

International reinsurance market current trends

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Reinsurance Sector Trends



A Marathon Rather Than a Sprint

Global Reinsurers Take A Breather After 2017 Catastrophe Losses

	Business conditions (current)	Business outlook (12 months)	Sector outlook (12 months)
Global reinsurers	Weak	Somewhat stronger	Stable

- Business conditions continue to be weak, albeit outlook has improved slightly.
 - Capacity remains plentiful
 - Alternative capital continues to erode traditional reinsurers margins
 - Pricing after large cat losses in 2017 has improved in 2018 but increases are fading out
 - Slightly improved revised earnings outlook 2018-2019
- We maintain a stable outlook for the sector and on the ratings for the majority of reinsurers.
 - Capitalization remains robust and a strength to the sector even after 2017 losses
 - Strong ERM has helped to maintain relatively disciplined underwriting
 - Traditional reinsurers are using increasingly alternative capital for retro capacity
 - M&A remains an option to remain relevant
- Negative Outlook Trigger: Reinsurers' return on capital falls sustainably below their cost of capital.
 - Even incorporating the benefits of modest rate increases in 2018, reinsurers' profitability is likely to barely exceed their cost of capital in 2018 and 2019

Business Conditions: Still Weak But Somewhat Improved

Drivers For Still Weak Business Conditions

Potential driver	Trend for 2018 -2019	Observations
Pricing	Neutral to positive	Reinsurance pricing declines have modestly reversed in 2018, with average price increases of 0%-5% expected for 2018 but with wide variations among lines and regions. However, momentum is fading heading into 2019.
Loosening of terms and conditions	Neutral to negative	Large reinsurers appear to have been able to push back on cedents demanding wider terms and conditions. They didn't slip further, while ceding commissions slightly improved (200 bps-300 bps) but remained high.
Organic growth	Neutral to negative	Opportunities for organic growth (outside large/tailored transactions for a select few reinsurers) are limited. There are pockets of growth, but companies pursue them quickly.
Cedent demand	Neutral to positive	There is some evidence of greater arbitrage (cheaper to front business then reinsure it on the back-end) as rates continue to remain low, together with large/tailored one-off transactions.
M&A activity	Neutral	After a brief lull following a hectic 2015, M&A within the sector has resumed in 2018. We do not expect transactions to have a material impact on industry capital. Future deals will be partially inhibited because of high market valuations.

Business Conditions: Still Weak But Somewhat Improved

Reinsurers' Business Models Being Hit On All Fronts

Potential driver	Trend for 2018 -2019	Observations
Alternative capital	Neutral to negative	The influx of alternative capital continued in 2017 and through the first quarter of 2018 despite the temporary uncertainties caused by 2017 hurricanes, limiting reinsurance price increases.
Low investment returns	Neutral to negative	Investment returns remain low, but it seems that we have seen the bottom in 2017. As interest rates are rising--at least in the U.S.--we expect slight improvements in net investment returns as new money is invested in higher-yielding securities. However, reinsurers' total returns could be affected by unrealized capital losses.
Reserves	Neutral	Overall, the reinsurance sector's reserves have been stable averaging 6.3% of favorable development impact on the combined ratios during the past five years. In addition, 2017 was the 12th consecutive year in which the U.S. primary property/casualty industry generated favorable reserve developments. However, in 2017, the re/insurance industry incurred unfavorable developments in U.K. motor. Furthermore, the following U.S. lines of business continue to be challenging: commercial auto liability, other liability-occurrence, excess casualty, and private passenger auto liability. Lastly, if inflation unexpectedly increases materially, reserve adequacy would be adversely affected.

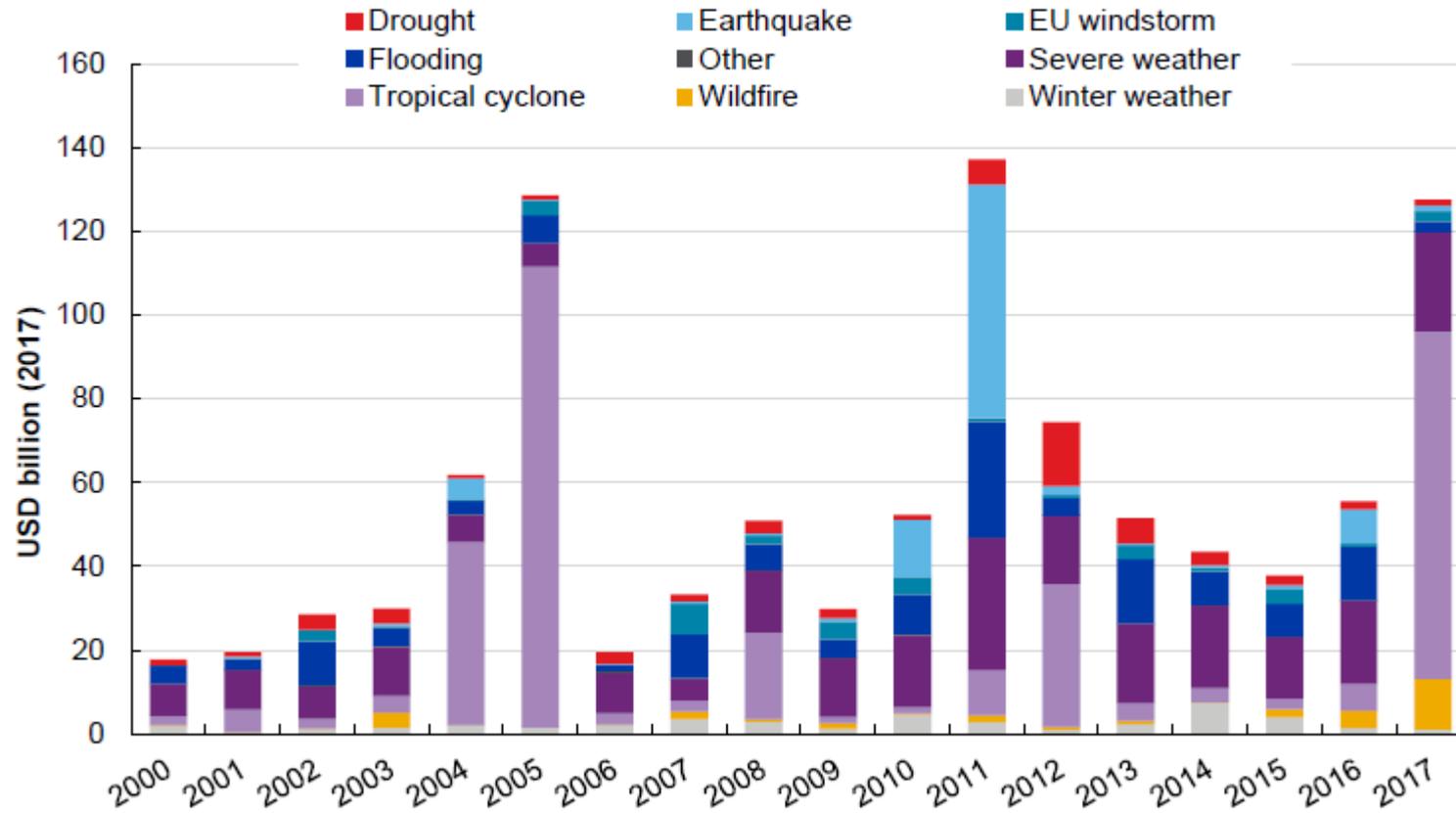
Weak Business Conditions



2017 Cat Losses Summary

Hurt by HIM...but not just HIM

Exhibit 1: Insured losses by year by type

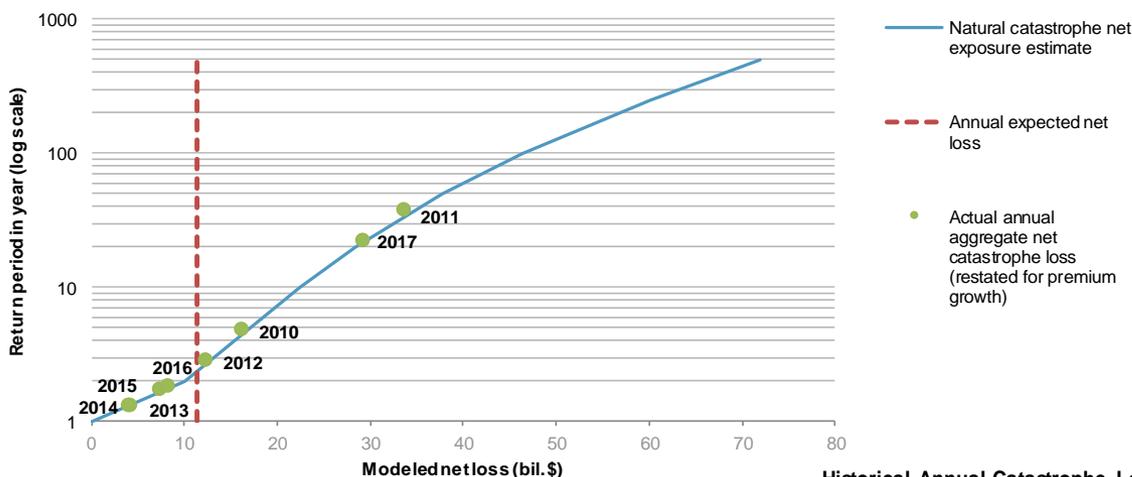


Source: Aon Benfield Analytics

2017 Cat Losses Summary

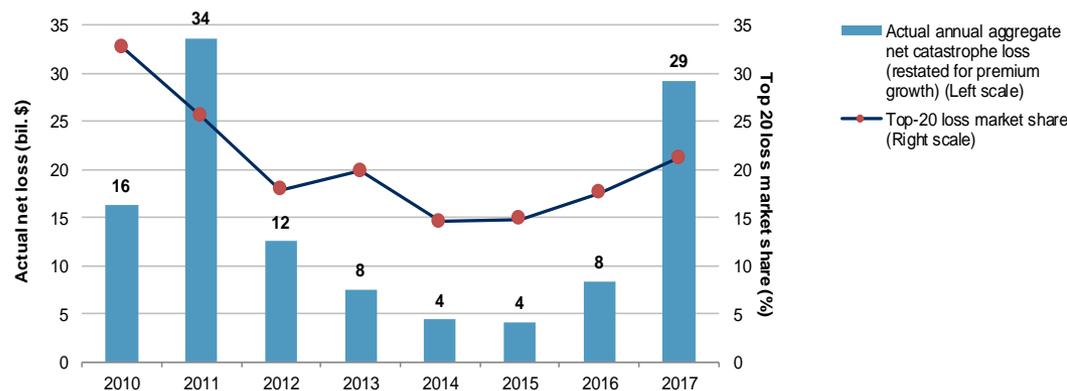
2017 was a 1-in-25 year event, with reinsurers bearing c. 20% of market losses

Net Aggregate Catastrophe Loss In 2017 Is A 1-In-25-Year Loss For The Top-20 Global Reinsurers



Source: S&P Global Ratings' estimates.
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Historical Annual Catastrophe Losses Show An Average Loss Market Share Of 20% For The Top-20 Global Reinsurers

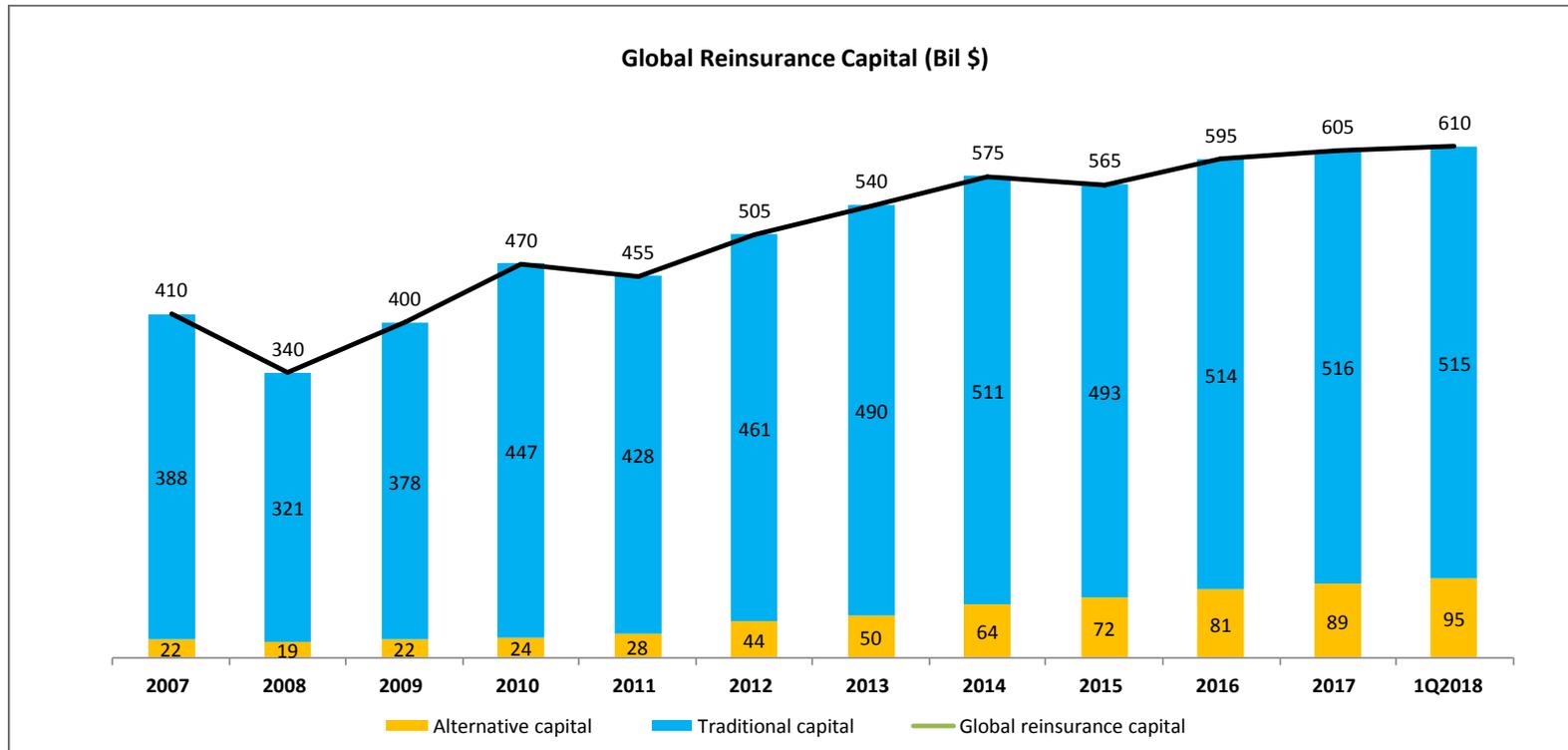


Sources: S&P Global Ratings, Swiss Re Sigma.
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Supply And Demand

Alternative capital proves to be resilient and passed its first major test in 2017

- Alternative capital proves to be resilient and passed its first major test in 2017
- Alternative capital accounted for about 16% of the \$610 billion global reinsurance capital as of the end of first-quarter 2018



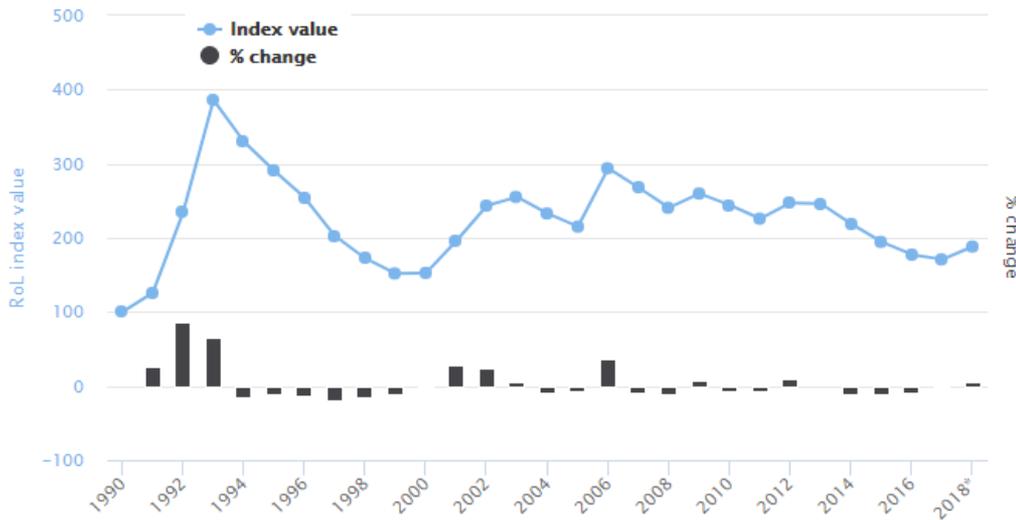
Sources: Company financial statements, Aon Benfield Analytics, and Aon Securities Inc.

Supply And Demand

Reinsurance Pricing Momentum Is Running Out Of Steam

- Global reinsurance pricing was up slightly (0%–5%, in aggregate) during the year-to-date renewals.
- Specific increases varied by line of business, region, and whether reinsurance contracts had experienced any losses.
- During the 2018 Florida renewals, reinsurance rates increased by low single digits on average but were below industry expectations.

Global Property Catastrophe Rate-On-Line Index

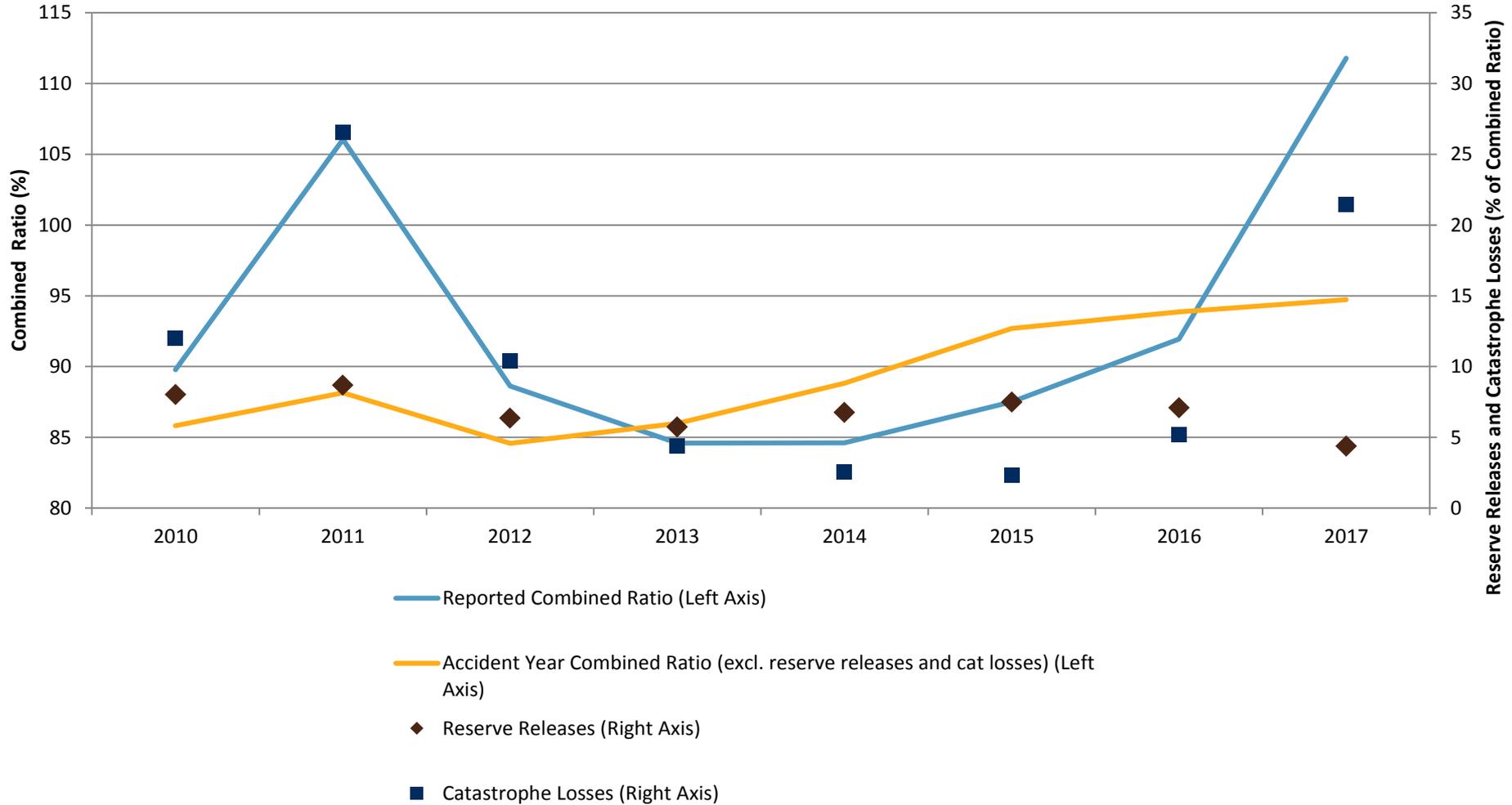


Source: Data from Guy Carpenter, presented by Artemis.bm

Business Line	January 1, 2018 (broker)	April 1, 2018 (broker)
Global PropCat		
US	+0% to +7.5%	+5% to -5%
Caribbean	+0% to +20%	+10% to +25%
Europe	+0% to +5%	N/A
Asia	-5% to +5%	+2% to -5%
Assumed Retro	+10% to +20%	N/A
Aviation & Marine		
Aviation & Marine	+0% to +15%	+0% to +10%
Casualty Lines		
Casualty Lines	-5% to +10%	+2.5% to -10%
EU Motor	+0% to +5%	N/A

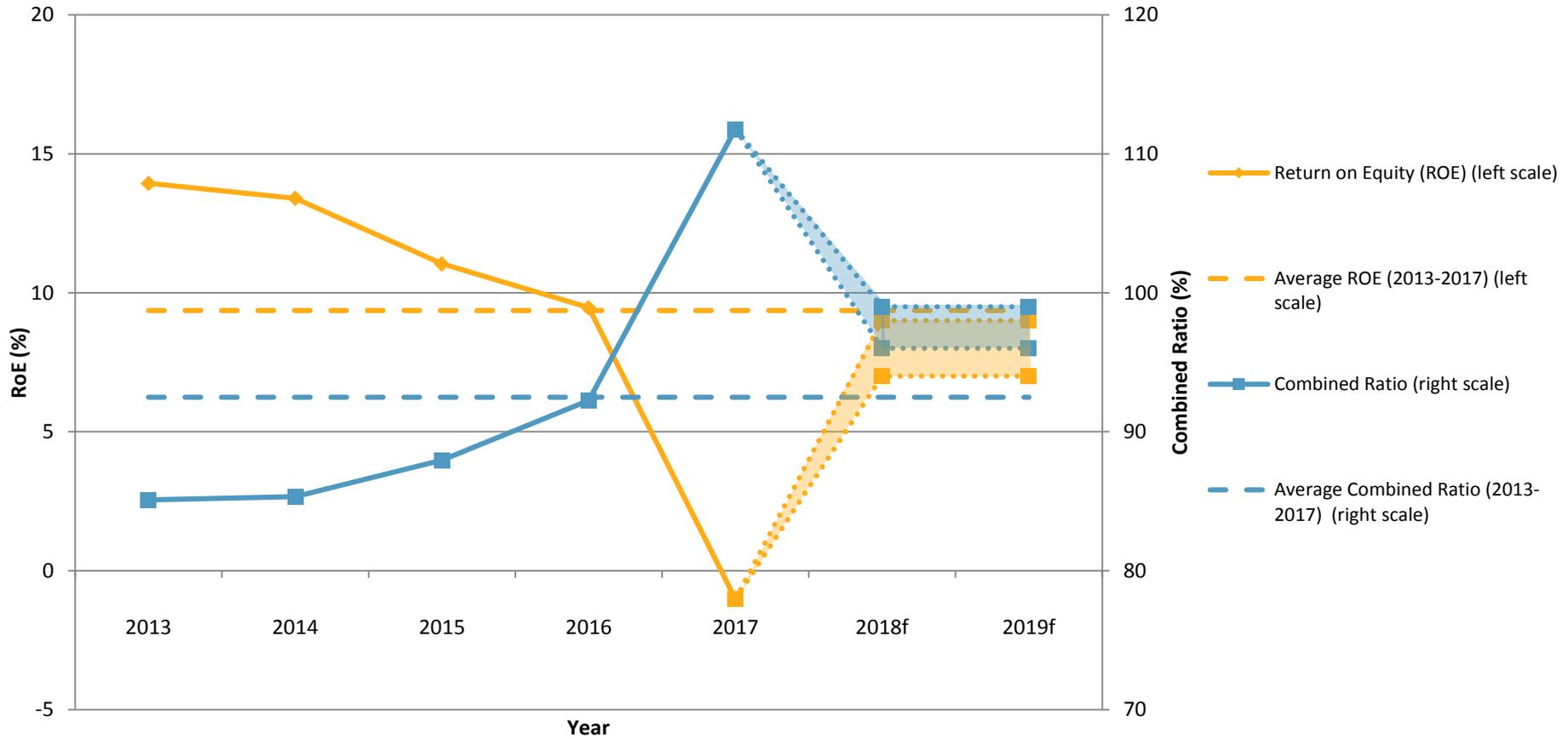
Looking Under The Hood

Underlying Combined Ratios Have Been Trending Upwards Since 2012



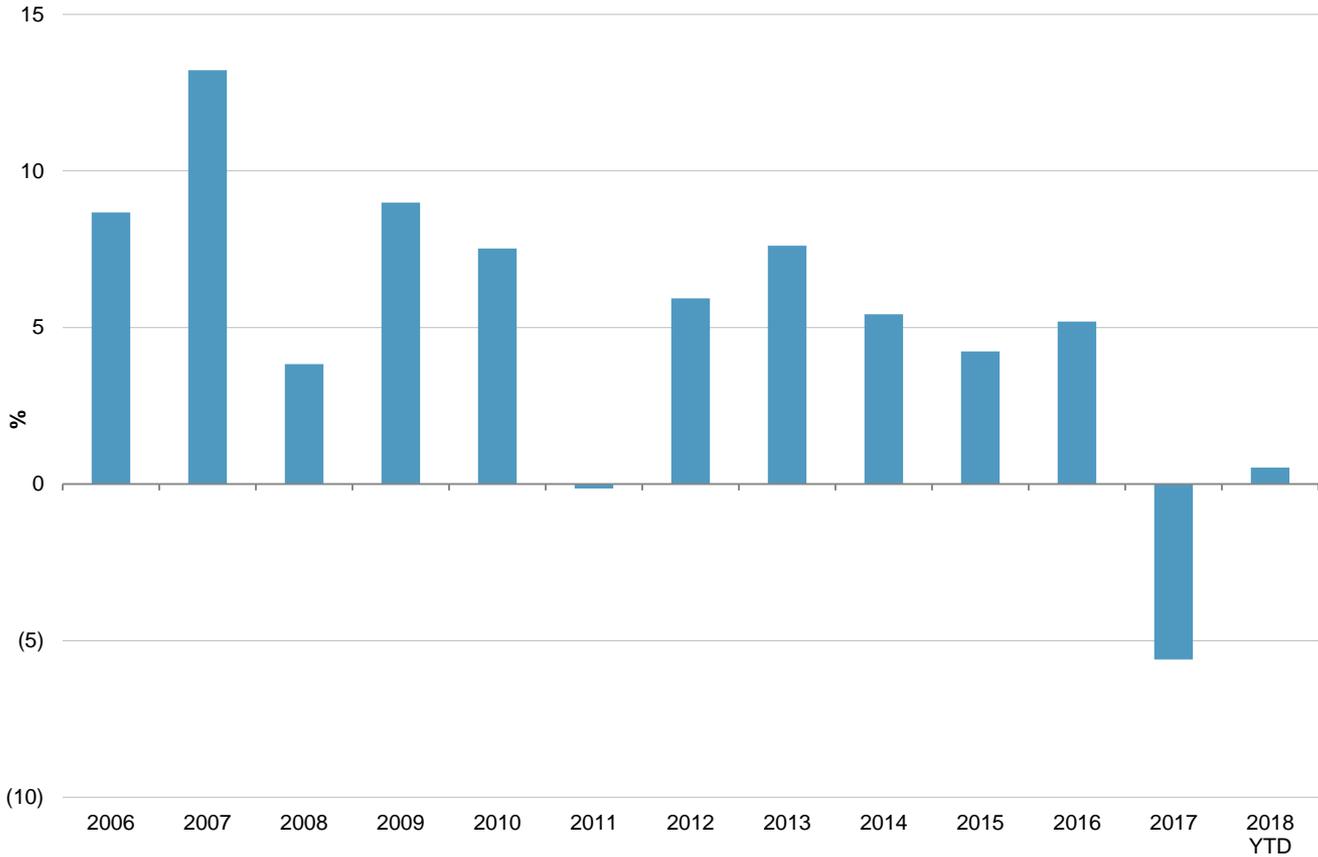
Profitability

Modest Price Increases Should Slightly Improve Operating Performance



Profitability

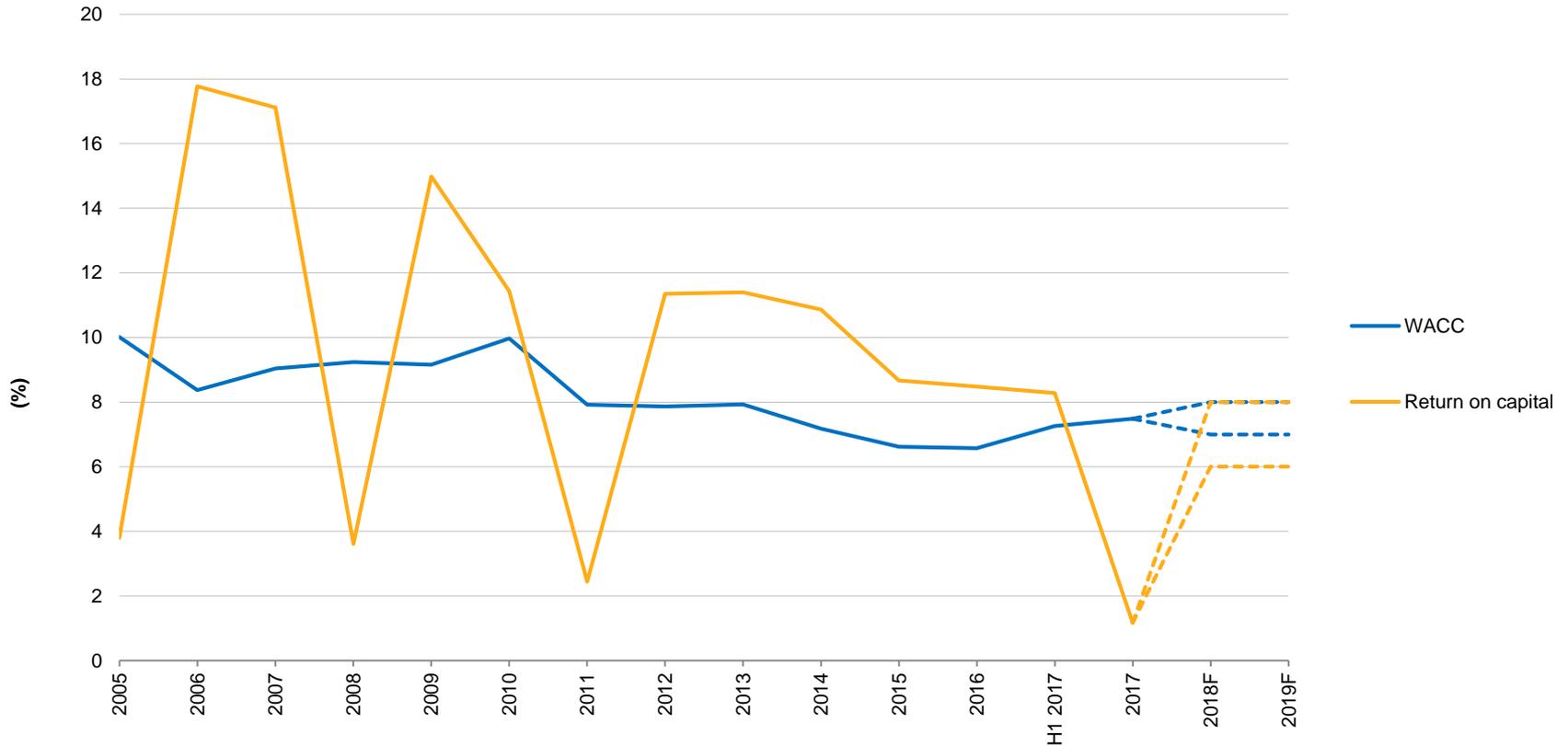
ILS Took A Hit Too In 2017



Source: EurekaHedge. YTD--Year to date.
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Profitability

Reinsurers Profitability Is Likely To Barely Exceed Their Cost Of Capital in 2018 and 2019

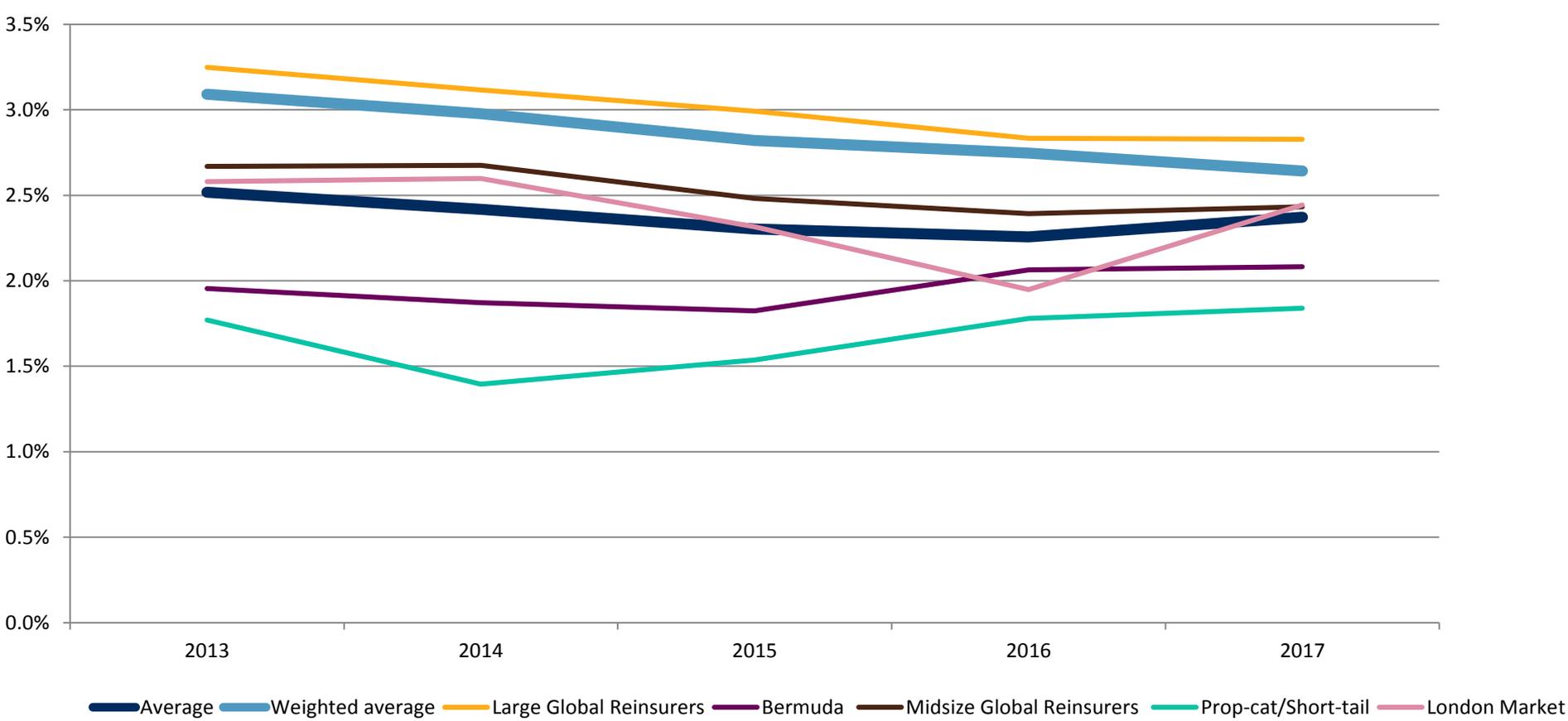


F--Forecasts. Source: S&P Global Ratings, Bloomberg

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Investment performance

Net investment income bottomed out in 2016



Asset Risk Aversion

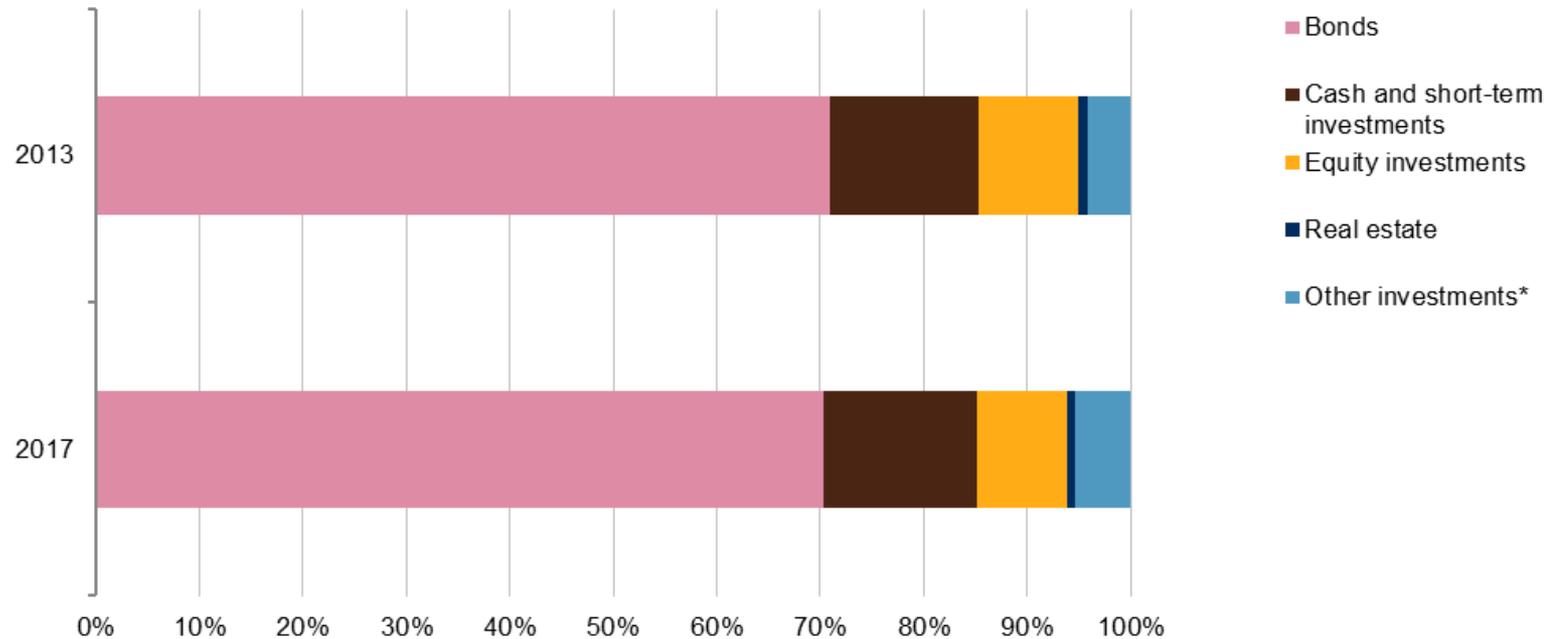
Salvation Will Not Come Through Investment Returns

- We've observed some shift to riskier assets in order to prop up investment returns but asset quality remains high:
 - Just 6% of bonds invested in BB+ and lower rated/unrated bonds at YE2017 (YE2014/1516: 4%/6%/5%),
 - Allocation has shifted by 1 category over the past 6 years, remaining mostly in the AAA range slowly reducing towards BBB bonds.
- There is scope for further risk taking, as capital buffers could absorb an increased allocation to riskier assets.
- However, conservative investment policies and rating migration risk will constrain reinsurers' willingness to take on additional asset exposure.
- Average asset duration of 3.4 years still slightly short compared to average liability duration (approx. 0.2 years short).

Asset Risk Aversion

Salvation Will Not Come Through Investment Returns

Top 20 Global Reinsurers Investment Portfolio Allocation



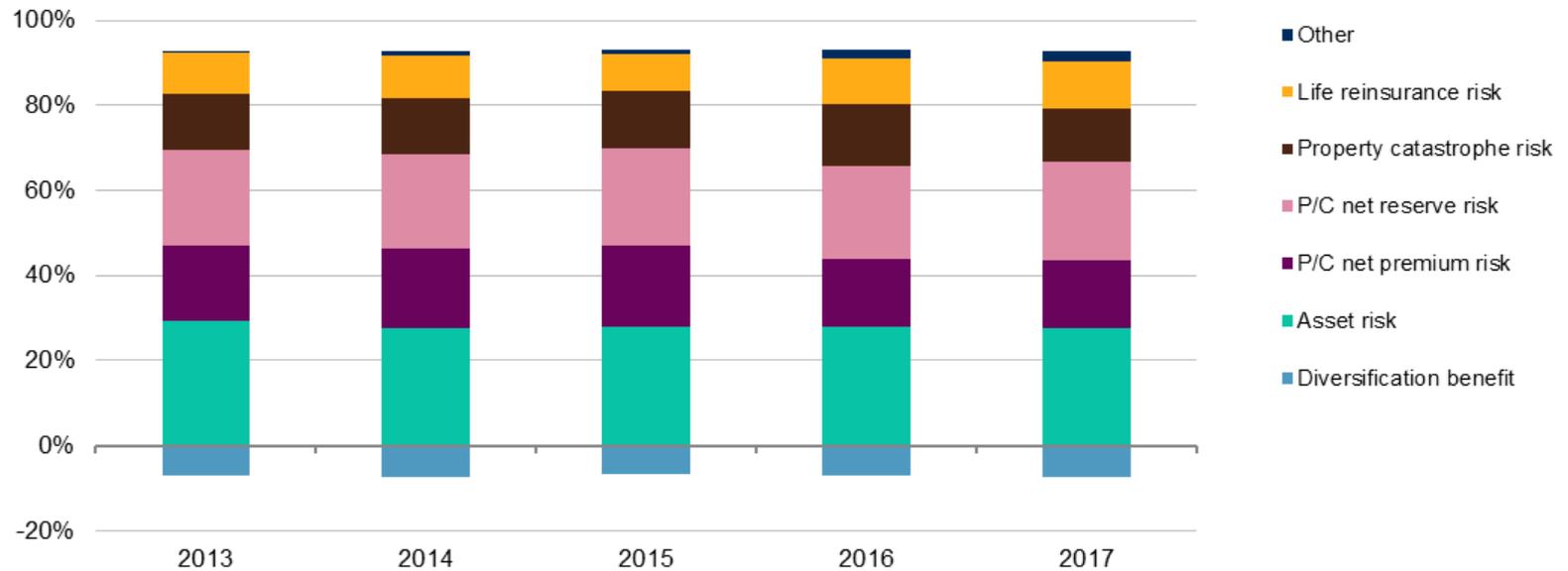
*Other investments include: loans, underwritten mortgages, investments in affiliates, joint ventures, and alternatives investments.

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Focus On Underwriting Risk Instead Of Asset Risk

Salvation Will Not Come Through Investment Returns

Top 20 Global Reinsurers Capital Charges Allocation Per S&P Global Ratings' Capital Model At The 'A' Confidence Level



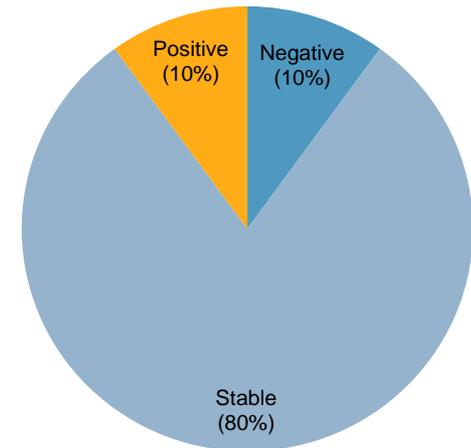
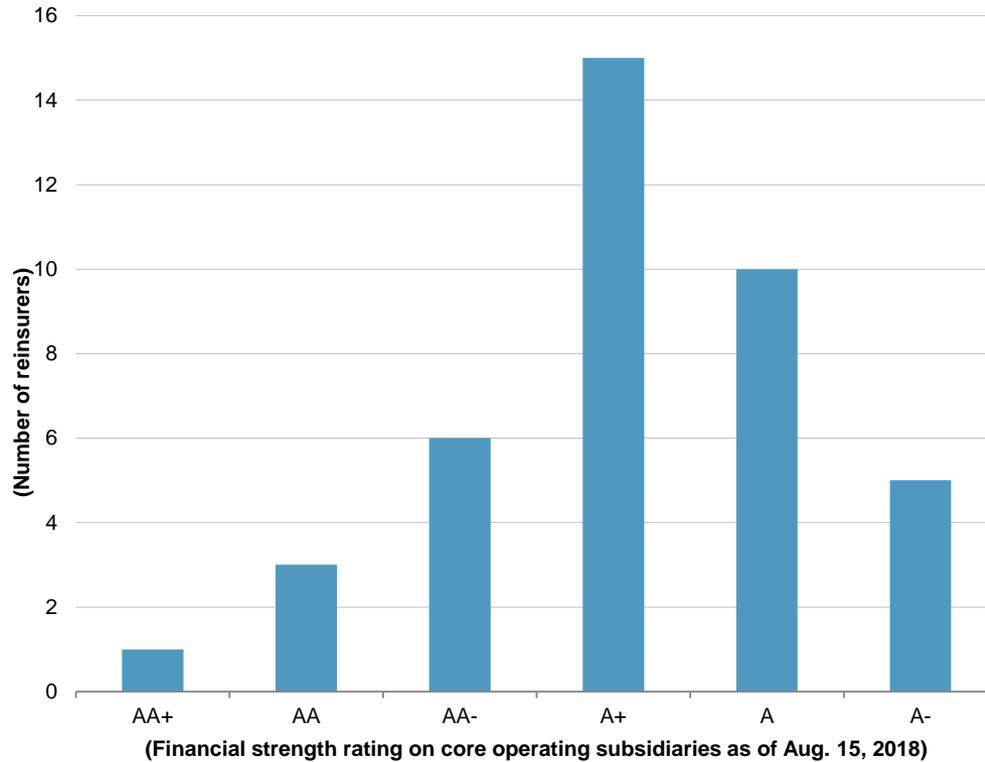
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Stable Sector Outlook



Stable Sector Outlook

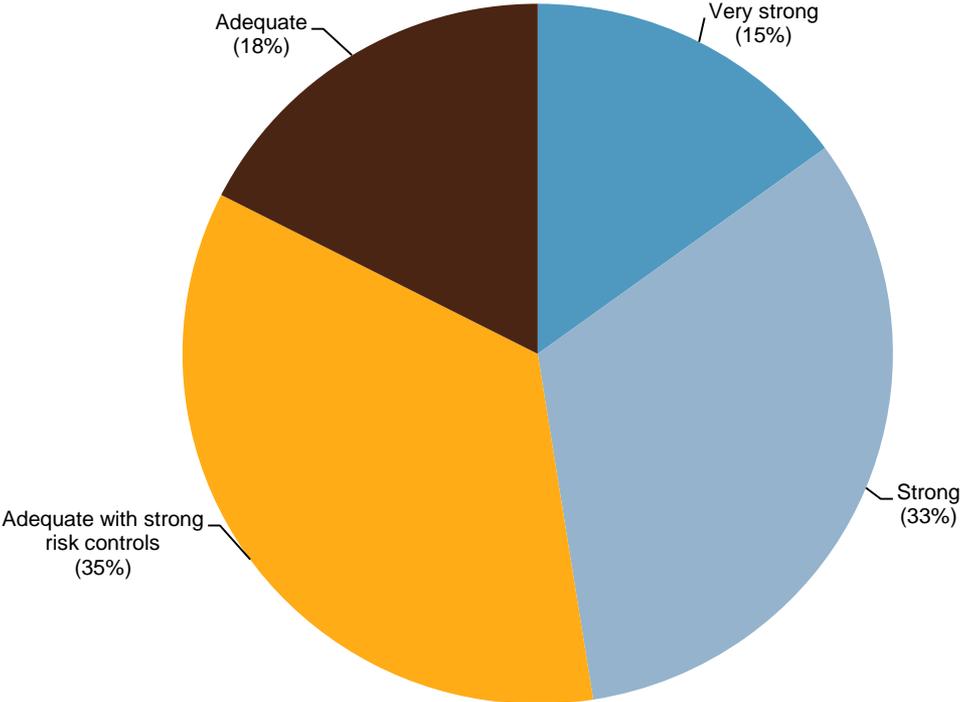
Three Quarters Of Our Top-40 Reinsurer Financial Strength Ratings Are in the 'A' Category



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ERM Is A Differentiating Factor

ERM Assessment Distribution Of Top 40 Global Reinsurers*

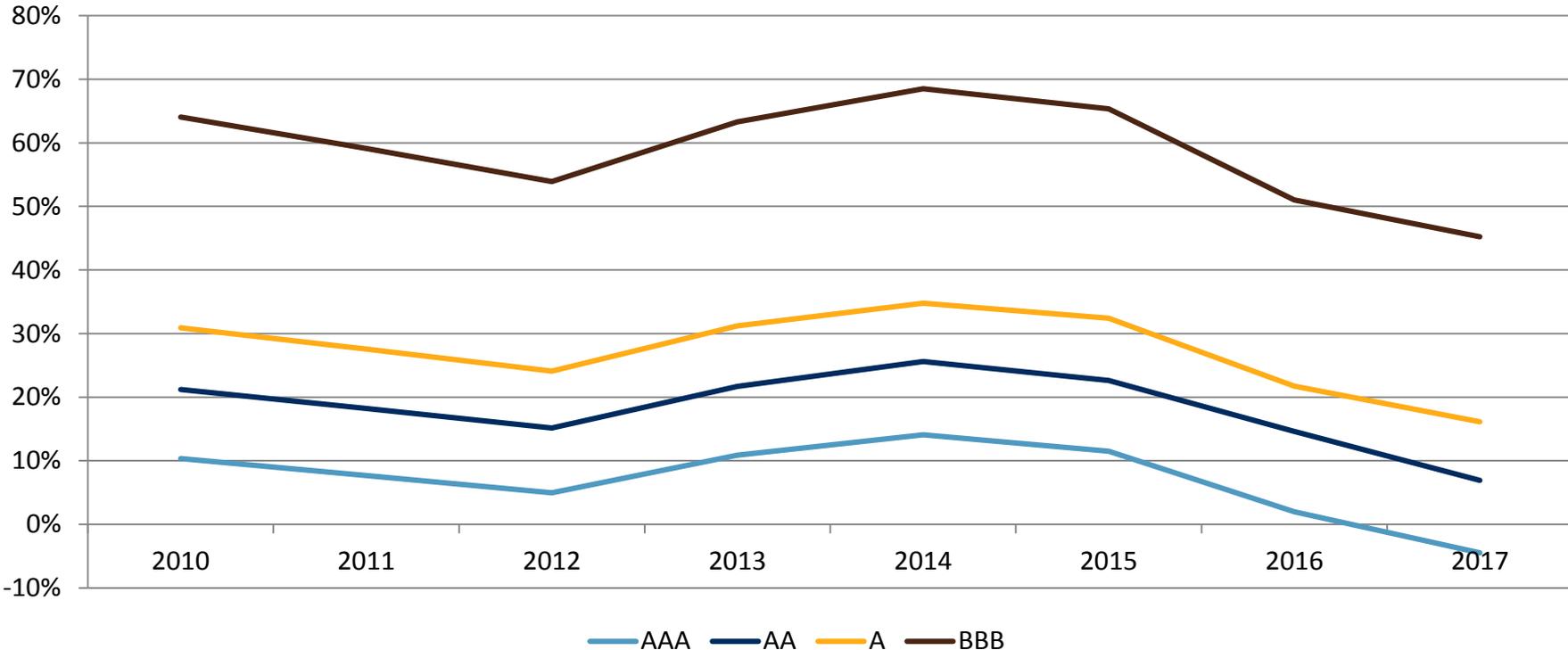


*As Of Aug. 15, 2018.

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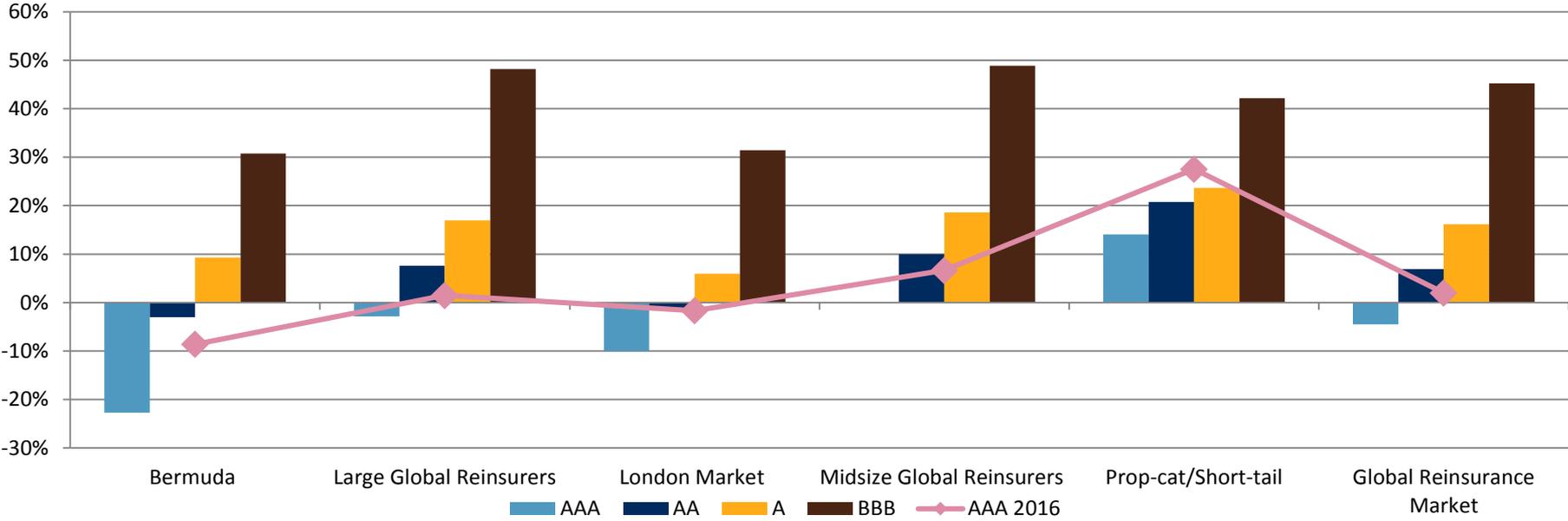
Capital Surplus Has Declined But Remains Robust

Historical Sector Capital Adequacy By Rating Level



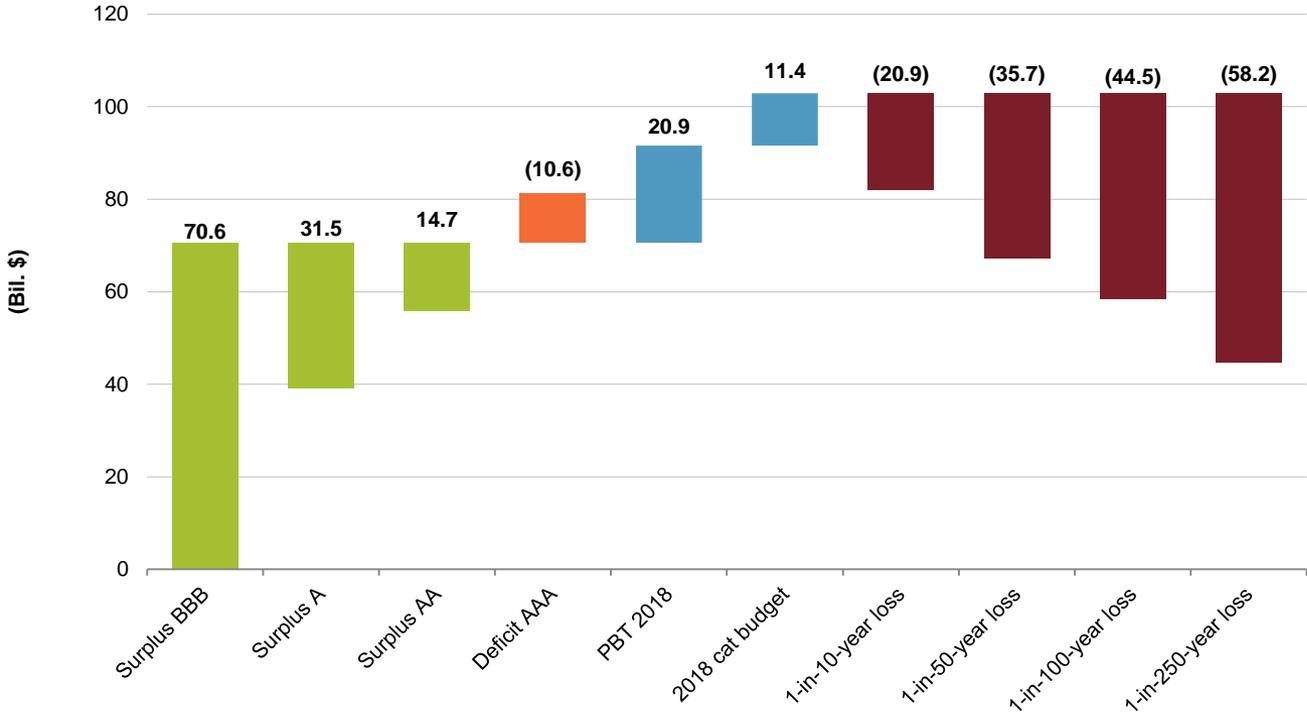
Capital Surplus Has Declined But Remains Robust

2017 Average Capital Adequacy By Peer Group



Capital Surplus Has Declined But Remains Robust

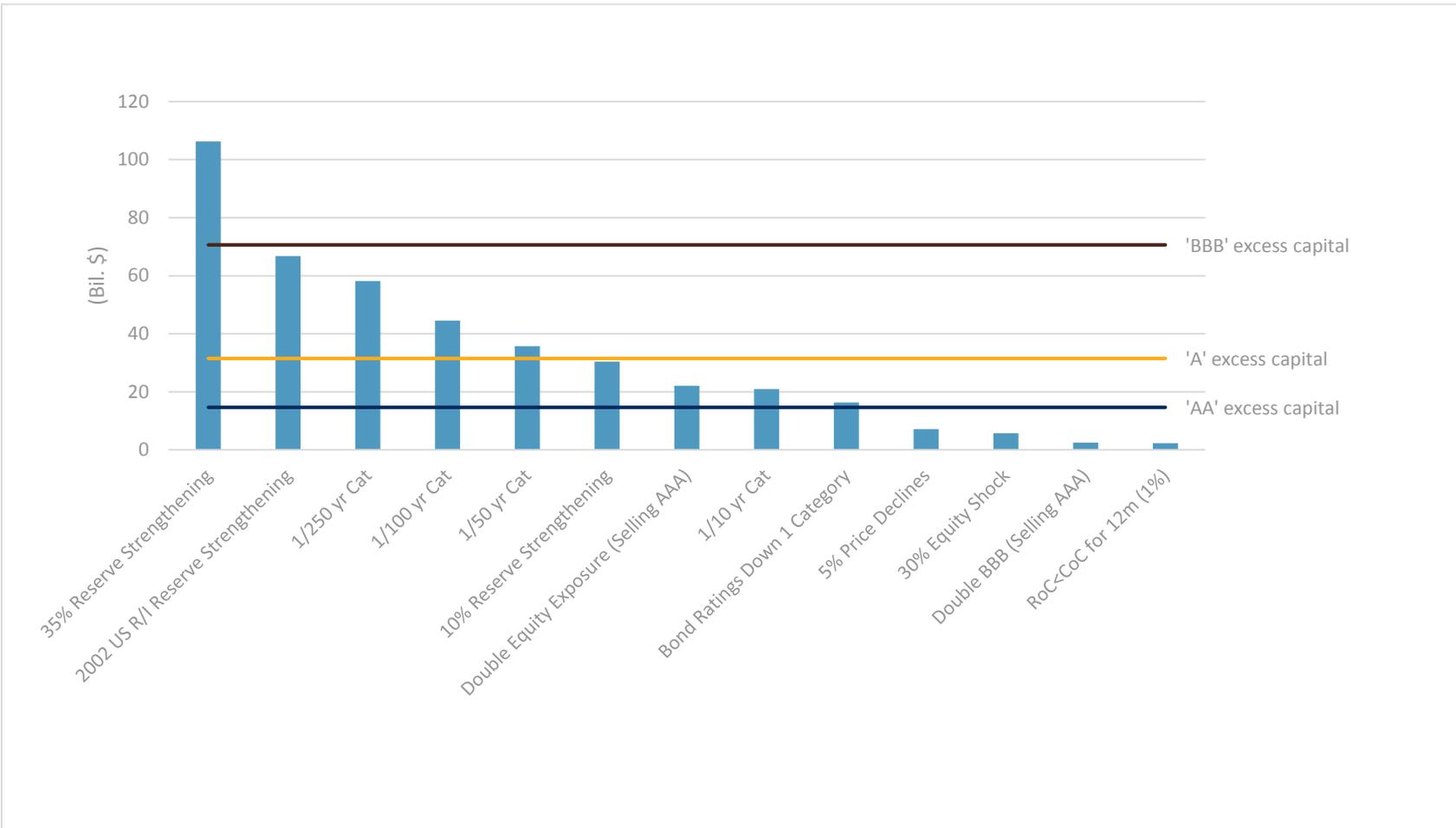
Top-20 Reinsurers' Aggregate Capital Surplus Resilience To Stress At Year-End 2017



PBT--Profit before tax. Source: S&P Global Ratings' estimates.
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Capital Surplus Has Declined But Remains Robust

Global Reinsurance Capital Stress Tests



Thank you!

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