

# P&C reinsurance market trends

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InsiderScope  
London, 6 February 2014

**SCOR**

## What we have all heard

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*“Reinsurance rates are down”*

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*“Reinsurance capacity has soared  
while demand is subdued”*

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*“Alternative capital is making traditional  
models obsolete”*

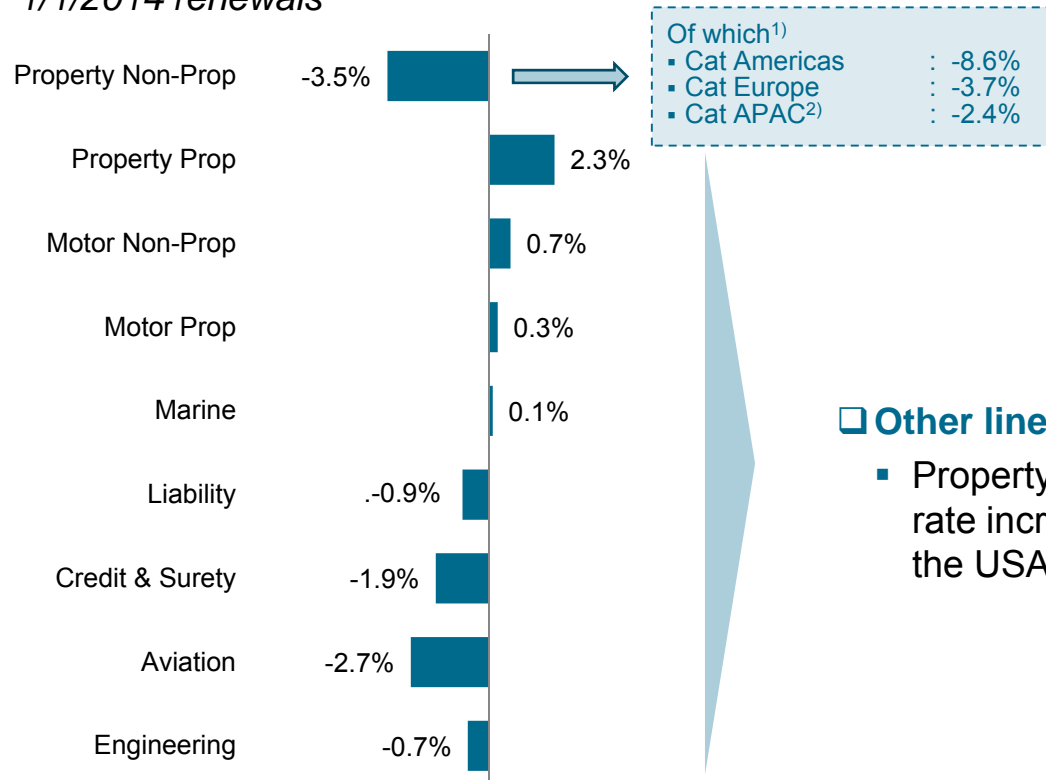
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*“Reinsurance rates are down”*

# 1 Different business lines have different price dynamics

## Price trends are contrasted by line of business

Price changes year on year, SCOR  
1/1/2014 renewals



### □ Cat business:

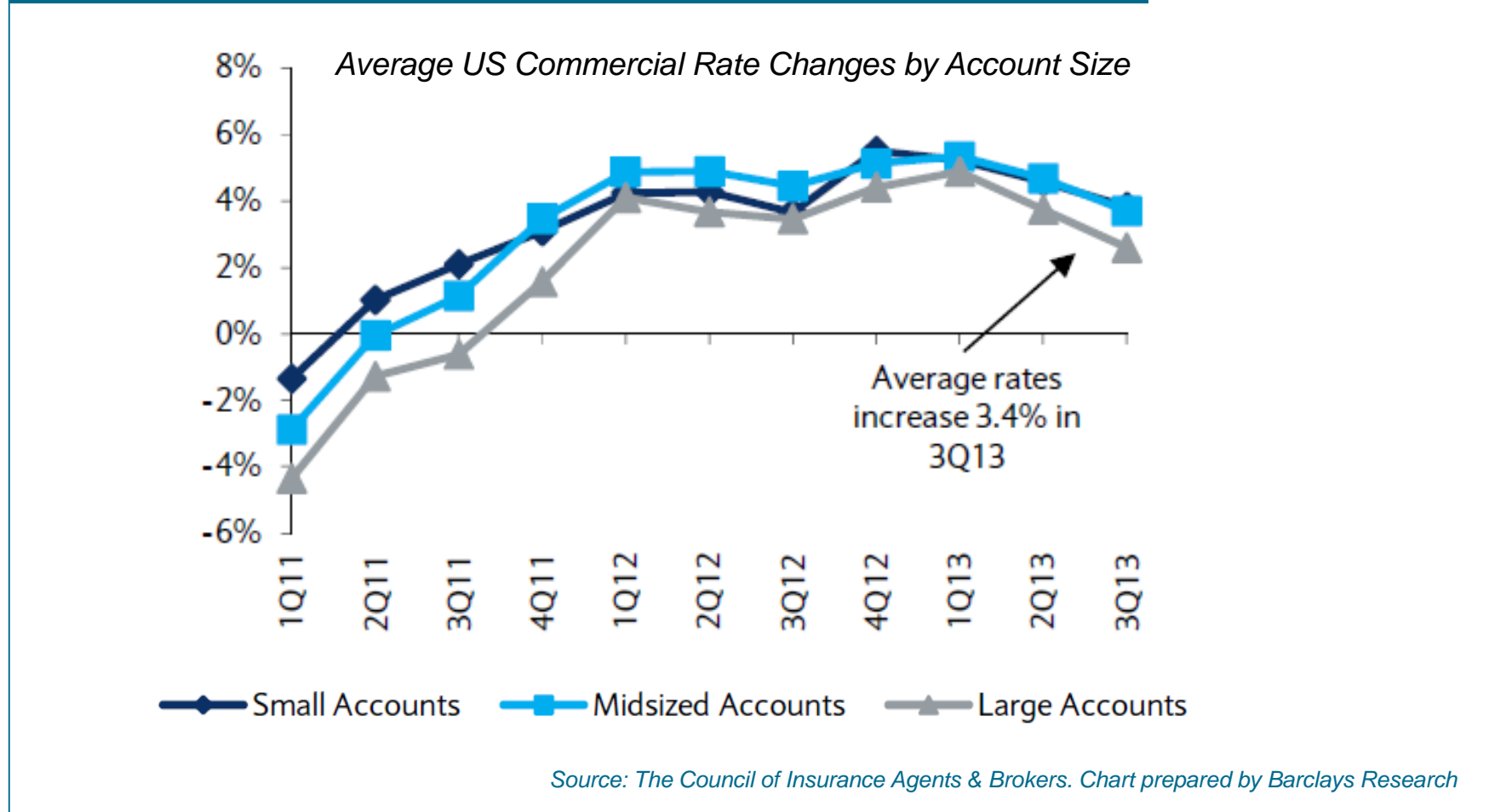
- In the US, the rebalancing of the book towards large insurers, away from regional players, has allowed SCOR to contain the price decrease

### □ Other lines of business:

- Property proportional trend reflecting primary rate increase overall in all regions, particularly in the USA

# 1 Proportional reinsurance benefits from higher primary rates

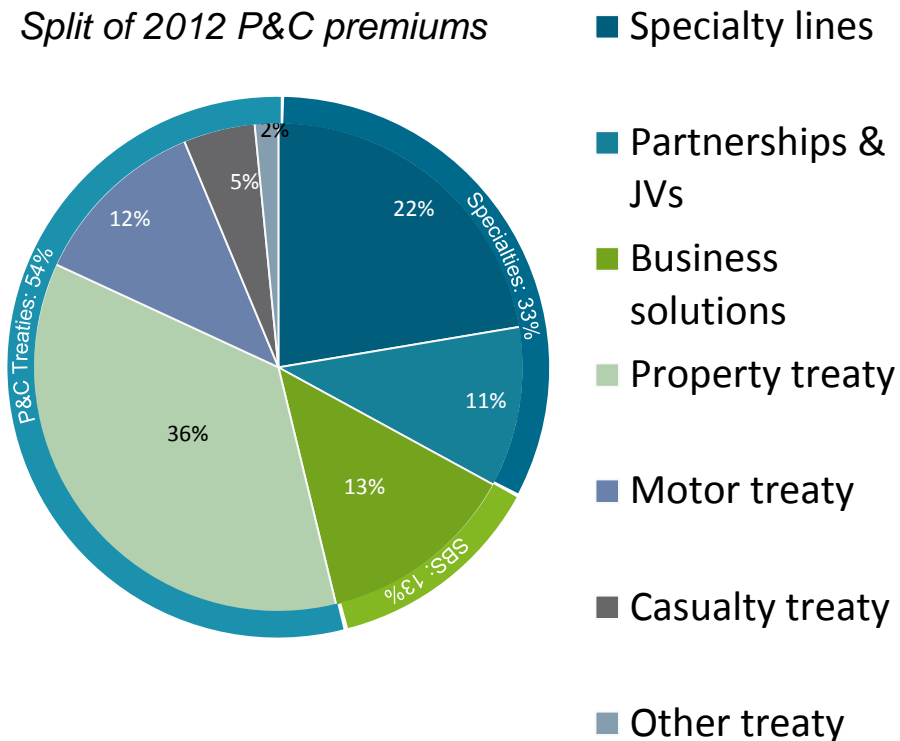
## Primary rates remain generally well oriented, as in the US



# 1 Diversification across business lines helps to navigate changing market conditions

## SCOR has a diversified P&C portfolio, with many different LoBs

Split of 2012 P&C premiums



## SCOR has a comparatively low exposure to US cat

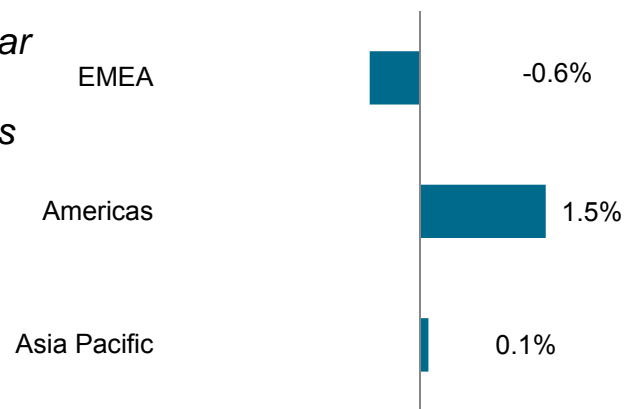
	SCOR	Peer 1	Peer 2	Peer 3
Cat	10%	14%	17%	18%
Of which US	4%	8.8%	na	na

Source: HSBC; Peers in alphabetical order are Hannover Re, Munich Re and Swiss Re

# 1 Diversification across regions also reduces volatility

## Price trends are contrasted by region

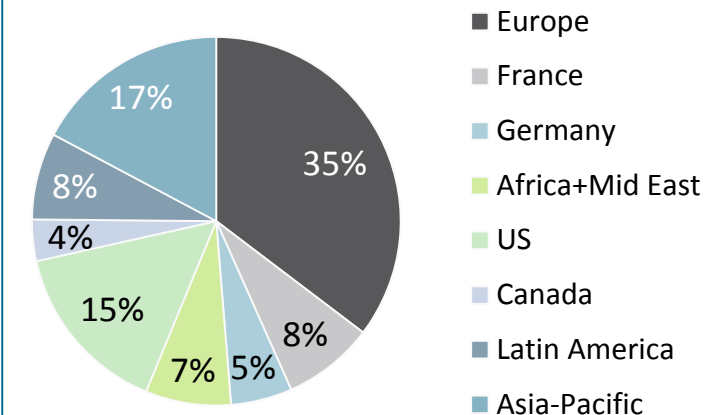
Price changes year on year, SCOR 1/1/2014 renewals



- Decreasing prices in EMEA reflecting the competitive environment, particularly in non-loss affected European countries
- In the Americas, overall price increase driven by sustained primary rate increase
- Overall flat prices in Asia with slight increase in primary rates partly compensated by reinsurance rate decrease

## SCOR has a geographically diversified P&C portfolio

Split of 2012 P&C premiums



- 1 Ultimately, high diversification and effective portfolio management do make a difference
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### The 1/1/2014 renewals were a good test for SCOR's strategy

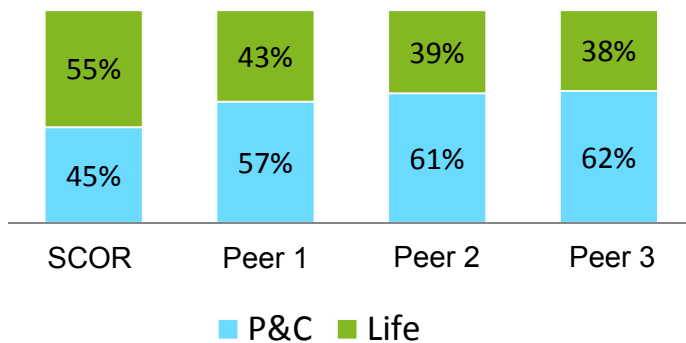
- ❑ Overall pricing quasi-stable at - 0.2%
- ❑ Terms and conditions under pressure but not materially deteriorating.
- ❑ 0.6% expected positive impact on the net combined ratio from retrocession programme put in place at better than expected terms
- ❑ Profitability indicators overall broadly stable:
  - ❑ stable expected return on allocated capital
  - ❑ expected gross underwriting ratio up by 0.9%
  - ❑ 2014 net combined ratio targeted to be in the 93%-94% Optimal Dynamics range



# 1 Beyond P&C reinsurance, SCOR is uniquely resilient thanks to its life / non-life business mix

## SCOR has a balanced life / non-life portfolio

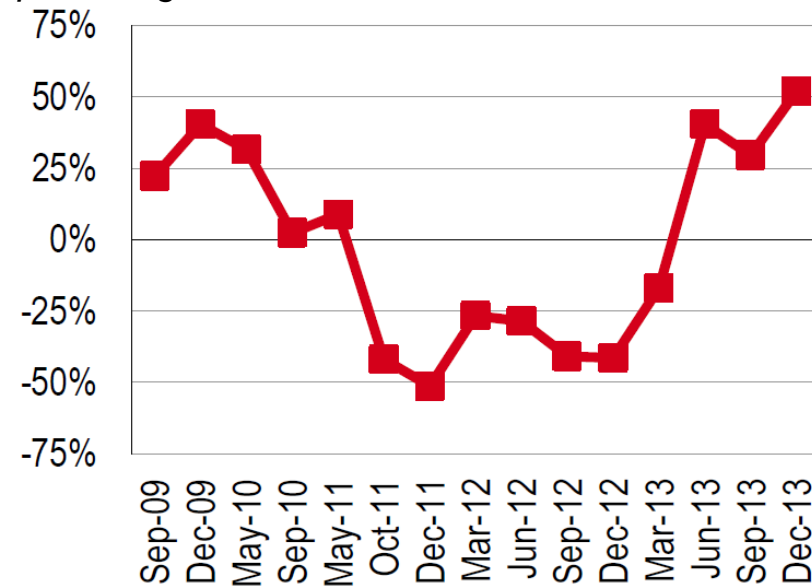
Life / non-life business mix<sup>1)</sup>



☐ Life reinsurance generates stable results

## Non-life and life are alternately in and out of favour with investors

Percent of respondents preferring life minus those preferring non-life<sup>2)</sup>



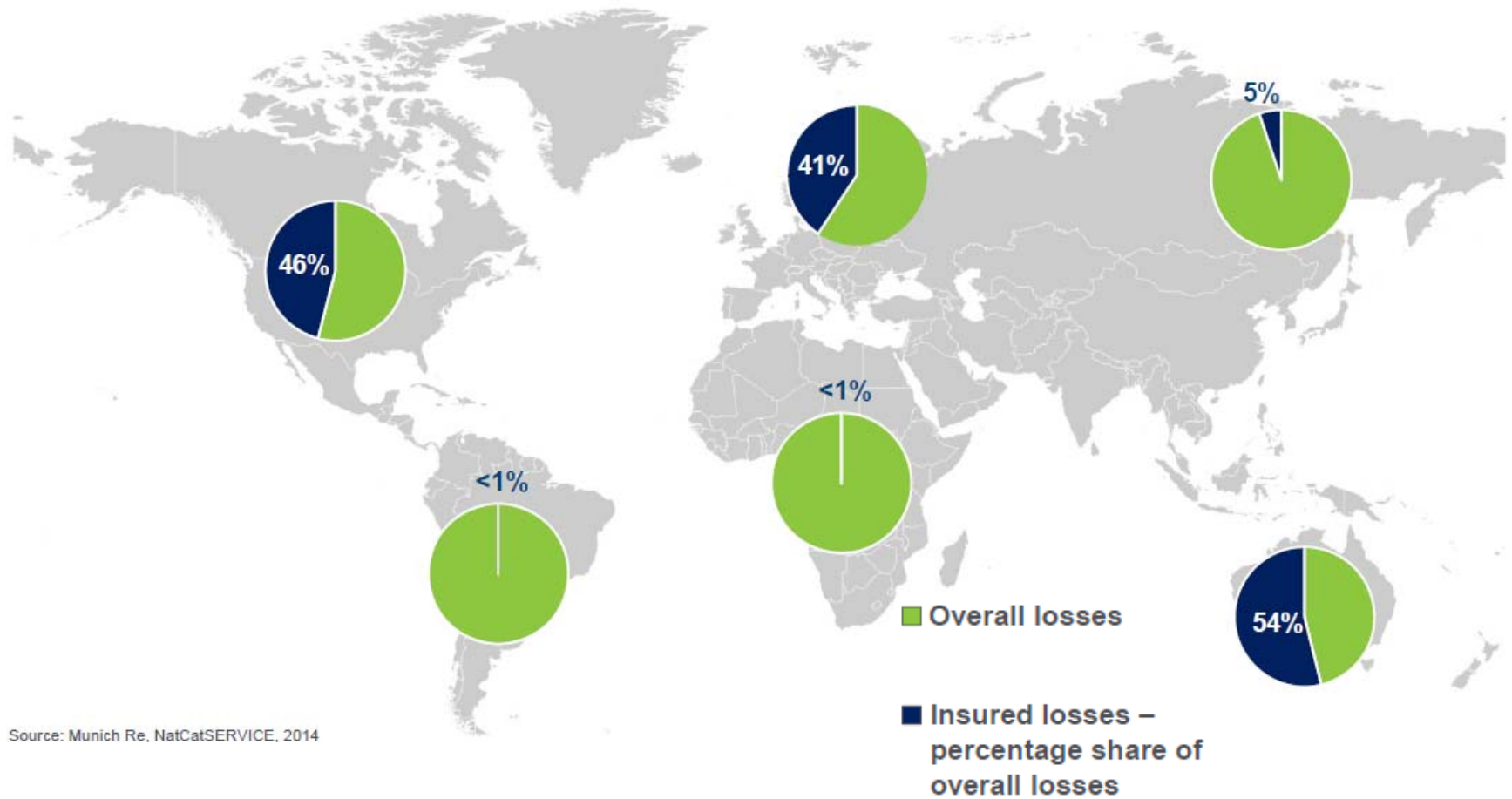
☐ A well-balanced portfolio is the best answer to life and non-life being alternately more attractive.

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*“Reinsurance capacity has soared while demand is subdued”*

## 2 There is still plenty of untapped demand (1)

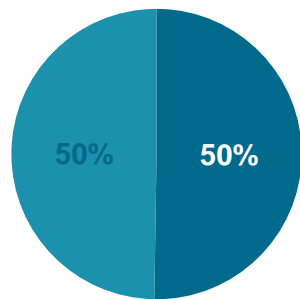
In 2013, insured natcat losses still lagged far behind economic losses everywhere, reflecting underinsurance



## 2 There is still plenty of untapped demand (2)

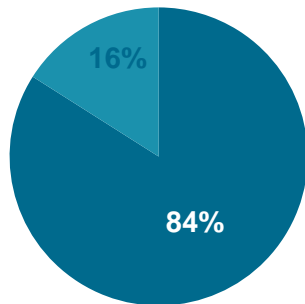
### Insurance penetration in emerging markets is still low

World output, 2012<sup>1)</sup>



■ Advanced economies

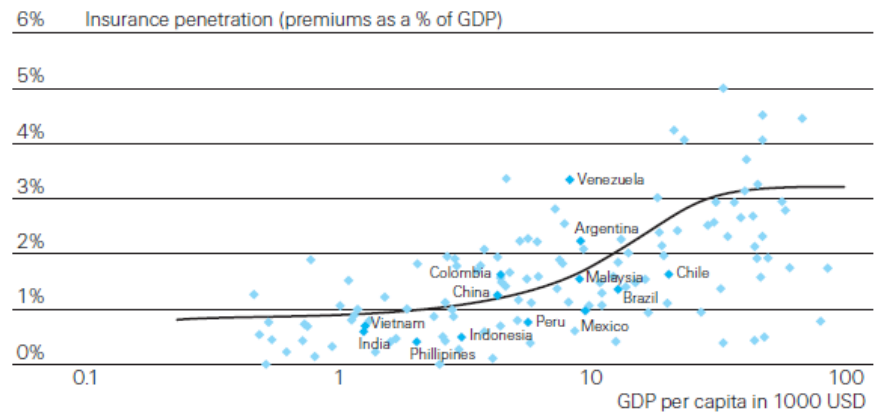
2010 World insurance premiums<sup>2)</sup>



■ Emerging and developing economies

### The elasticity of insurance growth is significantly above 1 in emerging markets

Insurance penetration (premiums as of % of GDP)<sup>3)</sup>



□ Insurance penetration increases with GDP, compounding the effect of economic growth on premium volume

## 2 Cedants are rethinking their approach to reinsurance purchase

### Current issues faced by Insurers

Challenging macroeconomic environment and low interest rates

Shareholder pressure to improve profitability

Increased regulatory pressure

### Changing reinsurance purchase policies

- ❑ Reinsurance is still often seen as a cost, but also more and more as a capital management tool.
- ❑ Many cedants focus on meeting their return on capital requirements, even though this means increasing their risk tolerances
- ❑ The improvement of their technical profitability over the past years is an incentive for more retention
- ❑ Governance is changing: increased centralization, involvement of top managements and boards
- ❑ Reinsurance programs are being rethought, including as vehicles of corporate policies and controls, like captives for large corporations

## 2 But the current reshuffling of the cards is an opportunity for first-tier reinsurers

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### Push for smaller reinsurance panels:

- “know your counterparties”
- reduction of monitoring costs

### Preference for reinsurers that can offer:

- security
- line sizes
- global offering
- network of local presence and support

### “Tiering” of the reinsurance market

- ❑ Cedants tend to place the bulk of their programs with a restricted number of reinsurers core to them (5-10)
- ❑ Larger players benefit from an increasing competitive advantage. Undiversified small & mid-size reinsurers are under pressure

## 2 SCOR stands in the first tier as a market leader and a core / preferred partner

		P&C Position	Estimated Market share
Europe	France	N°3	9%
	Italy	N°3	11%
	Germany	N°5	5%
	Benelux	N°5	8%
	Nordic countries <sup>1)</sup>	N°3	14%
	Central & Eastern Europe <sup>2)</sup>	N°3	8%
	Spain	N°4	7%
Americas	United States <sup>3)</sup>	N°5	4%
	Canada	N°5	8%
	Latam & Caribbean	N°5	4%
Rest of the World	China	N°3	6%
	Japan <sup>5)</sup>	N°3	4%
	India <sup>5)</sup>	N°3	9%
	Middle East	N°2	13%
	Africa	N°2	9% / 5% <sup>4)</sup>

**5% growth**  
**at 1/1/2014 renewals**  
 (at constant exchange rates)

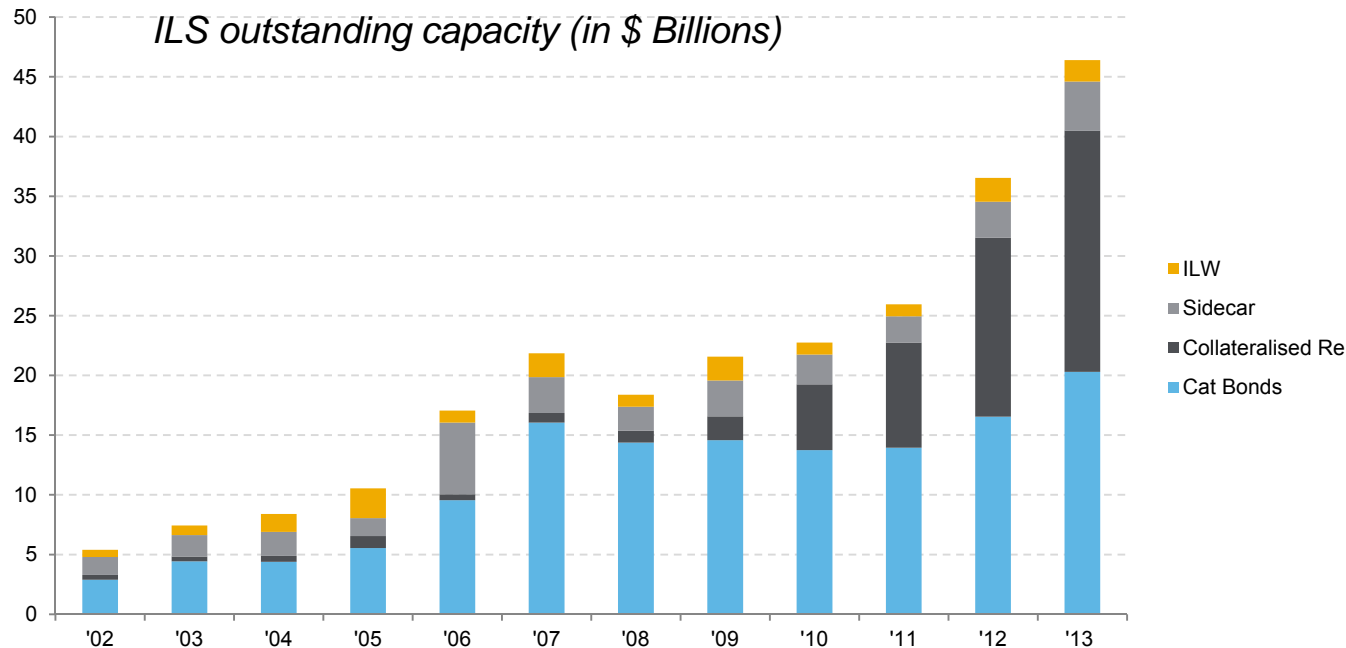
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*“Alternative capital is making  
traditional reinsurance obsolete”*



### 3 How big is alternative capital?

#### Rising fast, but still no match for traditional capacity



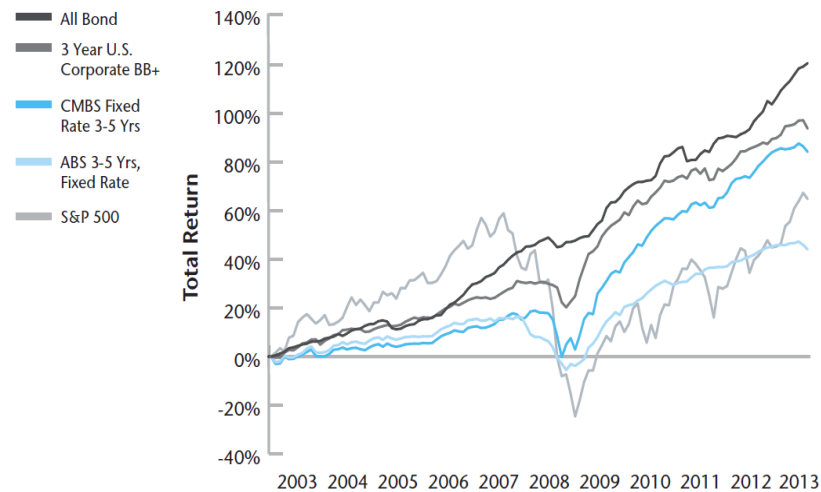
Source: Aon Benfield

- ❑ Alternative capital: > USD 45bn of capacity, while 10 years ago it was < USD 10bn
- ❑ But capacity ≠ premiums. Cat bonds often correspond to high layers with low ROLs (typically less than 10%)

### 3 Is alternative capital going to grow for ever?

#### Cat bonds have a compelling track record for investors

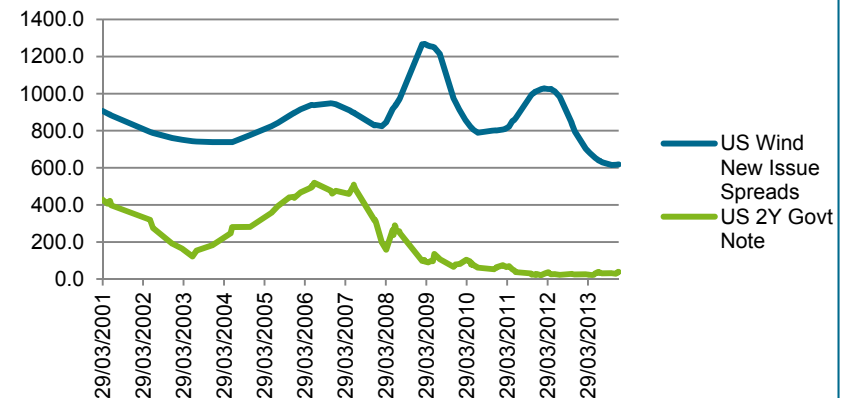
Cat bond returns vs. other asset classes<sup>1)</sup>



- Higher & uncorrelated returns compared to other asset classes (i.e. equities and corporate bonds) over the past 10 years
- Lower volatility

#### Will outperformance persist?

Cat bond spreads vs. risk-free rates<sup>2)</sup>



- Tightening ILS spreads may put pressure on future returns
- Tapering* in the US and higher interest rates should reduce ILS attractiveness
- Sticky capital? How would the market be impacted if more bonds were to be triggered?

3 Alternative capital is complementary to the offer from first-tier diversified reinsurers

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**3** Alternative capital is complementary to the offer from first-tier diversified reinsurers

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**Alternative capital**

Low cost model

Collateralized capacity

**First-tier diversified reinsurers**

Competitive pricing AND value added for cedants (knowledge sharing, etc.)

Efficient use of capital (diversification) whilst low counterparty risk

All regions and perils

Indemnity covers are the rule, not the exception: no basis risk

Reinstatements / Long-term partnerships

### 3 Alternative capital is an opportunity for sophisticated reinsurers

#### Cheaper retrocession

- Reinsurers are users of alternative capital: 33% of alternative capital is backing reinsurers<sup>1)</sup>
- SCOR 1/1 renewals: 0.6% expected positive impact on net combined ratio from cheaper retrocession programme
- Broadening universe of risks covered by financial markets enabled SCOR to issue a USD 180m extreme mortality transfer contract at very favourable conditions after the acquisition of Generali USA

#### ILS services to clients

- SCOR is ready to help clients to access capital market capacity through ILS as a transformer
- SCOR offers expertise and may cover basis risk



- This will generate fee income, and allow SCOR to better leverage existing relationships (complementary to traditional reinsurance)

#### Opening of ILS funds to 3<sup>rd</sup> parties by leveraging expertise

- SCOR Global Investment's ILS team manages 4 funds offering a range of products to 3<sup>rd</sup> party investors
- Each fund targets a specific risk/return profile by investing in varying risk profiles of insurance risks

	Atropos	Atropos Catbond	Atropos Catbond SELECT	GFS Map Trust SCOR ILS
launch	31-Aug-11	19-Jul-13	12-Jul-13	01-Jan-14
AuM <sup>2)</sup>	186.70	24.00	41.50	40.00
target return	6-8%	4-5%	4-5%	10-12%
2012 perf	7.10%	n/a	n/a	n/a
2013 perf	8.75%	2.84%*	3.48%*	n/a

\* fund open for 45% of 2013