

FIAR 2023 – 24th Edition

Perspectives on the Global Reinsurance Market and Delegated Underwriting Authority Enterprises

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Global Reinsurance Market – Discussion Outline

Results Drive Improving Pricing and Terms

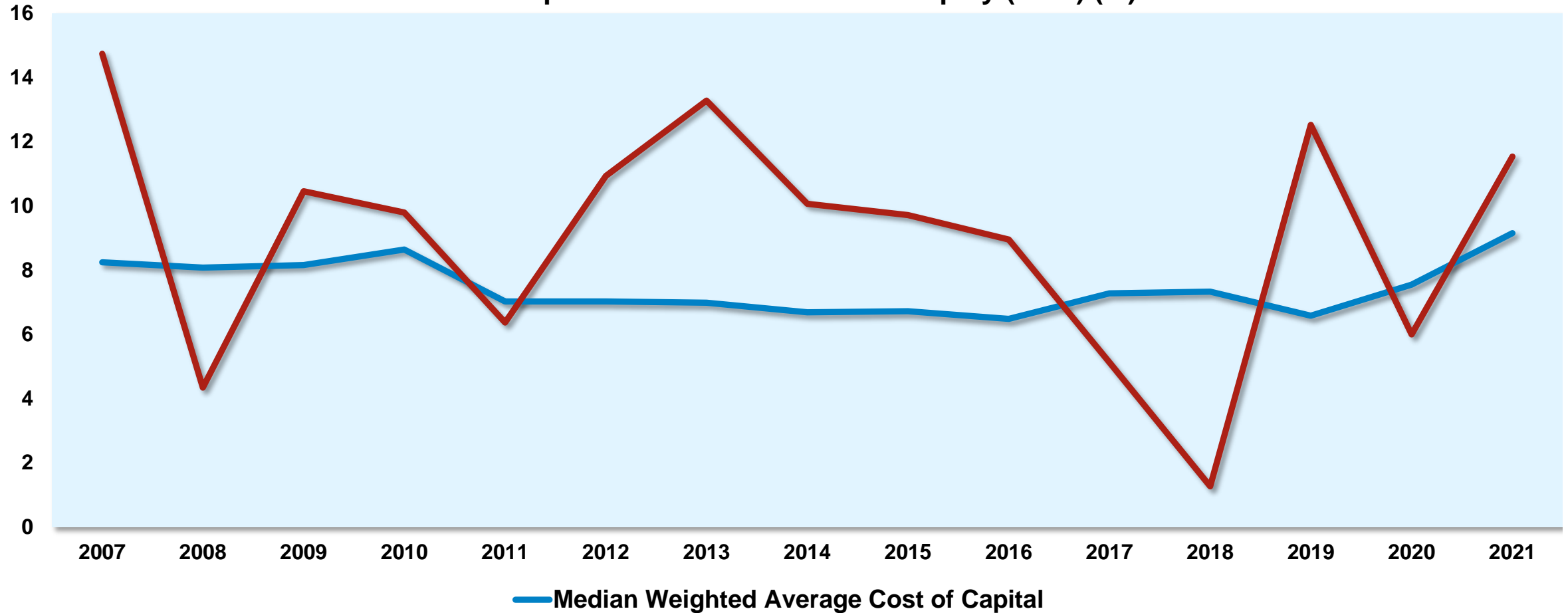
Market Well Capitalised – Subject to Asset Volatility

Outlook: Stable – Drivers Remain in Flux

**Global Reinsurance Market
Results Drive
Improving Pricing and Terms**

Global Reinsurance Market Performance

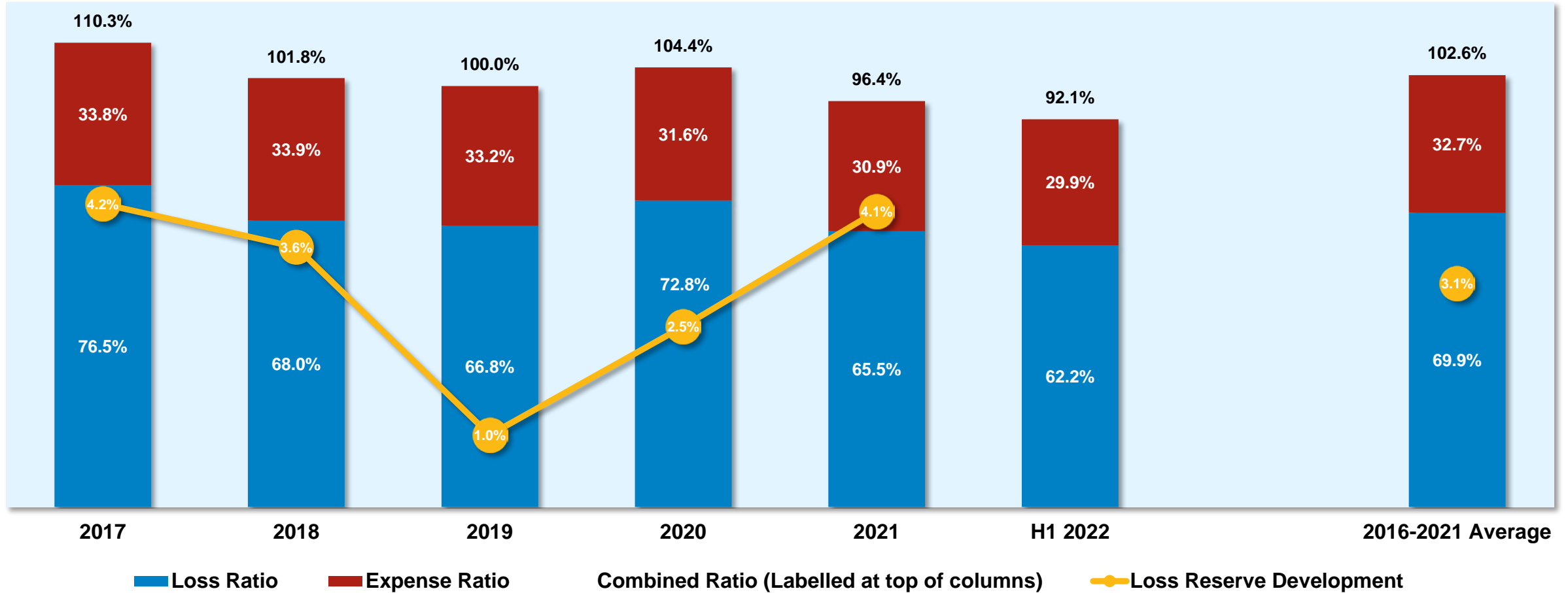
Reinsurers' Median Weighted Average Cost of Capital (WACC)
Compared to Median Return on Equity (ROE) (%)



— Median Weighted Average Cost of Capital

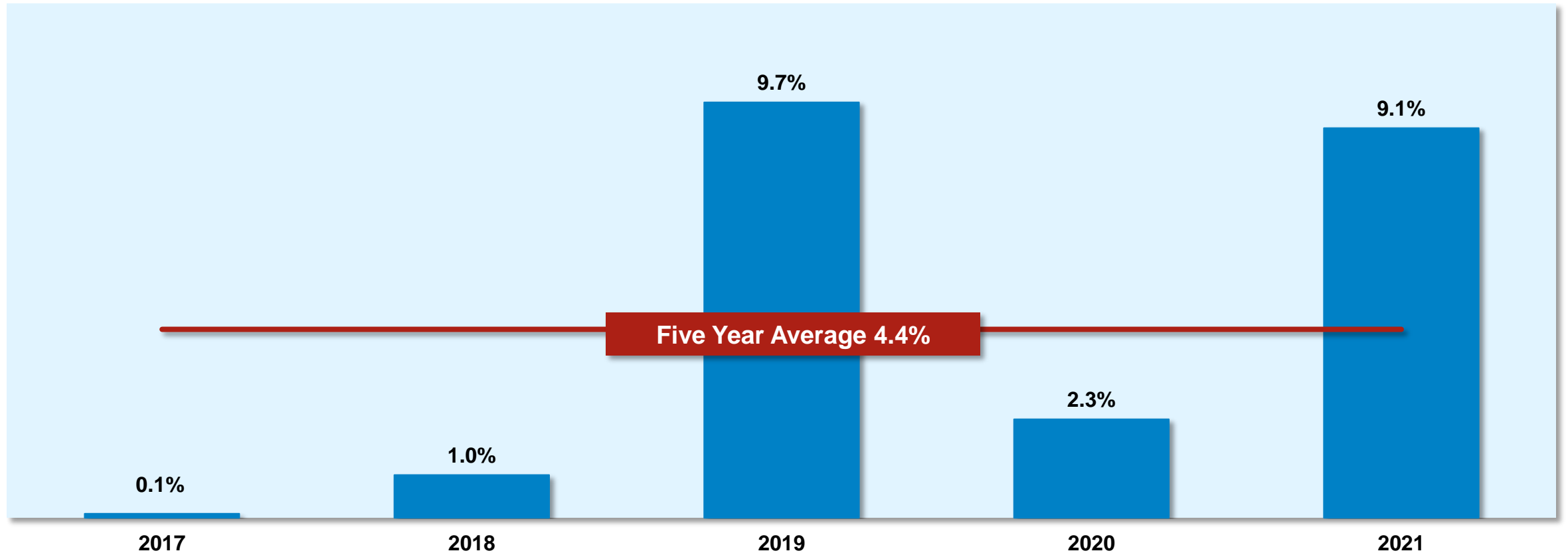
Global Reinsurance Market Performance

Loss and Expense Ratios and Positive Loss Reserve Development



Global Reinsurance Market Performance

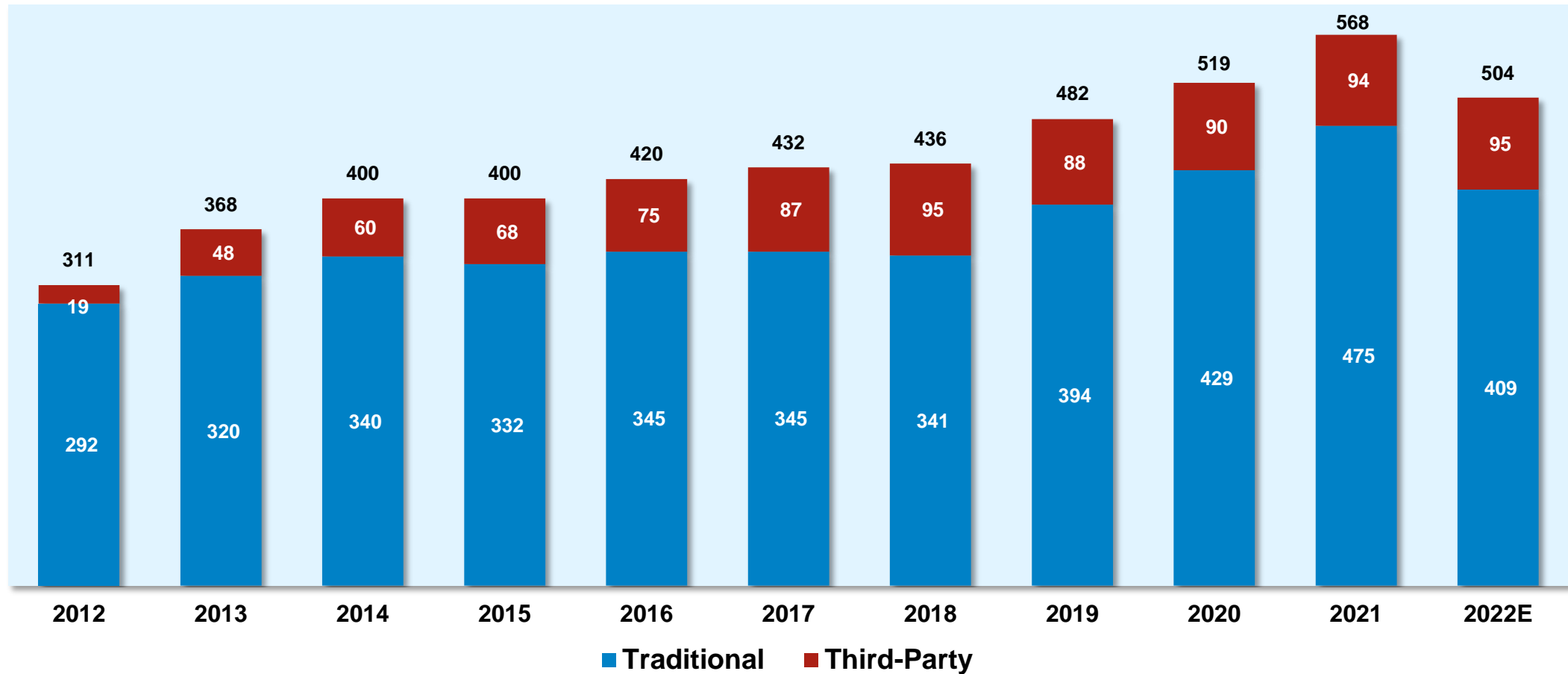
Return on Equity



**Global Reinsurance Market
Well Capitalised
Subject to Asset Volatility**

Global Reinsurance Market Capital

Estimate – Total Dedicated Reinsurance Capital (USD billions)



■ Traditional ■ Third-Party

Global Reinsurance Market Outlook – Stable Drivers Remain in Flux

Global Reinsurance Market Outlook – Stable

Headwinds

Heightened natural catastrophe activity continues to test investor risk appetite

Geopolitical and economic uncertainty: inflation, rising interest rates, risk of recession

New capital is cautious despite improved pricing and tighter T&Cs. Similar constraints on the ILS side, particularly for retro capacity

Segment well capitalised, but interest rate hikes and volatile investment markets have materially reduced shareholders' equity on a MV basis

Inflationary pressures and the risk of recession make profitability targets more challenging

Tailwinds

Sustained upward pricing trends, improving terms and conditions

More stable results following shifts in business mix. Positive reserve development

Segment remains well capitalised but subject to asset market volatility.

Available ≠ Dedicated capital

Underwriting discipline

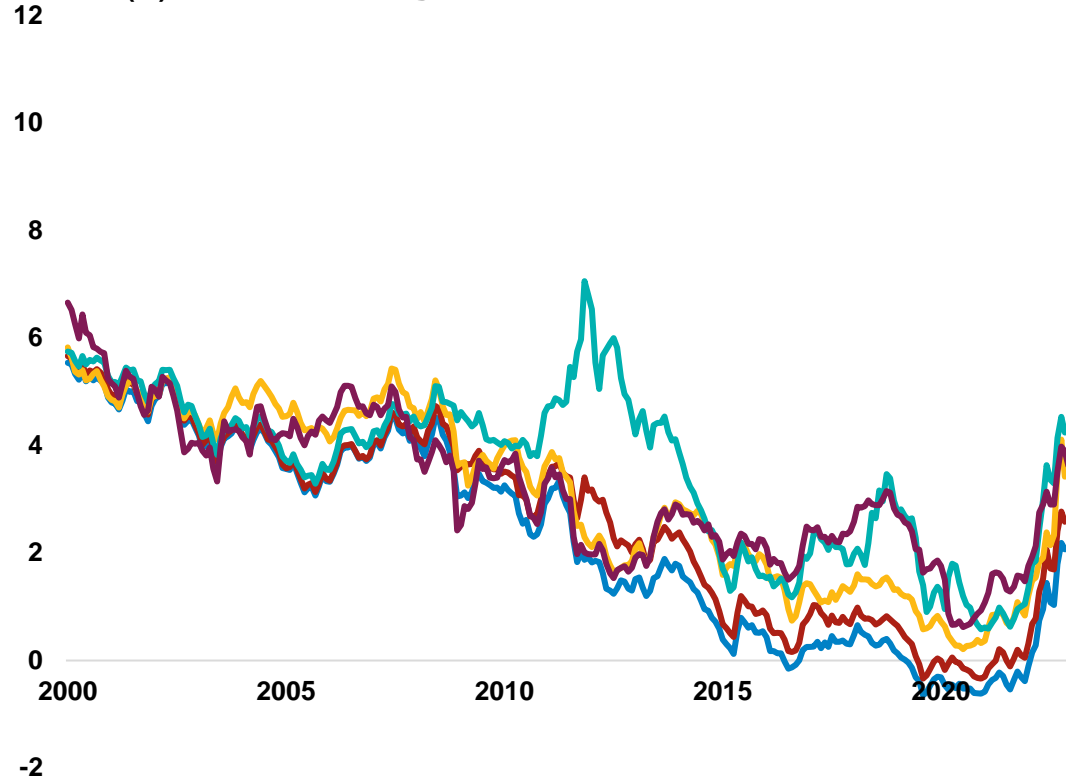
Strong demand from cedants looking for stable results and capital efficiency in an uncertain environment

Impact of Inflation and Interest Rate Changes

Impact of Inflation and Interest Rate Changes

10 Year Interest Rate (%)

Long Term Interest Rates

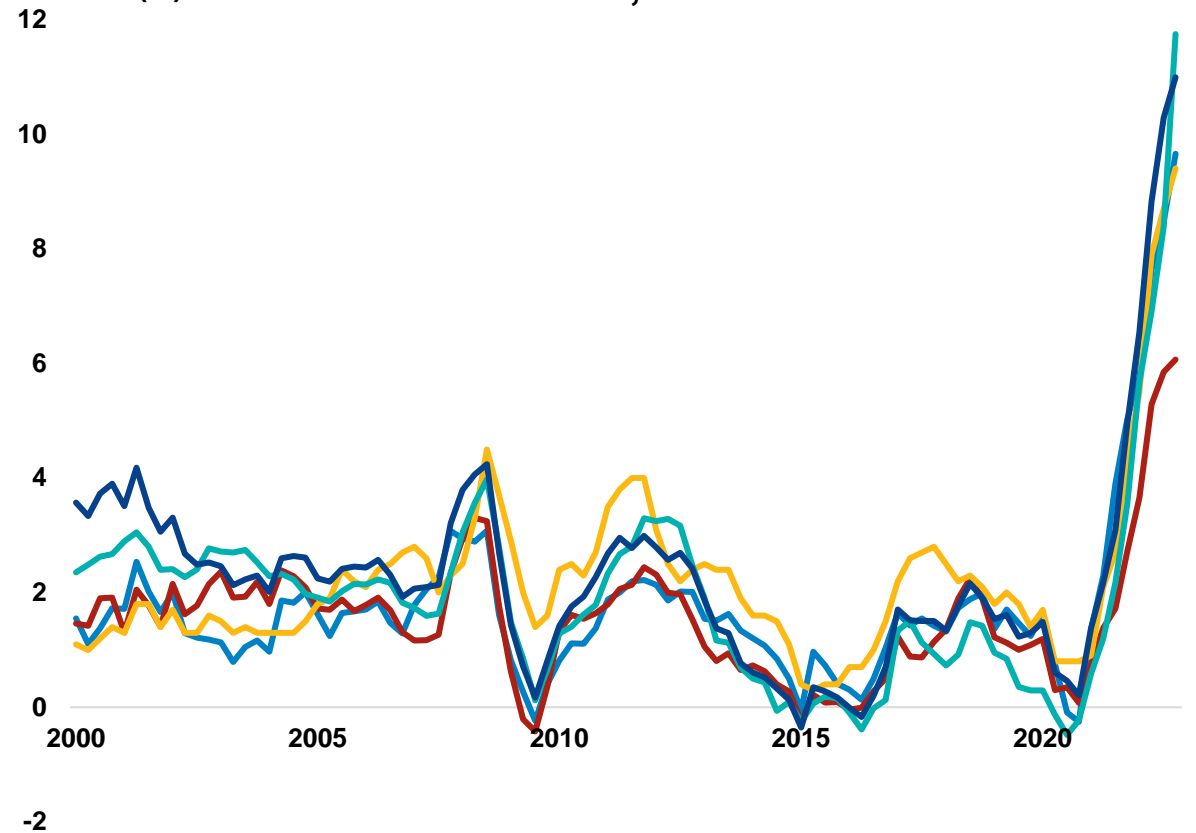


Source: OECD

— DEU — FRA — GBR — ITA — USA

Annual Growth Rate (%)

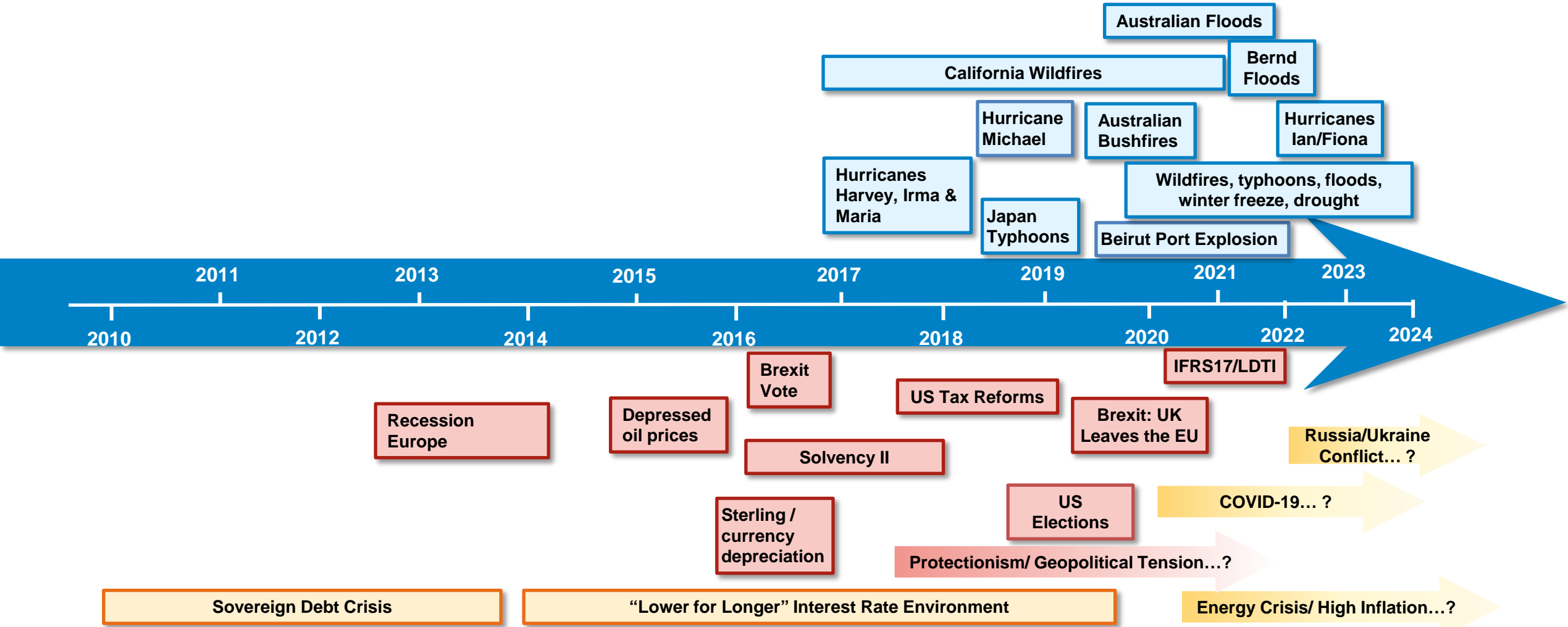
Inflation, CPI



Source: OECD

— DEU — FRA — GBR — ITA — EU27

Timeline of recent events



Inflation

- **Onset during COVID-19 lockdown/
change of pace due to conflict**

- Assumed short term at first, now assumed to last into 2024
- Rising interest rates

- **Insurers' Impact**

- Claims inflation
- Value proposition of life insurance products

- **Insurers' Response**

- Adjust pricing
- Revise reserving
- Change contract design
- Adjust fixed deductibles for xl contracts

- **Rating Considerations**

- Monitoring operating performance
- Performance of long-tail business lines
- ERM

Rising Interest Rates

- **Unrealised Losses Reducing Shareholders' Funds:**

- Rising interest rates and higher spreads
- Bonds comprise bulk of portfolios
- Higher default rates not yet observed
- Regulatory solvency not adversely impacted
- Reinvestment yields up

- **Insurers' Response:**

- Focus on diversification and resilience
- Credit risk in focus
- Heightened liquidity monitoring

- **Rating Considerations:**

- Economic vs accounting view
- Ability and intention to hold to maturity
- Analysis of potential liquidity requirements
- Level of RAC and ability to absorb losses

Delegated Underwriting/MGA Market Update

What is a Delegated Underwriting Authority Enterprise (DUAE)?

DUAE: Third party entity contracted by a (re)insurer to perform underwriting, claims handling, and/or administrative functions for their carrier partners.

DUAE is a blanket term for:

Appointed Representatives

Managing General Underwriters

Coverholders

Program Administrators

Direct Authorizations

Program Underwriters

Managing General Agents

Underwriting Agencies

Functions can include:

- Binding coverage
- Underwriting and pricing
- Settling claims
- Appointing retail and commercial agents
- Accessing niche segments and markets
- Managing all or part of the insurance business of an insurer
- Acting as insurance agent or broker for the insurer
- Working as an intermediary between insurers, agents, and insured

Global DUA Market Segment Outlook – Positive

Tailwinds

Ongoing growth, driven by technology, talent and diverse sources of capital

Increased interest in program business by capacity providers

Private equity backing and M&A aiding development of the sector

Headwinds

A potential pullback of capital and risk-bearing capacity, as well as elevated reinsurance costs

Looming economic challenges, including elevated inflation

AM Best's Process for Assessing DUAEs

AM Best uses quantitative and qualitative elements to assess the strengths and weaknesses of a DUAE.

Our interactive process entails:






- Gathering information.
- Engaging with clients in a formal management meeting.
- Assessing key factors.
- Assessment committee interaction.
- Public dissemination (if the DUAE agrees).
- Performance Assessment Report.



DUAE Assessment Outcomes

- A PA is assigned an outlook of Positive, Stable, or Negative.
- PAs are maintained/surveilled/updated annually, if the DUAE remains in the interactive assessment process.
- Withdrawal of a PA will need a final assessment.

Best's PA Scale and Assessment Categories:

Assessment Categories	Assessment Symbols	Assessment Ranges
Exceptional	PA-1 	34-40
Excellent	PA-2 	27-33
Strong	PA-3 	20-26
Fair	PA-4 	13-19
Weak	PA-5 	Up to 12

A better overall PA indicates that the DUAE is more likely to:

- Achieve greater long-term stability through effective business.
- Maintain a strong financial profile.
- Provide high-level service.
- Maintain strong business relationships & governance.

Benefits for DUAEs



Establishes credibility and trust within the insurance industry and regulators.



Differentiates capabilities from competitors to assist DUAEs in securing capacity from carriers and capital from investors.



Demonstrates expertise and effectiveness in key operational areas.



Provides a uniform and independent evaluation of DUAEs from a respected third party.



Offers a global benchmark across all types and sizes of DUAEs.



Showcases transparency to the marketplace.



Enhances a DUAEs marketing and promotional efforts.

Q&A

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