

Outlooks: Brazil, LatAm & Global

Guilherme Simões, Senior Financial Analyst, AM Best

8° Encontro de Resseguro do Rio de Janeiro



AM Best Overview



AM Best Headquarters, Oldwick, NJ, USA.



AM Best Overview

Founded in 1899, AM Best is recognized by the financial industry as the only global credit ratings organization with a uniquely dedicated focus on the insurance industry and insurance-linked capital markets transactions.

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

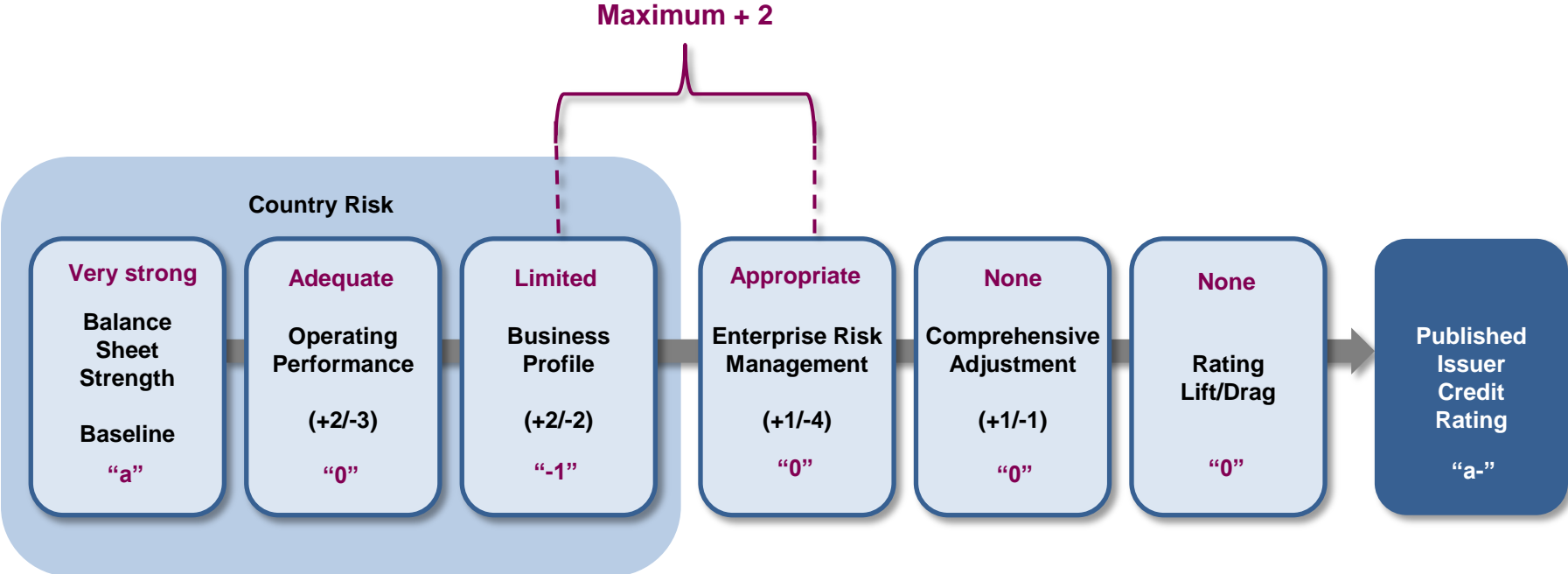
- Property/Casualty (non-life)
- Life and Annuity
- Health
- Reinsurance
- Mutual Insurers and Protection & Indemnity (P&I) Clubs
- Surety Companies
- Title Insurance
- Takaful, Retakaful and Co-operative Insurers
- Start-up Reinsurers
- Lloyd's and Its Syndicates
- Alternative Risk Transfer (ART) Vehicles – 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

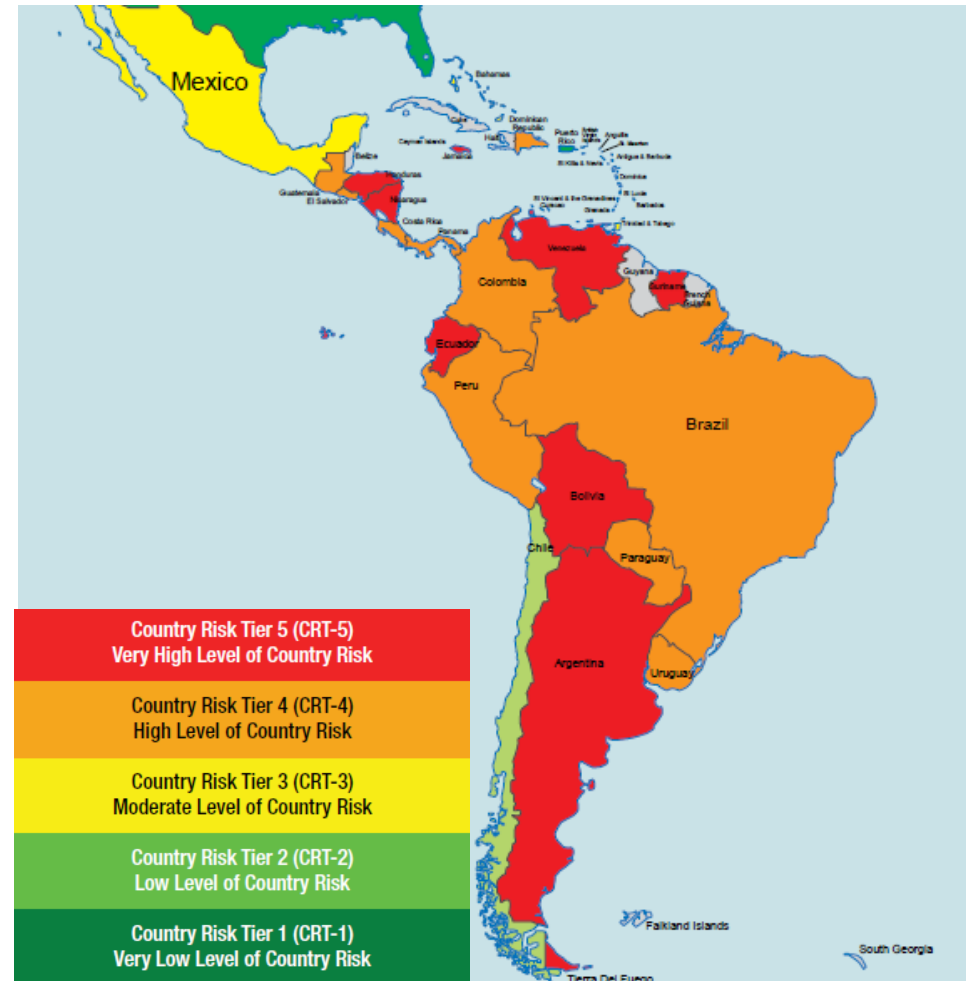
Note: e/E, f/F and d are non-rating designation status. e/E and f/F are used for insurers, while d is used for non-insurers and securities.

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

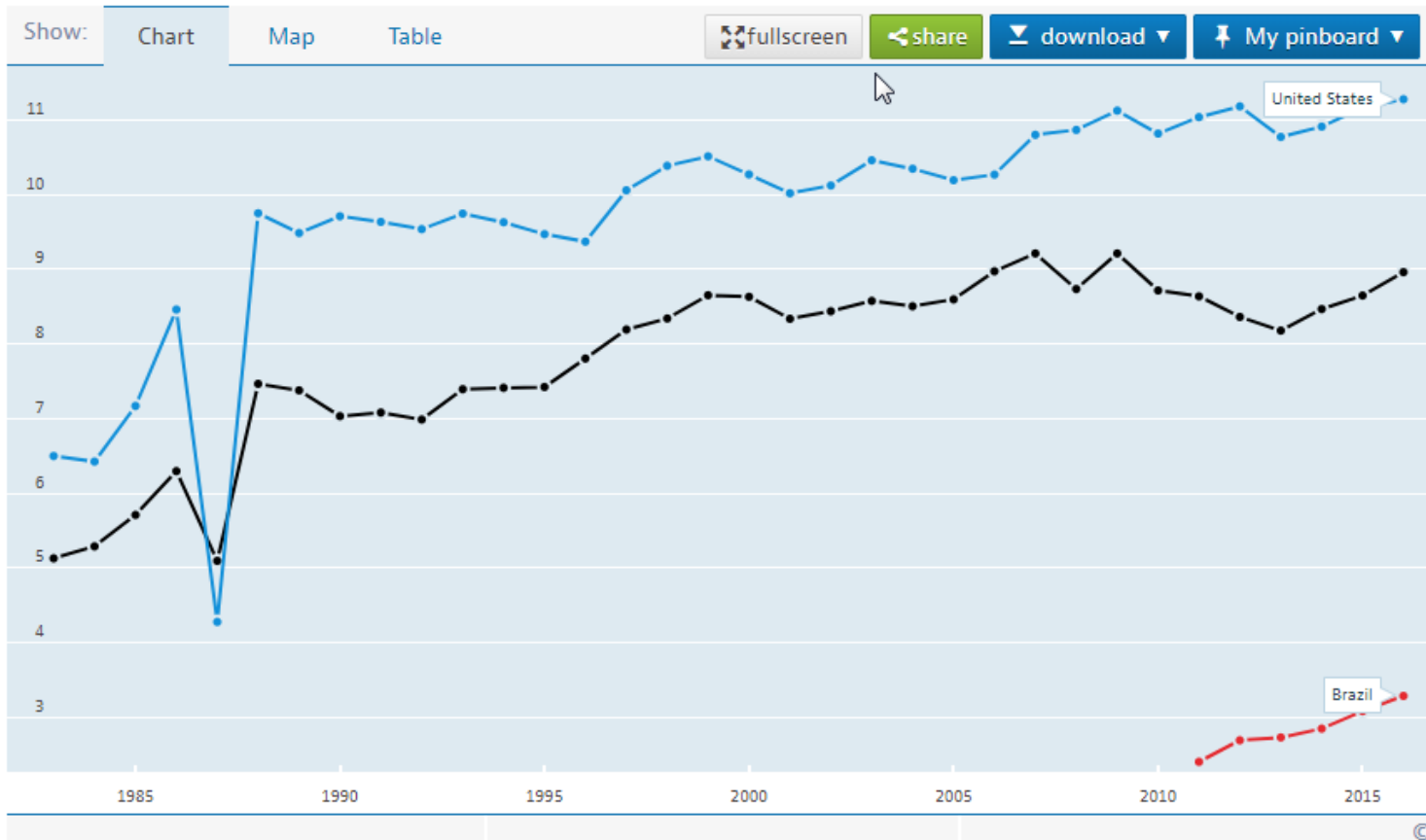
Headwinds	Tailwinds
Persistent macroeconomic and political uncertainty	There is a clear path of reforms to resume growth
Declining lower interest rate environment	Lower interest rates facilitate economic growth, and increase in underwriting
Currency volatility increases risk of doing business in Brazil	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
<p>AM Best has assigned the outlook on the Brazilian Reinsurance market as Negative</p>	



Insurance Penetration in Brazil

Insurance spending Total, % of GDP, 1983 - 2016

Source: OECD Insurance Statistics: Insurance activity indicators



- 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

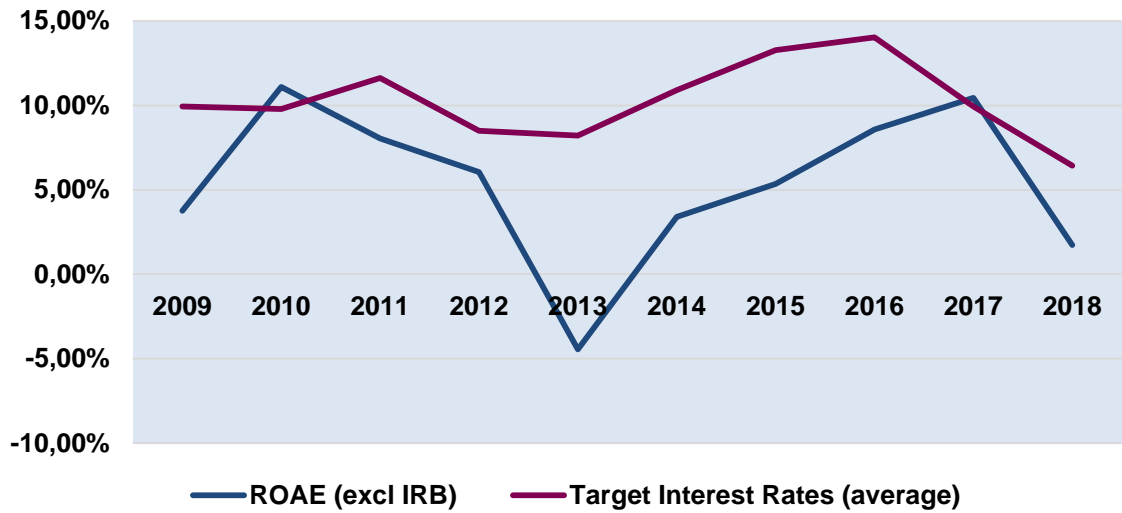
- After presidential elections, part of the uncertainty disappeared
- Needed pension system reform is key to put country back on track
- Everything else will follow
- Infrastructure is a key topic for the current government and (re)insurance should follow suit
- There is a lag until reinsurance captures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

Local Brazilian Reinsurance Market ROAE vs. Interest Rates (excluding IRB)



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.



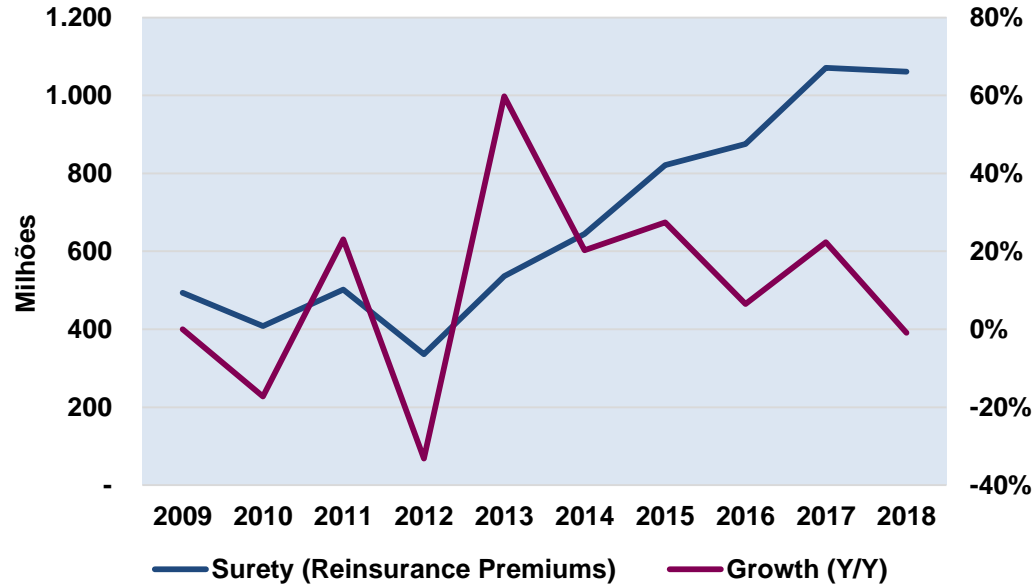
Surety



Octavio Frias de Oliveira bridge, in Sao Paulo.

Evolving Reinsurance Market - Surety: Still an Opportunity

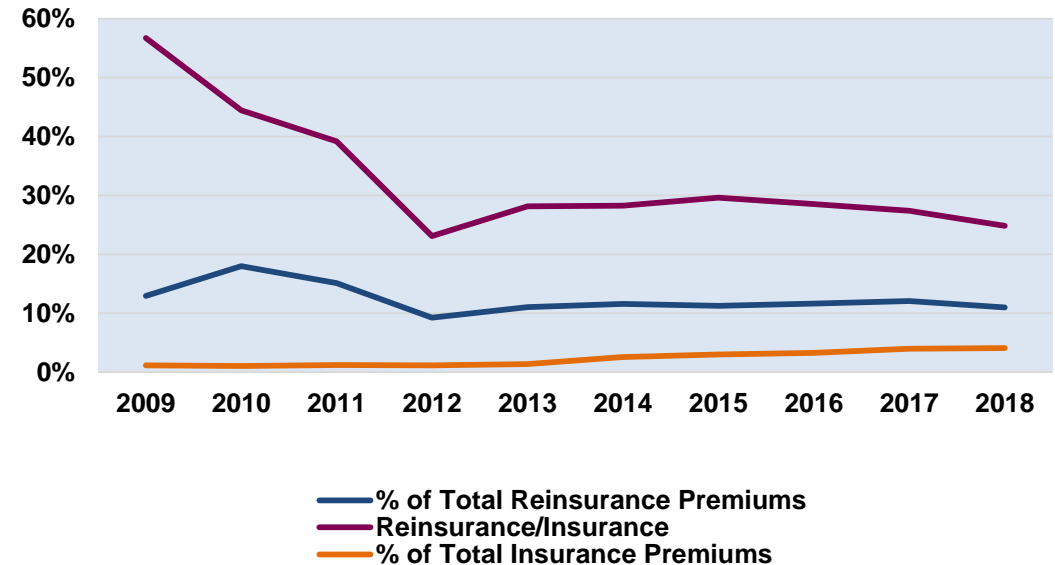
Surety Reinsurance Gross Premiums



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

- Losses are relatively low compared with other lines

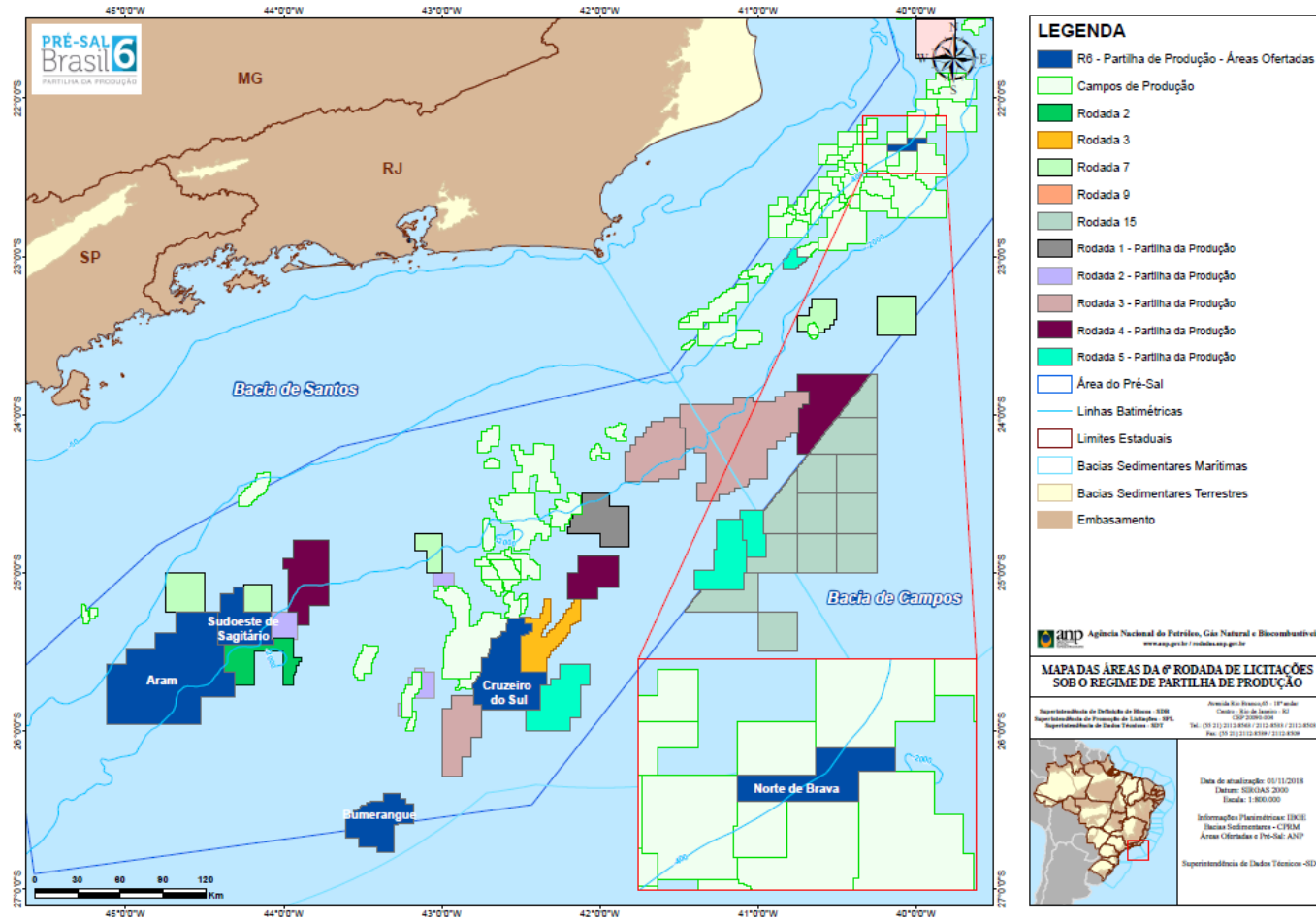
Surety as a % of the (Re)insurance Industry Gross Premiums



Source: SUSEP



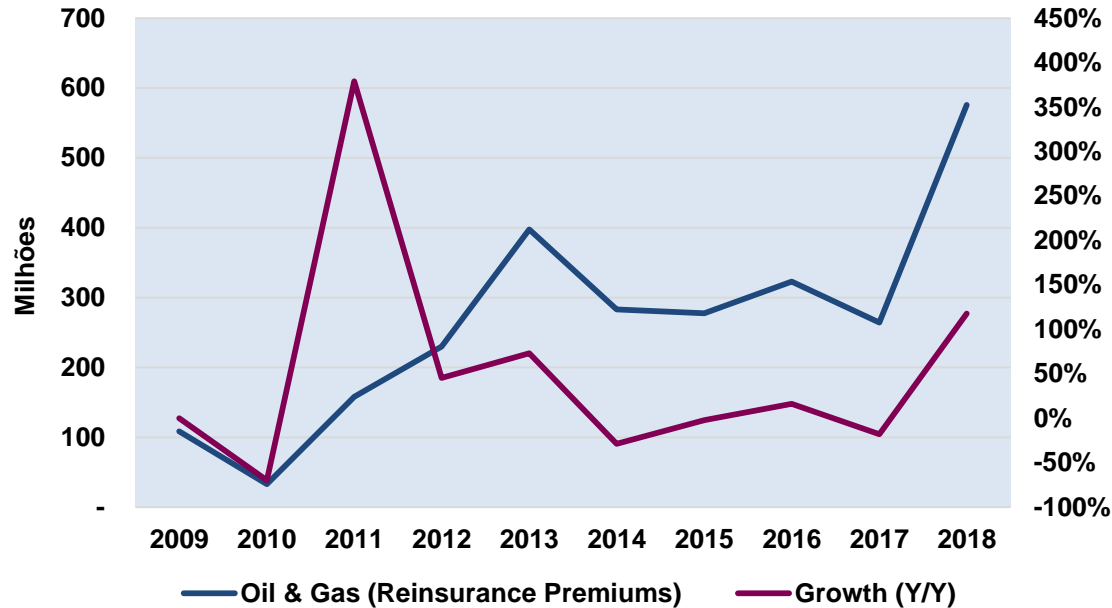
Oil & Gas



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

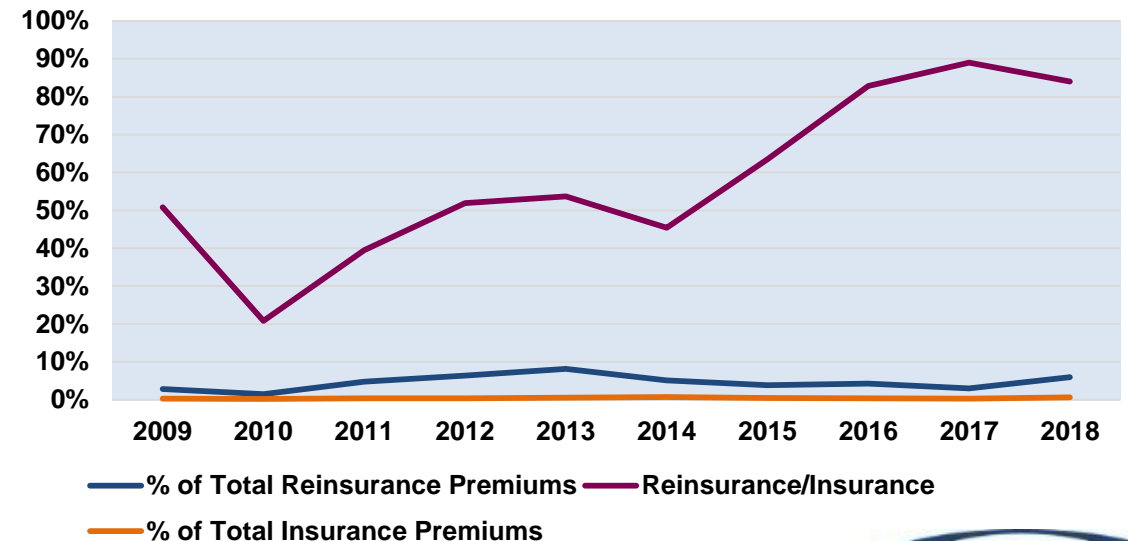
Evolving Reinsurance Market – Oil & Gas: Recovery

Oil & Gas Reinsurance Gross Premiums



- 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

Oil & Gas as a % of the (Re)insurance Industry Gross Premiums

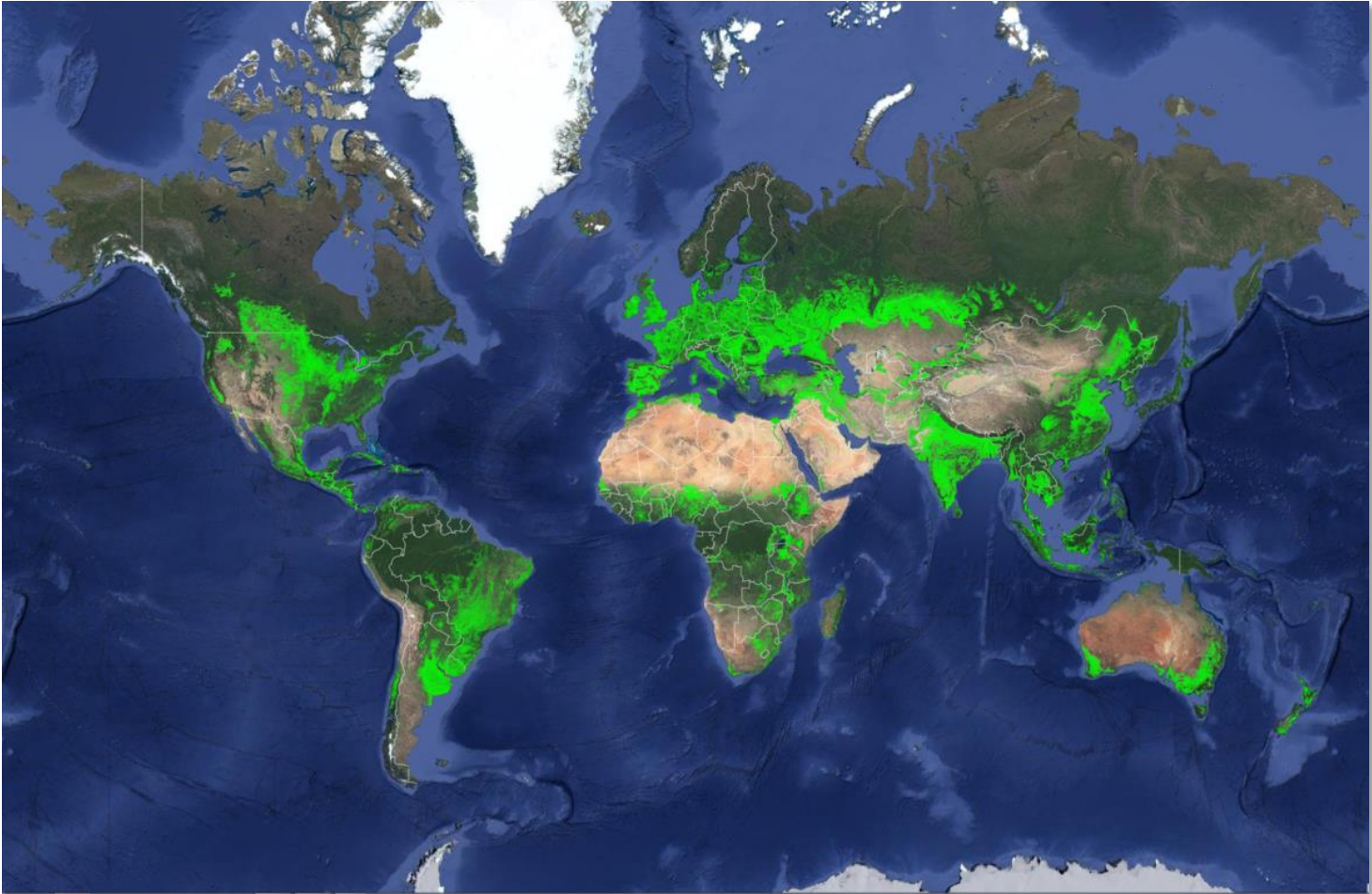


- The opening of the Oil & Gas market in Brazil has attracted global companies

Source: SUSEP



Agriculture/Crop

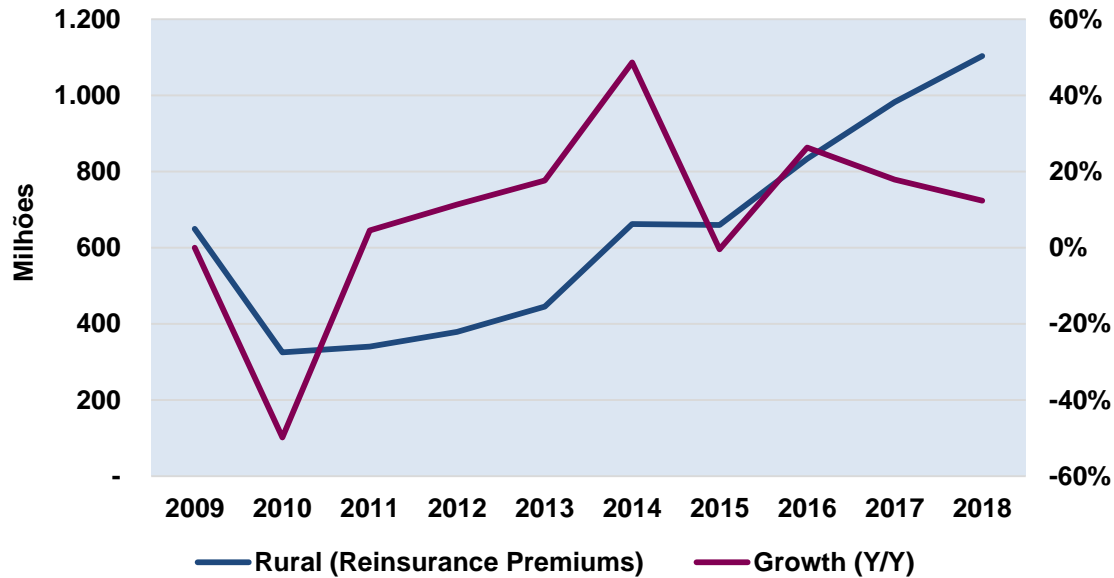


Map of Worldwide Croplands. Source: NASA, Nov. 2017.



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

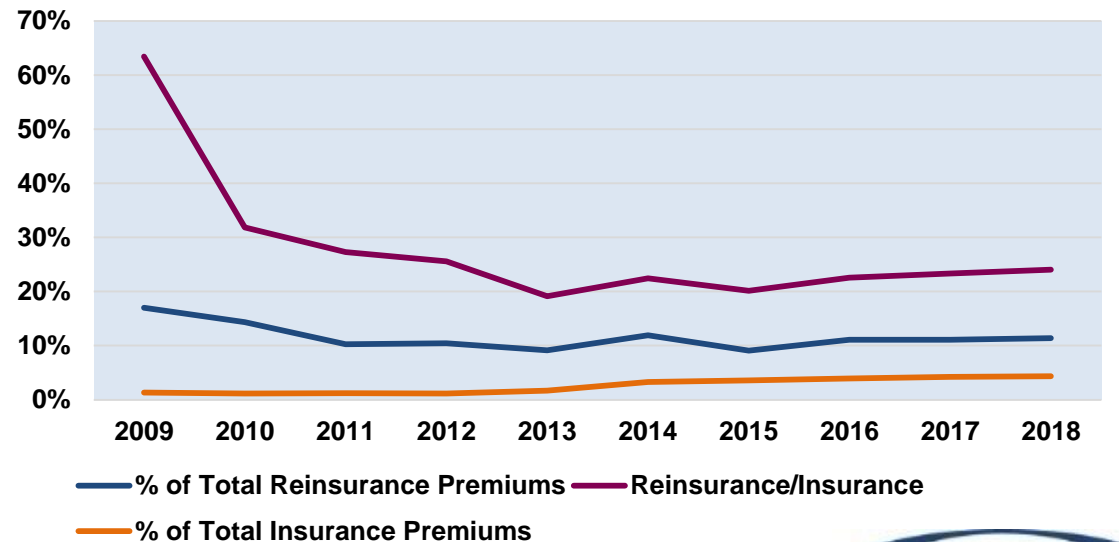
Agro Reinsurance Gross Premiums



- 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

Agro as a % of the (Re)insurance Industry Gross Premiums



Source: SUSEP, Ministério da Agricultura



Competitive Landscape



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

- (Re)insurance management in Brazil is seen as resilient, and have faced innumerable 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



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

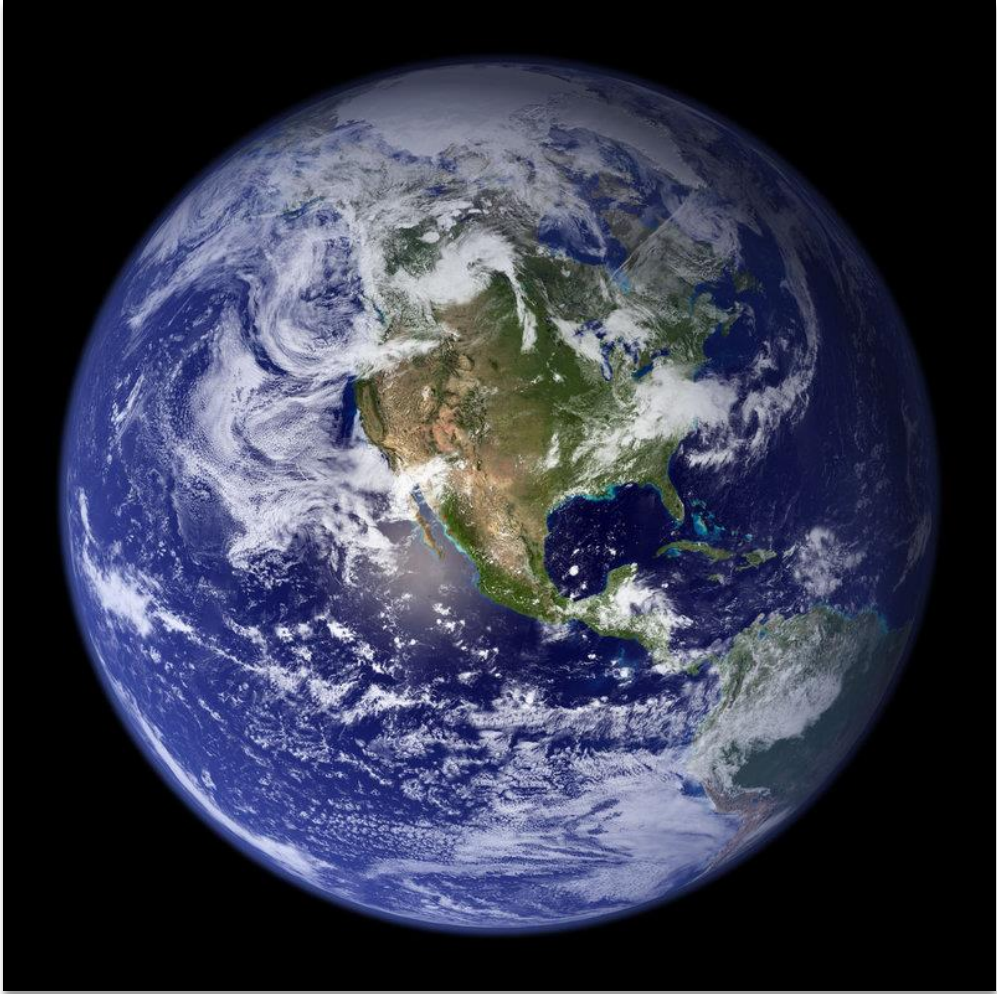
Outlook for Mexico's insurance industry is **stable, with strong risk-adjusted capitalization metrics**

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

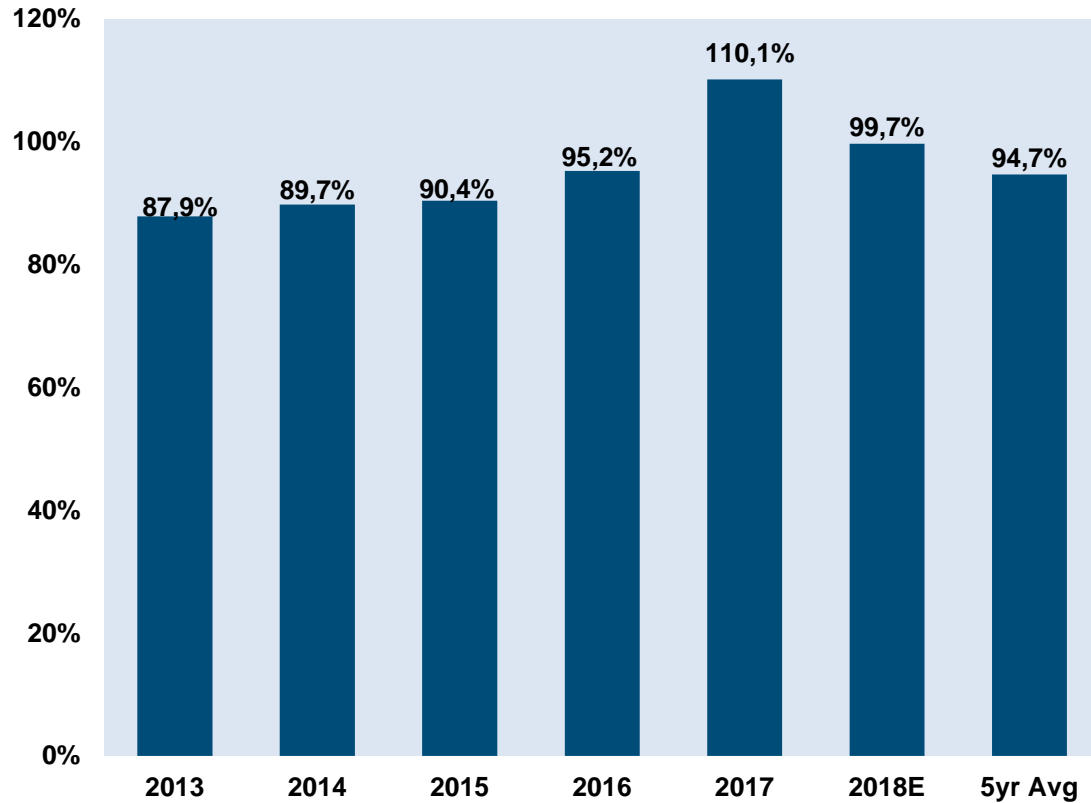


Market Segment Outlook – Global Reinsurance

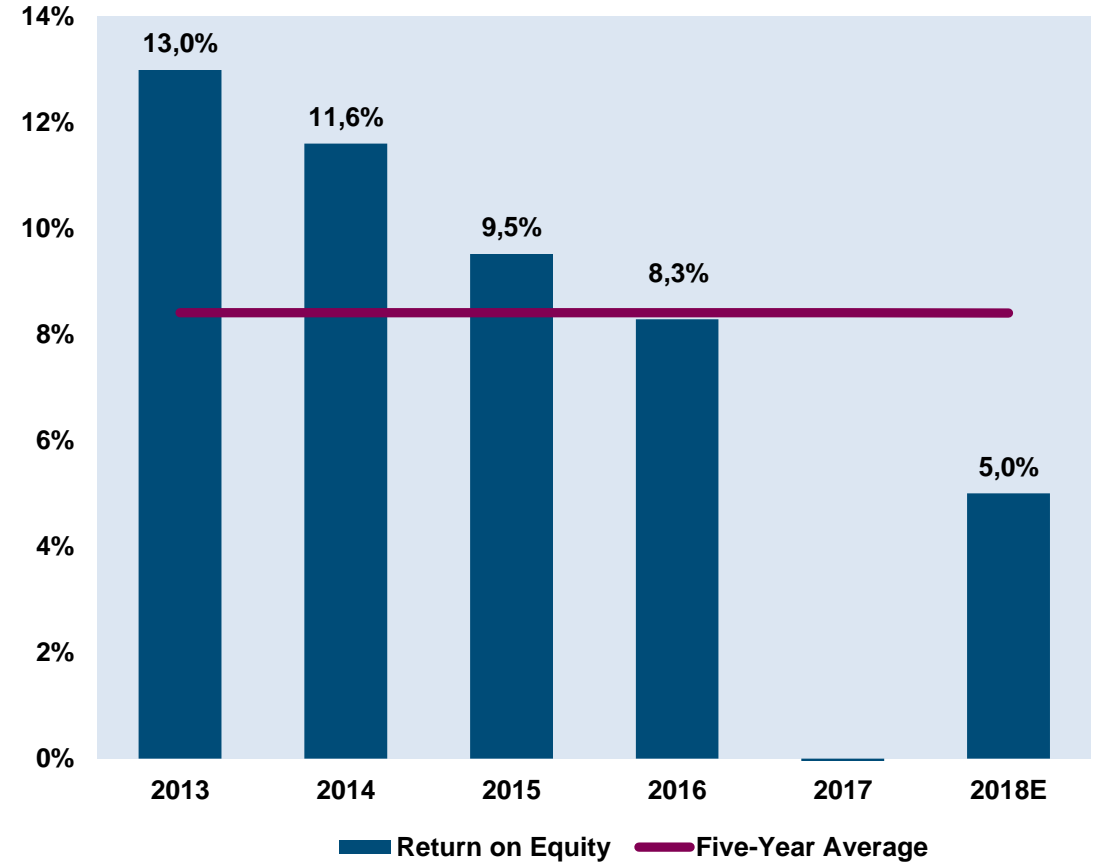
Headwinds	Tailwinds
Intense competition	Increasing alignment between traditional and third-party capital
Excess capacity limits the potential for improvement	Improving pricing discipline
Potential for increased inflation	Rising interest rate environment
Rates stabilized, but remain under pressure	US 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

Combined Ratio



Return on Equity

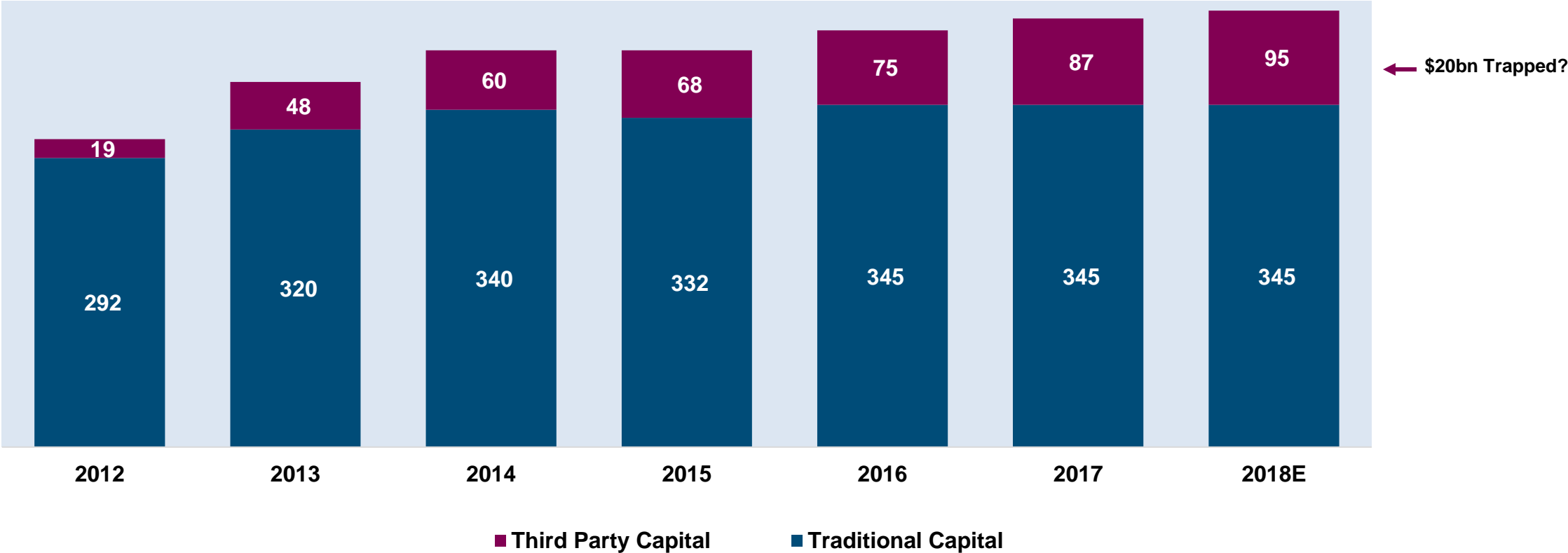


Source: AM Best data and research.



Global Reinsurance Market Capital

Estimate for Total Dedicated Reinsurance Capital (USD billions)

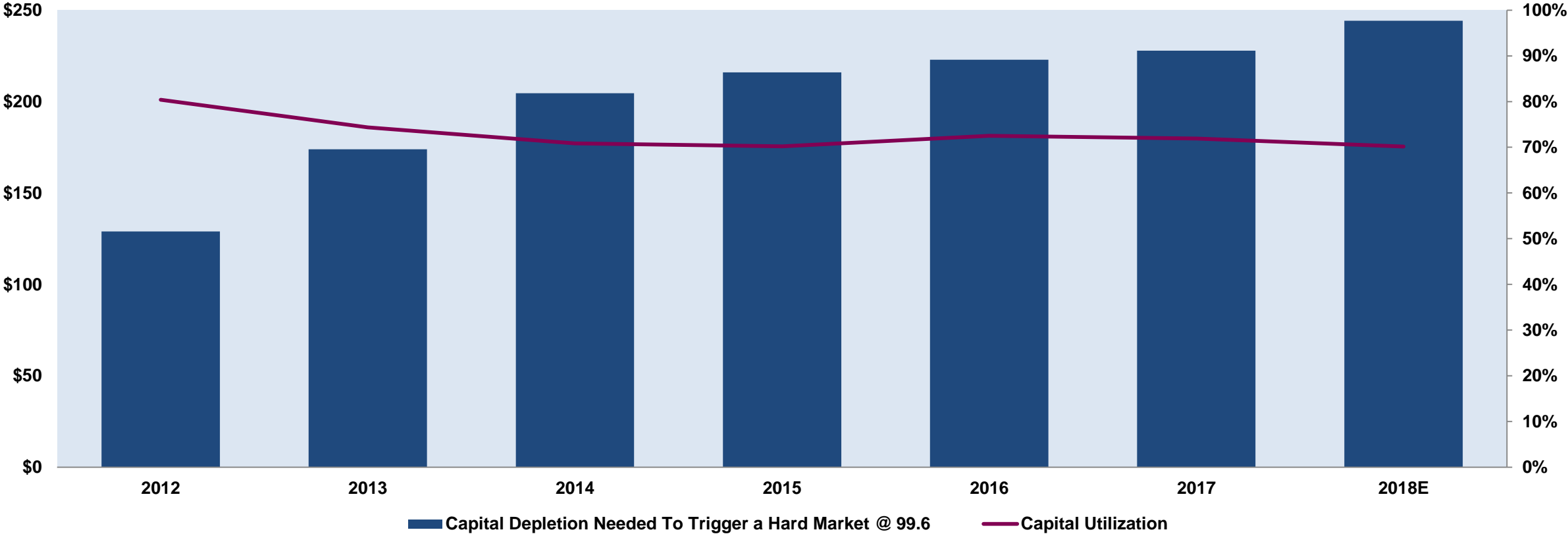


Notes and Sources: Estimates by Guy Carpenter and AM Best.



Global Reinsurance Market Capital

Capital Utilization
\$ in billions



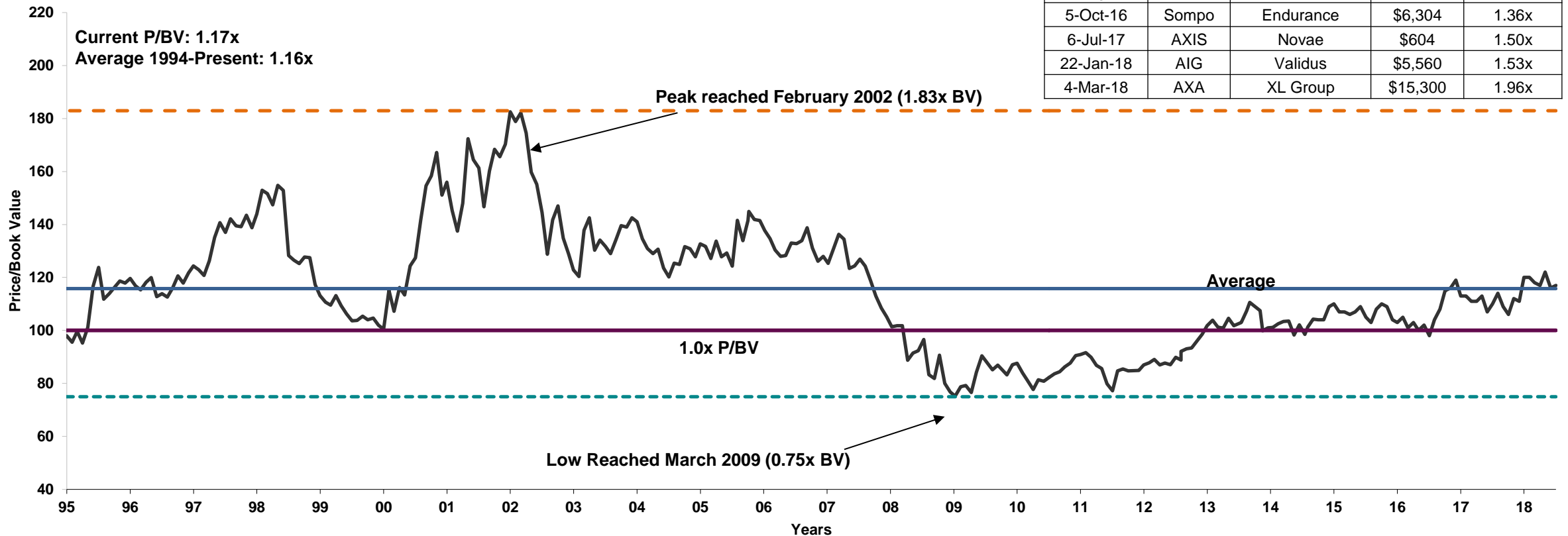
Notes and Sources: Estimates by Guy Carpenter and AM Best.



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

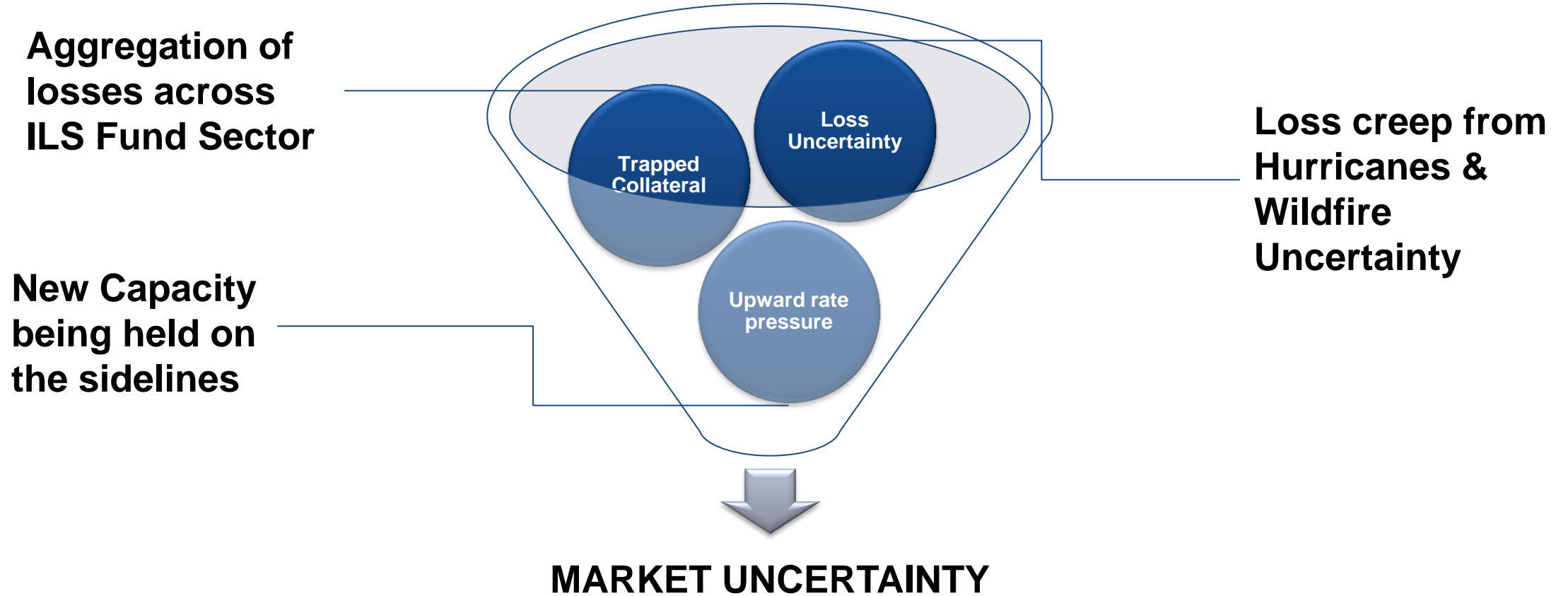
**Capital Elasticity
has flattened the
reinsurance
market cycle**

**\$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



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 collateralized 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



© AM Best Company, Inc. (AMB) and/or its licensors and affiliates. All rights reserved. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT AMB's PRIOR WRITTEN CONSENT. All information contained herein is obtained by AMB from sources believed by it to be accurate and reliable. AMB does not audit or otherwise independently verify the accuracy or reliability of information received or otherwise used and therefore all information contained herein is provided "AS IS" without warranty of any kind. Under no circumstances shall AMB have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of AMB or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if AMB is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser. Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. Credit ratings do not address any other risk, including but not limited to, liquidity risk, market value risk or price volatility of rated securities. AMB is not an investment advisor and does not offer consulting or advisory services, nor does the company or its rating analysts offer any form of structuring or financial advice. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY AMB IN ANY FORM OR MANNER WHATSOEVER. Each credit rating or other opinion must be weighed solely as one factor in any investment or purchasing decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security or other financial obligation and of each issuer and guarantor of, and each provider of credit support for, each security or other financial obligation that it may consider purchasing, holding or selling.