Swiss Re Media Conference

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Swiss Re

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Macro-economic scenario and **implications for underwriting**

Thierry Léger – Group Chief Underwriting Officer

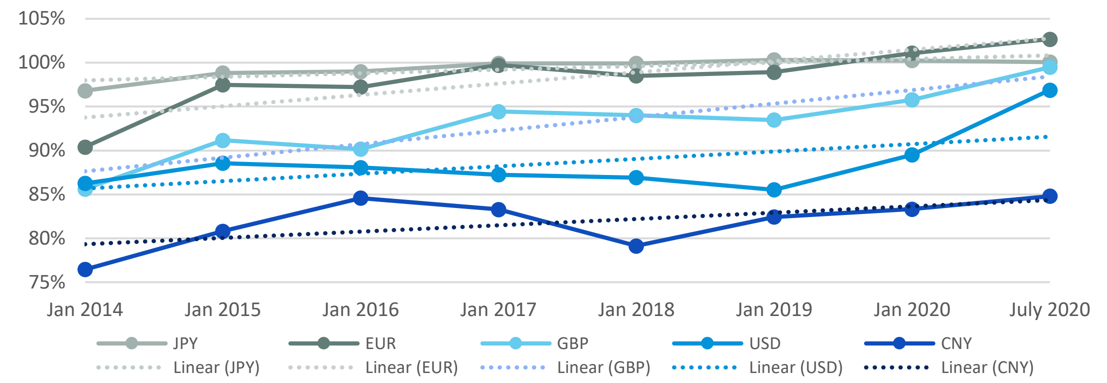
01

Major currencies offer de minimis risk-free return, which increases pressure on technical results

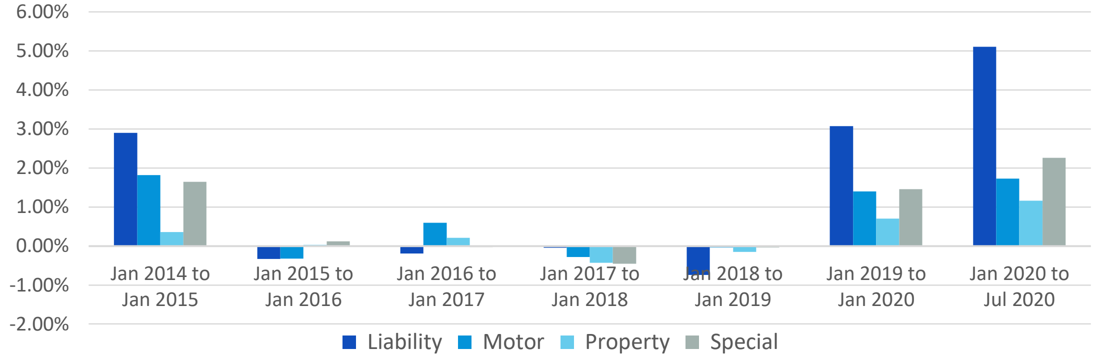
- EUR, GBP and USD **discounting has evaporated**
- Investment returns on new business **approach zero**
- Underwriting needs to contribute most of the profits

- Restated loss ratio has increased substantially since 2014
- Non-proportional has been hit harder than proportional reinsurance

Development of a 6-year payout period discount factor



Loss ratio* change to previous period

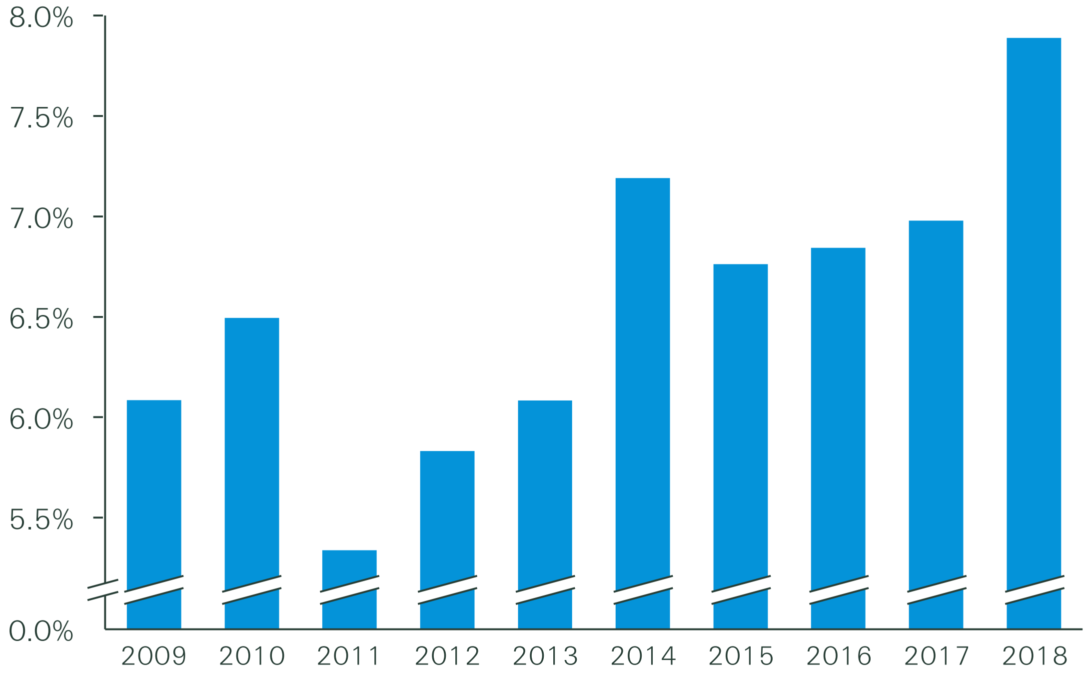


* Jan 2015 compared to Jan 2014, rolling 12-month portfolio of reinsurance business with original currency: CNY, EUR, GBP, JPY, USD, Liability includes Cyber and Non Life Accident & Health & Disability

Social inflation puts continued upward pressure on large claims

The share of very large plaintiff awards has grown substantially since 2011

Share of very large General Liability plaintiff awards (>5m)



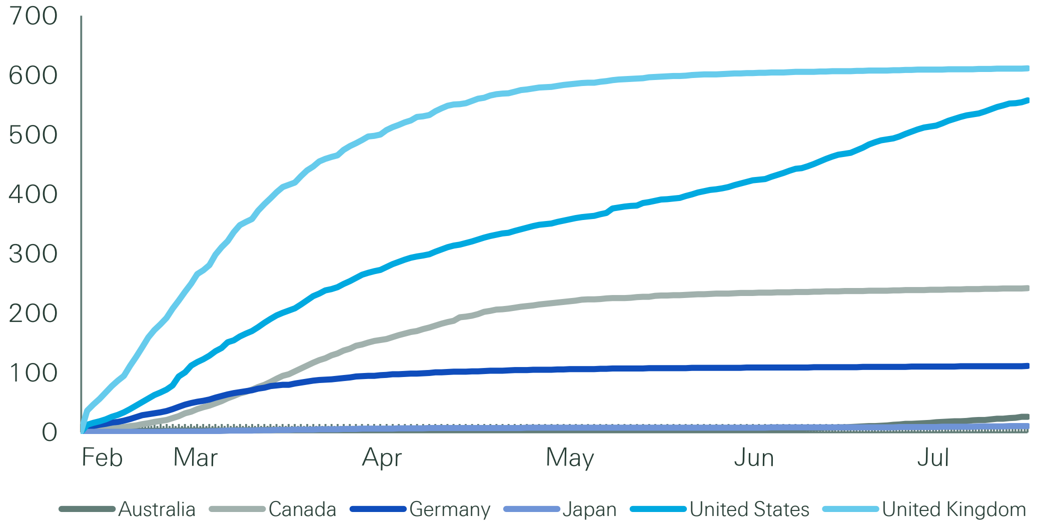
Source: Thomas Reuters Westlaw, Swiss Re Institute

While a backlog in court cases, due to COVID-19, might give a short reprieve, the drivers of social inflation are here to stay:

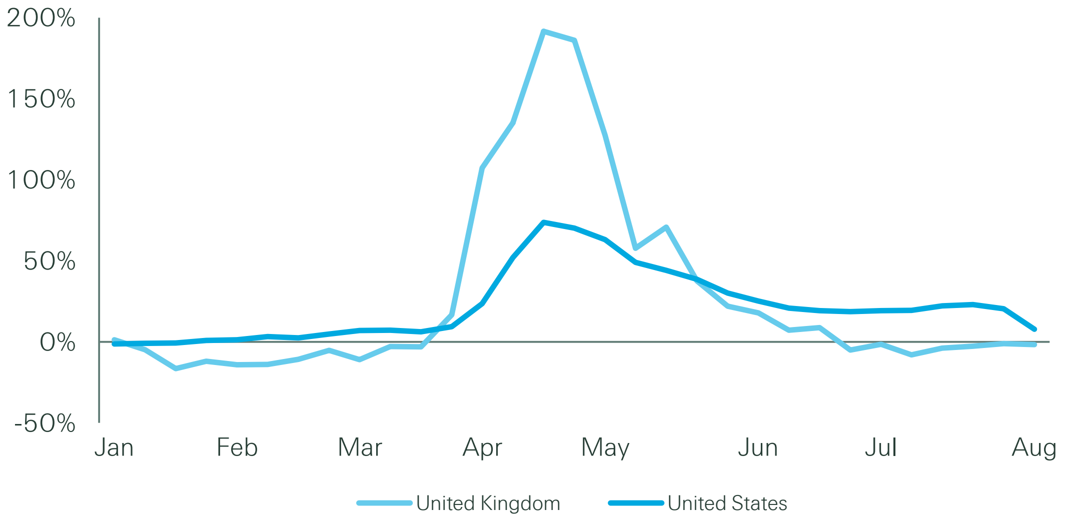
- The **plaintiff bar** will continue to **leverage psychology-based strategies** to trigger juries.
- The **defense bar is adapting** but can only be expected to catch up **slowly**.
- **Litigation funding keeps growing** as more players are entering the space.
- **Social attitudes**, exemplified by growing mistrust in corporations and key institutions, as well as general outrage and polarisation in society, **are unlikely to improve** in a post-COVID-19 world.
- We **do not expect significant legislative developments** regarding tort law reform that would curb the effects of social inflation in the next few years.

COVID-19 impact severity is uncertain for different countries; containment measures will continue to have a significant drag on the economy

Cumulative number of deaths per 1 million in 2020



Excess deaths, UK and US (Jan-Aug 2020)



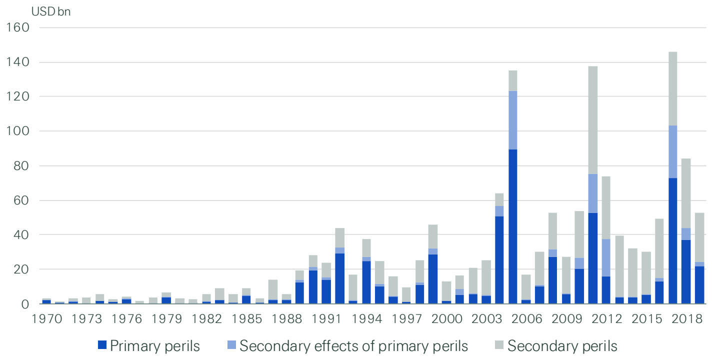
Impact on P&C

- Market estimates of COVID-19 industry losses range from USD 50bn to USD 80bn. So far disclosed by re/insurers' COVID-19 losses in 1H 2020 are at around USD 20 billion.[1]
- P&C COVID-19 claims: Higher claims from event cancellation, travel, BI, C&S, Directors & Officers, professional liability and workers compensation are partially offset by lower claims in motor lines.

Sources: Swiss Re graphs using data collated by left: *Our World in Data* right: *The Economist*
[1] Some companies reported losses were after tax, net of reinsurance

The heat is on: peak perils hitting the industry, aggravated by emerging secondary perils, and losses set to grow with a warmer climate and rapid urban sprawl

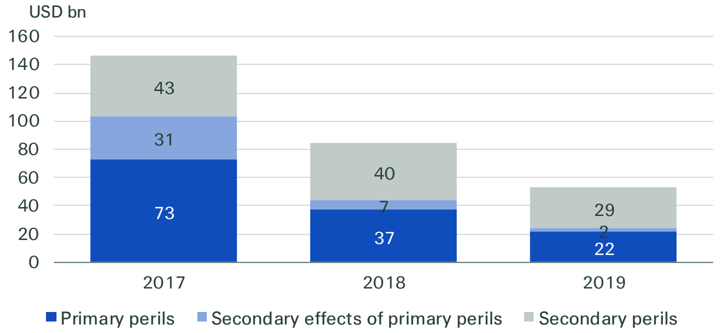
Nat Cat insured losses on the rise, peak perils back on the scene



Source: Swiss Re Institute

- With USD 283bn of natural catastrophe insured losses combined, the period of 2017 to 2019 shows the loss potential for the re/insurance industry
- Following a decade of quiet years, tropical cyclones have caused USD 158bn of insured losses in the past 3 years

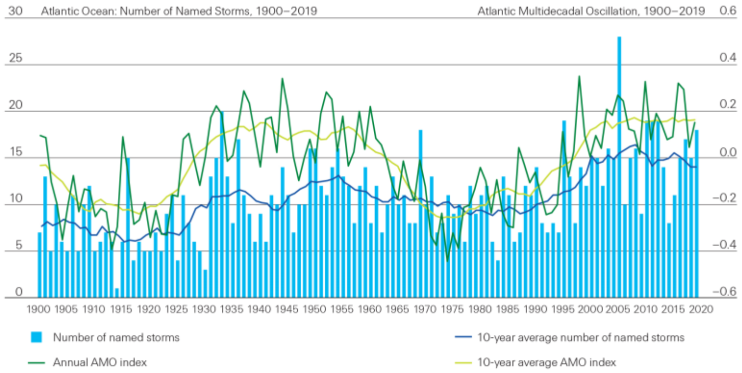
… with secondary perils[1] gaining visibility



Source: Swiss Re Institute

- More than 50% of the 2017 to 2019 USD 152bn insured losses can be attributed to the accumulation of losses from smaller and mid-sized secondary natural catastrophes perils
- Fostered by a warming climate, urbanisation and asset growth in exposed areas, the frequency and severity of secondary perils (including secondary effects of primary perils) are expected to rise

… and no comforting outlook for hurricane seasons ahead



Source: National Hurricane Center and NOAA Physical Sciences Laboratory

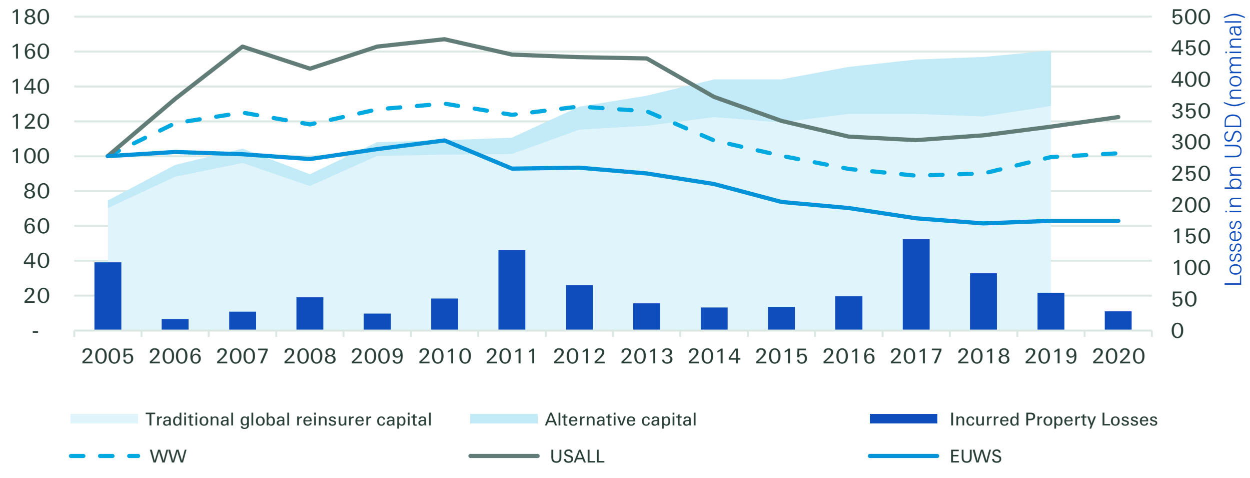
- Over the past two decades, ocean water in the North Atlantic has been warmer than usual, with conditions favouring hurricane formation and intensification. This phase is likely to continue in 2021
- Observed 2020 activity to date (significantly above average), and scientific forecasts for this hurricane season, underline the effect of the warm sea surface temperature

[1] Independent small to mid-sized events (e.g. wildfire, hail, snow), or secondary effects of a primary peril (e.g. hurricane-induced precipitation, storm surge).

Some positive price development observed, yet it is important to cover true cost of risk

Nat Cat market keeps hardening, but primarily in non-European perils

Swiss Re proprietary index, estimating Event XL reinsurance market price developments (RoL/RRoL), for major Nat Cat scenarios.

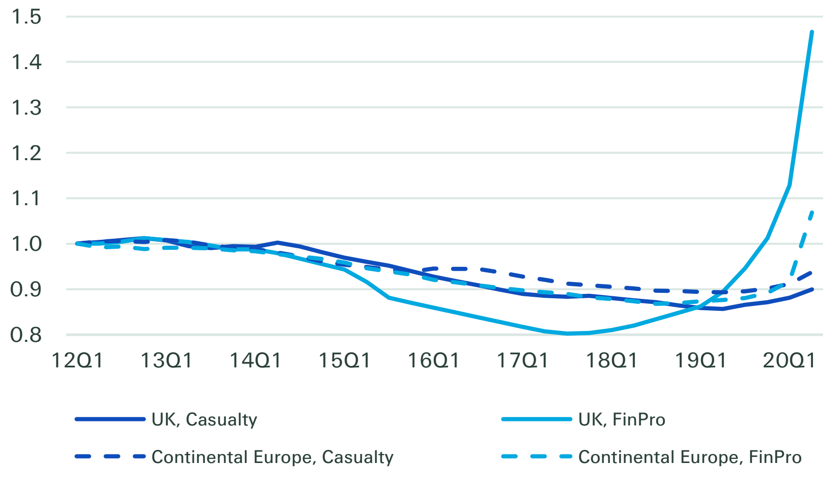


Natural catastrophe price levels increased in 2019 (significantly) and in 2020 (moderately), following a period of price reductions from 2013 to 2017. US and Japan perils have been more reactive, while EMEA perils have been relatively flat ever since 2018 when they hit the lowest price level in more than 15 years.

Source: Swiss Re Institute
* 2020 H1 losses

Rate increases in Casualty, but still limited to specific business segments

Marsh commercial insurance price indicators, for Casualty and FinPro, calculated from annualized yoy percentage changes in price.



Markets are starting to more accurately reflect the inherent level of risk in some exposed casualty segments. In EMEA, rate increases have been observed on our reinsurance casualty book, but they did not compensate for the impact from the new yield environment.

Source: Marsh, Insights, research and briefings

Swiss Re Institute creates deep risk insights enabling us to offer tailored solutions to our clients

Property Nat Cat

- Curating a proprietary risk view for 200+ nat cat scenarios
- Enabling consciously differentiating risk taking
- Enabling fast learning loops, independent of vendors

Current research focus:

- Urbanisation, claims inflation and secondary perils
- Climate change: quantitative analytics for today's risk and forward-looking
- Exploiting data towards UW insights

Liability & Motor

- Liability risk drivers model, allowing very granular risk assessment
- Large corporate risk tracker to assess exposures in treaties
- Data-driven, forward-looking views

Current research focus:

- Social inflation in the United States and contagion risk in other countries
- Motor frequencies in a post-COVID-19 economic environment
- Trends in securities class actions
- Risk trends at sub-portfolio level

Cyber

- Curate and advance suite of cyber costing and accumulation tools for affirmative cyber
- Advance risk accumulation scenarios and technology
- Shape Public Private Partnerships (PPP) solutions for risks considered uninsurable

Current research focus:

- Manage, control and price non-affirmative/silent cyber
- Exposure and claims data curation and repository
- Understand relevant risk drivers for cyber activity

Positive outlook for the insurance industry driven by premium growth, economic recovery and record-high protection gaps

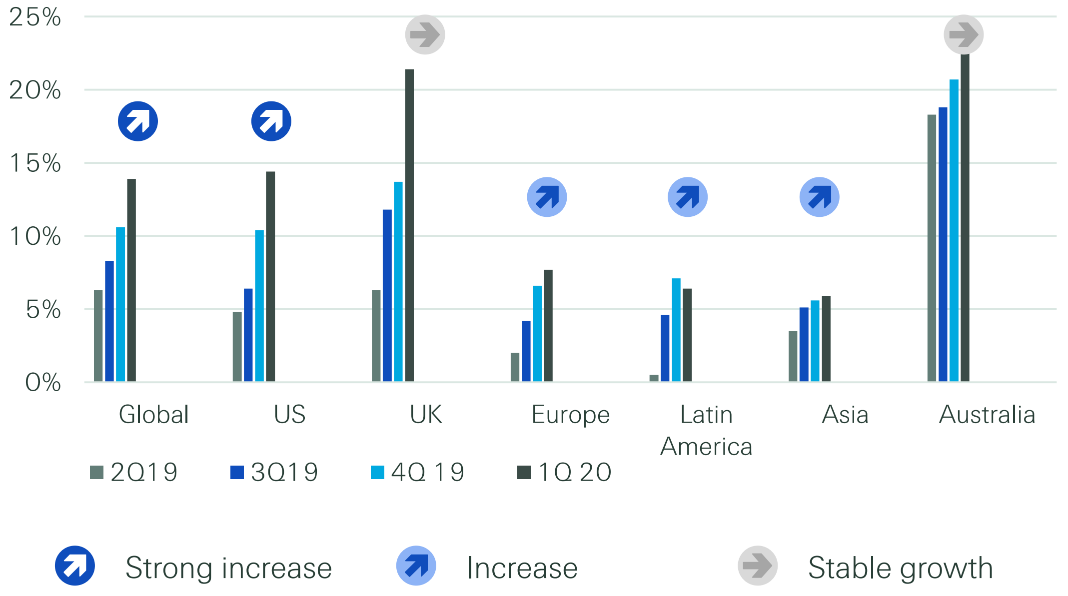
Improving insurance demand alongside economic recovery. Positive rate momentum will carry into 2021: available capital is now less and risk is abundant, creating opportunities for further market hardening

A number of supply-side factors support market hardening: capacity constraints, rising claims and modelling uncertainty (COVID-19, social inflation and climate change) make it more difficult to underwrite certain risks. **COVID-19 widens protection gaps, pushing many households and companies into financial stress, reinforcing the relevance of insurance**

A confluence of factors work towards further market hardening

1. **Improving insurance** demand alongside economic recovery
2. **Capital shocks** (financial market volatility)
3. **Higher demand** (COVID-19 triggered rising risk awareness)
4. **COVID-19 widens protection gaps** and reinforces relevance of cover
5. **Rising claims** (even pre-COVID-19: rising claim trends in NatCat-exposed property lines and casualty (social inflation))
6. **More cautious alternative capital capacity**

Commercial insurance composite rate outlook



Source: Swiss Re Institute

Reinsurance – key in **tackling future challenges together**

Moses Ojeisekhoba – CEO Reinsurance

02

Maintaining a thorough focus on underwriting fundamentals and helping to enhance preparedness for future systemic risks

Economic fallout from COVID-19, including increasing insurance liabilities and continued low interest rates, requires the re/insurance industry to increase its focus on underwriting performance

Value Chain

Product Design → Pricing → Marketing / Distribution → Claims

Enhancing product design

- Integrating risk knowledge to better meet changing customer needs
- Rapidly transferring insights to clients, supporting their growth potential

Costing process and underwriting decisions

- Engaging with clients on technical expert level to help determine rate adequacy
- Managing risk portfolios actively and dynamically (reviewing & hedging systemic exposures)

Addressing modelling uncertainty

- More frequent model updates and free-form scenario thinking
- Expanding modelling capabilities to unlock unstructured contract data

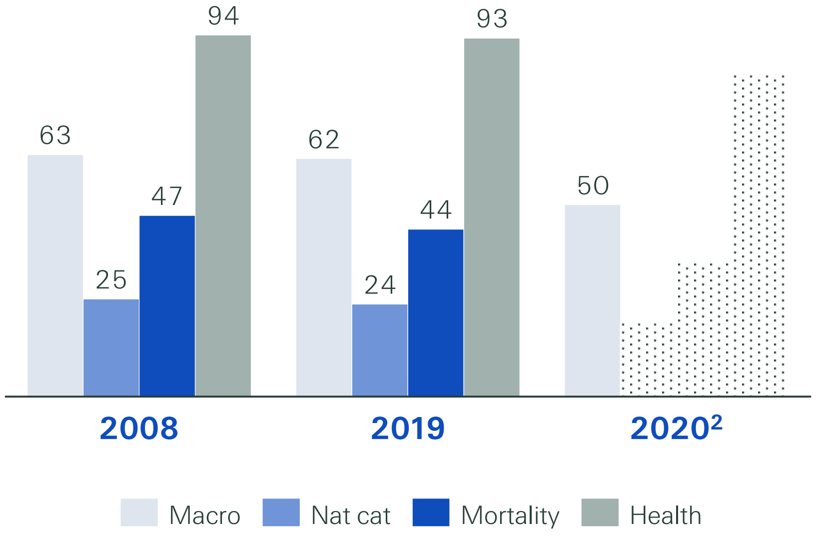
Clarity of contract wording

- Removing ambiguity in scope of coverage, with focus on contract certainty
- Communicating with clients, brokers and regulators to develop clearly worded Terms & Conditions

We are acting as a strategic partner to clients to help restore overall resilience and financial stability

Macro resilience expected to reduce by 20% in 2020

Swiss Re Institute Global Resilience Indices (%)[1]



Swiss Re is supporting clients to...

Underwriting excellence — ...reduce **earnings volatility** — e.g. reducing nat cat exposure, increasing quota shares

Balance sheet protection — ...reinforce **balance sheet strength** — e.g. structured transactions

Capital management support — ...define **optimal portfolio composition** — e.g. legacy solutions & portfolio reviews, prospective covers

Client needs have not fundamentally changed in the pandemic, with increased demand for customised and corporate finance-related reinsurance

1. Insurance resilience measured as protection available as a percentage of protection needed; macro resilience derived considering multiple economic and structural factors incl. economic complexity, low carbon economy, human capital and insurance penetration
2. 2020 values for SRI Nat cat, Mortality and Health Resilience Indices are illustrative only

Beyond addressing financial stability, our solutions are developed to enhance the longer term resilience of our clients, individuals and society

Needs	**Clients** Growth, efficiency, profitability & risk knowledge	**Individuals** Improved customer journey & affordable, relevant products	**Society** Resilience & sustainability
Benefits of innovation	• Expanding customer base & revenue generation • Improved underwriting process & product design • Improved risk selection	• Technology-enabled access to affordable cover • Products designed to better suit customer requirements • Efficient claims handling	• Mitigating climate risk • Building societal resilience and reinforcing sustainability • Addressing the protection gap
Selected Swiss Re solutions	**e.g. P&C Analytics, Swift Re®**	**e.g. iptiQ, Magnum**	**e.g. CatNet®, Cyber cover**

P&C Analytics – detailed portfolio insights helping enhance clients' business

Analytics platforms and bespoke advisory provide data insights that help grow clients' business, increase their profitability and enhance their efficiency

Solution features

- Extensive risk knowledge, profound industry expertise and state-of-the-art data science techniques
- Insights into market trends & insurance portfolios
- Exposure assessment of natural catastrophe risks
- Analytics of complex global supply chains

Client benefits

- Strategic market and risk insights for go-to-market strategies and new target segments
- Insights into portfolio composition, loss drivers and risk predictors
- More granular pricing and claims prediction

Client examples

Growth	Efficiency	Profitability
Insurance premium growth	Underwriting efficiency increase	Improved portfolio loss ratio by
10%	**95%**	**6%pts**

iptiQ – delivering streamlined, digital and affordable protection products

Digital white-labelling B2B2C insurance platform, helping partners accelerate access to new customers and products

Value proposition

- End-to-end platform
- Rapid partner onboarding
- Data-driven customer insights

Onboarding time	Consumer reach	Market presence (# countries)
60 days	~93m	10

Client benefits

- Excel through a cutting-edge digital insurance engine
- Accelerate time to market with digital solution
- Platform module selection to close business & technology gaps
- Risk selection & innovation built on Swiss Re risk knowledge

Selected partners

Allthings, nationale nederlanden, IKEA, ING, medibank, AIG Direct, Assurance, Mutual of Omaha, Willis Towers Watson, MAPFRE, AON (Spain), SAMSUNG, UBS

We must continue to work together to restore resilience amid a changed risk landscape

- Economic rebound post COVID-19 expected to drive risk exposure growth with overall protection gap continuing to widen
- While positive P&C price developments can already be observed, insurance rates need to react more strongly in response to current backdrop
- Changed risk landscape also presents opportunities for the insurance industry to continue growing and to close the protection gap
- Underwriting discipline remains paramount in this phase of the cycle and supports restoring resilience

Q&A

Swiss Re