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SI Re

STEPS 1/19

Modernity and sustainability – the continuation of SI Re's proven business strategy

Since its foundation in 2004, SI Re has pursued a strategy of moderate and profitable growth in keeping with its primary aim of sustainable development. The company has consistently foregone costly experimental ventures, such as geographic expansion into exotic markets or erratic restructuring of its portfolio mix. The consistent growth in the company's profitability in spite of a soft reinsurance market spell going back ten years confirms the merit of this approach.

At the same time, SI Re monitors the market environment's dynamic development very closely and employs innovative methods to advance its broad-based business progress. Thus, in its latest business strategy review in 2018, SI Re decided to include cyber risks in its portfolio and increase its exposure to the Insurance-Linked Securities (ILS) asset class.

Writing of cyber risks

SI Re also resolved, as part of its five-year strategy, to further diversify its business mix by writing cyber risks as of this year's renewal season. This cover is offered to existing clients on a proportional basis, provided the cedant's underwriting guidelines are known, the main risk segment is SMEs and the relevant SI Re questionnaire has been addressed.

Cyber threats pose a broad range of risks to companies, ranging from loss of client data and proprietary intellectual property to the interruption of operational business processes. As a result, demand for cyber cover is growing exponentially, including among small and medium-sized companies. Direct insurers and reinsurers are responding by writing more cyber risk in spite of its inherent uncertainties.

SI Re supports its cedants in their strategic business development. Therefore, the company has decided to cover this risk, having already concluded one cyber contract in this year's renewals.

Increased exposure in Insurance-Linked Securities (ILS)

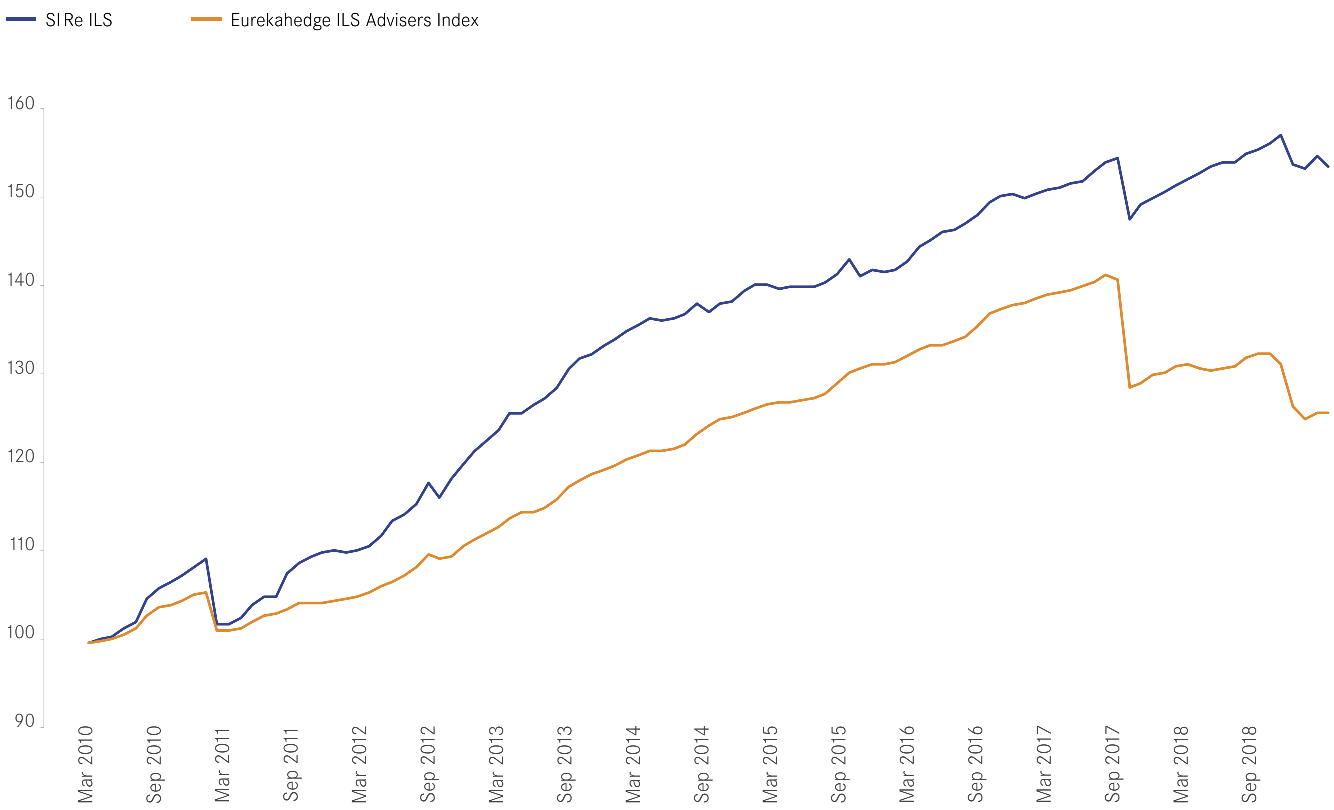
For SI Re Insurance-Linked Securities are not an asset class in terms of risk. As the company is focused in its market orientation on Europe and therefore European risks, SI Re uses ILS as an opportunity to diversify its European natural catastrophe risks at a global level, thus mitigating volatility and achieving a good balance with its European risks. ILS also allow SI Re more flexibility compared to integrating similar risks on the liability side of its balance sheet. When investing in ILS, SI Re does not enter into lasting client relationships. On the contrary, the company is free to buy and sell them in accordance with its own objectives and subject to its preferred investment and exit strategy.

SI Re has consistently invested in this alternative asset class since 2010 and the cumulative performance has been impressive. The net asset value is currently about 50% higher than the investment value in 2010. This strong development level is significantly higher than its benchmark index, which is comprised of various equally weighted investment strategies (see Fig. 1).

Alternative investments are now a permanent feature in institutional investors' investment portfolios. According to a recent survey by Willis Towers Watson (WTW), over half of all investors have selected a strategic allocation in the form of alternative capital comprising 2-5 % of their total investments. Almost two-thirds of investors surveyed have already been involved in this asset class for over five years, citing portfolio diversification as their main motivation in almost every case. By contrast, a mere 12 % of respondents prioritised return considerations. In view of this situation, the common assumption that the future of ILS depends on monetary policy and interest rates should be viewed with caution. In addition, the WTW study shows that ILS are likely to expand into other risk categories: almost three-quarters of investment funds surveyed believe their investors support this expansion.

In 2018, available reinsurance capacity increased to USD 348 billion according to JLT Re (see Fig. 2). The alternative capital, comprising catastrophe bonds, collateralised capacity and industry-loss warranties remained almost unchanged at USD 91 billion, while reinsurers' traditional capacity rose by 0.8 % over the year. The extraordinary natural catastrophe burden in 2017 and 2018 did impact the influx of alternative capital to some extent. Investors exercised more caution last year and reduced investments, following falling returns in previous years, consistently rising losses from Hurricane Irma in 2017 and the severe natural catastrophes in 2018. In addition, high volumes of alternative reinsurance capital remain trapped in securitisation losses until the definitive loss amount will be established. JLT Re estimates that this capacity totals about USD 20 billion.

FIGURE 1: ILS INVESTMENT PERFORMANCE OF SI RE RELATIVE TO THE BENCHMARK



Source: Eurekahedge

At the same time, the long-term outlook for the ILS asset class, which includes natural catastrophe bonds of approximately USD 30 billion, has again improved as spreads recover in response to the losses in prior years. SI Re is authorized to invest up to EUR 50 million of its investment capital in ILS. The company has not yet allocated this sum in full due to its cautious investment strategy, as the price development of past years, combined with declining spreads, failed to meet requirements. Since prices have returned to a significantly more attractive level, SI Re has decided to increase its ILS holding. Corresponding to its global diversification strategy for natural catastrophe risks, the aim is also to expand coverage of natural perils to include, for example, inland flood and wildfire, as well as motor vehicle and catastrophe cover for pandemics and terror. In addition, the company will expand its ILS diversification into the Asian market.

SI Re achieves solid premium growth in an unchanged market environment

Following a year of consolidation in 2018 with 1.2 % premium growth, SI Re increased premiums from EUR 133.5 million to EUR 139.4 million (4.5 %) in this year's January renewals. The key driver of this growth was third-party business with a 6.6 % premium growth. While prices essentially remained stable, SI Re increased its business with current cedants and gained new clients.

Undiminished excess capacity in the global reinsurance market

The 2019 renewals again failed to meet reinsurers' hopes of a hardening market trend. With natural catastrophe losses in excess of USD 80 billion (as reported by JLT Re, January 2019) mostly impacting Asia and the USA, 2018 was the fourth-highest loss year on record for insurers. Moreover, combined with 2017, a year of unprecedented catastrophe losses at USD 150 billion, the past two years constitute the worst two-year loss period in global insurance history. This has increased demand for reinsurance, improved underwriting discipline and reduced retrocession capacity. However, the willingness of reinsurers to assume risk is as strong as ever due to sustained excess capacity. As in the prior year, this was due to the ongoing, albeit slightly reduced influx of capital to the convergence markets, amounting by now to just under USD 90 billion or about 25 % of available reinsurance capacity (see Fig. 2).

In contrast with Asia and North America, catastrophe losses in the European insurance market were low in 2017 and 2018. As a result, capacity proved more than adequate in the 2019 renewal season. Risk-adjusted prices for property business in programmes that incurred no losses were practically unchanged, while there were moderate price increases for those contracts that experienced losses. Prices did harden slightly in liability business, as losses rose in response to increasing legal costs and legal uncertainties.

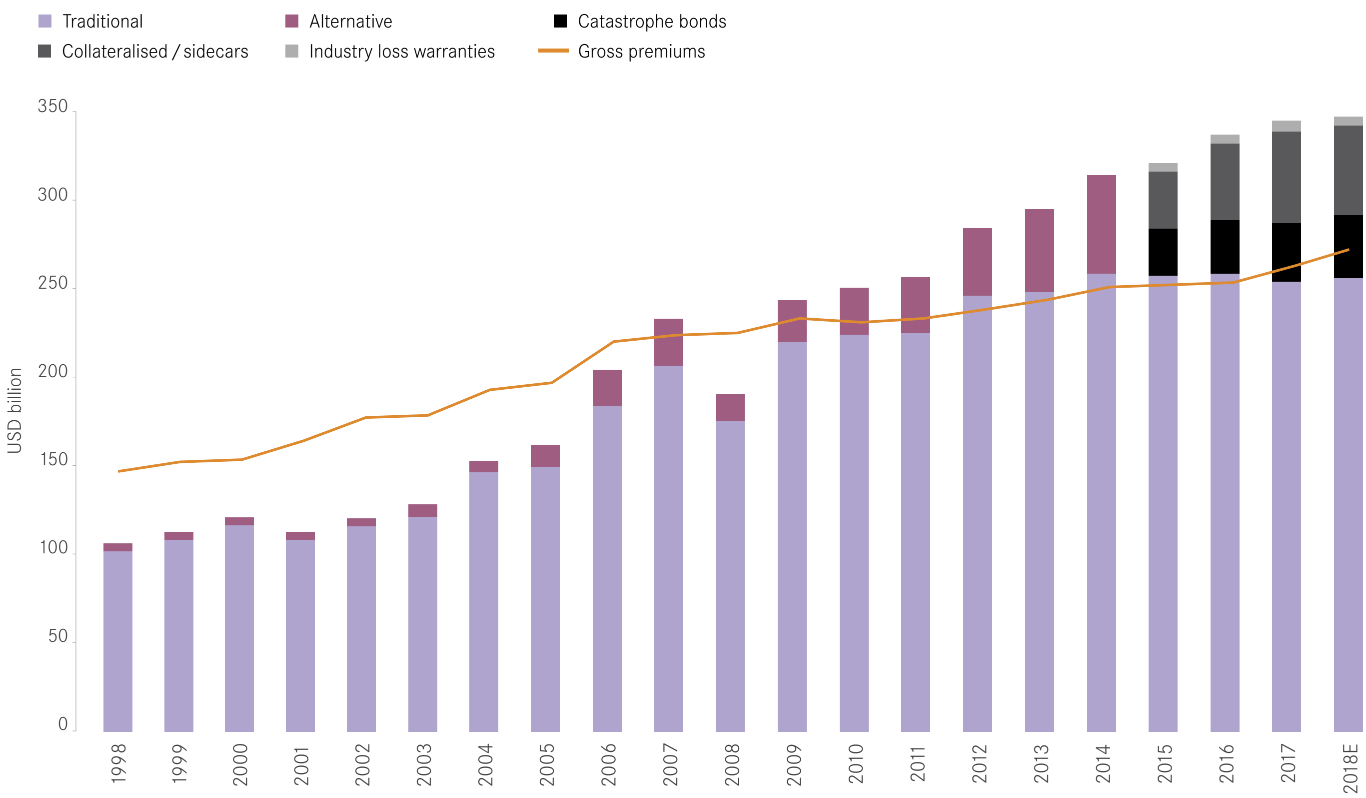
Growth through new business with current and new cedants

In the January renewals, SI Re posted 4.5% growth on its portfolio due for renewal, which accounts for a good 95% of overall business. SI Re accomplished a 6.6% increase in external business, where the market environment in general terms remained almost unchanged. This above average growth rate resulted in a larger share of external business in the overall portfolio, up from 62.5% to 63.8%. SI Re's premium growth stemmed almost entirely from new business with current clients (2.3%) and with new cedants (1.8%). Price increases accounted for a mere 0.2% of the increase. Nonetheless, SI Re did achieve improved conditions and, as a result, higher margins on loss-affected major contracts. While shares on existing business contracted by 0.8%, mainly due to the lower share of Group business, proportional volume in restructured contracts rose by 2.4% (see Fig. 3).

SI Re made further progress with its geographic diversification of insurance markets in the 2019 renewals. The company wrote new business in Bulgaria for the first time, thus demonstrating the effectiveness of the company's persistent approach to market development.

SI Re will continue to expand its presence in the Central and Eastern European (CEE) markets going forward. With Ralph Kleiner the company succeeded to recruit a well-experienced underwriter, who joined SI Re in February. He has 30 years of experience in international direct insurance and reinsurance and he will be responsible for a significant portion of these markets.

FIGURE 2: REINSURANCE CAPITAL AS A PROPORTION OF GROSS PREMIUMS



Source: JLT Re

Otherwise, there were practically no major changes in the geographic portfolio mix. In France, SI Re observed marked price increases in non-proportional motor business. The company also benefits from the fact that its clients continue to place high value in a broadly diversified reinsurance panel. This enabled the company to achieve significant gains and higher market shares in Italy (from 3.2 % to 4.6 %) and Eastern Europe (from 3.8 % to 4.5 %) (see Fig. 4).

SI Re also progressed with its portfolio diversification. In 2018, the company finalised its latest five-year strategy, which includes cyber risk cover from 2019 going forward. SI Re moved quickly on by concluding an agreement with a leading insurer in the January renewals.

Otherwise, 95 % of SI Re's premiums are still in the standard business lines (see Fig. 5). Long-tail business accounts for over 60 % of premiums.

Moreover, three quarters of SI Re's clients are mutual insurance companies, same as the parent company. Their portfolio and understanding of the market optimally matches or complements the risks acquired by SI Re from SIGNAL IDUNA Group. The company has consistently worked to expand its client base for years. This is again reflected in the latest renewals, with a share of new clients at just under 10 %.

FIGURE 3: RENEWALS WITH EFFECT FROM 1.1.2019 – OVERALL BUSINESS

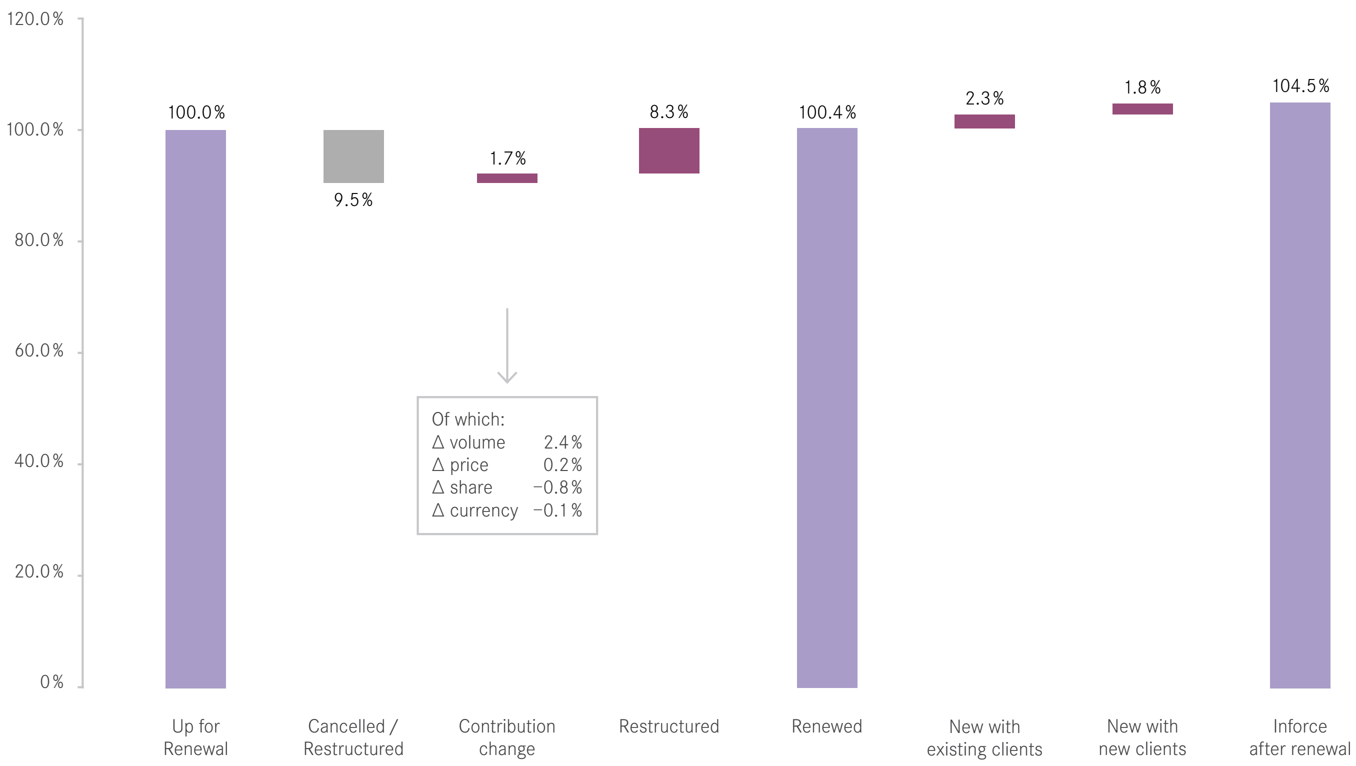


FIGURE 4: DIVERSIFICATION OF CEDANTS' HOME COUNTRIES

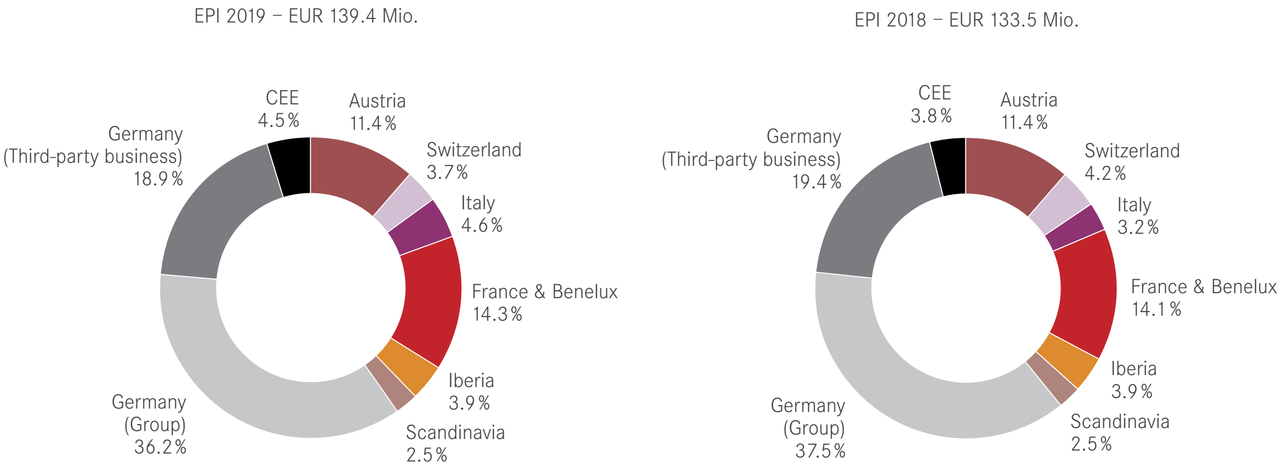
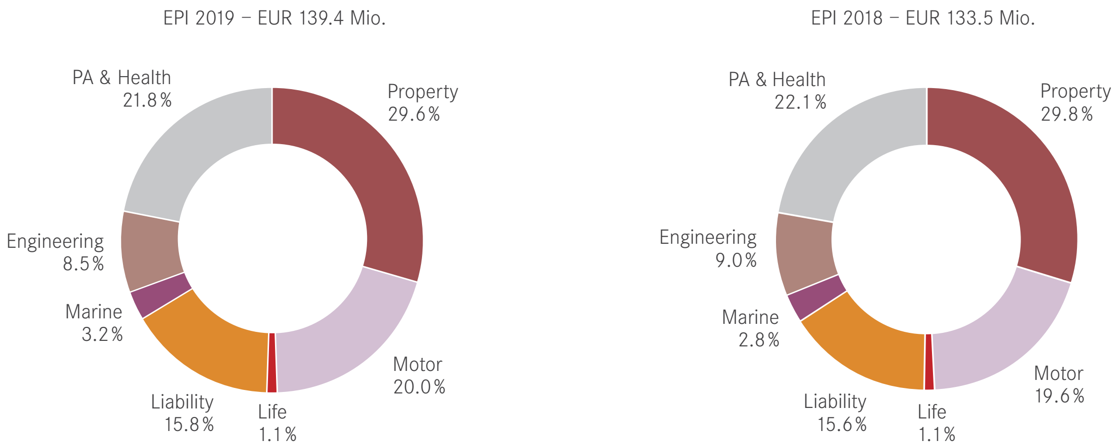


FIGURE 5: LINE SPLIT BY UNDERWRITING YEAR



SI Re adds an experienced underwriter to its underwriting team

Since the start of February, Ralph Kleiner contributes with his almost 30 years of experience in international insurance and reinsurance to the SI Re underwriting team. The new Underwriting Manager will be responsible for the Austrian, Czech, Slovakian, Slovenian, Croatian, Hungarian, Romanian and Portuguese markets. Last year, SI Re decided to further diversify its portfolio and increase its presence in Central and Eastern European markets by adding additional staff to its experienced market team. SI Re aims to increase its commitment and establish new business relationships in the coming renewals.

Ralph Kleiner will apply his extensive experience to SI Re's endeavours in these markets. He joined SI Re from Aspen Re, where he was senior casualty treaty underwriter for Germany, Northern Europe and the Baltic states plus some Mediterranean countries. Prior to that, he served global Swiss clients of Zurich Insurance as Head Underwriting Liability/Motor. Before joining Zurich, Ralph Kleiner spent eleven years working in client management and in various casualty underwriting functions at Swiss Re – spanning both primary insurance and reinsurance, including a four-year spell as Casualty Underwriter for Fortune 500 corporate clients in the US, Canada, Australia, Germany and Switzerland.

Ralph Kleiner is particularly enthusiastic about the international orientation of SI Re, plus the opportunity to work in new insurance markets. He also identifies with the flat hierarchies and the targeted approach of the company in following and implementing its strategic initiatives. Moreover, Ralph Kleiner is impressed by the company's prudence in all areas, which stands comparison with far larger competitors.

In April, he took up his travel activities and started visiting clients, initially with the Underwriting Managers who were previously responsible for the client relationships in the respective markets. He is convinced that the positive experience he gained so far with SI Re will be further confirmed during his client visits.

In his leisure time, the husband and father enjoys travelling, ice hockey and vehicles of all types. In his capacity as Vice-President of the Audit Committee he also monitors the finances in his residential community.

SIGNAL IDUNA
Reinsurance Ltd

A subsidiary of
SIGNAL IDUNA Group

Bundesplatz 1
Postfach 7737
CH-6302 Zug
Switzerland
Telephone +41 41 709 05 05
Fax +41 41 709 05 00
www.sire.ch