

Trends On Global Reinsurance Market: Ratings Should Withstand Weak Conditions, For Now

Ekaterina Tolstova
Associate
Insurance Ratings

23 June 2016



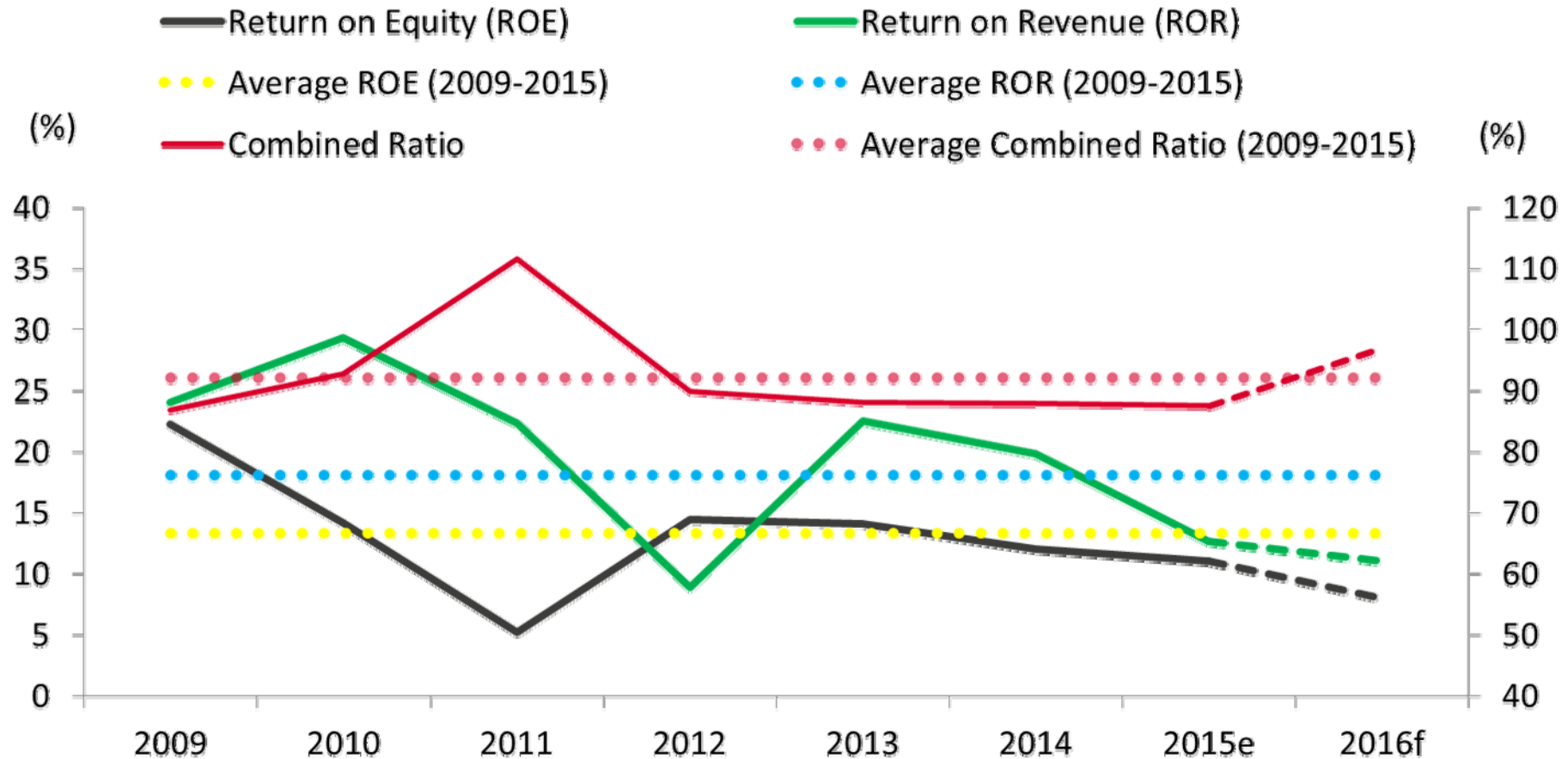
Various Factors Driving Weak Business Conditions

Reinsurers' Business Models Being Hit On All Fronts

Potential driver	Trend for 2016	Observations
Pricing	Negative	Pricing continues to decline across the board; average price reductions of up to 5% are expected in 2016, with wide variation across lines and regions.
Cedant demand	Neutral	The recent drop in reinsurance demand appears to have plateaued in 2016; with no rebound in sight.
Organic growth	Negative	Opportunities for organic growth are few; some pockets present a glimmer of hope for profitability, but these windows of opportunity close quickly as competition among reinsurers heats up.
Loosening of terms and conditions (T&C)	Neutral to negative	Large reinsurers seem to have largely resisted client demands for more generous T&Cs. Although reinsurance terms have loosened in some areas, these were areas that could be priced for.
Low investment returns	Negative	"Lower for longer" is a reality for investment returns. Reinvestment rates remain paltry and we expect investment returns to remain painfully low for some time.
Insurance-linked securitization (ILS) capacity	Neutral to negative	The influx of ILS capacity slowed in 2015 as low prices in the traditional market made it more cost-effective, in some cases. However, total ILS capacity remains at record levels and is still affecting catastrophe pricing.
Merger and acquisition (M&A)		

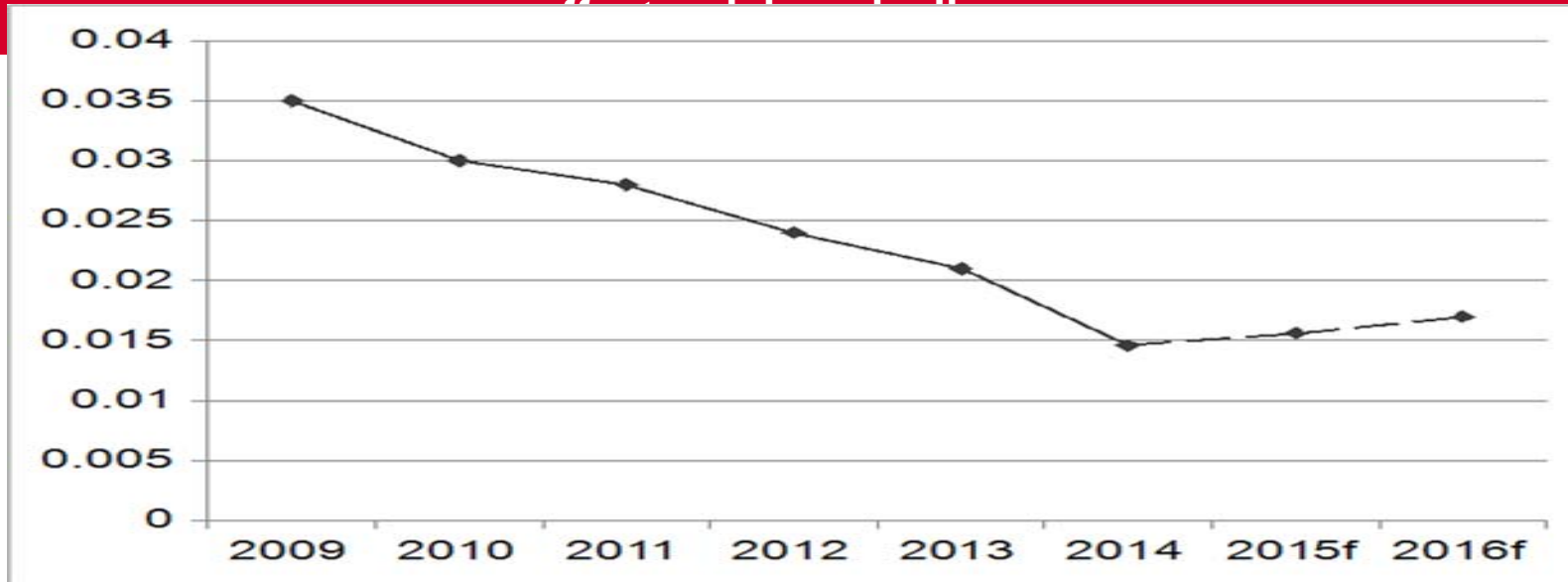
Profitability Is Likely To Be Hit

The Industry May Struggle To Meet Return Targets As Underwriting Margin Decreases



Investment Returns Won't Mask The Pain

We expect reinsurers' investment yields to improve, but not enough to



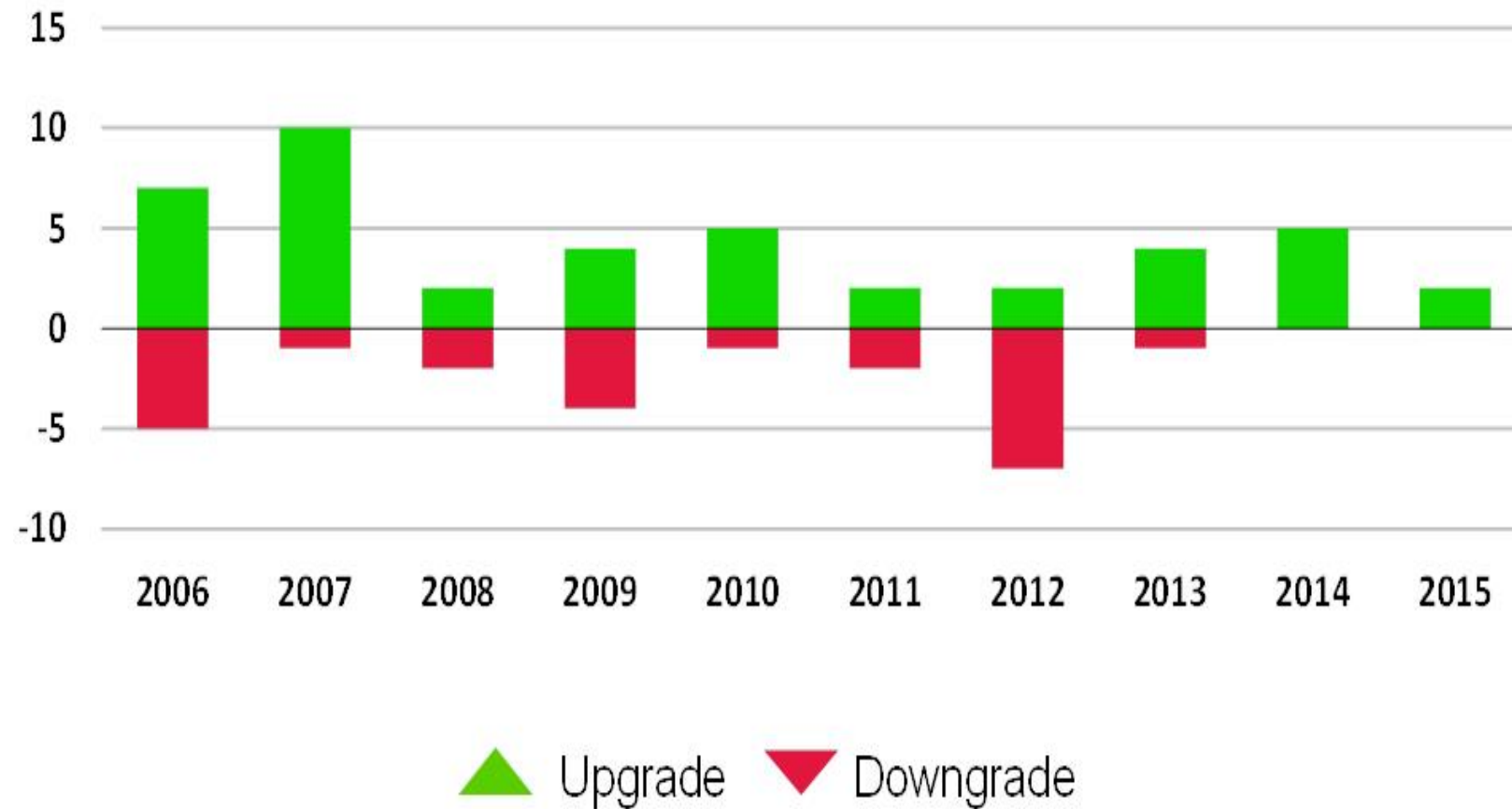
- We forecast modest increases in interest rates in 2016, which should lead to slightly improved yields over time
- Reinsurers may also look to augment investment portfolios to improve returns
 - Extending duration of asset portfolio
 - Taking more liquidity risk via longer-term assets (e.g. infrastructure, real estate)
 - Higher allocations to risk assets (equities, HY corporate debt, ABS)

Defense Provides Stability, But Pressure Remains

We Foresee A Rocky Road Ahead For The Industry

- Business conditions remain weak, and reinsurers will continue to struggle to generate the returns of the past
- Consolidation should continue, but won't alleviate the competition as pricing will continue to fall in 2016
- Reinsurers have responded appropriately with defensive measures, buying some more time for the cycle to turn
- We have a stable rating outlook for the sector, with an expectation for few rating actions over the next 12 months
- Those with scale, diversity, expertise and scope are best placed to withstand pressures
- Smaller, more concentrated reinsurers will need to carve out competitive position while protecting capital and bottom line, and could be candidates for future consolidation or marginalization

Ratings Distribution & Trends: Global Reinsurance



Data as of December 31 of each year; 34 interactively-rated companies and groups.
Source: S&P Global Ratings.

Thank you



Copyright © 2016 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

Australia

Standard & Poor's (Australia) Pty. Ltd. holds Australian financial services license number 337565 under the Corporations Act 2001. Standard & Poor's credit ratings and related research are not intended for and must not be distributed to any person in Australia other than a wholesale client (as defined in Chapter 7 of the Corporations Act).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.