Global Reinsurance Outlook

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2019 Global Reinsurance Outlook
New Normal Emerges?
Sector and Rating Outlooks
Rating Outlook Stable

Rating Outlooks

Source: Fitch
Sector Outlook Revised to Stable from Negative

- Why?

- Secular Shift – ‘new normal’

- Flatter Underwriting Cycle – modest but viable returns

- Alternative Capital Capacity Grows – opportunities and threats
Alternative Capital Update
Global Reinsurance Capital

Source: Aon Benfield Analytics
Alternative Capital Deployment

Exhibit 4: Alternative capital deployment

Source: Aon Benfield Analytics
Catastrophe Bond Issuance

Source: Willis Towers Watson Securities
Pricing Update
Investment Returns Remain Low

Low Yields Maintain Earnings Pressure/Attract External Capital

Source: 10 year government bond yields
Record Catastrophe Losses in 2017

Annual Catastrophe Losses

Source: Swiss Re Sigma
### Property-Catastrophe Risk-Adjusted Rate Changes

![Graph showing the risk-adjusted global property-catastrophe reinsurance ROL index from 1992 to 2018.](Image)

<table>
<thead>
<tr>
<th>Year</th>
<th>Insured losses (USDm)</th>
<th>Major Events</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>51</td>
<td>Hurricane Andrew</td>
</tr>
<tr>
<td>2001</td>
<td>52</td>
<td>World Trade Center</td>
</tr>
<tr>
<td>2005</td>
<td>137</td>
<td>Hurricane Katrina, Hurricane Rita, Hurricane Wilma</td>
</tr>
<tr>
<td>2008</td>
<td>60</td>
<td>Hurricane Ike</td>
</tr>
<tr>
<td>2011</td>
<td>138</td>
<td>Japan Quake, NZ Quake, Thai Floods</td>
</tr>
<tr>
<td>2017</td>
<td>136</td>
<td>Hurricane Harvey, Hurricane Irma, Hurricane Maria</td>
</tr>
</tbody>
</table>

Source: JLT Re Sigma

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**Source:** Swiss Re Sigma
Rate Rises Lose Momentum

**January 2018**

**Premium rate development**

- US property loss affected
- US property non-loss affected
- European property catastrophe
- US casualty non-loss affected

**Premium rate development**

- US property loss affected
- US property non-loss affected
- Japan wind and earthquake non-loss...
- Japan casualty no loss emergence

**June/July 2018**

**Premium rate development**

- US property loss affected
- US property non-loss affected
- Florida property non-loss affected
- Casualty excess of loss no loss emergence

Source: Company and broker reports
Focus on Bermuda Market
Bermuda Performance

Source: SNL Financial, company reports
Bermuda Performance (Cont.)

GAAP Favourable Reserve Development of Net Earned Premiums

Source: SNL Financial, company reports. Data is from (re)insurance organizations in Bermuda
Bermuda Performance (Cont.)

Source: SNL Financial, company reports
Bermuda Model to Be Tested

- US Tax Reform Negative for Bermuda

- Base Erosion and Anti-Abuse Tax (BEAT) Alters Ceded Strategy
Focus on European Market
Rates Improve Following Catastrophe Losses

Source: Company disclosure
Normalised Combined Ratios Above 100%

Major European Reinsurers

Reported vs normalised combined ratio

Note: Average for Hannover Re, Munich Re, SCOR and Swiss Re Normalised’ for variances from reinsurers’ budgeted totals, for both major losses and prior-year reserve development

Source: Company reports, Fitch
Normalised Combined Ratios Above 100% (Cont.)

Major European Reinsurers

Source: Company reports, Fitch
Reinsurers Remain Well Capitalised

Regulatory Solvency Ratio

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>Target range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Munich Re</td>
<td>267</td>
<td>244</td>
<td></td>
</tr>
<tr>
<td>Swiss Re</td>
<td>262</td>
<td>269</td>
<td></td>
</tr>
<tr>
<td>Hannover Re</td>
<td>230</td>
<td>260</td>
<td></td>
</tr>
<tr>
<td>SCOR</td>
<td>225</td>
<td>213</td>
<td></td>
</tr>
</tbody>
</table>

*a 269% represents coverage under Swiss Solvency test, the regime that Swiss Re operates under.*
Wrap Up
### Fitch Ratings’ 2018/2019 Forecast

<table>
<thead>
<tr>
<th>(USDm)</th>
<th>2019 forecast</th>
<th>2018 forecast</th>
<th>2017 actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net premiums written</td>
<td>118,300</td>
<td>114,870</td>
<td>107,358</td>
</tr>
<tr>
<td>Catastrophe losses</td>
<td>9,000</td>
<td>5,800</td>
<td>24,142</td>
</tr>
<tr>
<td>Net prior-year favourable reserve development</td>
<td>4,500</td>
<td>4,215</td>
<td>5,612</td>
</tr>
<tr>
<td>Calendar-year combined ratio (%)</td>
<td>95.6</td>
<td>93.4</td>
<td>110.3</td>
</tr>
<tr>
<td>Accident-year combined ratio (%)</td>
<td>99.6</td>
<td>97.2</td>
<td>115.7</td>
</tr>
<tr>
<td>Accident year combined ratio excl. catastrophes (%)</td>
<td>91.7</td>
<td>91.9</td>
<td>92.4</td>
</tr>
<tr>
<td>Calendar-year operating ratio (%)</td>
<td>87.6</td>
<td>86.4</td>
<td>102.5</td>
</tr>
<tr>
<td>Shareholders’ equity (excluding Berkshire Hathaway)</td>
<td>283,300</td>
<td>277,750</td>
<td>277,054</td>
</tr>
<tr>
<td>Net income ROE (excluding Berkshire Hathaway) (%)</td>
<td>6.7</td>
<td>7.4</td>
<td>2.1</td>
</tr>
</tbody>
</table>

Note: Shareholders’ equity and net income ROE reflect entire company results, not just non-life reinsurance operations

Source: Fitch monitored universe of reinsurers
What Could Change the Outlook

- Capital, Risk Management, Business Profile

- Changing Competitive Landscape

- Where Are Negative Rating Actions Most Likely?
Related Research

Fitch Research Can Be Accessed Via Our Website www.fitchratings.com

2. 2018 Outlook: Global Reinsurance (September 2018)
3. European Reinsurance Peer Review (August 2018)
5. Asian Reinsurance Markets (July 2018)
6. Latin American Reinsurance (July 2018)
7. Bermuda (Re)insurers’ Peer Review (May 2018)