

The Reinsurance Market - Soft, Hard or Somewhere in Between?

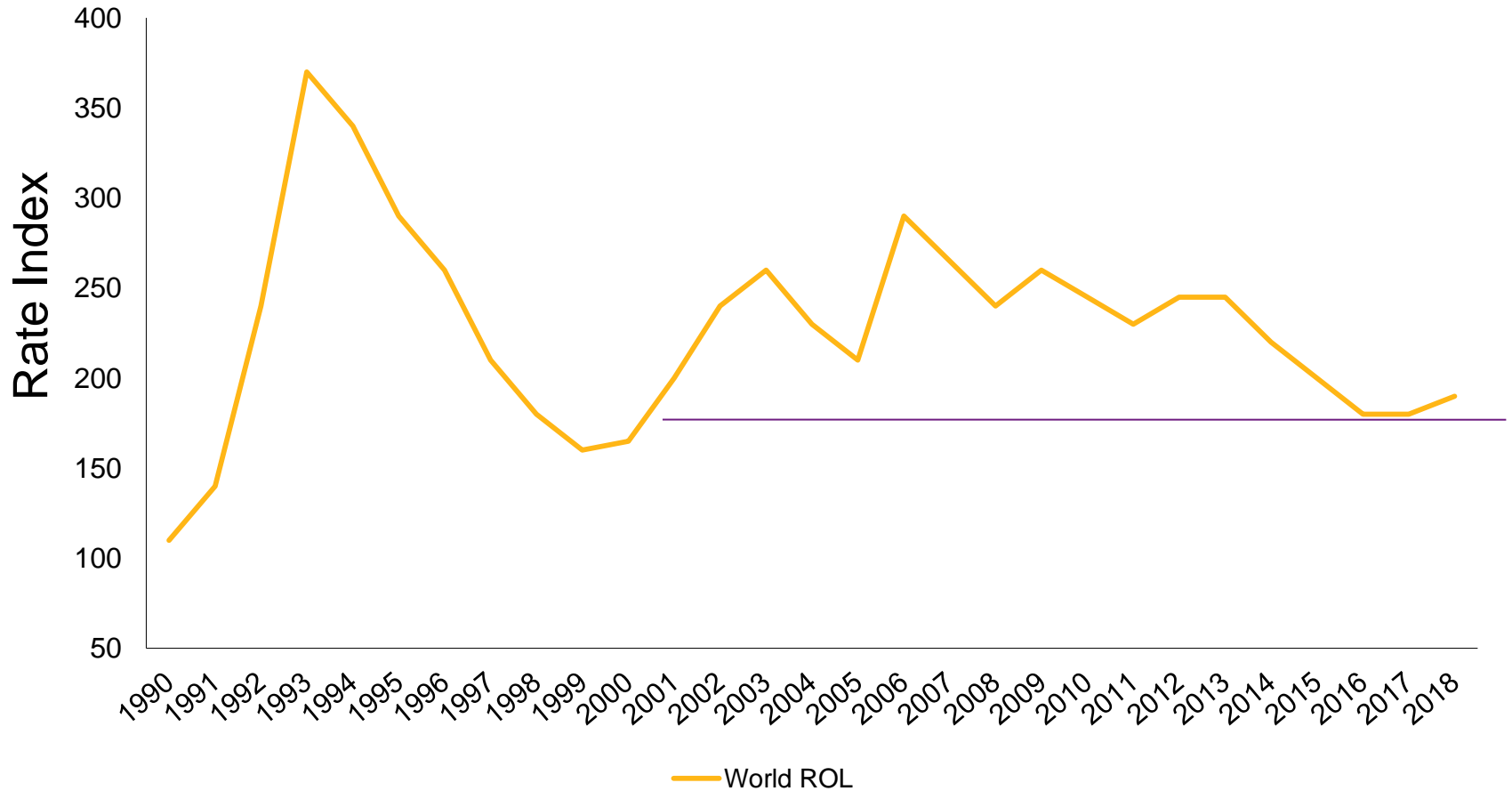
May 20, 2019



Polling Question 1

- What is the current state of the property reinsurance market
 - Hard
 - Soft
 - Somewhere in between

Property cat pricing is at the lowest level in 20 years

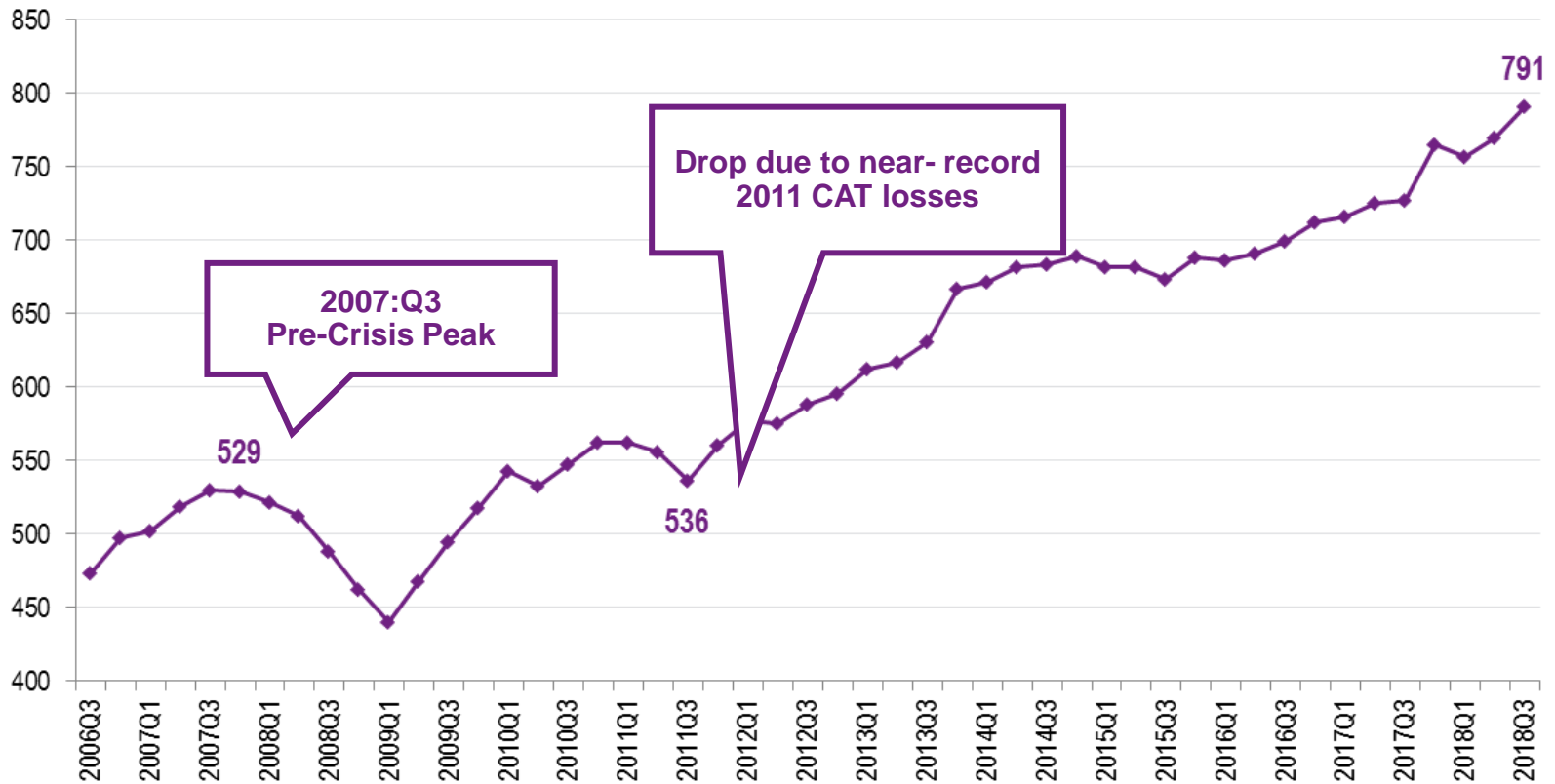


Polling question 2

- What is the major driver of the rate increases seen so far in 2019?
 - Shortage of supply of capital
 - Low catastrophe reinsurance returns
 - Changing view of risk (2017 development, wildfire, social inflation)

Capital levels are at an all-time high

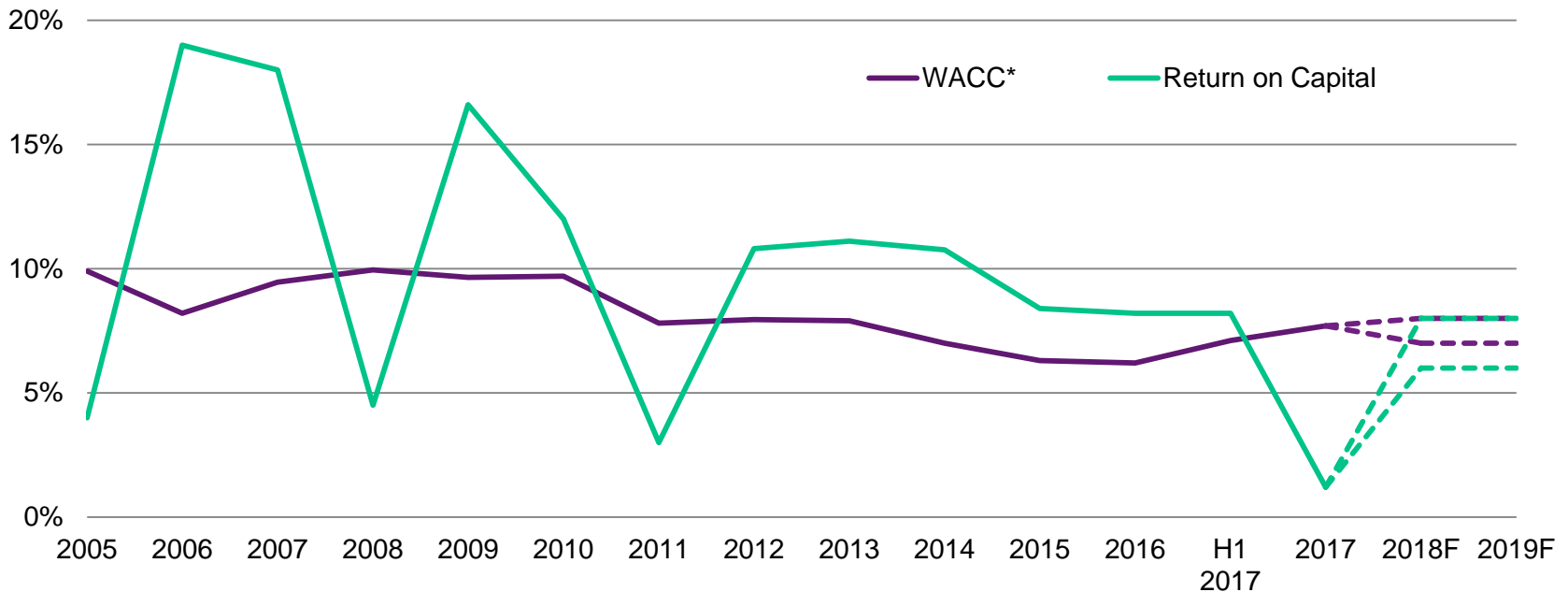
Historical Industry PHS (\$B)



The industry now has \$1 of surplus for every \$0.78 of NPW, the strongest claims-paying status in its history

Reinsurer returns are below cost of capital

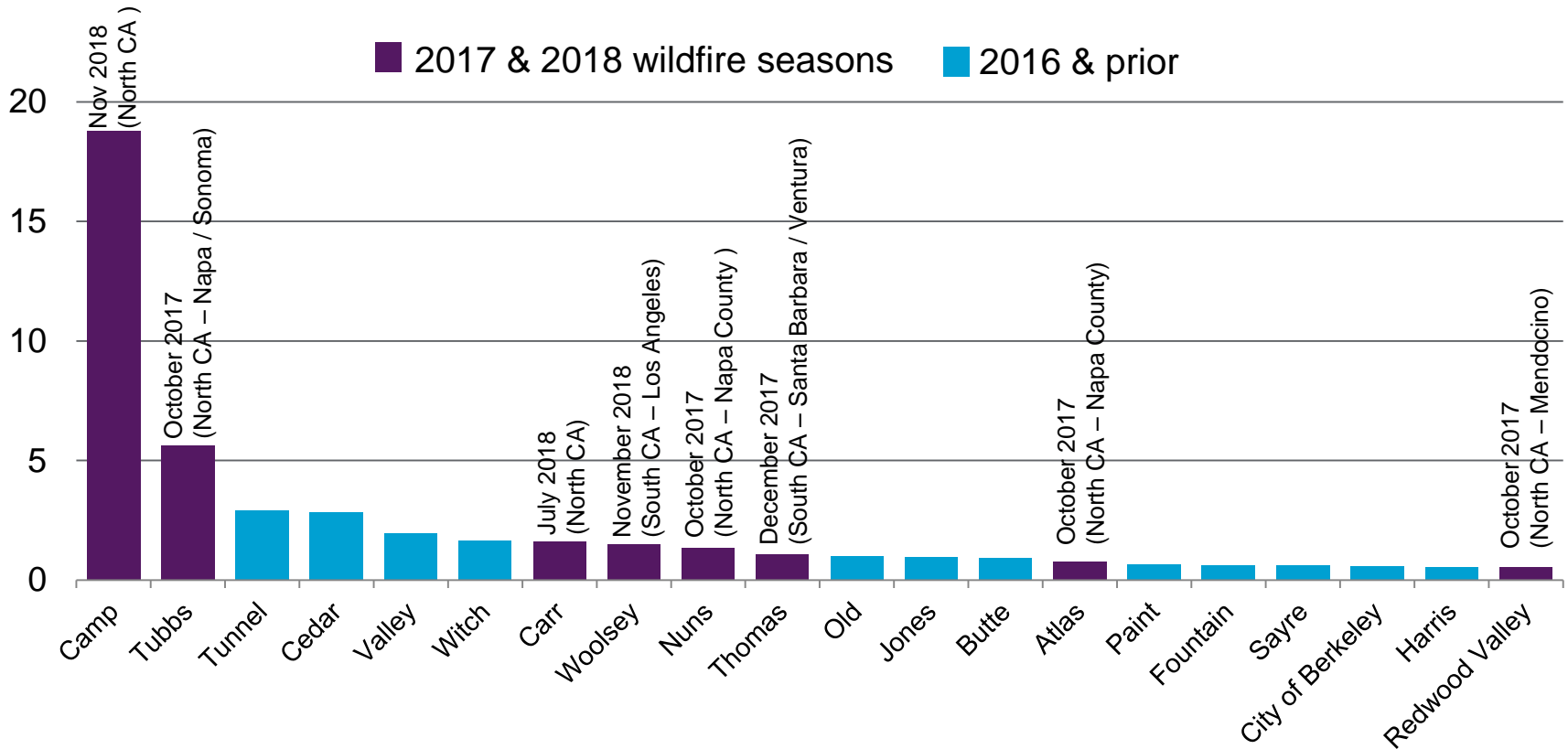
“The reinsurance sector continues to skip along the bottom of the market with no clear trigger for a meaningful and widespread hardening” – A.M. Best view of 2018



Note: Data as at November 2018
Source: S&P Global Ratings, Bloomberg

California wildfire losses were unprecedented in severity

- Top 20 most destructive California wildfires by number of structures destroyed (000s):

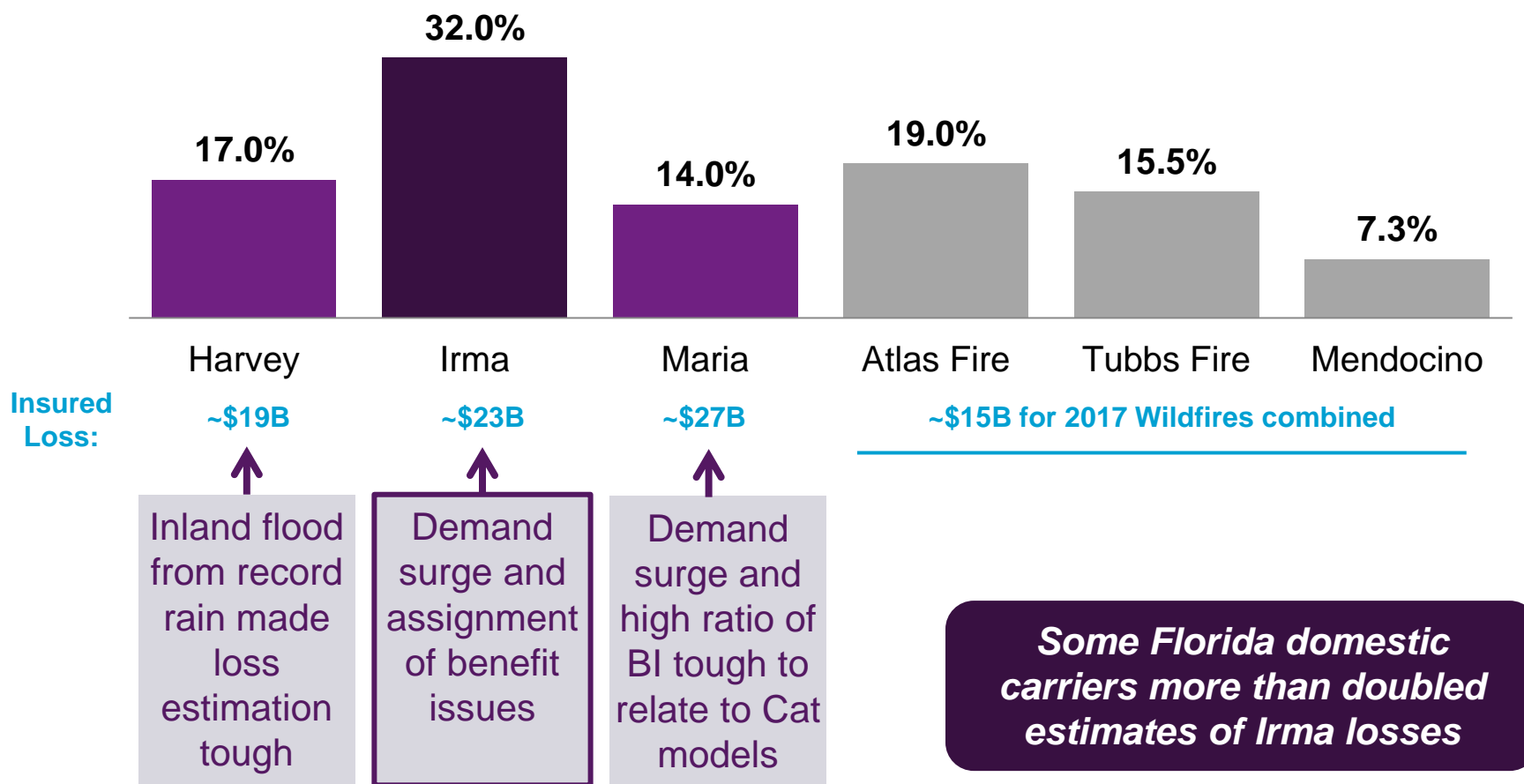


~70% of historical structures destroyed occurred in 2017 and 2018

Source: Cal Fire data as of 11/25/2018

Deterioration of 2017 US losses continued to impact the market

Development of PCS loss estimates from initial to end of 2018:

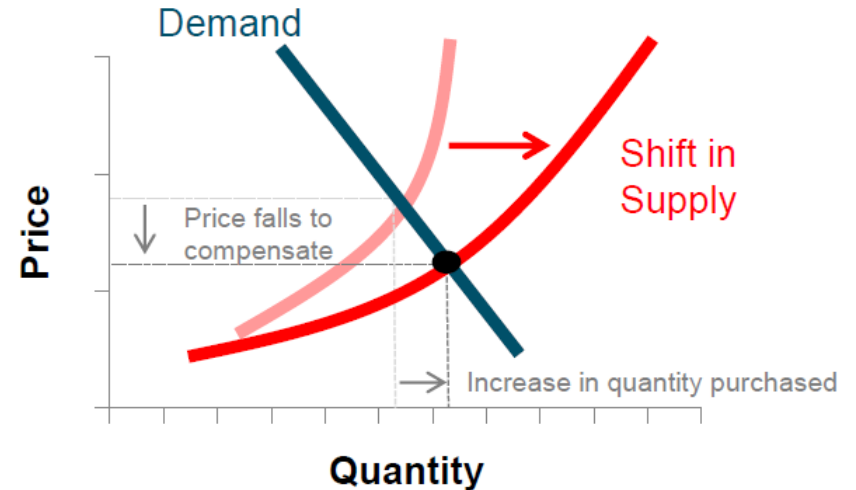
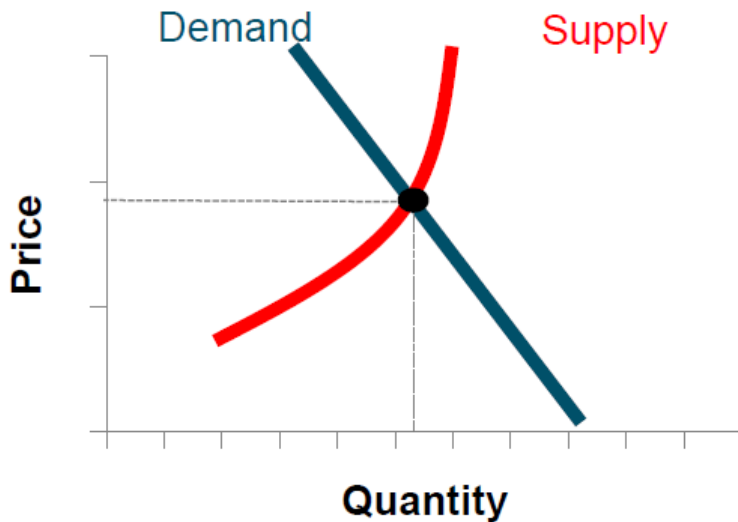


Polling Question 3

- What will be the market rate change for June-July 2019?
 - Decrease
 - 0-+5%
 - +5% - +10%
 - +10% - +20%
 - +20% -+30%
 - More than +30%

Market Cycles

Whatever happens, “capital” is key



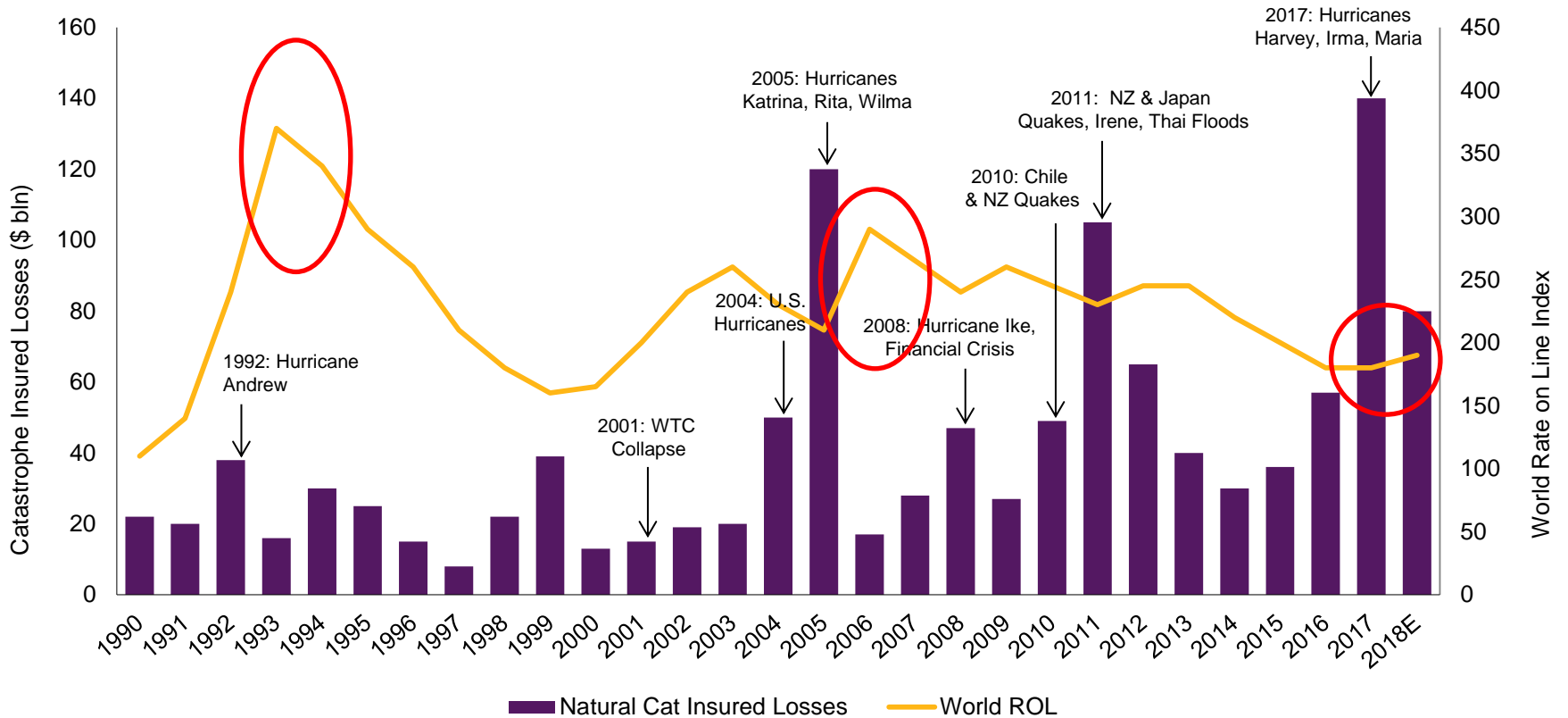
Reinsurance Before 'Alternative' Capital

Limited supply, causing significant price movements post loss. Demand curve broadly static, without exogenous change

Reinsurance Today

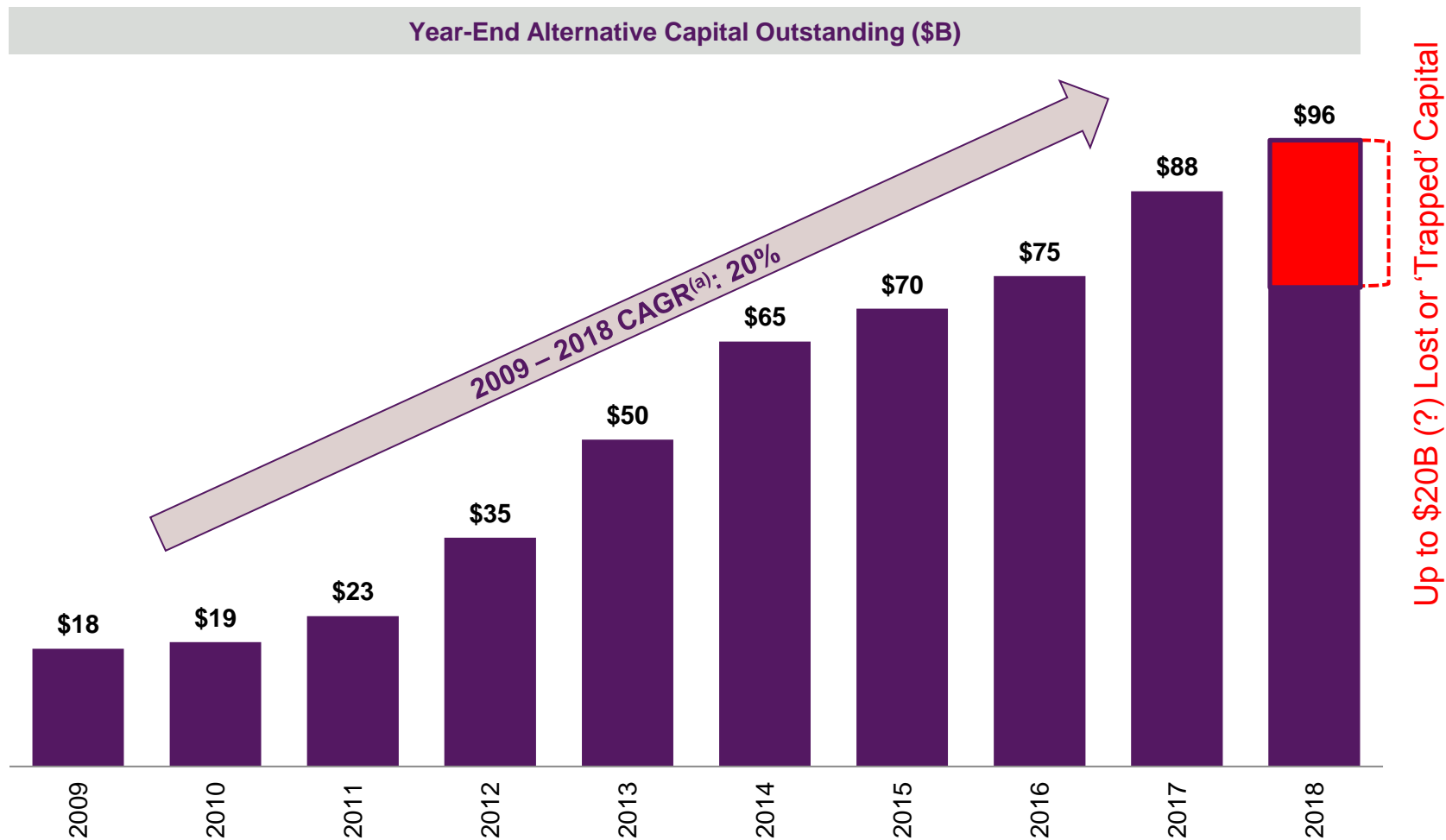
New capital injections caused a shift in the supply curve. Post loss capacity constraints are likely to be significantly reduced

Cycle compression – the new norm?



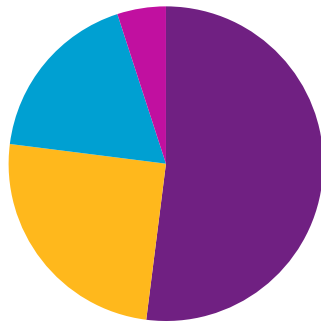
Source: JMP Securities.

Alternative Reinsurance / ILS Capital Continues to Grow



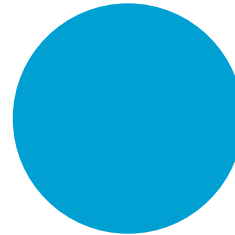
Alternative capital has room to grow

Assets by Selected Investor Class



\$128 Trillion

Pension Fund Assets






\$36 Trillion

Alternative Capital



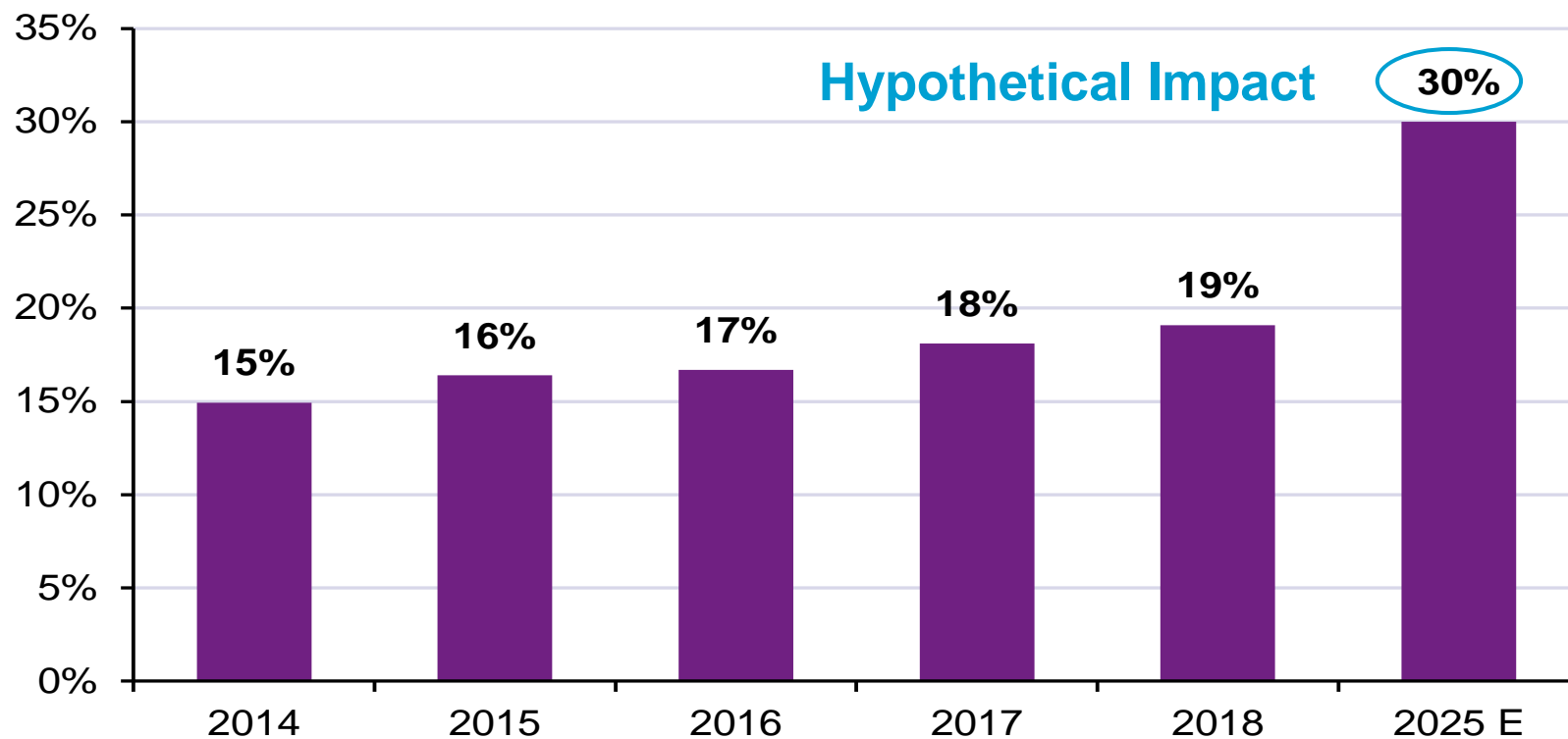
\$96 Billion

-  High Net Worth
-  Pension Funds
-  Family Offices
-  Sovereign Wealth

Source: Bank of International Settlements, SIFMA, Towers Watson, World Federation of Exchanges and Willis estimates as of 31/12/15.

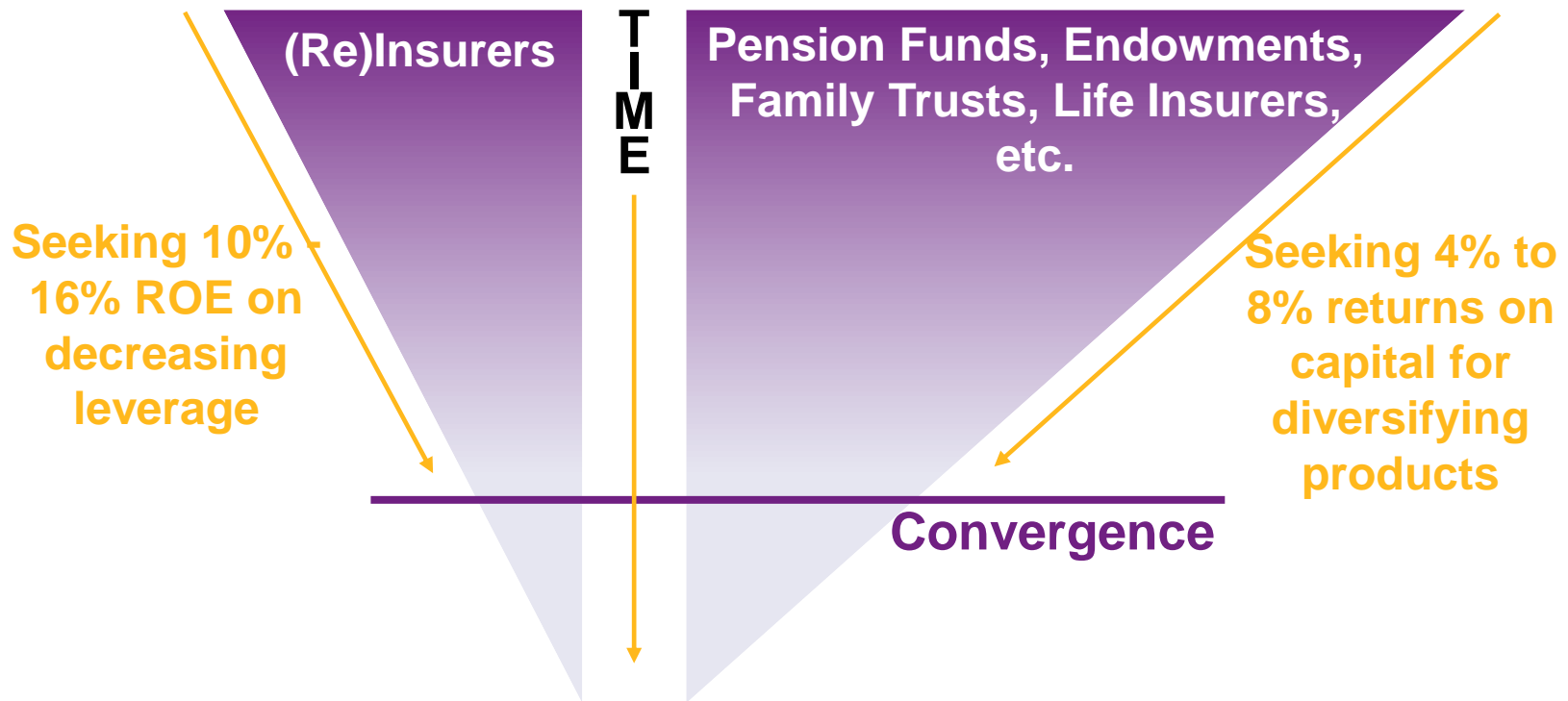
Continued growth would materially impact catastrophe reinsurance market

Alternative Capacity as % of Global Cat Re Limit



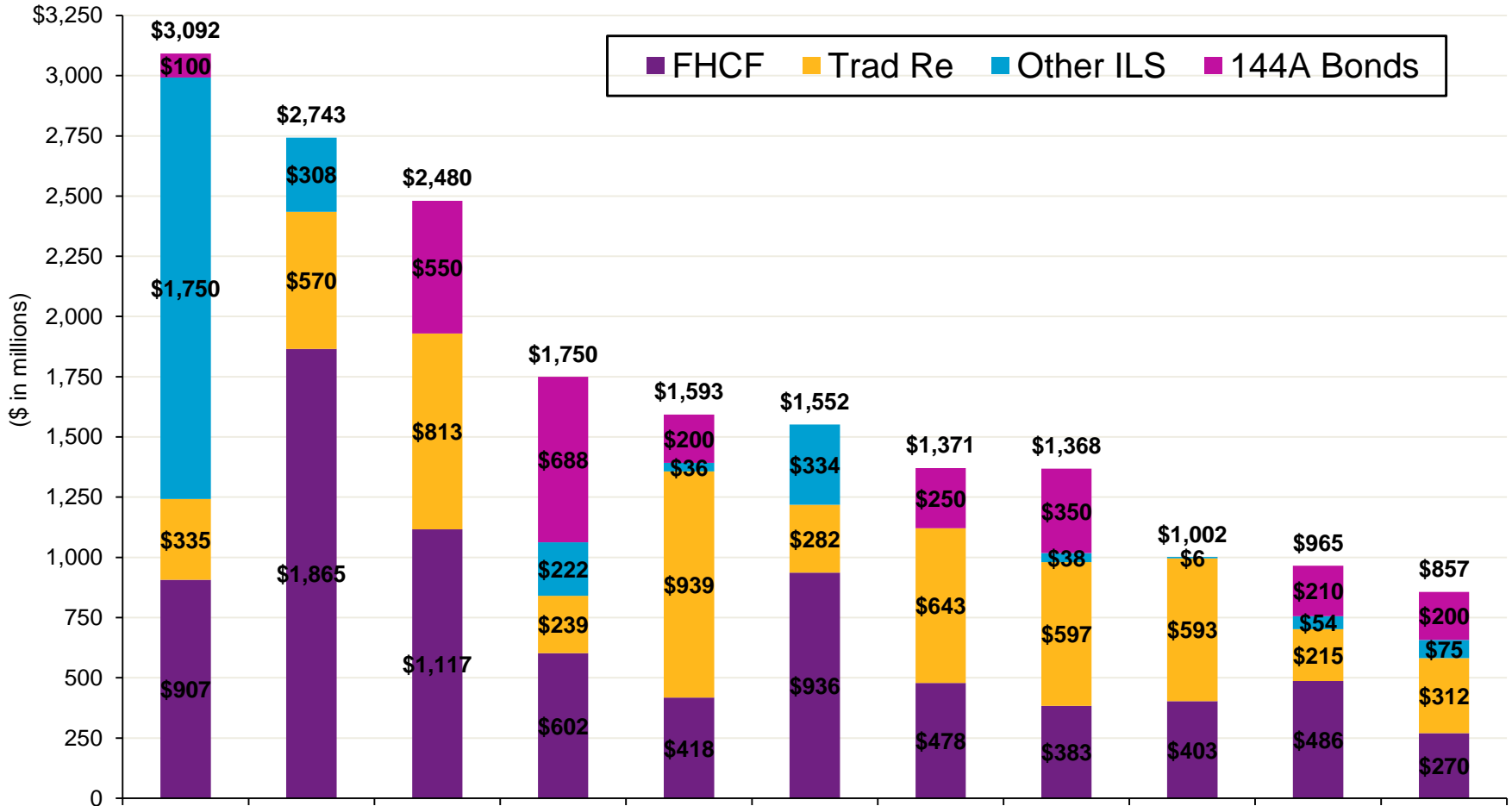
Capital is matched to desired return profile

Alternative Capital Pressuring Traditional Reinsurance



Selected Florida exposed insurers

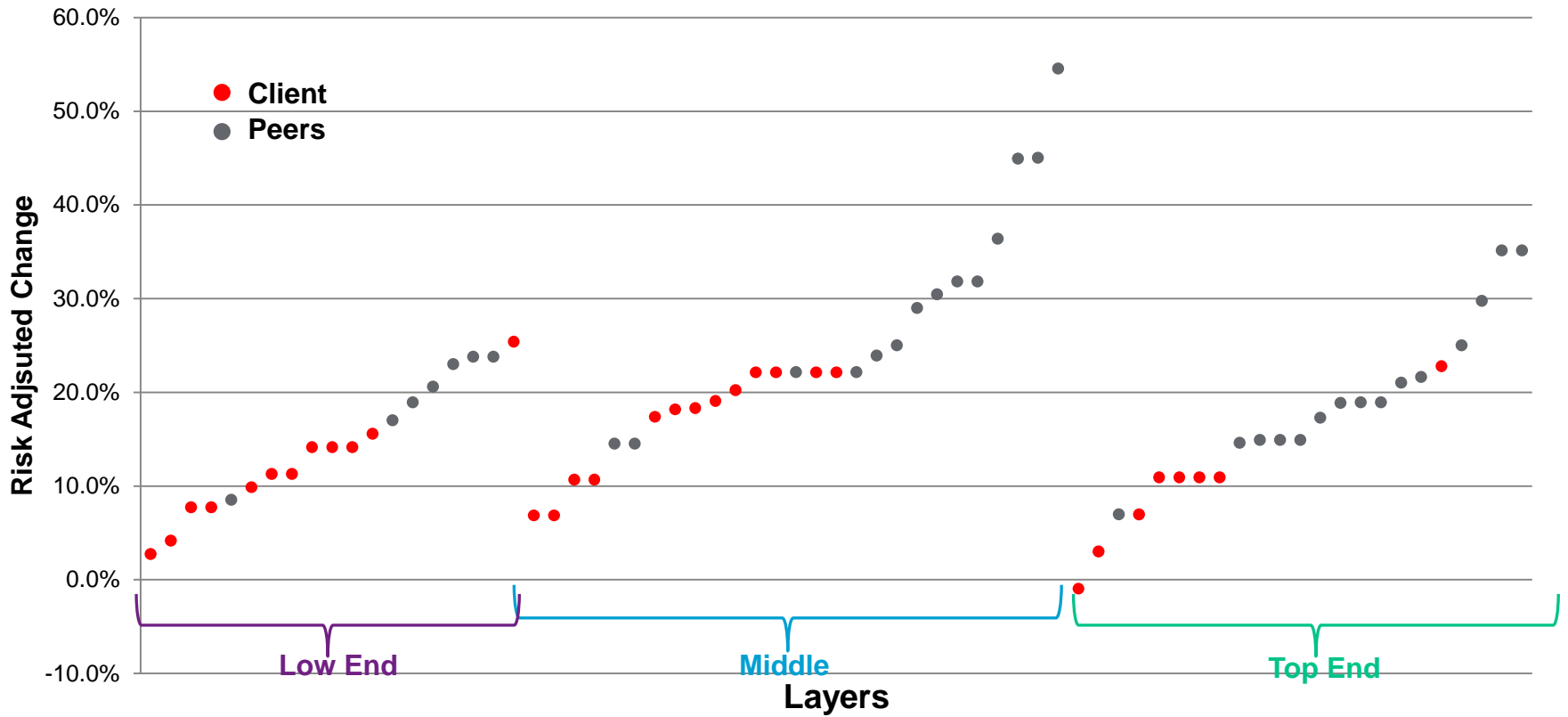
Reinsurance program by type of capacity



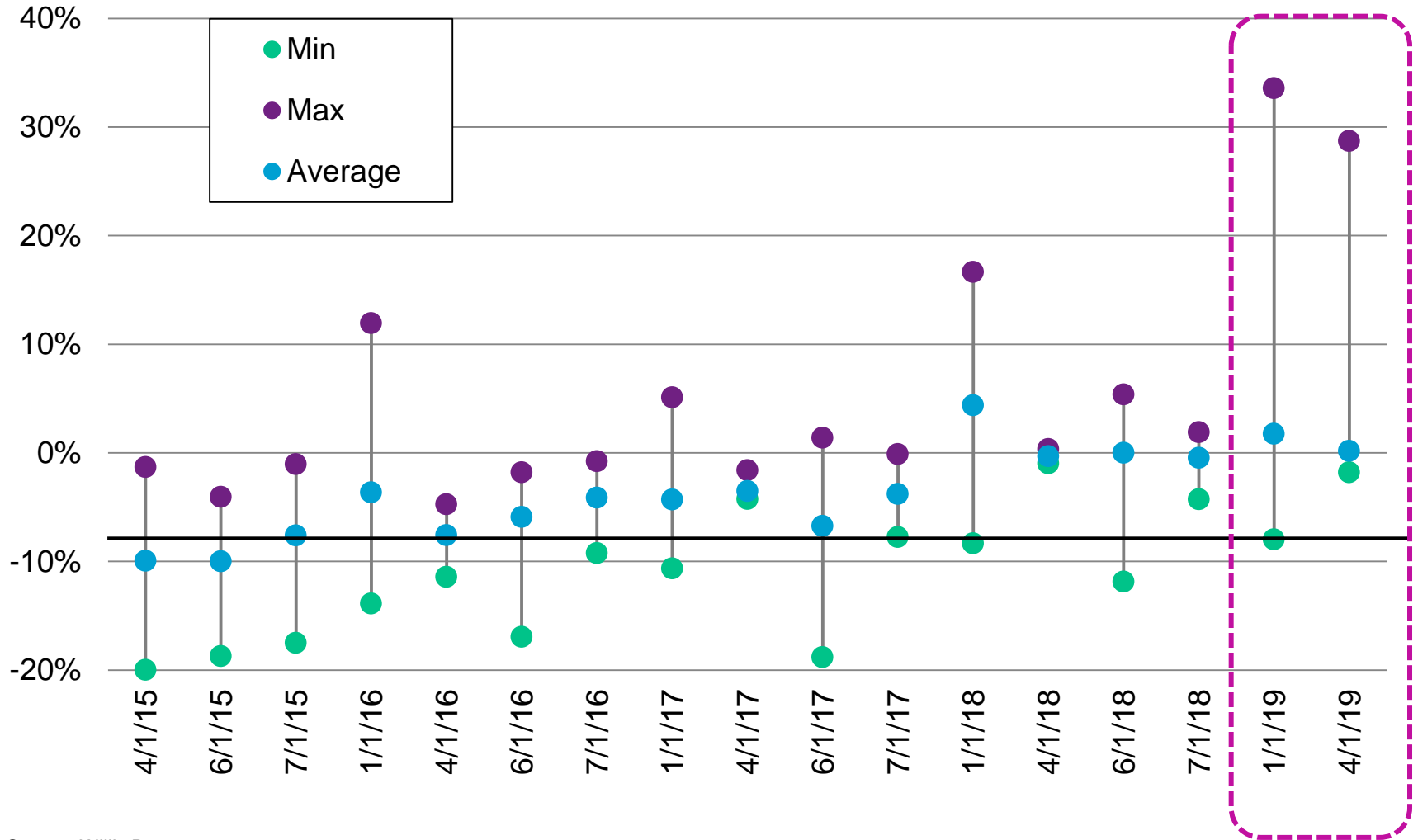
Note: size of reinsurance program has been estimated from 144A cat bond offering materials and regulatory files at the time of the issuance. Split between traditional reinsurance and other ILS estimated used schedule F filings and companies' press releases. Data representative of 2018 programs.

Risk differentiation

Peer Risk Adjusted Quote Comparison

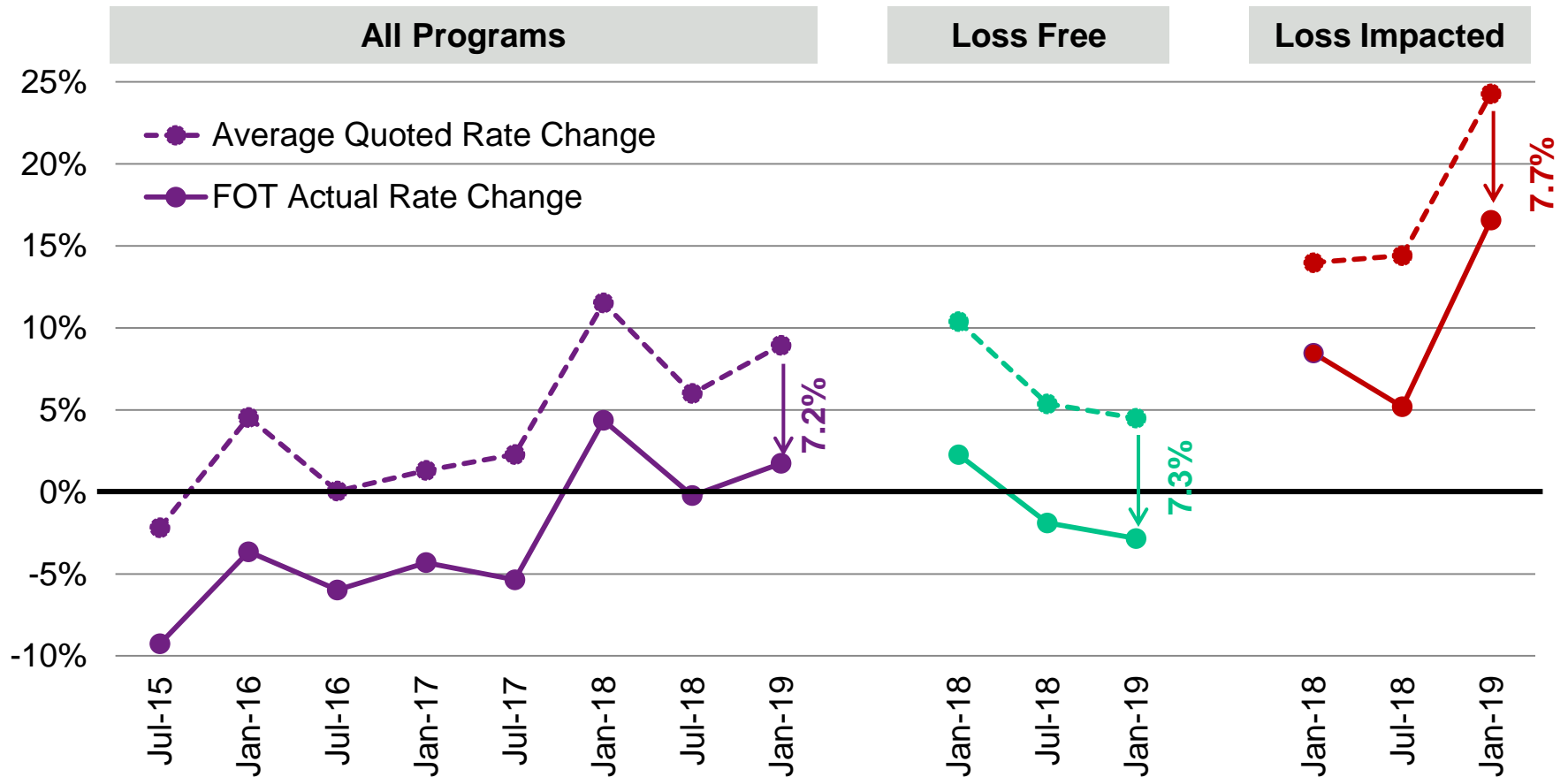


US property Cat pricing sees meaningful loss impacted increases



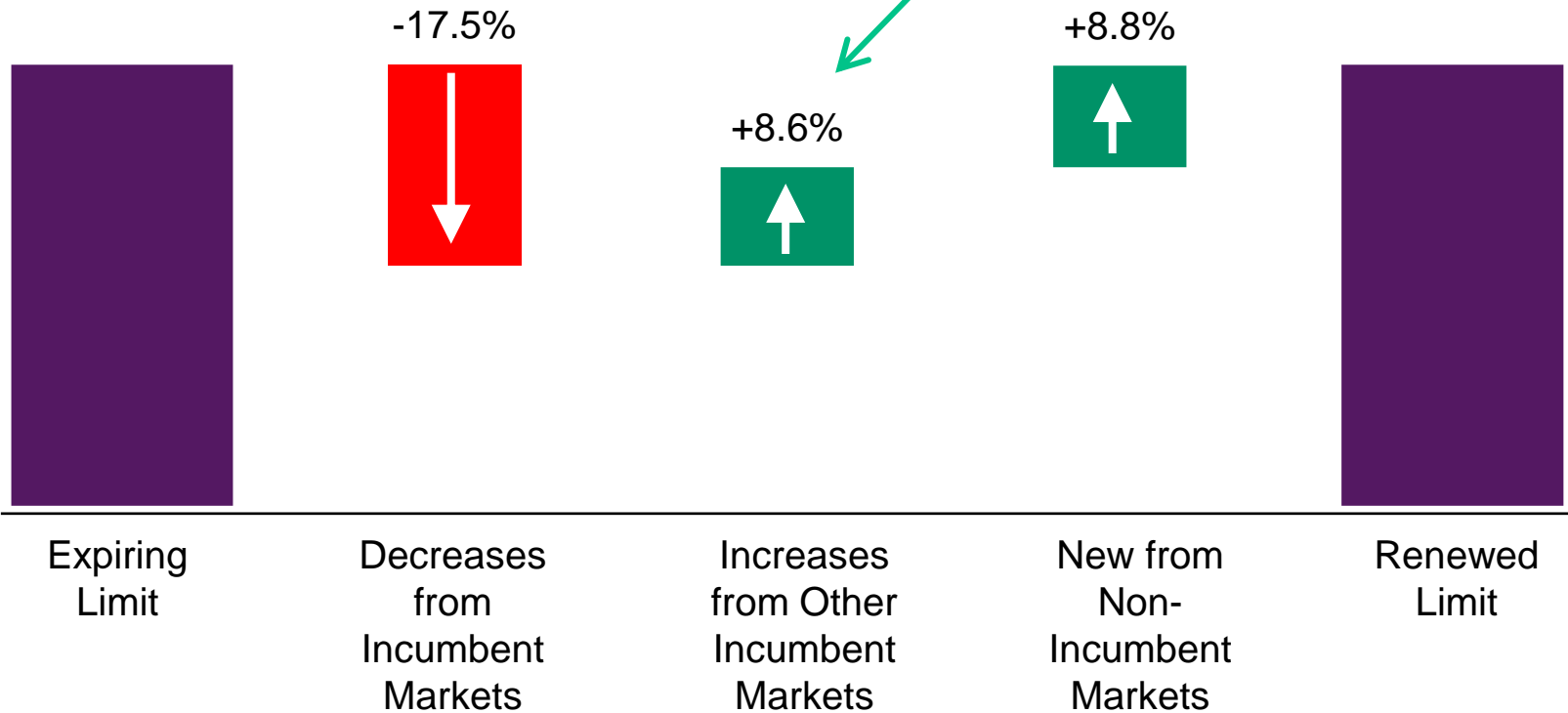
Source: Willis Re.

Differential from quotes to firm order terms stayed consistent



Panel turnover at 2019 renewals on US Property placements

Filling the gap left by incumbent market reductions, half was from other incumbents and half markets new to the placement



Rate movement is client specific



Universal programme prices up 30% in early win for Florida cat reinsurers

The cedant suffered \$500mn+ of Irma loss creep and looks likely to fare worse than the broader market.

12/04/2019

USAA cat bond price points to rate hardening

Initial guidance on the latest Residential Re transaction points to a spread well above comparable deals.

23/04/2019

No 'meaningful variation' from national placement pricing to Florida cover: Allstate

The insurer expects to complete its Florida placement later this quarter.

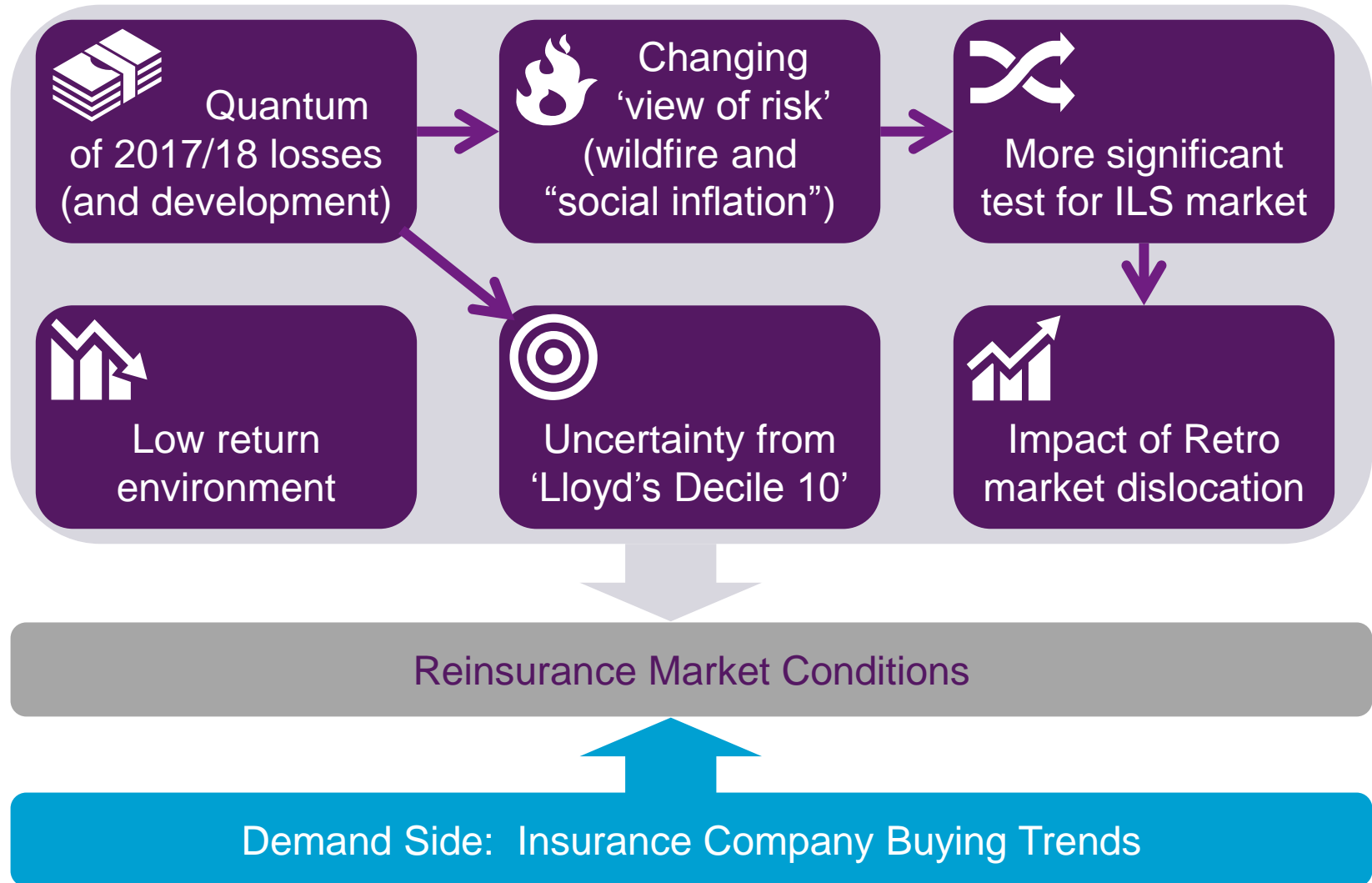
02/05/2019

Floridian cedants test market resolve with 15% rate bumps

The vast majority of business has still not been transacted owing to brinksmanship on both sides.

15/05/2019

A dynamic marketplace



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