Reinsurance:
Emerging vs. Mature markets

AM Best conference - 17 October 2013

Denis Kessler – CEO & Chairman of SCOR

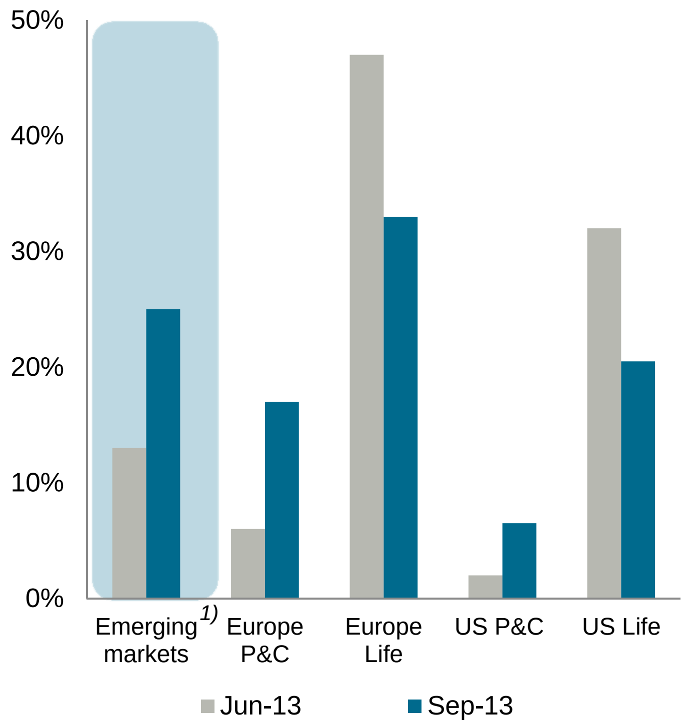
Section 1

Emerging markets growth is widely recognised as key for the future of the (re)insurance industry

Investors favour insurance and reinsurance companies who prioritise emerging markets, valuing their growth potential

Investors see significant investment potential in emerging markets

Question from BofAML investors survey:
"Taking into account valuations, over the next 12 months where do you see the greatest investment potential across the main global insurance sub-sectors?"



Sell-side analysts highlight that growth is driven by emerging markets

"European insurers continue to expand in emerging markets, which offer long-term growth opportunities. Emerging markets have superior GDP prospects and lower insurance penetration" – *16/01/2013 HSBC*[2)]

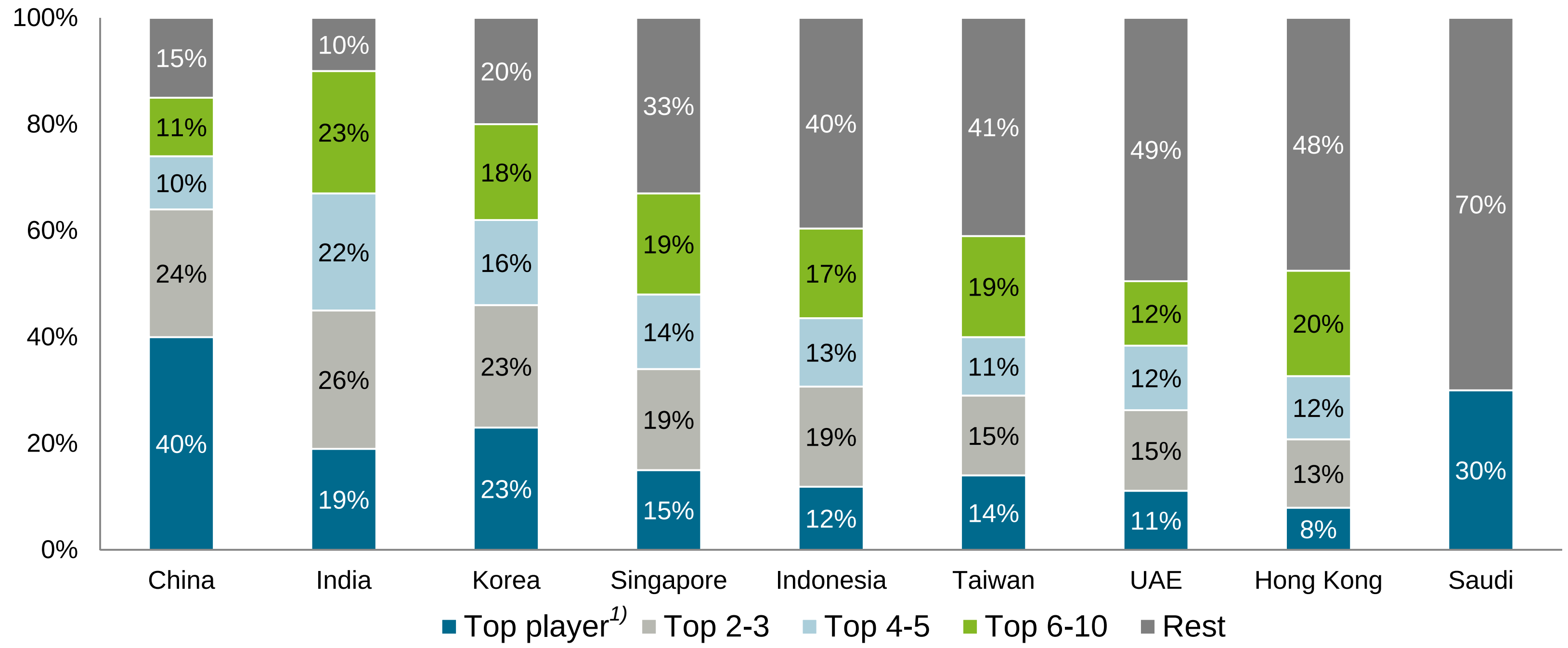
"There is little evidence to suggest that emerging markets P&C exposure offers attractive growth prospects beyond that of underlying GDP growth."– *18/01/2013 Goldman Sachs*[3)]

"Major growth drivers have been […] growing importance of Emerging Markets" – *11/09/2013 Commerzbank*[4)]

"We think the future strategies of reinsurance companies could include […] aggressively penetrate emerging markets to prevent investment banks from quickly forming relationships with local players (for instance in China)" – *20/09/2013 Kepler Cheuvreux*[5)]

Sources:
1) BofAML Global Research - Investors survey, as of 30/09/2013
2) HSBC's report: "Delivering the deliverable"
3) Goldman Sachs' report: "Sixteen insurance market profiles at your fingertips"
4) Commerzbank report: "Navigating the interest rate wave – a scenario analysis" - Swiss Re investment case
5) Kepler Cheuvreux's report: "Insurance Inside"

The Asian and Middle East insurance revenue pool is very concentrated



Increasing local capital requirements (in Malaysia, China, Indonesia, Singapore) may lead to consolidations among players or M&A activity

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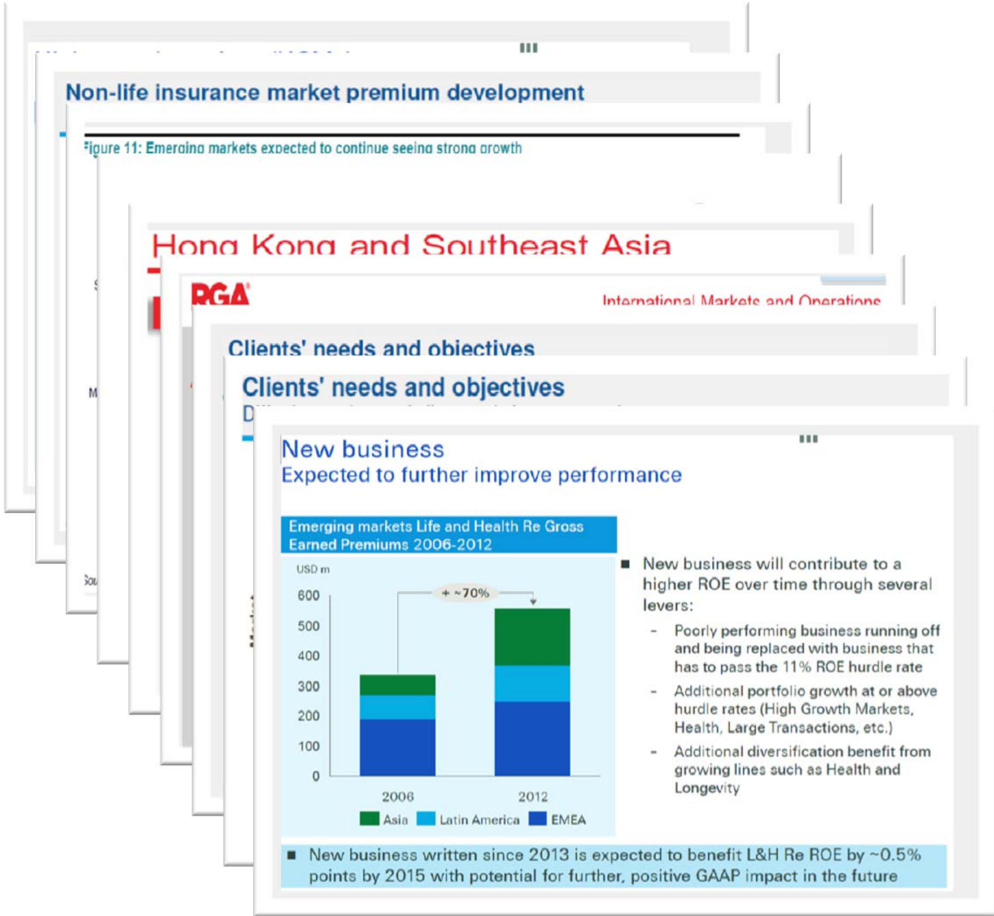
Source: Oliver Wyman: Reinsurance – Escaping from the bears
Based on AXCO, local regulatory sources, company annual reports
1. Ranked by market share taken by top 5 players in each market
2. All country level data is from 2009 except for Indonesia (calculation based on 2008 data)
3. The number of companies per market is based on 2009 data except Taiwan (2008), Saudi Arabia (2008) and Indonesia (2007)

Concentration and consolidation in emerging markets provide reinsurers with opportunities to generate economies of scale and scope



Reinsurers focus their future opportunities on Emerging Markets

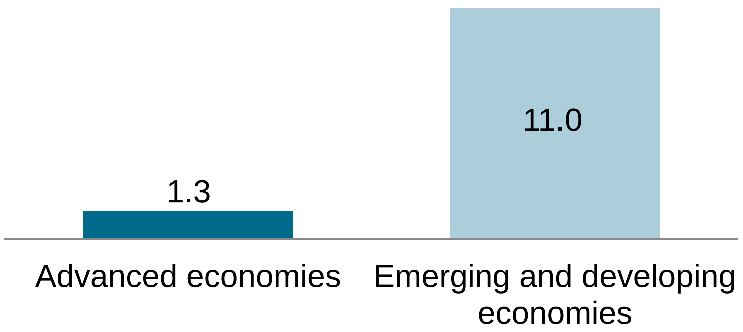
- Growth opportunities:
  - “Reinsurance demand to cover natural catastrophes is expected to double in high-growth markets and to increase by 50% in mature markets by 2020” *Swiss Re Monte Carlo press release*
- Business opportunities:
  - In Asia Pacific “Financial demand is high”, “Economics and demographics support growth” *RGA IR Day 2012*
- Clients’ needs and objectives:
  - Initiation “Establish and define core competence”, “Reduce volatility” *Hannover Re IR Day 2012*
  - Consolidation “Improve efficiency of processes”, “Reduce cost of distribution” *Hannover Re IR Day 2012*
- Strong performance of new business:
  - “New business will contribute to a higher ROE over time” *Swiss Re IR Day 2013*

Source: Munich Re 2013 BofAML conference; RGA IR Day 2012 & 2013, Swiss Re IR Day 2013; Hannover Re IR Day 2012; Munich Re from Exane’s report 27/06/2013

The growth attraction of emerging markets is clear for the (re)insurance industry

Insurance has grown rapidly in emerging markets . . .

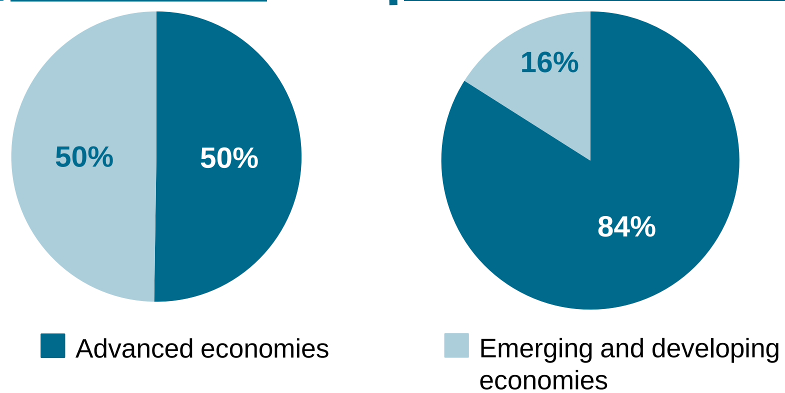
Insurance industry CAGR (in %) 2001-10[1)]



. . . but penetration is still low

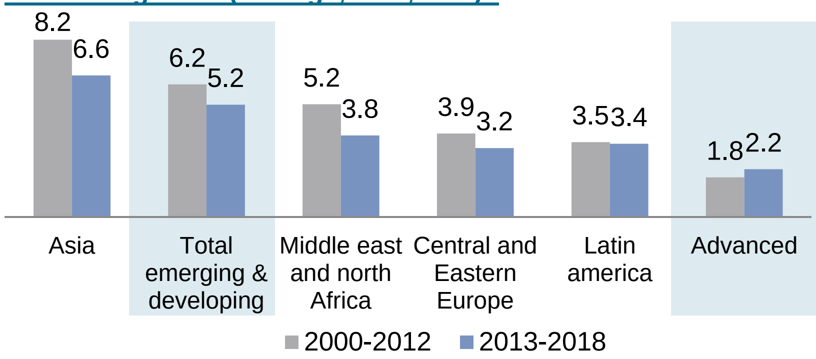
World output, 2012[2)]

2010 World insurance premiums



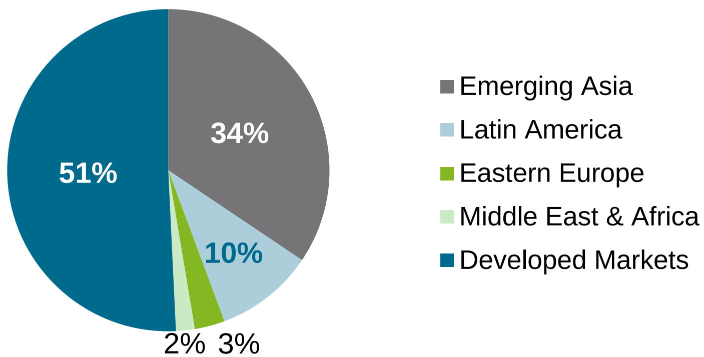
Economic growth in emerging markets is slowing, but is still attractive

Real GDP growth (average, in %, YoY)[3)]



Over the next ten years, half of all growth of insurance globally will come from emerging markets

Additional premiums 2013 – 2023[4)]



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1) *Source: Sigma report, May 2011*
2) *Source: IMF world economic outlook April 2013*
3) *Source: Datastream as of 11/10/2013*
4) *Source: Allianz presentation "Insurance in the developing economies"*

Section 2

Nevertheless, the industry has to be cautious as emerging markets are not homogeneous and face several challenges

Emerging markets are not homogeneous

Each market has its own features

- ❑ Very different stages of “emerging” (BRICS are emerged)
- ❑ National welfare and tax systems
- ❑ Distribution networks
- ❑ Legal systems
- ❑ Regulations
- ❑ New risks coming from fast growth of economy and population
- ❑ Nat cat exposure
- ❑ Differing reinsurance cession rates
- ❑ Savings behaviours
- ❑ Attitudes towards risk and uncertainty
- ❑ Family sizes and structures
- ❑ Religious beliefs, political orientations

One model does not fit all

- ❑ Emerging markets are not clones
- ❑ They require tailor-made approaches
- ❑ Adapting to local circumstances often implies offering new products and services

Understanding an insurance market requires:

- ❑ Strong commitment, time and resources
- ❑ Expertise (especially from local teams)

There is no free lunch

- ❑ Don’t underestimate the high level of competition
- ❑ Don’t neglect the volatility and cyclicality of each market
- ❑ Don’t ask for quick and immediate returns

Emerging markets do not raise the same issues for insurers and reinsurers

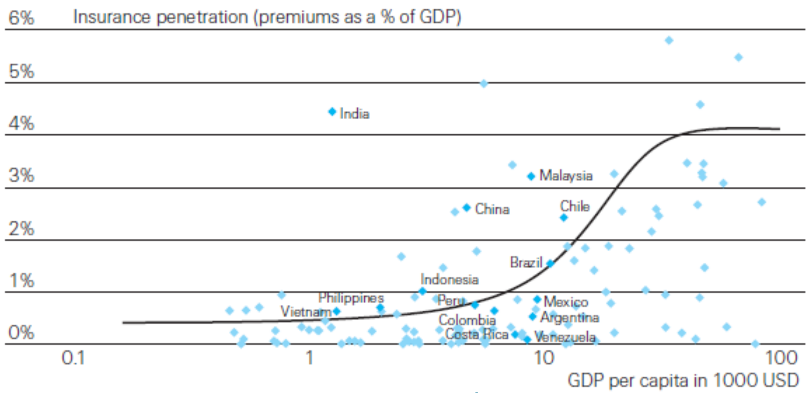
	Insurers	Reinsurers
Regulatory / legal constraints	✓✓✓	✓
Access to distribution channels	✓✓✓	✗
Local market knowledge	✓✓✓	✓✓✓
Competition from local players	✓✓✓	✓
Implementation costs and risks	✓✓✓	✓✓
Capital fungibility	✓✓✓	✓
Need to transfer knowledge and know how, offering training to clients	✓	✓✓✓
Nat cat risk	✓ ✓	✓✓✓

✓✓✓: a significant issue ✗ : not an issue

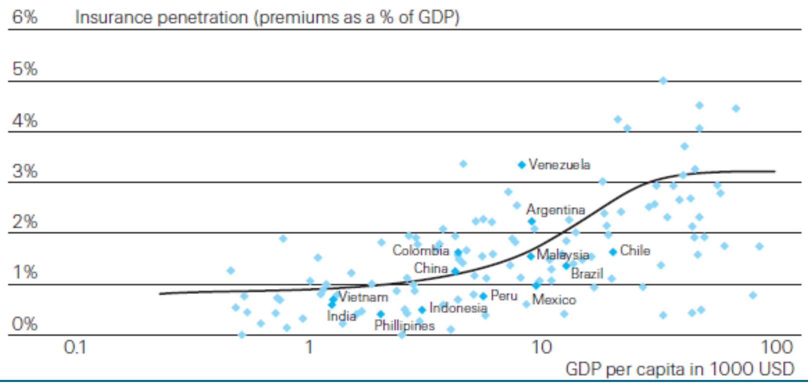
Development of (re)insurance markets follows a clear path

(Re)insurance market relative size depends on the level of GDP per capita and its growth depends principally on GDP growth with an elasticity significantly higher than 1

The 2010 S-curve for Life insurance[1)]

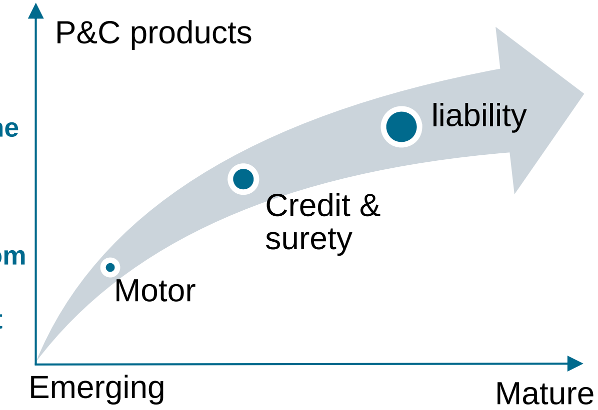


The 2010 S-curve for P&C insurance[1)]

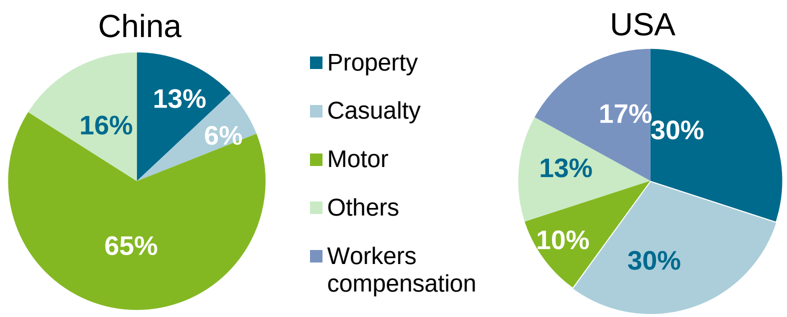


The patter of the insurance sector development in emerging countries is quite constant

Illustration of the pattern of the (re)insurance market development from emerging to mature market



Business mix of commercial insurance market[2)]: China vs. USA



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1) Source: Sigma from 5/2011 – Insurance in emerging markets: growth drivers and profitability
2) Source: Sigma from 5/2012 – Insuring ever-evolving commercial risk (note: Estimates for direct non-life premiums written in 2010 (excluding health). The UK figures do not include London Market business of ~$30bn

Governments and regulators in emerging countries have a key role to play for the successful development of local (re)insurance markets

Risk of protectionism in emerging markets

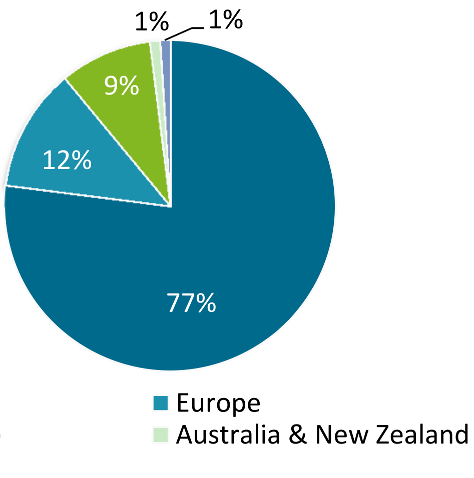
- **State-owned or 'national' reinsurers**
- **Direct investment caps for foreign companies**
- **Curtailment of capital movement**
- **Compulsory investments**
- **Restrictions on intra-company transactions**
- **Restrictions on branches; and on conversion of branches to subsidiaries**
- **Opaque manner in which licences are granted**

At the same time, public/private partnerships can be fertile relationships

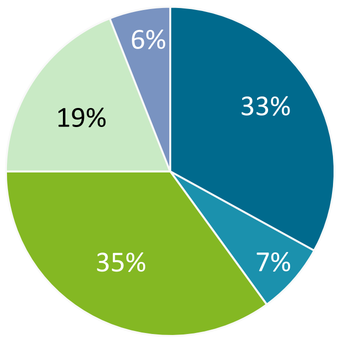
Many emerging markets are exposed to significant nat cat risks

Since 2009, a large part of global cat losses have occurred in non-peak territories[1]

Natural catastrophe insured losses by region 2002 to 2008

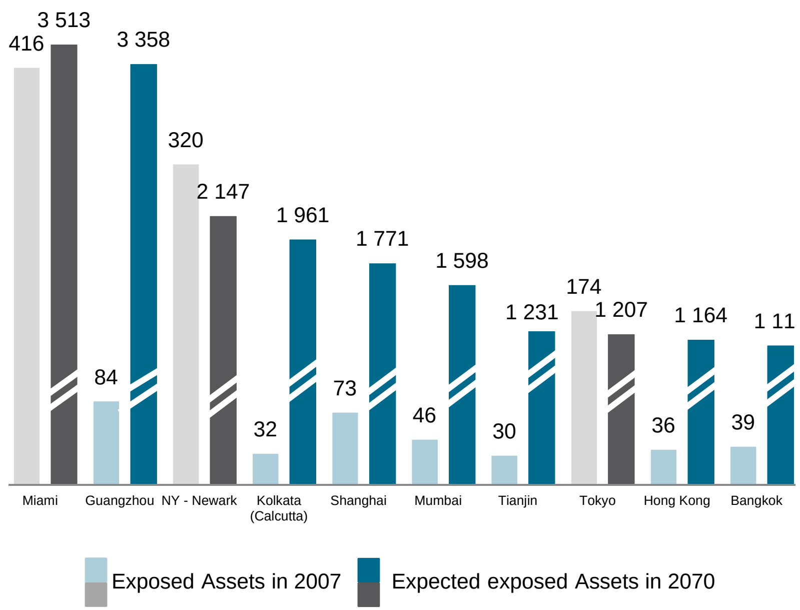


Natural catastrophe insured losses by region 2009 to 2011



This trend will continue

Top 10 Asset exposure to coastal flooding evolution in 2070 vs 2007 in $ billion[1)]



1) *Source: Guy Carpenter report from September 2012: Cold Spots Heating Up - the impact of insured catastrophe losses in new growth markets*

Emerging and mature markets are becoming more inter-connected

Due to globalization, nat cat events in emerging countries affect various insurance lines around the globe

- **Globalization** is progressively spreading to **all industries**
- The growth of international trade reflects the globalization of supply chains
- Countries with identical production costs reap numerous benefits from trading with each other (economies of scale)
- **Supply chains are increasingly complex** and involve many different kinds of links and interactions
- Countries with identical production costs reap numerous benefits from trading with each other (economies of scale)
- Global supply chains are facing **new vulnerabilities**:
  - No buffers to mitigate a disruption in production
  - Vulnerability to failure of automatic processes
  - Closer interdependencies between different business partners
- **Concentration** makes global supply chains even more vulnerable

Increasing demand for CBI[1] coverage

CBI risks have the potential to compound the impacts of natural catastrophes

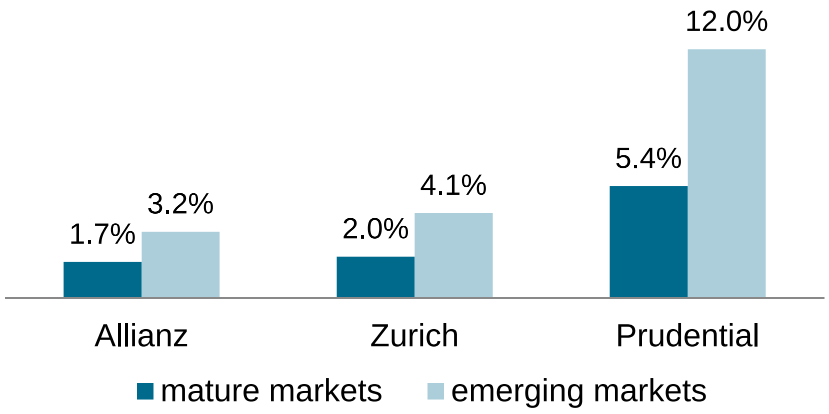
The 2011 Thai floods showed just how real the risks are

1) *Contingent business interruption*

Achieving adequate profitability in emerging markets can be a challenge

In primary life insurance, emerging markets for the most part are profitable

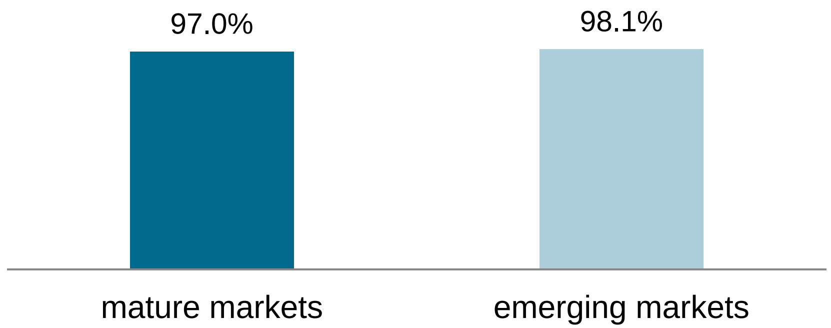
2012 New business margin[1)]



- Often products are less commoditised than in mature markets
- There is often a higher service component to the offering in emerging markets
- Back books in mature markets can sometimes suffer from previous under-pricing

In primary P&C insurance, the profitability appears to be broadly the same for emerging and mature markets

Average 2011/2012 P&C combined ratio for primary insurance[2)]



- Large nat cat risks require adequate compensation
- In some markets, irrational competition pressures returns
- SCOR's view on pricing conditions is broadly similar for emerging and mature markets (see appendix)

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1) *Source: company reports*
2) *Source: company reports from Allianz, Axa and QBE*

Emerging countries provide both opportunities and challenges for the (re)insurance sector

Opportunities for (re)insurers in emerging vs. mature markets

- ❑ Economic growth potential
- ❑ Strong population growth
- ❑ Lack of social welfare schemes
- ❑ Demand for financial solutions
- ❑ Demand for reinsurance expertise, service and knowledge transfer
- ❑ Technological leaps

Challenges in emerging markets vs. mature markets

- ❑ Achieving adequate returns
- ❑ Protectionism
- ❑ Incomplete information on cat risk
- ❑ Narrower range of products
- ❑ Less rich 'experience' databases
- ❑ FX risk
- ❑ Less deep financial markets
- ❑ Less established legal environment
- ❑ Lower size and level of talent pools
- ❑ Less advanced risk management

A few more challenges on the horizon

- ❑ Alternative capital not yet a meaningful competitor
- ❑ Barriers to entry will fall as broker penetration increases
- ❑ Emerging markets will become more rating-sensitive
- ❑ Reinsurance volumes will be pressured as cedants move from proportional to excess of loss policies

The capacity to succeed in emerging markets requires long standing local presence and relationships

Section 3

SCOR's leading presence in emerging markets is based on a clear strategy and supported by innovative tools

SCOR is well positioned to benefit from the growth in emerging markets thanks to its respected standing in these countries

SCOR has a longstanding commitment in emerging countries which is expanding all the time…

- **1970:** creation of SCOR
- **1972:** SCOR office opened in Hong Kong before London (1973) and Madrid (1976)
- **1977:** SCOR office opened in Singapore
- **1990:** SCOR office opened in Colombia
- **1996:** SCOR office opened in Brazil
- **1997:** SCOR office opened in Seoul
- **1998:** SCOR office opened in Russia

…

- **2005:** SCOR office opened in Mumbai
- **2007:** SCOR office opened in South Africa
- **2008:** SCOR office opened in Malaysia
- **2010:** Life/non-life composite license in China
- **2010:** SCOR office opened in Israel and in Mexico
- **2012:** SCOR office opened in Argentina

… resulting in SCOR holding strong competitive positions in emerging markets

SCOR Global Life

- SCOR Global Life has strengthened its position:
  - #2 in Korea
  - #2 in several South-East Asian markets
  - #3 in China and is several Asian markets
  - Top 3 in Chile, Peru, Ecuador
  - #4 in Mexico[3)]

SCOR Global P&C

- SCOR Global P&C is strongly positioned :[1)]
  - #2 in Africa with 9%/5%[2)] market share
  - #2 in Middle East with 13% market share
  - #3 in China with 6% market share
  - #3 in India with 9% market share
  - #5 in Latam and Carib. with 4% market share

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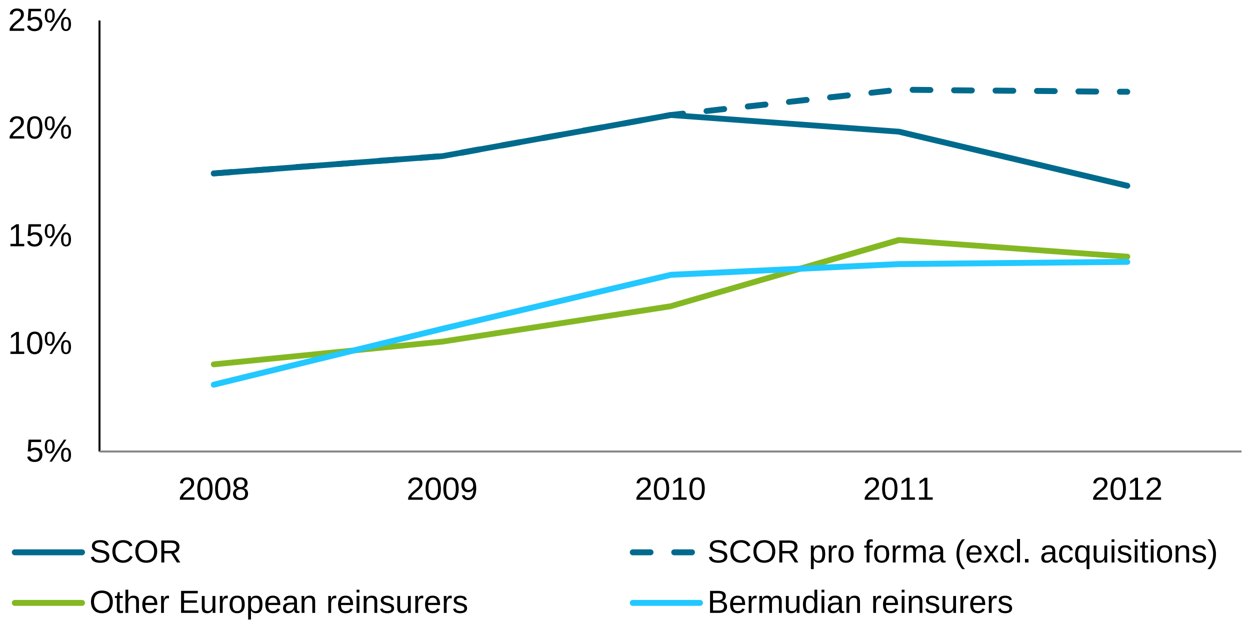
1) *SCOR market study and estimates*
2) *French-speaking Africa / English-speaking Africa*
3) *Including Generali US*

SCOR has a strong footprint versus peers in emerging countries

The share of gross written premiums is higher at SCOR versus peers thanks to the strong franchise it has developed over time

Share of emerging markets GWP (in %)



Source: company reports

Continued growth in emerging markets is a key element of SCOR Global Life’s strategy

	Mature Markets	Emerging Markets
Protection 	❑ Further deepen client relationships ❑ Leverage leadership and data capabilities ➢ SGL portfolio growth assumption: ~2% CAGR	❑ Accelerate growth in Latin America and in Asia ➢ SGL portfolio growth assumption: ~11% CAGR
Longevity 	❑ Expand product range ❑ Leverage UK success in other markets ➢ SGL portfolio growth assumption: ~32% CAGR	❑ No potential over the next three years
Financial solutions 	❑ Becoming a proactive player in Capital & Risk management ❑ Strengthened offering based on recent wins ➢ SGL portfolio growth assumption: ~11% CAGR	❑ Keep developing financing business, mostly in Asia ➢ SGL portfolio growth assumption: ~87% CAGR
Total Growth 2013-2016	**~4% CAGR**	**~21% CAGR**
	~6% CAGR expected for SCOR Global Life over 2013-2016	

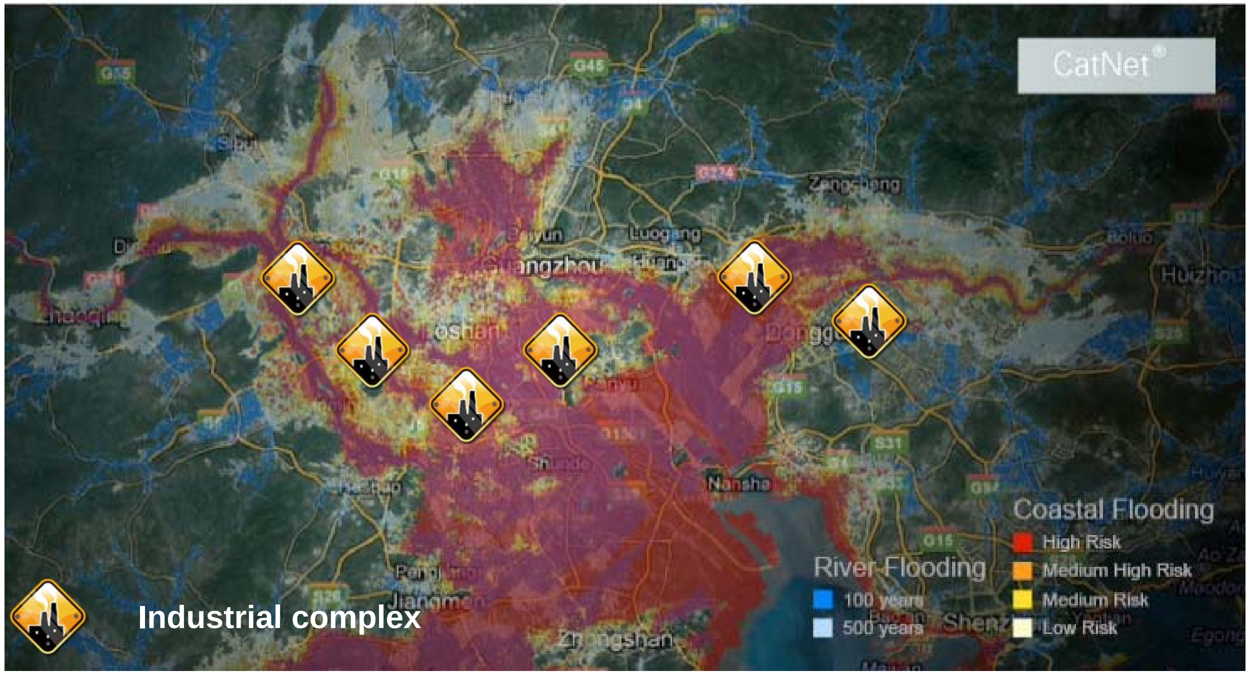
SCOR Global P&C’s strategy takes a more selective approach towards emerging markets

Key steps in strategic approach to emerging markets		SGPC’s differentiating factors
1 **Long-term macro views**	❑ Select markets based on macro-economic, demographic, political and social factors ❑ Follow macro approach to assess the depth of a market, and the stability of its environment ❑ Differentiate (re)insurance approaches: insurance penetration rates, regulatory trends, reinsurance needs and purchases	Proven track-record in making the right strategic decisions based on macro-economic environment assessment
2 **Tailor-made business approach**	❑ Target a portfolio allocation between Reinsurance (Treaties, Specialties) and Insurance (Business Solutions) ❑ Develop insurance or reinsurance according to regulation, nature of risks, stage in the cycle, and economic growth ❑ Focus on specialty lines to foster product innovation and knowledge transfer to growing markets	Ability to articulate the best combination of business platforms
3 **Best execution**	❑ Select clients: focused and tailored approach to cedents to differentiate SGPC from competitors and capture profitable growth ❑ Lead business by providing services and expertise, and grow private deals further ❑ Leverage Group network and local presence, while allocating resources efficiently	Ability to bring expertise and know-how locally thanks to intimate understanding of market needs

SCOR has developed innovative cat-mapping capability, demonstrating the diversity of risks in a specific region

In the past, CBI covers would typically be trigered by **isolated perils** such as a fire destroying one single plant

Today, the major threats come from **natural catastrophes** (to which insurers are already exposed via property covers)



In China, **52% of production centres are at risk of river flooding** and 25% are threatened by storm surge

Insured large loss scenario in USD bn	Pearl River area	Shanghai
Storm surge	35	10
River flooding	9	6.5

Source: Swiss Re floods risk app

Conclusions

- **Growth is an often-cited attraction of emerging markets but there are significant challenges as well**

- **Reinsurers face a different, arguably better, set of opportunities / challenges than insurers**

- **Emerging markets are not homogeneous, and the boundary versus mature markets is blurring**

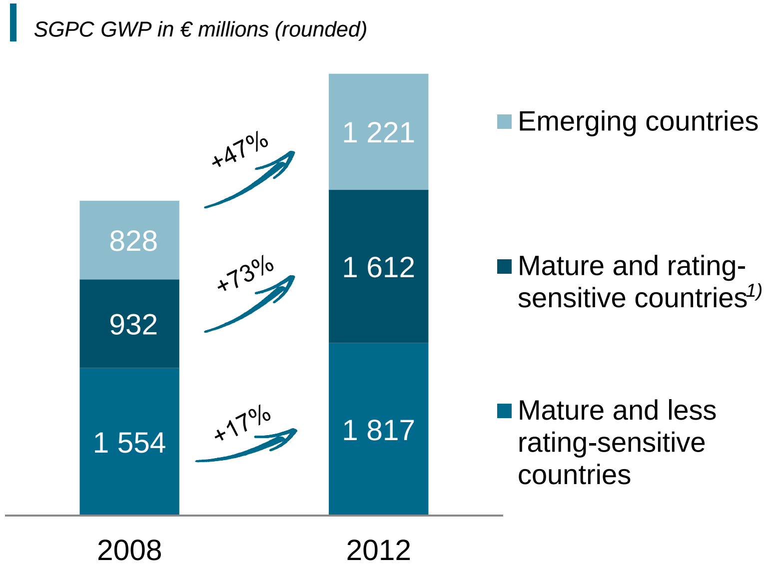
- **SCOR is well-positioned in emerging markets – and globally**

- **SCOR's Optimal Dynamics three-year plan includes a further strengthening of its emerging market presence**

Appendices

Emerging markets are a strong driver of SCOR Global P&C's growth

Emerging vs. mature markets – 2008-2012



	Emerging countries		
	2008	2012	2008-2012
	GWP	GWP	% GWP Growth
Europe[2]	103	117	13%
Asia-Pacific	188	446	137%
MEA[3]	276	310	12%
Latam[4]	261	347	33%
Total	**828**	**1 221**	**47%**

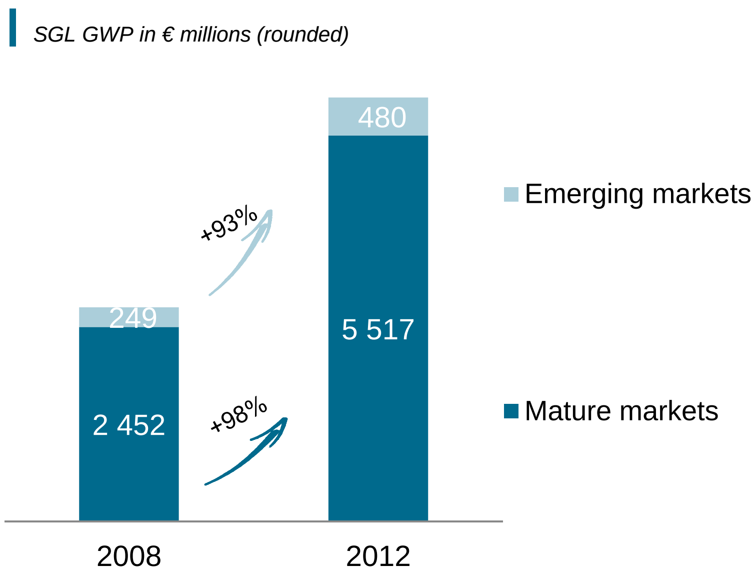
Over the 2008-2012 five year period:

- The 40% overall growth mostly came from the most rating-sensitive mature markets: US, UK, Scandinavia and Australia – their share grew from 28% of total premiums in 2008 to 35% in 2012
- The emerging markets have also shown substantial growth, mostly driven by Asia-Pacific markets
- The share of mature and less rating-sensitive markets shrank from 47% to 39%

1) USA, Scandinavia, UK and Australia
2) Europe includes countries in the CIS and Central and Eastern Europe
3) Middle East and African continent (including South Africa)
4) Latin America, Central America and Caribbean

From a lower base, SCOR Global Life is also growing strongly in emerging markets

Emerging vs. mature markets – 2008-2012

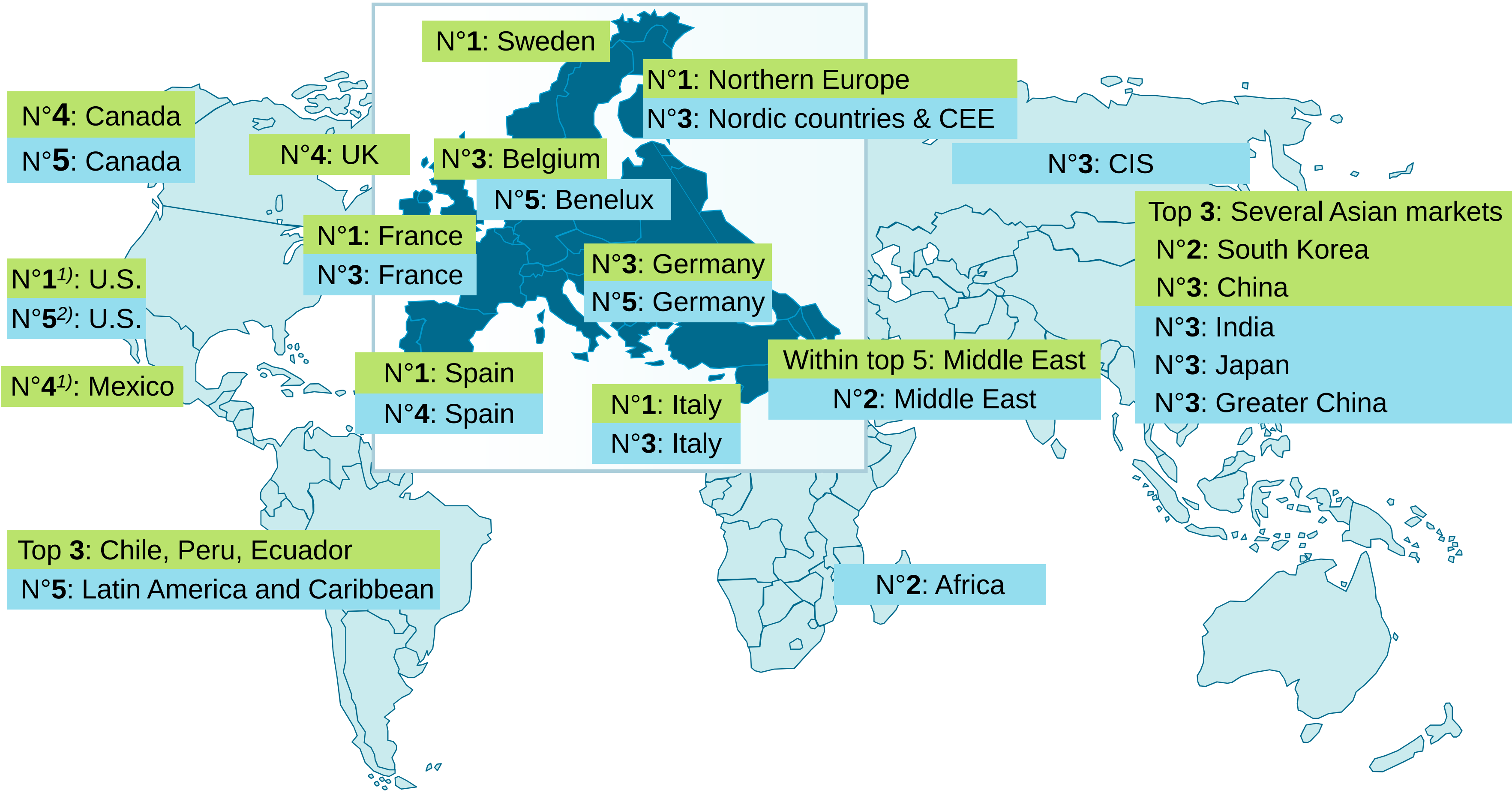


	Emerging countries		
	2008	**2012**	**2008-*2012***
	GWP	**GWP**	**% GWP Growth**
Europe	2	16	**700%**
Asia-Pacific	104	176	**69%**
MEA	127	175	**38%**
Latam	17	113	**565%**
Total	**249**	**480**	**93%**

Over the 2008-2012 5-year period:

- ❑ Mature markets' growth has been roughly two-thirds from acquisitions and one-third organic
- ❑ Emerging markets' growth has been mainly driven by Latin America (both organic and external)
- ❑ Going forward, Asia-Pacific is expected to be the growth leader

As well as in emerging markets, SCOR is further consolidating its top-tier positions globally



Source: SCOR market study

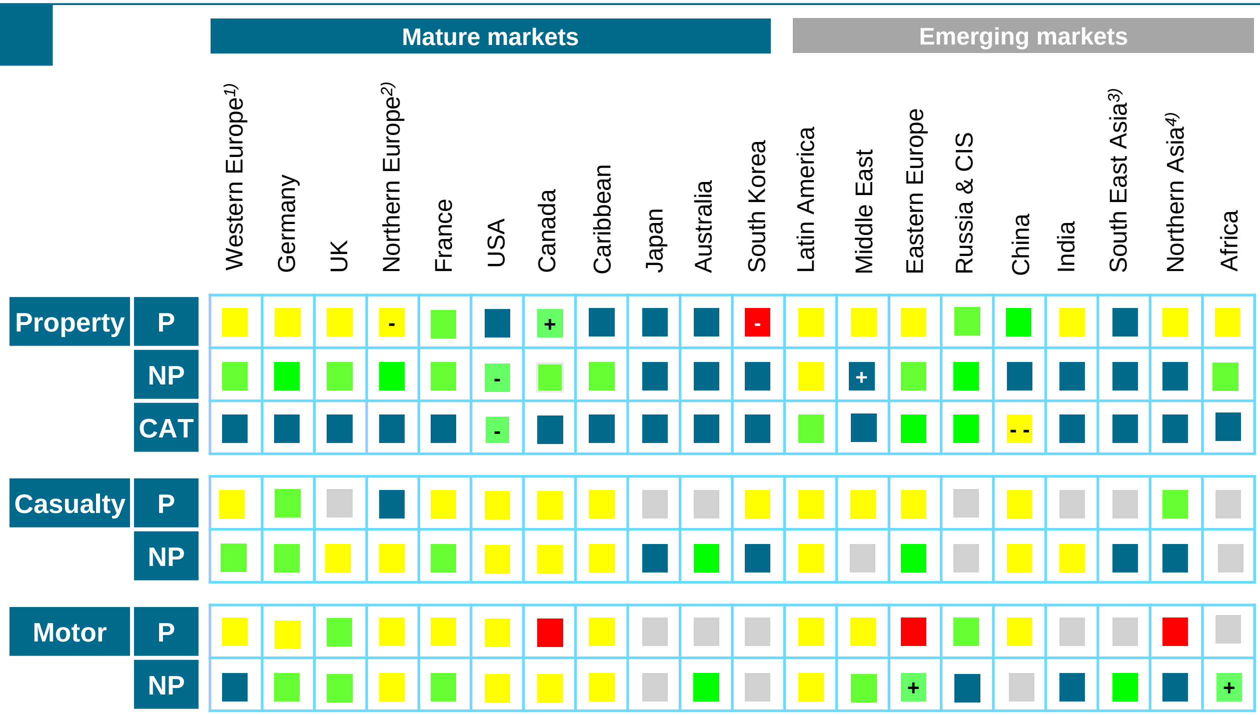
SCOR Global Life market position

SCOR Global P&C market position

1) *Including Generali US*
2) *Rankings in the targeted regional carriers segment*

SCOR Global P&C's assessment of its potential in the segments where it operates

Treaty P&C



P *Proportional*
NP *Non-proportional*
CAT *Natural Catastrophe*

Noticed change from latest publication (Jan 2013 renewals):

++ *Plus 2 positions:* ***none***
\+ *Plus one position:* ***4***
\- *Less one position adverse:* ***4***
\- - *Less 2 positions:* ***1***

Short- to mid-term perspective[5)]

	Monte Carlo 2013	Mature markets	Emerging markets
Very attractive	*30%*	*27%*	*25%*
Attractive	*30%*	*27%*	*24%*
Adequate	*37%*	*32%*	*30%*
Inadequate	*3%*	*3%*	*3%*
Not applicable			

1) *Western Europe: Austria, Cyprus, Greece, Italy, Malta, Portugal, Spain, Switzerland*
2) *Northern Europe: Belgium, Luxembourg, The Netherlands, Scandinavia*
3) *South East Asia: Indonesia, Malaysia, Singapore, Thailand*
4) *Northern Asia: Hong Kong, Philippines, Taiwan, Vietnam*
5) *i.e. within planning period*