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# 2014 Outlook – Global P&C Insurance:

Economic Recovery and P&C Pricing Discipline Support Stable Outlook

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# Global P&C Insurance Outlook – Stable

- » Economic recovery fuels broad premium growth – moderate growth in North America and Europe, stronger growth in Asia and Latin America
- » P&C insurance penetration rates stable in advanced economies, rising gradually in emerging economies
- » P&C premium growth generally at or above loss cost trends, signaling stable-to-declining combined ratios
- » Low interest rates in North America and Europe hurt investment income but promote underwriting discipline
- » P&C insurers maintain sound balance sheets with high-quality investments, adequate reserves and large equity accounts, tempered by sovereign and bank risk in Eurozone and diminishing reserve cushion in North America and Europe
- » Key sector strength is mandatory nature of major lines such as auto, home and commercial property, leading to relatively stable performance through economic cycles
- » Key risks/challenges include catastrophes (windstorms, earthquakes, explosions) and pricing/reserving for long-tail lines such as US casualty

# P&C Insurance Forward View by Region

## Moody's 12-18 Month Forward View by Region

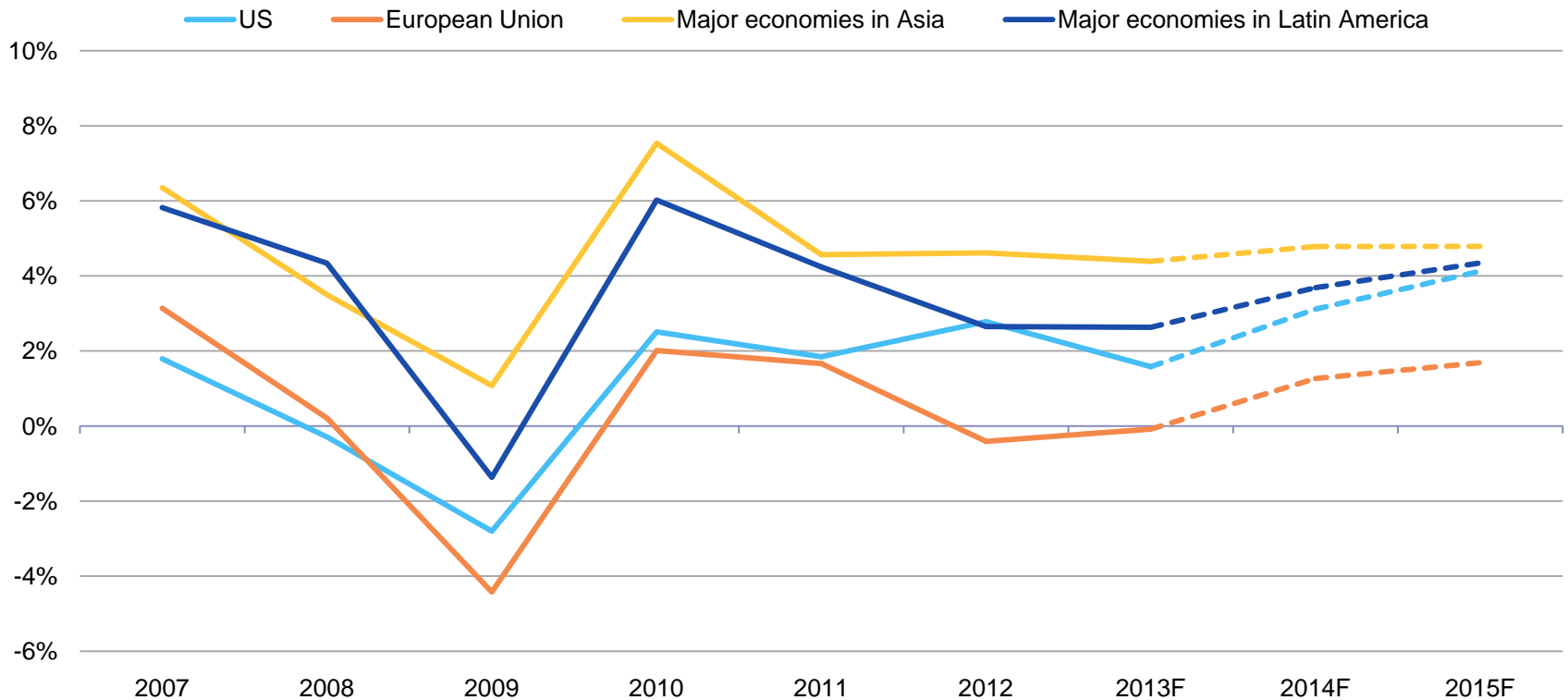
	North America	Europe	Asia	Latin America
<b>Global P&amp;C market share*</b>	39%	33%	20%	5%
<b>Nominal premium growth</b>	Up mid-single digits	Up low single digits	Up high single digits	Up high single to double digits
<b>Based on:</b>				
<b>Real GDP growth</b>	2.5% - 3.5%	1% - 2%	4% - 5%	3.5% - 4.5%
<b>P&amp;C penetration</b>	Flat at ~4.5% of GDP	Flat at ~3% of GDP	1.5% - 2% of GDP and rising gradually	1.5% - 2% of GDP and rising gradually
<b>P&amp;C pricing</b>	Up low-to-mid-single digits in commercial and consumer lines	Overall flat, with Germany and France up low single digits, Italy and Spain down low single digits	Japan up low single digits, most other markets down low single digits	Broadly flat, as underwriting initiatives are offset by competition from local and international carriers
<b>Combined ratios (assuming no major catastrophes)</b>	Improving to mid-90s	Most markets remaining in range of 95% - 100%	Japan improving to below 100%, most other markets in range of high 80s to high 90s	Chile below 90%, most other markets in range of 100% - 105%
<b>Investment income</b>	Flat to slightly down based on low interest rates	Flat to slightly down based on low interest rates	Flat to slightly up based on Japanese market recovery, rising rates in other markets	Slightly up in Brazil based on recent rise in interest rates, negative real interest rates in Argentina
<b>Balance sheets</b>	Conservative investments, declining reserve cushion, large equity base, retained earnings tempered by share buybacks	Eurozone investment risk easing but still a concern, declining reserve cushion	Conservative investments (Japan reducing equities), adequate reserves, carriers retaining/raising capital to support growth	Investment quality improving along with sovereign ratings, more stringent capital requirements likely based on Solvency II framework

\* Market shares based on Swiss Re Sigma nonlife premiums for 2012 in USD; gross worldwide premiums \$2.0 trillion or nearly 3% of worldwide GDP; Oceania and Africa account for the remaining 3% of market share

Sources: Swiss Re Sigma, Moody's Economy.com, Moody's

# Asia and Latin America Set the Pace for GDP Growth...

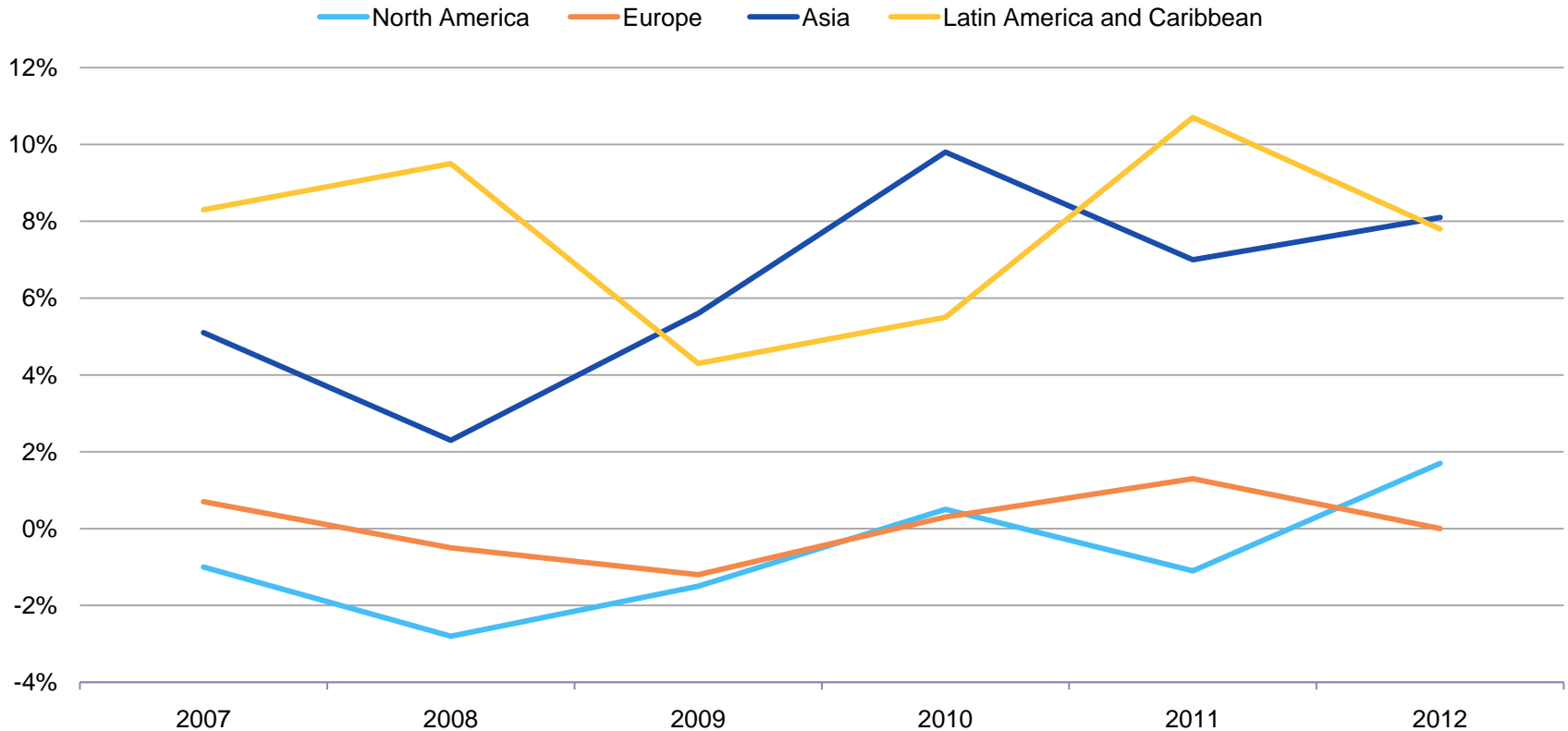
Real Annual Growth in GDP by Region – Historical and Forecast



All amounts in USD  
Sources: Moody's Economy.com, Moody's

# ...And Also Premium Growth, With Rising Penetration

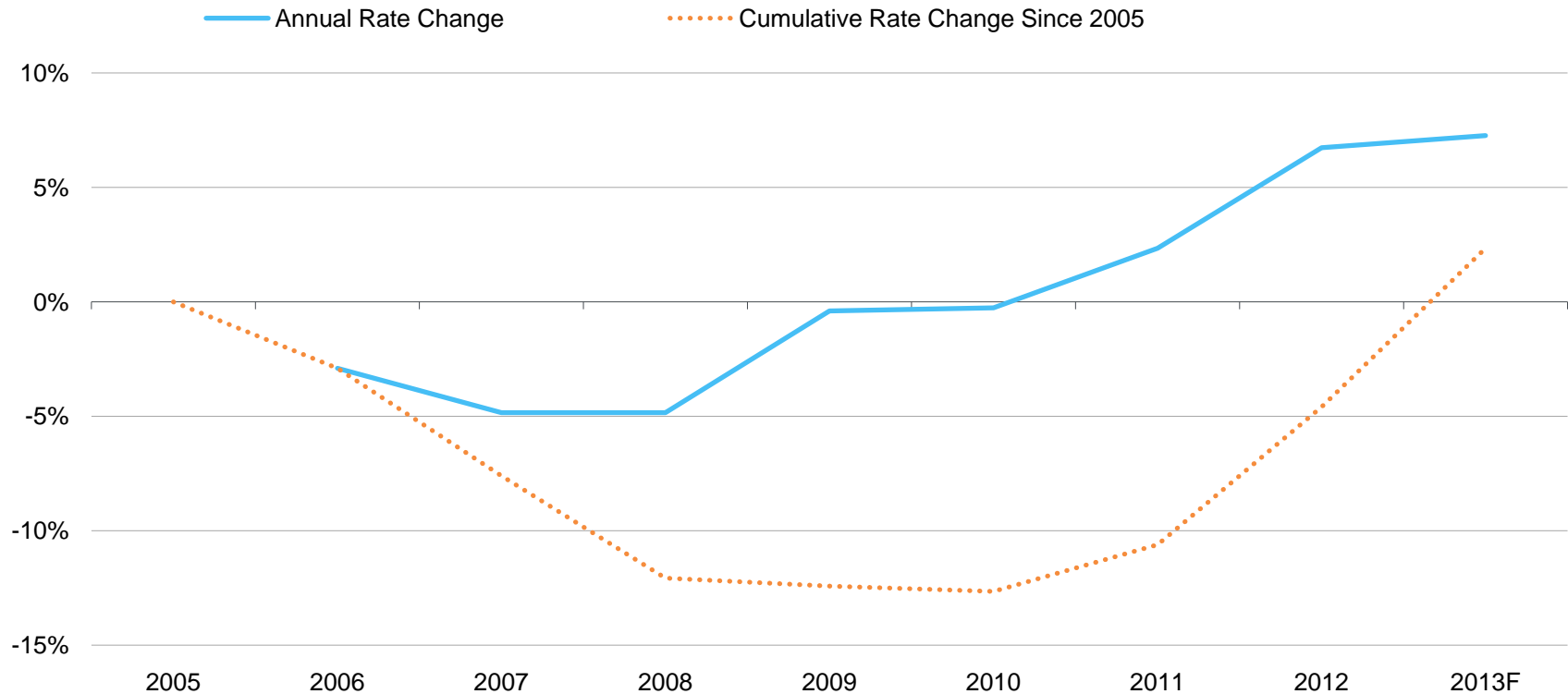
Real Annual Growth in Nonlife Insurance Premiums by Region



All amounts in USD  
Sources: Swiss Re Sigma, Moody's

# US P&C Yearly Rate Increases Are Tapering Off...

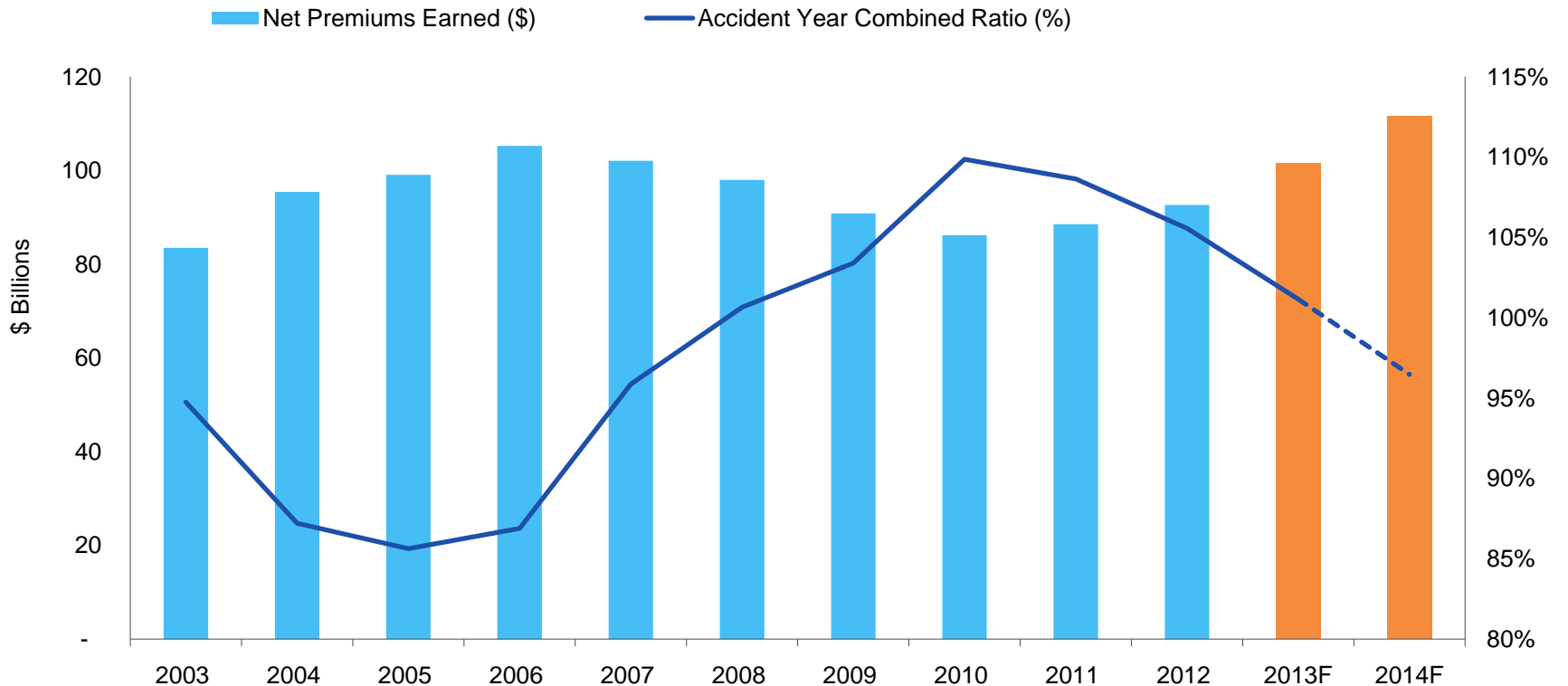
## US Commercial Liability Annual and Cumulative Rate Changes



Sources: Issuer surveys, Moody's

# ...But Cumulative Increases Still Help US Margins

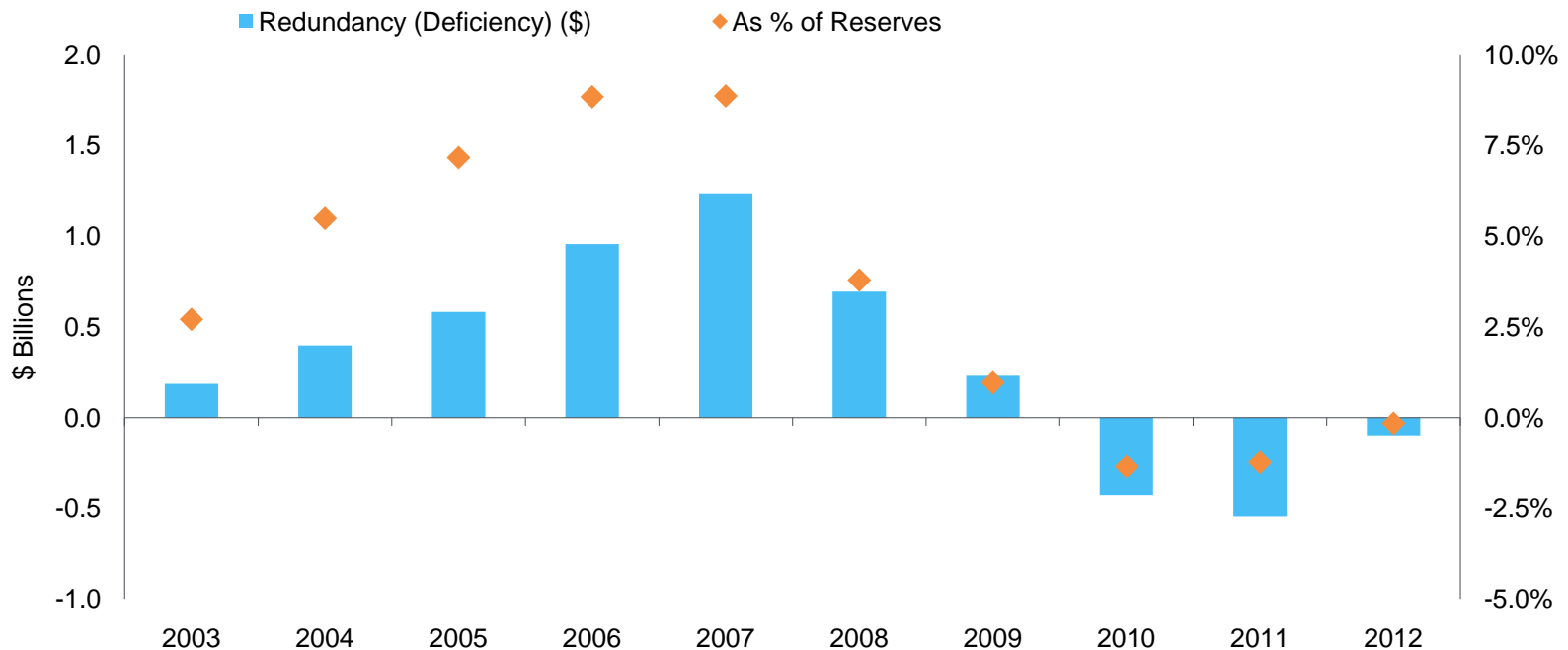
## US Commercial Liability Premiums and Combined Ratios



Sources: SNL Financial L.C. (Contains copyrighted and trade secret materials distributed under license from SNL, for recipient's internal use only), Moody's

# Rate Increases Also Support US Accident Year Reserves

## US Commercial Liability Reserve Redundancy (Deficiency) by Accident Year



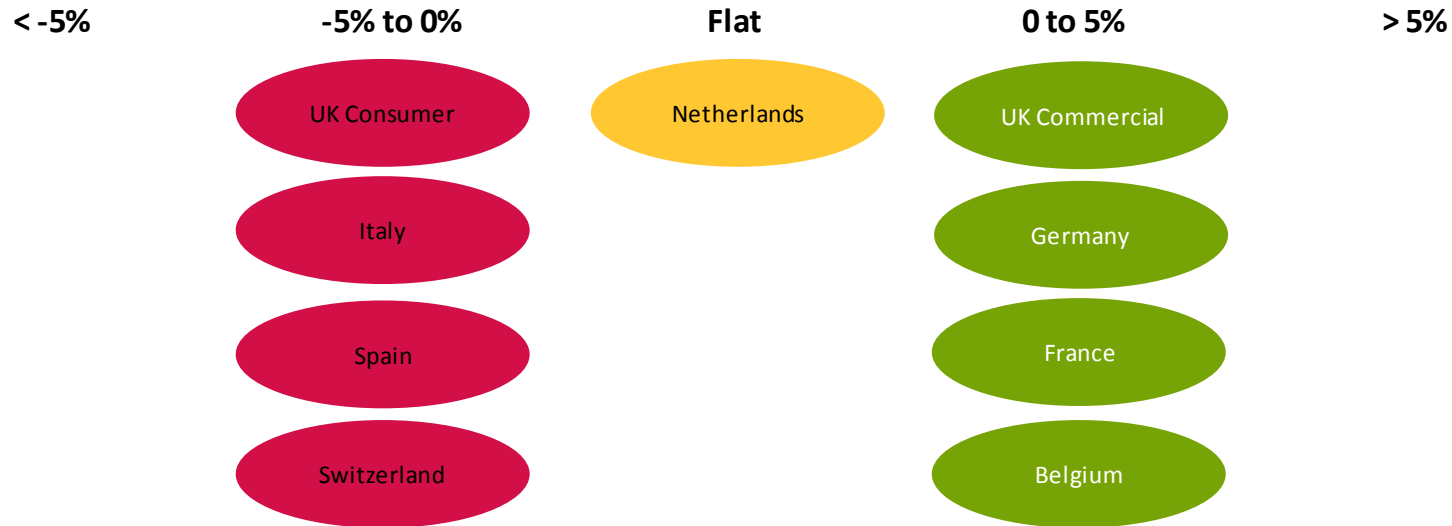
- » We estimate that US commercial P&C reserves are breakeven for accident year 2012 and will be slightly redundant for accident year 2013
- » We estimate that overall US P&C reserves remain slightly redundant despite sizable releases in recent years

Sources: SNL Financial L.C. (Contains copyrighted and trade secret materials distributed under license from SNL, for recipient's internal use only), Moody's



# European P&C Pricing Outlook Mixed

## Current P&C Rate Trends for Selected Markets

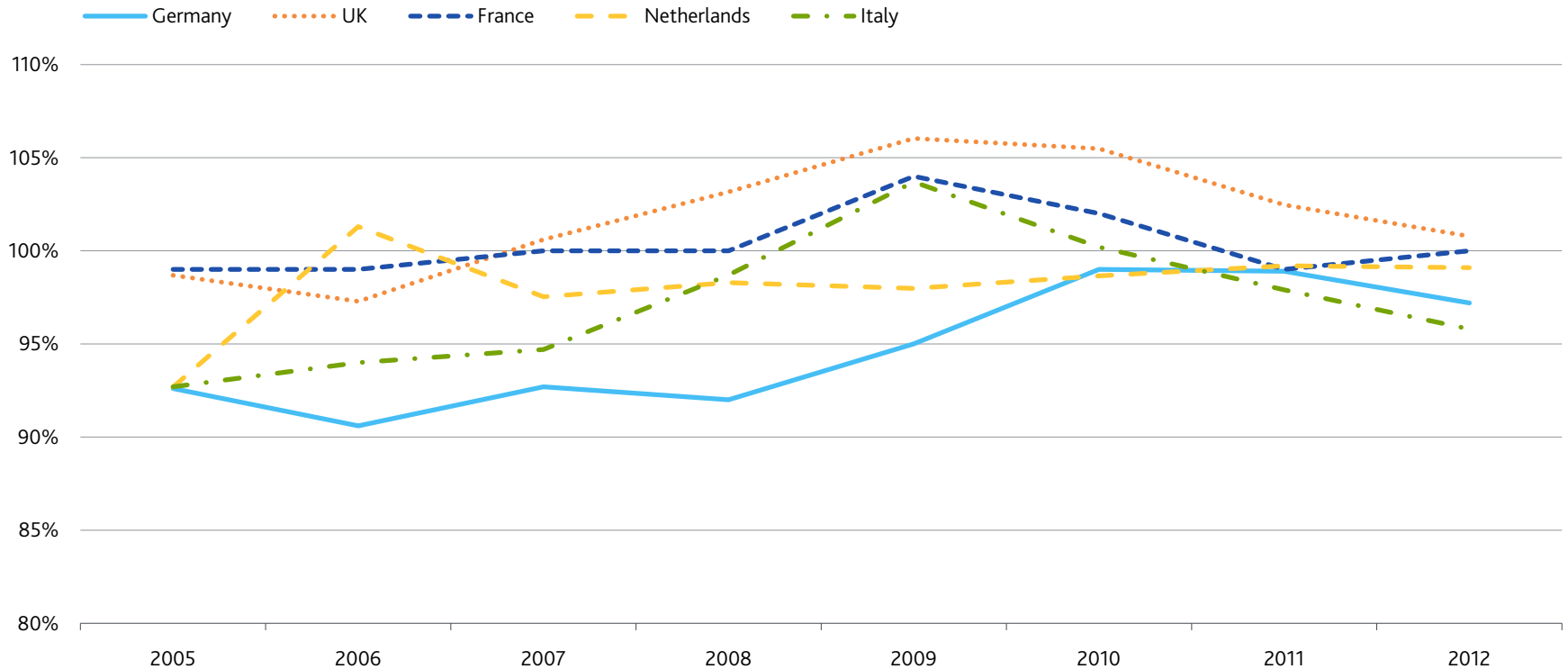


- » P&C renewal rates vary by market, with Germany and France reporting moderate rate increases, while UK consumer lines, Italy and Spain face softening rates

Source: Moody's

# European Combined Ratios Trending Mostly Down

## Combined Ratios for Selected Markets

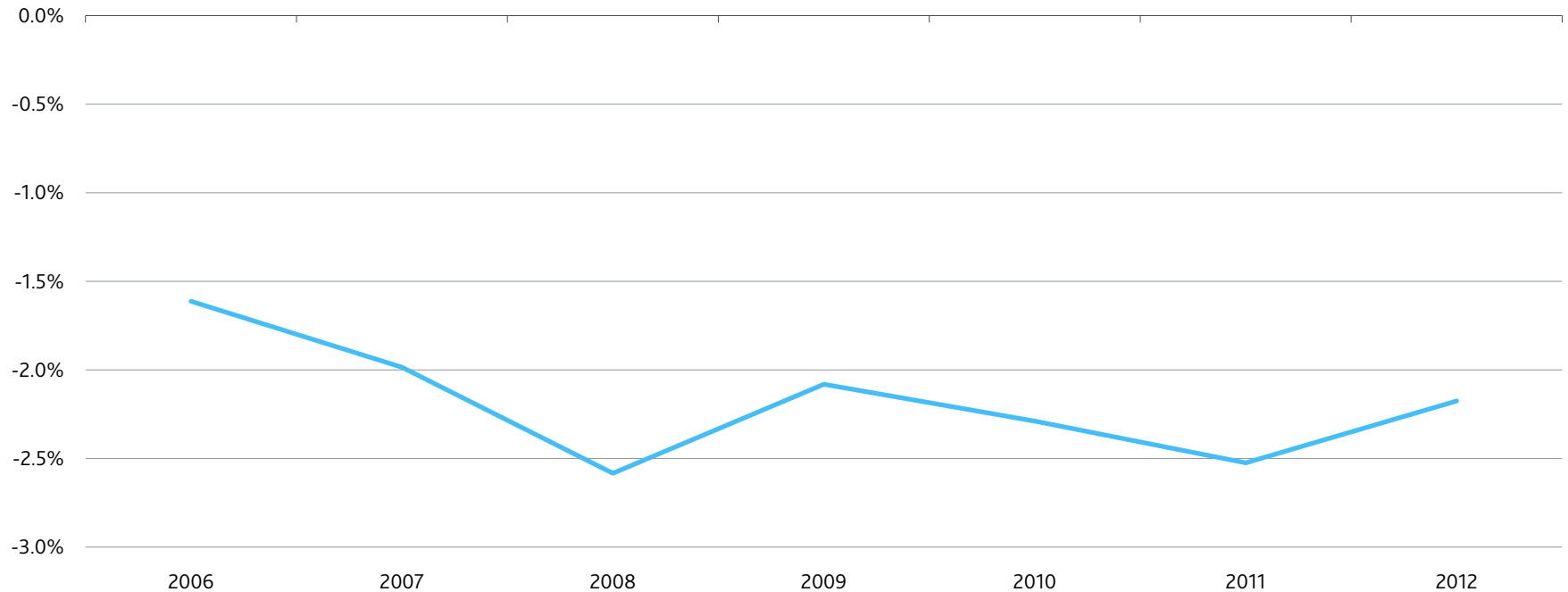


- » Combined ratios in most markets are benefiting from the gradual economic recovery plus reserve releases, mitigating the impact of lower investment returns

Sources: BaFin/GDV (Germany), FSA returns (UK), FFSA (France), DNB (Netherlands), ANIA (Italy), Moody's

# European Reserve Releases Likely to Diminish

Yearly (Favorable) Loss Development as % of Opening Reserves

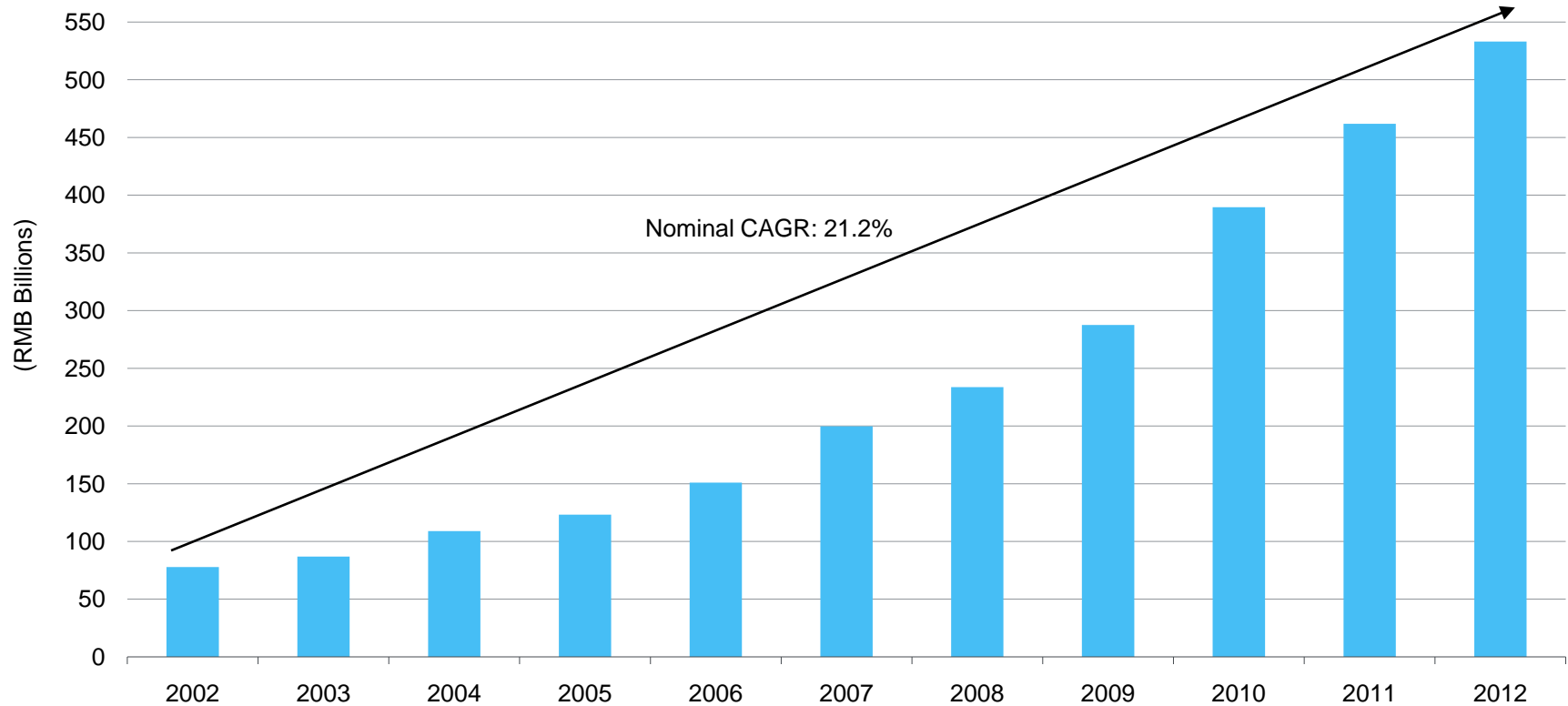


- » Reserve releases have boosted earnings for European P&C insurers for several years
- » We believe reserves are still modestly redundant but with a diminishing cushion to support future earnings

Chart shows weighted average development of major insurers across selected markets  
Sources: Issuer reports, Moody's

# China Provides Much of the Asian Growth...

## Chinese P&C Insurance Sector Gross Premiums Written

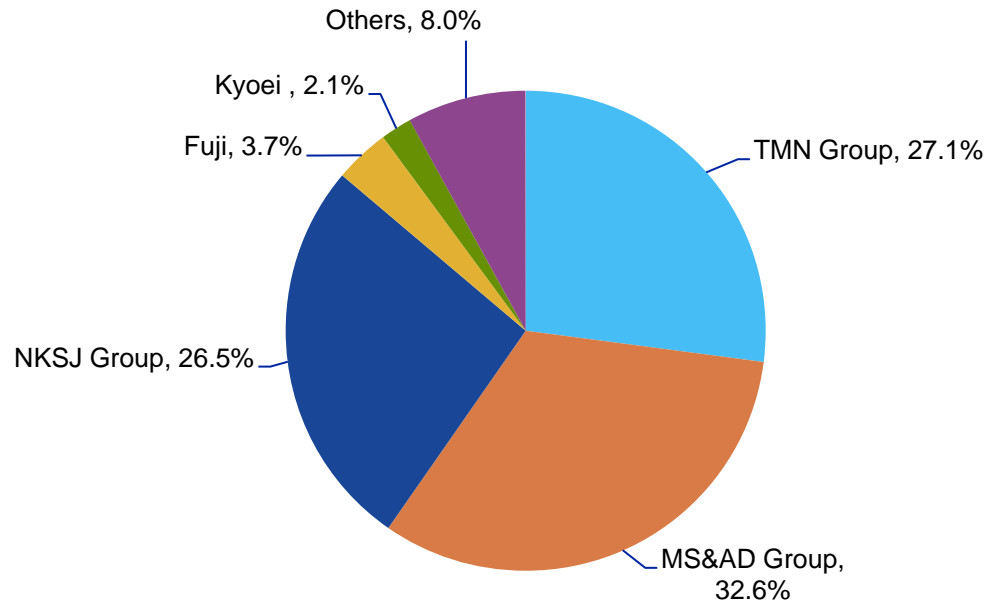


» We expect China's nominal P&C growth rate to ease to about 15%; still China's premium volume will likely surpass Japan's within 2-3 years

Sources: China Insurance Regulatory Commission, Moody's

## ...While Slower-Growing Japanese Market Consolidates

### Japanese P&C Insurance Market Shares – FY 2012

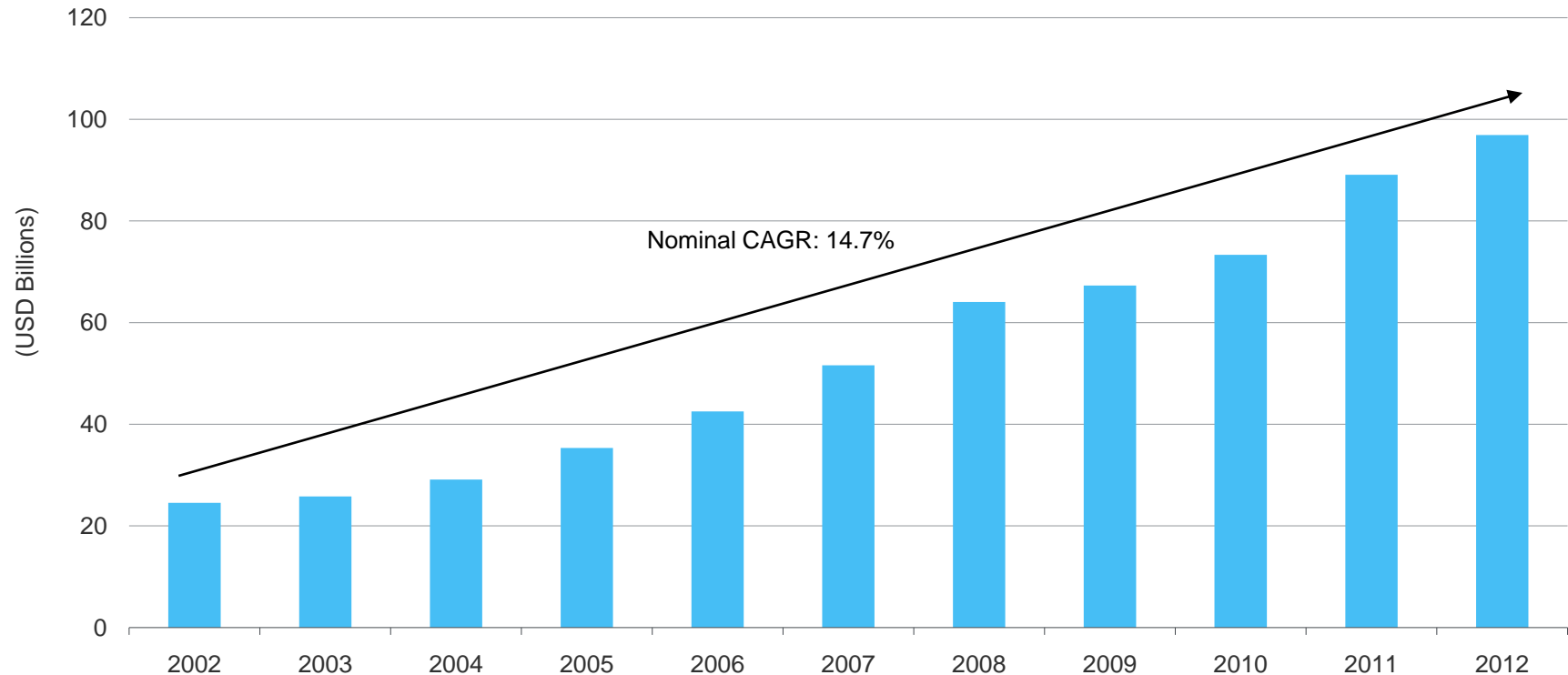


- » Since 2000, some 16 Japanese P&C insurers have merged into the top three groups, which now account for 86% of the market
- » We expect these groups to further streamline/integrate their operations to drive combined ratios down toward the mid-90s

Total net premiums written in FY 2012: JPY 7.4 trillion  
Sources: General Insurance Association of Japan, Moody's

# Latin America Shows Balanced Growth Across Region...

## Latin America and Caribbean Gross Nonlife Premiums

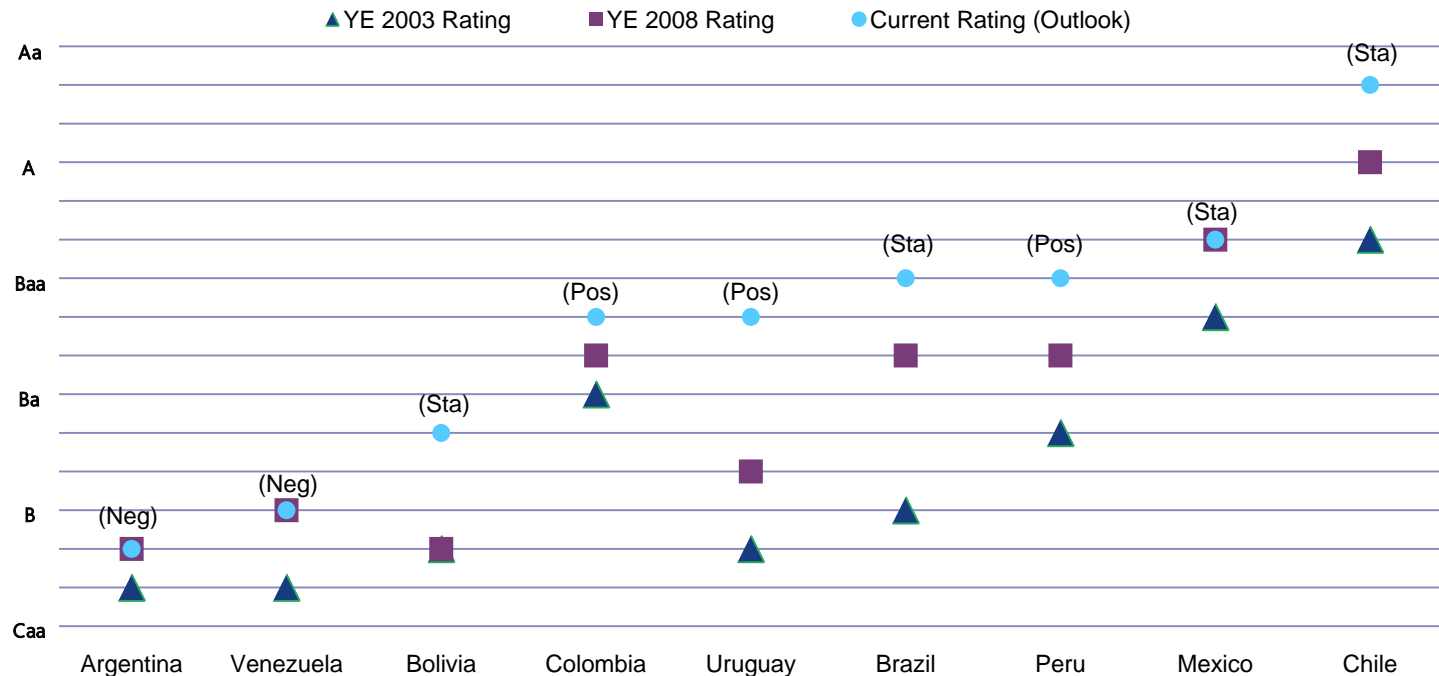


- » Latin America's P&C growth rate may ease, but we expect nominal growth to remain in double digits or high single digits

Sources: Swiss Re Sigma, Moody's

# ...Buoyed by Improving LatAm Operating Environment

## Latin American Sovereign Ratings Over Past 10 Years

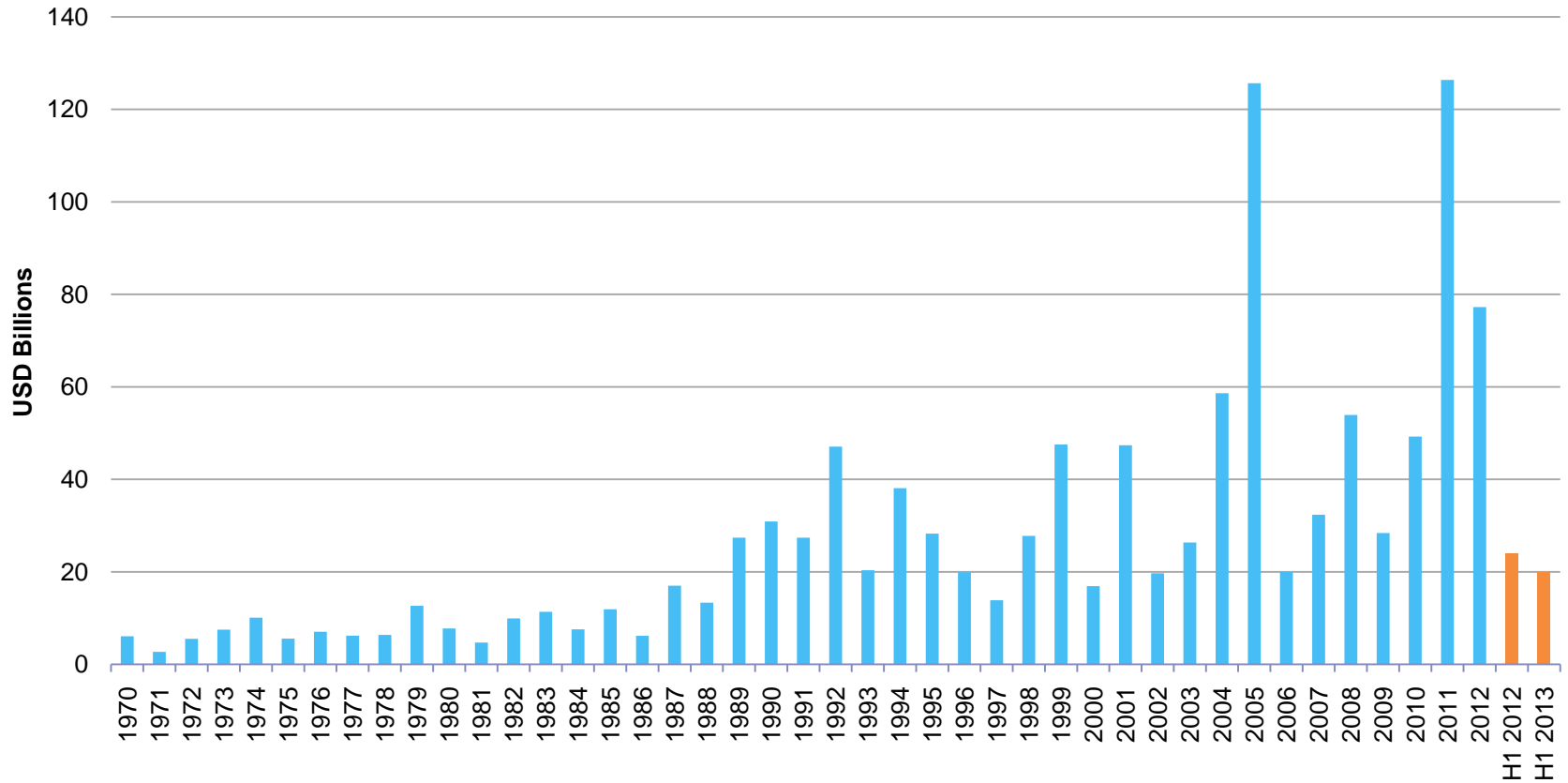


- » Latin American sovereign ratings have trended up at a time when many other sovereigns have seen their credit metrics weaken
- » Stronger sovereign credit, financial modernization and generally constructive regulation enhance the insurance operating environment

Source: Moody's

# Catastrophes Challenge P&C Insurers Globally...

## Global Insured Catastrophe Losses Since 1970



Amounts indexed to 2012  
Sources: Swiss Re Sigma, Moody's



## ...With Potential for Substantially Larger Events

### 10 Largest Insured Catastrophe Losses Since 1970

Insured Loss (USD Blns)*	Start Date	Event	Country/Region
76.3**	25-Aug-2005	Hurricane Katrina, floods, dams burst, damage to oil rigs	US, Gulf of Mexico, Bahamas, North Atlantic
35.7	11-Mar-2011	Earthquake, tsunami, aftershocks	Japan
35.0**	24-Oct-2012	Hurricane Sandy, floods	US et al.
26.2	23-Aug-1992	Hurricane Andrew, floods	US, Bahamas
24.3	11-Sep-2001	Terror attack on WTC, Pentagon and other buildings	US
21.7	17-Jan-1994	Northridge earthquake	US
21.6	6-Sep-2008	Hurricane Ike, floods, offshore damage	US, Caribbean, Gulf of Mexico et al.
15.7	2-Sep-2004	Hurricane Ivan, damage to oil rigs	US, Caribbean, Barbados et al.
15.3	27-Jul-2011	Floods caused by heavy monsoon rains	Thailand
15.3	22-Feb-2011	Earthquake, aftershocks	New Zealand

- » Seven of the 10 events have occurred in the past decade, reflecting growing presence of consumers and businesses in exposed coastal zones
- » P&C capital levels have held up well, but insurers are closely tracking climate change and potential rising sea levels, which could drive more severe events

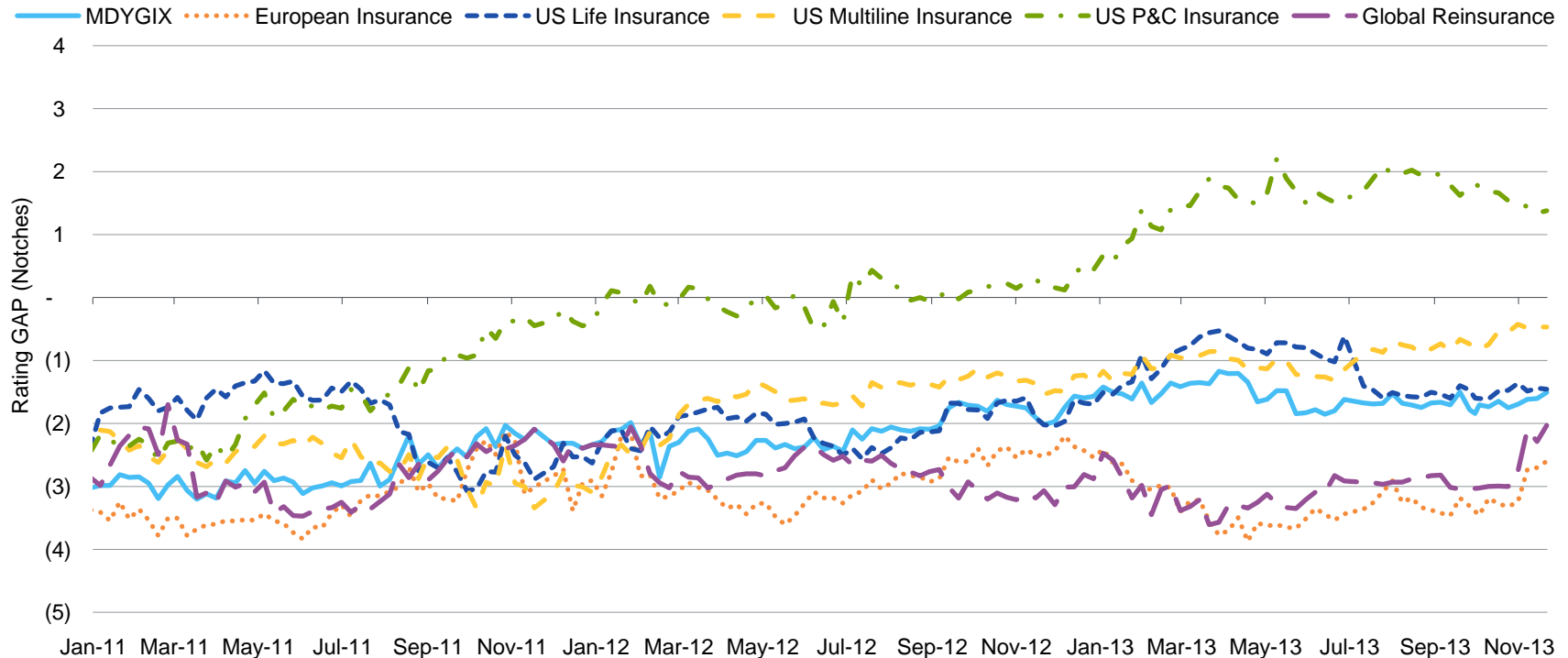
\* Amounts indexed to 2012

\*\* Includes flood claims covered by US National Flood Insurance Program

Sources: Swiss Re Sigma, Moody's

# Credit Markets See Relative Calm in P&C Insurance

## CDS-Implied Rating Gaps for Insurance Sectors



- » US P&C Insurance (the one P&C cohort shown here) currently trades with a positive rating gap (i.e., implied rating higher than Moody's rating), whereas other insurance sectors trade with negative rating gaps

Implied rating gaps based on median five-year credit default swaps (CDS) for each sector

Sources: Moody's Analytics, Moody's

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