– Disciplined reinsurance market renewals by 1 January 2024
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– Well positioned for the future

SI Re

STEPS 1/24

Disciplined reinsurance market renewals by 1 January 2024

The 1 January 2024 renewals proceeded along much more orderly lines than in the previous year. Looking back, it can be said that the market worked better and more consistently with pretty much adequate capacity, whereby supply and demand were more or less in balance.

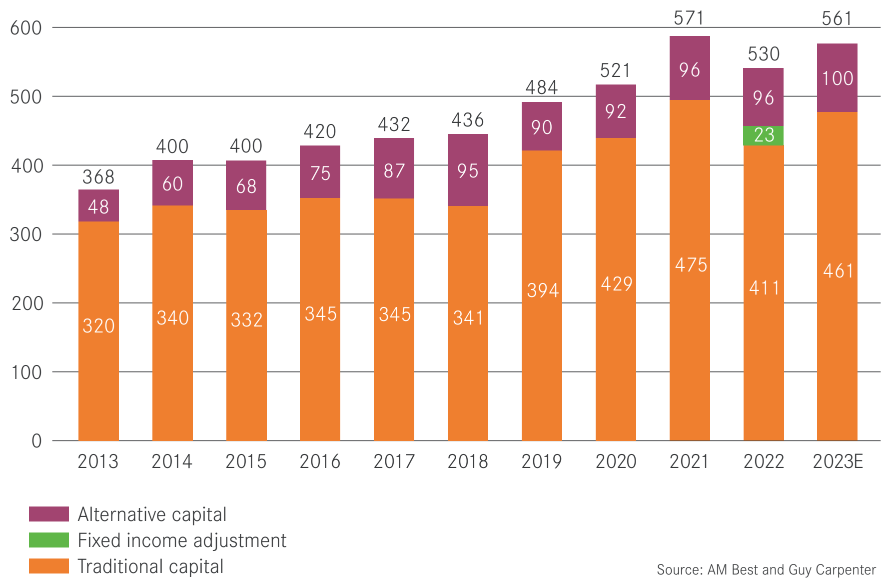
Cedants were better prepared than last year for reinsurers' expectations with capacity subject to strict underwriting rules. The markets have also grown accustomed over the past twelve months to the issues that dominated the previous renewals, in particular:

1. the consequences of economic and geopolitical crises, including inflation and rising interest rates, the Russian invasion of Ukraine and tensions in the Pacific region;
2. changes and challenges in the area of natural hazards arising from climate change.

Reinsurance capital rebounded in 2023, reaching USD 561 billion, close to the 2021 peak of USD 571 billion. Traditional reinsurance capital increased in particular with 12 % year-on-year growth, mainly due to return on equity growth of just under 20 % for the sector. Alternative capital increased by about 4 % to a record high of USD 100 billion. Further growth in alternative capital was constrained by higher returns in lower-risk asset classes and competition from other allocation options. The main contributors to the market stabilisation were the increased availability of retro capacity to cover property risks and higher interest rates, which boosted reinsurers' investment returns.

2023 again featured major insured property losses in excess of USD 100 billion. They were triggered by a high frequency of natural phenomena – floods, wind and hailstorms, forest fires – that made up over 80 % of the claims burden for the year. The

DEVELOPMENT OF REINSURANCE CAPITAL[1] (IN BILLION USD)



Source: AM Best and Guy Carpenter

1 Guy Carpenter, Strengthening market sees improved capital deployment appetite, 1 January 2024

industry saw a record number of natural catastrophes, which crossed the USD 1 billion threshold. In particular, there were 70 severe convective storms resulting in a total loss of about USD 62 billion. Due to reinsurance programmes' higher attachment levels, the losses mainly came out of primary insurers' retentions.

Notwithstanding the calmer 2024 renewals, there are no signs of a trend reversal. Price increases were less pronounced than in the prior year, however the trend of higher attachment levels in reinsurance programmes continued. Sustainably structured programmes were placed in full despite the higher capacity requirement. At the same time, reinsurers maintained strict underwriting limits and conditions. Programmes with aggregations in the frequency area were not enthusiastically received. In general, the purge of the conditions granted by reinsurers to their cedants in the past was continued.

Germany and France were the first to restructure their non-proportional business in 2023 in light of their latest claims experience, followed by Scandinavia and Italy, which experienced significant losses last year. Overall, reinsurers have become less accommodating to non-transparent covers. They demanded detailed information from primary insurers and only those companies who could provide it received reasonably priced cover. There was also a continued shift from proportional to non-proportional business.

Property business aside, the changes in Europe were straightforward. There were only moderate price increases in the liability line. The technical profitability of long-tail business increased where interest rate changes kept pace with inflation. Motor business remains difficult. Claims were up as the cost of replacement parts and repairs increased massively, mainly due to inflation and supply chain issues, and even when premiums are linked to inflation there is still a significant time lag involved. Agriculture insurance has seen another trend reversal. For agriculture, cedants are finding it harder to cede rising natural catastrophe losses to reinsurers.

Generally speaking, market discipline is in evidence along the value chain. Investors in the retrocession market initially reduced their natural catastrophe capacity in response to growing, recurring and, especially in the area of secondary perils, hard-to-model losses. This impacted reinsurers, who responded by reducing their capacity and gradually minimising their exposure to frequency risks. For primary insurers this meant capital protection was contingent on higher prices and a higher retention. The current market environment now again offers more attractive alternatives for capital providers. As a result, the focus is once more on technical underwriting results and returns on equity in insurance. Reinsurers are responding to this development with correspondingly consistent underwriting discipline.

The current changes are prompting a reality check for the insurance industry and positioning the sector on a sustainable footing to economically surmount future challenges and improve capital allocation efficiency.

There are interesting business opportunities available to SI Re, as many clients have recently been looking for ways to reduce their dependency on specific reinsurance markets. The intensified and close cooperation with our clients, dynamic exchange and active underwriting is, in our view and despite the higher friction that is currently experienced, highly beneficial to the development of our mutual business relationships.

SI Re strengthens the quality of its portfolio and deepens client relationships

SI Re again expanded and consolidated its position in the European reinsurance market in the 2024 renewals. We improved the qualitative composition of our portfolio, increased profitability and diversified further by gaining new clients and new business. Top-line growth was not the priority and premium volume for renewal increased slightly by 1 % overall to EUR 204.4 million. Excluding structured solutions, the reinsurance portfolio shows a compounded annual growth rate (CAGR) of 7.5 % for the past five years.

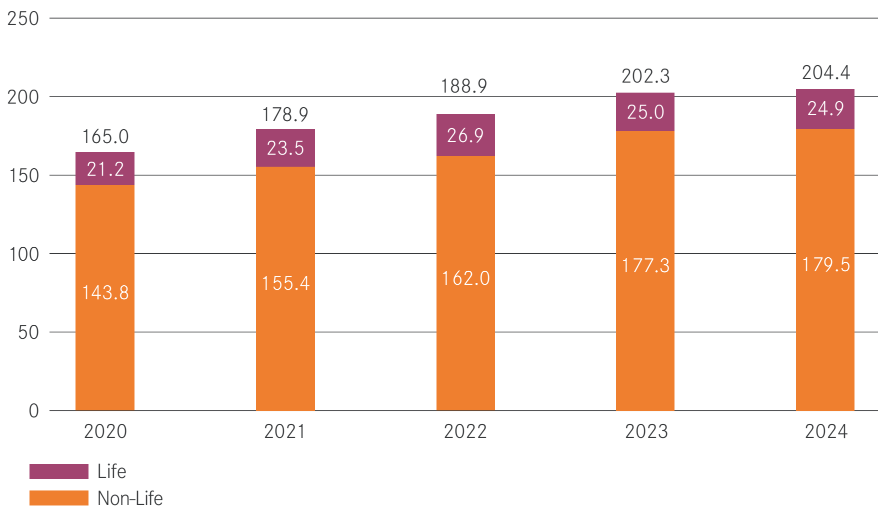
We used the prolonged market hardening to sustainably increase profitability. As a reinsurer, we consider it our primary duty to protect our cedants' capital. We accordingly maintained our strategy of focusing on covers with higher attachment levels. Exposure to natural hazard frequency risks, which have incurred growing losses in recent years, was therefore again reduced. In addition, we increased the non-proportional share in our book of business. Although that means assuming lower volumes, it allows us to gain greater transparency and control over the individual risks that we write and it improves our prospective underwriting result. We also increased our holdings in many smaller programmes as a means of orienting our portfolio towards economically sustainable volumes and margins over the long term. Generally, these adjustments tended towards deeper client relationships.

Growing profitability through more non-proportional business

The optimisation of our portfolio is strongly documented by the fact that about 20 % of in-force business was not renewed in its previous form. This was due, on the one hand, to the market driving the restructuring of proportional business plus a general paring back of more complex reinsurance structures for transparent solutions (for example the discontinuation of multiline structures). SI Re also initiated strategic adjustments, for example reducing the proportional book of business in the eastern European motor and the agriculture segments. Approximately half of reissued business was restructured and renewed. The other part was more than offset by new business with current or new cedants as well as higher contributions equivalent to 3.5 % of the outgoing volume. We renewed our proportional property book at significantly improved conditions in response to the, in some instances, highly unprofitable progression in previous years. This was mainly done by a further reduction in the level of commission, cover adjustments as well as hardening in the original markets.

The portfolio growth focused on non-proportional business, which rose by 6.7 % and now accounts for about 30 % of our entire portfolio. The market also reacted again in this renewals round to negative trends in recent years and changed economic operating conditions for non-proportional business. We responded by using the current advantageous market conditions to comprehensively optimise the portfolio. Approximately one-third of the current book of business was restructured at improved conditions and prices. In addition, the share of new

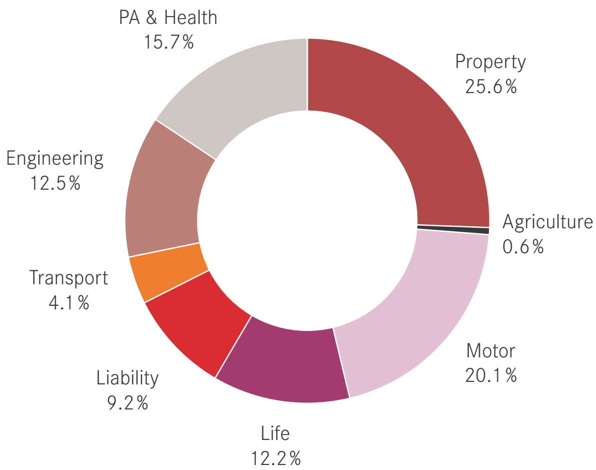
PREMIUM VOLUME DEVELOPMENT FROM 2020 TO 2024 (EPI IN EUR MILLION)



business exceeded 30 % – most of which was with new clients. We also achieved significant price adjustments, notably just under 30 % in property-per-risk covers, a good 11 % in property-per-event business and almost 16.5 % in the engineering line.

The strategic expansion of our portfolio also made a major contribution to growth with the addition of non-proportional motor business in the United Kingdom. We see the current original business cycle as an attractive entry level. Furthermore, we deliberately developed our non-proportional segment where we can shield ourselves from inflation in motor liability insurance. Conversely, we reduced the proportional motor business in eastern Europe as the original business currently falls short of our price expectations. Overall, these measures contributed to broader diversification and improved profitability in our book of business.

LINE SPLIT BY UNDERWRITING YEAR AS AT 1 JAN. 2024
Estimated premium income (EPI) - EUR 204.4 million



High demand for the expertise of SI Re

The key aspect of our diversification was the acquisition of 8.5 % of new clients – in proportion to our total number of cedants – who contributed to a further qualitative improvement in our portfolio. We acquired these clients in the most diverse European markets in which SI Re operates. Besides the new cedants in the UK, we also developed our core markets in the DACH region and expanded our active client base in the Benelux countries and Scandinavia. However, the importance of SI Re is also reflected in the many enquiries from cedants and brokers who approached us for quotations on new programmes. When preparing for the renewals, we anticipated an increased number of quotation requests and organised our resources accordingly. This enabled us to write new business while adhering to our disciplined underwriting approach without compromising the underwriting quality of our in-force business. That allowed us to achieve our goal of accompanying both our established and new clients through the renewals with our characteristic thoroughness.

Well positioned for the future

Since it began underwriting in 2004, SI Re has more than quadrupled in size and number of employees. Size is not the only change in SI Re's orbit, as the company's operating environment is a lot more challenging than it was 20 years ago. This applies both to the increased complexity of insurance risks and accumulations as well as developments in operational areas, such as Insurance Linked Securities (ILS), in which SI Re is engaged. There are also considerably more complex regulatory requirements that the company must fulfill as a Swiss insurer and investor.

SI Re's processes and structures have evolved in line with these requirements. In 2023, SI Re took major steps in cultivating and scaling future underwriting growth, consistently managing insurance and investment risks and setting up a broader platform for regulatory compliance. Growth requires SI Re to specialise in its areas of expertise and split the dual functions, which have contributed to strong efficiency and lean organisation in the past, into separate entities. At the same time, the company is pushing forward with its digital transformation. A major step in that regard was made last year with the development of a holistic digitalisation strategy. SI Re will focus on digital solutions, which integrate seamlessly with its application landscape going forward. SI Re is investing in customised solutions in those areas where proprietary developments add value. For instance this approach is being pursued with respect to the underwriting process.

Dr Robert Salzmann, Head of Underwriting and Head of ILS Markets & Retrocession

Broader base and holistic approach to underwriting

In underwriting, SI Re has expanded its workforce to broaden its position and to accelerate digitalisation. These steps are considered necessary within the company to optimally steer its growing book of business. Going forward, SI Re will be able to manage and monitor its capacity allocation in a consistent manner across all underwriting risks and processes, whether in assumed reinsurance (ARI), ILS investments or retrocession cover. This approach allows the continued efficient steering of the business going forward despite increased dependencies. The technology in question also enables prompter and efficient reporting, meaning the risk-return profile of our portfolio can be consistently determined at any time despite the growing complexity of underwriting risks.

Dr Robert Salzmann – formerly in charge of ILS Markets & Retrocession – was appointed Head of Underwriting on 1 October 2023. In his new function, reporting directly to the CEO, he is now also responsible for ARI. Dr Robert Salzmann joined SI Re as an actuary in 2014 and was appointed Head of Pricing and ILS Analytics in 2017. He assumed responsibility for ILS Markets and Retrocession in 2019. Dr Robert Salzmann is currently enrolled on an Executive MBA in Digital Transformation at the University of Zurich.

Thomas Bodenschatz joined SI Re on 1 June 2023 as Underwriting Manager for the German, Northern European and Baltic markets. SI Re has gained a proven underwriting expert in Thomas Bodenschatz who will use his longstanding experience to contribute

Thomas Bodenschatz, Underwriting Manager Germany, Northern Europe, Baltics to providing optimal support to SI Re's cedants, which is essential in times of rising risks and scarce capacity. Thomas Bodenschatz has 30 years' experience in underwriting and previously worked at AXA XL Re where he was responsible for many of the client relationships in the DACH markets.

On 1 October 2023, Michael Rossi took over the position of Underwriting Manager for the Swiss and UK market at SI Re. In the German market, he supports Thomas Bodenschatz in expanding the product range and client relationships. In Michael Rossi, SI Re has gained another experienced reinsurance expert with proven leadership qualities. Prior to joining SI Re, Michael Rossi was with SCOR where he held various leading underwriting positions in the US and European P&C markets, most recently as Market Manager Switzerland/Senior Underwriter Globals.

Michael Rossi, Underwriting Manager Switzerland and UK

Adrian Ebnöther, Compliance Officer

Strengthening of compliance

SI Re is facing a continuing proliferation of its regulatory requirements. As a result, the decision was made to split its Risk Management functions, which included compliance and governance, and create a new area called Legal & Compliance. Through this measure, SI Re aims to keep abreast of the coming FINMA regulations, different operating conditions of its clients' domiciles as well as the specific ILS regulations. There is also the recent growing significance of ESG topics to consider, which are currently managed on the investment side of the SIGNAL IDUNA Group, as well as the FINMA onboarding regulations and new EU supply chain law.

Adrian Ebnöther joined SI Re on 1 June 2023 and assumed the role of Compliance Officer in the new Legal & Compliance area. Adrian Ebnöther has 30 years of experience in primary insurance and reinsurance. He has worked at Swiss Re, Bâloise and Zurich and he most recently had a similar role at MS Reinsurance.

Digital transformation increases efficiency and resilience

As part of the new digitalisation strategy, a single Cloud platform for developing and managing business processes was initiated last year in conjunction with Microsoft, which can host other SI Re application systems. For underwriting, this will enable the uniform management of client relationships from the most diverse perspectives in the future. The platform is also connected to the current SAP system and technical accounting. This allows automated account preparation and data entry for technical accounting, thus eliminating redundancies and reducing sources of error. The general strategic approach ensures compliance and auditability as well as IT security are integrated in all the working steps and can be tracked transparently.

Samuel Schaffhauser, Data Scientist

In May 2023, SI Re expanded its inhouse expertise by hiring data scientist Samuel Schaffhauser. This is a new role, Samuel Schaffhauser is responsible for creating and implementing data strategies. He works on defining company-wide data standards in close cooperation with the specialist areas and focuses on workflow development, optimisation and automation. Prior to joining SI Re, he had been a senior data scientist at Zurich Insurance from 2018.

As part of its strategy, SI Re is also exploring the adoption of the ACORD Global Reinsurance and Large Commercial Standards (part of the Rüschlikon Initiative) to improve the efficiency of risk placement, claims processing and settlement processes in cooperation with its insurance industry partners. This initiative aims to transform the industry by lowering operating costs and ensuring operational excellence through agreed rules, protocols and the use of standardised data transfer processes.

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