Fitch Ratings: 2018 Global Reinsurance Outlook
Graham Coutts, Director, Insurance, Fitch Ratings
Harish Gohil, Managing Director, Insurance, Fitch Ratings
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<th>Agenda</th>
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<td>Focus on European Market</td>
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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

(USDbn)

Source: Swiss Re Sigma

Half Year Catastrophe Losses

(USDbn)

Source: Swiss Re Sigma
Rate Reductions Continue

Renewal Season
January 2017

Premium rate development
U.S. property loss affected
U.S. property non-loss affected
European property catastrophe
U.S. casualty non-loss affected

Renewal Season
April 2017

Premium rate development
U.S. property loss affected
Non-loss affected
Japan property non-loss affected
Japan casualty no loss emergence

Renewal Season
June/July 2017

Premium rate development
U.S. property loss affected
U.S. property non-loss affected
Florida property non-loss affected
Casualty excess of loss no loss emergence

Source: Company and broker reports
Investment Returns Remain Low

Low Yields Maintain Earnings Pressure/Attract External Capital

Source: 10 year government bond yields
Focus on European Market
European Reinsurers: 1H17 Reinsurance Premium Written

Gross Written Premium
P&C Reinsurance

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<tr>
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<th>1H16</th>
<th>1H17</th>
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<tbody>
<tr>
<td>Munich Re</td>
<td>9.5</td>
<td>9.5</td>
</tr>
<tr>
<td>Swiss Re</td>
<td>10.5</td>
<td>10.5</td>
</tr>
<tr>
<td>Hannover Re</td>
<td>5.5</td>
<td>5.5</td>
</tr>
<tr>
<td>SCOR</td>
<td>4.5</td>
<td>4.5</td>
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Gross Written Premium
Life Reinsurance

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<thead>
<tr>
<th></th>
<th>1H16</th>
<th>1H17</th>
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<tbody>
<tr>
<td>Munich Re</td>
<td>6.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Swiss Re</td>
<td>6.0</td>
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<tr>
<td>Hannover Re</td>
<td>4.0</td>
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<tr>
<td>SCOR</td>
<td>4.0</td>
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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

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<thead>
<tr>
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<th>2015</th>
<th>2016</th>
<th>Target range</th>
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<tbody>
<tr>
<td>Munich Re</td>
<td>302%</td>
<td>267%</td>
<td></td>
</tr>
<tr>
<td>Swiss Re⁸</td>
<td>223%</td>
<td>223%</td>
<td></td>
</tr>
<tr>
<td>Hannover Re</td>
<td>221%</td>
<td>230%</td>
<td>211%</td>
</tr>
<tr>
<td>SCOR</td>
<td>225%</td>
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<td>225%</td>
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³²²³% represents coverage under Swiss Solvency Test, the regime that Swiss Re operates under
Source: Fitch, Companies’ annual reports
Focus on Bermuda Market
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

- **Total CR**: 90.2
  - **SD**: 2.2
- **Reinsurance CR**: 83.6
  - **SD**: 3.1
- **Insurance CR**: 98.1
  - **SD**: 1.8

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

Operating Ratio

Note: GAAP. Aggregate results for 15 Bermuda-based (re)insurers

Source: Company reports, Fitch
Alternative Capital Update
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
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

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