RUN-OFF STRATEGY
SOLUTIONS FOR A NEW ERA

Zurich Run-off Forum
March 15, 2019

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Our Insurance World

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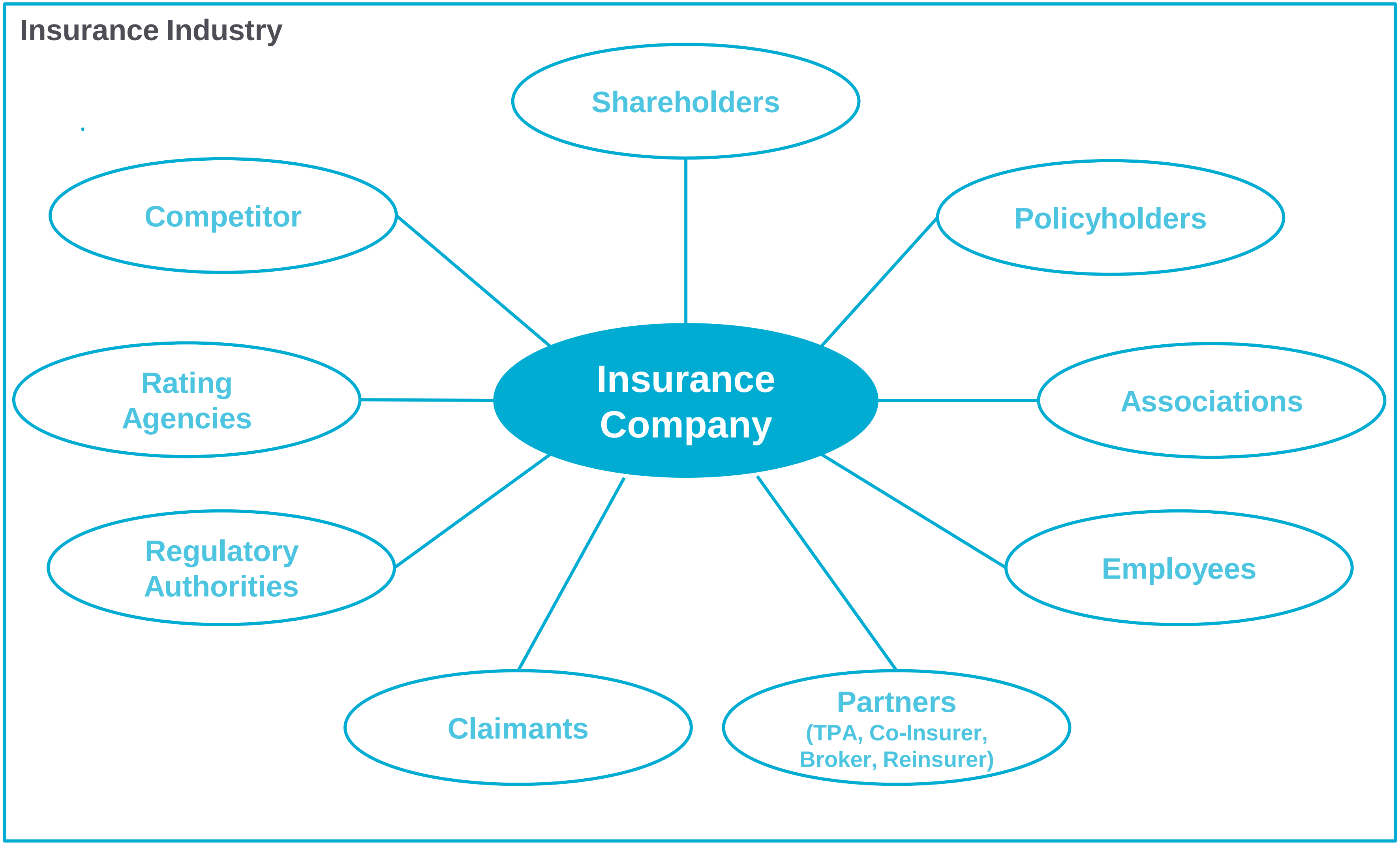
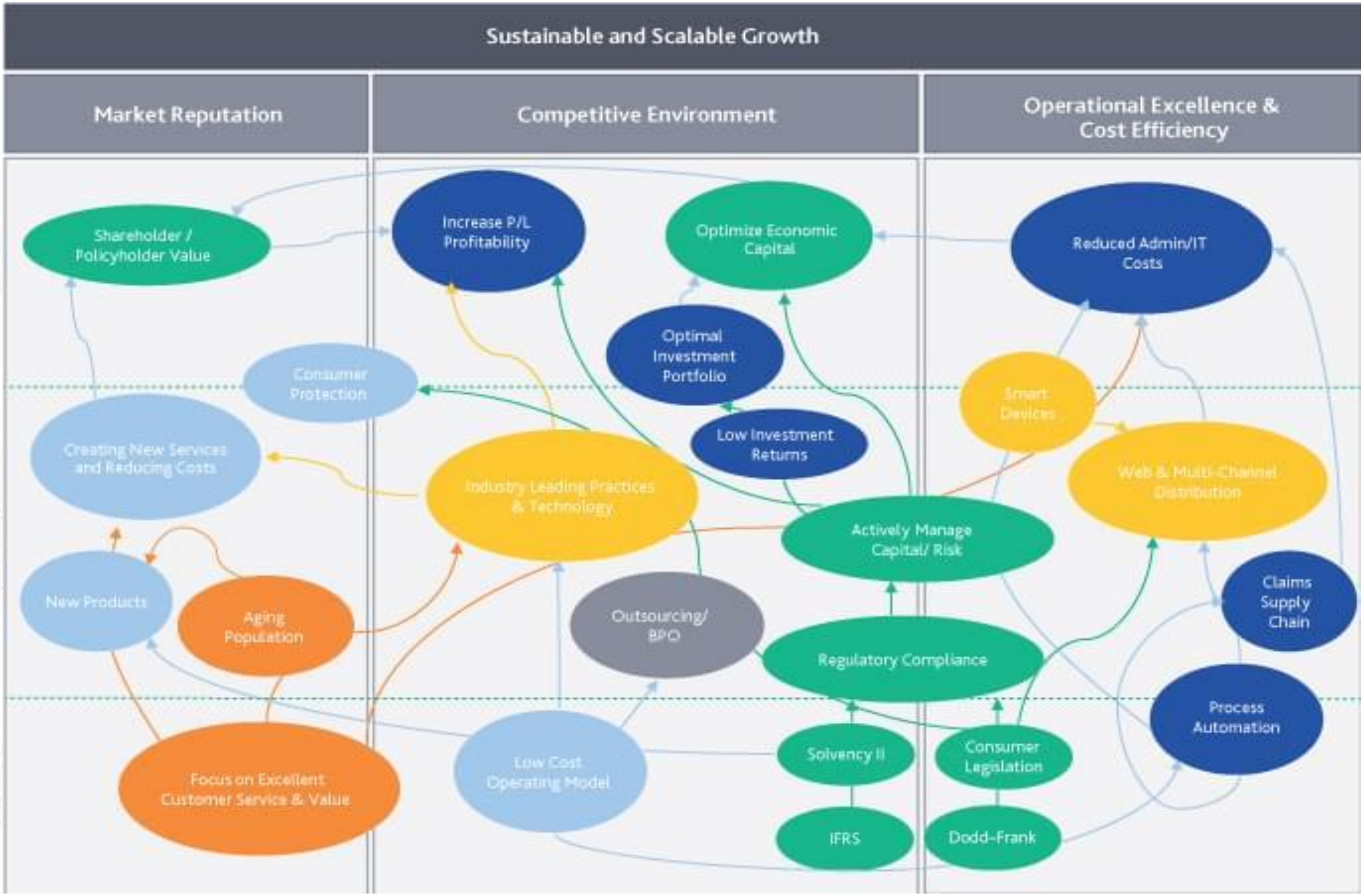


A Market in Transition

- **Unprecedented M&A activity:** More than USD 44bn published in 2017 and 2018 with a still increasing trend due to:
  - Carriers continue to seek scale, diversification as well as reduced volatility
  - Carriers seek to “converge” their business models through acquisitions
  - (Re-)insurers seek growth and optimized value chains
- **Disruption and new entrants:** Traditional (re)insurers under attack from players outside the industry, enabled by technology
- **Alternative capital on the rise :** New high of $95bn which contributes to 16% of the global reinsurance capital
- **New business models:** Digitization, new customer journeys, new technologies, data analytics, behavioral economics and artificial intelligence are top of mind for the industry

Our Key Challenges



Source: Moody's Analytics

Our Target

Appropriate return / RoE

Net Income

Income

- Competition
- Soft market
- Interest rates

Costs

- Surplus in reserves decreasing
- Claims costs
- Administrative costs
- Regulation

Capital

Tied-up Capital

=> SOLVENCY II

Transformation is Imperative

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Improve operations	Increase income	Optimize capital
• Operational excellence • Digitization, new technology, especially artificial intelligence • Reduced claims volatility • Transparency under Solvency II	• Identify profitable customers • Focus on core business • Discontinue non-profitable lines • Develop new products	• Capital structure • Release capital

Transformation

Growth BUT Profitable AND Sustainable

Key Questions Roadmap

1) Status Quo - What are my key challenges now and how can I mitigate?
2) Where do I see my business in 3-5 years?
3) What is the target operating model?
4) What is the route? How to get there?

SOLUTION

- Restructuring / Consolidation
- M&A (vertical & horizontal)

Shows Significant Demand – Run-off Marketplace 2017

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North America	Europe	Rest of the World
US USD 335bn	Germany & Switzerland USD 125bn	Asia USD 80bn
Canada USD 15bn	UK & Ireland USD 55bn	South America USD 15bn
	France & Benelux USD 45bn	Australia USD 10bn
	Other Western Europe USD 30bn	
	Nordic Regions USD 10bn	
	Eastern Europe USD 10bn	
USD 350bn	**USD 275bn**	**USD 105bn**
Total Run-off Exposure worldwide USD 730bn		

- The global P&C Run-off insurance market is large and growing
  - Independent surveys suggest market volume of ~USD 350bn for North America and ~USD 275bn for Europe
  - USD 5-10bn of P&C run-off transactions are consummated annually
  - In 2014, run off-deals accounted for ~13% of P&C M&A, up from 9% in 2008
- The run-off transaction landscape is the busiest it has been in years

Run-off Development – Potential in figures (Europe)

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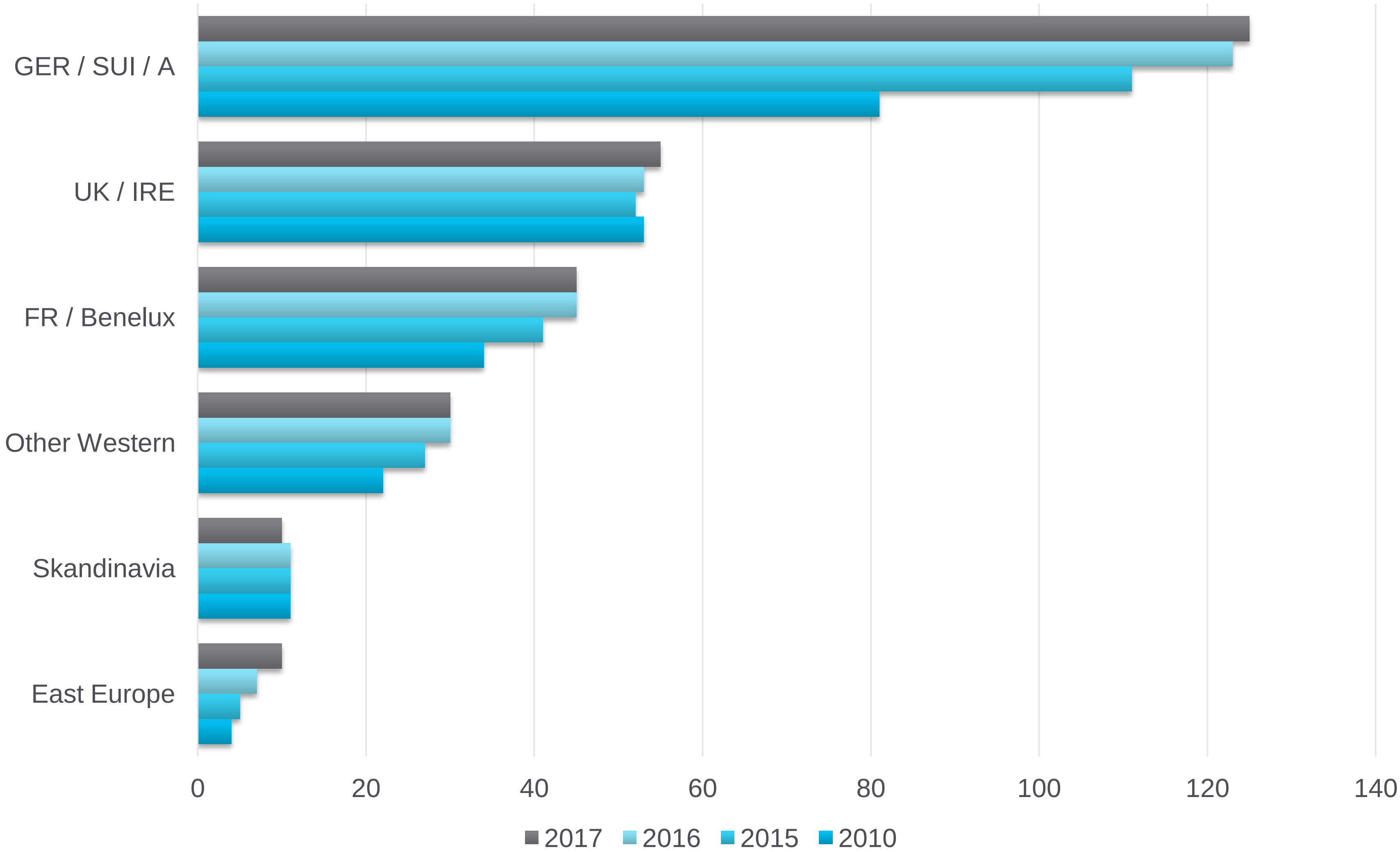

Source: PwC Surveys 2010 - 2018

Run-off – Outlook for 2019 Onwards

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- Increasing number and size of **European deals**
- A continuing trend in the market of liabilities to be transacted, emphasising the **move away from traditional** asbestos, pollution and other health hazard deals
- Further focus on the **Lloyd's legacy market** by both existing players and new entrants
- **Activity in the USA** expected to continue to significantly grow (**first US Insurance Business Transfer** expected in 2019 which will serve as blueprint and trigger for further deals)
- More activity at the **smaller end of the deal spectrum** and regarding **Captives**
- Political uncertainties, e.g. **Brexit**
- Further market (incl. regulator) **education will continue gaining more acceptance**

Image Change and Key Driver Run-off

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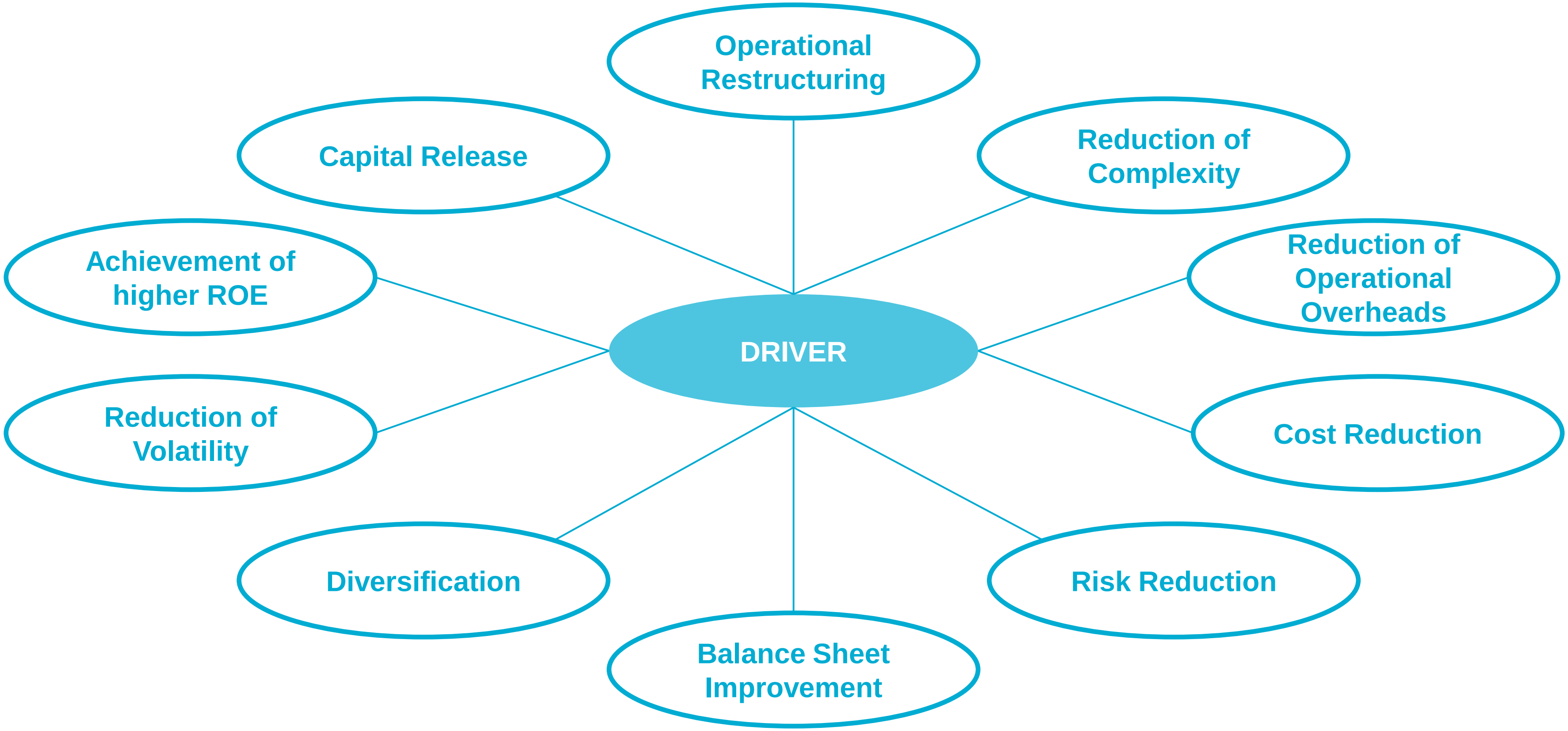
- **Image change:** (Re-)insurer C-Levels see Run-off applications more and more as an additional steering tool and less than an "Emergency" tool

- Run-off is mainly driven by **financial or operational (restructuring) needs**:



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Run-off tools provide **economic** and/or **legal finality** alongside **with capital release**

Portfolio Transfers

- Transfer of all policies including outstanding and expected claims subject to transfer.
- The technical provisions and the covering assets are transferred from the ceding insurer to the Run-off provider.
- Transfers within the EU are governed by a legal framework throughout the EU.
- Transfer will shorten ceding insurer's balance sheet.

Sale of Companies

- Transfer through the sale of the entire legal entity (e.g. subsidiary).
- Liabilities and assets are automatically transferred, including operations.

Retrospective Reinsurance

- A loss portfolio transfer (**LPT**) is a financial reinsurance transaction in which a portfolio transfer is simulated through a reinsurance contract.
- In an adverse development cover (**ADC**), all risks in excess of reserves are neutralised (usually with a limit).
- A combination of LPT and ADC acts in economic terms like a portfolio transfer (default risk to be considered).

Direct Comparison of Run-off Applications

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	Portfolio Transfer	Company Acquisitions	Reinsurance
Applicability	Direct & Reinsurance	Direct & Reinsurance	Direct & Reinsurance
Economic Finality	Yes	Yes	Yes
Legal Finality	Yes	Yes	No
Capital Release	After Approval	After Approval	After Signing
Risk Reduction	After Approval	After Approval	After Signing
Default Risk	No	No	To Be Considered
SCR Improvement	Yes	Yes	Yes
Reputational Risk	Yes	Yes	No
Regulatory Approval	Yes	Yes	No

- Run-off instruments can be combined to create an optimal solution.

Benefits from Run-off Applications

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The extent of **benefits** varies depending **on the application**

Key Benefits using the example of a Portfolio Transfer:

Operations	Revenue	Capital
• Reduction of operational costs • Reduced complexity • Reduction of administrative burden (Pillar II & III) • Enabling digitization and implementation of new technologies	• Early finality for legacy resulting in reduction of claims volatility • Focus on core business with appropriate margins • Support of growing segments by releasing financial and operational resources	• Capital release • Optimized capital allocation • Improved SCR position • Reduce risk by optimizing diversification

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