Impact of current reinsurance mergers on the primary Credit and Bond market

Catlin Re Switzerland

Peter Schmidt , CEO

Panamerican Surety Association

XXVII General Assembly 29 April 2015

CATLIN

The current wave of M&A in re/insurance

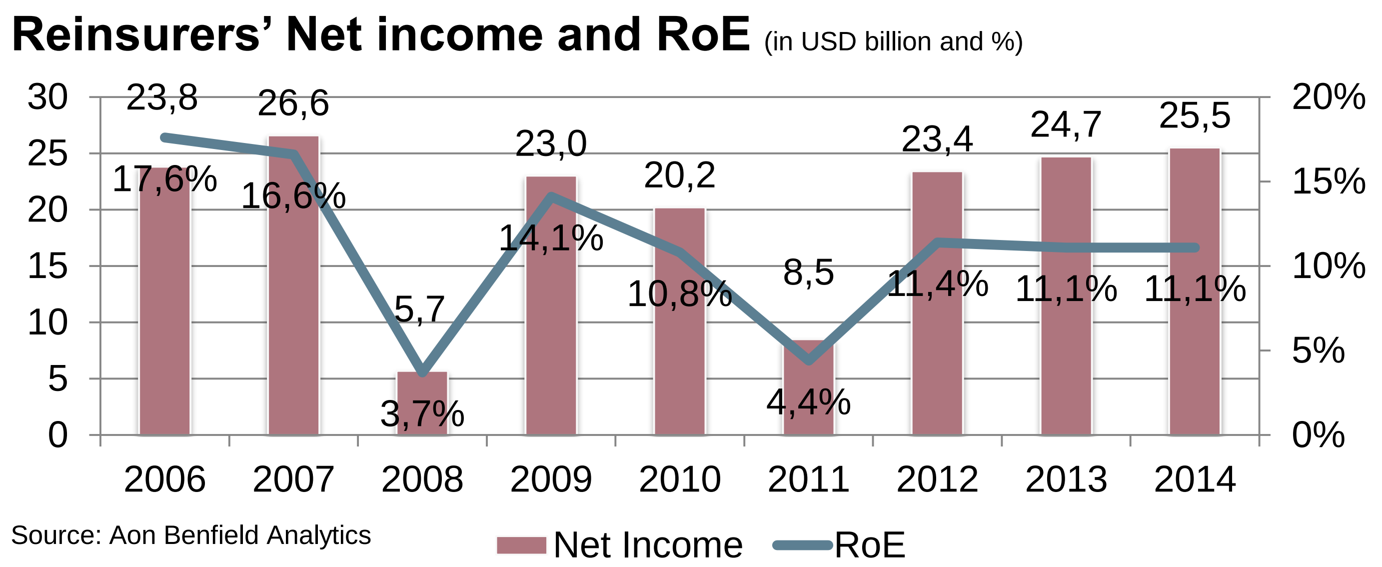
Acquirer	Target	Location	Date	Deal Value
Lancashire Holding	Cathedral Capital	London	November 2013	GBP 266 million
Enstar Group	Torus Insurance	London	April 2014	USD 306 million
Endurance	Aspen Insurance	London	April 2014	Abandoned
Sompo Japan	Canopius Group	London	May 2014	GBP 557 million
Qatar Insurance Company	Antares Holding	London	June 2014	USD 325 million
Validus	Western World Ins.	USA	June 2014	USD 690 million
Allied World	RSA (Hong Kong operations)	Hong Kong	August 2014	USD 215 million
Ren Re	Platinum	Bermuda	November 2014	USD 1.9 billion
XL Group	Catlin Group	Bermuda	January 2015	USD 4.1 billion
PartnerRe	Axis	Bermuda	January 2015	USD 11 billion
Fairfax	Brit	London	February 2015	USD 1.9 billion
Endurance	Montpelier Re	London	March 2015	USD 1.8 billion

Source: AM Best 2015

Agenda

- Successful track record
- Current trends shaping the industry
- Reshaping the business model – strategic questions
- Implications of M&A

Reinsurance offers attractive return

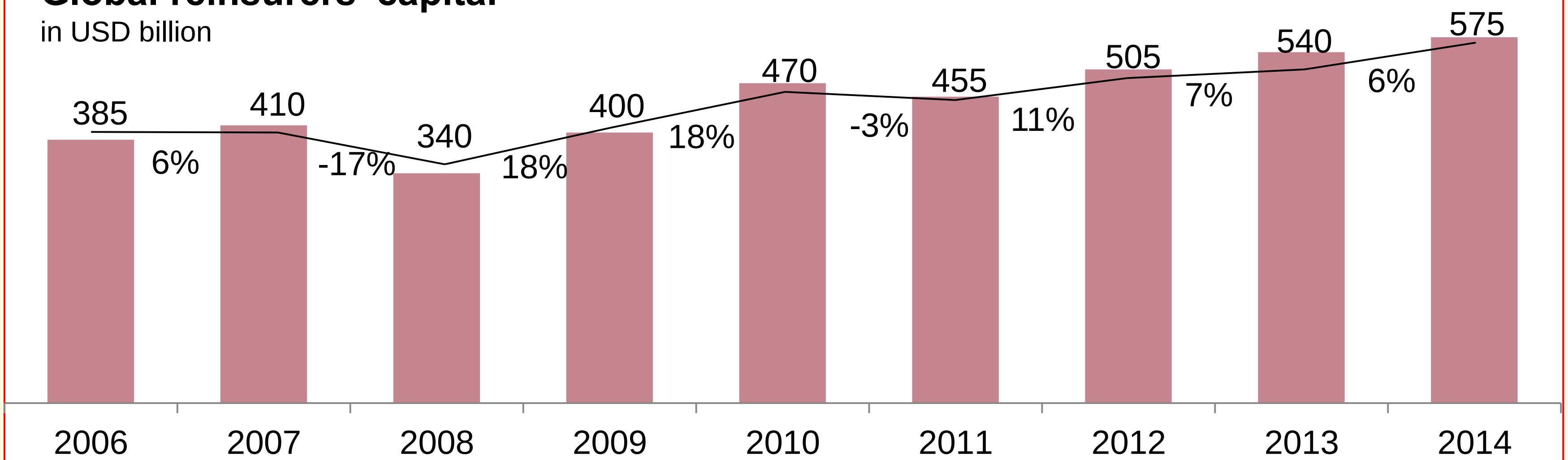


Source: Aon Benfield Analytics

- Reinsurance industry reported an average RoE of good 11% p.a. in the period 2006-2014
- Even in the "crisis years" 2008 and 2011 returns were positive, proving the resilience of the sector

Strong capitalization

Global reinsurers' capital
in USD billion



Source: Aon Benfield Analytics

- Reinsurers' capital reached record level in 2014
- Recent increases were bolstered by low cat activity and increased demand for reinsurance.

CATLIN

Agenda

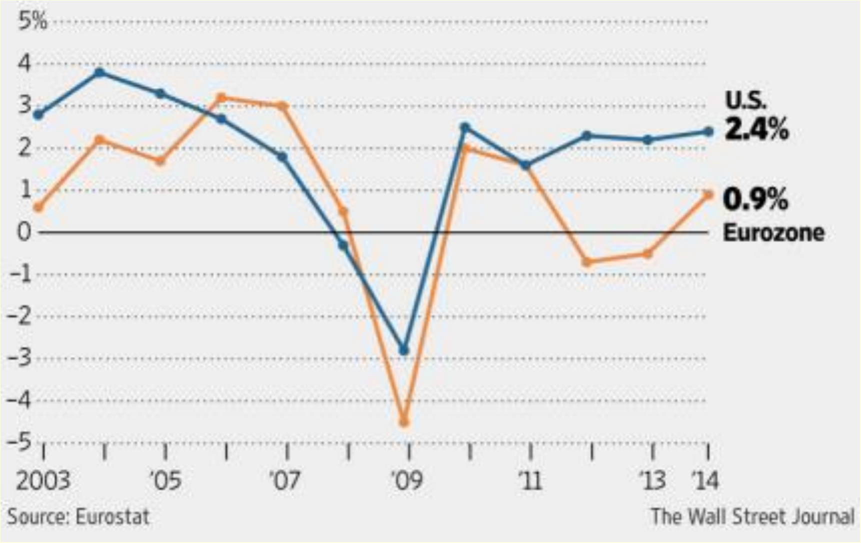
- Successful track record
- Current trends shaping the industry
- Reshaping the business model – strategic questions
- Implications of M&A

The perfect storm? Plenty of opportunities!

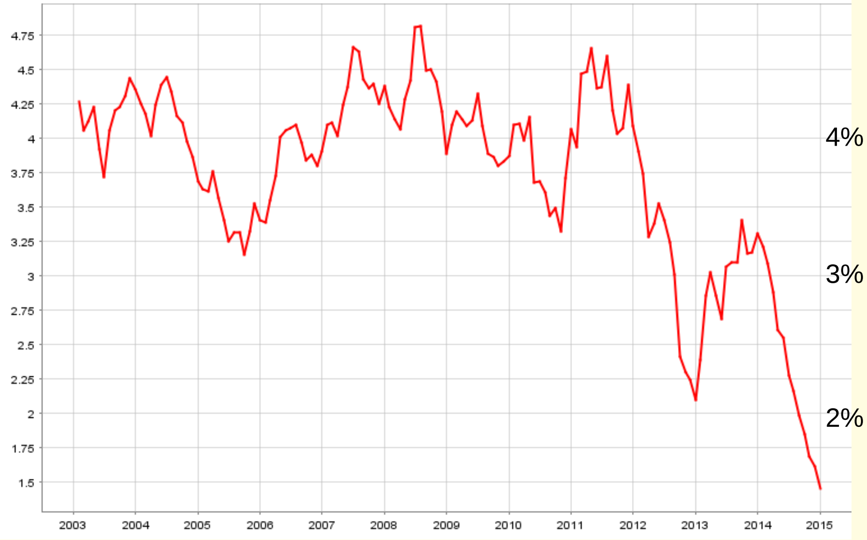
- Weak economic environment
- Low interest rates
- Softening rates
- Lower cession rates
- Stronger broker channel
- Increasing regulatory pressure
- Growing risk exposure

Challenging economic environment

Real GDP growth, US and Eurozone



10-year Eurozone treasury bonds

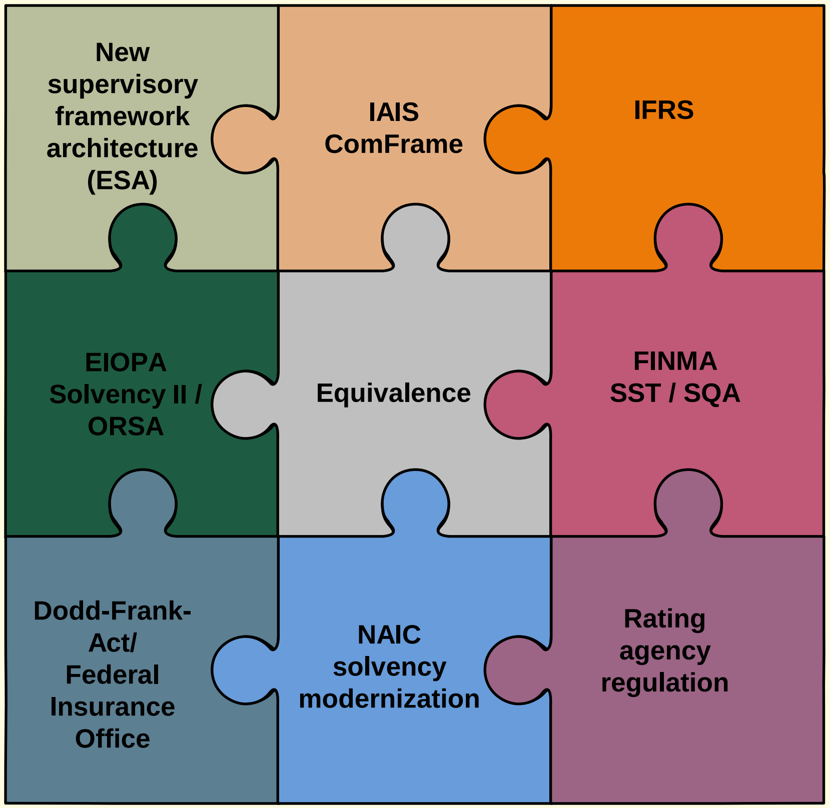


Source: ECB

- GDP growth has not yet found back to pre-crisis growth path, leading to postponement or cancellation of infrastructure projects
- Expansive monetary policy drives interest rates down, putting pressure on investment return and technical provisions

Increasing regulatory pressure

Regulatory reform puzzle



Source: Deloitte, own assessment

Implications for reinsurers:

- Increasing compliance cost.
- Revisiting overall risk appetite.
- Counterparty credit risk will be a factor when selecting the reinsurance panel.
- Adjusting investment portfolios (yield opportunities versus solvency capital charges).
- Reviewing product portfolios

CATLIN

Required: r/i partners that differentiate

Reinsurance supply

- Constrained growth opportunities in bread and butter business lead to tougher competition also in surety
- A new segment of reinsurers emerges capable to assume lead roles as a consequence of M&A
- ➢ Capacity is not enough to distinguish – services provide the competitive edge

Reinsurance demand

- Focus on reinsurance expenses due to
  - Strong capitalisation of their own balance sheets
  - Cost pressure
- Decline in cession rates and tendency for shorter panels
- ➢ Desire for fewer, long-term oriented r/i partners delivering dedicated services, and a broader product offering

Intermediaries

- Adjusting to new reality
  - Consolidation
  - Broader product scope for insurers: more services, ILS offerings, own facilities
- ➢ Desire for r/i partners that allow brokers to distinguish from their peers

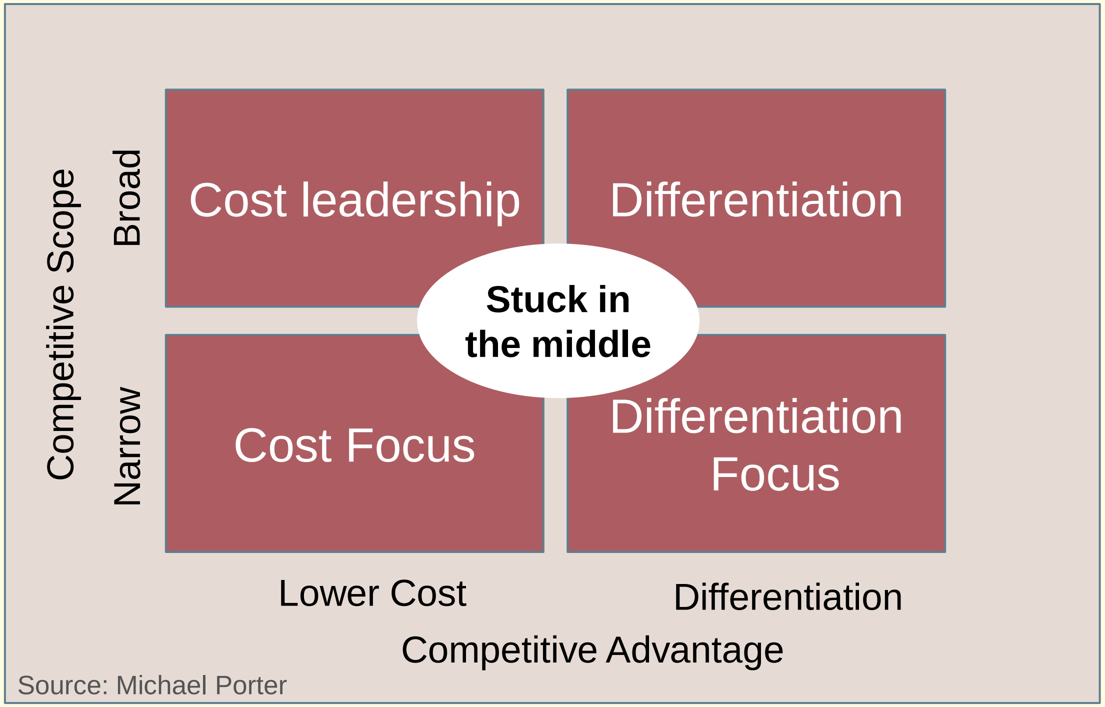
CATLIN

Agenda

- Successful track record
- Current trends shaping the industry
- Reshaping the business model – strategic questions
- Implications of M&A

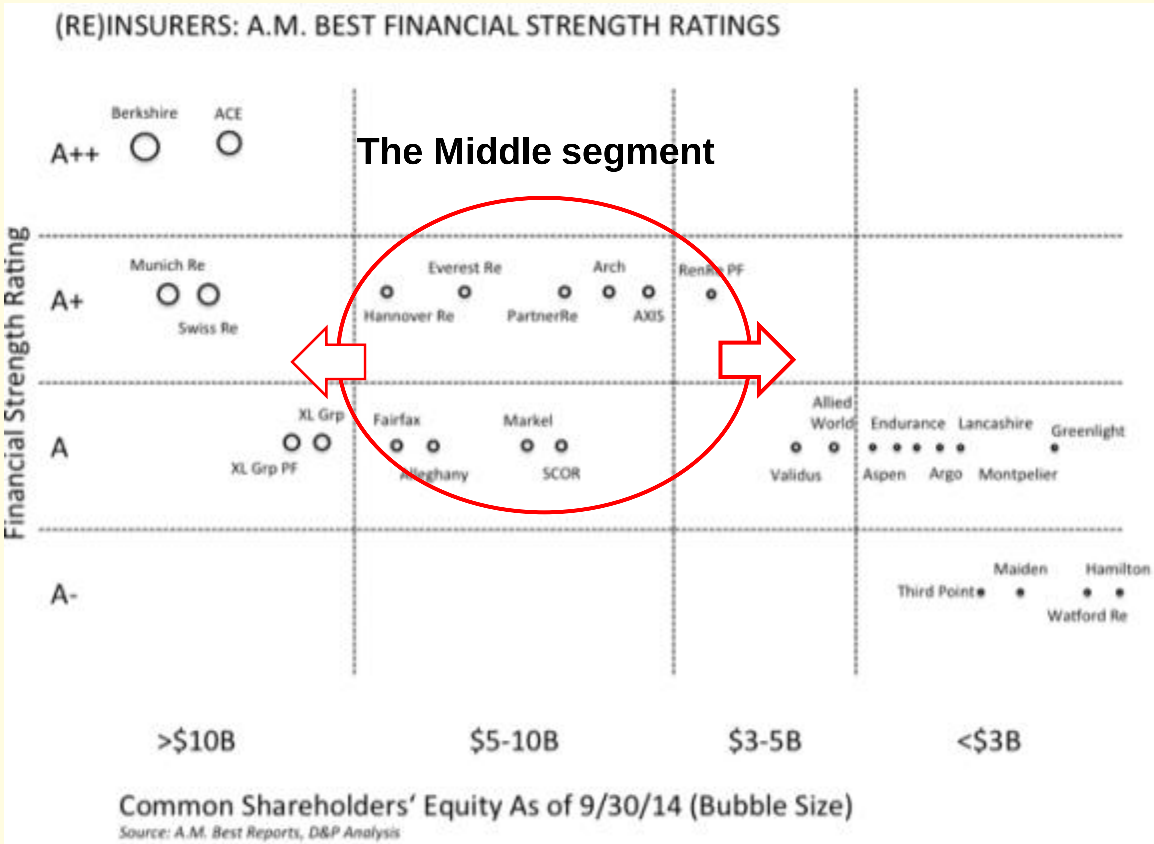
Reshaping the business model

Current market environment requires more than ever a clear positioning:



CATLIN

Stuck in the middle?!



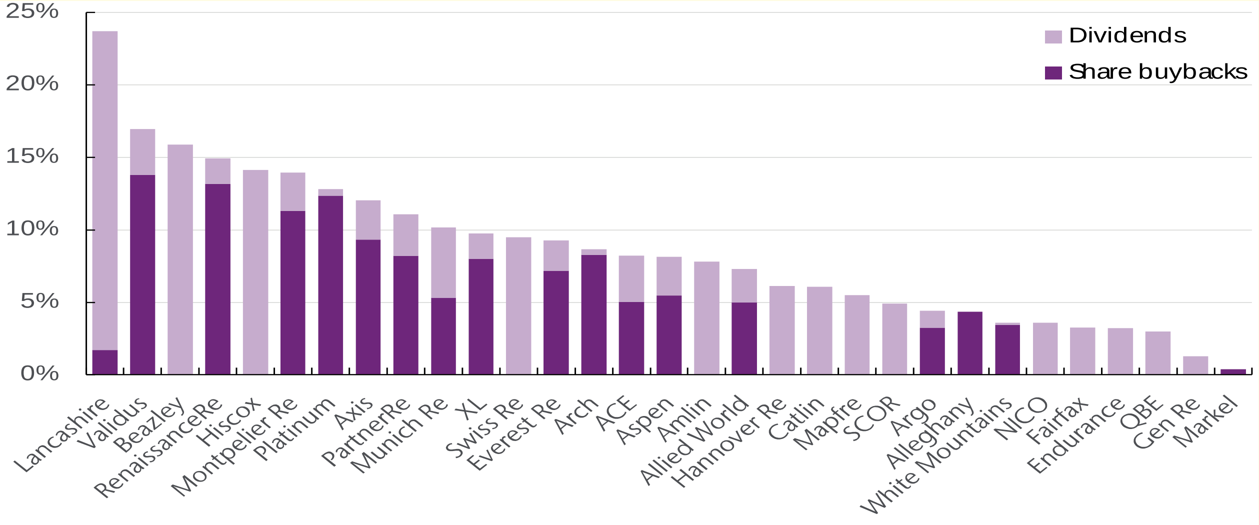
- Middle segment will need to decide:
- Competitive scope
  - Build up scale and enhance offerings
  - Focus on a niche targeting closely defined segments
- Competitive advantage
  - Have cost structures that are among the most attractive
  - differentiate from peers to get the more profitable business

CATLIN

Manage capital efficiently

Dividends and share buybacks

as % of opening capital



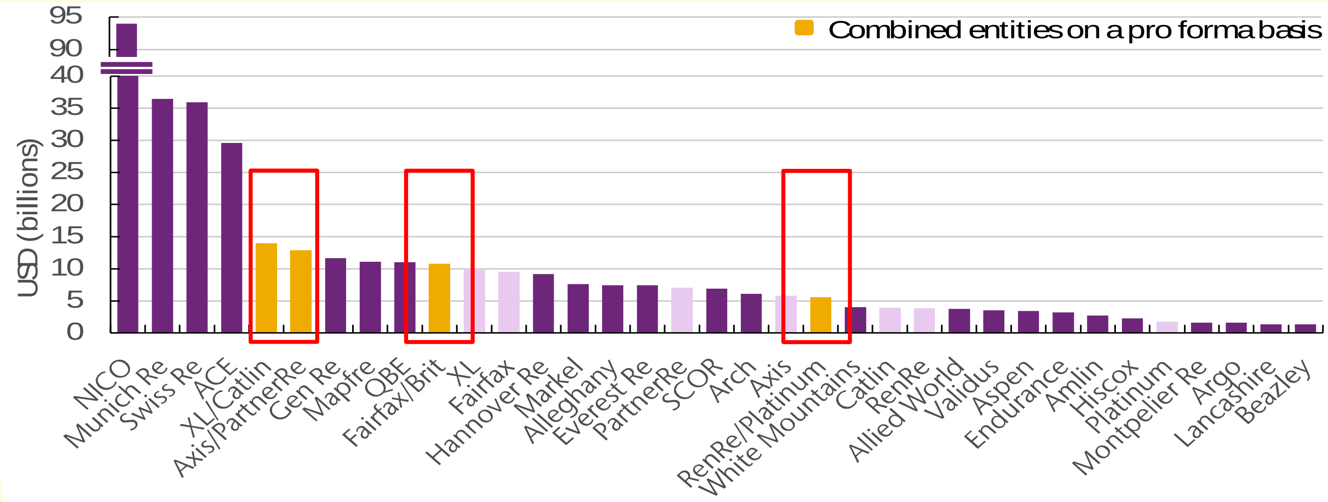
Source: Company reports, Aon Benfield Market Analysis

- Capital given back to shareholders increased by 28% to USD 18.3 billion in 2014, dividends and special dividends (jointly roughly USD 10bn) and share buybacks (USD 8.5bn)
  Source: Aon Benfield Aggregate
- Surplus is returned to investors through higher dividends, special dividends and/or share buybacks.

CATLIN

Strengthen market position

Shareholder funds at Dec, 2014



Source: Company reports, Aon Benfield Market Analysis

- Mergers & Acquisitions to
  - Increase scale across lines of business and markets.
  - Strengthen negotiation power and enhance analytical capabilities.
  - Gain access to expertise and experience in certain specialties.
  - Better leverage IT systems and exploit cost synergies.

CATLIN

Agenda

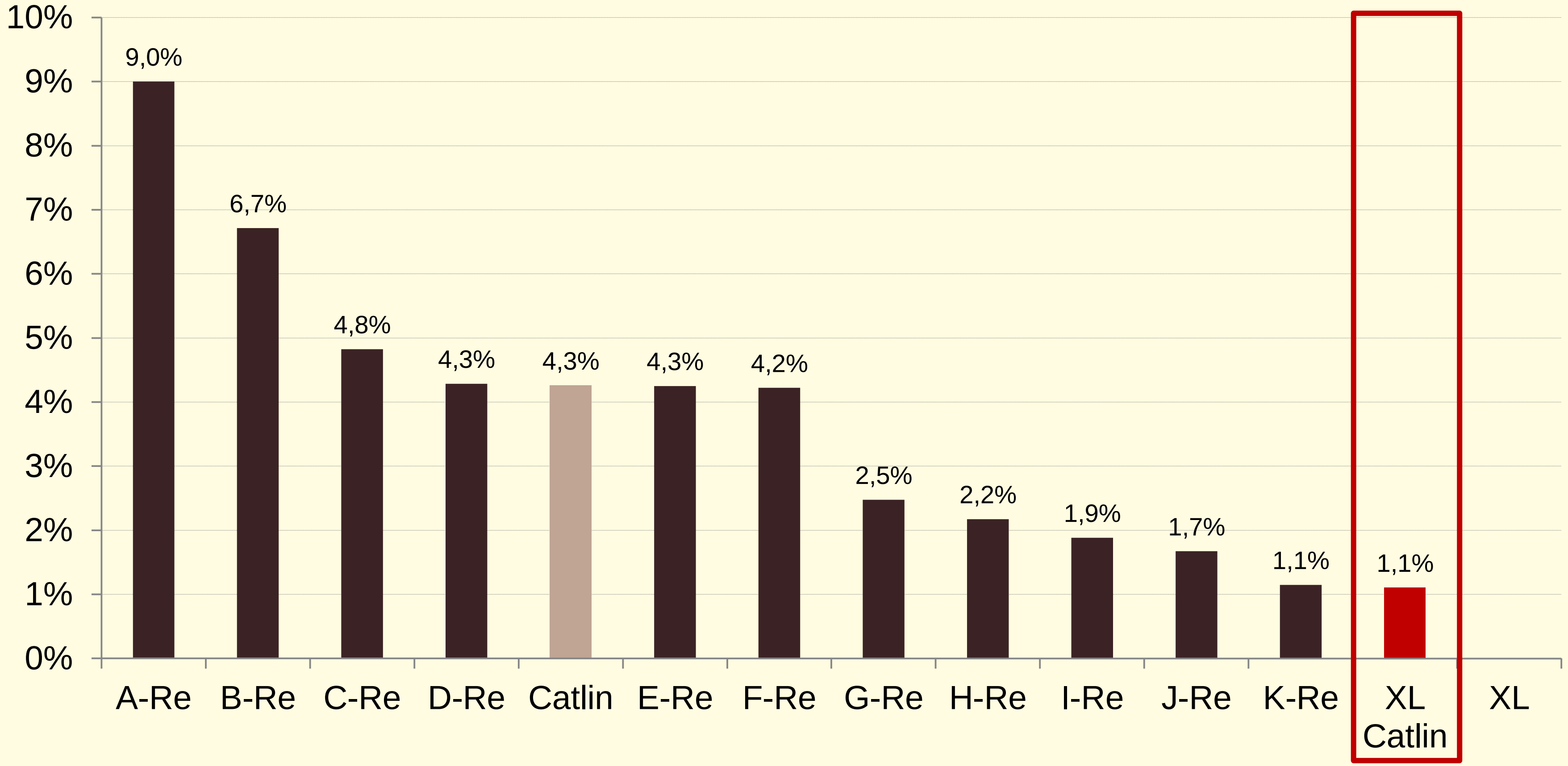
- Successful track record
- Current trends shaping the industry
- Reshaping the business model – strategic questions
- Implications of M&A

Stakeholders' benefits out of M&A

Surety insurers	▪ Higher degree of professionalism and specialisation ▪ Greater choice of leading reinsurers ▪ Wider range of services and customised solutions (including structuring, actuarial and pricing skills) ▪ Stronger risk taking capacity, enhanced security ▪ More holistic client approach, deeper understanding of client's risk transfer needs and acting as true business partner in the long run
Investors	▪ Potential for stronger and less volatile earnings. ▪ Broad diversification facilitates improved cycle management. ▪ More efficient capital use (funding – eg alternative capital – and investing)
Rating agencies and regulators	▪ Increased consumer protection due to more balanced portfolio and reduced volatility due diversification effects ▪ Proficient risk management

XL Catlin
More capacity with higher rating

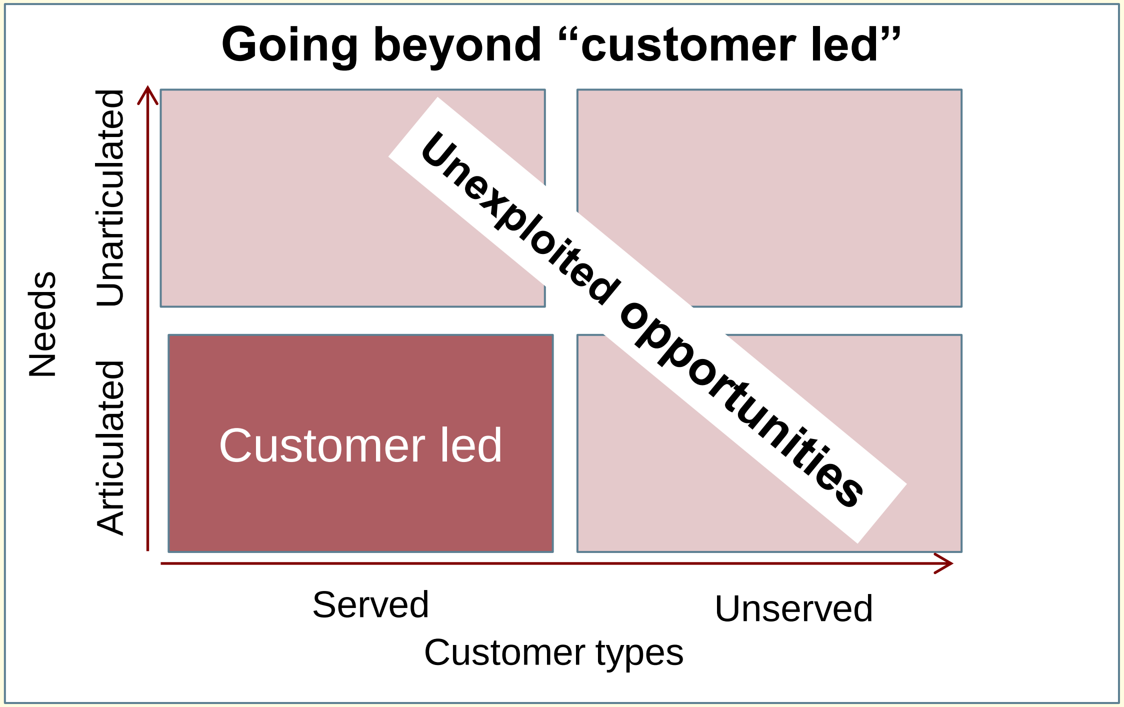
C&S premium in % of shareholders' equity



Sources: AON, annual reports

Ingredients of a successful M&A

- **Complementarity:** 1+1 = 3
- **Vision:** execute and implement strategy swiftly
- **Team:** retain talents, appoint the best suited for the functions, ensure smooth integration
- **Focus:** assure client orientation and go beyond customer led



...and there is much more out there

Surety Protection Gap: $ 3bn p.a. in Latin America

Estimated annual infrastructure demand	Estimated realised annual infrastructure spend	Potential annual bond volume (TSI)	Potential annual bond premium volume	Covered by banks	Covered by insurance	Current construction bond premiums	GAP to overall bond volume	Gap to insurance
300'000	1'500	450	4.5	2.25	2.25	1.5	3.0	0.8

Note:
USDbn
Estimated annual infrastructure demand from Global Infrastructure Report 2009
Estimated realised annual infrastructure spend: 0.5% of annual demand
Potential annual bond volume (TSI): 30% of realised spend
Potential annual bond premiums: 1% of TSI
Split insurance – bank: 50-50
Current construction bond premiums = 70% of total surety premiums
Sources: Global Infrastructure Report, Swiss Re sigma, own estimations

- In Latin America – surety market potential is three times the current market!
- In all markets, surety insurance penetration is subscale

➢ **There is no such thing as overcapacity, but lunch is not free either!**