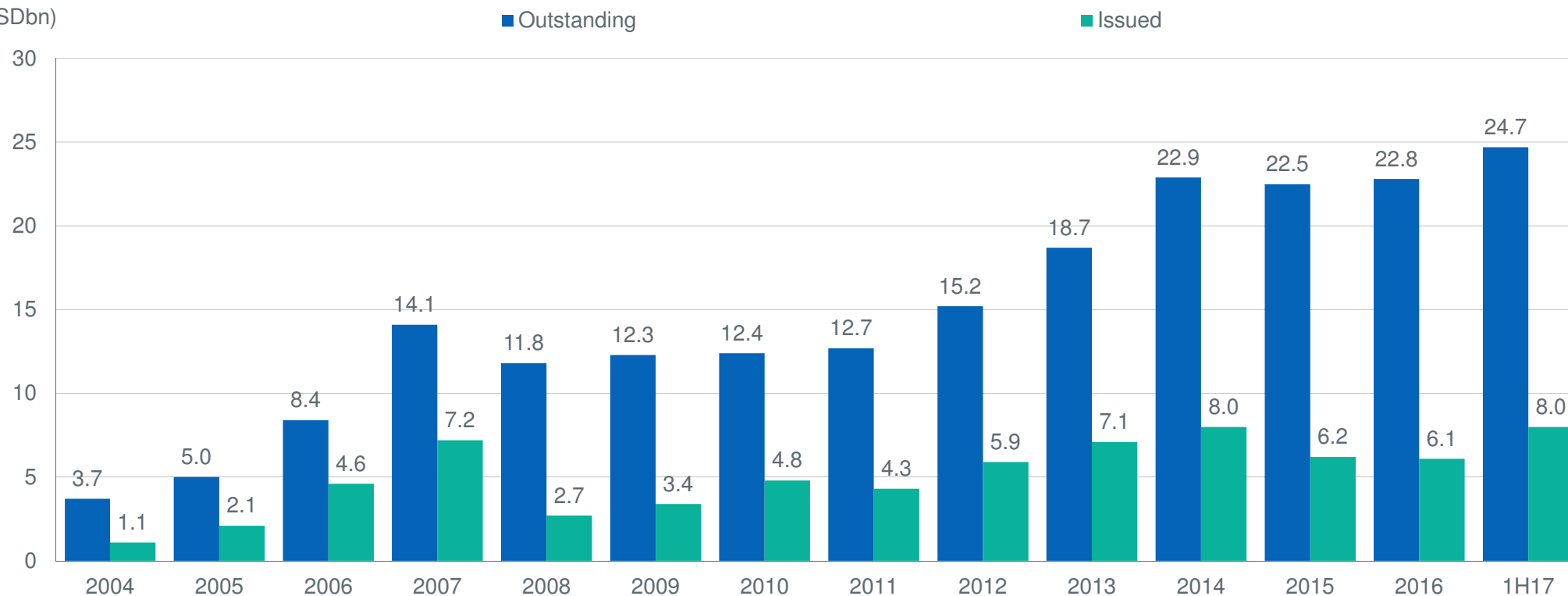
Source: Aon Benfield Analytics

# Catastrophe Bond Issuance

## Record Issuance

Catastrophe bonds & ILS risk capital

(USDbn)



Source: Artemis catastrophe bond & ILS market dashboard



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## Sector and Rating Outlooks

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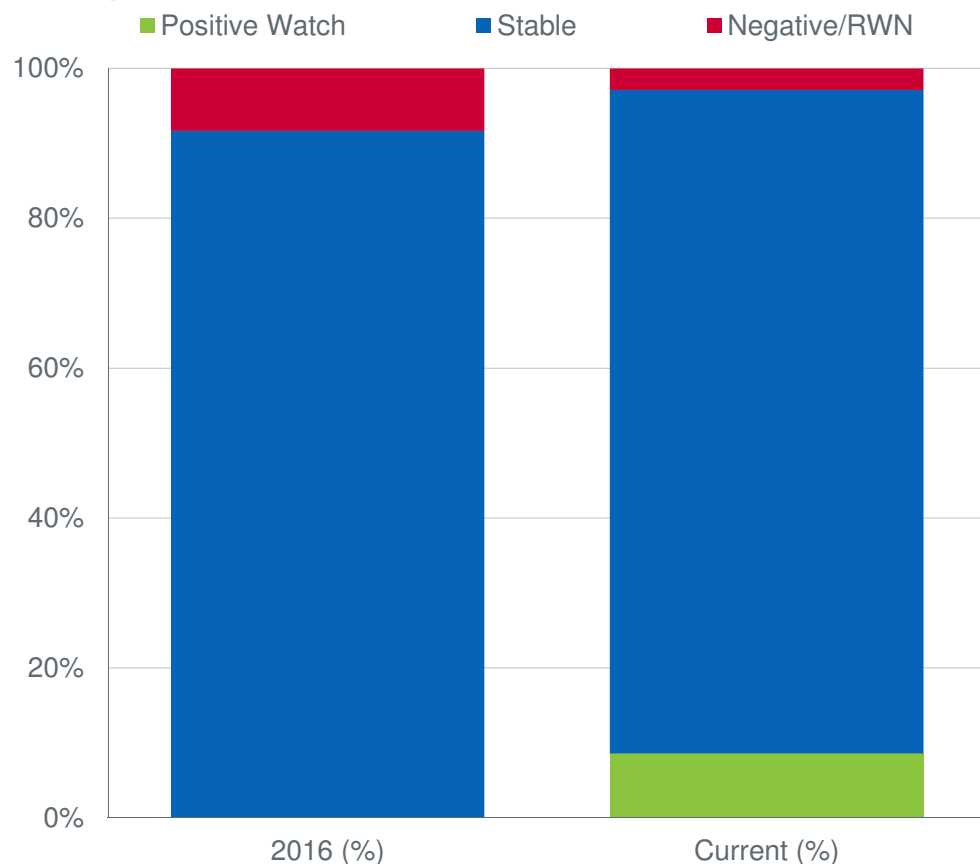
## Sector Outlook Negative

- Operating Profits Under Pressure
    1. ROE falling
    2. Normalised combined ratios deteriorating
  - Rate Declines Continue
    1. Pricing declines appear to be slowing
    2. Pricing floor does not appear to have been reached
  - Alternative Capital Capacity Growing
    1. Record catastrophe bond issuance
    2. Increasing use of collateralised reinsurance solutions
  - Market Conditions Remain Conducive to M&A Activity
    1. M&A likely to resume in the near term as companies consider strategic options to combat market stress
-

# Rating Outlooks Stable



## Rating Outlooks



Source: Fitch

Current	Rating Outlook/Watch
Lloyd's of London	Negative Outlook
Mapfre SA	Positive Outlook
MutRe	Positive Watch
QBE Reinsurance	Positive Outlook

Source: Fitch, Ratings as at 16 August 2017

2016	Rating Outlook/Watch
Amlin AG	Negative Outlook
Arch Capital Group Ltd.	Negative Watch
W.R. Berkley Corporation	Negative Watch

Source: Fitch, Ratings as at 23 November 2016



# What Could Change The Rating Outlook



- 1. Deterioration in Sector Profitability, Even If Capital Remains Strong
    - Medium-term calendar year combined ratios or operating ratios exceed 100% and 90%, respectively (2018 forecast is 96.9% and 89.9%)
  - 2. Catastrophic Loss With Interest Rate Spike
    - Catastrophic loss in excess of USD70bn coupled with significant unrealised investment losses from an abrupt jump in interest rates, of 300bp or more leaving balance sheets temporarily more exposed to adverse events
  - Where are Negative Rating Actions Most Likely?
    - Individual negative rating actions are possible if a raised calendar-year combined ratio or operating ratio indicated a significant impairment in a company's financial condition
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