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BEST'S MARKET SEGMENT REPORT

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Global Reinsurance: More Stable and Improved Results Following Shift from Property Catastrophe Risks

Stable results driven by reduced property cat exposures and a hardening market, countered by inflationary pressures and risk modelling uncertainty

Principal Takeaways

- Positive and negative drivers have tended to counter each other.
- Heightened natural catastrophe activity over the last five years has put investor risk tolerance levels to the test.
- Secondary risks are becoming more prevalent.
- Fears of sustained inflation and a potential recession may portend a decline in overall available capital.

Four years ago, AM Best changed its outlook on the global reinsurance segment to Stable from Negative. After major natural catastrophe losses in 2017 and 2018, pricing conditions started to improve for the first time in a while. Unlike previous market cycles, dominated by a few, but clear trends such as a wave of new entrants to the market attracted by steep rate increases, following capital erosion, the last four years have been characterized by a number of positive and negative drivers, with limited influence on their own, but which, on balance, continue to counter each other.

The strength and relevance of each of these drivers remain in flux. For example, the expected pace and effect of new entrants emerging since 2019 has not materialized. Recent concerns about a long-term low interest rate environment transformed into fears of sustained inflation and potential recession. Rates, terms, and conditions continue to improve, but with no consensus about their adequacy. The declining appetite for property natural catastrophe risk has changed direction and recently accelerated. Most reinsurers' risk profiles are shifting rapidly toward excess and surplus lines, casualty lines, or primary specialty business, thanks to expectations of higher and more stable underwriting margins, despite persistent concerns about economic and social inflation.

Changes in Risk Appetite and Growing Skepticism about Models

The global risk environment continues to get more complex. Traditional natural catastrophe models are being subjected to renewed scrutiny due to the increase in the frequency of events in the last five years, usually attributable to climate trends, but for which scientists do not yet have definitive answers, especially in quantitative terms. "Secondary" perils are becoming more prominent—and thus less secondary. By definition, their modelling is less well developed and less accepted. The industry has realized that pandemic-related losses could be more influenced by government intervention, which are virtually impossible to model, than by biometric risks.

In an increasingly digitized economy, the importance of cyber risks continues to grow, but modelling and pricing are still in their infancy. Defining and quantifying what constitutes a systemic cyber event is extremely difficult. In the wake of the COVID-19 pandemic—and in

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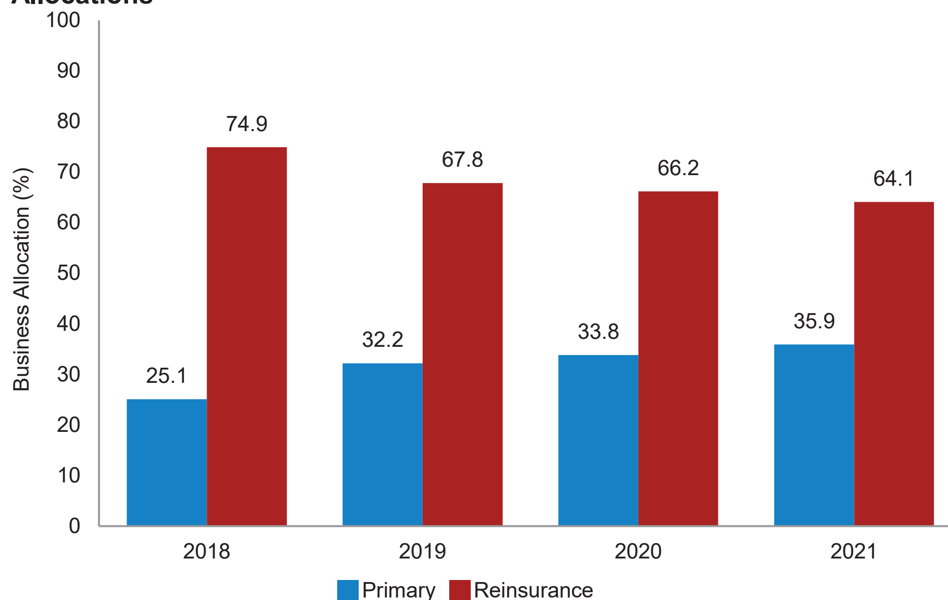
an increasingly more litigious environment—casualty lines are becoming more visible, and quantifying the risk to an acceptable level of comfort, especially given their long-tail characteristics and their exposure to human behavior, has always been a challenging task.

Exhibit 1
Global Reinsurance — Primary Insurance vs. Reinsurance NPW Allocations



Source: AM Best data and research

An increasingly risky and complex world should offer a plethora of opportunities for reinsurers. Much has been said about the (re)insurance gap—the discrepancy between economic and insured losses. Affordability tends to be a critical issue in emerging economies, less so in developed ones. The systemic nature and concentration of certain risks is another significant barrier to closing the protection gap. Government-sponsored schemes, exposure control, and diversification help address those concerns. These tools have allowed the private sector to assume risks such as natural catastrophes, mortgage (re)insurance, and trade credit (**Exhibit 1**).

Another typical explanation for the lack of (re)insurers' appetite for particular risks is their inability to quantify those risks and determine a reliable technical price, which seems to be exactly the case for natural catastrophe perils. Although over a ten-plus year period, most companies' technical results hover around breakeven, the higher frequency of events in the last five years and the long-term climate trends affecting them have exerted significant pressure on the level of confidence users put in modelling tools, a key component in the pricing process.

Historically, however, the unavailability of pricing models and the level of accuracy has not stopped reinsurers from accepting risks. Natural catastrophe models have only been widely available for (re)insurance purposes for little more than 30 years—arguably, a period too short to allow for robust testing, given the typical return period of 250 years or more used to assess the probability of the occurrence of major events.

Informed uncertainty is at the core of a portfolio of insurable risks. Models help to better understand the nature of the perils involved, but due to their limitations, they are always going to be imperfect predictors of a technical price. It is part of our human nature to give more weight to the experience of recent years than to much longer periods, regardless of what quantitative models may suggest. In the end, the balance between the volatility of recent experience and perceived margins embedded in current rates is what determines current risk appetite—and for certain types of risks (such as natural catastrophes), recent volatility has become either too onerous, or simply unacceptable for some.

No one can suggest that price modelling for casualty or specialty lines is more robust than for property cat. A number of behavioral elements cannot be easily modelled. The heterogeneity

among covers prevents a straight application of the law of large numbers. For many, however, current pricing seems attractive when compared to recent loss experience. Expected margins appear to be high enough to compensate for uncertainty, even when concerns about both social and economic inflation have become more prevalent.

Another factor that explains the relatively stronger appetite for casualty and specialty lines is an apparently more stable claims pattern. These lines are not completely immune from accumulation risk, as shown by the COVID-19 pandemic and more recently the invasion of Ukraine. Major events affecting these classes of risk are generally considered more remote, even when more often than not, it is unclear what that major event may be, and their financial impact seems to be more manageable than that of a natural catastrophe on the property side.

Perhaps the most evident case for growing risk appetite despite the scarcity of robust modelling is the interest that some reinsurers are showing for cyber risk coverage. Pricing has risen steeply over the last few years, making cyber coverage margins appear more attractive and thus giving rise to the fear of missing out on a potential profit opportunity. Available models are still at an early stage of development. Although they help in better understanding the nature of the risk, attempts at quantification generate a very broad range of outcomes at best. Exposure management is based mainly on applying coverage limits. Most importantly, despite a diversity of approaches, there is no consensus on what may constitute a systemic, catastrophic event that would help determine how accumulation risk can be effectively managed.

Most Companies Continue To Restrict Exposures to Property Catastrophe Perils

Volatility in reinsurers' results the last few years has been driven not only by traditional natural catastrophe events, but also by the growth of secondary perils, the pandemic, and, more recently, the Ukraine-Russia conflict. This has been compounded by financial, economic, social, and geopolitical uncertainty in general. Heightened natural catastrophe activity in 2017 and 2018 became a turning point for attitudes to risk. Although the global reinsurance segment was well capitalized, the instability of financial results and inability of most players to meet their cost of capital put the level of investors' risk tolerance to the test. This was more immediately evident in the insurance-linked securities (ILS) markets, which after a period of rapid expansion, plateaued and experienced a significant flight to quality when allocating capital.

The traditional markets' risk appetite took a bit longer to move in a similar direction. From 2019, early expectations of rate increases started to attract new capital. There was also the hope that natural catastrophe activity would subside and return to more average historical levels. A number of factors have complicated that picture. Secondary perils have become more prominent than ever. Even without major catastrophic events, the accumulation of small to medium-sized events has had a material impact on claims ratios, sometimes at unexpected times of the year (such as Winter Storm Uri in Texas in the first quarter of 2021) or outside their usual geographical scope (such as the impact of Hurricane Ida, which made landfall in Louisiana but generated widespread tornadoes in the northeastern US). Extremely unusual events (such as the Bernd system floods in Western Europe) are occurring, as wildfires and floods increase in frequency and severity worldwide.

It's not just that the underwriting environment is less predictable. Government actions are having a huge impact on market conditions. The business interruption and event cancellation losses related to COVID-19 were the result of government lockdown measures—and these losses were never factored in pandemic pricing models. One of the reasons for the abundance of capital was the low interest rate environment. Now that central banks are trying to control inflation—attributable to COVID-related supply chain issues, economic stimulus measures, and, more recently, energy price rises due to the Russia-Ukraine conflict—by raising interest rates, capital is becoming tighter,

recession fears are looming, and asset valuation declines are hurting balance sheets in a way that catastrophe losses have thus far not been able to.

All in all, the perception of volatility and uncertainty has been magnified for reinsurers, on the asset and liability side of the balance sheet as well as on the bottom line. Investors may not feel as comfortable as they did before these issues emerged—and this is even truer for catastrophe risks, which were traditionally considered high severity, low frequency. But when the frequency component rises beyond a certain tolerance threshold—which seems to be the case after five years of sustained losses—investors will naturally reassess their positions and return expectations.

Theoretically, at least, there should be a price high enough to compensate for that level of uncertainty, but few reinsurers feel that rate increases have reached that point yet. What's more, there is a strong preference for stable results over higher expected profit margins. For the last two years, reinsurers have been shifting covers to higher layers of protection, raising deductibles, lowering limits, adding explicit exclusions, avoiding aggregate covers, restricting specific perils and geographies, and generally becoming more selective with their cedents, to mitigate adverse selection and credit risk—all this, at a time when cedents themselves crave for more stable results and have the protection of their balance sheets at the top of their priority list.

Some companies have been actively shrinking their property cat exposures or even modifying their organizational structures and exiting altogether, although most of the largest European players remain committed to catastrophe risks. While remaining more cautious when it comes to risk selection, their longer-term views on catastrophe risks tend to be influenced by a much greater risk diversification (including the life and primary businesses), size, and financial flexibility, supported by relatively lower reliance on the currently constrained retro markets.

Traditional reinsurers' behavior is consistent with what we are also seeing in the ILS markets. Despite some mixed messages about expanding cat bond issuance and early signs of a small expansion in total alternative capital capacity after several years of stagnation, the investor base remains extremely cautious and selective. The significance of any expansion gets muddled by renewals and trapped capital. Retro capacity is still limited, which is a key constraint for most reinsurers, other than some of the largest European ones.

Capital Being Re-deployed into Lines such as Casualty and Specialty Primary Lines

There is consensus about positive price movements being led by primary markets, particularly the specialty lines. Despite the immediate benefit that reinsurers writing proportional business enjoy, the general feeling is that, overall, they are lagging. Even the retro markets seem to have seen more pronounced price increases, in line with reduced availability.

Casualty lines in most reinsurance portfolios have been seeing attractive price increases—this, for a segment with more stable, predictable patterns than property catastrophe risks. Social and economic inflation remain issues, but the general feeling is that the current margins in pricing reward reinsurers adequately for the risks taken. Social inflation tends to affect more severely particular types of risk originators, such as large corporates or commercial auto. By being more granular when selecting risks, (re)insurers could mitigate the impact of social inflation to a large extent. In addition, the long-term nature of casualty lines provides the opportunity to generate investment returns and dramatically reduces any liquidity risk.

A number of companies have renewed their efforts to expand their casualty and primary specialty business, particularly in the lucrative US market. At the same time, several of the start-ups that have recently emerged, which had stated their intention to deploy capital in the property catastrophe

reinsurance market, have ended up more focused on the primary market, based on the attractive margins and lower volatility, despite higher barriers to entry.

Greater Uncertainty Driving More Conservative Reserving Approaches

Before the severe property catastrophe losses in 2017 and 2018, we had noted repeatedly how reliant companies had become on prior years' reserve releases. Pricing margins were clearly inadequate, but the actual picture was distorted by the effect of positive loss reserve development from previous accident years. At the time, we highlighted the risk of becoming complacent, especially when that trend was simply not sustainable and the ratio of reserve releases to premiums continued to decline.

The heightened claims activity of the last five years has translated into a more conservative approach to reserves in general. Loss creep affected a number of large claims worldwide, related to not just Atlantic hurricanes, but also non-US events such as Japanese typhoons. In the last quarter of 2020, a number of companies strengthened their casualty reserves, to reflect the impact of social inflation issues during the 2014-2018 underwriting years.

The pandemic has complicated the picture, since a material share of reserves classified as IBNR relates to product lines such as professional liability or financial risks, the originally expected impact of which does not appear to have materialized yet. Even for business interruption, for which a large volume of claims has been reported, a significant share remains as IBNR or outstanding. Given the litigious nature of these exposures and the protracted legal process involved, these reserves will take years to settle.

Uncertainty also surrounds potential claims arising from the Ukraine-Russia conflict. In contrast to the pandemic, exposures in this case seem to be much more concentrated in the largest industry players. Although the industry impact is estimated to be comparable to a medium-sized property catastrophe event, individual approaches to booking reserves vary widely. When aggregated, reserves booked as of mid-year 2022 fall far short of whole industry estimates. As in the case with COVID-19, there is a high level of uncertainty with regard to reserves at the primary carrier level; determining estimates for reinsurers becomes even more challenging due to data issues and differences in interpretation regarding accumulation.

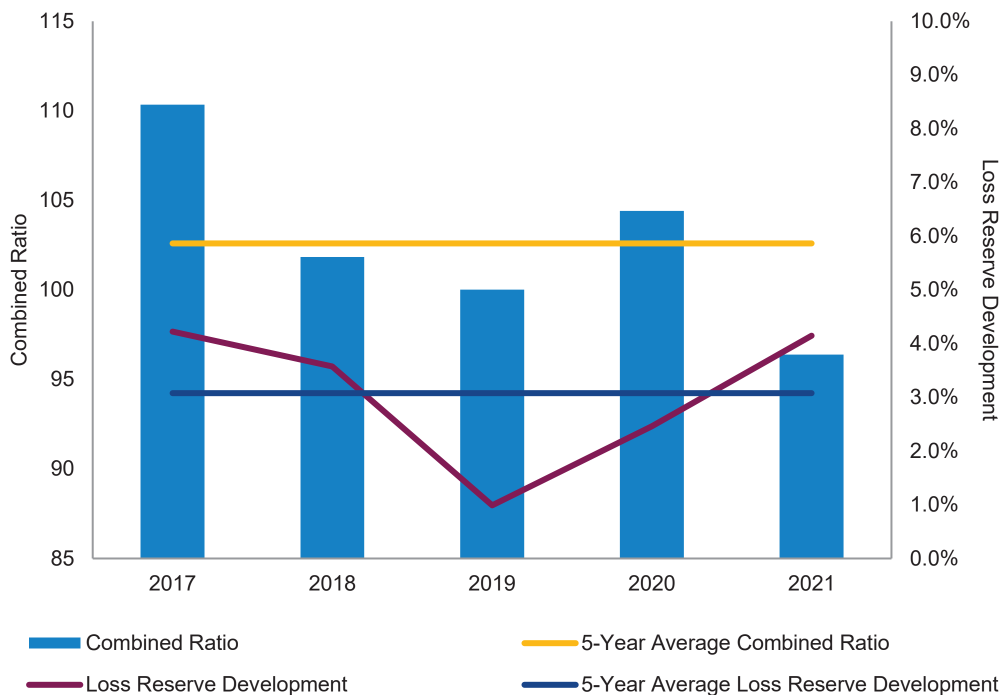
Last year, we noted early signs of a rise in reserve releases as a percentage of premiums. That remains the case for a second year in a row. Still, we believe that it is too early to tell if there is a trend and are confident that, in general, the global reinsurance segment maintains a prudent approach to claims reserving. Any possible redundancies from previous years are likely to be countered by inflationary pressures that may not have been explicitly considered just 12 months ago. Except for the occasional blip, reserve releases should stabilize at a level well below the historical highs of the first half of the prior decade. We expect that stabilization level to be closer to the five-year average of 3%, rather than the 6% we observed in 2016 (**Exhibit 2**).

Pricing Continues To Improve—But Is It Enough?

No one questions the sustained improvement in global reinsurance rates since 2018. As in any other previous cycle, the pace at which rates continue to rise varies widely depending on the class of business or territory, and whether a particular account has experienced recent losses or not. Generally, reinsurers—particularly, property cat writers—have been lagging primary carriers and retro providers.

The pace at which pricing continues to harden for property catastrophe exposures, however, seems to be accelerating. Guy Carpenter has calculated a rise of 15% for its US Property

Exhibit 2
Global Reinsurance — Combined Ratios and Favorable Reserve Development



Source: AM Best data and research

Catastrophe Rate-On-Line (ROL) index between January and July 2022. Such an increase has not been seen since 2006 and is leading to speculation that the end of year renewals may witness a "true" hardening that eventually turns the corner for reinsurers.

However, the index itself is just catching up with levels last seen in 2009. The recent sharp increase has also been dominated by the Florida market mid-year renewals, characterized by a certain amount of dislocation. Conditions in Florida–where problems stem from the low credit quality of cedents, concerns about widespread fraud, litigiousness, and a challenging regulatory environment—cannot be wholly attributed to the increased volatility of property catastrophe perils. As such, Florida's pricing movements are not necessarily a good indicator of what may happen in other cat-exposed territories during the next renewal cycle. For example, price improvements in Europe have been more modest, despite the unexpected impact of the Bernd floods last year.

Although pricing for property cat seems likely to continue rising into next year, improvements in casualty and specialty lines have slowed down. Margins remain attractive given the recent claims experience. The same can be said about cyber risks, for which interest is strong but typically accompanied by cautious growth and strict control of cover limits.

The big question at the moment is about the potential impact of inflation. A problem that was originally considered temporary, caused mainly by pandemic-related supply chain disruptions, has become more of a long-term concern. This has led, as expected, to steady increases in interest rates, with their consequential impact on the stock and credit markets, as well as on economic activity in general. A combination of climate-related trends, and economic and social inflation, is

driving reinsurers to reconsider whether rates are indeed allowing for sufficient margins, and to what extent cedents are pricing inflationary risks at source.

Underwriting Margins Improving, Becoming More Stable, Amid Inflation Concerns

A number of business re-alignment initiatives have been taking place for at least the last three years. In addition to price increases and more restrictive covers, the focus has been on de-risking portfolios, moving away from volatile lines of business such as property catastrophe, or large corporate accounts in the case of casualty lines. As insurers work to strengthen profit margins, their efforts to become more cost-efficient have also been evident. To a certain extent, the pandemic has provided an opportunity for reinsurers to streamline operational practices—such as cutting back on business travel—and lowering costs.

The impact of these measures has taken some time to manifest. The pandemic complicated the picture, with the need to book a sizeable amount of IBNRs. In 2021, the global reinsurance segment generated a combined ratio below 100 for the first time in five years (**Exhibit 2**).

This is not just the result of lower loss ratios (despite a sequence of property catastrophe events, including some very unusual ones last year, such as Uri, Ida, and Bernd); expense ratios have also declined consistently the last five years. Bottom-line results have benefitted from solid investment returns each of the last five years, as well as improved prices, and from reserve releases that started recovering gradually from their lowest point in 2019.

For 2022, we expect combined ratios to hover around 95—assuming a normalized catastrophe burden. Given the de-risking of most companies, cat loadings should compress materially and help lower volatility. Even with a major cat event, exposure reduction and more restricted covers should help protect most balance sheets. Expense ratios may continue to fall. The impact of reserve releases is likely to stabilize. However, depending on the asset mix, investment results should decline materially from prior years—and may even turn negative, pressuring bottom-line results.

Over the medium term, we are likely to see a more stable pattern of underwriting profits. Companies are already becoming more proactive about making explicit allowances for inflationary trends. However, claims cost inflation not captured in previous underwriting years could still exceed the margins in the more conservative reserving approach of the last five years. (See **Appendices 1 through 5** for 2017 to 2021 market financial indicators.)

Capital Remains Plentiful But Subject to Investment Market Volatility

AM Best's latest estimates for available traditional capital for the global reinsurance segment indicate another year of expansion in 2021 after a period of stagnation between 2016 and 2018. One of the key drivers for this growth is the increase in investment values during 2021, mainly in equities. For year-end 2022, based on how the investment markets have reacted so far to the interest rate hikes as well as fears of sustained inflation and a potential recession, we expect a decline in overall available capital. Based on conservative estimates, we may see a return close to the levels observed at the end of 2020.

Still, available capital growth has been aided by improvements in underwriting results, which reflect a re-alignment of most companies' risk profiles toward more profitable and stable lines of business, the benefit of higher prices, and reduced exposures to property cat. We expect this to continue, even if inflationary pressures may squeeze some of those margins.

Although available traditional capital continues to expand, an important distinction has to be made between "available" and "dedicated" capital—"available" does not translate automatically

into "dedicated." The fact that available capital remains plentiful—over the last five years less than 85% was needed to support a BCAR (Best's Capital Adequacy Ratio) assessment of "Strongest"—has fortunately not translated into lack of underwriting discipline. Reinsurers remain focused on stabilizing results and consistently working to meet their cost of capital—something that still constitutes a mixed bag. Given the current market uncertainty, most players feel the need to keep a material amount of dry powder to protect their balance sheets against market fluctuations and to deploy resources prudently when the right opportunities arise (**Exhibit 3**).

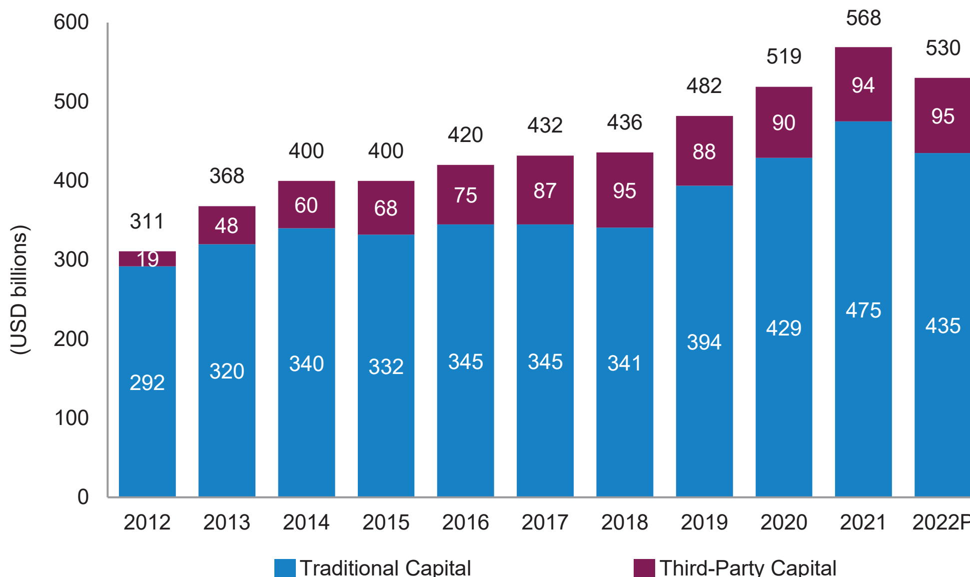
Unlike previous "hardening"—or should we say "firming"?—cycles, new capital has not had a material impact on market conditions. After early signs of enthusiasm and the emergence of a few start-ups since 2019, execution has been slow and inconsistent. Regulatory and recruitment delays have played a role. Business plans have been downsized or changed suddenly based on opportunistic deals rather than on solid strategies. Several projects have not seen yet the light of day. Crucially, investors remain extremely cautious.

Third-party capital, while typically is expected to react more swiftly to market conditions, seems subject to the same level of skepticism. More restrictive covers, terms, and conditions are commonplace. Despite higher demand and improved pricing, the volatility of recent claims remains the key issue. Issues with regard to trapped capital have not gone away completely. "Loss creep" remains well within the memory of investors.

Will the 2023 renewals mark a turning point for a "true" hardening market, able to attract new capital in droves and expand supply? Will third-party capital providers move first, as they have in previous cycles, taking advantage of the current retrenchment from traditional players and driving a new softening trend? Trying to predict the future is even more complicated nowadays, because how the year-end renewals go will depend heavily on actual claims activity and on where the global economy goes.

If we have another active property catastrophe year—even one with no major catastrophic event,

Exhibit 3
Global Reinsurance – Estimated Total Dedicated Reinsurance Capital



P=Projected
Source: AM Best data and research; Guy Carpenter

but an accumulation of several medium-sized ones as in the recent past—and inflationary pressures continue, combined with recession fears, uncertainty could remain so high that few investors will feel comfortable deploying capital regardless of the price. A few new entrants will still try, but their impact is likely to be limited in a market in which rates could continue to rise in response to more limited dedicated capacity.

Appendix 1

Global Reinsurance – Global Market Financial Indicators

	5-Year Average	2021	2020	2019	2018	2017
NPW Growth (Total)	8.4%	8.3%	10.2%	8.3%	2.9%	12.5%
NPW Growth (P/C only)	9.6%	11.8%	9.9%	7.9%	7.3%	11.1%
Reinsurance % of NPE	68.1%	64.1%	66.2%	67.8%	74.9%	67.7%
Shareholders' Equity Growth	3.7%	1.0%	7.2%	11.9%	-3.6%	1.9%
Loss Ratio	69.9	65.5	72.8	66.8	68.0	76.5
Expense Ratio	32.7	30.9	31.6	33.2	33.9	33.8
Combined Ratio	102.6	96.4	104.4	100.0	101.8	110.3
Reserve Development - (Favorable)/Unfavorable	-3.1%	-4.1%	-2.5%	-1.0%	-3.6%	-4.2%
Net Investment Ratio[1]	13.2	10.2	9.7	17.3	10.8	17.9
Operating Ratio	89.4	86.1	94.7	82.7	91.0	92.5
Return on Equity	4.4%	9.1%	2.3%	9.7%	1.0%	0.1%
Return on Revenue	3.5%	7.1%	1.9%	7.4%	0.9%	0.1%
NPW (P/C only) to Equity (End of Period)	76.3	84.4	76.3	74.4	77.2	69.3
Net Reserves to Equity (End of Period)	243.3	244.6	242.6	237.1	260.1	232.2
Gross Reserves to Equity (End of Period)	280.9	290.7	280.8	267.7	300.8	264.6

[1] Net investment ratio based on P/C NPE.

Source: AM Best data and research

Appendix 2

Global Reinsurance – US & Bermuda Market Financial Indicators

	5-Year Average	2021	2020	2019	2018	2017
NPW Growth (Total)	13.9%	20.4%	9.2%	11.1%	20.8%	8.0%
NPW Growth (P/C only)	13.9%	19.8%	9.4%	11.1%	19.0%	10.3%
Reinsurance % of NPE	67.1%	62.7%	66.0%	68.4%	71.4%	66.9%
Shareholders' Equity Growth	6.7%	4.4%	7.3%	13.4%	5.0%	3.3%
Loss Ratio	70.0	65.9	71.4	65.5	69.2	77.8
Expense Ratio	31.3	30.0	30.4	31.7	32.4	32.0
Combined Ratio	101.3	95.8	101.8	97.2	101.6	109.8
Reserve Development - (Favorable)/Unfavorable	-3.9%	-6.1%	-3.3%	-2.0%	-3.8%	-4.1%
Net Investment Ratio[1]	9.2	8.0	8.0	10.5	8.4	10.9
Operating Ratio	92.1	87.9	93.8	86.7	93.2	98.9
Return on Equity	5.3%	10.8%	4.3%	12.0%	-1.3%	0.5%
Return on Revenue	6.1%	12.1%	5.4%	14.1%	-2.0%	0.8%
NPW (P/C only) to Equity (End of Period)	60.7	69.5	60.5	59.4	60.6	53.4
Net Reserves to Equity (End of Period)	116.7	117.9	114.3	117.3	119.5	114.6
Gross Reserves to Equity (End of Period)	154.0	168.1	155.3	142.0	158.7	145.7

[1] Net investment ratio based on P/C NPE.

Source: AM Best data and research

Appendix 3

Global Reinsurance – European Big Four Market Financial Indicators

	5-Year Average	2021	2020	2019	2018	2017
NPW Growth (Total)	6.5%	1.9%	12.1%	8.2%	-2.7%	13.0%
NPW Growth (P/C only)	7.8%	6.0%	12.9%	7.5%	4.2%	8.3%
Reinsurance % of NPE	88.1%	88.3%	90.3%	88.5%	86.0%	87.3%
Shareholders' Equity Growth	-1.4%	-6.8%	3.2%	10.0%	-12.6%	-1.1%
Loss Ratio	71.3	68.3	73.8	69.6	68.1	76.7
Expense Ratio	31.3	29.8	30.2	31.8	32.6	32.2
Combined Ratio	102.6	98.1	103.9	101.4	100.7	108.9
Reserve Development - (Favorable)/Unfavorable	-2.8%	-3.3%	-2.1%	-0.2%	-3.3%	-5.0%
Net Investment Ratio[1]	19.6	14.2	12.5	26.5	16.1	28.9
Operating Ratio	82.9	83.8	91.4	74.9	84.6	79.9
Return on Equity	5.2%	8.1%	2.4%	7.2%	5.8%	2.7%
Return on Revenue	2.7%	3.9%	1.2%	3.6%	3.4%	1.6%
NPW (P/C only) to Equity (End of Period)	92.1	109.7	96.5	88.2	90.2	75.7
Net Reserves to Equity (End of Period)	460.3	508.4	473.7	440.3	486.9	392.0
Gross Reserves to Equity (End of Period)	483.7	535.4	493.9	461.2	515.0	413.0

[1] Net investment ratio based on P/C NPE.

Source: AM Best data and research

Appendix 4

Global Reinsurance – Lloyd's Market Financial Indicators

	5-Year Average	2021	2020	2019	2018	2017
NPW Growth (Total)	6.4%	9.4%	4.2%	3.2%	-2.8%	18.2%
NPW Growth (P/C only)	6.4%	9.5%	4.3%	3.2%	-3.0%	18.2%
Reinsurance % of NPE	32.4%	37.0%	33.0%	30.0%	31.0%	31.0%
Shareholders' Equity Growth	7.4%	7.2%	15.0%	12.3%	-3.5%	5.9%
Loss Ratio	66.9	58.0	73.2	63.4	65.4	74.5
Expense Ratio	38.0	35.5	37.2	38.7	39.2	39.5
Combined Ratio	104.9	93.5	110.3	102.1	104.6	114.0
Reserve Development - (Favorable)/Unfavorable	-2.3%	-2.1%	-1.8%	-0.9%	-3.9%	-2.9%
Net Investment Ratio[1]	6.3	5.5	6.5	10.0	3.9	5.8
Operating Ratio	98.6	88.0	103.8	92.1	100.6	108.2
Return on Equity	0.3%	6.6%	-2.9%	9.0%	-3.7%	-7.3%
Return on Revenue	0.4%	8.2%	-3.1%	8.6%	-3.9%	-7.6%
NPW (P/C only) to Equity (End of Period)	85.9	79.5	77.8	85.8	93.4	92.9
Net Reserves to Equity (End of Period)	135.2	121.9	129.4	133.2	149.2	142.3
Gross Reserves to Equity (End of Period)	201.8	189.6	194.2	199.9	220.4	205.1

[1] Net investment ratio based on P/C NPE.

Source: AM Best data and research

Appendix 5

Global Reinsurance — Asia-Pacific Market Financial Indicators

	5-Year Average	2021	2020	2019	2018	2017
NPW Growth (Total) [2]	9.0%	6.6%	12.3%	14.9%	2.2%	N/A
NPW Growth (P/C Only)[2]	8.7%	5.1%	13.9%	8.8%	7.2%	N/A
Reinsurance % of NPE	92.6%	94.0%	93.4%	93.4%	91.0%	91.0%
Shareholders' Equity Growth[2]	6.7%	0.5%	19.0%	8.0%	-0.8%	N/A
Loss Ratio	72.8	75.7	74.7	73.4	70.3	69.7
Expense Ratio	27.9	25.6	26.2	27.5	30.1	30.2
Combined Ratio	100.7	101.4	100.9	101.0	100.4	99.9
Net Investment Ratio[1]	6.6	7.3	7.2	6.5	6.0	5.9
Operating Ratio	94.1	94.0	93.7	94.4	94.4	94.0
Return on Equity	5.8%	6.6%	5.7%	5.6%	4.9%	6.0%
Return on Revenue	3.6%	4.1%	3.4%	3.4%	3.2%	3.9%
NPW (P/C only) to Equity (End of Period)	149.2	153.3	146.6	153.2	152.2	140.9
Net Reserves to Equity (End of Period)	181.8	205.5	179.1	181.4	176.4	166.9
Gross Reserves to Equity (End of Period)	221.6	248.1	224.2	221.6	215.4	198.7

[1] Net investment ratio based on P/C NPE.

[2] Composite established in 2017

Source: AM Best data and research

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BEST'S MARKET SEGMENT REPORT

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