Outlooks: Brazil, LatAm & Global

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8° Encontro de Resseguro do Rio de Janeiro

AM Best Overview

AM Best Headquarters, Oldwick, NJ, USA.

AM Best Overview

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Best’s Credit Ratings are an essential benchmark to help the financial industry and consumers assess an insurer's financial strength, creditworthiness, and the ability to honor obligations to policyholders worldwide.

Our perspective is powered by strong analytic expertise, research and insight to help insurers, financial professionals, and consumers make more confident decisions.

With over 3,400 ratings in more than 90 countries, AM Best is located in the United States, Mexico, London, Dubai, Singapore, and Hong Kong

Market Coverage

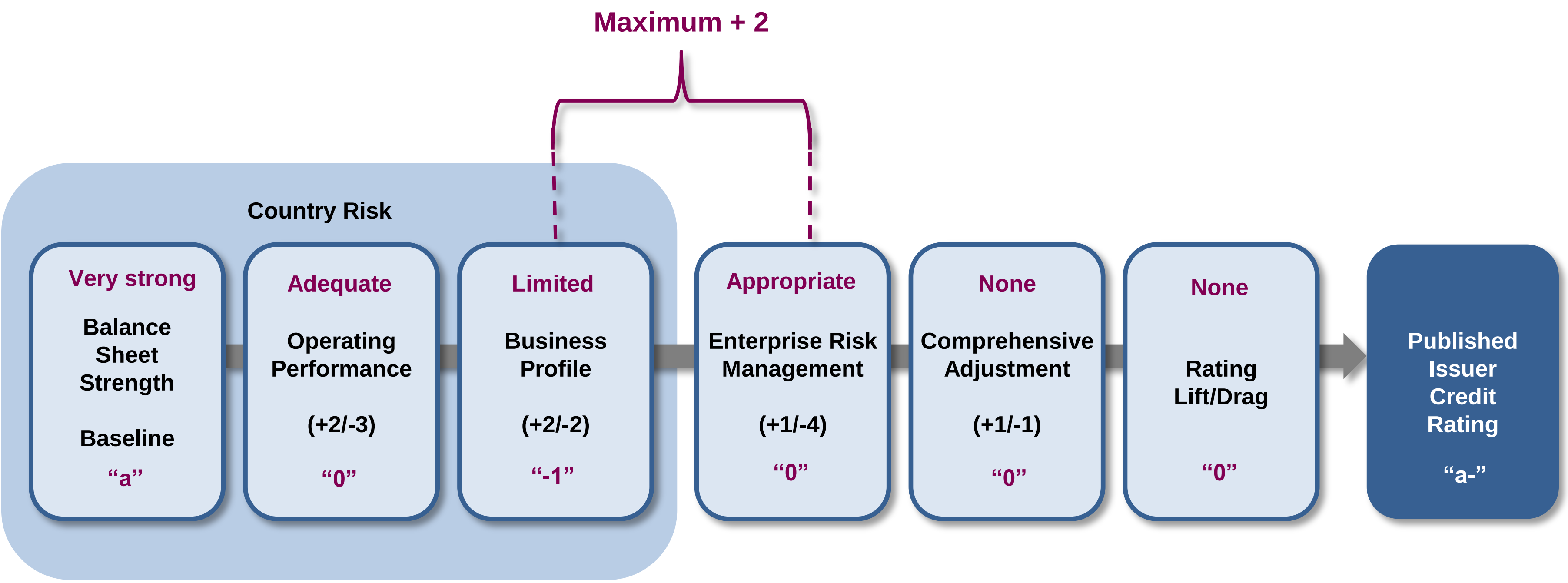
- Property/Casualty (non-life)
- Life and Annuity
- Health
- Reinsurance
- Mutual Insurers and Protection & Indemnity (P&I) Clubs
- Surety Companies
- Title Insurance
- Takaful, Retakaful and Co-operative Insurers
- Start-up Reinsurers
- Lloyd's and Its Syndicates
- Alternative Risk Transfer (ART) Vehicles – Captives, Pools and Risk Retention Groups
- Debt: Corporate Debt, Preferred Stock and Hybrid Securities, Commercial Paper, Insurance-based Liability or Asset-backed Securitizations, Closed-block Monetizations

Best's Credit Rating Scales

FSR	Long-Term ICR
A++	Aaa, aa+
A+	Aa, aa-
A	a+, a
A-	a-
B++	bbb+, bbb
B+	bbb-
B	bb+, bb
B-	bb-
C++	b+, b
C+	b-
C	ccc+, ccc
C-	ccc-, cc
D	c
E	e/d
F	f/d

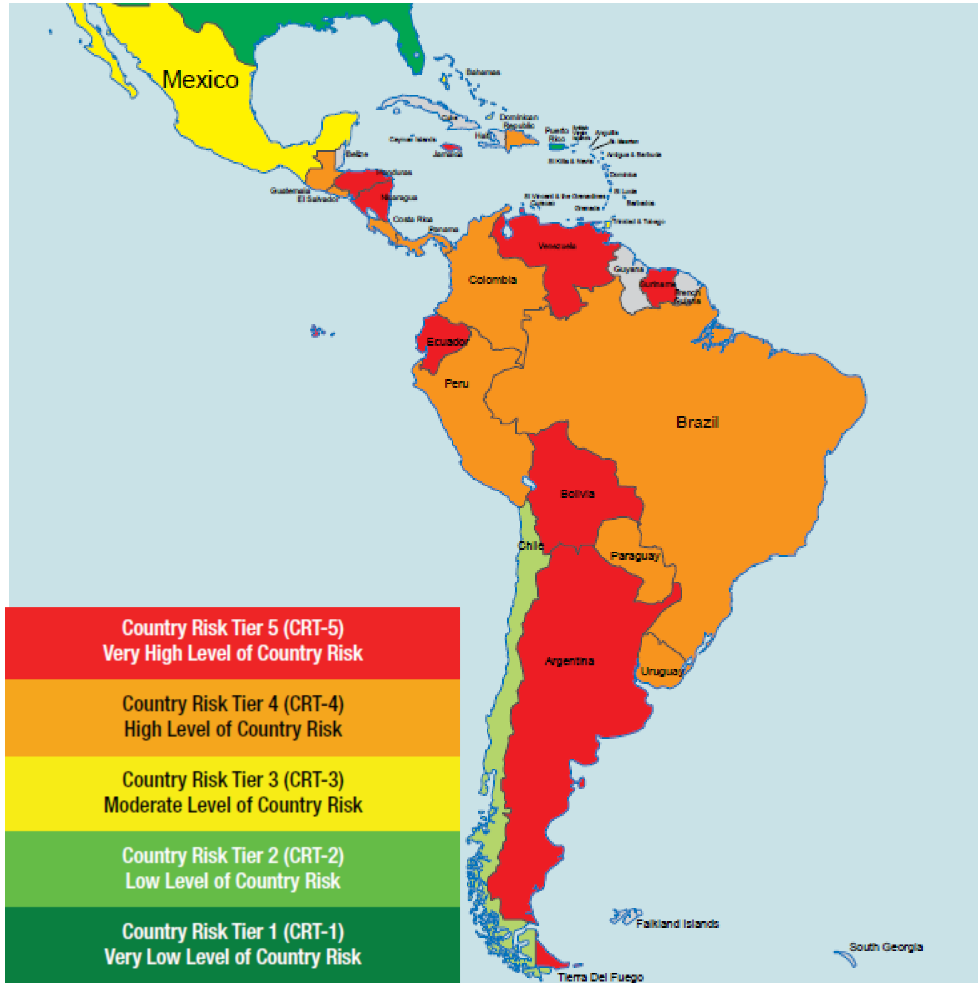
Note: e/E, f/F and d are non-rating designation status. e/E and f/F are used for insurers, while d is used for non-insurers and securities.

Overall Assessment



Country Risk in Latin America

Country	Country Risk Tier
Chile	2
Mexico	3
Brazil	4
Colombia	4
Costa Rica	4
Panama	4
Peru	4
Dominican Republic	4
Argentina	5
Bolivia	5
Ecuador	2
Honduras	5
Venezuela	5



Market Segment Outlook – Brazil Reinsurance

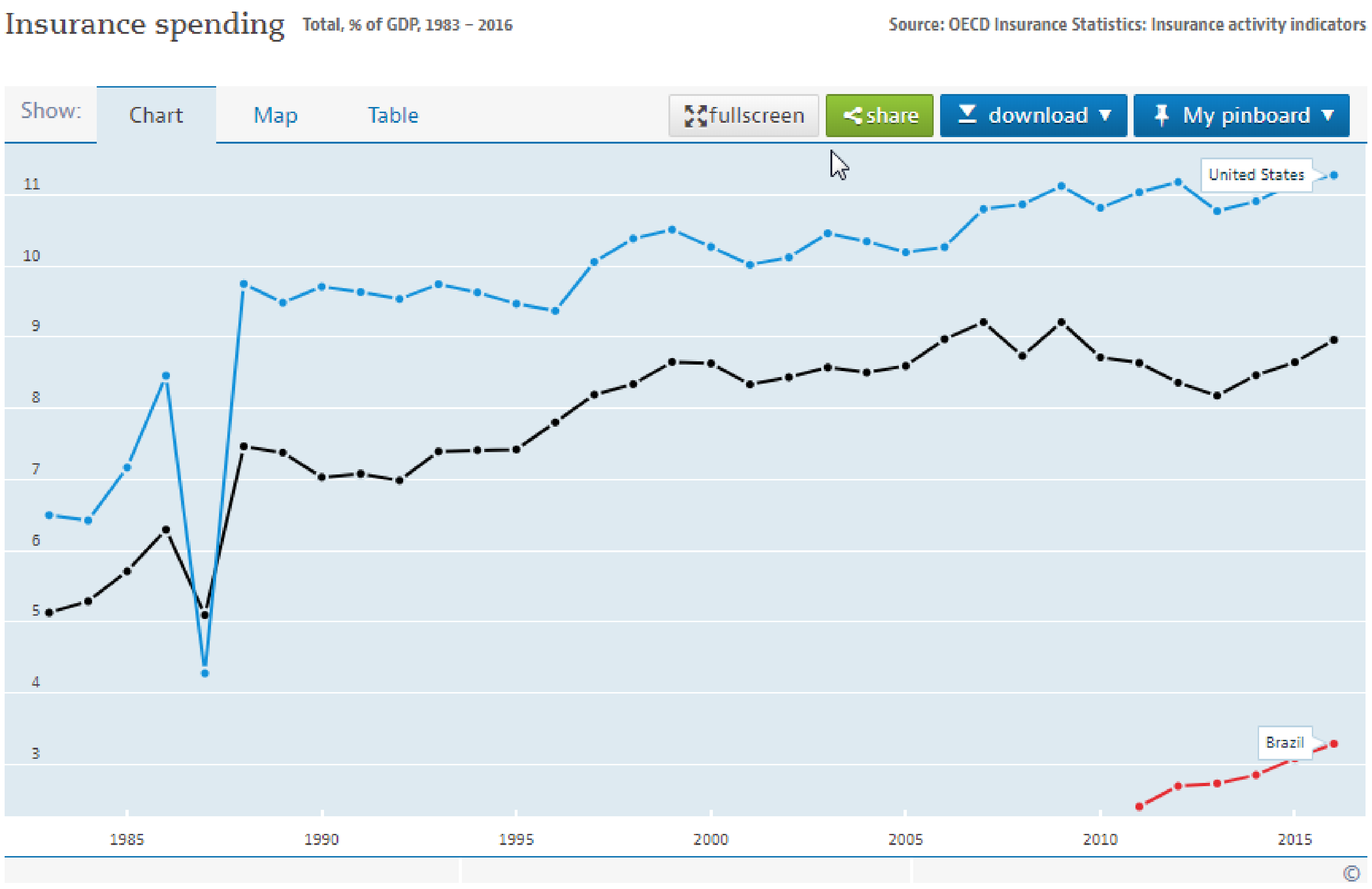
View from Alto da Boa Vista, in Rio de Janeiro.

Market Segment Outlook – Brazil Reinsurance

Headwinds	Tailwinds
Persistent macroeconomic and political uncertainty	There is a clear path of reforms to resume growth
Declining lower interest rate environment	Lower interest rates facilitate economic growth, and increase in underwriting
Currency volatility increases risk of doing business in Brazil	Volatility decreases in periods of stable growth
Competition in the property & casualty segment is intense	There is still growth potential in surety, agriculture, and specialty lines
Regulatory environment is evolving	Much was done to provide market economy features to the (re)insurance industry, which has been gradually opened

AM Best has assigned the outlook on the Brazilian Reinsurance market as Negative

Insurance Penetration in Brazil



- Insurance penetration still has a long way to go in Brazil
- Reinsurance usually follows
- Economic development to increase demand for (re)insurance
- Infrastructure improvements, together with regulatory framework have potential for positively impacting the (re)insurance industry

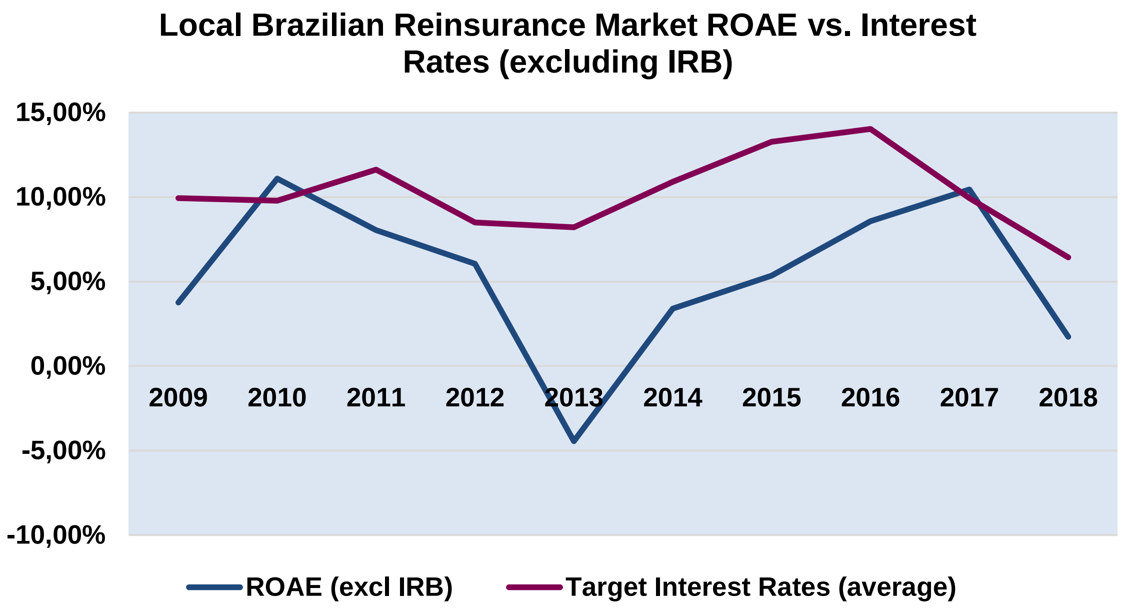
Source: OECD.

Market Segment Outlook – Brazil Reinsurance

- After presidential elections, part of the uncertainty disappeared
- Needed pension system reform is key to put country back on track
- Everything else will follow
- Infrastructure is a key topic for the current government and (re)insurance should follow suit
- There is a lag until reinsurance captures primary insurance market growth

Growth in the (re)insurance market can positively impact companies balance sheet strength, operating performance and business profile

Interest Rates Driving Return on Equity



10y Correlation	7y Correlation	5y Correlation	3Y Correlation
0.45	0.51	0.49	0.72

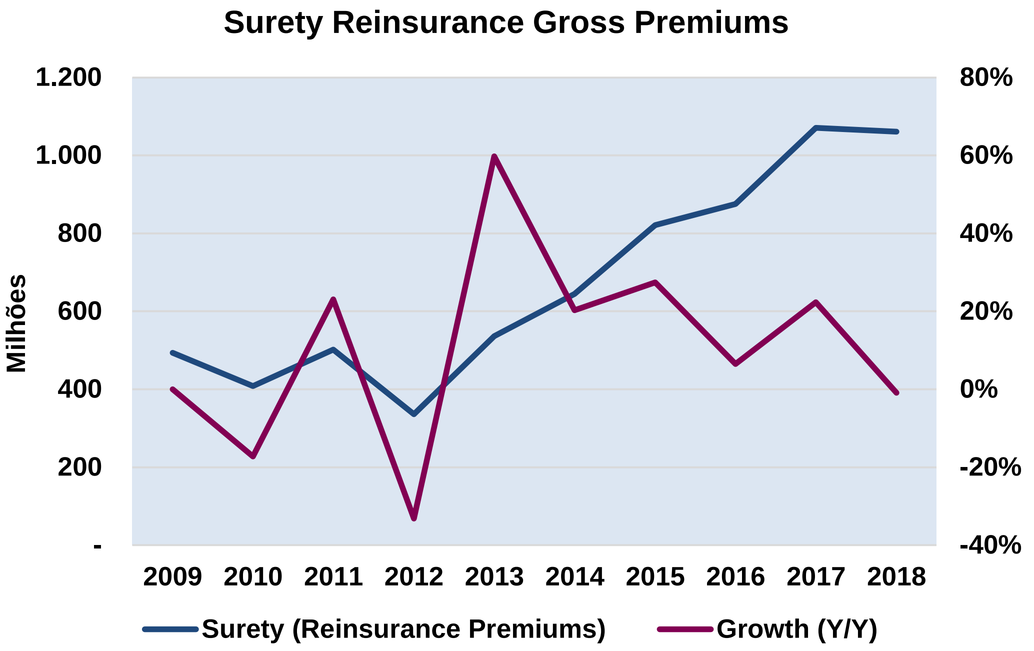
- Higher interest rates usually favor higher returns in the reinsurance industry
- Correlations between interest rates and return on equity have increased over the years
- Underwriting discipline and scale are key to improve profitability in the future

Source: SUSEP, Banco Central do Brasil.

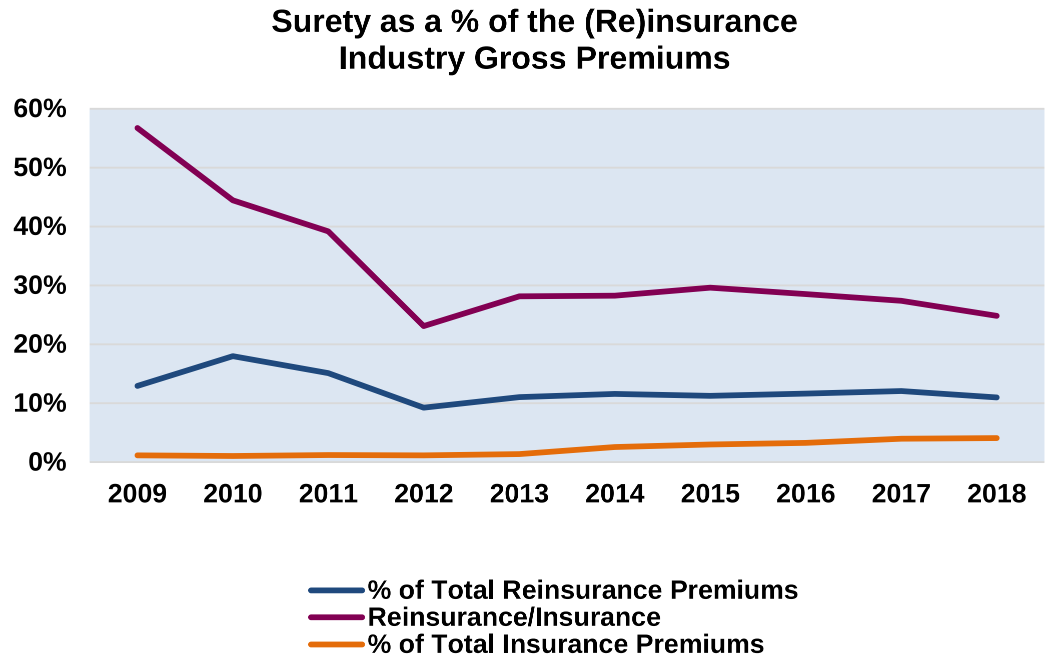
Surety

Octavio Frias de Oliveira bridge, in Sao Paulo.

Evolving Reinsurance Market - Surety: Still an Opportunity



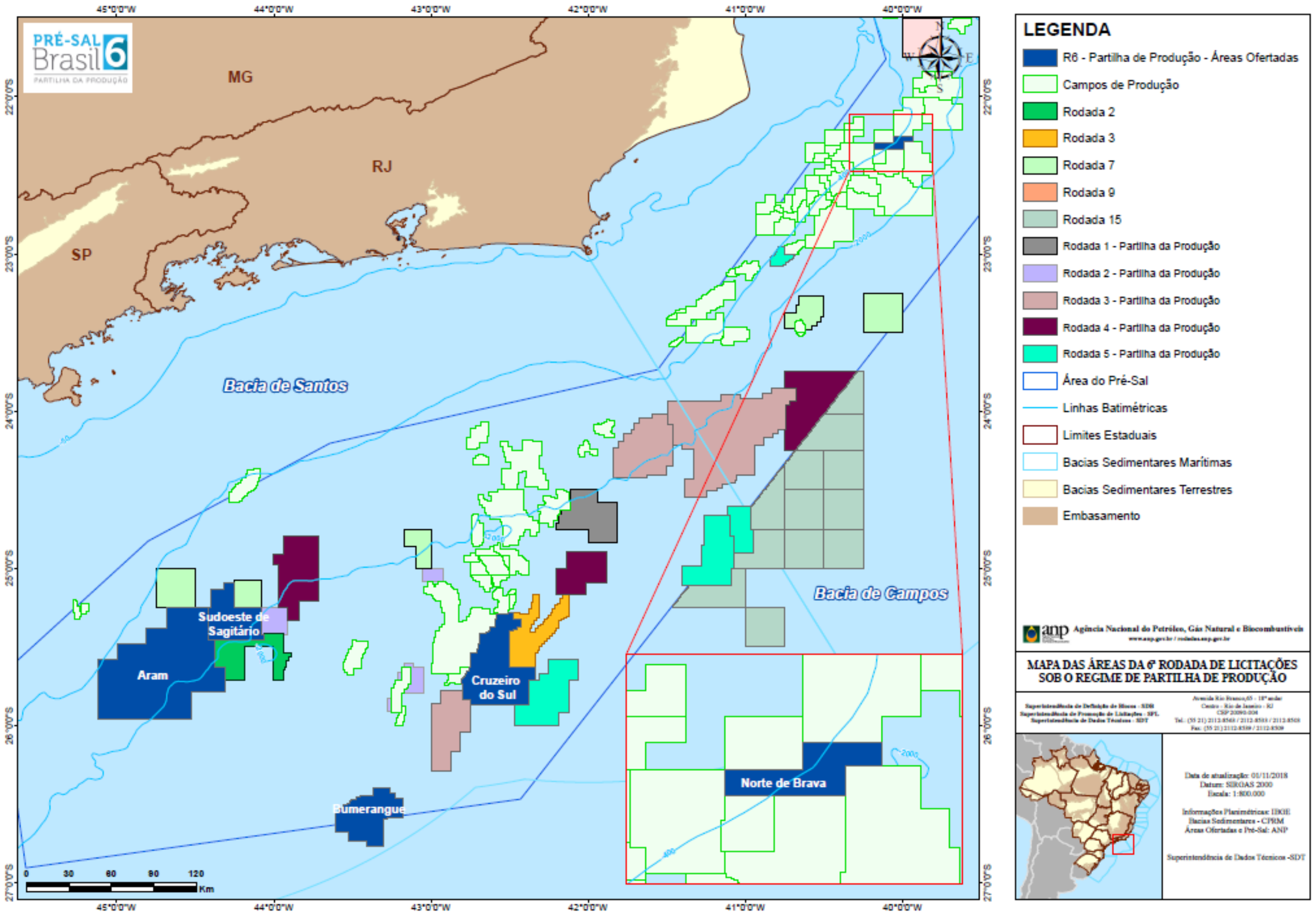
- The regulatory framework change in 2013 kicked-off the segment



- Losses are relatively low compared with other lines

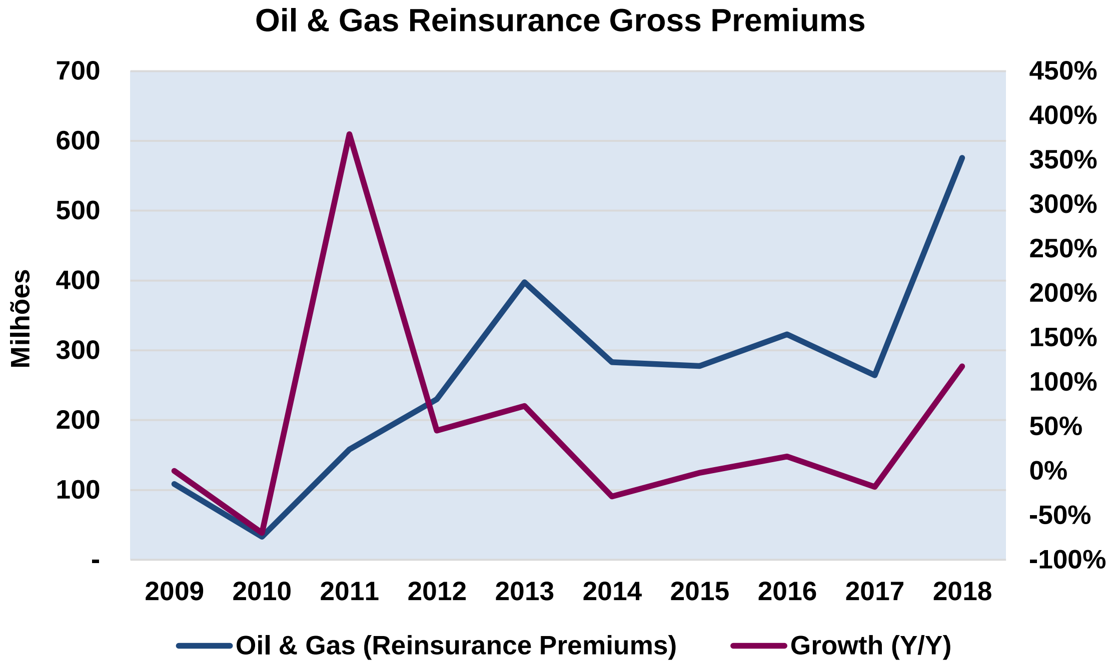
Source: SUSEP

Oil & Gas

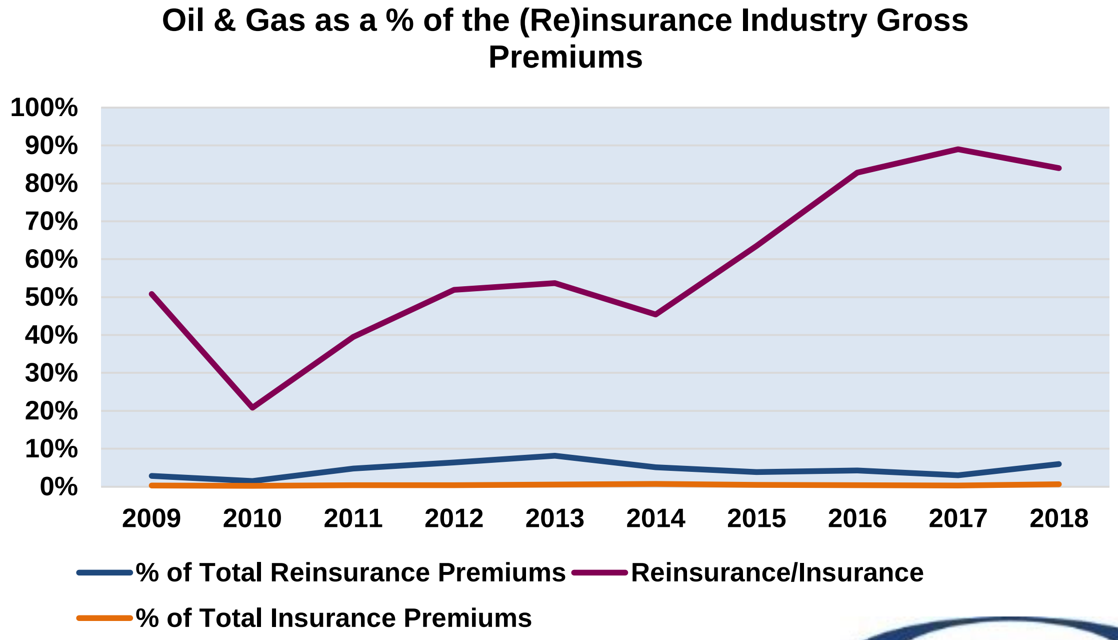


Brazil's Pre-Salt 6th tender offer round. Source: ANP Brazil

Evolving Reinsurance Market – Oil & Gas: Recovery



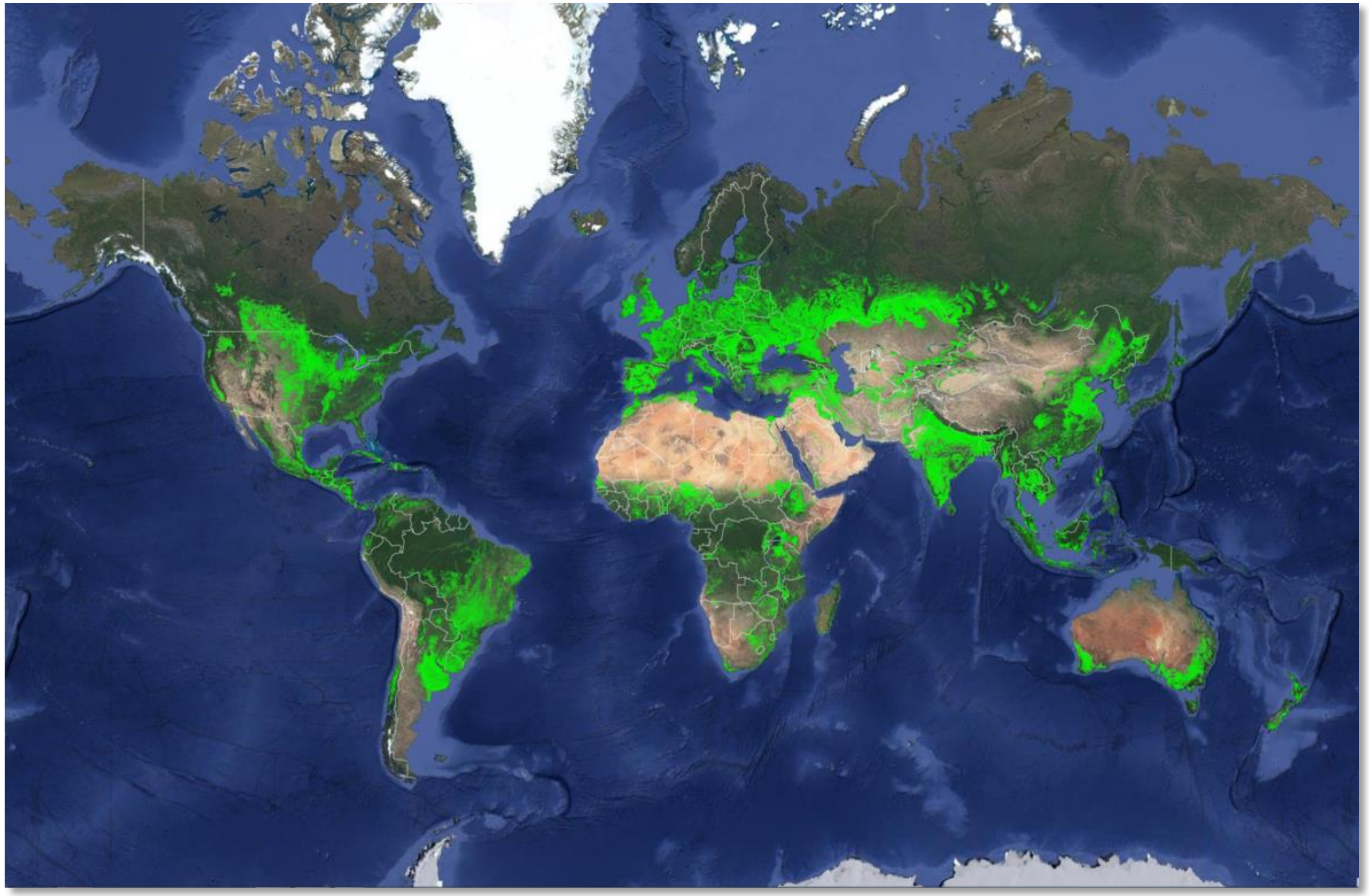
- With the stabilization of oil prices, resumption of oilfields tender offers and Petrobras clean-up, demand for (re)insurance in the Oil & Gas increased, however it has been very volatile in recent years



- The opening of the Oil & Gas market in Brazil has attracted global companies

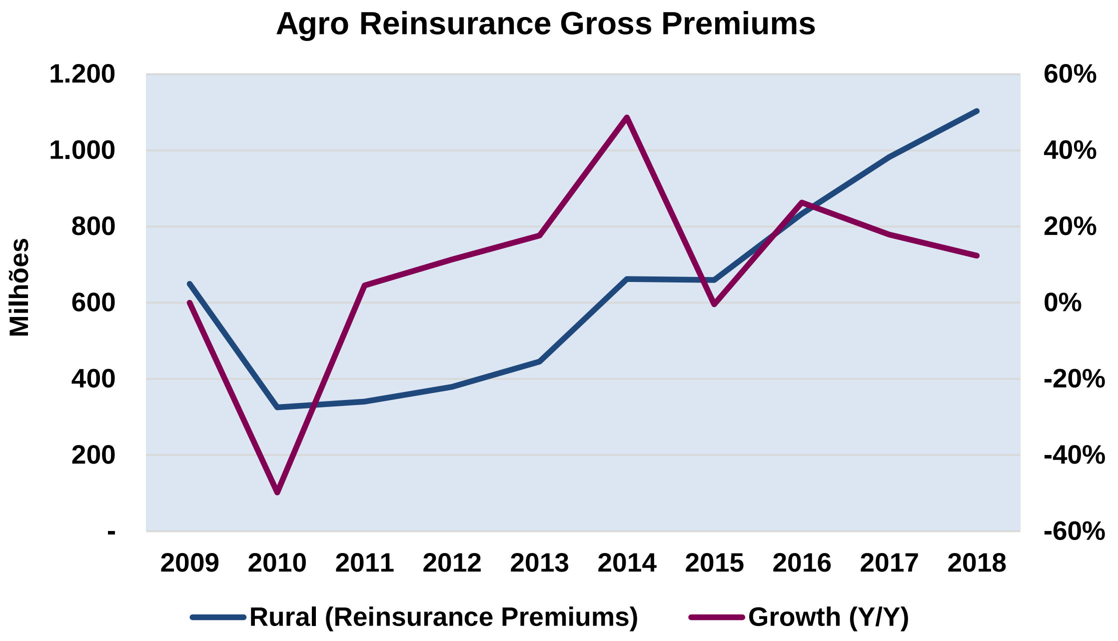
Source: SUSEP

Agriculture/Crop



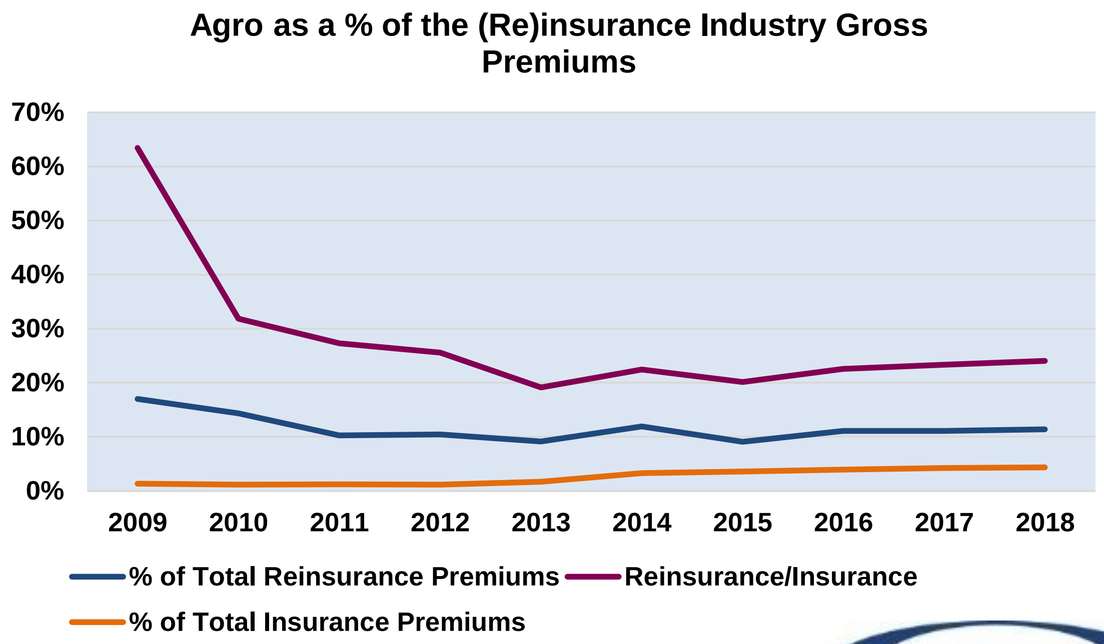
Map of Worldwide Croplands. Source: NASA, Nov. 2017.

Evolving Reinsurance Market – Crop/Agro: A Lot of Room



- While percentage insured vs. planted area is significantly below other countries (~15% in Brazil vs. ~90% in U.S.), current government intends to foster agriculture sector growth

- Primary market is somewhat concentrated by insurer and by activity/crop



Source: SUSEP, Ministério da Agricultura

Competitive Landscape

- (Re)insurance management in Brazil is seen as resilient, and have faced innumerous economic and political crisis in the past few decades
- Hyper-inflationary periods, currency volatility, regulatory uncertainty, high taxation environment were weathered by many of (re)insurance managers

- However, fierce competition establishes in Brazil each time the country gets in the spotlight as an attractive emerging opportunity

LatAm: Mexico and Panama Outlooks

Market Segment Outlook – Mexico Insurance

- Less dependency on investment income as insurers gained efficiency through a reduction in expenses
- Primary premiums are expected to decline due to a reduction in government spending and a reduction in GDP growth forecast (1.8% in 2019)
- Interest rates at 8.25% likely to stay near this level as economic activity slows down
- Mexico has lower insurance penetration than Brazil and other countries with similar country risk
- Regulatory environment favors competition reducing market share concentration
- Reinsurance capacity availability is fostering competition in the P/C lines other than life, accident & health and auto segments, with lower retentions

Outlook for Mexico's insurance industry is stable, with strong risk-adjusted capitalization metrics

Market Segment Outlook – Panama Insurance

- Deceleration caused by the construction sector is impacting this line of business
- Panama is one of LatAm's fastest growing economies
- Insurance penetration is among the lowest
- Health, Personal, Group Life, Motor and Individual Life are the lines with the highest growth in the last few years
- Market is concentrated in the top 5 companies
- Operating performance is profitable with combined ratios at 85.6%

Outlook is stable for Panama's insurance industry, with sound capitalization, profitable underwriting, and evolving risk management

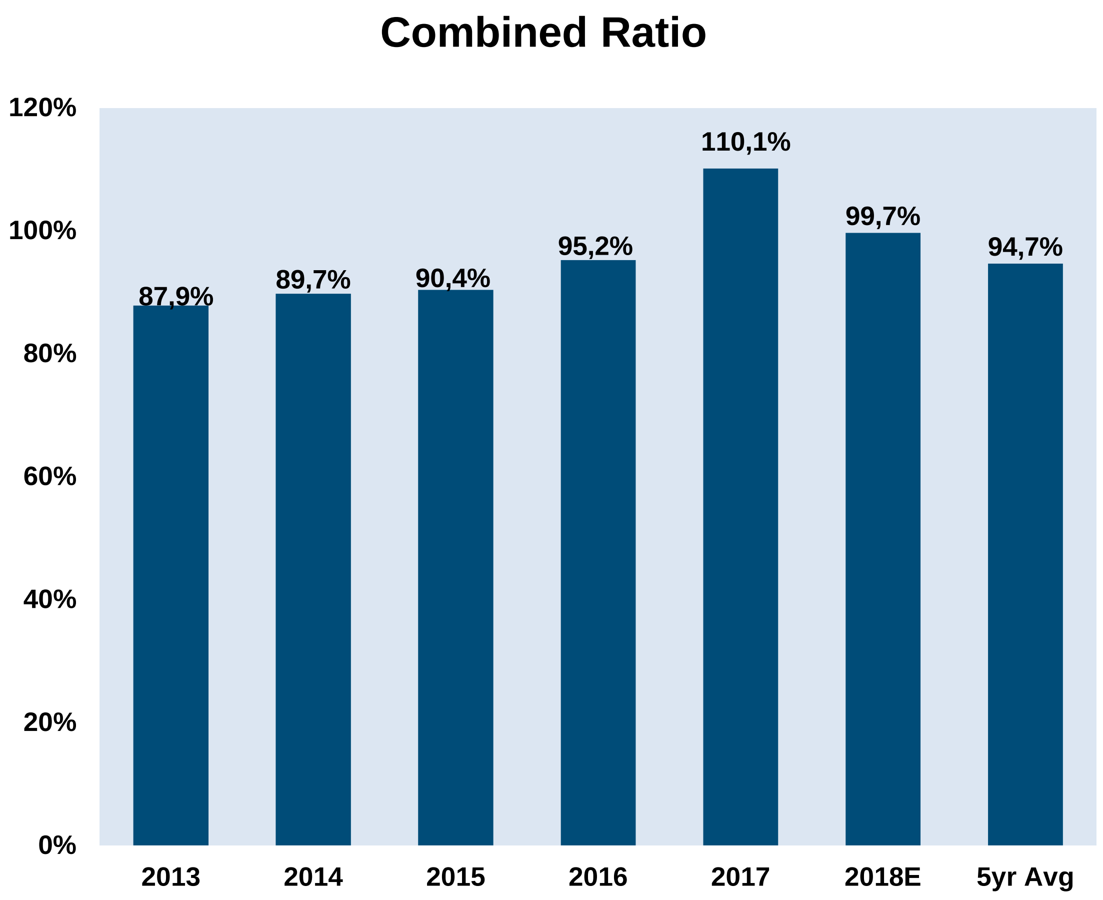
Market Segment Outlook – Global Reinsurance

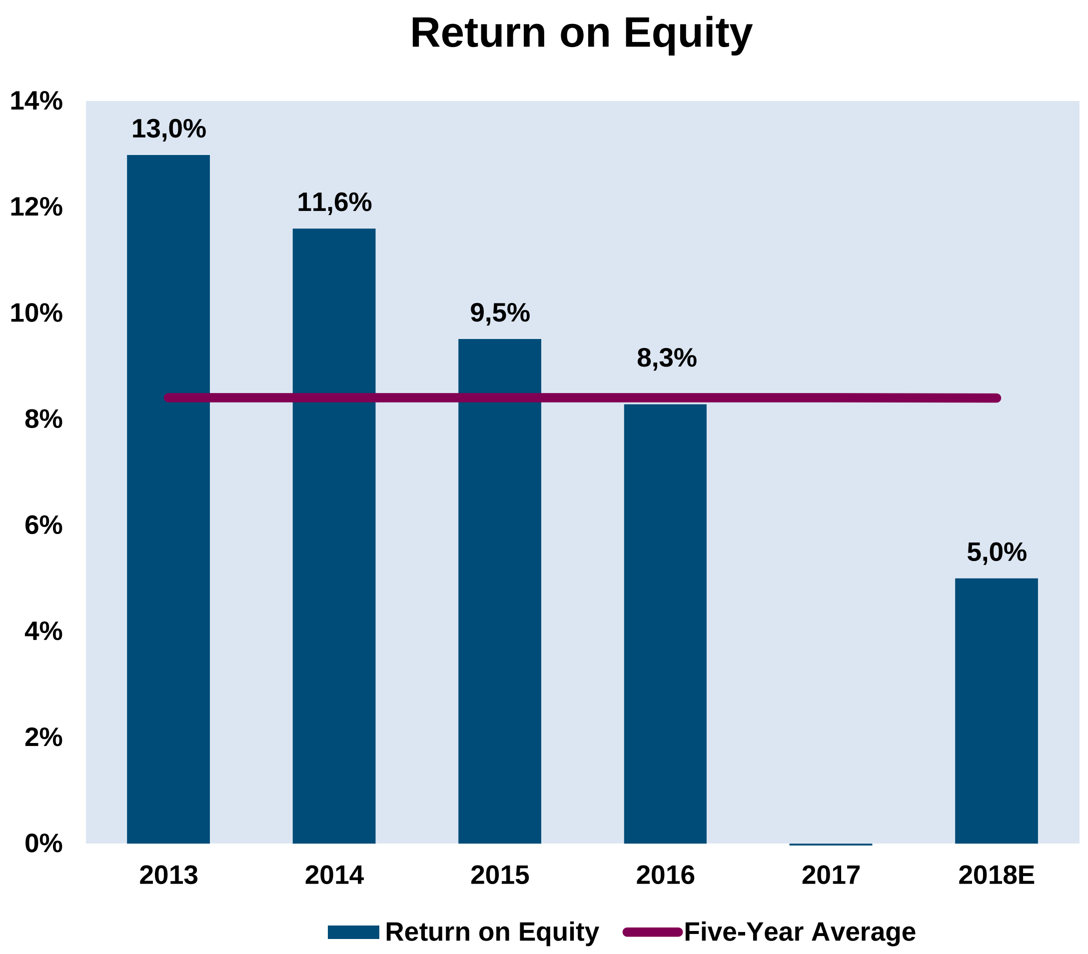
Market Segment Outlook – Global Reinsurance

Headwinds	Tailwinds
Intense competition	Increasing alignment between traditional and third-party capital
Excess capacity limits the potential for improvement	Improving pricing discipline
Potential for increased inflation	Rising interest rate environment
Rates stabilized, but remain under pressure	US economic growth slows, but continues
Continued interest from third-party capital, even beyond prop-cat lines	Use of third-party capital in retrocession programs reducing earnings volatility

AM Best has revised the outlook on the Global Reinsurance sector to Stable

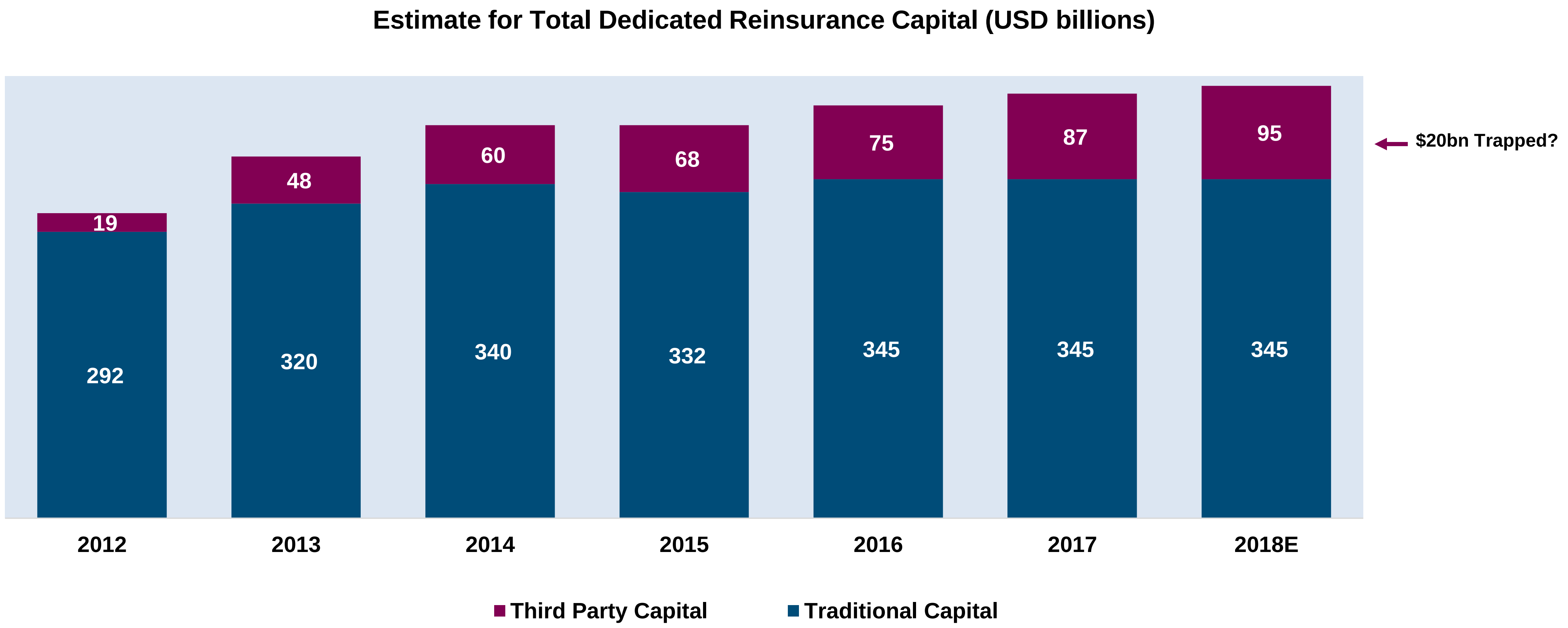
Global Reinsurance Market Trends





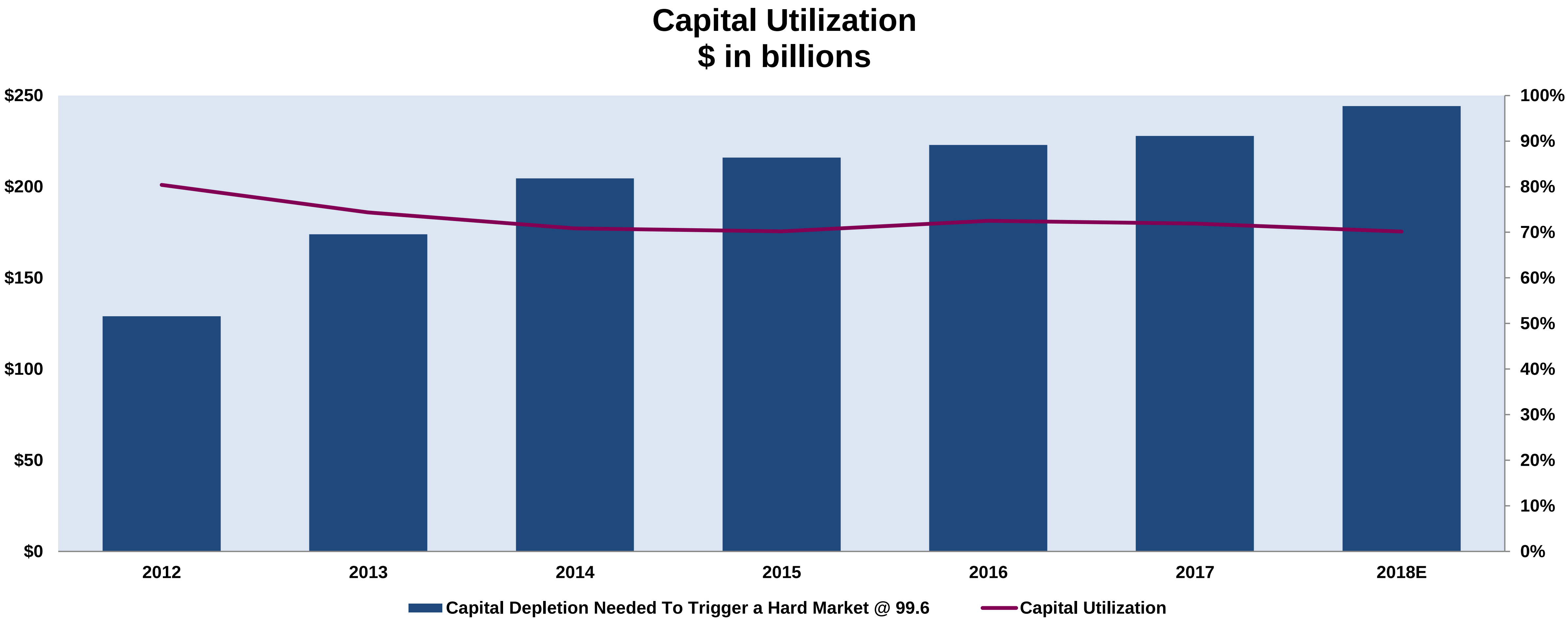
Source: AM Best data and research.

Global Reinsurance Market Capital



Notes and Sources: Estimates by Guy Carpenter and AM Best.

Global Reinsurance Market Capital

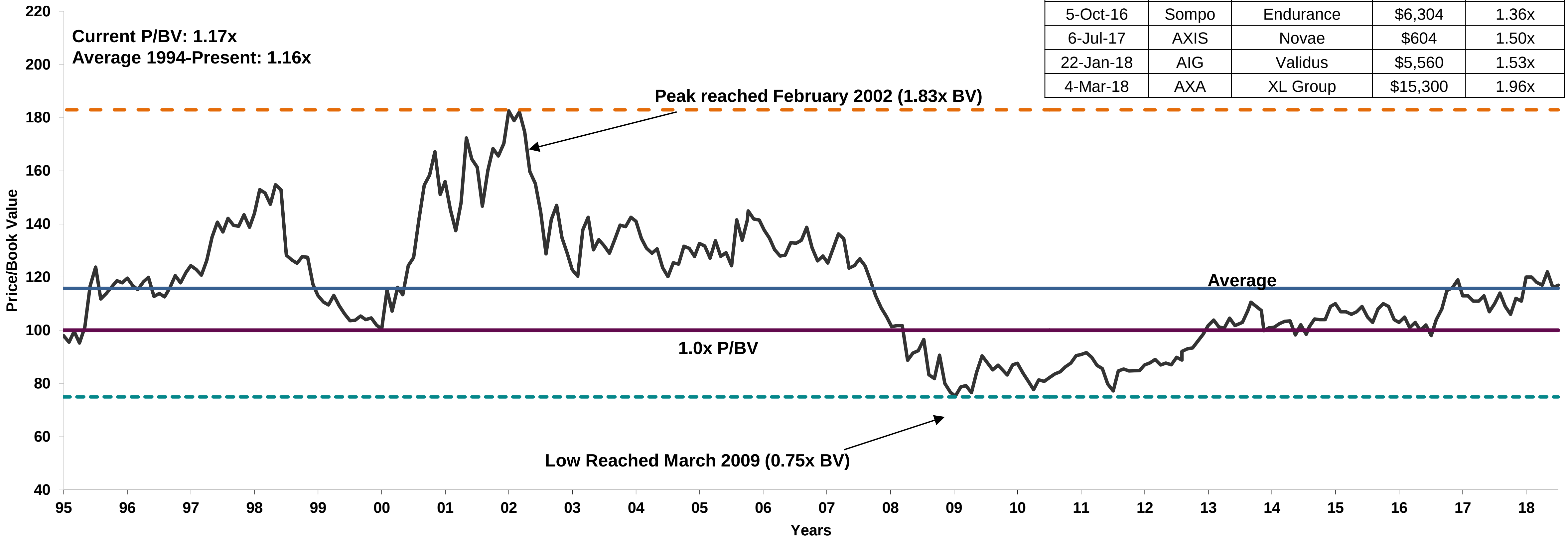


Notes and Sources: Estimates by Guy Carpenter and AM Best.

Global Reinsurance Market Trends

Global Reinsurance – Price/Book Value (Excluding accumulated other comprehensive income)

Announced	Acquirer	Acquiree	Price (USD mm)	Tangible Price to BV
9-Jan-15	XL Group	Catlin Group Ltd	$4,100	1.27x[1]
3-Aug-15	EXOR	PartnerRe	$6,900	1.19x
5-Oct-16	Sompo	Endurance	$6,304	1.36x
6-Jul-17	AXIS	Novae	$604	1.50x
22-Jan-18	AIG	Validus	$5,560	1.53x
4-Mar-18	AXA	XL Group	$15,300	1.96x



Source: Company reports, Bloomberg, AM Best research.

Possible Turn in Rates Trajectory

Capital Elasticity has flattened the reinsurance market cycle

$200 billion in losses over an 18 month period from August 2017 to May 2018

Capacity crunch in retrocession markets

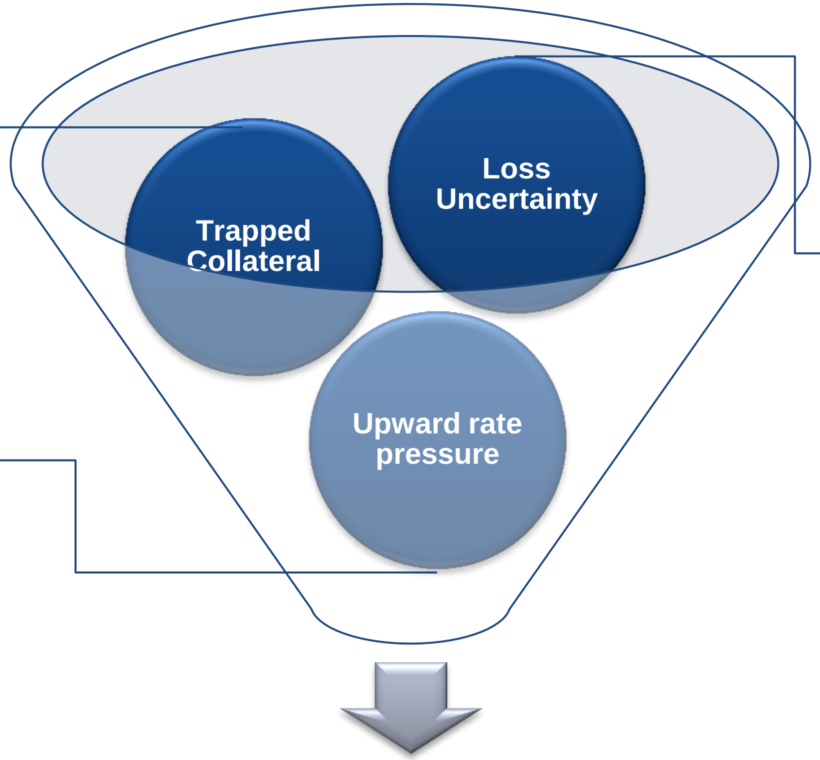
Earnings under pressure

Increased demand for reinsurance

Continued Market Uncertainty

Aggregation of losses across ILS Fund Sector

New Capacity being held on the sidelines



Loss creep from Hurricanes & Wildfire Uncertainty

MARKET UNCERTAINTY

What Has Transpired

January Renewal negotiations ran late

Overall Renewal pricing was flat

Predominately European renewals that were less effected by the 2017 & 2018 CATs

Rates did increase 0-5% for loss effected programs (Lloyd's and US)

Supply & Demand imbalance lead to retro pricing increases of 15-20%

What to Expect?

ILS Funds and collaterialized re expect larger rate response for the 4/1 & 6/1 renewals with April renewals indicating +10% and potentially higher for Florida and other US loss effected regions

Capital markets continue to be the key to sustained rate increases at the mid-year renewals

An abundance of capital waiting on the sideline

Evolving interest rate environment is a new variable the pricing equation