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# STEPS 1/21

## SI Re improves conditions and prices at year-end renewals

SI Re continued its strong development of recent years at the 2021 renewals. We increased premium volume again, expanded our client base and improved our pricing and condition levels.

Premium volume grew by 1.9% to EUR 168.1 million, benefitting from the particularly impressive 5.6% premium growth in our non-life business. Non-proportional business materialized as a major growth area, as we increased volume by a whole 14.4%. The price increases and stricter conditions that we achieved across the entire portfolio will result in a sustained and long-term positive effect to the portfolio's profitability. We obtained price increases of 8% solely in the non-proportional business. In retrospective, we have consistently increased prices in this area over the past five years by a total of 16%. This year's improvements occurred in both loss-affected and claims-free business. Since direct insurance prices also rose, this development will have a lasting effect on margins in the proportional business. In addition, we also gained new cedants. Following growth of over 10% in both

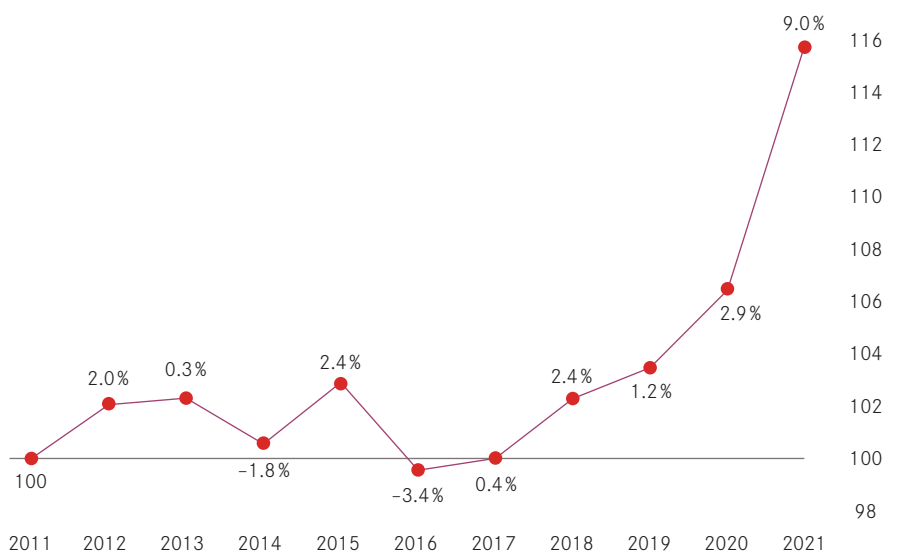
2018 and 2019, we managed to add another 5.6% in this year's renewals.

SI Re increases its shares with existing clients and wins new business

The 2021 renewals were dominated by concerns over the consequences of the COVID-19 pandemic. The insurance sector, however, confirmed its re-

silience in the face of a crisis with a very pleasing renewals round. There was a fundamental re-evaluation of the entire business across all lines and markets. Natural catastrophe losses in 2017 and 2018 in addition to the sustained low interest phase, had already prompted price increases and stricter conditions in previous years. The pandemic accelerated this trend, although

PRICE DEVELOPMENT FOR SIRE'S NON-PROPORTIONAL THIRD PARTY BUSINESS, 2011-2021



the influx of fresh capital had a mitigating effect.

In anticipation of rising rates it were particularly the established reinsurers which led the way in strengthening their capitalisation in 2020. A series of start-ups also entered the sector, backed by financial market capital. New capital totalling USD 23 billion was raised. As a result, traditional reinsurance capital rose to a new record high of USD 533 billion. However, as alternative capital fell by USD 3 billion,

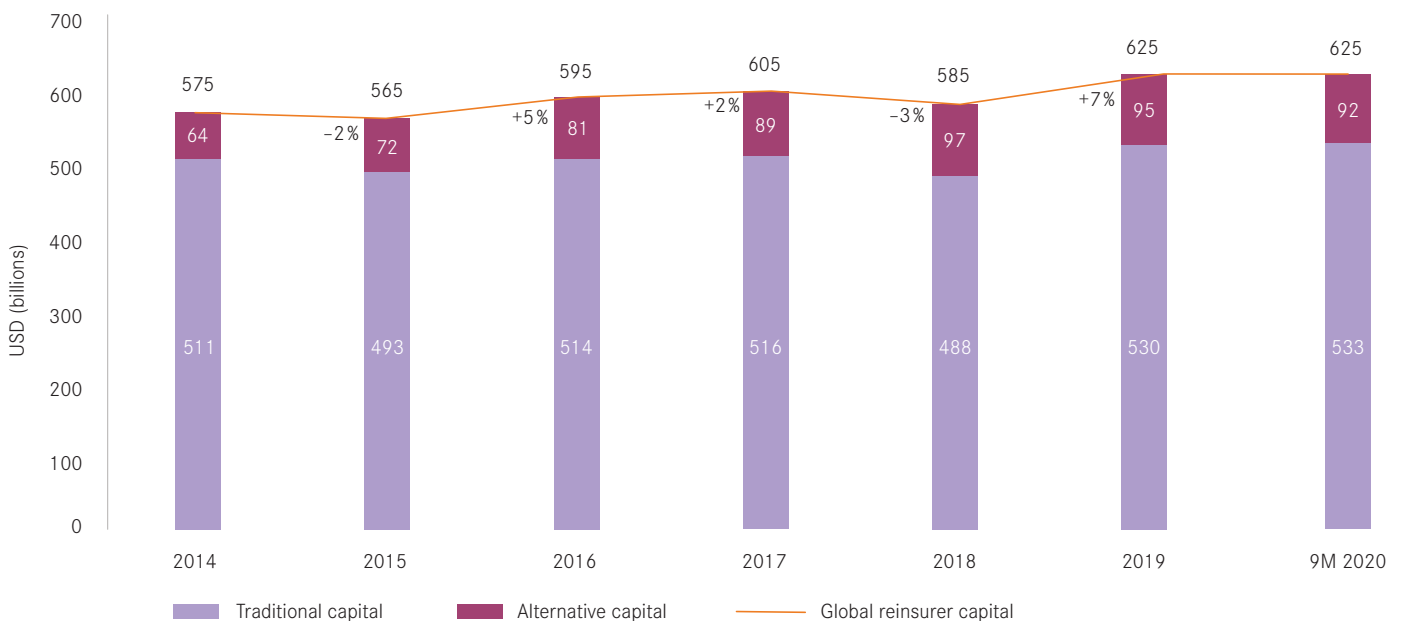
global reinsurance capital at the end of the third quarter of 2020 stood at USD 625 billion and thus at the prior-year level.

According to Guy Carpenter, the average loss estimates by the insurance sector for claims related to the COVID-19 pandemic sum up to USD 66 billion. The actual claims reported at the end of the third quarter so far accumulated to USD 25 billion. As the calculations of business interruption and event cancellation claims remain com-

plex and end up in court at times, pandemic exclusion clauses have been tightened in property insurance contracts.

In addition, 2020 featured a high number of natural catastrophes. According to estimates by Aon, insured losses came to USD 86 billion.<sup>1</sup> That was due to an above-average number of natural catastrophes in the US: numerous major windstorms, a record number of hurricanes that made landfall as well as massive wildfires.

GLOBAL REINSURER CAPITAL



Sources: Company financial statements / Aon Business Intelligence / Aon Securities Inc.

<sup>1</sup> Aon, Reinsurance Market Outlook, January 2021

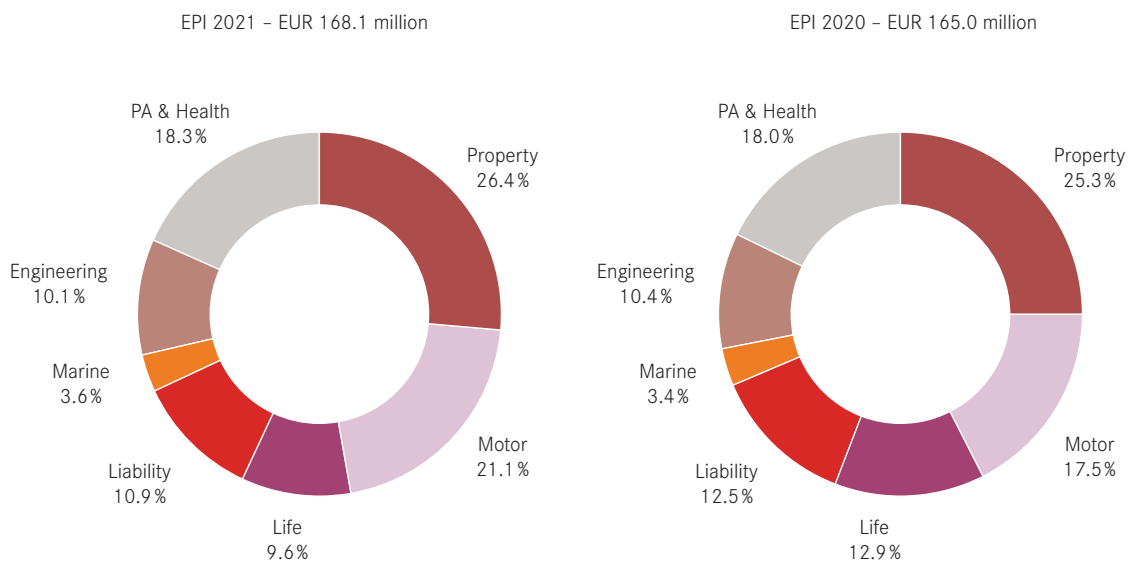
### Exclusion clause for infectious diseases

The COVID-19 pandemic and global lockdown measures to contain the virus caused numerous business interruptions and subsequently resulted in claims for compensation. In view of the uncertainty regarding the insurability of the pandemic, SI Re pursued a strategy of excluding or limiting infectious diseases in property contracts from 1 January 2021 – unless cedants could demonstrate that they had no exposure.

All types of exclusion clauses were proposed in the 2021 renewals. We systematically rejected broad exclusions and reinclusions. That included, inter alia, cover for operating losses unrelated to material damage or so-called «silent» business interruption cover, where the risks that are not explicitly excluded by the direct insurance contract may be implicitly covered by the reinsurance contract.

SI Re reviewed the wording of all the exclusion clauses presented to it and made a point of adapting these clauses to the specifics of the various markets. We thus demonstrated once again that we react to new developments with agility and flexibility.

### LINE OF BUSINESS SPLIT BY UNDERWRITING YEAR AS OF 1 JANUARY 2021



### SIRe profits from its good reputation

As in previous years, during this renewal round we steered clear of business that had failed to meet our expectations in the past. We exited over 3.8% of business overall, after not renewing 4% of business at the end of 2019. Nonetheless, we achieved the bulk of this year's growth in the existing portfolio with a plus of 3.9%. That is all the more gratifying as it shows the extent to which SIRe has established itself in the market as a reliable partner for pricing and defining con-

tractual conditions. We posted premium growth of 1.9% overall. Group business with the SIGNAL IDUNA Group remained constant with its share increasing slightly from 29.9% to 30.1% over the prior year.

The portfolio mix remained relatively stable. Broken down by markets, the share of France and Benelux was down by about 4 percentage points to 22%, while business with the Central and Eastern European states (CEE) rose from 7.3% to 10%. There were no ma-

ajor changes in the business lines mix either. The share of life business reduced slightly by 3 percentage points to just under 10%, while motor business increased by about the same proportion to a good 21%.

There were price increases in nearly all European markets. While cedants in Germany were primarily interested in a «renewal at risk-adjusted, unchanged prices,» in France and the Benelux countries prices rose across all lines, which enabled us to increase our shares in programmes at improved conditions. We also expanded our business in Northern Europe as the portfolio again expanded with additional property, motor and liability contracts with new clients and new business with current clients. In Eastern Europe, we profited from price increases in the direct business in the motor lines and also grew in motor and liability business by increasing our shares with existing cedants.

### Successful expansion in ILS business

SIRe successfully expanded and optimised its ILS portfolio last year. The market value of the portfolio increased from USD 32.2 million in 2019 to USD 56.4 million by the end of 2020. SIRe has been using catastrophe bonds since 2010 to diversify its insurance risks, which are focused almost exclusively on the European market and hardly include any natural catastrophe risks. The portfolio has been expanded consistently and prudently and can be increased by up to USD 100 million according to a decision by the Board of Directors in 2019, provided the market and conditions meet the strict requirements of SIRe.

2020 was a successful year for the natural catastrophe bond market. While collateralised reinsurance and

sidecars incurred significant losses, the catastrophe bond market flourished. New issues in 2020 came to USD 10.9 billion - a new record. The low correlation of securitisations with financial market risks, the high market liquidity, which only «froze» for about two weeks when there was major equity market uncertainty and some investors had to reduce their ILS positions, plus the transparent focus on specific risks raised demand.

The growing maturity in the market, investors' understanding of risks and the influx of new sponsors placing risks on the market caused additional capital to enter the segment. SIRe exploited this market momentum by significantly expanding and diversifying its portfolio.

## Is the financial services sector moving to the cloud?

It is almost impossible to overstate the impact of the COVID-19 pandemic on the insurance sector's operations, which traditionally is very much based on personal relationships and trust. The pandemic may well initiate the biggest changes observed in the industry since the advent of the computer 50 years ago. However, while computers brought technological progress and immeasurable efficiency gains that revolutionised insurers' working methods at all levels and across all roles, this time, it is an infectious disease that is prompting an industry rethink almost overnight. Three areas seem to have been directly impacted: the presence at work, the importance of personal contacts, which are encouraged in this sector more than practically any other industry through conferences and business trips, and digitalisation of operations.

The requirement imposed by the lockdowns to work from home has made new working concepts generally more accepted. Whereas previously employers insisted on people being present in the office, albeit on a flexible basis through trust and flexitime, the pandemic has shown us that the performance of service providers in general hardly changed – at least in the short term – even if almost 100% of the workforce operate remotely. For almost a year now, large portions of the

SIRe team have been working from home as well, with short interludes during the summer. Nonetheless, we can look back on a difficult but successful 2020.

Some other (re)insurers have had a similar experience. Granted, everyone would readily admit that they miss personal contact with colleagues, customers and suppliers alike. At the same time, the potential improvement in quality of life resulting from not having to commute to the office every day is also undeniable. Employers are now wondering how many fixed workspaces they will need for their staff in future and how much office space could be spared. New workplace concepts are emerging where questions of infrastructure, team management and talent promotion have to be redefined. Who knows what this change could mean for our cities, their infrastructure including gastronomy or office space, the change in the value of real estate and commercial space and the tax revenue from commerce and income.

All the extensive business travel and the common conference circuit came to a standstill during the pandemic. This begs the question of what the future holds for an industry that places so much emphasis on the quality of personal relationships. In a way, business did not perform badly at all via digital communication channels in

2020. On the other hand, many insurers are wondering how they are to acquire new clients in the digital world and, equally important, how to solve conflicts between concurrent partners.

In the end, COVID-19 massively accelerated the shift towards digitalisation. Politicians and supervisory authorities perceive the sector as «systemically important», meaning its operation and services must be ensured, even under the extreme conditions of a stringent lockdown. That makes reliable communication technology indispensable. Many companies initiated or accelerated major investment in their digital infrastructure to digitalise their value chain and – given the abundance of data thus acquired, the improved analytics and online access to clients and partners – to advance or rethink their own risk management, business continuity plans, product development and distribution alike. This development shaped the latest renewals, since it was the first time the contracts were evaluated, discussed and approved exclusively online. It was no different for us.

## Two talented recruits join the SIRe actuarial and ILS Markets Team

Since mid-February 2021, Sascha Kälin has taken charge of the SIRe Actuarial Team as Head of Pricing. At the same time, John Ery joined SIRe's ILS Markets Team. SIRe thereby increases its expertise in both areas and reinforces its claim of supporting its cedants with the highest level of reinsurance knowledge. The two talented employees are starting their new roles at a challenging time. They have only been able to meet some of their new colleagues in person, as the SIRe team has been working from home again whenever possible during Switzerland's second lockdown.

### Sascha Kälin becomes new Head of Pricing at SIRe actuarial services

Sascha Kälin joins SIRe as Head of Pricing in actuarial services. In his new role, he is responsible for evaluating reinsurance offers and assessing the prices of natural catastrophe securitisations. He will also drive the further development of pricing tools, evaluate and calculate the actuarial reserving and technical provisions as well as support risk management in developing the internal and external models to evaluate and secure SIRe's solvency. Sascha Kälin has the support of two colleagues for this demanding mandate.

He joins SIRe from Zurich Insurance, where he spent the past six years as a pricing actuary in Commercial Insurance Actuarial Pricing. At Zurich, Sascha Kälin managed and developed, inter alia, the pricing applications for liability and motor insurance for corporate clients in Europe, Asia-Pacific and Latin America. He was also in

charge of modelling and controlling the technical pricing.

The new team leader is excited about the highly professional environment and manageable size of SIRe. The short decision-making processes, higher level of shared responsibility and cooperation in a small team of specialists operating cross-functionally together with the opportunity to assume managerial responsibility, are what he particularly likes about his new position.

In his new role Sascha Kälin also transitions from the direct insurance to the reinsurance side. He approaches this change with keen anticipation, as reinsurers normally rely on less granular data to assess tail risks as accurately as possible. Given his strong professional background, particularly in corporate insurance and his knowledge of mathematics and IT, he will work with his team on consistently developing the respective SIRe models.

He considers the advance of digitalisation in insurance as a particularly exciting challenge. An increasing number of individualised insurance solutions are being offered in direct insurance that are based on individual risk data and involve new pricing mechanisms. Data is being increasingly generated by apps, sensors or trackers. This raises economic, actuarial, legal and ethical questions about data security and its commercial use, which SIRe will address diligently.

Sascha Kälin has been passionate about mathematics and numbers since his youth. However, as he is



equally interested in economic matters, he opted to study economics and graduated from the University of St. Gallen in 2013 with a Master's in Quantitative Economics/Finance. In 2017, he also completed his actuarial training and qualified as an SAA-accredited actuary at ETH Zurich.

Sascha Kälin has a particular affinity for languages. Besides German, English, French and Spanish, he is also keen to keep improving his Japanese and Chinese. He has particularly bonded with the Japanese language and culture during a semester in Japan. He enjoys hiking in his leisure time or improving his languages. He finds concurrent and political topics especially fascinating. Thus, he follows the interplay and influence of politics, economy, culture and history on everyday life and the insurance markets with great interest.

### SI Re enlarges its ILS Markets Team with a very versatile analyst

Since mid-February 2021, John Ery has taken up the responsibility for the qualitative and quantitative analysis of Insurance Linked Securities within the ILS Markets Team. The unit has a particularly important function at SI Re, as the company actively uses the asset class in close alignment with underwriting as a diversifier of its traditional insurance portfolio.

As an ILS analyst, it is John Ery's role to evaluate the ILS transactions and overall ILS portfolio of SI Re as well as the market development. That includes, amongst others, producing internal and external reports, data management as well as developing tools and processes to analyse the market and its transactions.

John Ery accomplished an astounding academic career. In 2020 - in the midst of the Covid-19 crisis - he passed his last actuary exam (SAV). He is currently completing his doctoral studies at the ETH Zurich (ETHZ). If everything proceeds as planned, he will successfully complete his PhD in the next few months. John Ery completed his Master of Science in applied mathematics at EPFL Lausanne in 2016. He has also worked on various research projects in the field of actuarial mathematics and stochastic finance. One of his main areas was ILS, where he examined CAT bond pricing using environmental data and spatial extremes (max-stable random fields).

The new team member of SI Re enjoys to apply his professional knowledge to solve real world problems. He finds the



years of actuarial experience required to become a SAA-certified actuary.

In his leisure time John Ery likes playing the classical guitar and is also a keen sportsman who likes hiking, swimming, tennis and football. He is not averse to bigger challenges as shown by taking part in the Athens Authentic Marathon in November 2018. The course leads from the town of Marathon to Athens with the finish line inside the Panathenaic Stadium. The last 10 km were hard, but the energy and noise of the crowd spurred John Ery on and over the finish line.

machine learning area to be full of potential. That is when computers generate independent knowledge from experiences, similarly to people, and can identify their own solutions to problems. The combination of big data in ILS with machine learning might help to better understand and hedge risks in the future.

For his academic research John Ery has won a number of awards. For example, he was awarded the «2017 SCOR Fellowship Prize» for a collaborative doctoral thesis in the area of actuarial pricing, stochastic claims reserving and capital modelling.

The young analyst values the close cooperation in a team of experts at SI Re. He is keen to embark on a steep learning curve that will provide the basis for the efficient and successful management of the SI Re ILS portfolio. Moreover, John Ery values the fact that SI Re is committed to developing its employees' expertise, which to him is a key precondition to gaining the three

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](http://www.sire.ch)