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The Value Proposition of Mid-Sized Reinsurers

5th International Reinsurance Summit 2011
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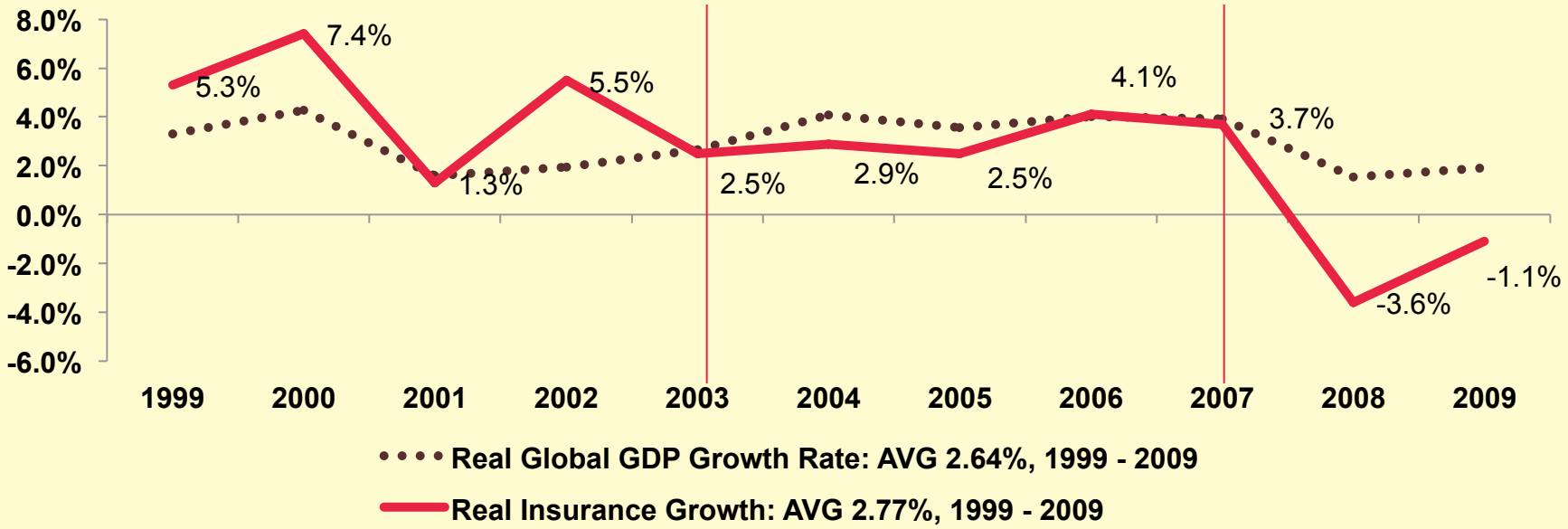
Agenda

- Key trends in primary insurance and reinsurance
- Current and future challenges facing the industry
- How mid-sized reinsurers respond
- Conclusions and take-aways

Slowing Growth in Primary Insurance

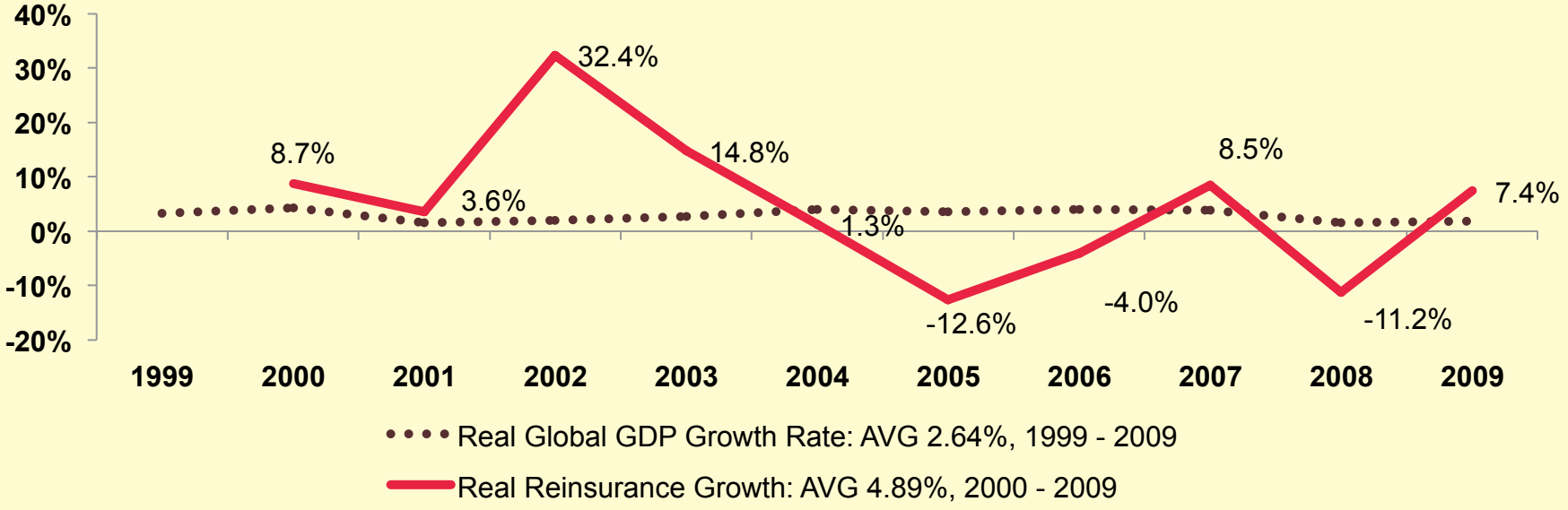
- Global insurance growth outpacing GDP expansion until 2003, resulting in increasing insurance penetration (premiums as a share of GDP)
- Global insurance growth lagging GDP expansion as from 2003
- Disproportionate decline in insurance demand during the 'Great Recession'
- European insurance premiums up by 5% in 2010 (preliminary CEA figures)



Source: Swiss Re and World Bank

Reinsurance: Faster but Volatile Growth

- Top 40 reinsurers' growth outpaces GDP and primary insurance growth
- Mainly attributable to significant rate increases post-9/11 and industry consolidation
- Also indicative of low barriers to market entry (e.g. Bermuda classes of 2001 and 2005)



Source: World Bank and S&P (Top 40 players), IMF (GDP deflators for advanced economies)

Consolidation of Markets Reflect Sluggish Growth/Increased Competition…

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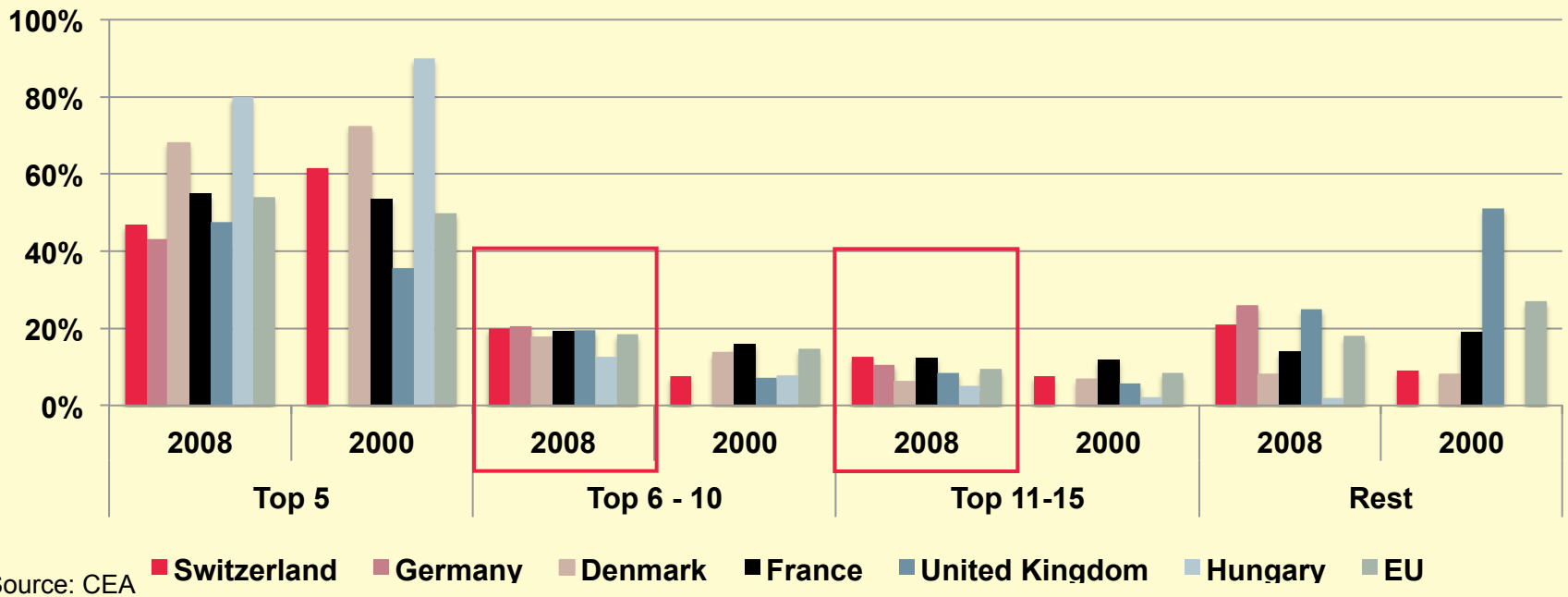
Example Europe:

- The Top 5 and Top 6-10 gain market share in the amount of 4-5 ppts each
- The Top 11-15 hold their own
- Smaller players lose significant ground



Source: CEA

… But No 'Widespread Deaths' of European Insurance Companies

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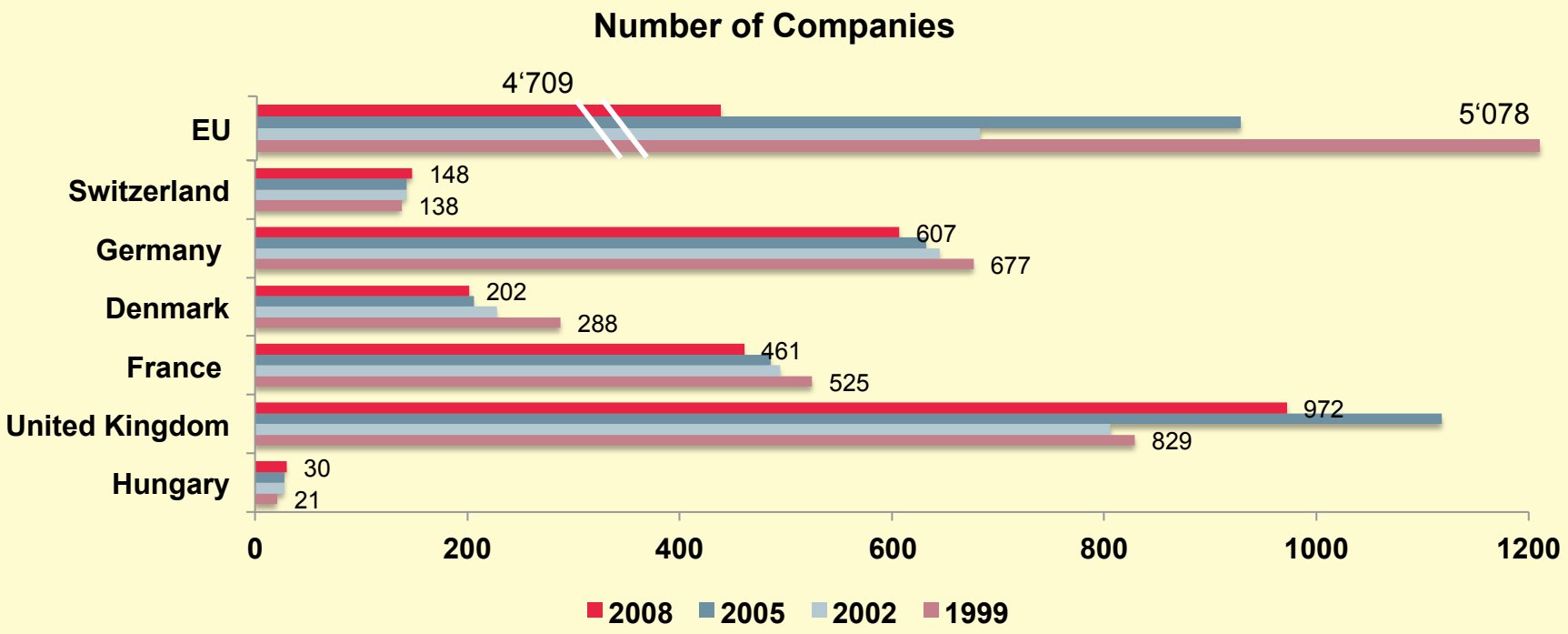
- Overall, the number of primary insurers in the EU declined by only 7%
- There remains a large number of apparently viable players serving particular regions and customer groups



Source: CEA

Consolidation in Reinsurance: A Slightly Different Picture

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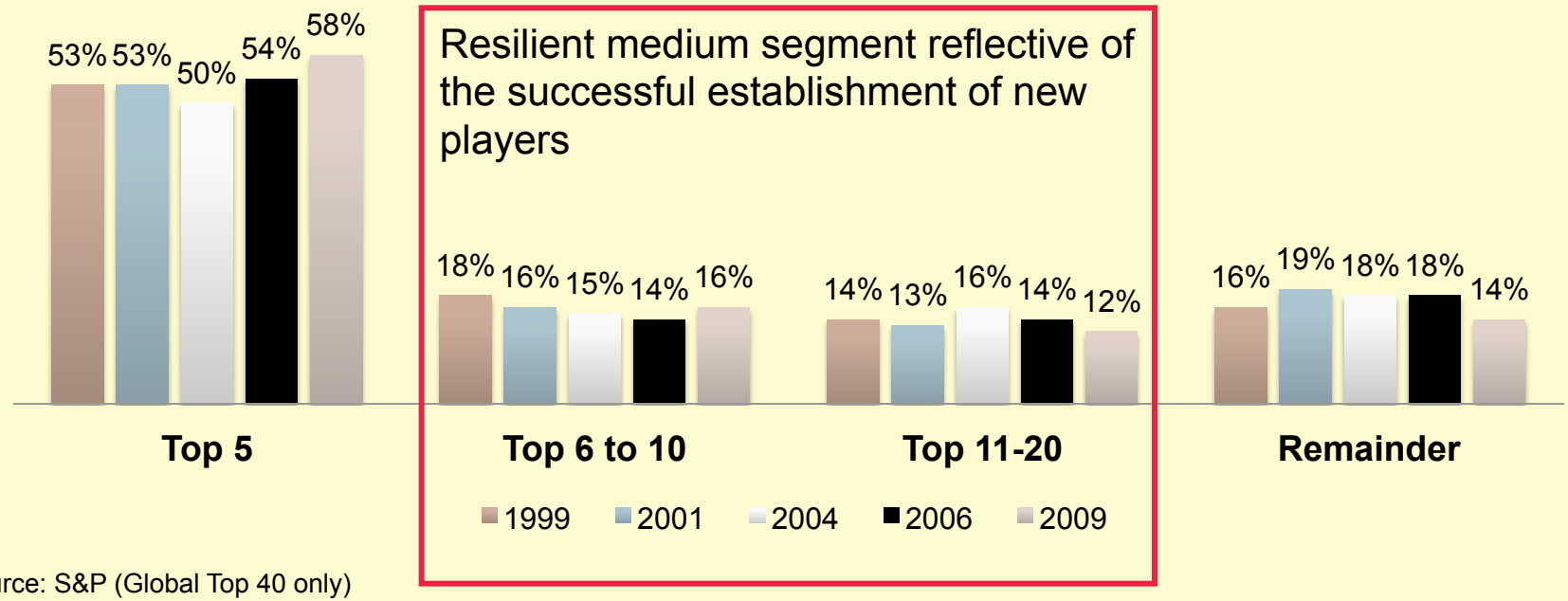
- Top 5 gain an additional 5% of the global reinsurance market, driven by headline transactions (e.g. Swiss Re – GE Frankona)
- Top 6-20 lose 4% but remain a highly relevant market segment with an overall share of 26%
- Pundits forecasting the demise of the smallest players were proven wrong



Source: S&P (Global Top 40 only)

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Changing Cedant Needs As a Result of Market Challenges…

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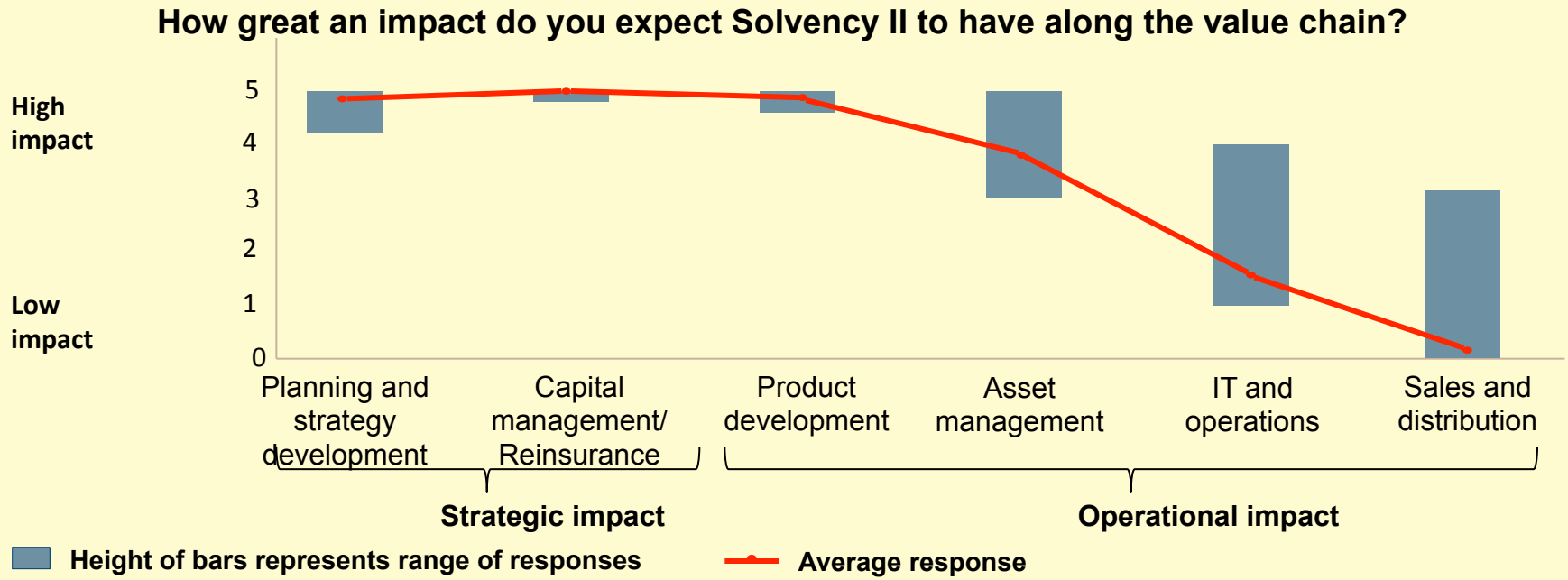
- Market challenges post financial crisis
  - Subdued growth prospects
  - Accelerating consolidation
  - Difficult investment conditions
  - Tightening regulation

- Cedant needs
  - Continuity
  - Partnership, no patronizing
  - Tailored reinsurance solutions
  - Diversification
  - Strategic advice

… Such as the New Regulatory Paradigm of Solvency II …

- Solvency II will heavily impact insurance core functions such as capital management - and reinsurance purchasing as a key tool for it
- Ceding companies will seek reinsurers' advice across their entire value chain



Source: BCG, based on 44 interviews with European and (some) North American insurance executives, representing a total of about US$ 700 billion in GWP

… Whilst Reinsurers Continue to Contend with Long-Term Industry Woes

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- High volatility of rates and available capacity still characteristic of the industry
- Limited success in launching innovative products and solutions able to lift the sustainable growth and profitability path of the industry to higher levels
- Many reinsurers continue to struggle to earn their cost of capital and to compensate investors adequately for market volatility
- Industry consolidation as a strategic response: The jury is still out
- The flip side: Reinsurance markets remain contestable and new entrants can build strong franchises within a few years

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Reconciling Higher Cedant Expectations in a Challenging Market

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- **Capitalisation**: Mid-sized reinsurers frequently rated at par with top reinsurers
- **Expertise:** Mid-sized reinsurers are increasingly successful in attracting top talent and therefore able to provide top-notch solutions
- **Agility and responsiveness:** Medium-sized reinsurers tend to be more cost-effective and prefer investments in client services, rather than central controls. Their client managers are frequently more empowered and responsive than their counterparts at larger organizations
- **Multi-line:** Increasing ability to engage in a variety of lines of business
- **Opportunism vs. continuity:** An increasing number of medium-sized players are able and willing to follow the fortunes of their clients
- **Broker relationships:** As medium-sized reinsurers tend to have a rather short corporate history and are often of Anglo-Saxon origins, they tend to perceive the more prominent role of brokers as an opportunity rather than a threat

Catlin Re Switzerland as Example

- Catlin Re Switzerland is fully equipped to quote all programs
- Complementary approach to existing Catlin carriers – Bermuda (cat covers) London (product focus and specialty) – writing Continental treaty business
- Multi-line approach (property, casualty, specialty, credit & surety)
- Multi-location approach: offices in Cologne, Madrid and Rome also write for Catlin Re Switzerland
- Focus on long-term business relationships with sizeable shares in treaty and facultative business
- 150 in-force business/client relationships
- January 2011 renewal season met Group's expectations
- Business mix: 60% Property & Casualty / 40% Credit & Surety

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Take-aways

- We have a market:
  - Neither primary nor reinsurance markets will develop into oligopolies with just 5-6 players dominating the market at will
- We have a challenge:
  - Cedants looking for a long-term reinsurance partner which is well capitalized, experienced and responsive to support them according to their specific segment requirements
- We have a solution:
  - Mid-sized reinsurers offer some compelling 'natural' competitive advantages (e.g. agility, flexibility and responsiveness)
  - Mid-sized reinsurers benefit from cedants' increasing focus on diversification, motivated by lessons from the financial crisis and specific regulatory incentives under Solvency II

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