



Institute
and Faculty
of Actuaries

Global Reinsurance Outlook

Graham Coutts, Director, Fitch Ratings

Ekaterina Ishchenko, Director, Fitch Ratings



Institute
and Faculty
of Actuaries

2019 Global Reinsurance Outlook

New Normal Emerges?

25 September 2018

1 Sector and Rating Outlooks

2 Alternative Capital Update

3 Pricing Update

4 Focus on Bermuda Market

5 Focus on European Market

6 Wrap Up





1

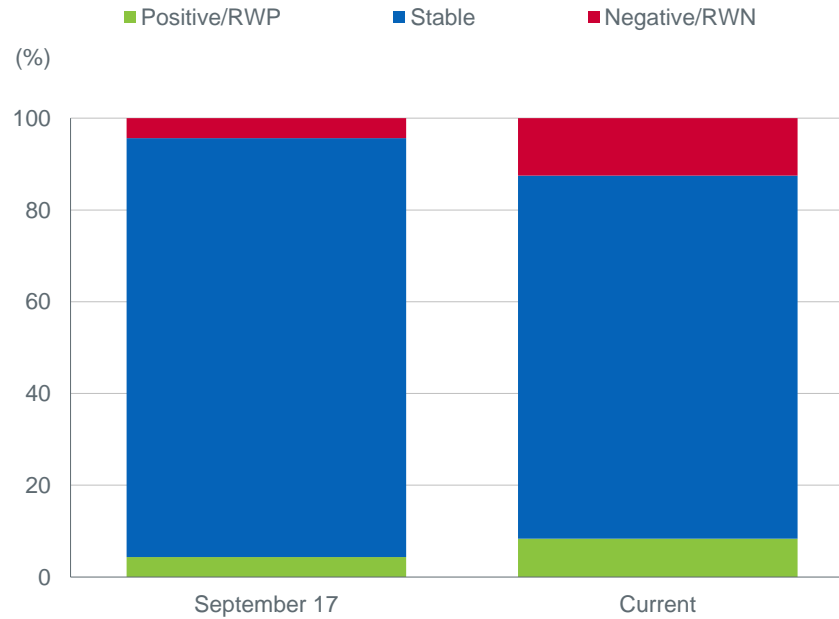
Sector and Rating Outlooks



Institute
and Faculty
of Actuaries

Rating Outlook Stable

Rating Outlooks



Source: Fitch



Institute
and Faculty
of Actuaries

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





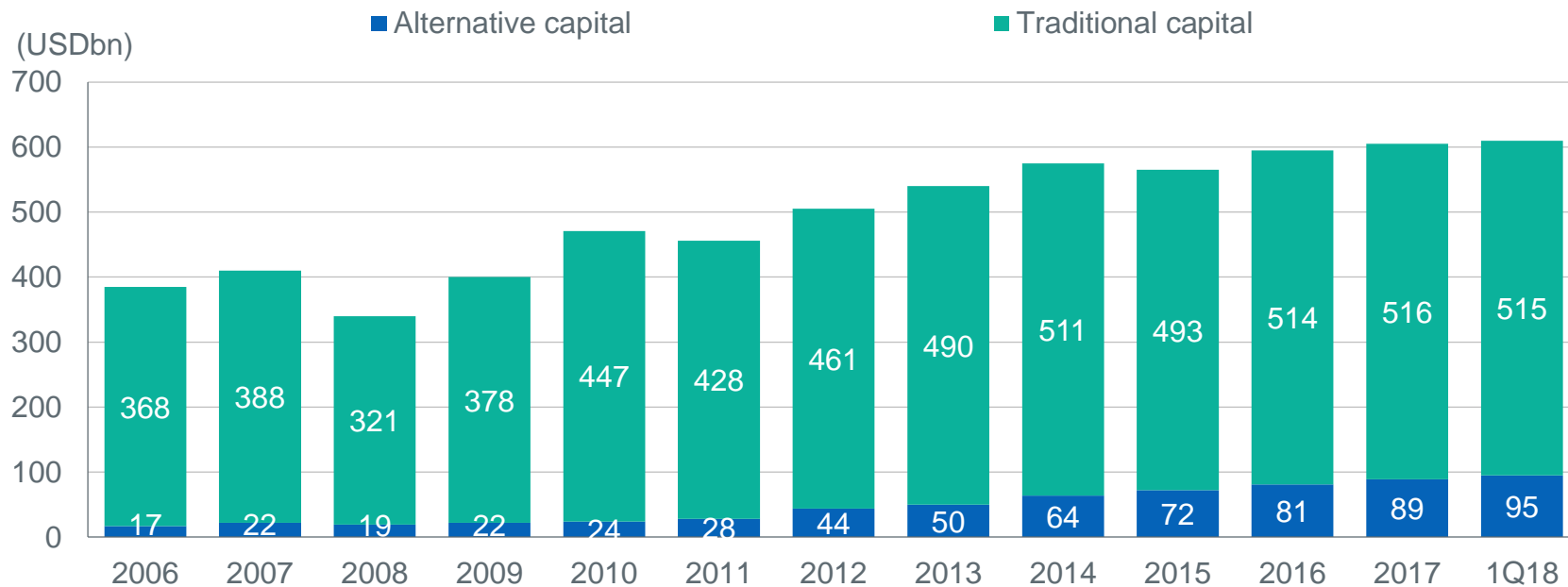
2

Alternative Capital Update



Institute
and Faculty
of Actuaries

Global Reinsurance Capital



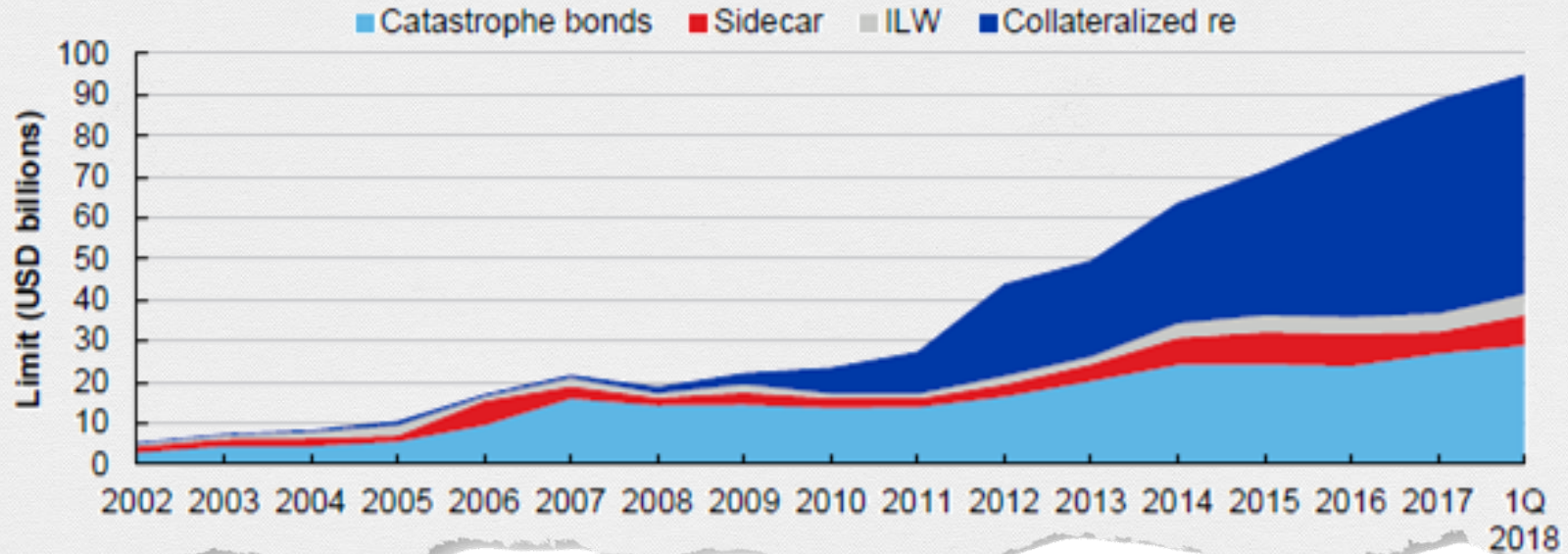
Source: Aon Benfield Analytics



Institute
and Faculty
of Actuaries

Alternative Capital Deployment

Exhibit 4: Alternative capital deployment

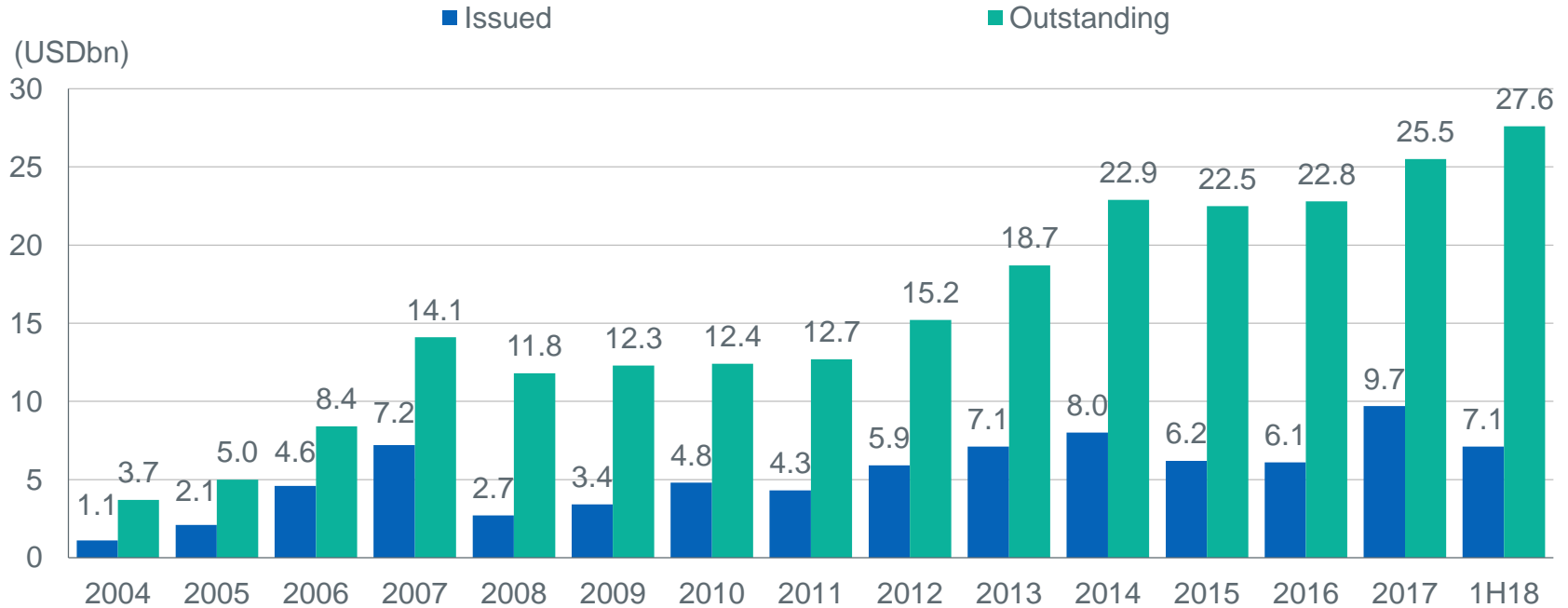


Source: Aon Benfield Analytics



Institute
and Faculty
of Actuaries

Catastrophe Bond Issuance



Source: Willis Towers Watson Securities



Institute
and Faculty
of Actuaries



3

Pricing Update



Institute
and Faculty
of Actuaries

Investment Returns Remain Low

Low Yields Maintain Earnings Pressure/Attract External Capital



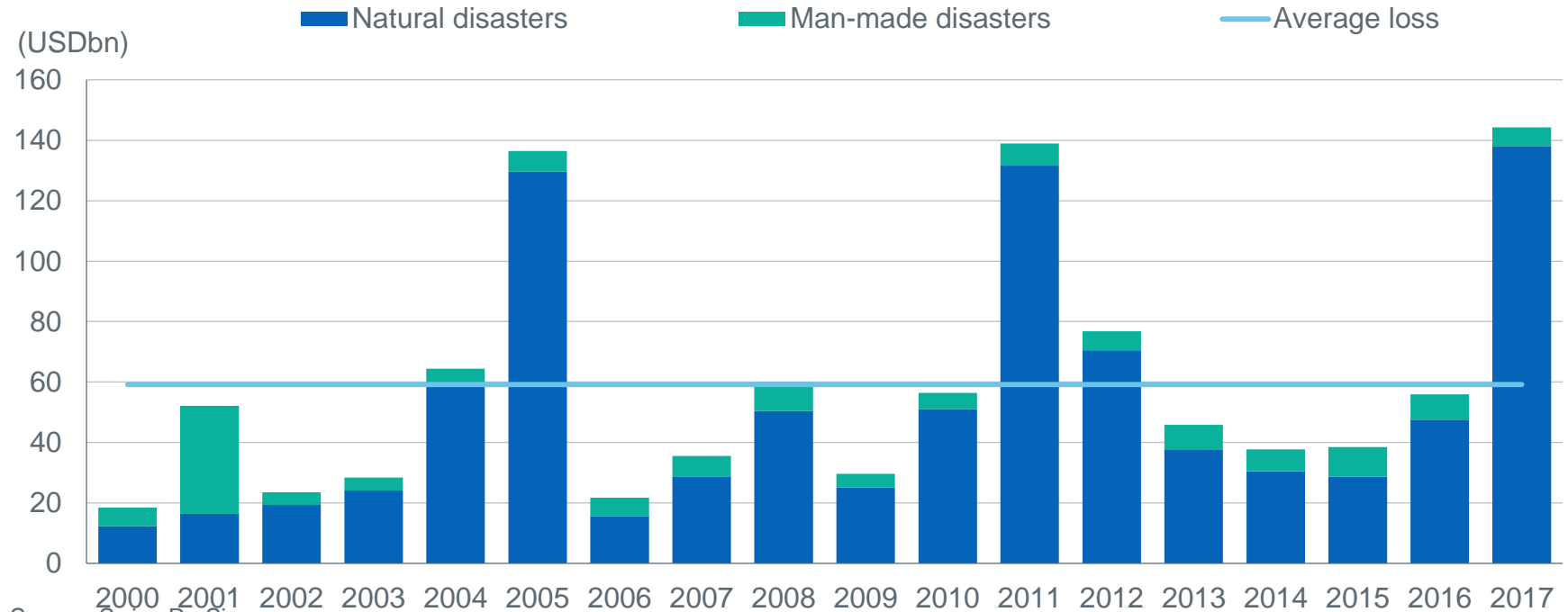
Source: 10 year government bond yields



Institute
and Faculty
of Actuaries

Record Catastrophe Losses in 2017

Annual Catastrophe Losses



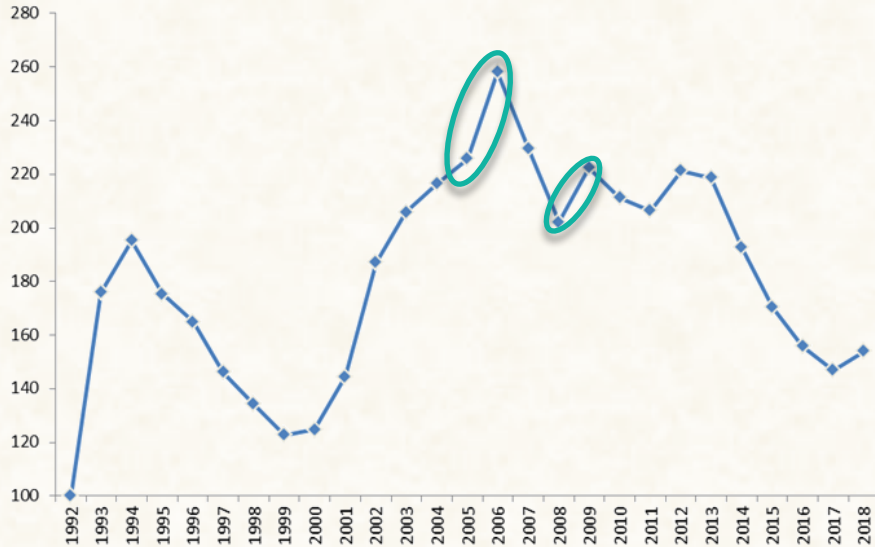
Source: Swiss Re Sigma



Institute
and Faculty
of Actuaries

Property-Catastrophe Risk-Adjusted Rate Changes

Figure 1: JLT Re's Risk-Adjusted Global Property-Catastrophe Reinsurance ROL Index - 1992 to 2018 (Source: JLT Re)



Source: JLT Re

Year	Insured losses (USDm)	Major Events
1992	51	<ul style="list-style-type: none"> Hurricane Andrew
2001	52	<ul style="list-style-type: none"> World Trade Center
2005	137	<ul style="list-style-type: none"> Hurricane Katrina Hurricane Rita Hurricane Wilma
2008	60	<ul style="list-style-type: none"> Hurricane Ike
2011	138	<ul style="list-style-type: none"> Japan Quake NZ Quake Thai Floods
2017	136	<ul style="list-style-type: none"> Hurricane Harvey Hurricane Irma Hurricane Maria

Source: Swiss Re Sigma

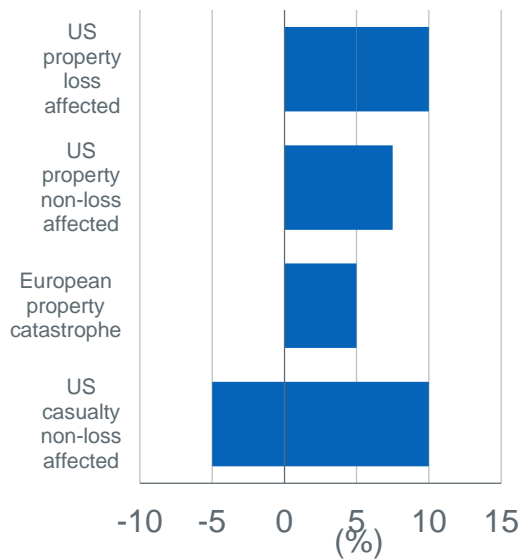


Institute
and Faculty
of Actuaries

Rate Rises Lose Momentum

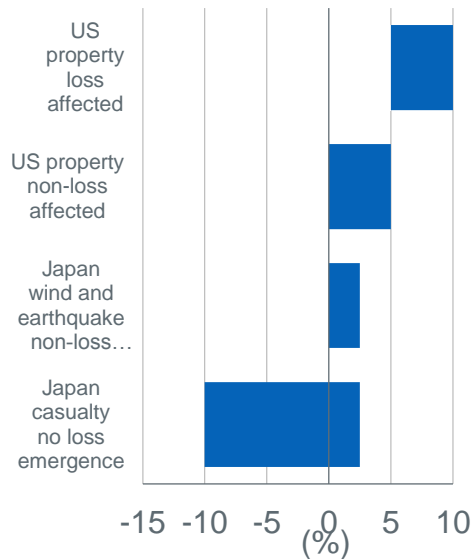
January 2018

Premium rate development



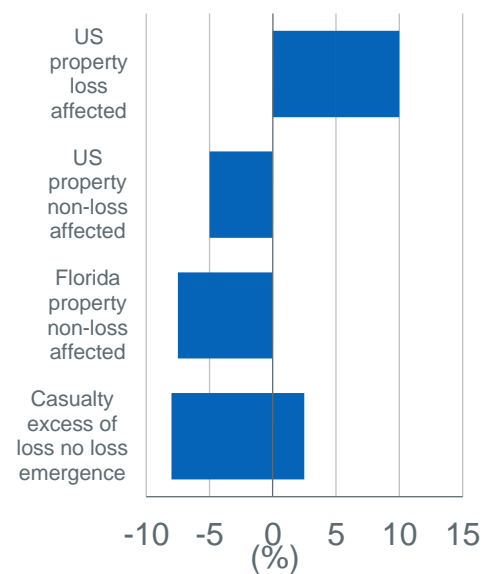
April 2018

Premium rate development



June/July 2018

Premium rate development



Source: Company and broker reports



Institute
and Faculty
of Actuaries



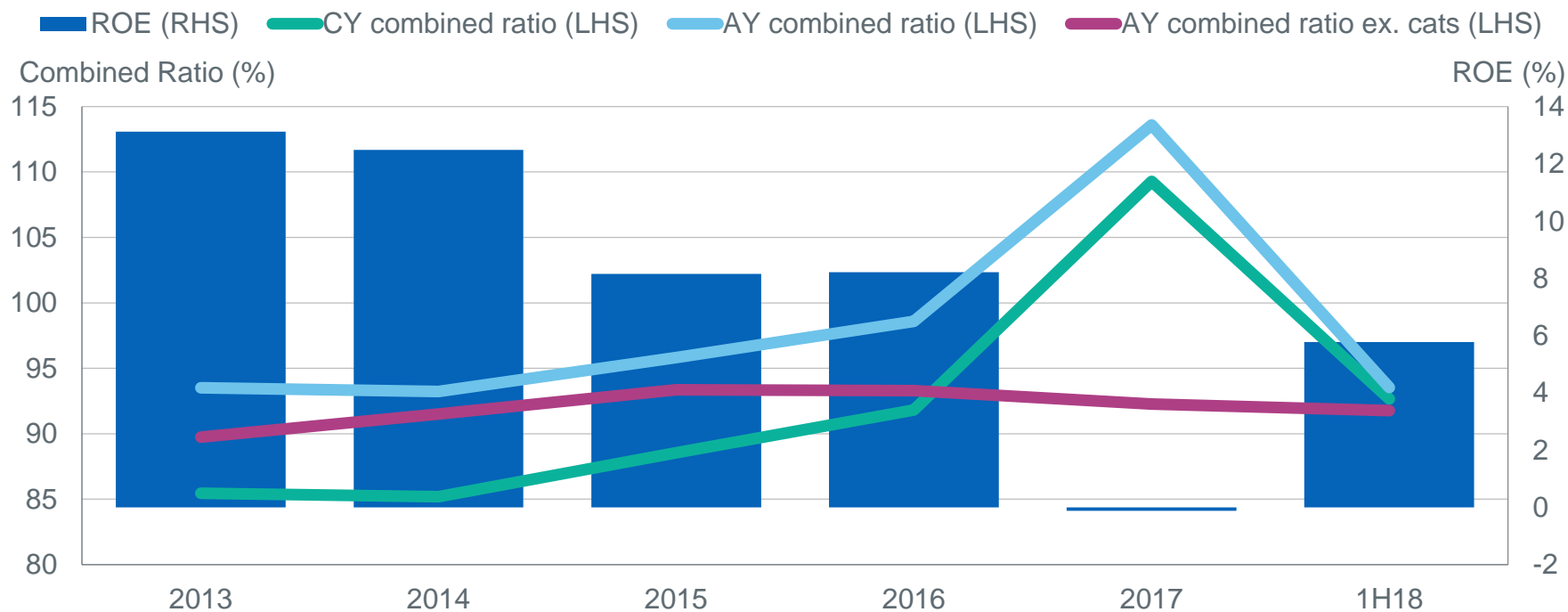
4

Focus on Bermuda Market



Institute
and Faculty
of Actuaries

Bermuda Performance



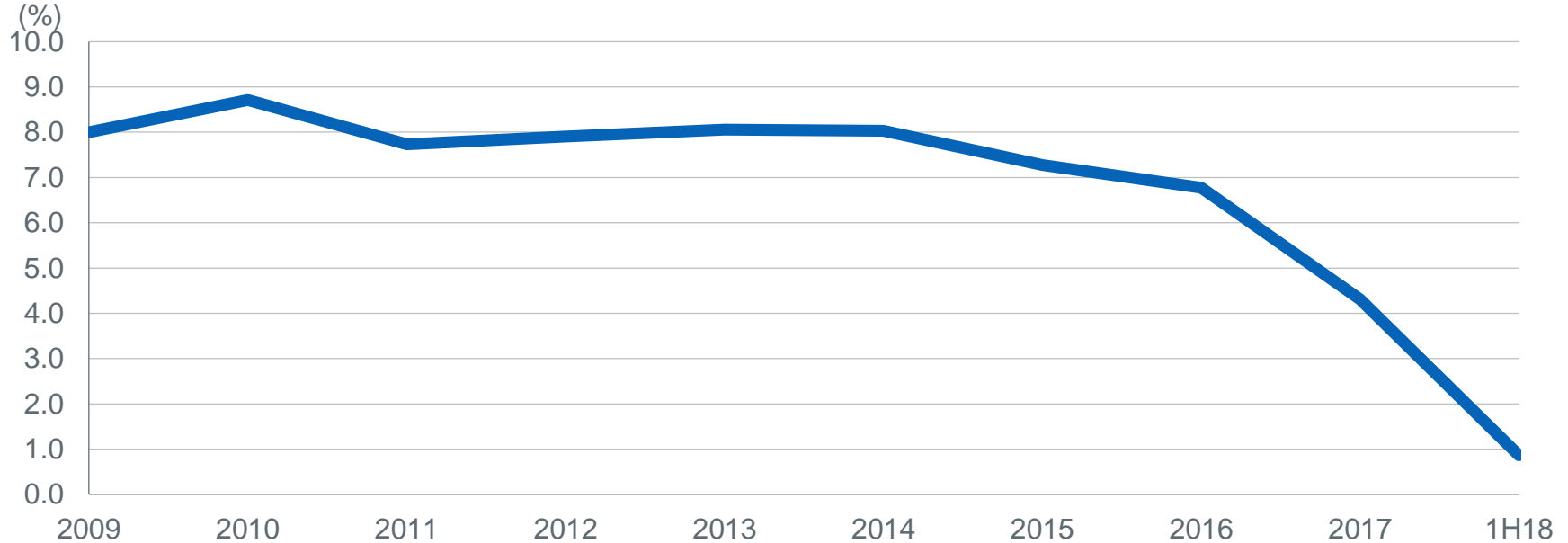
Source: SNL Financial, company reports



Institute
and Faculty
of Actuaries

Bermuda Performance (Cont.)

GAAP Favourable Reserve Development of Net Earned Premiums

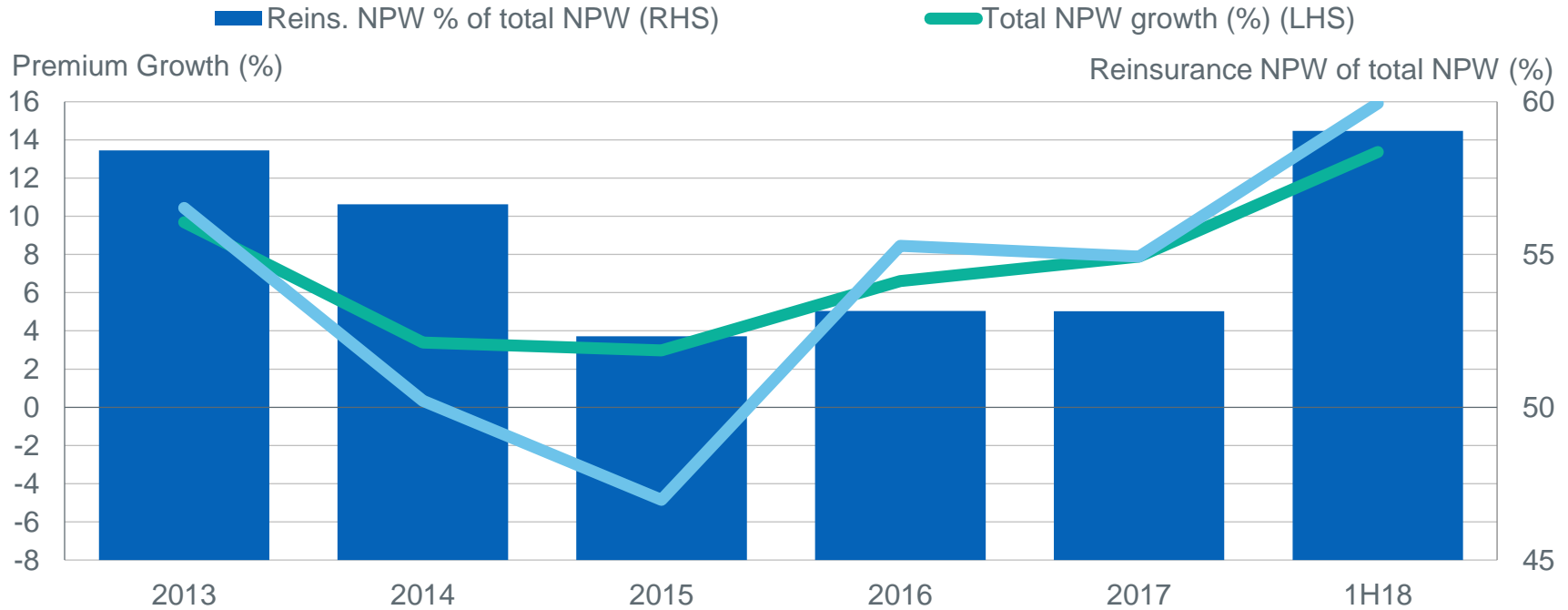


Source: SNL Financial, company reports. Data is from (re)insurance organizations in Bermuda



Institute
and Faculty
of Actuaries

Bermuda Performance (Cont.)



Source: SNL Financial, company reports



Institute
and Faculty
of Actuaries

Bermuda Model to Be Tested

- US Tax Reform Negative for Bermuda
- Base Erosion and Anti-Abuse Tax (BEAT) Alters Ceded Strategy





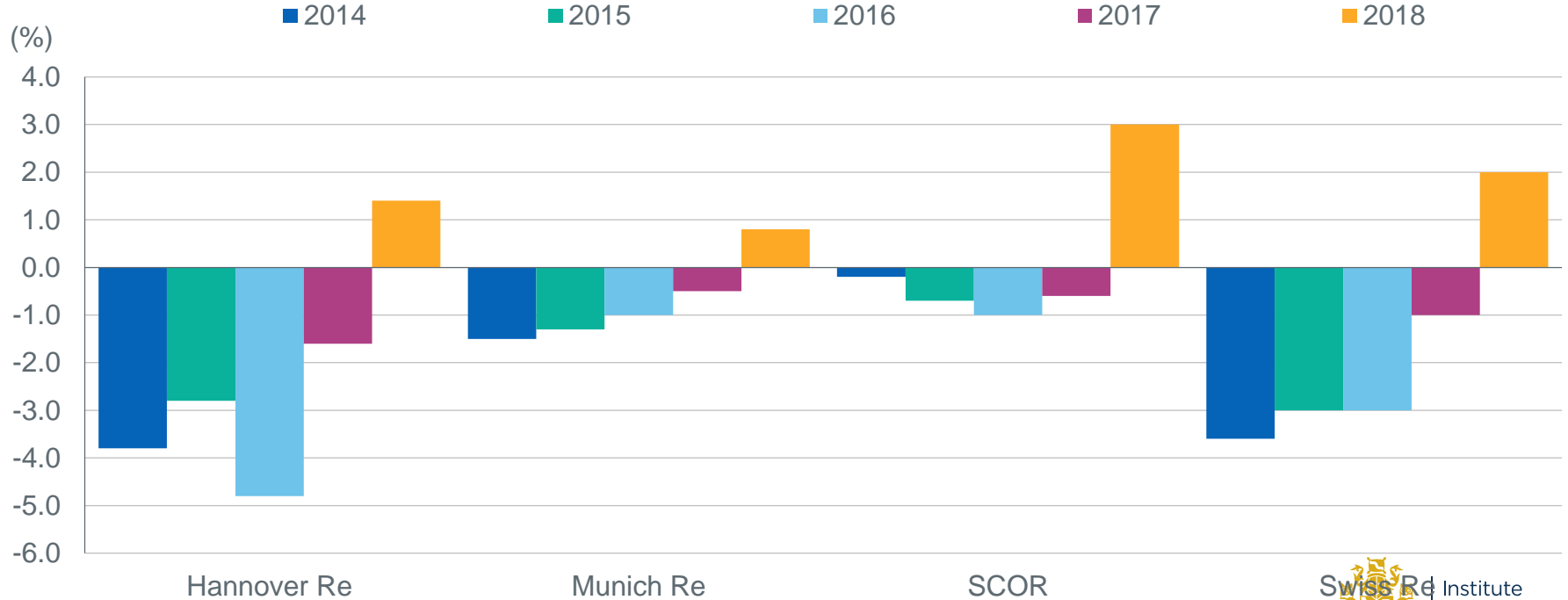
5

Focus on European Market



Institute
and Faculty
of Actuaries

Rates Improve Following Catastrophe Losses



Source: Company disclosure

Normalised Combined Ratios Above 100%

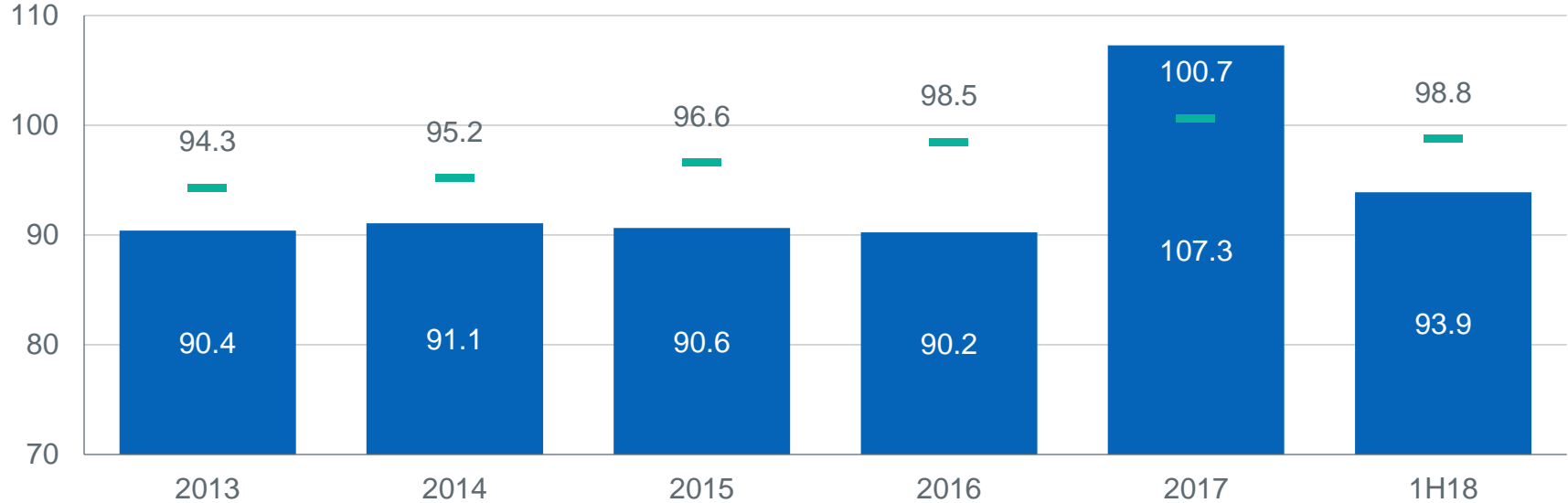
Major European Reinsurers

Reported vs normalised combined ratio

(%)

■ Average reported

— Average normalised



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

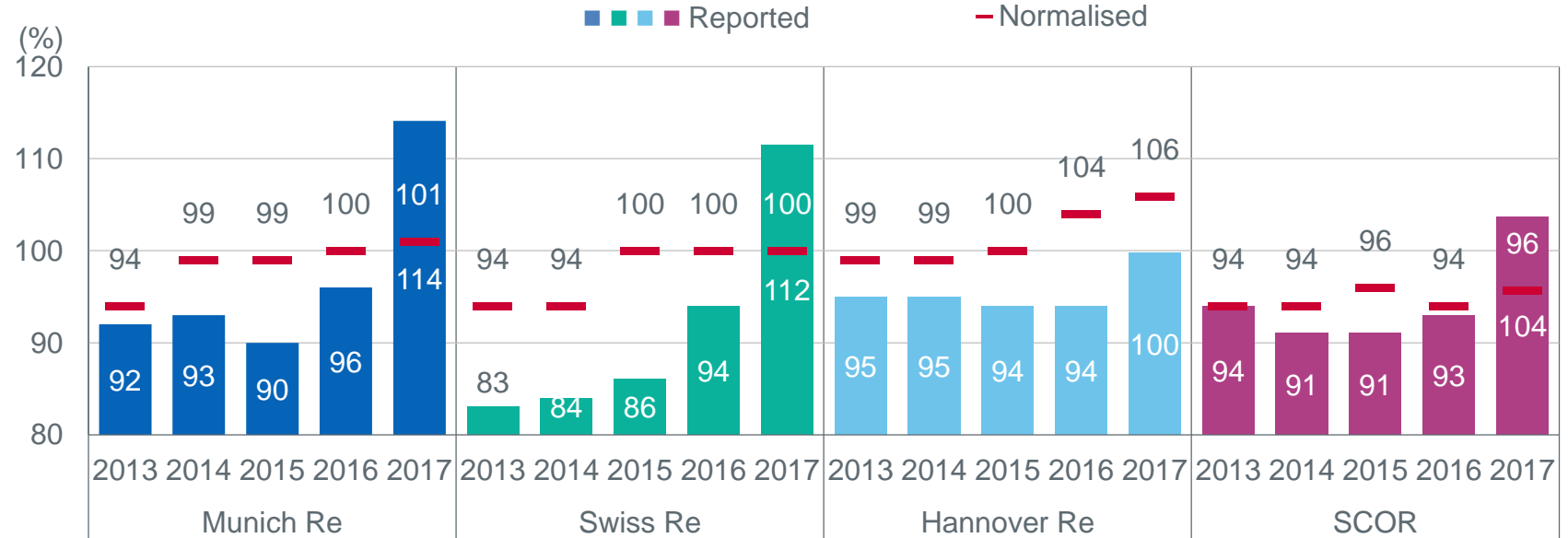
Source: Company reports, Fitch



Institute
and Faculty
of Actuaries

Normalised Combined Ratios Above 100% (Cont.)

Major European Reinsurers



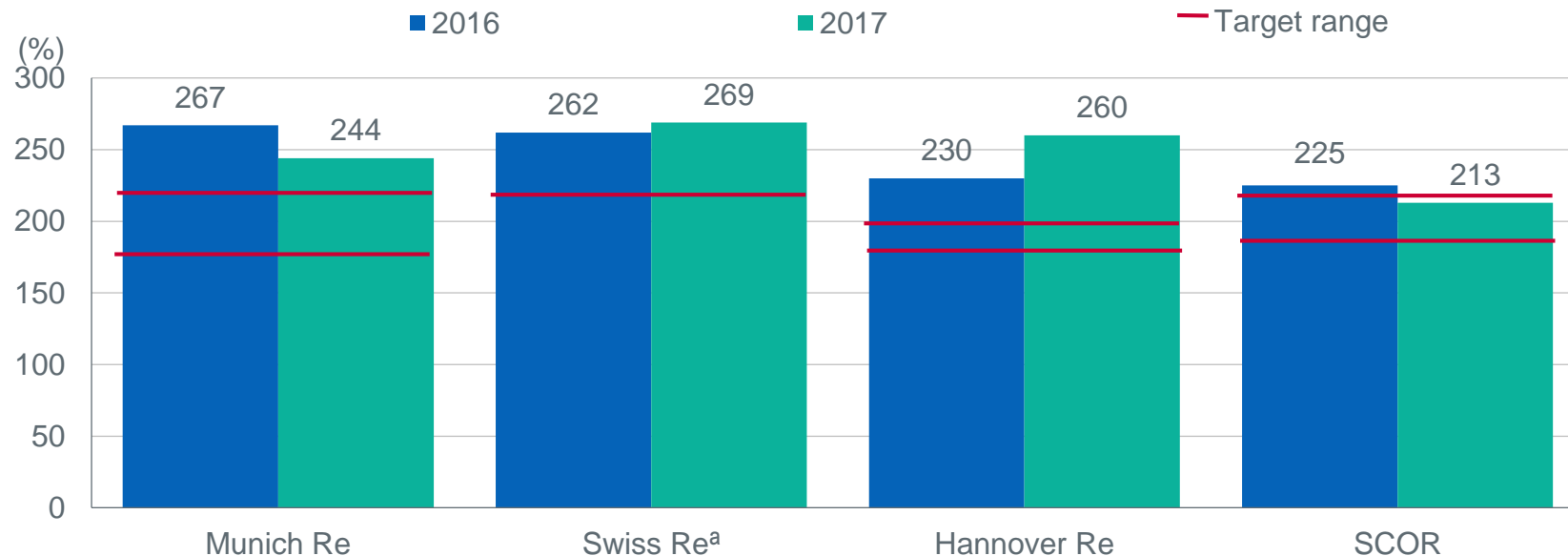
Source: Company reports, Fitch



Institute
and Faculty
of Actuaries

Reinsurers Remain Well Capitalised

Regulatory Solvency Ratio



^a 269% represents coverage under Swiss Solvency test, the regime that Swiss Re operates under



Institute
and Faculty
of Actuaries



6

Wrap Up



Institute
and Faculty
of Actuaries

Fitch Ratings' 2018/2019 Forecast

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

Note: Shareholders' equity and net income ROE reflect entire company results, not just non-life reinsurance operations
Source: Fitch monitored universe of reinsurers



Institute
and Faculty
of Actuaries

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

1. Global Reinsurance Guide 2019 (September 2018)
2. 2018 Outlook: Global Reinsurance (September 2018)
3. European Reinsurance Peer Review (August 2018)
4. Global Reinsurers: Mid-Year 2017 Financial Results (August 2018)
5. Asian Reinsurance Markets (July 2018)
6. Latin American Reinsurance (July 2018)
7. Bermuda (Re)insurers' Peer Review (May 2018)

