

# Global Reinsurance Sector Outlook

## The Panic Has Passed, But The Pain Lingers

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Credit Risk In The  
Reinsurance Market,  
Monte Carlo,  
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# Agenda

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- **Categories of analysis**
- **Rating profile**
- **Ratings outlook**
- **Rating factors**
- **Review of 2009**
- **Forward looking opinions**

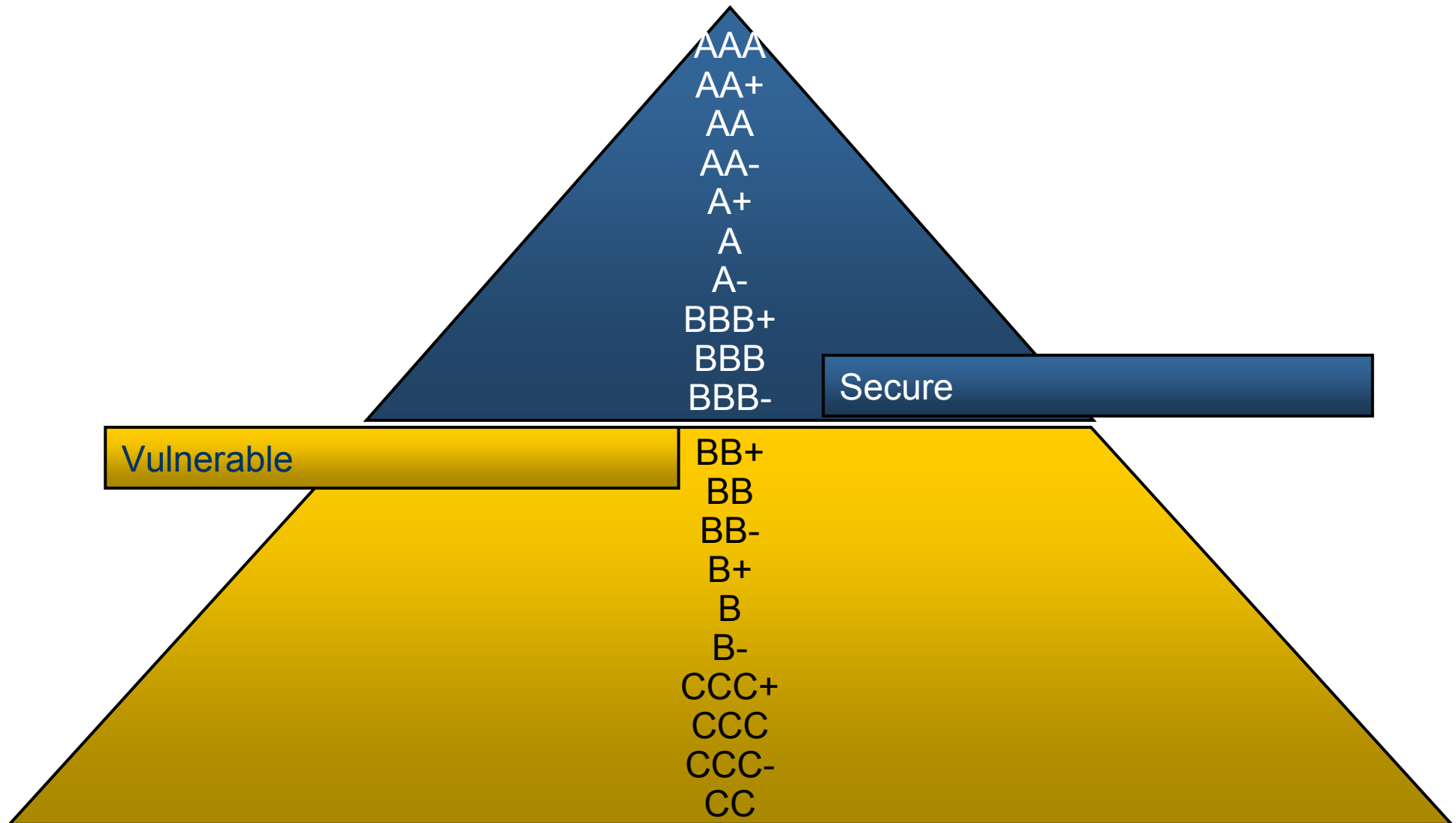
# Categories Of S&P Rating Analysis

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	Quantitative	Qualitative
Management & Corporate Strategy		✓
Competitive Position		✓
Enterprise Risk Management (ERM)		✓
Operating Performance	✓	
Capitalisation	✓	
Investments		✓
Liquidity		✓
Financial Flexibility		✓

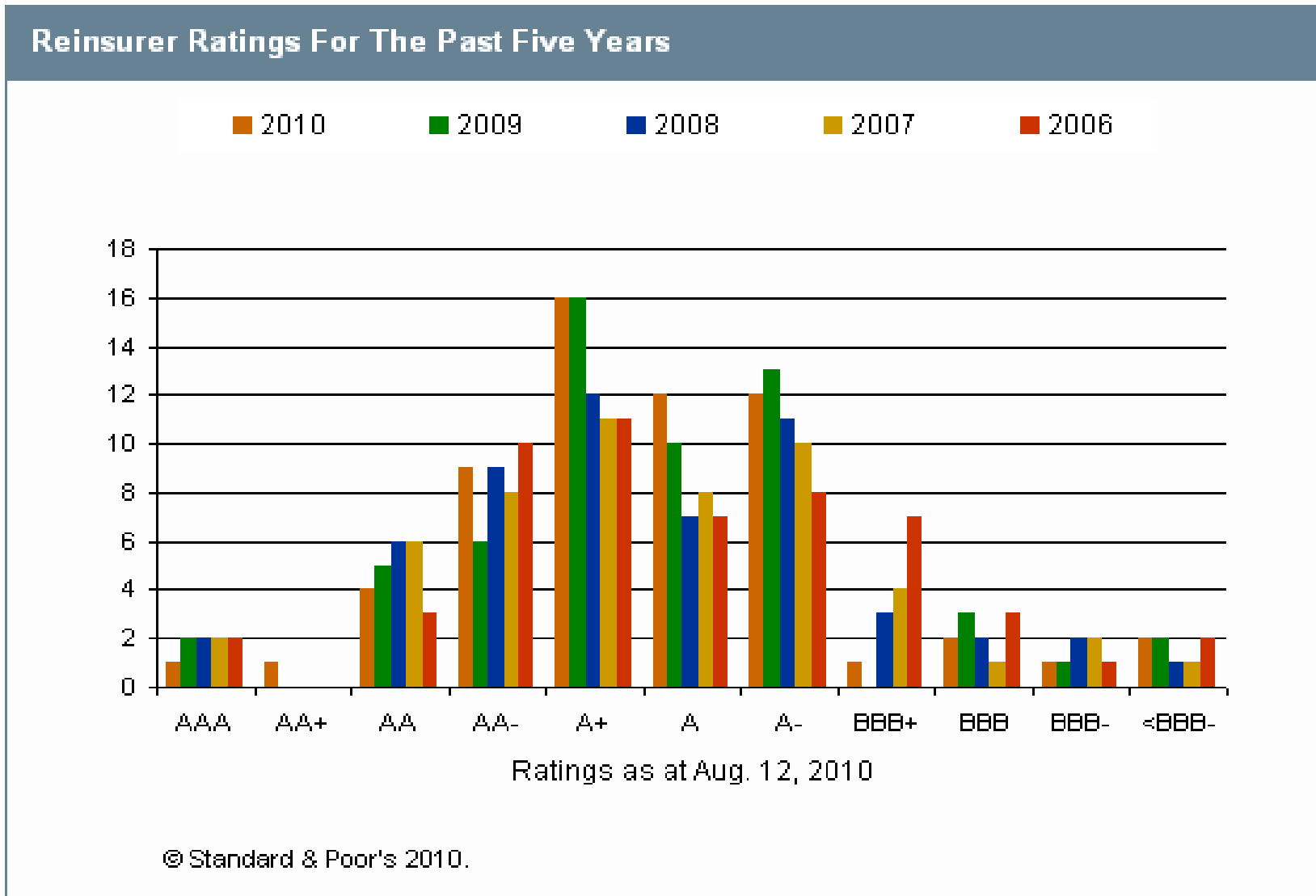
# Financial Strength Ratings

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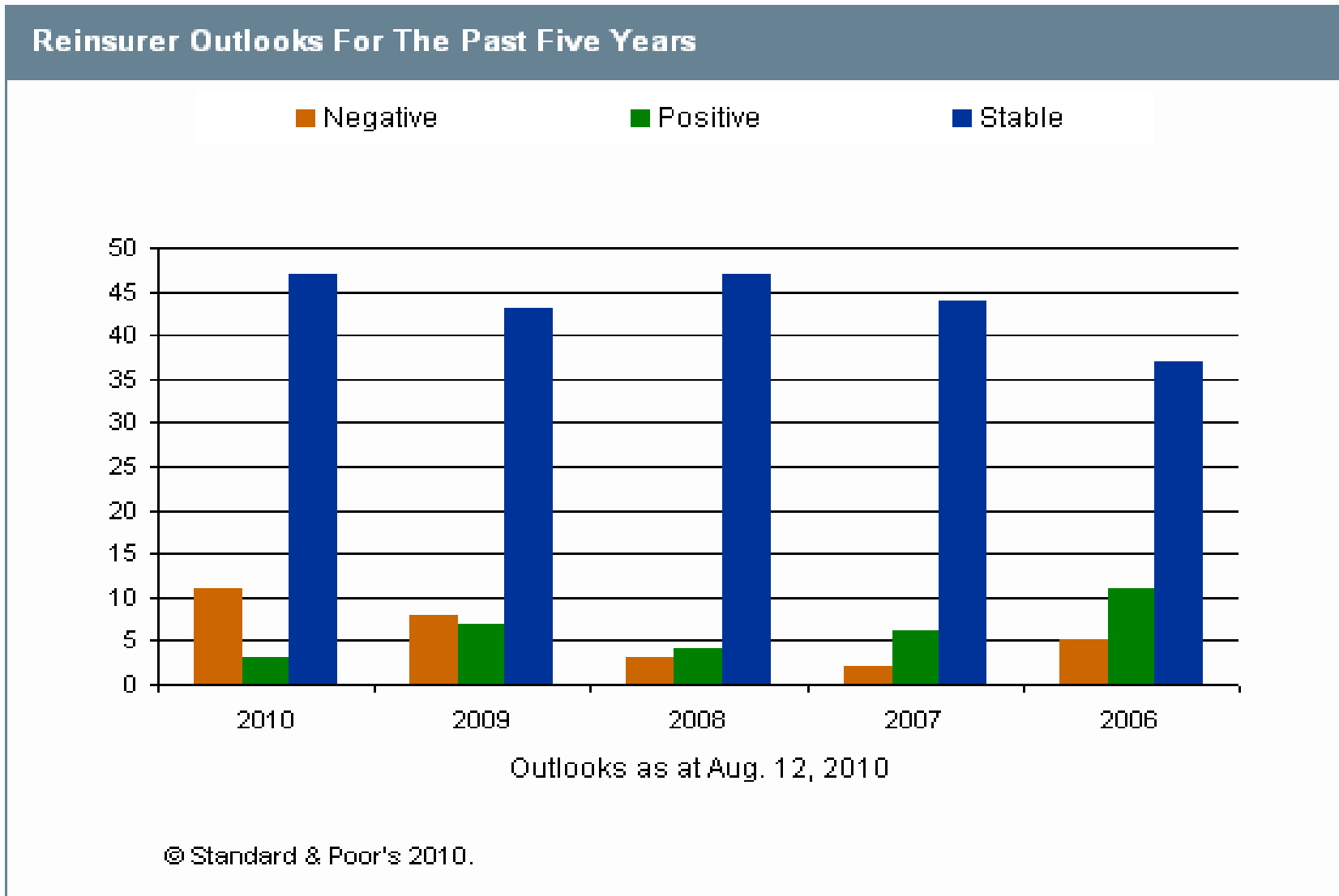


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# Average Rating In The Sector Is 'A'



# 77% Of Reinsurers In Our GRH Survey Have A Stable Outlook



## **Global Reinsurance Outlook: Positive Rating Factors**

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- **Capitalization is typically a ratings' strength and in the aggregate is at peak levels**
- **ERM capabilities are high, with reinsurers among the leading practitioners in the industry in our view**
- **Investments are typically focused on high-quality, short-duration, liquid assets**
- **Financial flexibility has improved in 2010**
- **Profits continue to emerge on prior underwriting years**

## **Global Reinsurance Outlook: Negative Rating Factors**

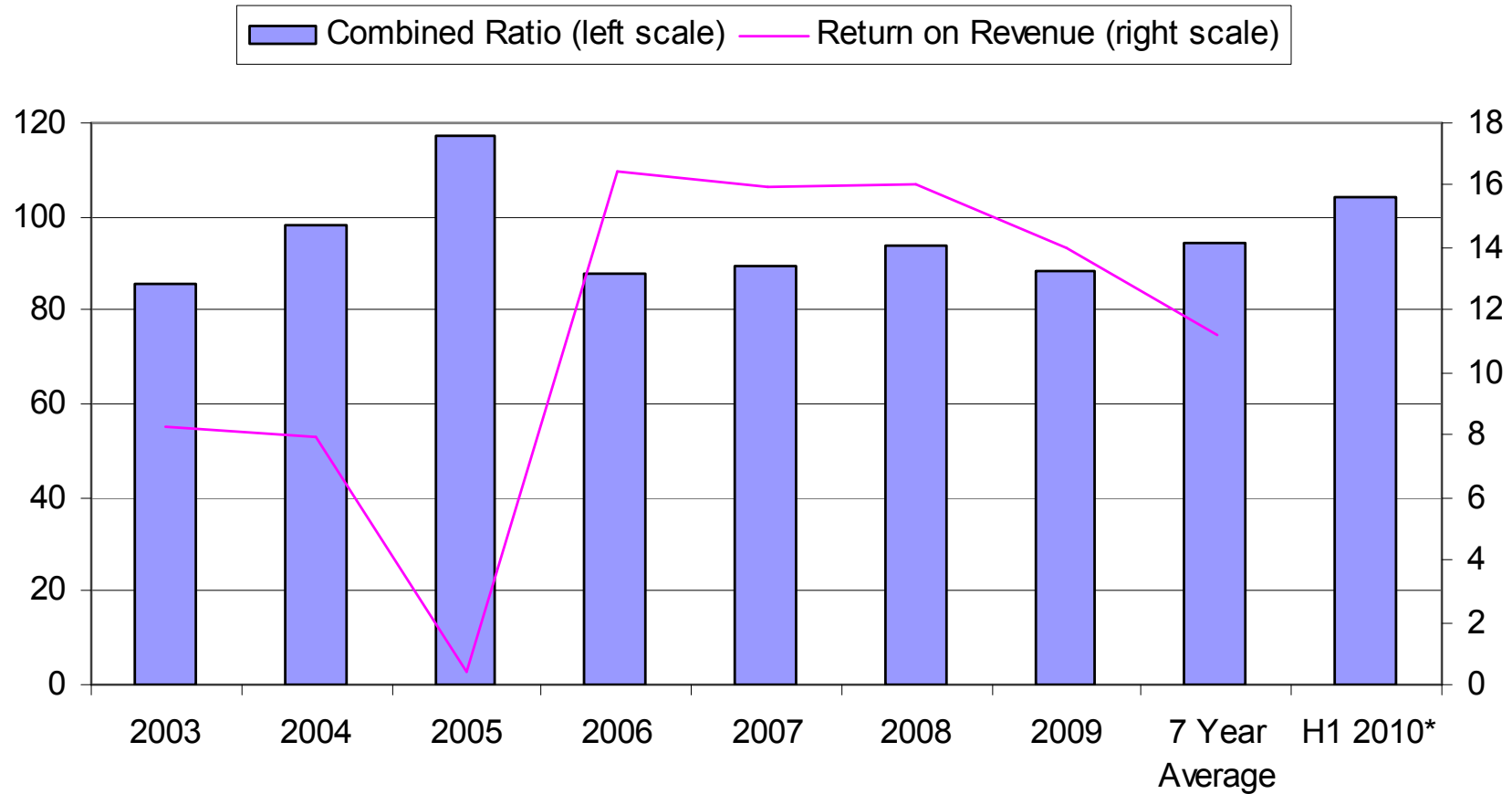
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- **Capacity is abundant; demand/supply imbalance is exerting negative pressure on pricing**
- **Low interest rates persist / macro-economic uncertain**
- **Returns are uneconomic in some long-tailed classes of business**
- **Profits are reliant on prior-year reserve releases, which are not sustainable in our view**
- **Investor confidence has partially returned, but some recapitalization risk remains because valuations are low and the hybrid market remains largely dormant**
- **High frequency of catastrophe activity**



# Strong 2009 Performance Above 7-Year Average

## Top 40 Reinsurance Groups



Source: Standard & Poor's *Global Reinsurance Highlights*.

\* Data shown is the weighted average for the Top ten global reinsurers that have published sufficient data



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## 2009 Performance In Perspective: 'Perfect Calm'

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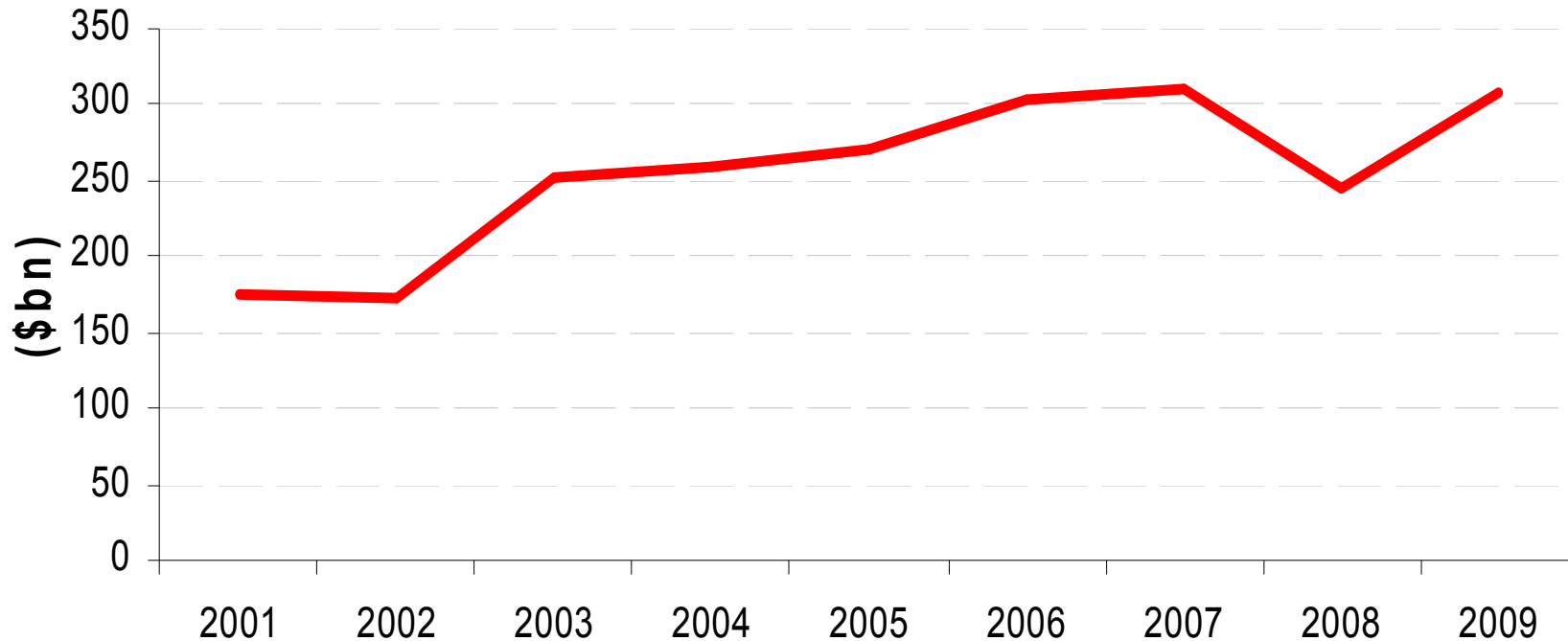
**Accident- and calendar-year performance was excellent in 2009 for several reasons in our opinion:**

- **2009 was the calmest Atlantic hurricane season in 12 years**
- **Risk-adjusted pricing improved in 2009 by around 5% as the capacity shortage caused by the financial crisis fuelled a temporary market hardening**
- **Net earned premium increased by 9% for the top 40 reinsurance groups as the demand for reinsurance capacity increased**
- **Bond and equity prices rallied, largely reversing the significant write-downs suffered during 2008**
- **Reserve releases equivalent to 3% - 5% of opening loss provisions made an overall positive contribution to the combined ratio of 7%-8%**

# Peak Capital Adequacy Restored

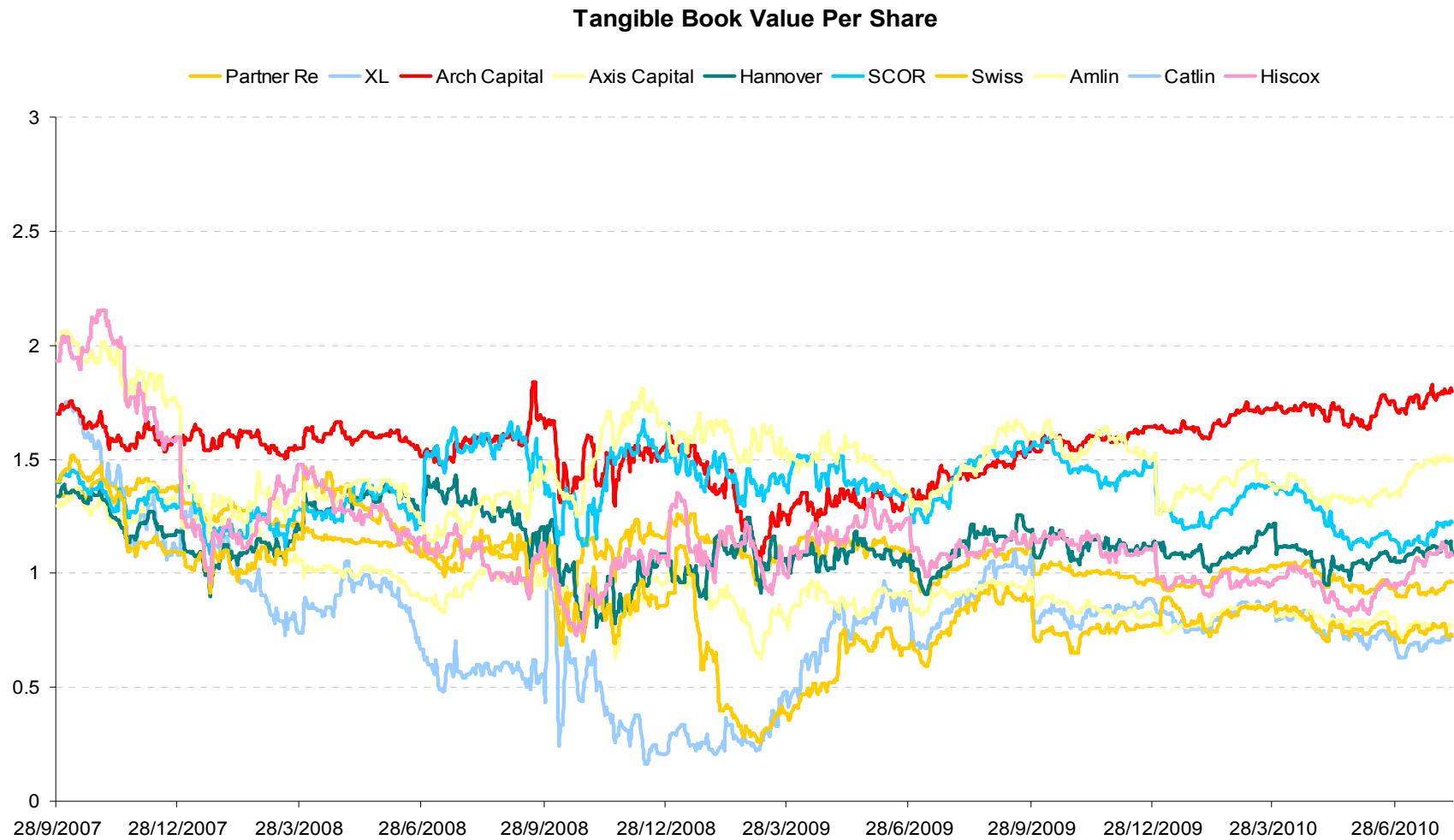
**Total adjusted shareholders' funds for top 40 groups increased by \$63 billion, or 26%, during 2009**

Top 40 Reinsurers'  
Total Adjusted Shareholders Funds (mil. \$)



# The Investors' View:

## Reinsurers are trading at around 1.0x-1.1x TBV



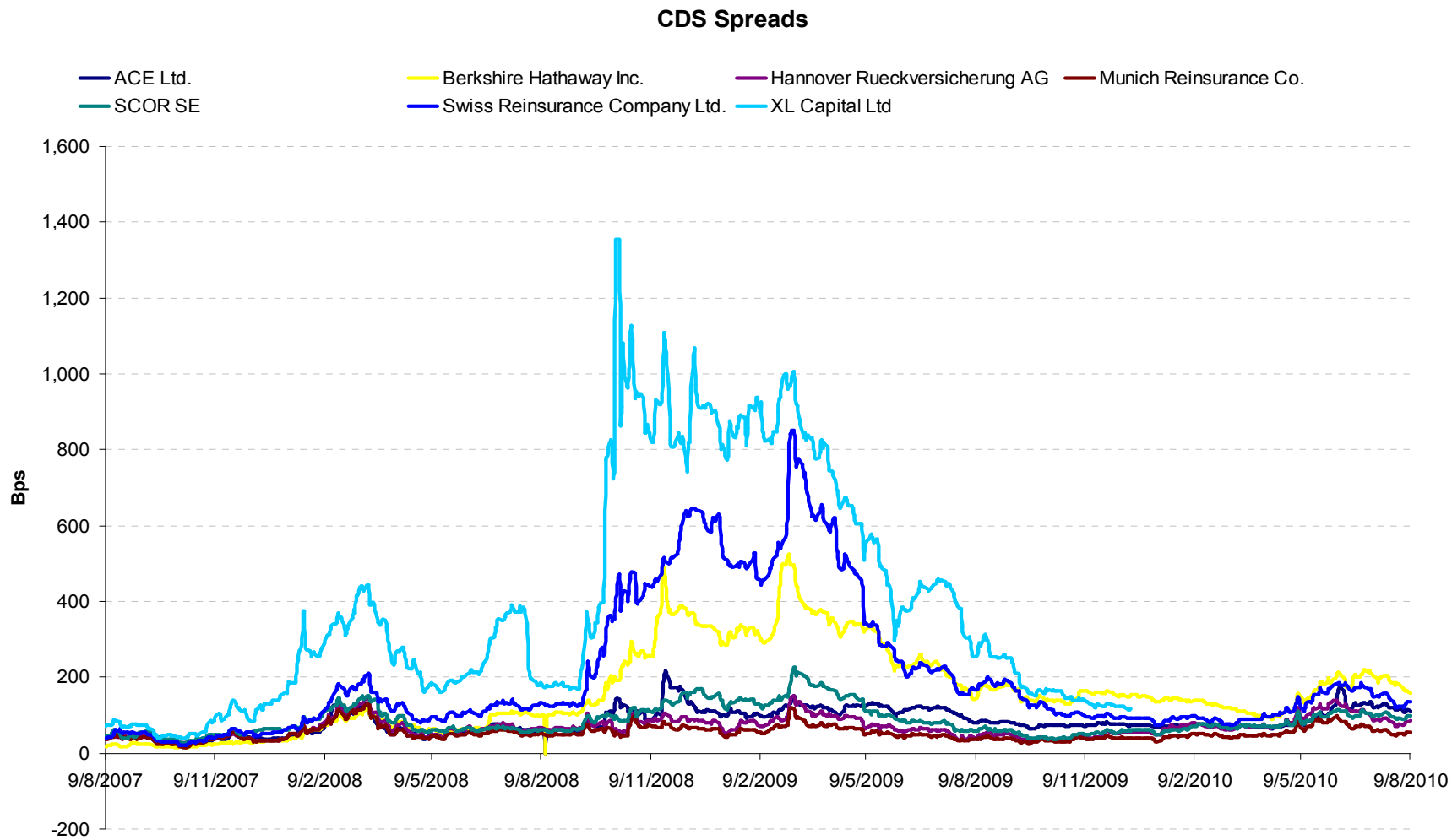
Source: Bloomberg.

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# The Investor's View

## Credit default spreads narrow to more-normal levels



Source: CMA DataVision



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## Looking Ahead: S&P's Opinions

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- **Having weathered the financial crisis remarkably well, the reinsurance sector is confronted with many of the same issues it had before the downturn**
- **Unless a large loss event occurs, we believe that pricing will continue to soften**
- **Share buybacks are indicative of strong financial management provided the interests of investors and policyholders are appropriately balanced**
- **2010 earnings outlook for the reinsurance sector stands in stark contrast to 2009:**
  - **Catastrophe losses during H1 2010 at 10-year high**
  - **H1 2010 combined ratio 10pp higher**
  - **50% of the Atlantic storms predicted by the NOAA still to occur**
  - **RoL down 10%-12% at the July renewals**

## Looking Ahead: S&P's Opinions

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- **We expect to see further reserve releases through the remainder of 2010**
- **The pace of regulatory change accelerated in response to the financial crisis and is an increasing Influence on capital and competitive advantage**
- **Solvency II represents an emerging issue until its details are finalized, but should be a relative positive for the top tier reinsurers**
- **Withdrawn role of private equity/hedge funds**



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