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Global Reinsurance Guide 2021

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Contents

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Overview

Fitch Ratings has published the 11th edition of its *Global Reinsurance Guide*. This document provides reinsurance brokers, security committees and reinsurance investors with Fitch's latest research and views on the global reinsurance sector.

The *Fitch Ratings 2021 Outlook: Global Reinsurance* report discusses the key drivers behind the negative sector outlook. The report highlights the issues that Fitch expects to affect reinsurers during 2021. These issues include:

- Ultimate losses for the coronavirus pandemic
- Risk-adjusted price rises
- Stalling growth in alternative capital capacity

The *Global Reinsurers: Mid-Year 2020 Results* report provides a review of the financial results and performance highlights released during the 1H20 reporting period by Fitch's portfolio of reinsurers.

The *European Reinsurance – Peer Review* report outlines Fitch's views on the key credit factors of the four major European reinsurance organisations: Hannover Re; Munich Re; SCOR and Swiss Re.

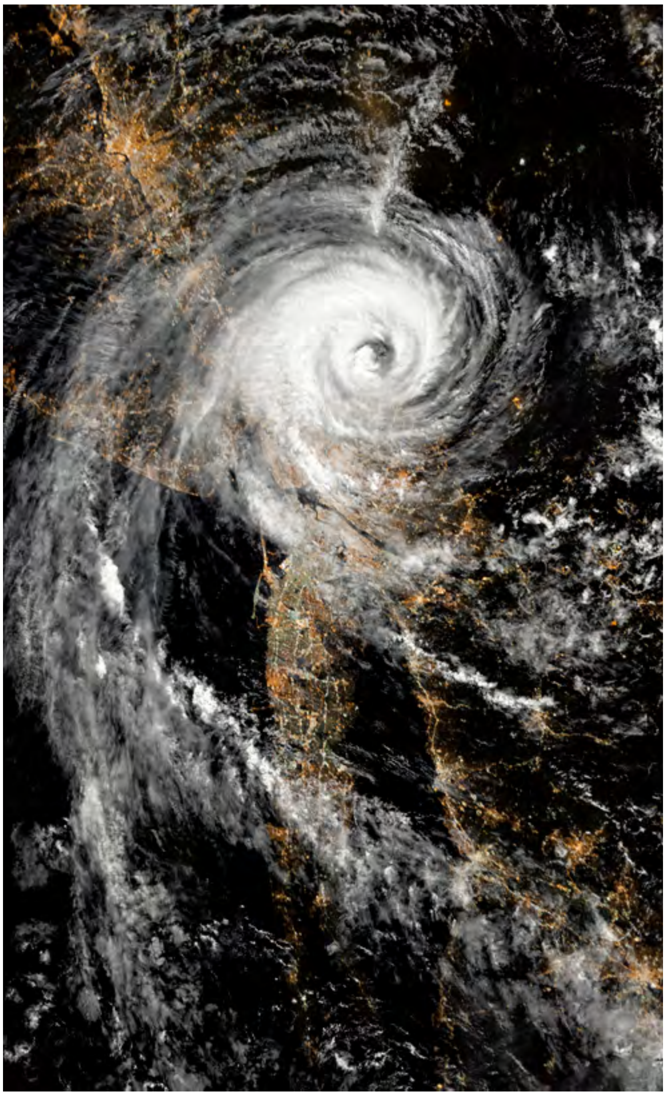
The *Asian Reinsurance Market 2020* report explores the improving pricing environment against the backdrop of the coronavirus pandemic. The report also discusses M&A activity in Asian reinsurance, changes in regulation and the gradual pick-up of interest in insurance-linked securities.

The *Reinsurance in Latin America* report discusses the smaller natural catastrophe losses in 2019 than in 2018 and the impact of the coronavirus pandemic on earnings. The report also discusses the importance of reinsurance protection against natural catastrophe claims for local primary insurers.

Fitch Ratings 2021 Outlook: Global Reinsurance

Weak Profitability Outweighs Accelerating Pricing Momentum

> Fitch expects the favourable price environment for reinsurers to continue into 2021, leading to a better underlying technical profitability of the sector.
>
> However, mounting losses caused by the coronavirus pandemic and the increasingly low interest rate environment will weigh negatively on the sector's financial performance in 2020 and 2021
>
> Brian Schneider, Senior Director



What to Watch

- The reinsurance market has entered into a hard market with rising risk-adjusted prices and improving terms and conditions.
- Traditional reinsurance capital has declined only slightly due to the coronavirus pandemic. Reinsurers have accessed financial markets to increase their capital at favourable terms.
- Alternative capital has shrunk as maturing programmes could not be fully replaced by new issuances. Investors have become more cautious and require higher investment returns.
- The uncertainty surrounding ultimate pandemic-related losses remains high.

Outlooks and Related Research

2020 Outlooks

Global Economic Outlook: June 2020 – Coronavirus Disruption Easing

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Fitch's Sector Outlook: Negative

Fitch Ratings is maintaining its negative fundamental outlook for the global reinsurance sector. Price improvements are gaining momentum, although mounting losses from the coronavirus pandemic, the effect of the global recession on premium volumes and an increasingly low-interest-rate environment are weighing negatively on the financial performance of the sector in 2020 and 2021.

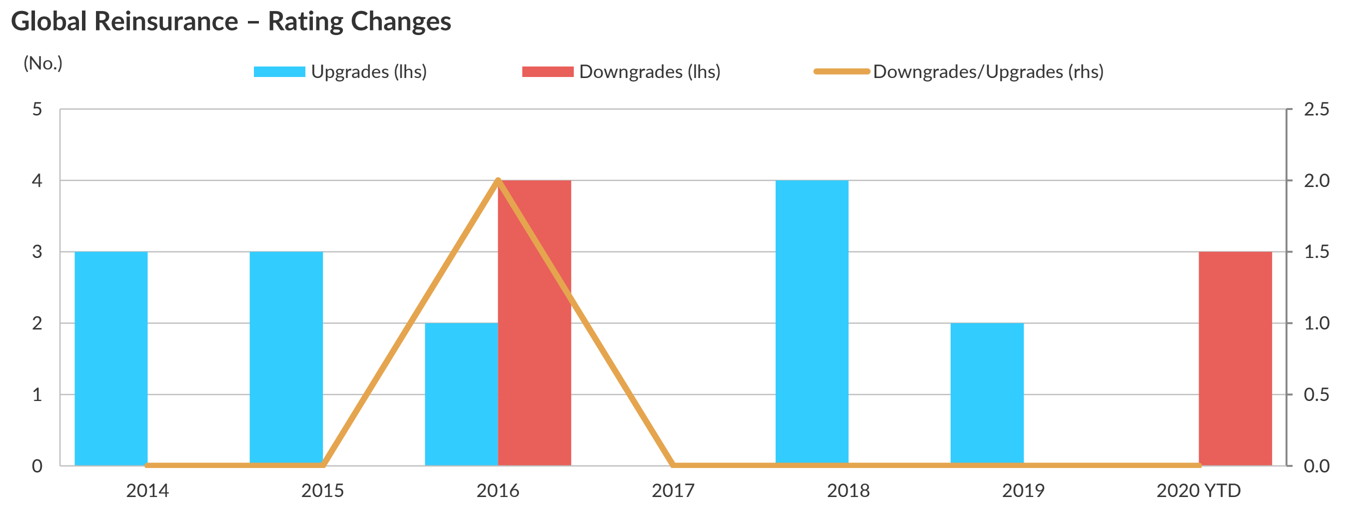
The reinsurance sector has a very strong capital adequacy – a testament to prudent risk-management practices and continued access to financial markets, which facilitates the issuance of new capital at favourable conditions.

Rating Outlook: Stable

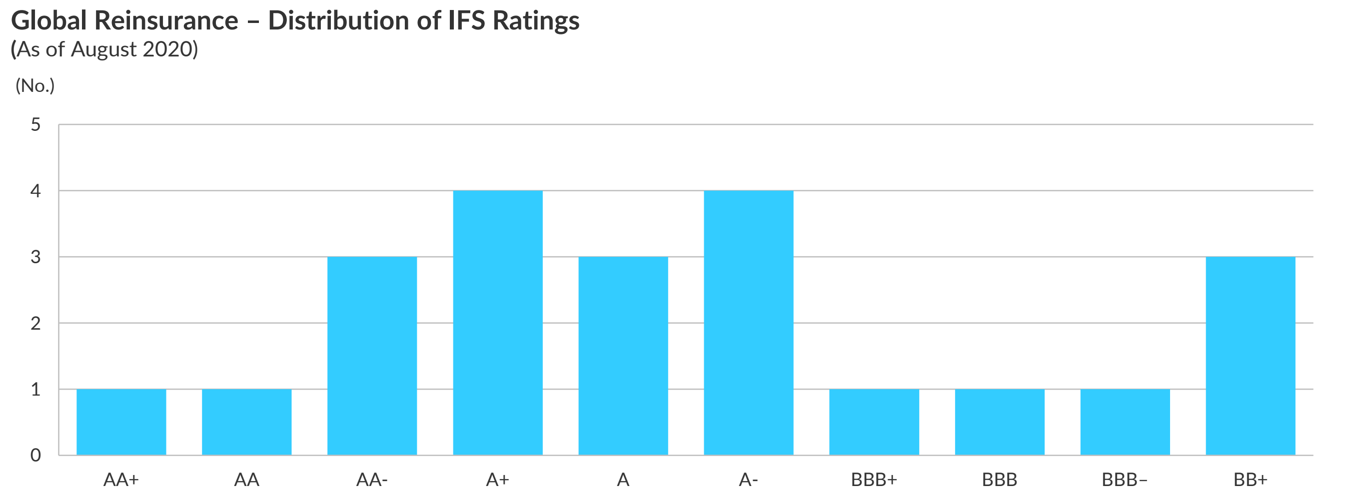
The Stable Outlook is partly due to the high quality of Fitch's rated insurance portfolio, which is skewed towards reinsurers with very strong business profiles and capital. Most Fitch-rated reinsurers were well-positioned to absorb the pandemic-related losses. As a result, Fitch expects to affirm the majority of ratings in the global reinsurance sector in 2020 and into 2021. This is in the absence of a very extreme catastrophe event or a very significant deterioration of the coronavirus crisis.

Rating Distribution Weighting: Strong Investment Grade

Insurer Financial Strength (IFS) ratings in Fitch's portfolio are generally investment-grade and split between the 'AA' (Very Strong) and 'A' (Strong) rating categories. This reflects the entities' very strong capital positions, resilient earnings and strong business profiles. The 'BBB-' and 'BB+' ratings are mostly from emerging markets where sovereign-related factors are of greater concern. These ratings include issuers based in countries such as Indonesia, Oman and Russia.



Source: Fitch Ratings



Source: Fitch Ratings

Increasing Pricing Momentum

Price rises have grown in momentum through the various 2020 renewal seasons, following the start of the coronavirus pandemic. Terms and conditions are tightening. Reinsurance treaty improvements have caught up with the improvements in pricing in the primary markets that started in 2018. The desire to protect earnings from pandemic-related claims and lower investment income has led to more disciplined underwriting and policy limit management across the market.

Even without the pandemic, the insurance and reinsurance industry needed to adjust prices due to higher natural catastrophe claims and concerns over reserve adequacy and loss severity in US casualty. Fitch therefore expects the hardening market environment to continue into 2021.

Traditional Capital Resilient to Pandemic

Traditional reinsurance capital has proved resilient in 2020 despite mounting pandemic-related losses and financial market volatility, declining only by a low-single digit percentage amount by end-June 2020. A recovery in the financial markets and more than USD15 billion of subordinated and equity capital raised have together mitigated the negative effect of pandemic-related claims. Fitch expects traditional capital to remain strong in 2021, providing sufficient capacity for cedants, albeit more selectively and at a higher price. The market position for traditional capital has stabilised, unlike that for alternative capital – a trend that Fitch expects will continue into 2021.

Structural Challenges for Alternative Capital

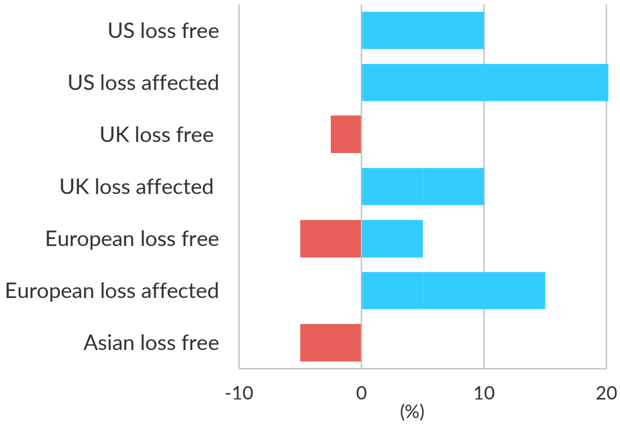
Aon Securities Inc. estimates that assets under management have contracted by around USD4 billion in 1Q20. This is due to maturing programmes that could not be fully replaced by new issuances because investors are more hesitant in allocating new capital to reinsurance. Investors are seeking higher returns given the higher-than-expected losses in the past couple of years and the longer-than-expected claims settlement times that are leading to trapped capital. Fitch believes that the 2021 renewals will be decisive in determining whether higher expected returns are sufficient to overcome these structural challenges, or whether the market position of the alternative capital market will continue to erode.

No Significant New Class of Reinsurers in Sight

In contrast to former hard market phases where new reinsurers were founded so as to to benefit from rising reinsurance prices and better terms and conditions, Fitch does not expect that a large number of new start-up reinsurers will be launched going into 2021. So far, new capital has been invested into the market through either existing market participants or through the alternative capital market due to there having been no recent large withdrawals of underwriting capacity, and to total reinsurance capital remaining sufficient to satisfy demand.

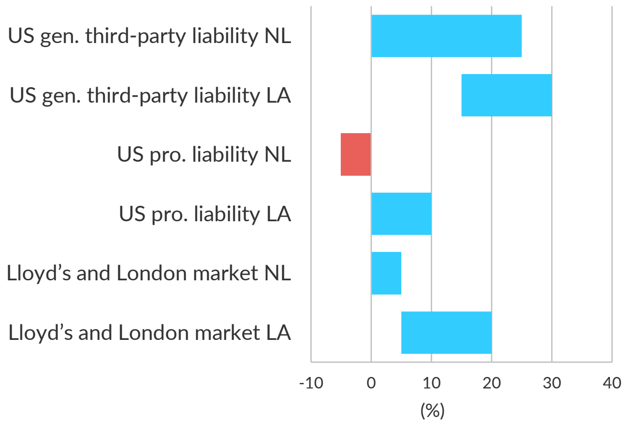
Expected returns have dropped due to the lower interest rate environment and high levels of competition. Furthermore, alternative capital can move more fluidly into the reinsurance market through securitisations and other structures, which traditional reinsurers also participate in through sidecars and other unique platforms.

Property: Premium Rate Development
(January 2020)



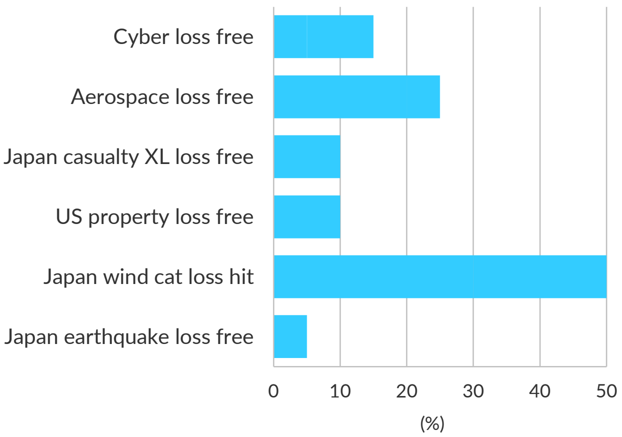
Source: Fitch Ratings, Company and broker reports

Casualty: Premium Rate Development
(January 2020)



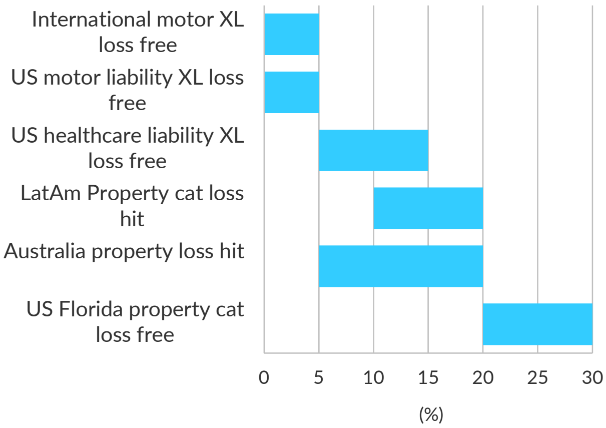
LA: Loss affected; NL: No loss
Source: Fitch Ratings, Company and broker reports

Premium Rate Development
April 2020



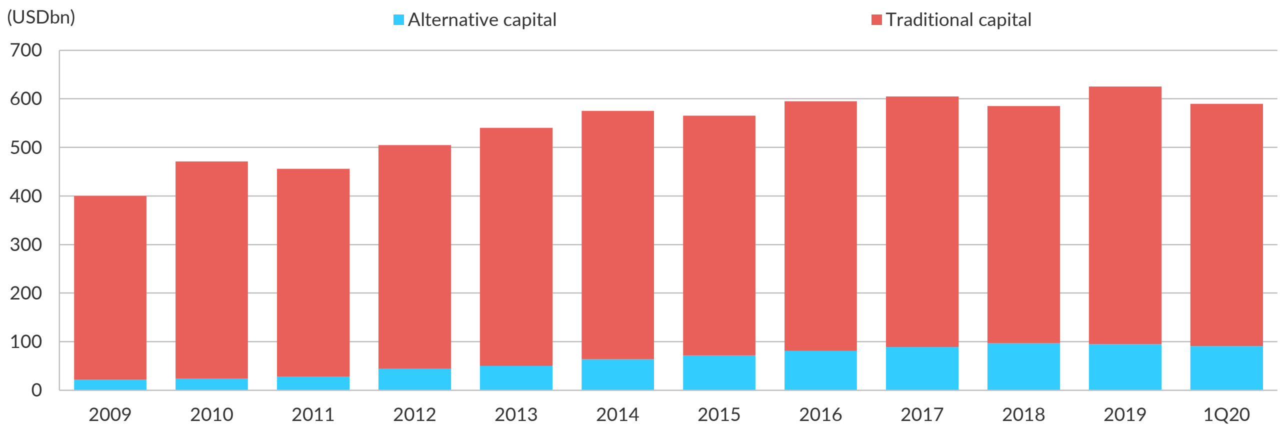
Source: Fitch Ratings, Company and broker reports

Premium Rate Development
June and July 2020



Source: Fitch Ratings, Company and broker reports

Traditional and Alternative Reinsurance Capital



Source: Fitch Ratings, Aon Benfield Analytics/Aon Securities Inc.

Ultimate Losses from Pandemic Are Still Unknown

The reporting season for 1H20 highlights that ultimate losses from the coronavirus pandemic remain largely unknown. Most claims reserves that were booked in 1H20 classify as incurred but not reported, as cedants themselves very often have not yet received claims notifications for anticipated losses. Business interruption claims may be subject to legal disputes, while credit and surety losses take time to materialise after the onset of a recession. Liability claims are often in numerous segments that will entail lengthy litigation.

Treaty renewals may exclude renewed claims directly linked to the pandemic, although a deterioration of the pandemic situation may lead to new claims not yet been considered in reserves. All of these elements are reflected by the fact that total reported claims reserves for the pandemic are still significantly below industry estimates for ultimate losses of more than USD50 billion.

Life Reinsurance Provides No Diversification in Pandemic

As the coronavirus pandemic has been accompanied by worldwide temporary lockdowns on a global scale, both life & health and property & casualty reinsurance have been affected, highlighting the fact that the pandemic is a systemic catastrophe event by nature. Mortality claims for reinsurers have centred on the US, due to a high life insurance penetration amongst the more elderly population and the sheer size of the market. The life & health reinsurance business was more resilient than property & casualty reinsurance in 1H20, helping to stabilise earnings in the sector.

Global Recession Has Mixed Impact

The global recession caused by the global lockdowns will have mixed effects on the reinsurance market. Lower economic activity and the cancellation of discretionary coverages will reduce insurance exposure measures such as payrolls, and therefore premium revenues. This decline affects the reinsurance market through quota share treaties in particular. Lower economic activity also reduces the claims frequency in lines of business such as motor. The combined effect is credit neutral in Fitch's opinion.

Investment Returns Are Declining

Interest rate levels declined further in 1H20, with the onset of a global recession – the severity of which has been unmatched since World War II. Reinvestment yields are significantly lower than running portfolio yields, putting continuous pressure on investment income. Lower interest rates will also partially offset recent price improvements in property and casualty reinsurance. Fitch expects the ultra-low interest rate environment to persist at least over the next 12–18 months.

Natural Catastrophe Losses Below 10-Year Average

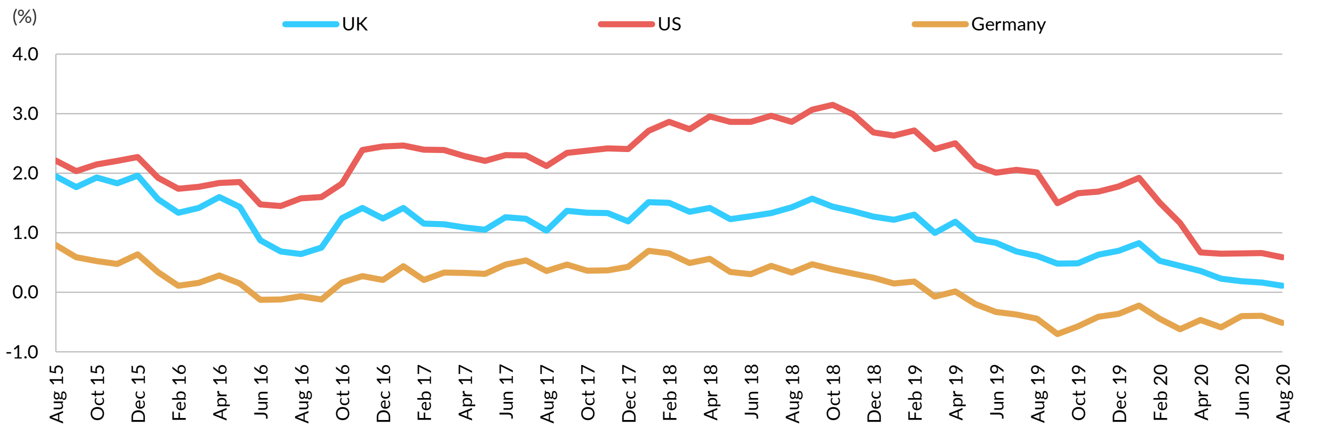
Global natural catastrophe losses were below average for 1H20 – Aon Securities estimated insured losses at around USD26 billion – compared to a 10-year (2009–2019) average of USD38 billion. Most losses were incurred by a series of convective storms in the US. Experts predict that the 2020 hurricane season will be of above-average intensity. Whether any hurricanes hit the highly populated and heavily reinsured areas of the east and gulf coasts of the US will determine the reinsurance sector's losses.

Fitch Ratings' Global Reinsurance Forecast

(USDm)	2019A	2020F	2021F
Net premiums written	123,374	133,250	146,575
Catastrophe losses	12,283	8,850	12,150
Pandemic-related losses (non-life)	–	9,300	1,000
Net prior-year favourable reserve development	2,750	1,015	–
Calendar-year combined ratio (%)	101.0	105.8	101.0
Accident-year combined ratio (%)	103.4	106.6	101.0
Accident-year combined ratio (%) excl. catastrophes/pandemic-related (%)	93.0	92.1	91.2
Calendar-year operating ratio (%)	93.3	98.8	94.5
Shareholders' equity (excl. Berkshire Hathaway)	216,653	221,000	232,050
Net income return on equity (excl. Berkshire Hathaway) (%)	9.7	2.7	6.5

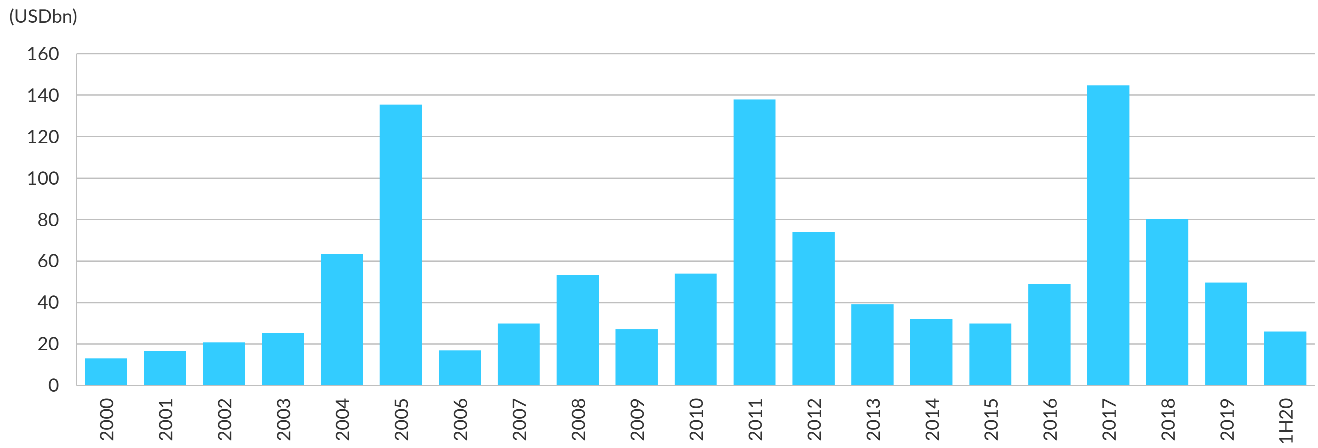
Source: Fitch Ratings
Operating ratio: The operating ratio is the combined ratio less the Investment Income Ratio. The Investment Income Ratio is pretax investment income divided by net premiums earned, and excludes realized and unrealized capital gains and losses.

Ultra-Low Yields Maintain Earnings Pressure

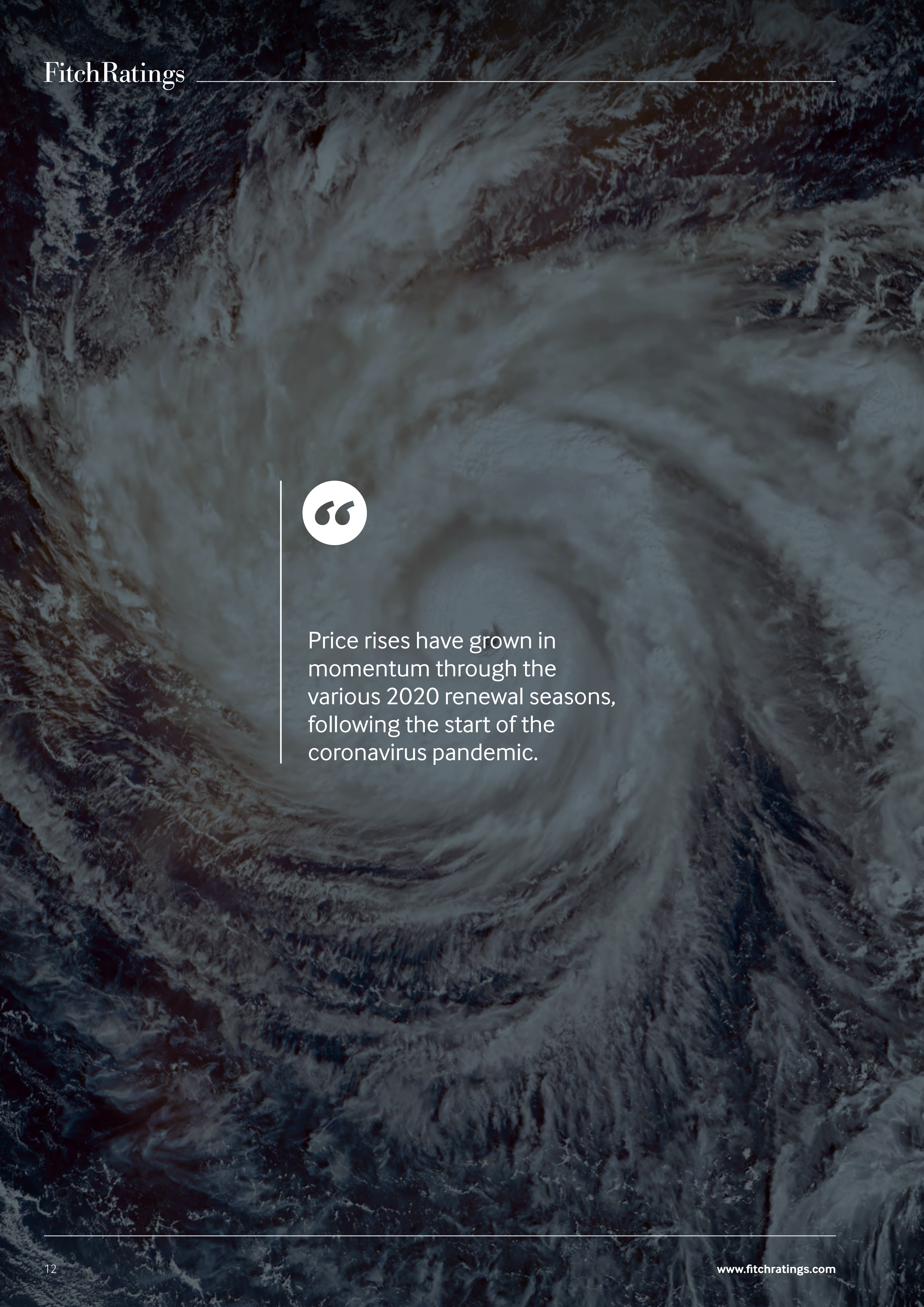


10-year government bond yields
Source: Fitch Ratings

Insured Losses from Natural Catastrophes



Source: Fitch Ratings, Swiss Re Sigma (2000–2019), Aon Securities Inc. (1H20)



"Price rises have grown in momentum through the various 2020 renewal seasons, following the start of the coronavirus pandemic.

Global Reinsurers: Mid-Year 2020 Results

Coronavirus Claims Drive Underwriting Losses in Hardening Market

1H20 Reinsurance Results

(USDm)	1H19	1H20
Net premiums written (non-life)	56,424	61,177
Combined ratio (%)	94.5	105.8
Catastrophe losses/net premiums earned (%)	2.7	3.3
Pandemic losses/net premiums earned (%)	NA	11.2
Adverse reserve development/net premiums earned (%)	0.1	0.4
Accident year combined ratio excluding catastrophe and pandemic losses	91.7	91.0
Shareholders' equity (including Berkshire Hathaway)	563,738	576,623
Shareholders' equity (excluding Berkshire Hathaway)	181,194	183,128
Net income ROE (excluding Berkshire Hathaway) (%)	14.5	-0.6

Source: Fitch Ratings

The 17 non-life reinsurers monitored by Fitch Ratings posted an aggregate reinsurance calendar year combined ratio of 105.8% in 1H20. This was up considerably from 94.5% in 1H19, reflecting USD6.1 billion of pandemic-related reinsurance losses, adding 11.2 percentage points (pp) to the combined ratio. Non-life reinsurance net premiums written (NPW) grew by 8.4%.

Life Reinsurers Hit by Higher Mortality

Pre-tax income for life and health reinsurance business decreased significantly in 1H20 due to USD1.3 billion of mortality losses from the pandemic. Net premiums earned (NPE) increased in 1H20 for life and health reinsurers overall, with all but one of the eight companies reporting higher NPE (using reported currencies).

Equity Capital Declines

Shareholders' equity decreased 0.9% in 1H20 from reinsurance underwriting losses, lower investment income and unrealised investment losses, partially offset by select issuances of equity. Fitch expects reinsurers to retain more capital in the near term in response to pandemic-related uncertainties and to take advantage of a more favourable market pricing environment.

Rate Hardening Continues; Capital Raises

Rates are hardening for most reinsurance lines, with the property business showing the strongest signs of a true hard market.

Fitch expects meaningful reinsurance rate increases into 2021 at the January renewals as overall pricing is inadequate, particularly given the uncertainty surrounding the pandemic and as the dislocated retrocession market remains capacity-constrained.

Meaningful capital has been issued by the reinsurance sector since the start of the pandemic. The debt and equity markets remain open and companies are looking to support pandemic-affected balance sheets as well as take advantage of market opportunities. There have also been a few start-up and scale-up formations, although Fitch considers a big wave as unlikely.

M&A Muted; Catastrophe Losses Stable

Reinsurance market M&A activity has slowed as companies focus on organic growth opportunities and deal with pandemic-related uncertainties. M&A could increase following the volatile environment as entities severely affected by the pandemic could be consolidated.

Natural catastrophe losses insured by the global insurance and reinsurance industry were a manageable USD27 billion in 1H20. This is above the USD20 billion in 1H19, but below the USD32 billion 10-year average (2010–2019) of 1H insured losses.

However, Hurricane Laura will add significant 2H20 catastrophe losses as the active Atlantic hurricane season approaches its peak period of formation.

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1H20 Financial Results

Non-Life Underwriting Hit by Pandemic; Underlying Results Improve

Non-life reinsurers posted much worse underwriting results in 1H20 than in 1H19, shifting to an underwriting loss. The 17 Fitch-tracked reinsurers that reported 1H20 results posted a reinsurance combined ratio of 105.8% in 1H20, up considerably from 94.5% in 1H19. Every company reported a higher reinsurance combined ratio than in the prior year period, although four of the group members still posted a 1H20 reinsurance underwriting profit.

Non-life reinsurance operations pandemic-related losses of USD6.1 billion (pre-tax) added 11.2pp to the combined ratio for the group in 1H20. The impact on individual companies varied considerably (see chart below). This reflects both higher exposure by some reinsurers, as well as different reserving approaches, with some companies reserving as they go and others booking ultimate expected losses upfront – results are therefore not all directly comparable.

The lines of business most affected by the pandemic are event cancellation and postponement, business interruption, and trade credit, with the global reinsurance industry expected to carry about half of the (re)insurance industry's ultimate losses. Fitch expects reinsurers' coronavirus loss estimates to be subject to higher variability than primary insurers, given that they are further removed from what is an ongoing and sizeable loss of significant uncertainty, with the bulk of reserves incurred but not reported.

Related Research

Pandemic-Related Losses Are Increasing for European Reinsurers (August 2020)

Fitch Ratings Recaps Coronavirus Rating Actions in North American Property/Casualty (Re)Insurance (June 2020)

US Hurricane Season 2020 (A Desk Reference for Insurance Investors) (June 2020)

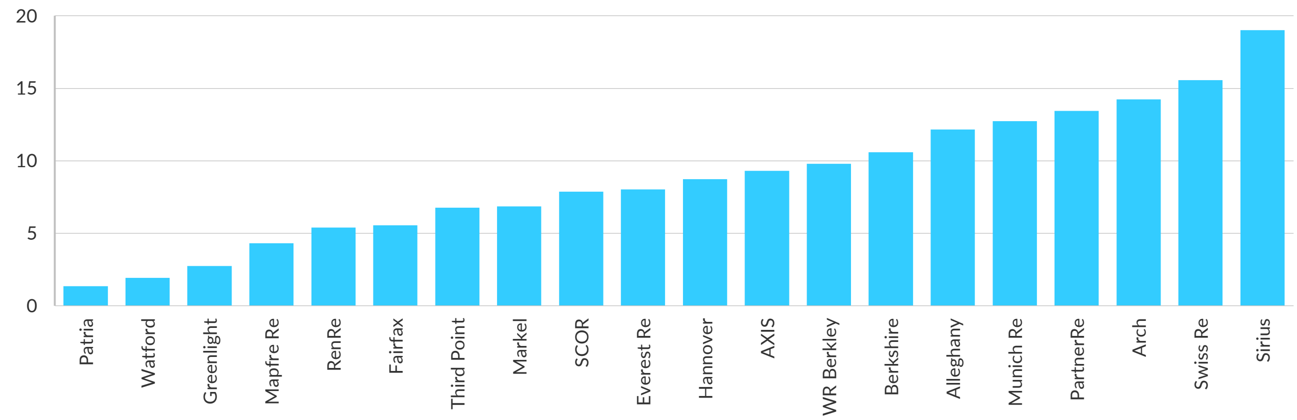
Global Reinsurance Sector Will Not Earn Cost of Capital in 2020 (May 2020)

Bermuda (Re)insurance Dashboard: 2020 (Sector Outlooks Negative due to Coronavirus Concerns) (March 2020)

Catastrophe losses added 3.3pp to the reinsurance combined ratio for the group in 1H20, similar to the 2.7pp in 1H19. The largest natural catastrophe losses in 1H20 included storms and tornadoes in the US and a winter storm in Europe (see section: 1H20 Catastrophe Losses above 1H19).

The 1H20 results included 0.4pp of adverse prior-accident-year reserve development, in line with the 0.1pp adverse development a year earlier. Reserve additions were particularly high at Berkshire Hathaway Inc., Swiss Reinsurance Company Ltd and PartnerRe Ltd. This partly reflects increases in casualty claims severity from deterioration in loss costs trends.

Non-Life Reinsurance Operations
1H20: Pandemic-related losses as % of net premiums earned



Source: Fitch Ratings, company reports and SEC filings

The group's underlying accident-year reinsurance combined ratio, excluding pandemic-related losses, natural catastrophes and reserve development, decreased to 91.0% in 1H20 from 91.7% in 1H19. This stronger performance reflects premium rate increases and the expansion of reinsurance business, with pricing trends still generally ahead of increasing loss costs. It was also due to temporarily reduced claims frequency from lockdowns as well as improved expense ratios due to the near shutdown of travel and entertainment.

The group generated a slight net loss and negative return on equity (ROE) of 0.6% in 1H20, down from a very strong ROE of 14.5% in 1H19, as the underwriting losses and difficult investment market severely dampened earnings.

Strong Premium Growth

Non-life reinsurance NPW rose by 8.4% in 1H20 from 1H19 for the group of reinsurers that reported on a comparable basis. When keeping exchange rates constant, the increase was 9.4%, as the euro depreciated against the US dollar in 1H20 compared to 1H19. Reinsurance business growth was driven by premium rate rises and market opportunities available to well-positioned companies, partially offset by exposure reductions from the economic slowdown.

Arch Capital Group Ltd. posted 65% NPW growth – the highest growth in 1H20, due in part to its acquisition of Barbican Group Holdings Ltd. in November 2019. RenaissanceRe Holdings Ltd.'s NPW increased by 25.5% in 1H20, reflecting a full six months of business from its March 2019 acquisition of Tokio Marine Holdings, Inc.'s reinsurance platform. Europe's big four reinsurers, Munich Reinsurance Company, Swiss Re, Hannover Rueck SE and SCOR SE reported 1H20 non-life reinsurance NPW growth (using reported currencies) of 14%, 2%, 17% and 5%, respectively.

PartnerRe and AXIS Capital Holdings Limited were the only companies in this group to post double-digit reinsurance 1H20 NPW declines – of 17% and 10%, respectively. These entities have been focusing on reinsurance portfolio optimisation through non-renewals and decreased line sizes in an effort to reduce volatility and improve profitability.

Life and Health Results Affected by Increased Mortality

The 1H20 pre-tax income of the life and health reinsurance operations tracked by Fitch decreased by 68% from 1H19 due to USD1.3 billion of pandemic-related losses. All companies reported worse 1H20 results than 1H19, but Swiss Re was particularly hard hit with USD548 million of pandemic-related claims and reserves. This was driven by higher mortality in the US and the UK. Reinsurance Group of America, Incorporated (RGA) reported USD300 million of pandemic-related losses, the second highest figure, primarily from its US individual mortality business.

The group of life and health reinsurance operations reported a 5.8% increase in NPE in 1H20 from 1H19. Seven of the eight reinsurers reported an increase in total NPE (using reported currencies) from a year earlier, with MAPFRE RE, Compania de Reaseguros, S.A. down only slightly. Berkshire Hathaway had the largest increase at 23%, primarily due to a single reinsurance contract covering health insurance risk. Munich Re had a strong 13% increase, reflecting growth in Europe and Asia.

1H20 Life and Health Reinsurance Results

(USDm)	1H19	1H20
Net premiums earned	29,513	31.212
Pre-tax operating income	2,075	655

Source: Fitch Ratings

1H20 Pandemic-Related Losses – Life and Health Reinsurance

	USDm (pre-tax)	%NPE
Swiss Reinsurance Company Ltd.	548	8.3
RGA	300	5.3
SCOR SE	215	4.6
Munich Reinsurance Company	111	1.7
Hannover Rueck SE	70	1.8
PartnerRe Ltd.	15	2.0
Total[a]	1,259	4.5

[a]Excludes Berkshire Hathaway and Mapfre Re as they did not report specific losses
Source: Fitch Ratings, company reports, financial supplements and SEC filings

Capital Decline Driven by Underwriting Losses

Equity capital declined slightly for the group in 1H20, driven by an overall net loss that was nearly offset by additional equity raised and a reduced level of dividends and share repurchases. Underwriting results included USD8.9 billion (pre-tax) of total pandemic-related losses (USD6.1 billion non-life reinsurance, USD1.3 billion life and health reinsurance and USD1.5 billion non-life insurance) for the 18 companies – the 17 non-life and RGA.

Reported shareholders' equity fell 0.9% in 1H20 from year-end 2019 (excluding Berkshire Hathaway; a 5.4% decrease including Berkshire Hathaway). Of the 18 life and non-life companies only seven recorded a rise in shareholders' equity for 1H20.

RenaissanceRe had the largest and only double-digit 1H20 shareholders' equity increase at 23%, driven by its USD1.1 billion issuance of common shares in June to capitalise on opportunities in the improved market environment. Markel Corporation and RGA also issued equity that led to 1H20 shareholders' equity increases of 3% and 8%, respectively.

Fitch expects that reinsurers will continue to return less capital to shareholders through 2020 as they manage uncertainties related to the pandemic and deploy capital for growth opportunities in the favourable reinsurance pricing environment.

Sector Performance Highlights

Market Continues to Harden

Reinsurers are poised to take advantage of the most favourable market environment since at least 2005, with reinsurance renewal rates up considerably across almost all business lines and tightening terms and conditions.

Fitch expects that, even with the sufficient levels of traditional reinsurance capacity available, price increases will continue, with up to double-digit rises at the January 2021 renewal, although with differential pricing and terms based on client experience.

The renewed push for higher rates to support pricing adequacy needs is driven by several factors. These include persistent heightened catastrophe losses, continued record low interest rates, deteriorating loss cost trends with rising social inflation and declining reserve adequacy and, most recently, uncertainty surrounding the significant ultimate losses from the pandemic. In addition, reinsurers are facing higher retrocessional pricing from constrained retro capacity resulting from another year of trapped capital, potentially from pandemic-related losses, and reduced new funds from collateralised reinsurance.

Equity capital declined slightly for the group in 1H20, driven by an overall net loss and a reduced level of dividends and share repurchases that were nearly offset by additional equity raised.

Recent Reinsurance Renewal Pricing Trends

	June and July 2019	January 2020	April 2020	June and July 2020
US property loss hit	+5% to +20%	+10% to +50%	Flat to +30%	+10% to +30%
US property loss free	Flat to +5%	Flat to +10%	Flat to +10%	+5% to +20%
US general liability no loss emergence	Flat to +5%	Flat to +25%	–	Flat to +20%
Florida property loss free	+5% to +25%	–	–	+5% to +35%
Florida property loss hit	Flat to +7.5%	–	–	+5% to +30%
European property loss free	–	Flat to –5%	–	–
Japan property loss hit	–	–	+5% to +50%	–
Japan property loss free	–	–	Flat to +35%	–
Japan casualty no loss emergence	–	–	–5% to +10%	–
Non-marine retrocession loss hit	+15% to +35%	+10% to +35%	+10% to +35%	+15% to +35%
Non-marine retrocession loss free	Flat to +15%	+5% to +25%	+5% to +25%	+10% to +20%

Source: Fitch Ratings, broker reports

Terms and conditions are also becoming more favourable to reinsurers, with reductions in ceding commissions and less availability of multi-year protections. Additionally, reinsurance treaties have removed insurer-friendly cascading and top and drop features and added loss adjustment expense caps and communicable disease exclusions, particularly in property, and also in some liability business.

The April (Asia-focused) and June and July (Florida-focused) 2020 renewals showed a second consecutive year of sizeable reinsurance rate increases (see table below) due to substantial loss creep and additional loss events. This includes nearly USD15 billion of industry adverse development in 2019 from 2018's Typhoon Jebi and Hurricane Michael and 2017's Hurricane Irma (with the three-year deadline to file Irma claims ending in 2020), as well as 2H19 losses from Typhoons Hagibis and Faxai and Hurricane Dorian.

Capacity remains largely stable in casualty reinsurance, with improved pricing and greater demand. Recent macroeconomic and loss uncertainties generated by the pandemic are pushing insurers to better manage increased volatility. Reinsurers are also benefiting from improvements in the underlying insurance pricing, especially through proportional treaties, which are due to a growing influence on claims from higher litigation defence and settlement costs. However, it is unclear whether the rate increases can exceed loss trends for an extended period, particularly rising claims severity from social inflation and escalating jury awards.

Capital Raising Activity

Sizable industry capital has been issued since the onset of the pandemic, both as a defensive measure, given the potential market liquidity and access concerns in the uncertain environment, and offensive to take advantage of the hardening market.

These capital raises are not expected to significantly dampen the favourable market conditions, as the hardening market is not being driven by capacity concerns and the added supply is generally from disciplined sources.

> Capacity remains largely stable in casualty reinsurance, with improved pricing and greater demand.

The Fitch-monitored reinsurers have raised approximately USD10.3 billion of capital since March 2020 (see Appendix C). This includes a mix of common (USD2.0 billion) and preferred (USD0.6 billion) equity, as well as various debt securities (USD6.4 billion) and drawdowns on credit facilities (USD1.35 billion). Of this total, Fitch calculates about USD3.5 billion is for retirement or repayment of debt, with the remaining funds primarily to capitalise on market opportunities, provide financial flexibility, and, for some companies, to replenish depleted capital levels.

Major Wave of Start Ups and Scale Ups Is Unlikely

While there has been speculation around several start-up and scale-up reinsurance operations with various executives and private equity investors, actual capital raised has lagged behind the expansion of existing companies. However, activity may still increase ahead of the January 2021 renewals. Fitch does not expect a big wave of new start-up companies or many additional scale-ups.

Given the time and effort necessary in securing licenses and regulatory approval for new entities, Fitch views start-ups as more challenging, than scaling up existing platforms that already have these in place. This delay can prove costly when taking advantage of hardening market conditions as it is uncertain how long this favourable situation will last.

> The Fitch-monitored reinsurers have raised approximately USD10.3 billion of capital since March 2020.

Nevertheless, one benefit of start-ups is the clean balance sheet and lack of legacy issues or reserves. This could be particularly valuable given the uncertainty around pandemic-related claims and rising social inflation affecting the US casualty business. In addition, finding the right existing company to scale up is difficult, given the limited number of platforms available.

Convex Group Ltd., a recent start-up, was launched by Stephen Catlin and Paul Brand in 1H19, which gives it a head start on any newer companies. Due to the improved market pricing environment, Convex is also looking to raise additional capital to add to its USD1.8 billion of initial committed funds.

The relaunched StarStone U.S. Holdings, Inc. is a recent scale-up that has secured USD630 million of new capital to use in the expanding US specialty excess and surplus sector under a new and experienced management team. StarStone US will benefit from Enstar Group Limited assuming the existing reserves through an adverse development cover and loss portfolio transfer.

M&A Muted in Uncertain Reinsurance Environment

The reinsurance M&A environment has been muted over the past year as the improved pricing environment has put more focus on organic growth opportunities and the added uncertainty and volatile equity markets resulting from the pandemic has paused potential tie-ups. However, to the extent that the hardening market does not serve as a sufficient offset to the pandemic-related losses, select companies could be taken over.

The proposed March 2020 USD9 billion cash offer for Covea Insurance plc to acquire PartnerRe from EXOR N.V. fell through in May 2020 due to added pressure from the coronavirus pandemic.

However, the parties were able to salvage an arrangement, with Covea putting EUR750 million into special purpose reinsurance vehicles managed by PartnerRe, as part of a EUR1.5 billion investment with EXOR. This sidecar structure provides Covea with a diversifying opportunity to invest in the improving reinsurance market.

In August 2020, Sirius International Insurance Group, Ltd. entered into an agreement to be purchased by Third Point Reinsurance Ltd. The two companies' operations will be combined and renamed SiriusPoint Ltd. The transaction resolves Sirius's shareholder concentration issue, reducing China Minsheng Investment Group Corp., Ltd.'s ownership to approximately 36% (9.9% voting) from 96%. Third Point Re has repositioned its underwriting and investment strategy following difficulties in producing profitable underwriting results and higher risk-adjusted investment returns, and as such should benefit from the added scale of the combined business.

1H20 Catastrophe Losses Above 1H19

The worldwide insured natural catastrophe losses of USD27 billion in 1H20 were manageable for the insurance and reinsurance industry, according to a review published by Munich Re's NatCatSERVICE. This was above the USD20 billion in both 1H19 and the 30-year average insured losses for the first-half periods from 1990-2019, and was just below the USD32 billion 10-year average of first-half periods (2010–2019).

Severe storms in North America caused USD20 billion of insured losses in 1H20, including the top four natural catastrophe loss events. The most damaging events were the mid-April thunderstorms and destructive tornadoes that swept across the southeastern US, resulting in USD3.4 billion of economic losses, of which USD2.6 billion was insured. A large proportion of the US storm losses were insured as there was a high density of insurance coverage. However, the storms were more of a primary insurance loss event than reinsurance, as the individual storms were not severe enough to trigger most excess-of-loss reinsurance coverages.

Outside the US, the largest insured natural catastrophe loss in 1H20 was winter storm Ciara (also known as Sabine). This powerful February European windstorm primarily affected Ireland and the UK with high winds and heavy rainfall that caused severe damage and widespread flooding.

Hurricane Laura, which made landfall as a Category 4 storm on 27 August near Cameron, Louisiana, will add sizeable 2H20 insured losses. The 2020 Atlantic hurricane season is approaching its peak September period of formation in what has been a record-breaking year for storm frequency. The aftermath of Laura, and other potential major hurricane landfalls, will test property insurers' claims assessment and settlement abilities in the face of the coronavirus pandemic.

Largest Insured Natural Catastrophe Events of 1H20

Date	Event	Location	Economic loss (USDbn)	Insured loss (USDbn)
April	Storms/tornados	US	3.4	2.6
April	Storms/tornados	US	2.9	2.2
March	Storms/tornados	US	2.5	1.9
March	Storms/tornados	US	2.0	1.5
February	Winter Storm Ciara (Sabine)	Europe	1.8	1.2
1H20 Total	–	–	68	27
1H19 Total	–	–	69	20
10-year average 1H	–	–	97	32
30-year average 1H	–	–	74	20

Note: Averages are up to and including 1H19
Source: Fitch Ratings, Munich Re NatCatSERVICE

Appendix A

Data on Select Non-Life Reinsurance Operations

(USDm)		Net premiums written[a]		
Company	**IFS Rating**	**2019**	**1H19**	**1H20**
Alleghany Corporation	Not Rated	4.495	2,221	2,298
Arch Capital Group Ltd.	A+	1,603	827	1,362
Aspen Insurance Holdings Limited	Not Rated	1,251	685	NR
AXIS Capital Holdings Limited	A+	2,280	1,726	1,551
Berkshire Hathaway Inc.[b]	AA+	10,428	4,623	5,431
Everest Re Group, Ltd.	Not Rated	5,732	2,629	3,037
Fairfax Financial Holdings Limited[c]	Not Rated	4,314	1,734	1,900
Hannover Rueck SE	AA–	14,884	8,034	9,216
IRB-Brasil Resseguros S.A.	Not Rated	1,863	1,005	NR
Lloyd's of London	AA–	10,182	6,302	NR
MAPFRE RE, Compania de Reaseguros, S.A.	A+	3,077	1,316	1,318
Markel Corporation	A+	965	658	642
Munich Reinsurance Company	AA	23,292	10,961	12,248
PartnerRe Ltd.	A+	5,439	3,041	2,525
Reaseguradora Patria, S.A.	BBB+	208	83	109
RenaissanceRe Holdings Ltd.	A+	3,381	1,952	2,451
SCOR SE	AA–	6,817	3,337	3,426
Sirius International Group, Ltd.	A–	1,503	887	936
Swiss Reinsurance Company Ltd	A+	20,882	12,014	12,270
W. R. Berkley Corporation	A+	777	381	459
Total[d]		**123,374**	**56,424**	**61,177**

IFS: Insurer Financial Strength; NR: Not reported
IFS Ratings are for operating subsidiaries
Combined ratio: Net losses and loss-adjustment expenses divided by net premiums earned plus underwriting expenses divided by net premiums earned
Shareholders' equity is organisation-wide equity and therefore depends on the company's reporting practices; includes equity that supports operations other than property/casualty reinsurance operations
[a] Berkshire and Mapfre Re 1H are net premiums earned as net premiums written are NR
[b] Excludes retroactive reinsurance
[c] 1H excludes Allied World as reinsurance segment results are only reported annually
[d] To aid comparability, 1H totals only include companies that have reported 1H20 results at publication date
Source: Fitch Ratings, company reports, financial supplements and SEC filings

Combined ratio (%)			Shareholders' equity		
2019	**1H19**	**1H20**	**2019**	**1H19**	**1H20**
100.9	94.5	105.0	8,981	8,861	8,684
94.9	92.7	104.3	12,260	11,613	12,671
103.1	92.9	NR	2,726	2,729	NR
101.2	90.1	101.2	5,544	5,566	5,298
99.8	96.6	114.8	424,791	382,544	393,495
95.4	86.6	96.0	9,133	8,884	9,286
96.3	95.5	99.1	17,907	17,843	16,440
98.2	97.1	102.7	12,748	11,946	12,897
87.2	84.3	NR	1,155	1,035	NR
105.5	100.2	NR	39,596	40,182	NR
101.1	94.5	106.7	1,960	2,057	1,870
104.4	97.2	102.0	11,071	10,396	11,395
101.0	92.2	103.0	34,328	33,590	33,441
100.4	95.0	112.7	7,270	7,254	6,903
85.2	93.2	98.2	93	81	61
92.3	77.8	85.4	5,971	5,913	7,347
97.8	92.4	101.4	7,156	6,922	7,181
110.8	98.6	111.2	1,643	1,787	1,522
107.8	100.5	115.8	31,037	31,792	29,778
96.5	96.0	102.9	6,075	5,977	5,801
101.0	**94.5**	**105.8**	**641,444**	**553,029**	**564,070**

Appendix B

Data on Select Life Reinsurance Operations

(USDm)		Net premiums earned			Pre-tax operating income/(loss)			Shareholders' equity		
Company	**IFS Rating**	**2019**	**1H19**	**1H20**	**2019**	**1H19**	**1H20**	**2019**	**1H19**	**1H20**
Berkshire Hathaway Inc.	AA+	5,746	2,536	3,116	NR	NR	NR	424,791	382,544	393,495
Hannover Rueck SE	AA–	7,753	3,831	3,883	636	323	237	12,748	11,946	12,897
MAPFRE RE, Compania de Reaseguros, S.A.	A+	938	229	223	17	1	-3	1,960	2,057	1,870
Munich Reinsurance Company	AA	11,788	5,725	6,344	950	446	131	34,328	33,590	33,441
PartnerRe Ltd.	A+	1,467	730	751	NR	NR	NR	7,270	7,254	6,903
Reinsurance Group of America, Incorporated	A	11,297	5,502	5,609	1,132	477	99	11,601	10,709	12,553
SCOR SE	AA–	9,324	4,768	4,688	491	262	167	7,156	6,922	7,181
Swiss Reinsurance Company Ltd	A+	12,835	6,192	6,597	1,491	566	24	31,037	31,792	29,778
Total[a]		**61,148**	**29,513**	**31,212**	**4,716**	**2,075**	**655**	**530,891**	**486,816**	**498,118**

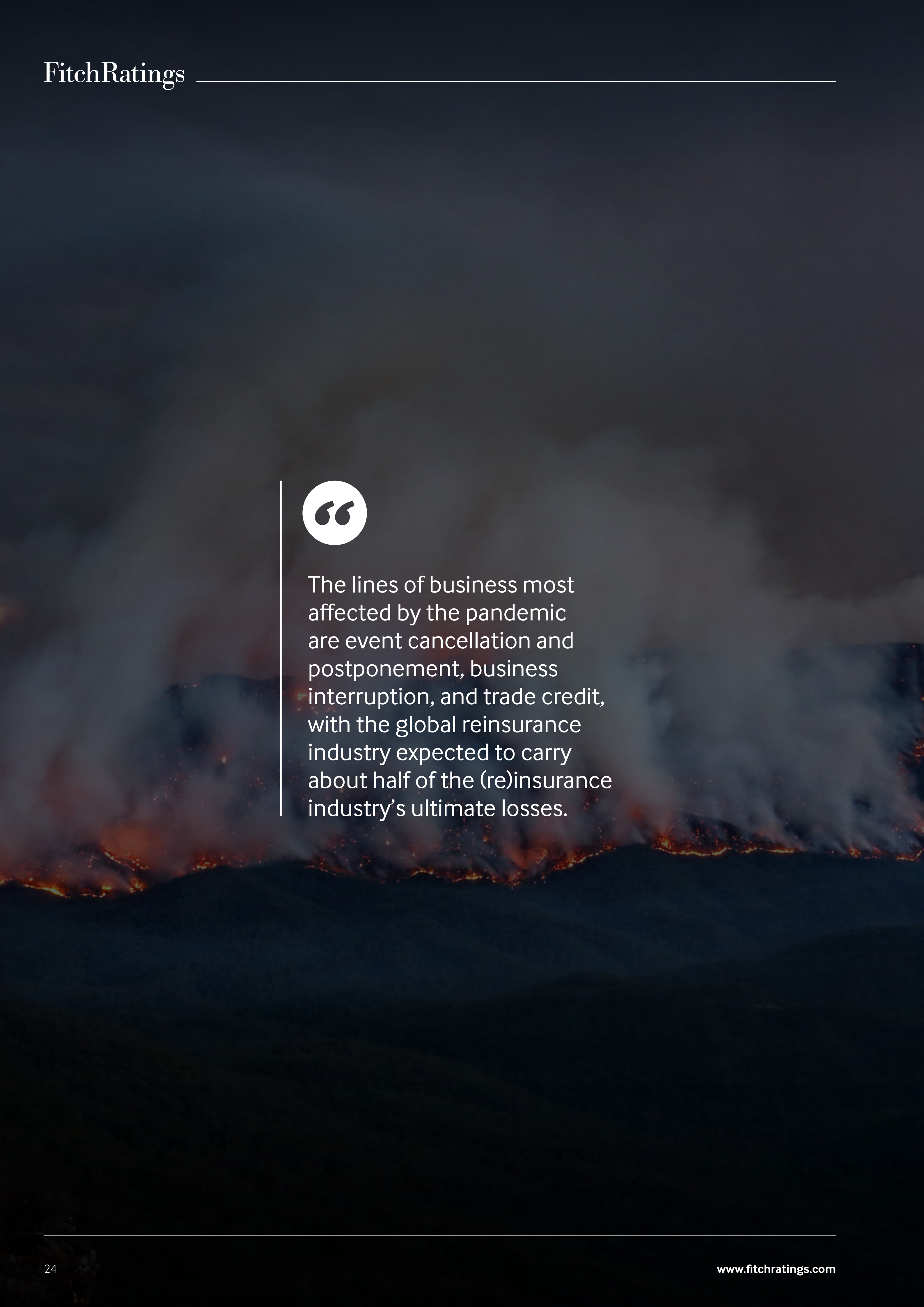
IFS: Insurer Financial Strength; NR: Not reported
IFS Ratings are for operating subsidiaries
Shareholders' equity is organisation-wide equity and therefore depends on the company's reporting practices; may include equity that supports operations other than life reinsurance operations
[a] To aid comparability, 1H totals only include companies that have reported 1H20 results at publication date
Source: Fitch Ratings, company reports, financial supplements and SEC filings

Appendix C

Post-Pandemic Reinsurer Capital-Raising Activity

(USDm) Company	Common Stock	Preferred Stock	Debt/Hybrids	Credit Facilities	Total
Alleghany Corporation	—	—	500	—	500
Arch Capital Group Ltd.	—	—	1,000	—	1,000
Berkshire Hathaway Inc.	—	—	1,624	—	1,624
Everest Re Group, Ltd.	—	—		50	50
Fairfax Financial Holdings Limited	—	—	650	1,300	1,950
Hannover Rueck SE	—	—	570	—	570
IRB-Brasil Resseguros S.A.	380	—	—	—	380
Markel Corporation	—	600	—	—	600
Reinsurance Group of America, Incorporated	481	—	600	—	1,081
RenaissanceRe Holdings Ltd.	1,125	—	—	—	1,125
Swiss Reinsurance Company Ltd.	—	—	1,160	—	1,160
W. R. Berkley Corporation	—	—	300	—	300
Total	**1,986**	**600**	**6,404**	**1,350**	**10,340**

Source: Fitch Ratings, company reports, financial supplements and SEC filings.



> The lines of business most affected by the pandemic are event cancellation and postponement, business interruption, and trade credit, with the global reinsurance industry expected to carry about half of the (re)insurance industry’s ultimate losses.

European Reinsurance – Peer Review

Introduction

This Peer Review report compares and contrasts the key credit factors affecting the ratings of the insurers listed to the right.

Fitch Ratings assigns a score to each of the nine key credit factors (as outlined in this report) underlying the groups' Insurer Financial Strength (IFS) ratings. These scores are denoted by lower-case letters and follow the same scale Fitch uses for its IFS ratings ('aaa' to 'cc'). Each score's relative influence (higher, moderate, lower) on the insurers' ratings and the Outlook (Stable, Positive, Negative) is shown in the diagrams on the right of each page.

The information in this Peer Review is derived from the most recently published Insurance Ratings Navigator report on each group, which is developed based on the application of Fitch's Insurance Rating Criteria. Links to the insurers' individual Ratings Navigator reports, the applicable Insurance Rating Criteria report and other related research can be found below.

Navigators

Hannover Rueck SE – Ratings Navigator (July 2020)

Munich Reinsurance Company – Ratings Navigator (July 2020)

SCOR SE (July 2020)

Swiss Reinsurance Company (April 2020)

Related Research

Global Reinsurance Dashboard: 2020 (May 2020)

Major European Reinsurers Resilient to Pandemic Review - 1Q20 Results Are Not Indicative for the Future (May 2020)

Global Reinsurance Sector Outlook Negative On Coronavirus Concerns (March 2020)

Related Criteria

Insurance Rating Criteria (March 2020)

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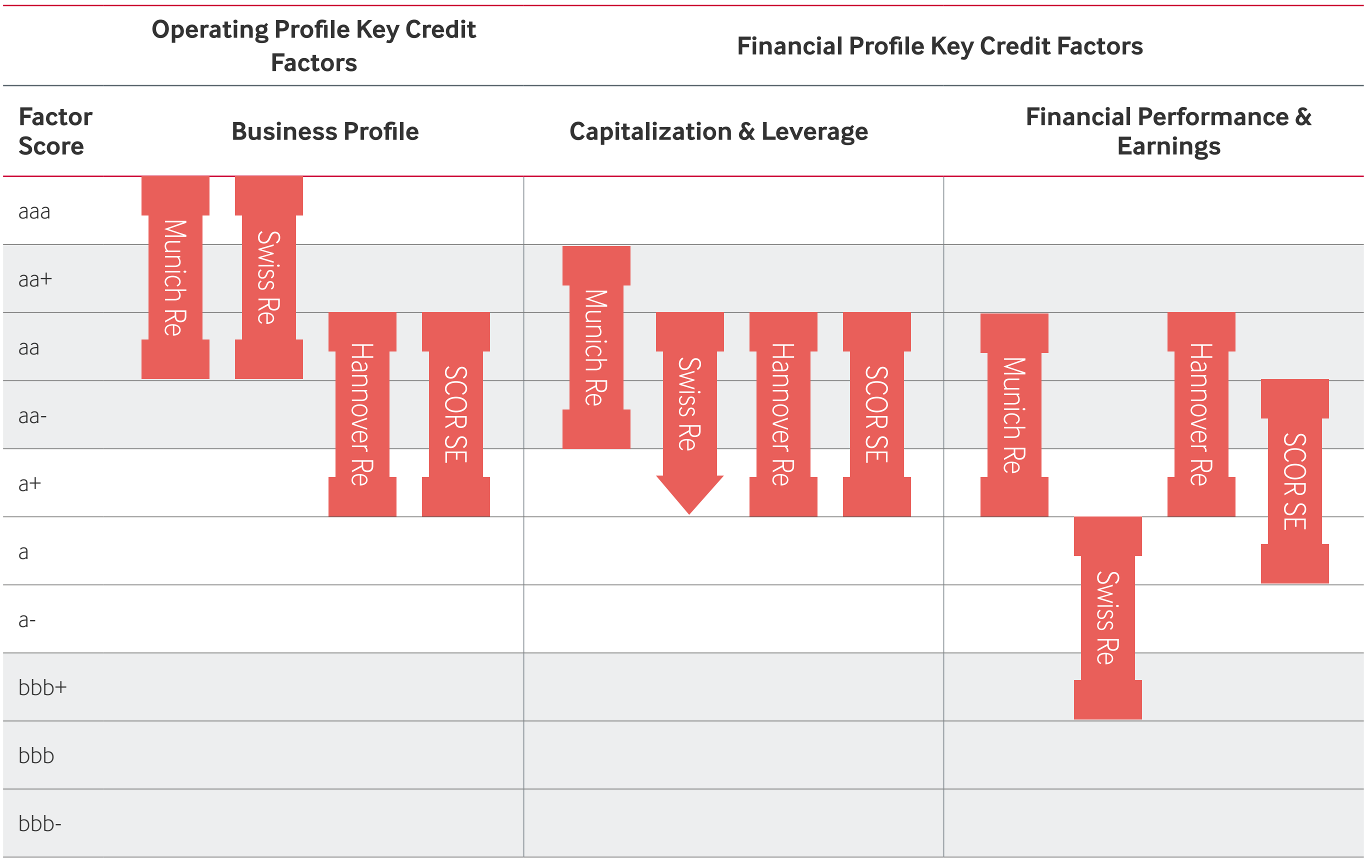
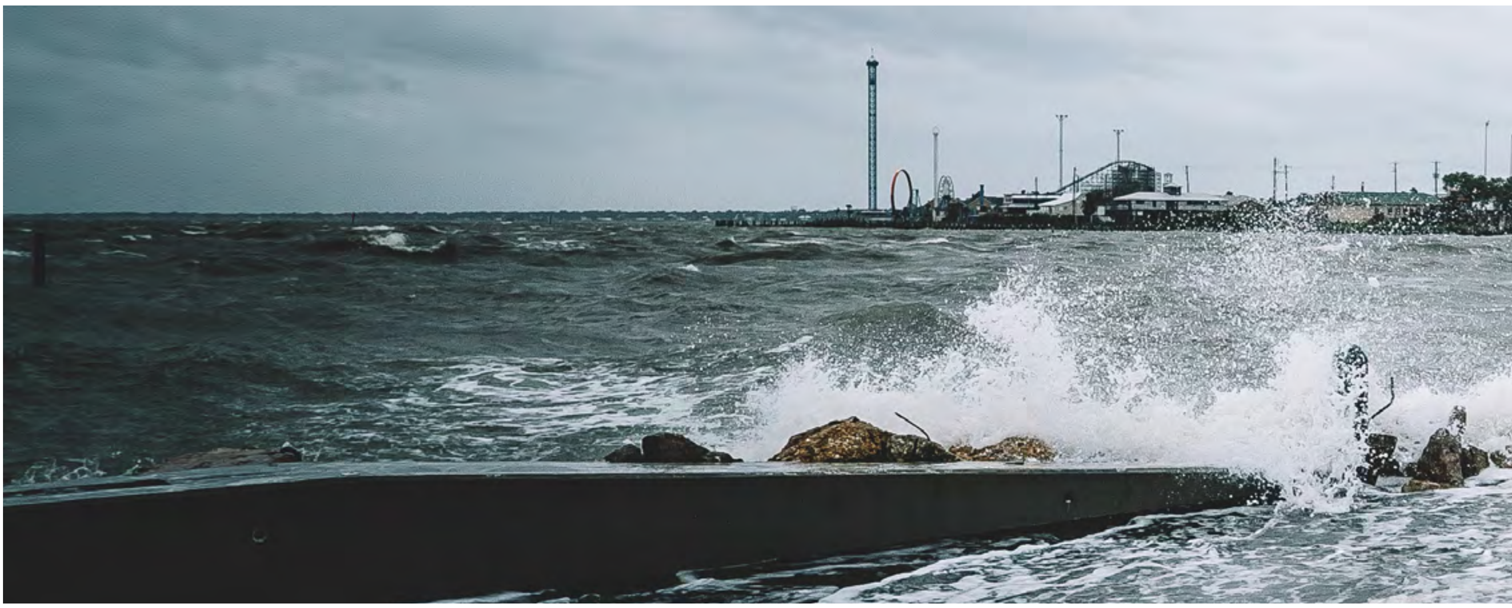
European Reinsurance – Peer Review

Key Credit Factors



Source: Fitch Ratings



Insurer Financial Strength Rating Overview

Issuers	IFS/Outlook
Munich Reinsurance Company	AA/Stable
Swiss Reinsurance Company Ltd	A+/Stable
Hannover Rueck SE	AA-/Stable
SCOR SE	AA-/Stable

Source: Fitch Ratings

Bar Colours: Relative Influence on Rating

- Higher Influence
- Moderate Influence
- Lower Influence

Bar Arrows: Rating Factor Outlook

- Positive
- Negative
- Evolving
- Stable

Higher Influence: Business Profile

Top-Tier Business Profiles

Fitch Ratings considers the four major European reinsurers to be in the top tier of global reinsurers by business profile and among the largest by premium volumes. Large franchises and a high degree of diversification underpin our assessment of very strong business profiles. We consider Hannover Re and SCOR to have 'favourable' business profiles, with each company writing a combination of property and casualty (P&C) and life reinsurance. We consider Munich Re and Swiss Re to have 'most favourable' business profiles, with significant primary operations as well.

Growing Momentum of Price Rises

Rates continued to harden in the January 2020 renewals period, particularly on loss-affected lines of business. Due to the coronavirus pandemic the reinsurance sector entered into a hard market phase in 2Q20, with accelerating price increases and improving terms and conditions. Financial market volatility, rising claims across various lines of business and heightened uncertainty has led to a rise in demand for reinsurance cover while capping available capacity at the same time.

Swiss Re had the biggest rate increases, of 3.5% (2019: 1%) in January and 8% in April 2020 (2019: 1%). Munich Re had low price improvements: 1.2% (2019: 0%) in January and 3% in April (2019: 1.4%). The positive trends in January and April accelerated in the June and July renewals. SCOR reported a pricing improvement of 8.2%.

Munich Re and Swiss Re: Dominant P&C Reinsurance Market Positions

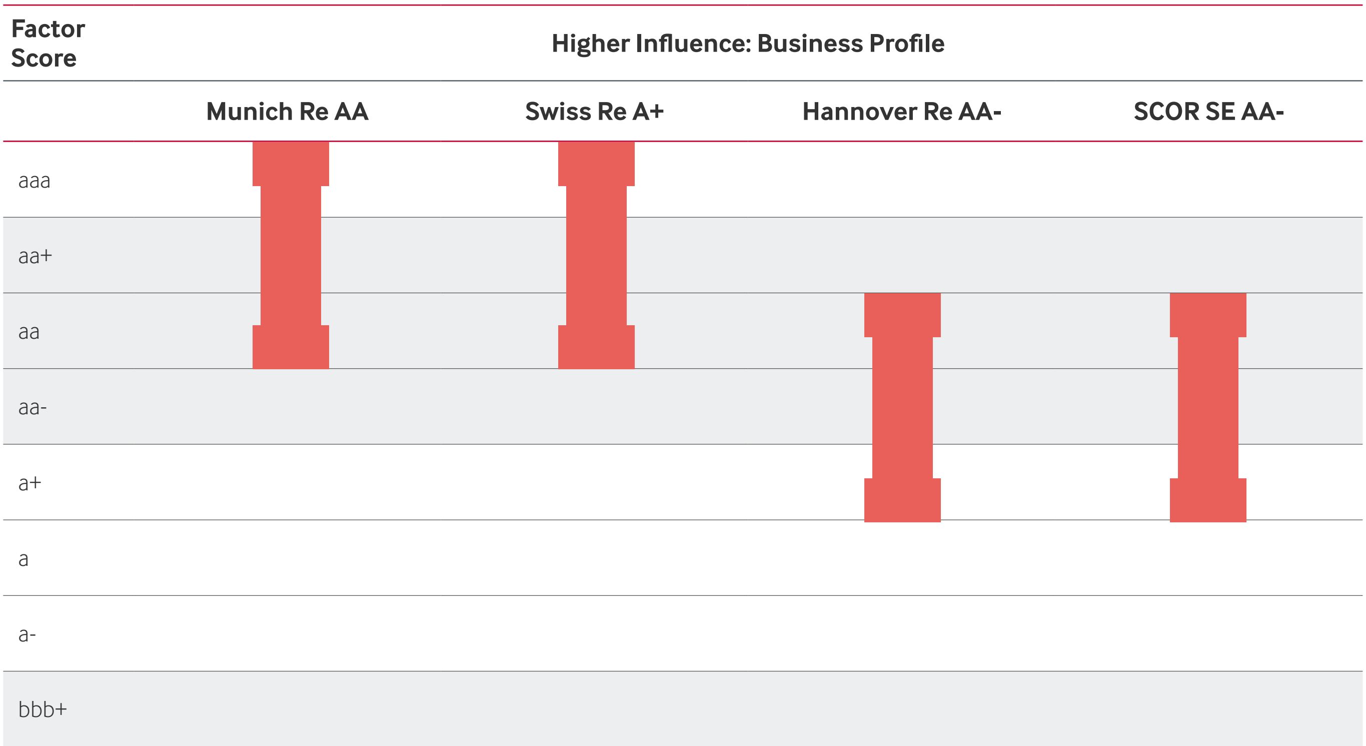
Munich Re and Swiss Re have dominant, long-established P&C reinsurance market shares that have endured difficult reinsurance pricing and credit cycles. Both can deploy underwriting capacity in larger volumes than smaller peers across multiple classes, which is increasingly important as reinsurance is transacted with larger primary insurers that place centralised multi-risk covers through global broker programmes. Leading programmes allows the reinsurers to influence pricing and terms and conditions. Munich Re and Swiss Re often have the strongest and most secure positions on reinsurance panels and market shares.

Hannover Re and SCOR: Strong and Developing Group Franchises

Hannover Re and SCOR are smaller and have more modest market shares than Munich Re and Swiss Re, especially in the major reinsurance classes. SCOR writes a smaller proportion of P&C and Hannover Re less life reinsurance business than their larger peers. They continue to grow, with SCOR building its life reinsurance business through two major acquisitions in 2011 and 2013. Both companies have had strong growth in financial solutions and specialist products over the last decade.

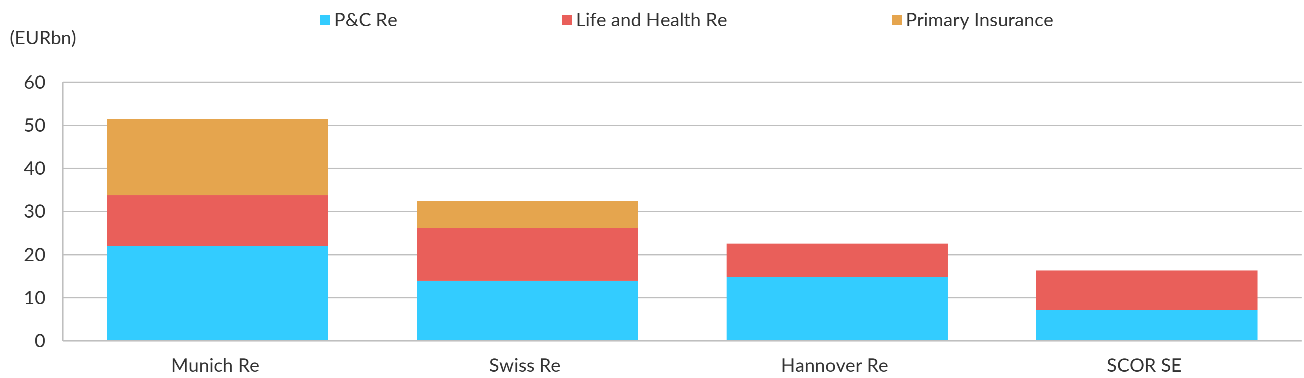
Very Strong Ratings Are a Competitive Advantage

Financial strength, underpinned by strong capitalisation, is a key differentiator and positive rating factor for each reinsurer. An 'A-' rating is considered a minimum requirement by brokers looking to place business with reinsurers, but 'AA' category ratings give additional security for ceding insurers, allowing them to quote on a wider range of business than lower-rated peers.



Source: Fitch Ratings

Gross Written Premiums by Segment
2019



Source: Fitch Ratings, corporate accounts

Higher Influence: Capitalisation and Leverage

Capital Adequacy Remained Very Strong in 2019

The capital adequacy of the four companies, based on Fitch's Prism Factor-Based Capital Model (Prism FBM) assessment, is "Very Strong". Average catastrophe losses and benign financial markets characterised 2019, boosting their positions. Capital quality is marginally lower for Hannover Re and SCOR due to the presence of higher proportions of softer forms of capital, including the value of in-force and equity credit for subordinated hybrid debt. For SCOR, this is mainly driven by the high proportion of life business in its portfolio. Fitch expects capital adequacy to remain very strong in 2020 despite the coronavirus pandemic.

Very Strong Regulatory Solvency Coverage

The regulator-assessed solvency coverage for each company is consistent with Fitch's Prism FBM assessment of "Very Strong". Three of the companies had stable or improving regulatory solvency ratios at end-2019, with operating capital generation broadly offsetting market variances and capital management actions. Swiss Re was the only one to report a significantly reduced regulatory solvency ratio. Its Swiss Solvency Test coverage was 232% at end-2019 (end-2018: 269%). The main drivers of this reduction were the capital management actions related to heightened losses in US casualty that more than offset the benefits of operating capital generation in 2019.

The four reinsurers maintained both their dividend policies and their previously announced share buyback programmes in 2019. Swiss Re completed a further share buyback programme of CHF1 billion, while Munich Re bought back shares for EUR1 billion. In 2020, both Munich Re and Swiss have suspended their share buyback programmes due to the coronavirus pandemic, while SCOR has postponed the decision on the dividend until 3Q20.

TFC Leverage Influenced by LOCs

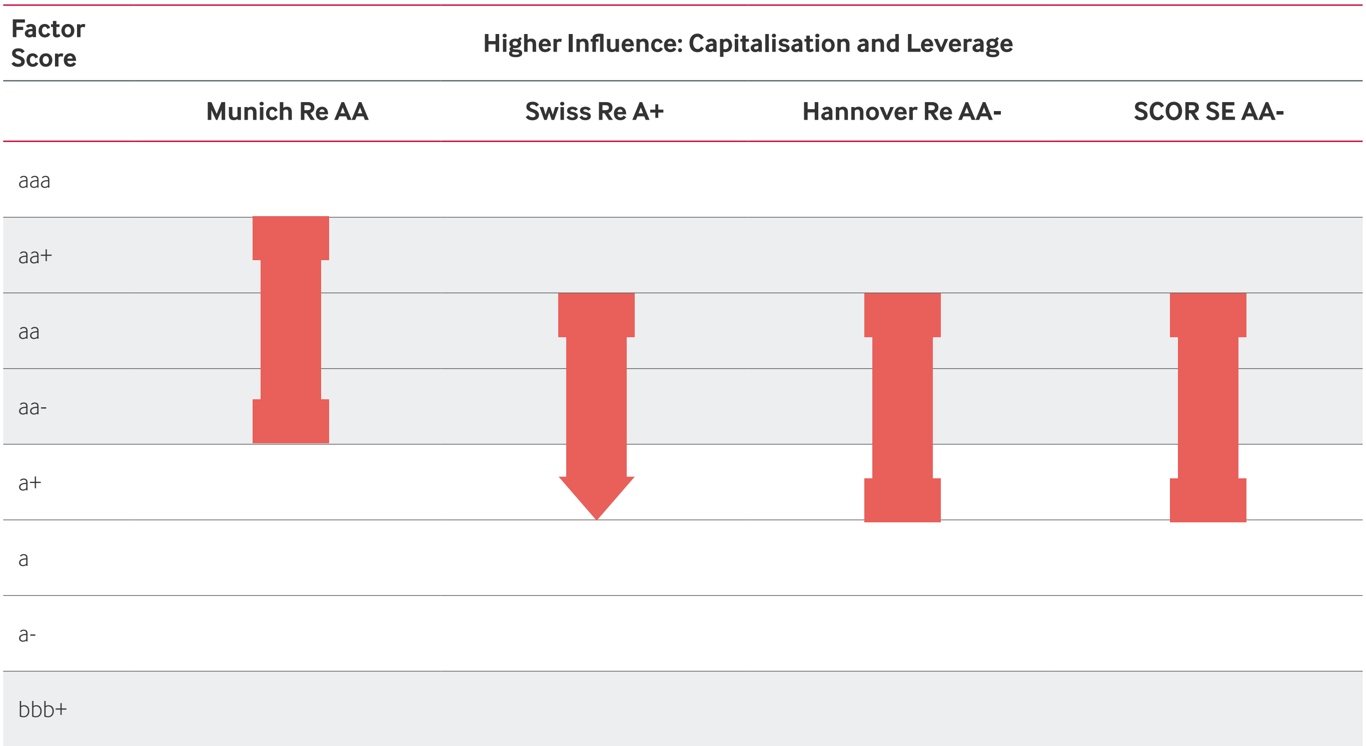
Reinsurers typically have total financing and commitment (TFC) ratios of 'average' to 'above average' (a higher ratio is less favourable), due to the significant use of letters of credit (LOCs). LOCs are used throughout reinsurers' businesses, typically as collateral; determining the appropriateness of how the LOCs are used within each reinsurer's business helps to decide the relative influence of the TFC ratio within the Capitalisation and Leverage credit factor.

Fitch believes that all four of these reinsurers have adequate financial resources that could be used should the LOC facilities be unavailable because of market disruption. We consider the unavailability of LOC facilities as an unlikely scenario.

Modest Financial Leverage

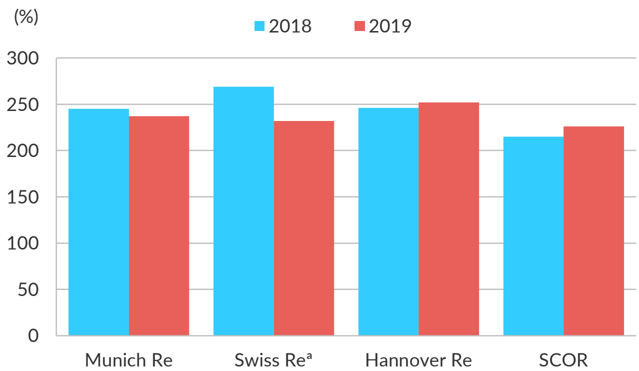
The major European reinsurers have lower financial leverage than the major primary insurers, with the financial leverage ratio for the four reinsurers ranging from 'strong' to 'very strong'.

Hannover Re issued EUR750 million of subordinated notes in October 2019, which we treat as 100% equity in our financial leverage calculation. Hannover Re's financial leverage therefore rose to 23%. Swiss Re's financial leverage ratio remained unchanged in 2019 due to the planned sale of ReAssure. Munich Re maintained the lowest financial leverage ratio of the group, at 18%.



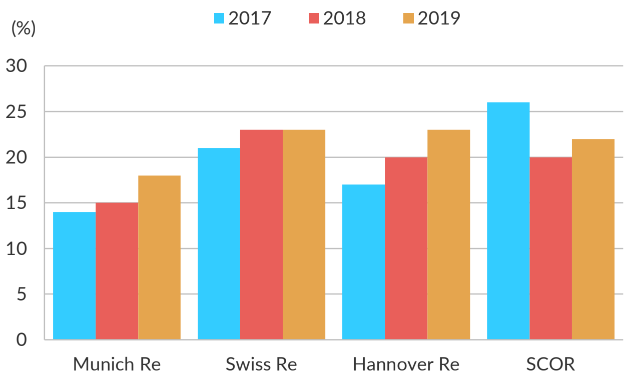
Source: Fitch Ratings

Regulatory Solvency Ratio



[a] Swiss Solvency Test Coverage
Source: Fitch Ratings, corporate accounts

Financial Leverage Ratio



Source: Fitch Ratings, corporate accounts

Higher Influence: Financial Performance and Earnings

Strong Earnings Generation in 2019, Pandemic Losses Affect 2020 Earnings

Maintaining very strong earnings metrics in challenging market conditions is an important differentiator for 'AA' rated companies compared with lower-rated insurers. Three of the four reinsurers generated a satisfactory net income return on equity (ROE) for 2019 due to positive contributions from life and health reinsurance and solid investment returns, while large catastrophe and man-made losses aligned with the long-term average. Swiss Re had reserving deficiencies and high claims inflation in the US casualty book, leading to a low ROE of 3%.

Fitch believes claims related to the coronavirus-pandemic will negatively affect 2020 results, but considers those claims to be one-off in nature. The reinsurance sector is exposed to the pandemic in particular through its mortality book and event-cancellation and business-interruption policies.

Large Losses on Long-Term Average

We estimate industry-insured catastrophe losses for 2019 at USD60 billion (according to Swiss Re Sigma) – in line with the long-term average. Swiss Re had the highest P&C reinsurance combined ratio of 108%. Munich Re posted a combined ratio of 101%, while Hannover Re and SCOR reported the best result, with a P&C reinsurance combined ratio of 99%.

Stable Normalised Combined Ratios

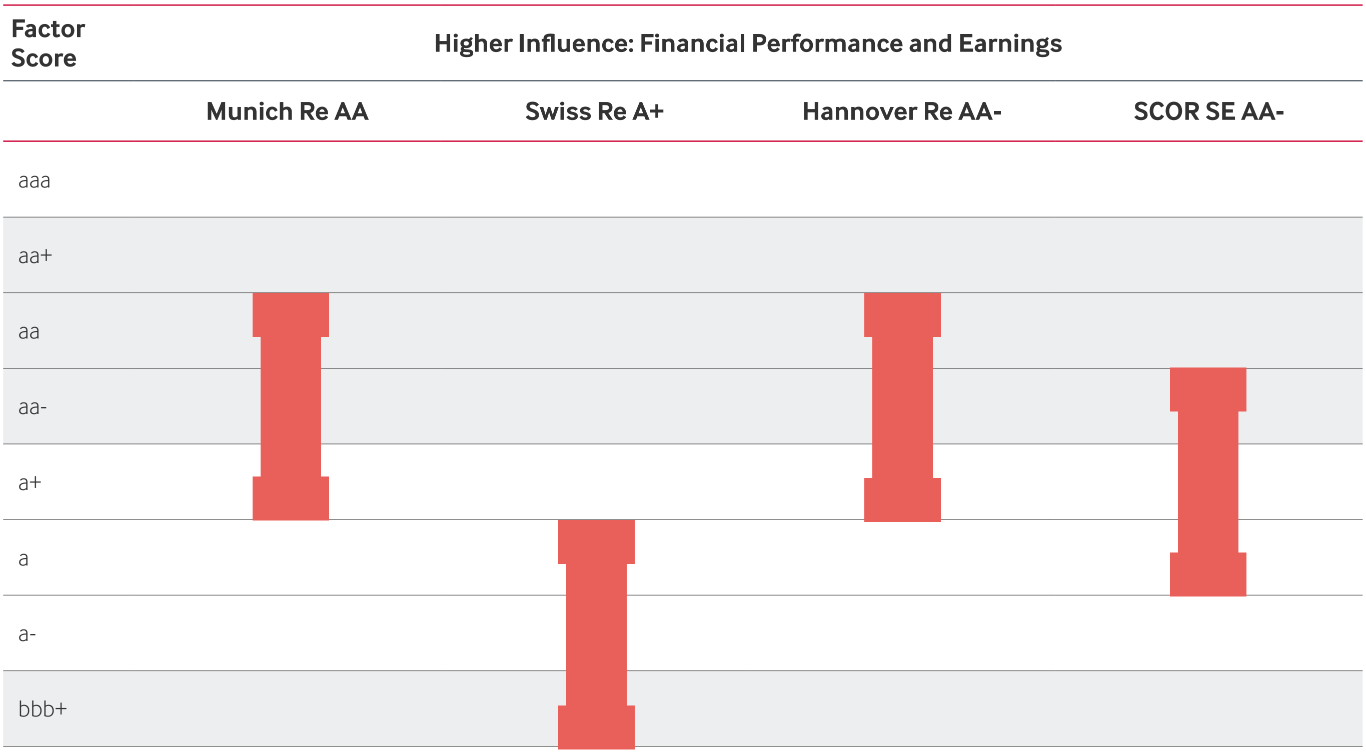
Overall, normalised combined ratios remained stable in 2019, reflecting more differences in business portfolio mix rather than any changes in market rates. Given the volatility in results caused by potential significant catastrophe losses, we believe the normalised combined ratio gives a clearer picture of underlying performance. In our analysis, we adjust earnings by adding back the variances from reinsurers' budgeted totals to the results, both for major losses and for prior-year reserve development.

The reported and adjusted combined ratios were more aligned in 2019 for SCOR, mainly due to the major catastrophe losses being closer to budgeted totals – in 2018 actual losses exceeded catastrophe budgets. Swiss Re had a wider gap due to reserve strengthening for the US casualty book. Hannover Re's reported combined ratio was lower than the normalised combined ratio in 2018 and 2019, partly due to major reserve releases of EUR0.8 billion (2018: EUR1 billion) compared to a normal level of around EUR0.4 billion. The reserve releases arise from positive run-off of reserves for general liability, marine and aviation and short-tail property lines.

Primary Insurance Businesses Have Diverging Fortunes

Munich Re's primary business is represented by ERGO Group. ERGO reported a net profit of EUR440 million in 2019. In the P&C Germany segment, ERGO's combined ratio was strong with 92.3% (2018: 96%) and ERGO International's combined ratio was 94.3% (2018: 94.6%). ERGO's life and health segment performed well, Fitch believes. Swiss Re's primary P&C insurance segment was loss-making in 2019. The reported combined ratio was 128% (2018: 118%), due to reserve strengthening in the US casualty book. Despite rates improving significantly, claims inflation is high and Fitch expects further challenges for profitability in Swiss Re's primary segment.

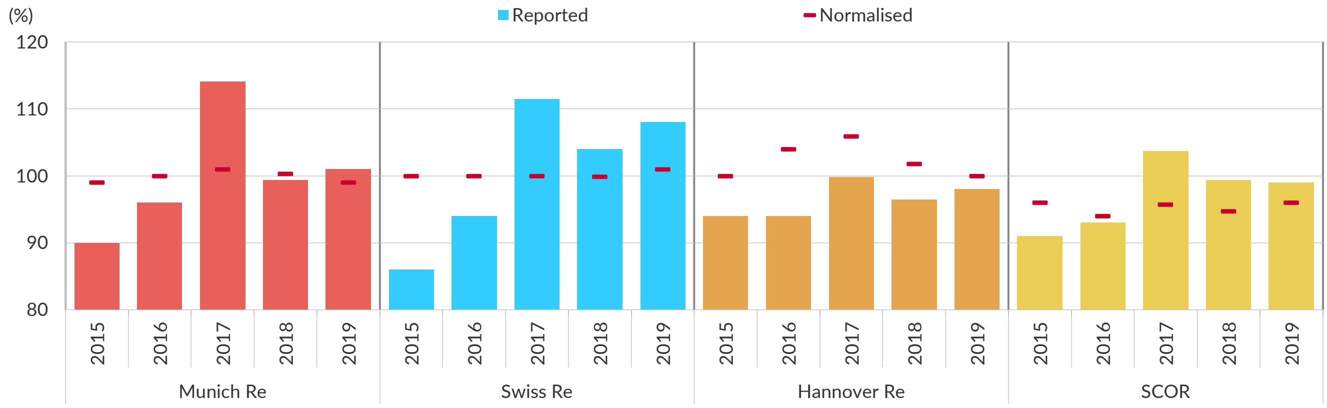
* Source: Swiss Re Sigma



Source: Fitch Ratings

Major European Reinsurers

Reported versus Fitch-normalised P&C combined ratio



Source: Fitch Ratings, corporate accounts

Moderate Influence: Reserve Adequacy

Prudent Reserving Standards

Discipline and prudence are two key factors that underpin the reserving approaches that have been applied consistently by all four reinsurers, leading to many successive years of positive development. Each company has had a strong record of prior-year development (reserve surplus generated from earlier underwriting years). In 2019, all but Swiss Re reported reserve releases in excess of budgeted levels, with Hannover Re, in particular, benefiting from significant positive reserve development. Swiss Re had to strengthen reserves for the US casualty business, which could not be fully compensated by releases in other lines of business.

Reserve Releases Supplement Earnings

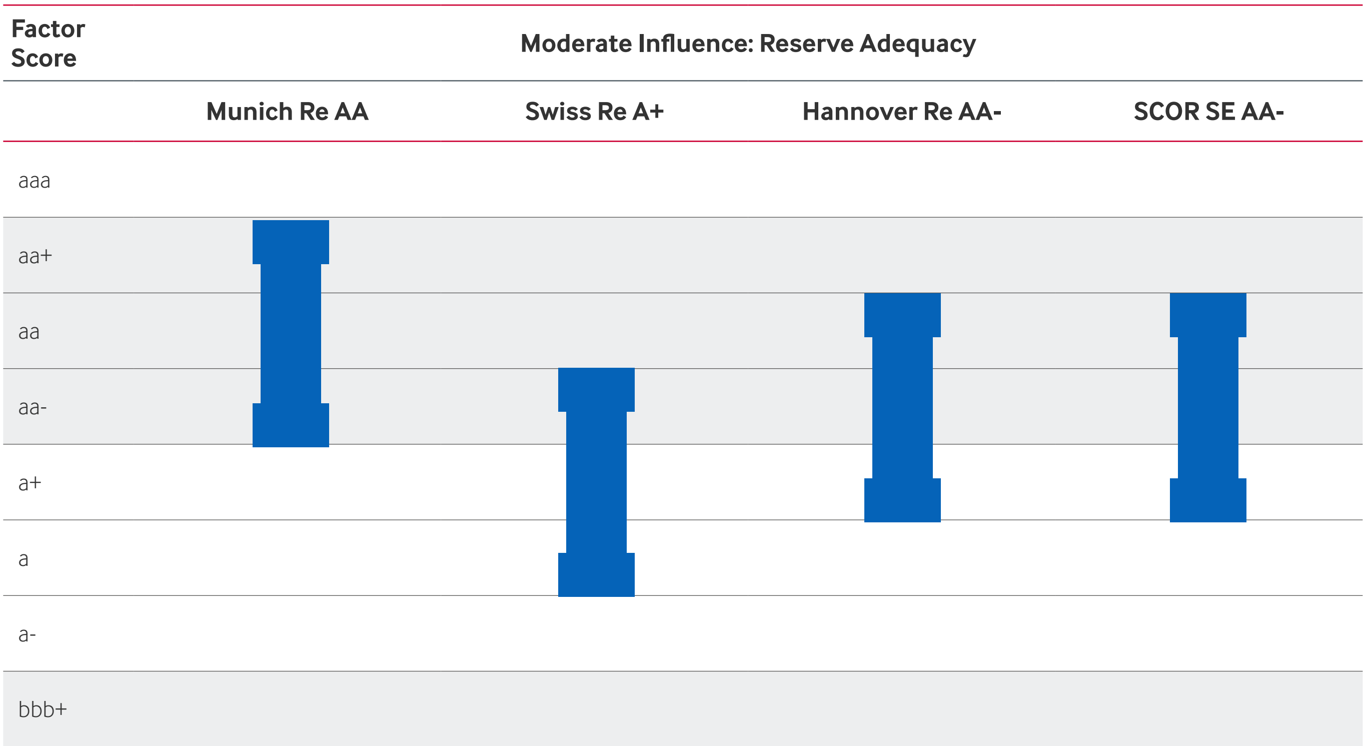
It is harder to determine to what extent prior-year reserve surpluses are being released to smooth earnings. Each company follows a different philosophy regarding the level of carried reserve margin (most often described as 'surplus over best estimate'), and when and how much should be released.

Significant Amount of Reserves

The size of reserves as a proportion of the overall balance sheet is high, partly due to each insurer writing a large amount of longer-tail business. This increases the importance of reserving within the overall credit assessment.

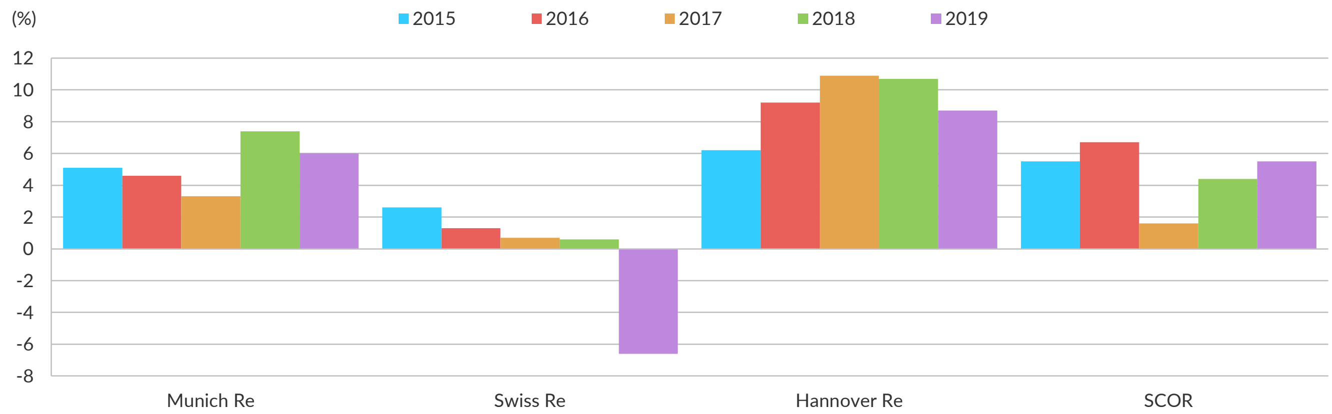
Strong Reserve Buffers

Fitch believes Munich Re employs the most-conservative reserving approach among the four reinsurers, as it carries a larger reserve buffer – minimum four percentage points on top of best estimate reserves a year. Fitch considers generating positive development from prior-year reserves as important for each company, because this provides a buffer against any deterioration or adverse development in market conditions.

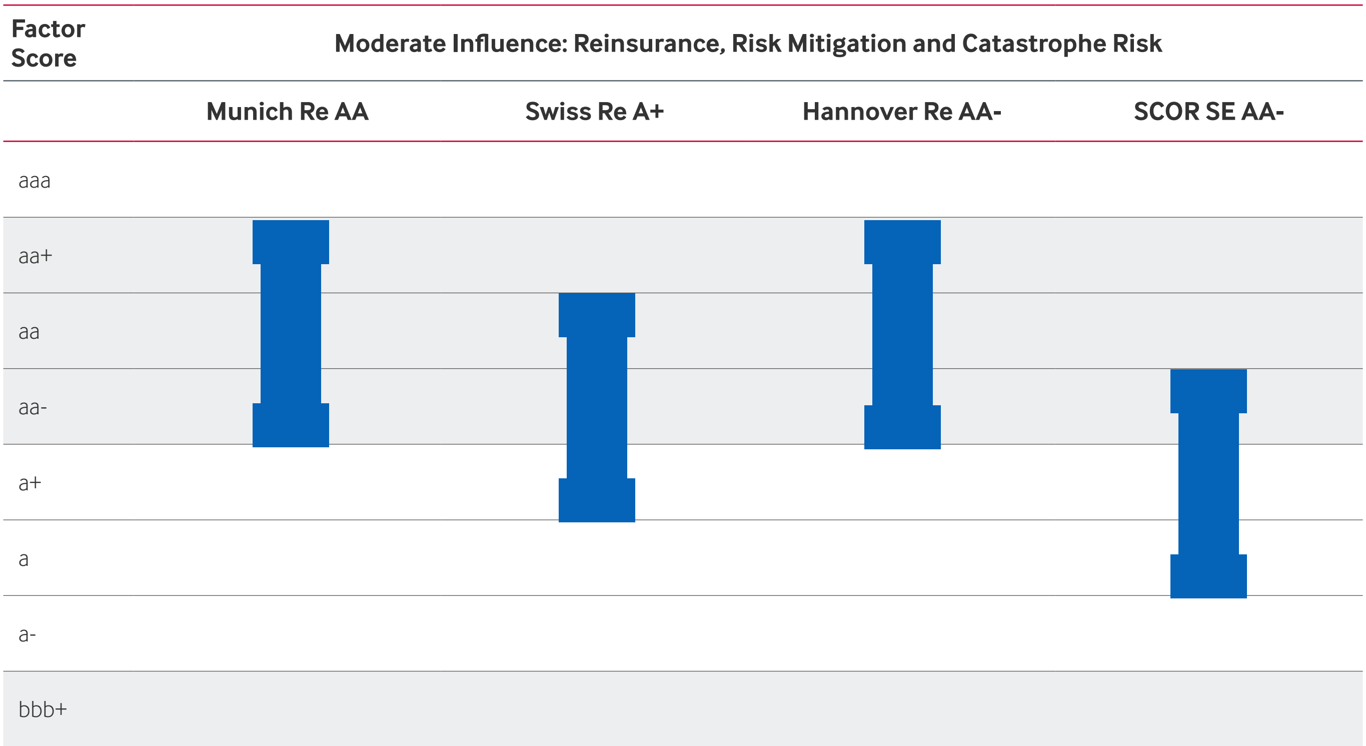


Source: Fitch Ratings

One-Year Reserve Development/Prior-Year Equity



Source: Fitch Ratings, corporate accounts



Source: Fitch Ratings

Moderate Influence: Reinsurance, Risk Mitigation and Catastrophe Risk

Above-Budget Catastrophe Losses in 2019

Natural catastrophe events caused insured losses in excess of USD60 billion globally in 2019. The most expensive insured catastrophe event of 2019 was the USD8 billion of losses from typhoon Hagibis that hit Japan in October. Typhoon Faxai hit Japan in September, while hurricane Dorian caused insured losses of USD4.5 billion in the Bahamas and North Carolina in August and September 2019. However, all four reinsurers reported natural catastrophe claims in excess of their large loss budgets highlighting their above-average risk appetite.

Use of Capital Market Alternatives

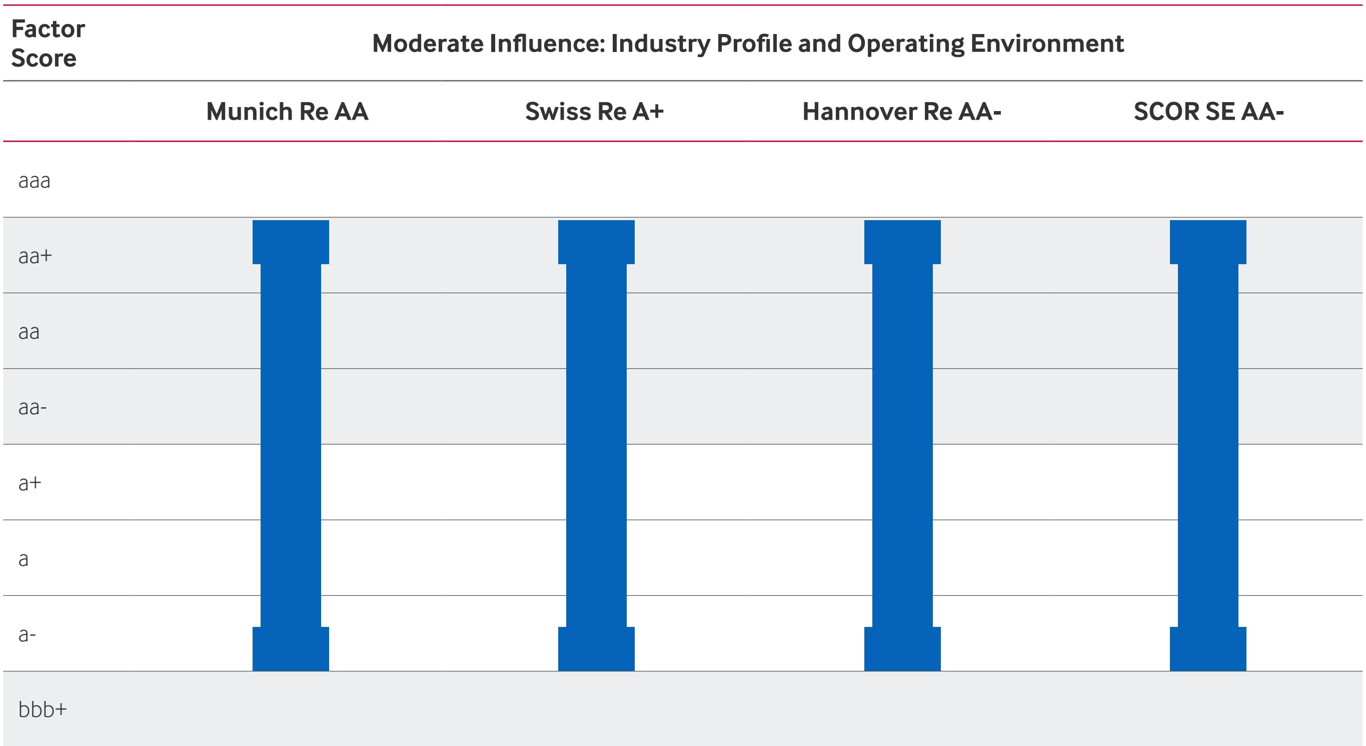
Their large reinsurance portfolios have enabled the four companies to use a variety of alternative risk-transfer mechanisms, including insurance-linked securities or catastrophe bonds. Each company is a regular issuer of catastrophe bonds, thereby transferring a variety of peak natural catastrophe exposures, as well as longevity and mortality risk associated with life reinsurance. The ability to transfer peak exposures in this way provides additional flexibility when underwriting specific lines of business, and brings diversification to risk programmes.

Limited Retrocession

Reinsurers purchase less traditional reinsurance cover (retrocession) than primary insurance companies do. Munich Re and Swiss Re purchased approximately 5%, Hannover Re about 10% and SCOR about 15% of gross premiums in 2019. This is largely due to their 'AA' category financial strength, which limits the options for placing business with similarly strong counterparties. The companies are also reluctant to retrocede significant proportions of potentially profitable business; the main purpose of risk transfer is to remove peak exposures, usually through the purchase of excess-of-loss retrocession cover.

Strong Risk Management Programmes

Fitch considers that each reinsurer's risk mitigation programmes are strong, with capital well shielded through the execution of prudent risk management programmes. The fundamental nature of their respective businesses, which includes managing volatile losses, means strong risk management is a key part of maintaining financial strength through periods of major loss activity, such as in 2017 or 2020 (this latter follows Covid-related claims).



Source: Fitch Ratings

Moderate Influence: Industry Profile and Operating Environment

Negative Sector Outlook

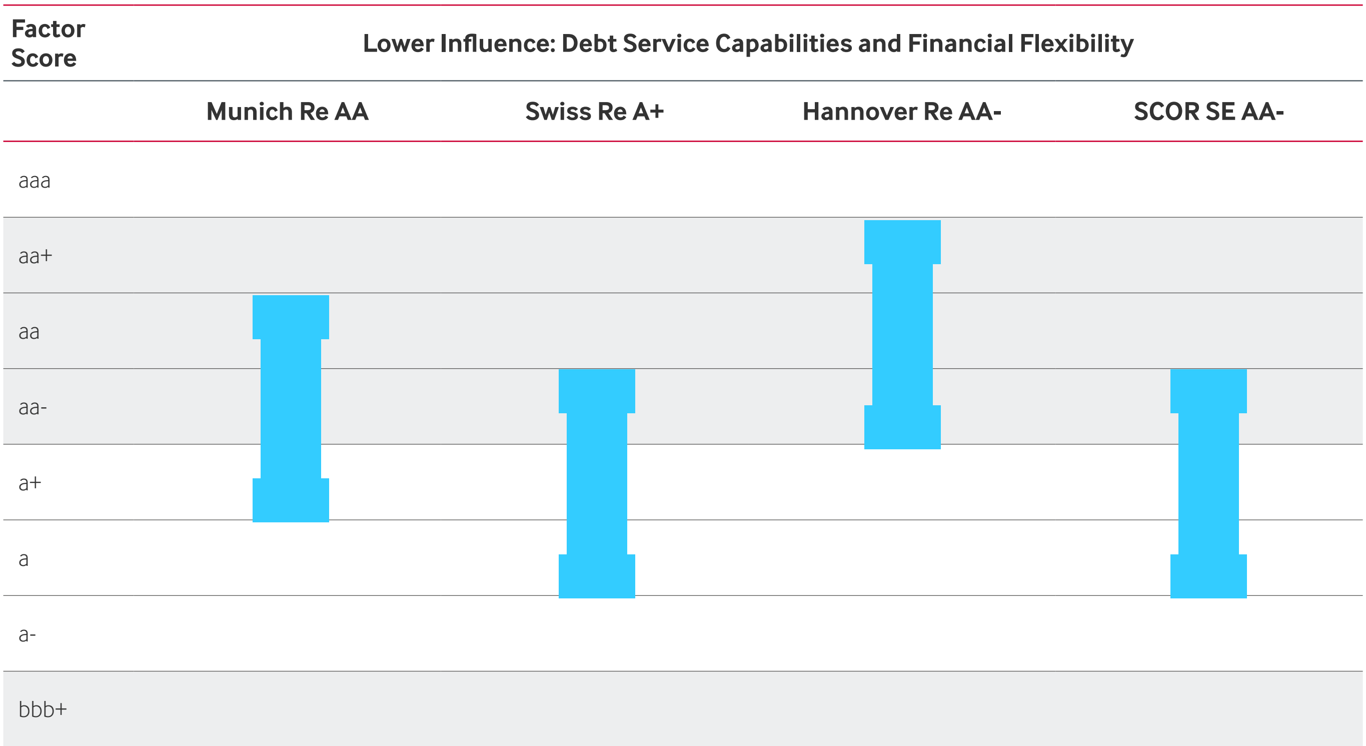
Fitch Ratings' sector outlook of the global reinsurance sector has been revised to negative from stable. This revision is due to increased concerns over the coronavirus pandemic, and its effects on the credit quality of reinsurers.

However, the reinsurance sector has had a trend of recent price improvements, very strong capital adequacy going into 2020, robust risk management and generally solid business profiles. Fitch views the underwriting loss exposure (contingency and event cancellation, travel and accident, trade credit, surety and business interruption) from the virus as manageable for reinsurers given the relatively small size of the exposed lines, and the use of policy limits and sub-limits and exclusions. Even before the pandemic, however, the sector faced pressures from a competitive market environment and low investment yields that limited profitability.

Uncertain Financial Performance

Credit fundamentals continue to reflect both intense pricing competition and low investment yields, which we expect to continue constraining profitability. The uncertainty surrounding the effects of the pandemic limits the visibility on the financial performance of the reinsurance sector. While high claims from loss-affected lines of business depress profitability, risk-adjusted price rises are gaining momentum and terms and conditions are improving for reinsurers.

In Life and health reinsurance, mortality claims stemming from the US, in particular, will most likely lead to lower earnings in 2020, after strong investment and underwriting results in 2019. The pandemic caused significant losses on financial markets in 1Q20, which have been partially recovered since then. Interest rates decreased in response to the global recession, putting additional pressure on investment income.



Source: Fitch Ratings

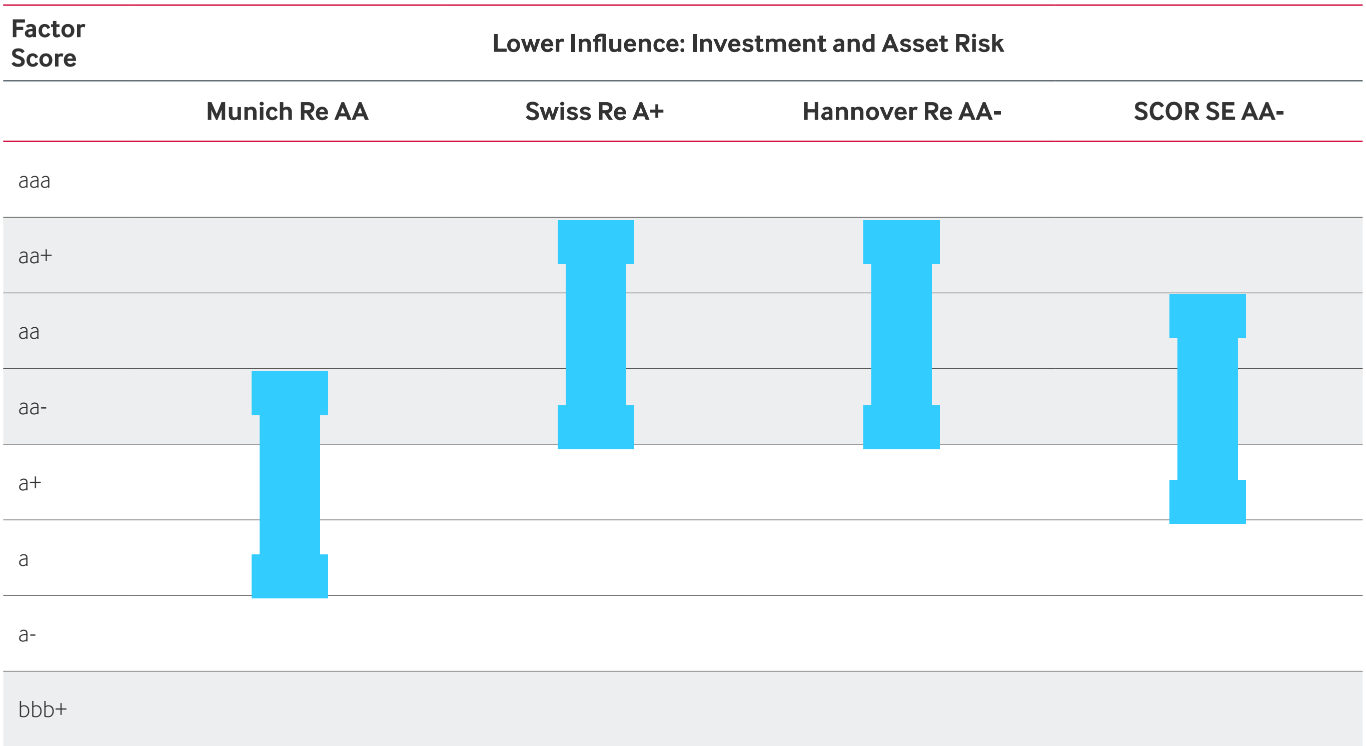
Lower Influence: Debt-Service Capabilities and Financial Flexibility

Moderate to Strong Fixed-Charge Cover

Interest coverage is moderate to strong. Each company has a strong ability to service debt, even in years with high major insured losses. Hannover Re had the highest level of fixed-charge cover out of the four reinsurers, while Swiss Re had the lowest due to weak earnings in 2019.

Strong Financial Flexibility

Financial flexibility is strong for each reinsurer, supported by the ability to access a range of financing sources, should they be required. The ability to access funding at short notice is often a key requirement in the days and weeks following a major loss event, although the weak reinsurance market conditions of recent years have resulted in the four reinsurers returning capital to shareholders due to limited growth opportunities.



Source: Fitch Ratings

Lower Influence: Investment and Asset Risk

Asset Risk Well Managed

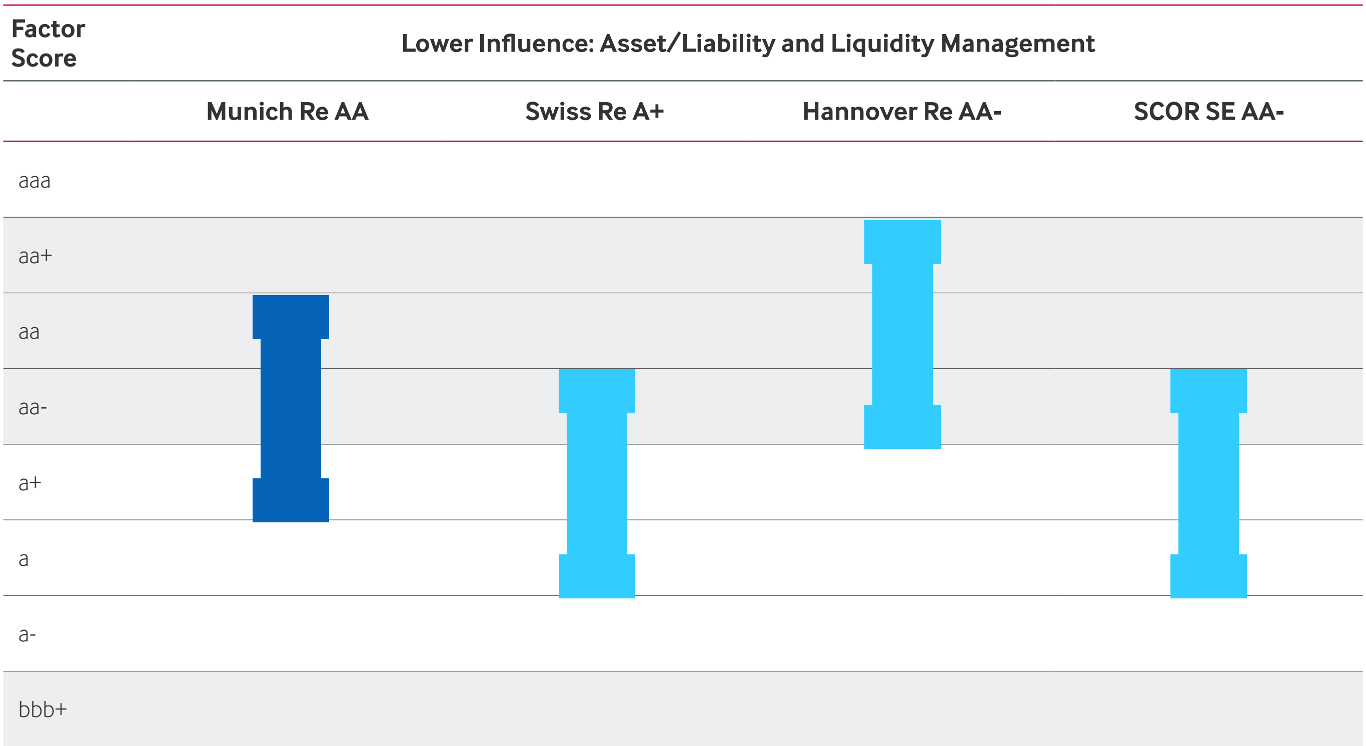
Reinsurers' investment strategies are designed to fulfil two core outcomes: maintaining sufficient liquidity to meet and settle liabilities claims in a timely manner, and avoiding excessive balance-sheet volatility. An additional factor when considering risk appetite is that each company operates under a risk-based capital supervisory regime. Investment asset quality across the peer group is conservative, with portfolios well managed to minimise excessive volatility and optimise risk exposure.

Very Strong Asset Quality

Asset quality is very strong for all of reinsurers, with investments well diversified across a range of asset classes and with no significant exposure concentrations. The asset allocation within each company's investment portfolio is broadly similar, with fixed-income investments representing more than half of all investments. The allocation of fixed income between corporate and government bonds is about equal.

The main differences relate to the weighting of lower-rated corporate bonds, which is marginally higher for Munich Re and Hannover Re. Munich Re also holds a large loan portfolio, Swiss Re invests in highly rated securitised and asset-backed instruments, and SCOR and Hannover have exposure to covered bonds.

All four major reinsurers reported a higher investment return in 2019 helped by a higher level of realised gains and a stable investment income. Swiss Re realised USD2 billion of net investment gains, mainly through fixed-income sales and market value gains across equities and alternative investments.



Source: Fitch Ratings

Lower Influence: Asset/Liability and Liquidity Management

Strong Asset and Liability Management

Asset and liability management is more important for Munich Re than for the other three as the former has significant exposure to primary life insurance liabilities – these contain features that increase interest-rate sensitivity. Hedging tools, including derivatives and inflation swaps, are used to minimise balance-sheet volatility. Munich Re's assets and liabilities are matched at group level, with reinsurance assets having a longer duration than their corresponding liabilities and primary insurance assets a shorter duration than their corresponding liabilities.

Strong Liquidity

All four reinsurers maintain strong liquidity positions to allow them to settle claims in a timely manner, which is especially important after major loss events. Access to significant high-quality marketable assets supports liquidity, while receivables are well controlled.

Asian Reinsurance Market 2020

Reinsurers Grappling with Catastrophe Losses; Downturn to Slow Premium Growth Amid Pandemic

Pandemic Claims Manageable but Evolving

Asian reinsurers' losses related to the coronavirus pandemic appear to be on a manageable scale thus far due to tight measures to curb the spread of the virus. In addition, they entered the crisis well-capitalised. However, business growth will slow as the economy and direct insurers' premium growth decelerate.

Fitch Ratings believes the maintenance of sound capitalisation will be crucial to cushion against unexpected capital consumption due to a potential spike in claims as the pandemic continues to evolve.

Fitch revised its sector outlook for Asia-Pacific (APAC) life and non-life insurers, including reinsurance companies, to negative from stable, following the coronavirus outbreak and its impact on the performance and credit quality of (re)insurers.

Catastrophe Losses and Bridging the (Re) insurance Gap

Fitch views that the low insurance penetration rate in APAC, particularly in the emerging countries, provides reinsurers with opportunities for growth. (Re)insurers are increasingly placing emphasis on risk management to enhance their existing coverage, in the wake of the coronavirus pandemic and continued natural catastrophes in APAC.

Continued Interest in ILS Issuance

The issuance of insurance-linked securities (ILS) in Asia continues to increase, as it is a viable alternative to traditional reinsurance in providing protection. The scope of ILS has also extended beyond traditional catastrophe losses to include potential pandemic-related losses as well.

The first catastrophe bond covering Asian national catastrophe risk was issued in February 2019, followed by the first Asian sovereign bond to cover catastrophe losses in the Philippines in November 2019. Issuances were originated in Singapore, which is the ILS hub in Asia thanks to its ILS grant scheme, which it extended to end of 2022.

Business Alliances More Difficult

Ongoing economic uncertainty and the risk of market turmoil are among the challenges that may curb M&A activities. Fitch believes that reinsurers will find it more difficult to position themselves strategically and competitively to withstand the uncertainties in the business environment triggered by the coronavirus outbreak.

Adapting to Regulatory Changes

Fitch sees regulatory changes in several Asian markets that have the potential to shake up the way in which reinsurers currently operate. The regulatory changes will push reinsurers to develop the necessary internal capabilities and risk-management frameworks to manage the impacts.

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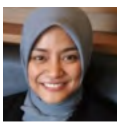

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Related Research

Global Reinsurance Dashboard: 2020 (May 2020)
Coronavirus Rating Impact: APAC Insurers (June 2020)

Pandemic Impact on Financial Stability

Fitch expects Asian reinsurers' business growth to slow as the coronavirus pandemic takes its toll on economic growth and financial market stability, which will slow the premium growth of direct insurers.

The pandemic may also affect claims development, although we have not yet seen widespread, significant pandemic-related losses for Asian reinsurers. The tight measures to curb the spread of COVID-19 likely helped to limit the possibility of a sharp spike in related claims. Fitch will continue to monitor insurers' claims trend.

Premium Growth to Slow

Based on statistics available from certain Asian reinsurers, we estimate that Asian reinsurers' premiums rose by more than 10% on average in 2019.

However, this is unlikely to continue in 2020 as direct insurers' business growth slow. For instance, growth of the direct motor business, which is the main business line in most non-life insurance markets in APAC, is likely to remain weak while sales of new motor vehicles are muted. This will affect the business volume of related reinsurance coverage, such as those protecting whole accounts.

In Thailand, even though demand for health insurance remains strong, propelled by high medical costs and an ageing population, consumers may delay taking up new insurance policies as well as renewing existing ones amid the economic downturn. This could in turn undermine demand for overall reinsurance coverage.

In contrast, Fitch expects insurers in China to accelerate their expansion in non-motor insurance in 2H20, as the government has eased restrictions on travel and allowed factories and stores to re-open amid a decline in infections since March. In addition, spending on infrastructure projects as part of the government's stimulus to recover from the pandemic, provide an opportunity for expansion of the property and casualty insurance business, which could boost the demand of related (re)insurance products.

Limited Pandemic and Business Interruption Claims

Pandemic-related claims on (re)insurers are contained in key Asian markets. For instance, in China and South Korea, basic medical expenses for infected individuals are covered by public medical insurance funds, so the spill over to the (re) insurers is low. The Insurance Association of China said that accumulated claim payments related to the coronavirus amounted to CNY291 million as of May 2020. Claims related to the pandemic have also been low in Sri Lanka and Indonesia, where treatments are usually offered on a no-fee basis by public-sector hospitals.

In terms of business interruption claims, Fitch has not seen widespread claims of such nature in Asia, and consequently does not expect non-life reinsurers to be severely hit by such losses at the moment. Fitch will continue to monitor claims developments in this area in Asia.

Business interruption products in China generally contain an exclusion clause for epidemics. The Insurance Association of China said accumulated claim payments from the non-life sector related to the pandemic amounted to only CNY148 million as of May 2020.

Japanese life insurers' exposures to business interruption claims in their domestic business are also limited, given that the products cover only physical property damage and generally contain exclusion clauses for new pandemics. These losses are considered small compared with the weather-related catastrophe losses incurred by the three major non-life groups of over JPY1 trillion in the financial year ended March 2020 (FYE20). Similarly, business-interruption claims in Australia and Thailand are limited given the exclusion of pandemic risks.

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>
> Fitch expects Asian reinsurers' business growth to slow as the coronavirus pandemic takes its toll on economic growth and financial market stability,

Efforts to Enhance Capitalisation Amid Uncertainties

Fitch observes that Asian reinsurers are refocusing on capital management to enhance their risk-adjusted capitalisation to build buffers against a potential increase in claims and investment losses. Slower business growth is likely to offset insurers' need to inject additional capital.

The aggregate solvency position for the reinsurance sector in China remained healthy at 304% at end-2019 (end-2018: 282%), well in excess of 100% minimum requirement. However, the reinsurers' capital consumption is likely to increase in the next two years due to slower business growth due to the pandemic.

Thailand's only non-life reinsurer, Thai Reinsurance Public Company Limited (Insurer Financial Strength (IFS) rating: A-), and the country's sole life reinsurer, Thaire Life Insurance Public Company Limited, have consistently maintained sound capital buffers, with the risk-based capital ratios of more than 300% in 2019.

Meanwhile, the average risk-based capital ratio of the rated Indonesian reinsurers stood at above 300% in 2019, well in excess of 120% minimum requirement. Fitch expects these favourable capital positions to support the reinsurers' business operations amid uncertainties in the economic and business environment.

Optimisation of Investment Strategies

The low interest rate environment has challenged regional (re) insurers for several years, and it looks set to continue.

While some (re)insurers may shift their investment portfolio towards riskier assets in search of higher yield, Fitch does not expect them to do so aggressively. Each insurer will need to consider local solvency margin requirements, as investments in riskier assets require higher capital charges under regulatory capital frameworks. Most industry players are increasingly working on optimising their business strategies to balance the investment challenges in terms of assets and liabilities.

Tightening of (Re)insurance Protection Amid Catastrophe Losses

Fitch expects a renewed emphasis by (re)insurers to ensure the adequacy and appropriateness of their existing (re)insurance protection, following significant catastrophe losses in 2019 and 1H20 and in expectation of the tougher operating environment ahead. Some Asian (re)insurers have also taken up catastrophe reinsurance/retrocession cover in excess of the minimum regulatory requirements to improve risk mitigation.

Gap in (Re)insurance Protection Persists

Insurance penetration, particularly emerging APAC markets, is still among the lowest in the world. The penetration rate is still below 10%, leaving many individuals and businesses at risk of huge losses when disaster strikes.

For reinsurers, the gap is an opportunity to extend their reach. However, closing the protection gap will be a challenge because many countries still suffer from coverage inadequacy. Raising the awareness of reinsurance products, service improvement, and collaboration among reinsurance-related entities should help to narrow the protection gap.

Catastrophe Losses Remain a Key Concern

Asia accounted for the world's largest share of economic losses from catastrophes in 2019, at USD66 billion, or 45% of the global total. These events included typhoons Faxai and Hagibis in Japan which caused losses of over JPY1 trillion (USD9.5 billion) in FYE20. These losses were lower than those incurred in FYE19 due to typhoon Jebi and Trami, which totalled JPY1.6 trillion.

Heavy rainfall from early June 2020 caused severe floods in southern China, including in Guangdong, Guangxi and Fujian provinces, and the Yangtze River basin, including the provinces of Hubei, Hunan and Jiangsu. Direct economic losses came to more than CNY69.6 billion (USD10 billion) as of 10 July 2020.

The catastrophe exposure of Sri Lankan insurers has gradually increased over the years as the country has experienced more frequent floods and landslides. Sri Lanka also faced a prolonged drought in some parts of the country in 2018 and 2019.

Significant Loss Events in 2019 and 1H20

Date	Event	Location	Economic losses
2020			
15-21 May	Cyclone Amphan	India, Bangladesh	15
June	Moonson Flood	China	6
		Total	21
2019			
6-12 October	Typhoon Hagibis	Japan	15
June-August	Monsoon Flood	China	15
7-9 October	Typhoon Faxai	Japan	10
June-October	Monsoon Flood	India	10
6-13 August	Typhoon Lekima	China, Philippines, Japan	10
2-5 May	Cyclone Fani	India, Bangladesh	8
		Total	68

Source: Fitch Ratings, Aon's Global Catastrophe Recap: First Half of 2020 report

Enhancement of Catastrophe Protection Coverage

Fitch observes that the frequent catastrophes in APAC have pushed insurers to have more rigorous reinsurance arrangements to mitigate the losses. Indonesia's domestic cession policy has led to more risks being retained domestically, with most local reinsurers holding catastrophe cover of around 1:400 return periods. This is above the 1:250 regulatory requirement, providing reinsurers with ability to absorb catastrophe losses amid industry expansion.

Australian insurers' balance sheets have been relatively well protected as a result of extensive use of reinsurance. Large players have been strengthening of their reinsurance programmes to meet a higher frequency of loss events. Natural catastrophe losses have been rising in Australia, with insurance losses over the 2019-2020 summer exceeding AUD5.2 billion, according to the Insurance Council of Australia. This included a bill of over AUD2.3 billion for the summer bushfires.

The programmes for the major insurers in Australia are fairly comprehensive both in terms of vertical protection – to protect against very large single loss events – and horizontally – to protect against the increasing frequency of large loss events. The Australian regulator requires capital to be held against probable maximum losses (PML) based on a 1 in 200 year, whole of portfolio approach (larger than a single event, single peril approach), which is then reduced through compliant reinsurance arrangements. If an insurer does not have adequate horizontal protection, it may then be required to hold greater levels of capital.

Continued Interest in ILS Issuance

Fitch believes the continued expansion of the ILS market in Asia will expand reinsurers' capacity and diversify their sources of capital. The growth of the ILS market will hinge on investor interest stemming from favourable catastrophe loss experiences.

The first catastrophe bond sponsored by Asian government was issued by World Bank and listed on the Singapore Exchange in November 2019. The issuance covers the Philippines against losses of up to USD225 million from earthquakes and cyclones. In developing countries, such as the Philippines, where insurance penetration is typically low and governments have low financial reserves, losses from catastrophes can derail fiscal budgets and roll back development gains. The issuance of catastrophe bonds can mitigate the impact of natural disasters on fiscal accounts.

"Fitch observes that the frequent catastrophes in APAC have pushed insurers to have more rigorous reinsurance arrangements to mitigate the losses.

The Monetary Authority of Singapore recently said that it will extend its ILS grant scheme until the end of 2022. The scheme was initially launched in February 2018 to develop Singapore as Asia's leading hub for ILS. The programme funds 100% of certain upfront issuance costs of catastrophe bonds up to SGD2 million (USD1.4 million). Singapore has supported the issuance of nine catastrophe bonds since the first in February 2019, which was sponsored by IAG and was also the first issuance using a Singapore domiciled Special Purpose Reinsurance Vehicle (SPRV).Hong Kong is poised to tap its developed capital markets, legal systems and proximity to mainland China to become another ILS hub in Asia. The government earlier in 2020 introduced a new bill to enable special purpose vehicles (SPVs) to issue catastrophe bonds, mortality bonds, industry loss warranties, sidecars and other collateralised insurance and reinsurance products.

> The programmes for the major insurers in Australia are fairly comprehensive both in terms of vertical protection – to protect against very large single loss events – and horizontally – to protect against the increasing frequency of large loss events.

Losses for catastrophe bonds should be limited despite the coronavirus pandemic, because the underlying risk covered is mostly property losses arising from natural catastrophe perils such as hurricanes, earthquakes, tornadoes and wildfires. The most affected catastrophe bond programmes are pandemic bonds, which provide coverage against severe increases in medical benefit claims or rises in mortality rates due to a pandemic event. Of note is the USD320 million IBRD Capital-At-Risk catastrophe bond from the World Bank's Pandemic Financing Facility.

The World Bank initiated the first-ever pandemic bond in June 2017 to channel funding to developing countries facing the risk of a pandemic. Similar to a traditional catastrophe bond, the entity selling a pandemic bond pays interest to investors over a certain period. Upon a trigger event, the principal from the bond is quickly funnelled to medical efforts to contain and quell the disease outbreak. That way, affected regions do not have to wait for aid to be raised and coordinated. The pandemic bond triggers are usually the number of patients. Currently, all trigger conditions have been met for the World Bank's pandemic bonds and industry estimates put the pay-out loss amount at about $132.5 million.

Indonesia had been considering issuing pandemic bond in 1Q20, but cancelled it as the central bank stepped up as the lender of last resort against any increase in the government deficit.

Signs of Rate Hardening

Fitch observes that the reinsurance pricing in Asian markets has been holding up well, with larger premium increases in certain business classes and the extent of increase varying by market. For instance, according to Marsh's Global Insurance Market Index Report for 1Q20, property insurance pricing generally rose by more than 5% in Asia.

In Japan, reinsurance costs are rising after two years of substantial catastrophe losses and higher reinsurance coverage by non-life insurers. Japanese wind and flood risk pricing rose by between 30% and 50% at the April 2020 renewal.

Preliminary market estimates of premium rate loss development in peak zones like Japan continue to drive terms, conditions and pricing of reinsurers' retrocession programmes. While the peak zones have always been among the largest consumers of reinsurers' capital, the experience in APAC in recent years has created an environment of heightened sensitivity, as reinsurers build strategies to develop partnerships and deploy their capital.

In the property sector, Willis Re reported that capacity was abundant, but Australian reinsurers were firmer on terms and conditions. Rate increases, even among insurers not affected by losses, have been common, with reinsurers prepared to cut capacity or decline renewals if they did not achieve adequate pricing. Similarly, in the casualty sector, rates and attachment points continued to move up.

M&A on Hold Amid Pandemic Disruption

Fitch expects M&A activities in the APAC reinsurance market to slow as reinsurers will reassess priorities and brace for what could be an extended period of economic turbulence. Traditionally, many reinsurers prefer to pursue M&As to deliver a high level of service to cedants. Operational synergies from M&A can reinforce many aspects of a reinsurer's business operations, including product offerings, distribution channels and geographical reach. In addition, the synergies can improve business efficiency and increase profitability.

> "Fitch observes that the reinsurance pricing in Asian markets has been holding up well, with larger premium increases in certain business classes and the extent of increase varying by market.

Reinsurers could turn to project syndication as an alternative to expand and mitigate insurance risk. In 2019, China Reinsurance received its licence from Hong Kong's Insurance Authority to carry out reinsurance business in and from the city. China Re acquired Lloyd's Insurer Chaucer for USD950 million in 2018 and in 2019, they teamed up with Lloyd's syndicates to launch a political violence cover facility and signed a memorandum of understanding with Spanish giant Mapfre for joint coverage of projects under China's Belt and Road Initiative.

Regulatory Developments on Changing Environment

Several Asian markets have amended or are in the process of amending several (re)insurance related regulations to reflect market changes. The regulatory developments will require reinsurers to develop the necessary internal capabilities and risk management frameworks.

For example, the South Korea government decided to lower barriers to entry to the reinsurance market. The existing Insurance Business Act regards reinsurance as part of the non-life insurance sector, resulting irrelevant regulations being applied to the reinsurance business. Therefore, the government is planning to treat reinsurance as a separate sector. While the details are still being discussed, the regulator is likely to divide reinsurance into life and non-life reinsurance and third-party reinsurance, with the minimum capital requirement for approval reduced to KRW10 billion (USD8.3 million) from KRW30 billion. This regulation would affect the non-life sector's premium growth, which is already hampered by the COVID-19 outbreak.

In addition, the Korean authorities revised regulations to allow co-insurance to improve insurers' capital strength. Unlike traditional reinsurance, which allows insurers to cede insurance risk only, co-insurance enables the primary insurer to transfer an entire block of risk, including insurance risk and interest rate risk, to reinsurers. Many Korean insurers have been struggling to respond to upcoming accounting and regulatory changes, such as IFRS 17 and K-ICS, as the effectiveness of their existing toolkit, including restructuring their product mixes and issuing complementary capital (subordinated debts and hybrids), is limited, especially as interest rates remain low. Therefore, the regulator started to review a variety of insurance liability restructuring plans, with co-insurance the first to be introduced to the market.

The China Banking and Insurance Regulatory Commission is considering draft regulation that redefines the reinsurance business of direct insurers. This is part of the regulator's efforts to strengthen supervision to ensure a healthy and sustainable reinsurance market after the trend of small and medium-sized insurers entering the reinsurance business in the recent years.

As for Indonesia, regulator has also allowed policyholders affected by the economic impact of the coronavirus crisis to delay premium payments by up to four months. The payment delays will not affect their coverage. Fitch expects insurance penetration to increase in Indonesia due to the virus outbreak, which will offset slower premium growth and higher claims and hence benefit reinsurers.

Insurance Penetration Data for 2019

Country	Life premiums (USDbn)	Non-Life premiums (USDbn)	Insurance penetration life (premiums as % of GDP)	Insurance penetration non-life (premiums as % of GDP)	Population (m)
Japan	341.3	118.0	6.7	2.3	127.0
China	329.4	288.0	2.3	2.0	1,435.0
S. Korea	94.5	80.0	5.8	5.0	52.0
Taiwan	97.4	20.4	16.5	3.5	24.0
India	79.7	26.6	2.8	0.9	1,368.0
Hong Kong	66.8	5.4	18.3	1.5	7.0
Singapore	21.0	8.6	5.7	1.6	6.0
Indonesia	15.8	6.5	1.4	0.6	271.0
Thailand	17.8	9.3	3.3	1.7	70.0
Malaysia	12.2	5.0	3.4	1.4	32.0
Philippines	4.3	1.9	1.2	0.5	108.0
Vietnam	4.7	2.0	1.4	0.8	96.0
Sri Lanka	0.4	0.5	0.6	0.7	21.0
Australia	22.2	48.9	2.1	3.5	25.0
Asia Pacific Total	1,114.2	631.2	8,92	4,6	4,177
U.S.	628.5	1,831.6	2.9	8.5	328.0
EMEA	1,046.0	750.7	6.5	5.3	1,079.0
World	2,916.3	3,376.3	3.3	3.9	7,693.0

Source: Fitch Ratings, Swiss Re, Sigma No. 4/2020

Fitch's Ratings on Selected Asian Reinsurers

Name	Country	IFS Rating	Rating Outlook
Malaysian Reinsurance Berhad	Malaysia	A	Stable
PT Maskapai Reasuransi Indonesia Tbk	Indonesia	BB+/AA-(idn)	Stable
PT Reasuransi Indonesia Utama (Persero)	Indonesia	BBB-/AA(idn)	Stable
PT Reasuransi MAIPARK Indonesia	Indonesia	A(idn)	Stable
PT Tugu Reasuransi Indonesia	Indonesia	A+(idn)	Stable
PT Reasuransi Nasional Indonesia	Indonesia	BB+/AA-(idn)	Stable
Taiping Reinsurance Company Limited	Hong Kong	A	Stable
Thai Reinsurance Public Company Limited	Thailand	A-	Stable
SCOR Reinsurance Co Asia Ltd	Hong Kong	AA-	Stable
SCOR Reinsurance Asia-Pacific Pte Ltd	Singapore	AA-	Stable

Source: Fitch Ratings

Statistics of Selected Asian Insurers

	Gross premiums (USDm)		Loss ratio (%)		Combined ratio (%)		NPW/capital (x)		Retention ratio (%)		Return on equity (%)		Shareholder equity/total assets (%)	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
China Reinsurance Group [a]	20,820	17,773	619	55.8	101.3	100.7	1.4	1.3	93	94	7.3	4.9	24	26
Central Reinsurance Corporation	559	503	63.3	62.1	89.3	88.6	1.3	1.2	93	93	9.5	9.4	31	30
Korean Reinsurance Company	6,844	6,802	86.1	83.7	100.1	100.6	2.2	2.2	69	70	8.0	4.7	21	21
Malaysian Reinsurance Berhad [b]	277	341	66.6	65.8	100.4	103.0	0.6	0.9	88	91	5.4	6.3	46	40
PT Maskapai Reasuransi Indonesia Tbk	197	154	56.9	76.7	93.2	96.1	1.0	0.4	56	67	11.9	10.2	48	49
PT Reasuransi Indonesia Utama (Persero)	474	431	56.5	56.2	100.0	100.0	1.3	1.0	65	72	7.2	7.0	40	39
PT Asuransi MAIPARK Indonesia	26	23	12.3	24.7	75.5	71.5	0.5	0.5	76	74	12.3	6.7	71	73
PT Tugu Reasuransi Indonesia	221	163	57.6	65.4	103.3	90.1	1.3	1.3	62	68	9.2	-5.8	46	41
National Reinsurance Corporation of the Philippines	86	70	65.0	64.0	104.0	108.0	0.6	0.5	75	70	3.1	3.0	36	35
Peak Reinsurance Company Limited	1,665	1,382	73.6	70.3	73.8	98.0	1.2	0.2	80	24	3.4	2.1	25	32
Singapore Reinsurance Corporation Limited	177	152	68.3	70.7	68.6	97.8	0.2	0.8	27	82	3.7	3.4	31	42
Thai Reinsurance Public Company Limited	150	150	54.7	54.8	106.2	113.6	1.0	1.0	79	72	3.5	-23.8	45	37
Toa Reinsurance Company [c]	2,239	2,241	73.8	70.6	99.0	103.0	0.9	0.8	100	80	-2.5	3.6	39	42

[a] Combined ratio only consists of overseas P&C reinsurance
[b] Year ends 31 March
[c] Toa Re's premiums are based on net basis. Loss ratio is written to paid basis, loss ratio, combined ratio and retention ratio are on operating company basis. Shareholder equity includes post tax reserves
Other notes: (1) Combined ratio for China Re, Central Re, Korean Re, Nat Re, Thai Re and Toa Re are based on presentations in their annual reports, while that of the others is based on manual calculation. ROE for China Re, Central Re, Korean Re, Nat Re and Toa Re is based on presentations in their annual reports while that of the others is based on ratio calculation per Fitch criteria by using average equity 2018-2019; (2) NPW is net premium written
Source: Fitch Ratings, Fitch Solutions, companies, Financial Statistics Information System in Korea

Reinsurance in Latin America

High Reliance on Reinsurance due to Heightened Exposure to Natural Catastrophes

Reinsurer Ratings Sensitive to Sovereigns

Fitch Ratings conducted reviews of four Latin American reinsurers in light of the risks and uncertainties related to the global coronavirus pandemic. Fitch expects the financial profile of the four reinsurers to be affected negatively in the short term, while the medium-term impact of the pandemic may be largely neutral.

High concentrations in sovereign-related investments and negative rating actions on LatAm sovereign ratings significantly influenced LatAm (re)insurers' ratings. Fitch considers the level of exposure to the sovereign within the investment portfolio. Sovereign ratings can also potentially cap the industry profile and operating environment assessment for a certain country, and thus have a negative influence on the reinsurer's business profile score.

Global Reinsurance Pricing Improves

Fitch notes LatAm reinsurance is subject to global pricing conditions, given its small size in global terms. Major European reinsurers reported increasing price momentum for June and July 2020 renewals. The strong desire to protect earnings from pandemic-related claims and lower investment income has led reinsurers to a more disciplined approach. Even before the pandemic, price adjustments were needed to reflect higher natural catastrophe claims and concerns over reserve adequacy and loss severity in casualty business lines.

Fitch believes that any additional large losses in 2H20 will erode profits even more and as a consequence, accelerate price improvements further.

Reinsurance Reliance from Insurers

Fitch also conducted a review in which rated LatAm insurers rely on reinsurance protection. Fitch has a strong presence in most LatAm countries, and this assessment was made because the agency's portfolio includes insurers in each of the covered countries. This assessment excluded insurance company data from Argentina, Uruguay and Nicaragua, countries in which Fitch has presence but has a very small sample of rated insurers.

Data available to evaluate reinsurance programs varies greatly. Fitch relies more heavily on the ratios and metrics from its Insurance Rating Criteria, including the reinsurance recoverables-to-capital ratio, the annual aggregate catastrophe losses-to-capital ratio and the net premium written-to-gross premium written ratio.

Fitch also discusses the various regulatory requirements with respect to catastrophic reserves constitution and regarding the minimum catastrophic coverage requirement from LatAm countries.

> Latin American insurers' risk mitigation strategies are highly reliant on reinsurance protection. Insurance companies simply would not have the capacity to offer catastrophe risk coverage if it were not for their reinsurance protection.
>
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Related Research

Coronavirus Rating Review: LatAm Insurers (Rating Actions Reflect Resiliency with Sensitivity to Sovereigns (July 2020)

LATAM Insurance Rating Actions Reflect Sovereign Sensitivities (June 2020)

Global Reinsurance Sector Outlook Negative On Coronavirus Concerns (March 2020)

Sector Outlook for LatAm Insurance Revised to Negative Due To Coronavirus Pandemic (March 2020)

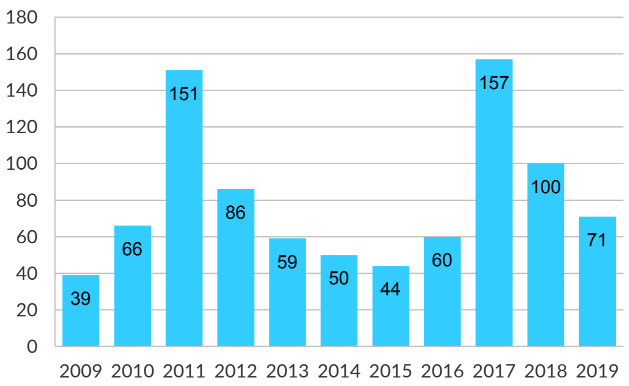
2019 — Manageable Catastrophe Loss Year

During 2019, global economic losses from natural catastrophes registered below 2018 levels and were significantly below 2017's record losses. Economic losses were estimated at USD232 billion for 2019, below the USD263 billion incurred during 2018 and much lower than the USD475 billion record from 2017.

Insured losses registered at USD71 billion at YE 2019, down from USD100 billion in YE 2018, and lower than record losses of USD157 billion in 2017. The largest insured catastrophe events of 2019 were Japan's Faxai and Hagibis Typhoons during September and October, with USD9 billion and USD6 billion of insured losses, respectively. Total economic costs were estimated at USD25 billion.

Global Insured Losses

(USD Bil.)



Source: Fitch Ratings, AON Benfield.

2019 Major Events in Latin America

Event	Country	Date	Economic Loss	Insured Loss (USD Mil.)
Hurricane Dorian	Caribbean	September	8,000	2,500
Flooding	Argentina, Uruguay	January	2,400	125
Tropical Storm Fernand	Mexico	September	383	25
Drought	Chile, South America	Annual	4,000	50
Total			**14,783**	**2,700**

Source: Aon Benfield.

For the LatAm region, 2019's economic and insured losses from natural disasters reached USD14.8 billion and USD2.7 billion respectively, and increased significantly from 2018's USD5.8 billion and USD0.5 billion, respectively. However, these were still significantly below 2017 levels of more than USD104 billion and USD36 billion, respectively, in insured losses.

Global Reinsurance Influence on LatAm Reinsurance

Global Sector Will Not Earn Cost of Capital in 2020

Following a global reinsurance sector ratings review, Fitch expects that the sector will fail to earn its cost of capital in 2020 amid the coronavirus pandemic. Financial performance will be affected by mortality claims and losses from event cancelation, business interruption, credit and surety insurance and by financial market disruption linked to the economic impact of lockdown measures. This follows three years of heightened natural catastrophe losses and increasing U.S. casualty claims, which depressed reinsurers' returns in 2017–2019.

The ultimate implications of the pandemic on the global reinsurance sector are uncertain, but the risks are skewed to the downside for companies that cannot earn their cost of capital on a sustainable basis given the long-term negative implications for their capital positions.

Strong Pricing in Second-Quarter Renewals

While primary insurance premiums may shrink in 2020–2021 due to the effects of a global recession, Fitch expects an increased demand for reinsurance coverage from primary insurers affected by pandemic-related claims. Reinsurance prices are likely to rise since there is a widespread desire to protect earnings from pandemic-related claims and lower investment income has led to a more disciplined approach.

Major European reinsurers that traditionally focus on Asia reported strong price increases for their April 2020 renewals, which reflect the heightened loss experience from Japan compared with prior years. These results align with industrywide price observations of strong price increases for both loss-affected and loss-free lines of business. Fitch expects this price trend to continue for the 2H20 renewals because any additional large losses from catastrophes will erode profits, and as a consequence, accelerate price improvements further.

The LatAm reinsurance sector is highly influenced by international pricing conditions, given its small size in global terms. Competition from global reinsurers and their larger reinsurance capital supply forces LatAm reinsurers to focus their efforts on regional insurance sectors. However, Fitch believes LatAm reinsurance demand will also benefit from global conditions, considering that primary insurers hit by pandemic-related claims will increase reinsurance coverage; record natural catastrophe losses from the past three years motivated further coverage acquisitions in catastrophe-affected countries; and competition from insurance-linked securities in the region is scarce.

Coronavirus Reviews for LatAm Reinsurers

Fitch's coronavirus reviews were based on the impact assessment from the pandemic under a set of rating assumptions. Fitch used these assumptions to develop pro forma financial metrics for four LatAm reinsurers using YE 2019 financial data. Fitch then compared the pro forma metrics to both the ratings guidelines defined in its Insurance Rating Criteria and to the previously established rating sensitivities for each company. This review excluded captive reinsurance companies.

Assumptions for Coronavirus Insurance Reviews — Fitch Rating Case

The rating assumptions primarily reflect market value declines in capital market instruments typically owned or traded by reinsurance companies, the level of market interest rates, the capital market access of reinsurers, the infection and mortality rate of the pandemic, and the influence of the crisis on non-life loss ratios, among other considerations. Furthermore, Fitch's criteria for sovereign investment and country risks highly influenced the review of LatAm reinsurers.

However, Fitch could make material adverse changes to its rating assumptions if the coronavirus-related economic fallout worsens. Fitch revised the sector outlook for LatAm insurers' underlying fundamentals to Negative from Stable in March 2020. The sector outlook remains Negative due to the sustained concerns of the coronavirus pandemic and related impacts to the credit quality of sovereigns, insurance and reinsurance companies in the region.

Fitch also kept the 2020 global GDP forecast from late June at negative 4.6%, compared with a 1.3% growth forecast revised in March. A prolonged health crisis that exacerbates financial market volatility and challenges insurers' earning profiles due to higher claims, softer investment incomes and reduced business underwriting will likely lead to further negative rating actions.

Latin American Reinsurers Coronavirus Rating Actions

Company	Rating Type	Current	Previous
Reaseguradora Patria	International IFS National IFS	BBB+/Stable AAA/Stable	A–/Stable AAA/Stable
Der Neue Horizont Re	International IFS National IFS	B/Stable BB/Stable[a]	B/Stable BBB–/Stable
Mercantil Reaseguradora Internacional	International IFS National IFS	BBB/Stable	BBB/ Negative
REHSA Compania de Seguros y Reaseguros, S.A.	International IFS National IFS	BBB–/Stable	BBB–/ Stable

[a]National criteria revision rating. IFS – Insurer Financial Strength.
Source: Fitch Ratings.

High Influence from Sovereign Risk

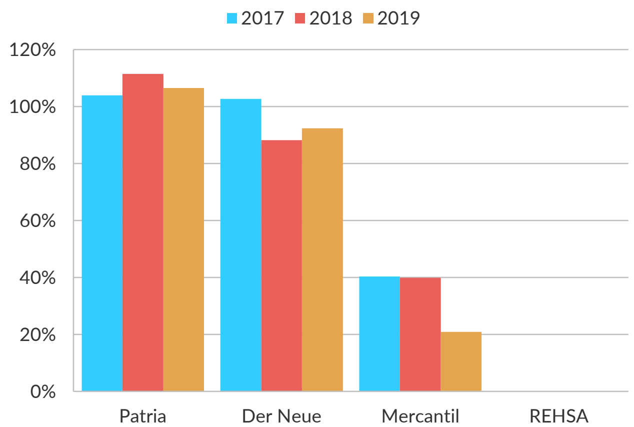
High concentrations in sovereign-related investments and negative rating actions on LatAm sovereign ratings significantly influenced LatAm (re)insurers' ratings. Fitch evaluates the level of exposure to the sovereign (country of domicile and/or major operations) within the investment portfolio, by looking at the ratio of sovereign investments to capital. Large investments in sovereign and related securities is often most prevalent in developing markets where regulatory requirements, and the relative underdevelopment of local capital markets, limit insurers' investment choices.

> Fitch's criteria for sovereign investment and country risks highly influenced the review of LatAm reinsurers.

The Mexican sovereign rating downgrade to 'BBB–' from 'BBB' in April 2020 led to the downgrade of Mexican reinsurer Reaseguradora Patria's international Insurer Financial Strength (IFS) rating to 'BBB+' from 'A–' due to sovereign investment concentrations. The downgrade primarily reflected pressure on Patria's investment and asset risk assessment driven by the noted sovereign downgrade.

Der Neue Horizont Re's pro forma metrics under Fitch's coronavirus review also implied the risk of increasing pressure on its investment and asset risk assessment, driven mainly by the reinsurer's concentration in bonds backed by the Mexican government. Ratings of two LatAm reinsurers in countries whose sovereign risk remained stable were not affected by this assessment.

Sovereign Investments to Capital



Source: Fitch Ratings, rated insurance company data.

Capitalization and Leverage

All four LatAm reinsurers showed a resilient capital position in Fitch's coronavirus pandemic review. All displayed adequate leverage levels for their rating categories, based on reported numbers as of YE 2019 and pro forma metrics. This shows that they have enough capital headroom to manage substantial losses on their investment portfolio, which was the main element of Fitch's capital stress. As pro forma shareholders' equity decreased, for all four reinsurers, the pro forma financial leverage increased, but remained within the limits of the pre-established sensitivities.

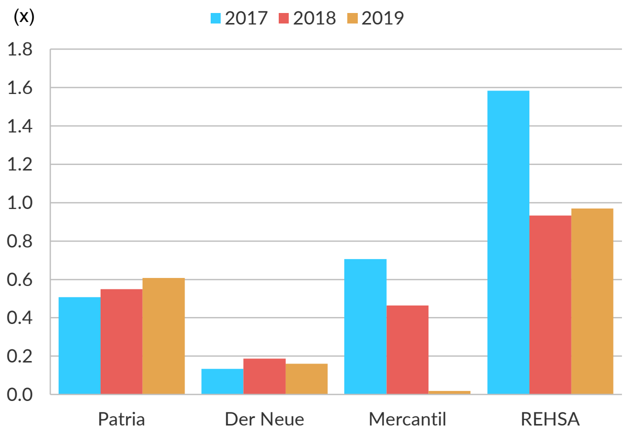
In the case of Mercantil Reaseguradora Internacional S.A. (previously Provincial Re Panamá S.A.), its capitalization was a main driver for its latest rating action (rating affirmed at BBB[pan], Outlook revised to Stable from Negative), based on the recent capitalization the company received from its new shareholders to support its strategic expansion plan in Latin America.

Financial Performance and Earnings

Fitch's short-term earnings stress was mostly focused on technical losses directly related to the coronavirus pandemic. These included claims linked to higher mortality, a spike in health claims, and an increase in overall non-life accident-year loss ratio, partially offset by lower claims in auto insurance books.

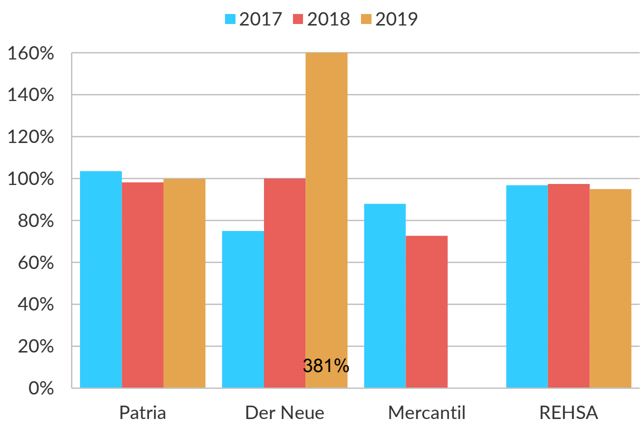
All four LatAm reinsurers showed declines in profitability as measured by pro forma combined ratios and net income ROE. However, these increases remained within manageable levels compared with previously established rating sensitivities for respective reinsurers.

Net Written Premium to Capital



Source: Fitch Ratings, rated insurance company data.

Combined Ratio



Source: Fitch Ratings, rated insurance company data.

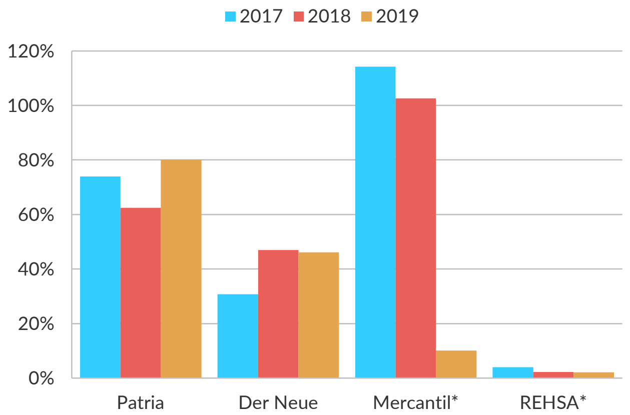
Investment and Asset Risk

Under Fitch's pro forma scenarios, and given the negative sovereign rating movements, the investment and asset risk credit factor received more pressure and was a key rating driver for LatAm reinsurers. Fitch's pro forma assessments put further pressure on investment portfolios when considering the effect caused by stock market declines, investment default losses and increased risk on some securities, caused by the coronavirus pandemic.

The risky asset ratio is also directly affected by sovereign rating movements because sovereign-related investments are scaled into this ratio based on country risk levels of 'BBB+' and below, levels which are more common in developing markets. Furthermore, the sovereign investments-to-capital ratio can potentially cap the score for this credit factor based on the sovereign investments to capital ratio level and the Local Currency rating of the sovereign.

The downgrade in Mexico's sovereign Issuer Default Rating to 'BBB–' caused Patria's risky asset ratio to increase to 80% from 59%, and resulted in a more stringent application of Fitch's sovereign investment concentration factor. Der Neue's assessment reflected a risky asset ratio increase to 46% from 28% due to the sovereign's downgrade. Impact on this credit factor was less for Mercantil and REHSA Compania de Seguros y Reaseguros, S.A., which are both rated on a national scale basis and whose investment portfolios focus on securities with good credit quality.

Risky Assets Ratio



*National scale ratios.
Source: Fitch Ratings, rated insurance company data.

LatAm Insurers Highly Dependent on Reinsurance Protection

Fitch conducted a review as to which rated LatAm insurers rely on reinsurance protection. Fitch has a strong presence in most LatAm countries, and this assessment was made since Fitch's portfolio includes insurers in each of the covered countries. This assessment excludes insurance company data from Argentina, Uruguay and Nicaragua, countries in which Fitch has presence but has a very small sample of rated insurers.

Markets not covered by Fitch were excluded, including Ecuador, Bolivia, Paraguay and Venezuela. In the Caribbean, Fitch LatAm insurance only covers the Dominican Republic.

Strong Reliance on Reinsurance

Reinsurance plays an important role for LatAm insurers' risk mitigation strategies. Data available to evaluate reinsurance programs can vary greatly. When information is limited, Fitch relies more heavily on the ratios and metrics noted in the table below and in the catastrophe risk section of this report below, and also looks for signs of changes in reinsurance programs that could flag a change in risk. These include a shift in premiums ceded to reinsurers, changes in reinsurers' share of incurred losses or changes in the amount of reinsurance recoverables.

Average Reinsurance Reliance Ratios by Country/Region

(%, as of December 2019)	Reinsurance Recoverables/Capital	Net Premium Written/Gross Premium Written
Mexico	38	75
Guatemala	19	67
El Salvador	27	67
Honduras	43	37
Costa Rica	59	56
Panama	20	56
Dominican Republic	41	70
Colombia	96	83
Chile	70	75
Peru	80	79
Brazil	42	86

Source: Fitch Ratings, rated insurance company data.

Average Net PML Ratios by Country/Business Segment (%, as of December 2019)

Business Segment	Net PML/Equity + CAT Reserves
Mexico - CAT exposure	0.14
Mexico - Composite	0.26
Mexico - Agricultural	38.1
Dominican Republic - Non-life	3.1
Central America - Non-life	1.9
Colombia - Non-life	1.0
Chile - Non-life	1.2
Peru - Non-life	0.5

PML – Probable maximum loss or annual aggregate catastrophe losses. CAT – Catastrophe.
Source: Fitch Ratings, rated insurance company data.

Reinsurance recoverables–to-capital ratio measures if the exposure to possible collection disputes with reinsurers is not excessive. The weight of reinsurance recoverables is considerable in most LatAm countries. Thus, nonpayments by reinsurers would have a material negative impact on insurers' balance sheets. To interpret this ratio, Fitch also considers the credit quality of reinsurers, the stability of the relationship between insurer and reinsurer, historical collection patterns, and any security held in the form of LOCs, trust accounts or funds withheld.

Furthermore, the net premium written–to-gross premium written ratio measures the portion of premiums that are retained and not ceded to reinsurers and indicates the overall use of ceded reinsurance capacity. This ratio provides a general idea, in terms of premiums, of the degree of reliance on reinsurance. A lower value of ceded premiums is generally more favorable, though underpurchasing reinsurance intended to protect capital and earnings can also increase risks when policy or aggregate limits/exposures are large relative to equity capital.

Considering LatAm's net premium written–to-gross premium written ratio, Fitch concludes that reinsurance reliance in LatAm is high, with the exception of Brazil, a country that does not have an adverse risk profile due to natural disasters and its reinsurance sector has far less penetration compared with neighboring countries. Furthermore, capital from Brazilian insurers is robust, meaning that they are more capable of retaining their own risks.

"Capital from Brazilian insurers is robust, meaning that they are more capable of retaining their own risks.

LatAm Catastrophe Risk

PML Analysis

Fitch's analysis of catastrophe risk for non-life insurers involves traditional ratio analysis and, in some regions, a review of the output of catastrophe risk models. The starting point is a review of business mix, geographic concentration, premium growth rate and past results in order to understand the company's overall catastrophe risk management profile. This review considers the nature of catastrophe risk on a marketwide basis within a jurisdiction as well as the insurer's specific share of market losses.

When provided, Fitch reviews results generated by insurers' internal and licensed catastrophe probable maximum loss (PML) models. Fitch reviews various confidence levels, including 100-year, 250-year, 500-year and 1,000-year probabilities, and beyond, when possible. These different confidence levels are used based on local market conventions. For example, in the U.S. a 250-year ratio is the norm, whereas the 200-year ratio is typically used in Europe.

In Latin America, Mexico and Colombia use a 1,500-year confidence level. Fitch believes modeled results are most informative on an annual aggregate basis (both gross and net of reinsurance).

Fitch also recognizes the potential shortfalls in any model-driven analysis and also attempts to not be overly reliant on the results of any one model without also applying judgment in interpretation of the model outputs.

When analyzing annual aggregate catastrophe losses, also known as PML, Fitch measures the leveraging of capital to a large property catastrophe loss and indicates the pretax impact on capital if such a loss occurred, prior to any offsetting actions. Fitch views a lower proportion more favorably.

For most LatAm insurers that underwrite catastrophic risk, reinsurance is vital. Without reinsurance protection, insurers run the risk of collapsing after a catastrophic event. This can be evidenced by measuring and comparing insurers' gross and net PMLs.

In LatAm, the gross PML-to-capital ratio generally registers very high levels, averaging around three-digit percentage levels, while net PML–to-capital ratios are generally registered at very low levels. These latter ratios usually register levels under 30%, which are scored at 'aaa' and 'aa' categories by Fitch for the reinsurance, risk mitigation and catastrophe risk credit factor.

The sizable difference between annual aggregate catastrophe losses-to-capital ratios, when calculated on a gross and net of reinsurance basis, also signals a strong reliance on catastrophic reinsurance protection. This is a clear sign that many insurance companies would not have the ability to offer catastrophe risk coverage, if it were not for their reinsurance protection. This is due to companies' smaller capitalization levels and the smaller operating scales from the region's countries. Some insurers in the region are also known to focus their catastrophic risk underwriting mainly as a fronting service from reinsurers.

LatAm Catastrophe Exposure

The region is also known to be heterogeneous in terms of natural catastrophe exposure. Mexico faces the majority of natural catastrophe risks. The Central American region, including the northern region of Panama, is known to be exposed to earthquakes, volcanic eruption, floods and hydrometeorological risks.

The Dominican Republic shares a similar catastrophe risk profile as Central America, but with a much higher risk of hurricane perils. More to the south, Colombia is also exposed to the majority of natural disasters. Chile, on the other hand, is not exposed to hurricanes, but is more exposed to earthquakes, volcanic eruption and tsunamis. Peru also shares a similar catastrophe profile with a high exposure to earthquakes and hydrometeorological risks. Even though Brazil does not face a high earthquake risk, the country is exposed to floods, landslides, wildfires and hydrometeorological events.

In Mexico, the agricultural business line is also an outlier regarding PML exposure. Reinsurance programs for companies that operate in this business are defined by state. There are no specific reinsurance coverages for catastrophic events, as commonly protected risks within this business line are already classified as catastrophic, such as frosts and hurricanes. While the net PMLs' exposure to capital is high for companies operating in agricultural business, compared with what Fitch observes in the region, we consider that it appropriately follows the country's conservative regulatory models and the special characteristics of the agricultural business.

Reinsurers with Strong LatAm Presence

Most Common Reinsurance Companies in LatAm

Hannover Re	Swiss Re	Reaseguradora Patria
Everest Re	MAPFRE	Navigators Re
Munich Re	Scor Se	Gen Re

Source: Fitch Ratings, rated insurance company data.

Having conducted the review of rated LatAm insurance companies' reinsurance programs, Fitch noted the most common reinsurer names that appear in their respective reinsurance programs, from each of the countries covered. In a generalized manner, the table below lists reinsurer names that are the most common within the reinsurance programs from ceding insurers throughout the region.

Reinsurance Treaty Characteristics

Generally speaking, LatAm insurers protect their property/casualty business lines through nonproportional excess of loss contracts, and in fewer cases, stop-loss contracts. However, most of non-life insurance business lines additionally include some portion that is ceded through proportional treaties. The most commonly used are quota-share contracts.

Furthermore, the majority of property business lines are protected by catastrophic excess of loss contracts, with a few cases that have an additional coverage with proportional contacts. Catastrophic risks usually include earthquake, hydrometeorological perils and volcanic eruption events.

Life insurance lines are usually backed up by proportional quota-share and surplus treaties, or nonproportional excess loss contracts. In some cases, life insurance lines also include a catastrophic excess of loss protection.

Catastrophe Coverage and Reserving Requirements by Country

In the table below, Fitch provides additional comments regarding the regulatory requirement with respect to catastrophic reserves constitution and regarding the minimum catastrophic coverage requirement from respective LatAm countries.

Catastrophic Coverage Requirements and Catastrophe Reserves by Country

Country	Catastrophe Reserve Constitution Regulatory Requirement	Minimum Catastrophic Coverage Requirement
Mexico	Catastrophe reserves are constituted using defined maximum retention limits per business line and should cover a regulatory requirement of a 1:1,500-year PML. A maximum limit is defined to prevent catastrophe reserve accumulation.	Based on both a minimum retention limit and using a PML of 1:1,500 years.
Guatemala	Catastrophe reserves are provisioned on a monthly basis from 25% of net earned premiums from catastrophic risk coverages.	Calculated as 12% of the PML from the geographic zone that has the largest aggregation of sums insured.
El Salvador	Catastrophe reserves are provisioned over catastrophic risks by applying a 5% from net written premiums from fire and allied business lines; up until a maximum limit equal to the sum of the catastrophic reinsurance priority, plus any policy liabilities not covered by the catastrophic reinsurance contract, less the solvency margin for the respective catastrophic risk.	Calculated as 12% of the PML from the geographic zone that has the largest aggregation of sums insured.
Honduras	Catastrophe reserves are provisioned on a monthly basis for an amount equal to the priority, plus any policy liabilities not covered by the catastrophic excess loss contract.	Calculated as 8% of the PML from the geographic zone that has the largest aggregation of sums insured.
Nicaragua	Catastrophe reserves are provisioned by applying a 15% from yearly net written premiums from fire and allied business lines.	Calculated as 15% of the probable maximum loss from the geographic zone that has the largest aggregation of sums insured.
Costa Rica	Catastrophe reserves have a maximum accumulation limit established by regulation according to a set of criteria which consider the net PML, the five-year average net PML and estimated catastrophe reinsurance reinstallment costs.	Calculated as a percentage of the PML from the geographic zone that has the largest aggregation of sums insured. Percentages of PML are provided by the regulator considering a matrix of various factors depending on the property type and geographic zone.
Panama	Catastrophe reserves are provisioned for an amount not lower than 1% of net written premiums.	No specific requirement.
Dominican Republic	Catastrophe reserves are constituted with a minimum of 0.50% and with a maximum of 5% from the net written premiums in the coverage of fire and allied business lines exposed to catastrophic risks.	Calculated as 10% of the PML from the geographic zone that has the largest aggregation of sums insured.
Colombia	Catastrophe reserves are constituted with resources released from the unearned premium reserves and are cumulative until reaching a value that results from multiplying the PML factor of the average retained portfolio from the last five years, by the portfolio retained by the respective insurance company.	Based on a PML of 1:1,500 years
Chile	Catastrophe reserves are required by regulation and consider the priority of the catastrophic contract, plus any amount not covered by it. If the contract's capacity is lower than the PML, then the portion not covered by the catastrophe reinsurance should be reserved along with the priority.	Based on specific percentages of sums insured. Calculated using the PML from geographic zones that have the largest aggregation of sums insured; 10% for property risks and 15% for business interruption and engineering lines.
Peru	Catastrophe reserves are required by regulation and consider the priority of the catastrophic contract plus any amount not covered by it. If the contract's capacity is lower than the PML, then the portion not covered by the catastrophe reinsurance should be reserved along with the priority.	Based on specific percentages of sums insured.
Brazil	No specific requirement.	Catastrophe risks of large proportions must be protected with nonproportional excess of loss reinsurance contracts. Reinsurers adjust a catastrophe loss limit with ceding insurers and also usually adjust their maximum liability limit. The regulator sets maximum retention limits, per each risk, in each segment.

PML – Probable maximum loss.
Source: Fitch Ratings, national insurance regulators.

Appendix

Latin American Reinsurers' Ratings

	Country		International IFS		National IFS		
Company	**Origin**	**Domicile**	**Rating**	**Outlook**	**Rating**	**Outlook**	**Segment**
REHSA	Dominican Rep.	Dominican Rep.	-	-	BBB-(dom)	Stable	Non-Life
Reaseguradora Santo Domingo	Dominican Rep.	Dominican Rep.	-	-	BB+(dom)	Negative	Non-Life
Reaseguradora Patria	Mexico	Mexico	BBB+	Stable	AAA(mex)	Stable	Composite
Der Neue Horizont Re	Mexico	Mexico	B	Stable	BB(mex)	Stable	Agriculture
Mercantil Reaseguradora Internacional	Venezuela	Panama	-	-	BBB(pan)	Stable	Composite
Mortgage Credit Reinsurance	Panama	Turks & Caicos	-	-	AA-(pan)	Stable	Captive
Nacion Reaseguros	Argentina	Argentina	CC	-	-	-	Captive

IFS: Insurer Financial Strength.
Source: Fitch Ratings

Appendix

Fitch's International-Scale Ratings on Select Reinsurance Organisations

Company	IFS Rating	Long-Term IDR	Outlook
AXIS Capital Holdings Limited		A–	Negative
AXIS Reinsurance Company	A+		Negative
Berkshire Hathaway Inc.		AA–	Stable
General Reinsurance Corporation	AA+		Stable
National Indemnity Company	AA+		Stable
Echo Rueckversicherungs-AG	A–		Stable
Hannover Rueck SE	AA–	A+	Stable
E+S Rueckversicherung AG	AA–		Stable
JSC Russian National Reinsurance Company	BBB		Stable
Lloyd's of London	AA–		Watch Negative
Society of Lloyd's		A+	Watch Negative
Malaysian Reinsurance Berhad	A		Stable
Munich Reinsurance Company	AA	AA–	Stable
Munich Reinsurance America, Inc.	AA		Stable
Oman Reinsurance Company SAOC	BB+		Negative
PartnerRe Ltd.		A–	Negative
Partner Reinsurance Company Ltd.	A+		Negative
PT Maskapai Reasuransi Indonesia Tbk	BB+		Stable
PT Reasuransi Indonesia Utama (Persero)	BBB-		Stable
PT Reasuransi Nasional Indonesia	BB+		Stable
Reaseguradora Patria, S.A.	BBB+		Stable
Reinsurance Group of America, Incorporated		BBB+	Stable
RGA Reinsurance Company	A		Stable

Company	IFS Rating	Long-Term IDR	Outlook
RenaissanceRe Holdings, Ltd.		A	Stable
Renaissance Reinsurance Ltd.	A+		Stable
SCOR SE	AA–	A+	Stable
SCOR Global Life SE	AA–		Stable
SCOR Global P&C S.E.	AA–		Stable
SIGNAL IDUNA Rueckversicherungs AG	A–		Stable
Sirius International Group, Ltd.		BBB	Negative
Sirius International Insurance Corporation	A–		Negative
Sirius America Insurance Company	A–		Negative
Swiss Reinsurance Company Ltd	A+	A	Stable
Swiss Re Ltd		A-	Stable
Thai Reinsurance Public Company Ltd	A-		Stable
Taiping Reinsurance Company Ltd	A		Stable
Validus Holdings, Ltd.		A-	Stable

Ratings at 14 September 2020
IFS – Insurer Financial Strength
IDR – Issuer Default Rating
Note: Includes global reinsurance companies that are either a top 10 reinsurer by premium volume or have at least a one-third premium concentration in reinsurance business, and smaller local reinsurance companies with a concentration in a particular country/region
Source: Fitch Ratings

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