REINSURANCE HIGHLIGHTS IN 2016 & FIRST HALF 2017

WORLD

TERRORISM remains a constant hot topic

CYBER

Wannacry and Petya have demonstrated what could be a wide extended loss

A 4% SHRINKAGE IN TURNOVER compared to 2015 marked up by the effect of the exchange rate

A 40% increase in CATASTROPHE LOSSES for 2016 compared to 2015 (2016/2015, Source Swiss Re)

A RESILIENT REINSURANCE MARKET

Continuation of very low INTEREST RATES

AN EVENTFUL POLITICAL CONTEXT

in an uncertain world.

A wider and more COMPLEX LEGAL FRAMEWORK

OGDEN RATES (UK)

A regulatory impact of several billion pounds on insurers’ and reinsurers’ results.

PANDEMIC RISK

An increasing demand for this kind of cover

AGRICULTURAL BUSINESS

A disastrous 2016 due to losses arising from climatic events (frost, floods, hail, etc.)

LEGISLATIVE DEVELOPMENTS to be monitored

Environmental liability

Future Third Party Liability reform

APREF:

• THE HIGHEST NUMBER OF REINSURER MEMBERS

More than 70% of reinsurers operating in the French market.

• THE GREATEST AMOUNT OF DIVERSITY IN TERMS OF ASSOCIATE MEMBERS (brokers, law firms, reinsurance brokers, underwriters, actuaries, run-off managers, Riskmanagers, consultants, etc.)

• THE MOST DIVERSE PUBLICATIONS (Reports, White papers, etc.)

• APREF ADDRESSES ALL TOPICS RELATING TO REINSURANCE IN FRANCE (5 Commitees, 13 Thematic Commissions, 25 Working Groups),

• MONITORING OF RELATIONS BETWEEN REINSURERS AND PROFESSIONAL FEDERATIONS, Public authorities or any other market organizations,

• CONTRIBUTING TO THE DEVELOPMENT AND ENHANCED ATTRACTIVENESS of the reinsurance industry, with a view to making Paris a key center.

FRANCE

STABLE OVERALL TURNOVER.

CREATION OF CCR Re on January 1, 2017

May-June 2016 FLOODS

Estimated cost of € 1.2 b

AGRICULTURAL BUSINESS

A disastrous 2016 due to losses arising from climatic events (frost, floods, hail, etc.)

PANDEMIC RISK

An increasing demand for this kind of cover

LEGISLATIVE DEVELOPMENTS to be monitored

Environmental liability

Future Third Party Liability reform

A REGULAR TURNOVER.

A RESILIENT MARKET.

A 40% increase in catastrophic losses (2015/2016)

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A WIDER AND MORE COMPLEX LEGAL FRAMEWORK

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A WIDER AND MORE COMPLEX LEGAL FRAMEWORK

OGDEN RATES (UK)

A regulatory impact of several billion pounds on insurers’ and reinsurers’ results.

A STABLE INCOME

LINES OF BUSINESS 2016

Lines of business 2016

<table>
<thead>
<tr>
<th>Lines of business</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life</td>
<td>2,050</td>
</tr>
<tr>
<td>Non life</td>
<td>3,314</td>
</tr>
<tr>
<td>Non life **</td>
<td>2,042</td>
</tr>
</tbody>
</table>

**WITH CCR STATE GUARANTEED**

**WITHOUT CCR STATE GUARANTEED**

Source: APREF

A stable income

Development of premium collection

(Acceptances Life/Non Life)

GROSS CESSION RATE (2015)

<table>
<thead>
<tr>
<th>Category</th>
<th>Cession Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life</td>
<td>6.0%</td>
</tr>
<tr>
<td>Non life</td>
<td>3.8%</td>
</tr>
<tr>
<td>Total</td>
<td>4.5%</td>
</tr>
</tbody>
</table>

Source: Contrat d’Assurance et de Reinsurance (CARR)

A word from the CHAIRMAN

As is the case every year, risks of all kinds are on the reinsurance radar in 2017.

On the economic front, although a tentative recovery has begun and interest rates, which have reached an all-time low, may be bottoming out, uncertainties remain. The Central Banks must now manage the exit from Quantitative Easing wisely so as not to suffocate the recovery, and they need to control inflationary risk.

Things also remain very uncertain from a geopolitical and regulatory point of view, even though it would appear that the trends towards global re-fragmentation and increased financial regulation – which followed the crisis - are beginning to slow down.

In this stochastic world, the reinsurance industry, which is still exposed to shocks, continues to carry its clients’ risks with high levels of solvency. But its profitability remains under pressure, due to pricing levels and excess capacity in P&C reinsurance.

The reinsurance industry is still being carried by positive trends, which include the expansion of the risk universe, a major lack of cover in emerging countries, and the need to push back the frontiers of insurability for complex risks. Moreover, the technological revolution currently underway is bringing significant improvements to the profession in terms of data processing, modelling and operations.

To access an APREF PUBLICATION, SCAN THE FLASH CODE for the related summary article.

The “APREF Newsletter” is also available on the APREF website: www.apref.org

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APREF Newsletter - September 2017 - RVS Edition

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INTEREST RATES & RISK TRANSFER; SCENARIOS & ISSUES

Our economies are in a situation of "financial repression" with increasingly negative effects on reinsurance. In all sectors, the duration of assets as been shortened and their allocation redeployed to better remunerated investments. In the short tails, the entry of new capital has exerted downward pressure on tariffs. In the long-term tails, the fall in discount rates and the situation with regard to deductibles have led to a more than proportional increase in reserve expenses.

OVERALL, HOWEVER, REINSURANCE HAS SHOWN GREAT RESILIENCE.

REINSURANCE UNDER SOLVENCY II

This APREF memo describes different manners of considering reinsurance under Solvency II and potential shortcomings resulting from inaccurate risk appreciations.

RISK MITIGATION THROUGH REINSURANCE

One year after the entry into force of the new framework, and in the context of the review of the standard formula scheduled for May 2018 in the Omnibus II Directive, this memo sheds an objective and neutral light on the different methods for enhancing the consideration of reinsurance in the application of the Solvency II standard formula.

Looking ahead, there are three scenarios that emphasize the dependence of reinsurers on central banks. A continuation of a very low interest rate environment would maintain the downward pressure on rates. A gradual recovery in rates would restore financial returns, dampen alternative capital inflows and allow for normalization and smooth transition. A sharp and substantial rise in interest rates, coupled with a sharp rise in inflation or a public debt crisis, would have particularly damaging consequences for reinsurance.

DATA PROTECTION AND THE RIGHT TO BE FORGOTTEN: WHAT SHOULD WE KNOW?

The European Regulation on data protection (GDPR), which will be implemented as of May 25, 2018, will reinforce the control that individuals have over their personal data and enhance company’s awareness about its responsibility while offering a unified legal framework. The individuals will be endowed with new forms of rights, that include the right to be forgotten and the right to data portability. Moreover, the end of systematic declaration will lead to a change in paradigm for companies that will acquire a greater autonomy as regards the processing of the data they hold. At the same time, companies must be capable of constantly demonstrating their compliance with legislation.

Overall, the regulation requires that companies be more involved in personal data protection by combining accountability and coercion: regulatory sanctions could reach up to 4% of global group turnover.

This APREF memo underscores the fundamental issues relating to the regulations that apply to insurance and reinsurance companies.

LIFE EXPECTANCY AND EXCESS MORTALITY OF TRAFFIC ACCIDENT VICTIMS

From the analysis conducted by the APREF workgroup, five points may be noted in response to the objectives tasked to the group by the APREF Automobile Commission:

1. To date, there are no specific mortality tables based on actual observation of traffic accidents.
2. Studies on excess mortality consecutive to an accident event have been made in a number of countries (USA, Australia, United Kingdom, Finland, etc.).
3. These studies clearly demonstrate one principle: high mortality rates for severely injured victims are a reality, especially in the first years following the accident. However, the studies project excess mortality rates beyond the 2 to 5 years following the accident, based on statistical data.
4. In France, although all the parties involved share many impressions, it is difficult to clearly establish actual numbers.
5. In certain neighboring countries (Spain and UK), excess mortality is taken into account in the compensation system.

Two approaches may be used to integrate a mortality rate assumption into the compensation procedure. The first is to adopt specific mortality tables (Spain, Switzerland). The second is to set a duration for life expectancy on the basis of expert opinion (the UK, Israel).