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2018, a Year of Uncertainty for Energy Insurers

Lillehammer Energy Claims Conference 2018

8th March 2018

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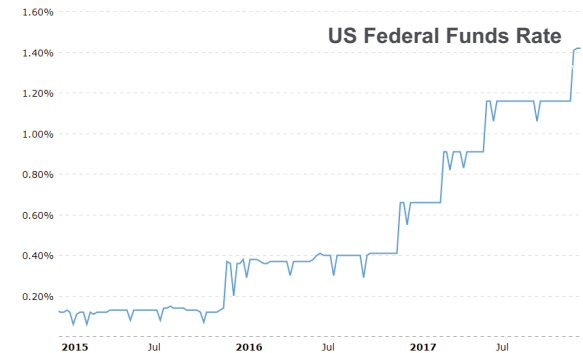
Global (Re)Insurance Market Dynamics



- HIM Catastrophe Losses - **\$75bn to \$95bn**
- Additional NatCat losses including Mexico earthquake and California wildfires bring total insured NatCat losses to **\$135bn** – double the 10 year average.
- Underlying accident year attritional loss ratios




- Moderate hardening across most classes
- Reinsurance rate increases
- Interest rate environment



Lloyd's – A Market Bellwether?

➤ Market Results

LLOYD'S	2017 H1	2016 H1
Profit	£1.22bn	£1.46bn
Return on Capital	8.9%	11.7%
Combined Ratio	96.9%	98%



BUT...

➤ Absence of material catastrophe losses in 2017 H1

➤ Accident year combined ratios:

2016 H1	103.7%
2017 H1	98.5%

➤ Reserve release:

2016 H1	5.7%
2017 H1	1.6%

➤ Full Year 2017

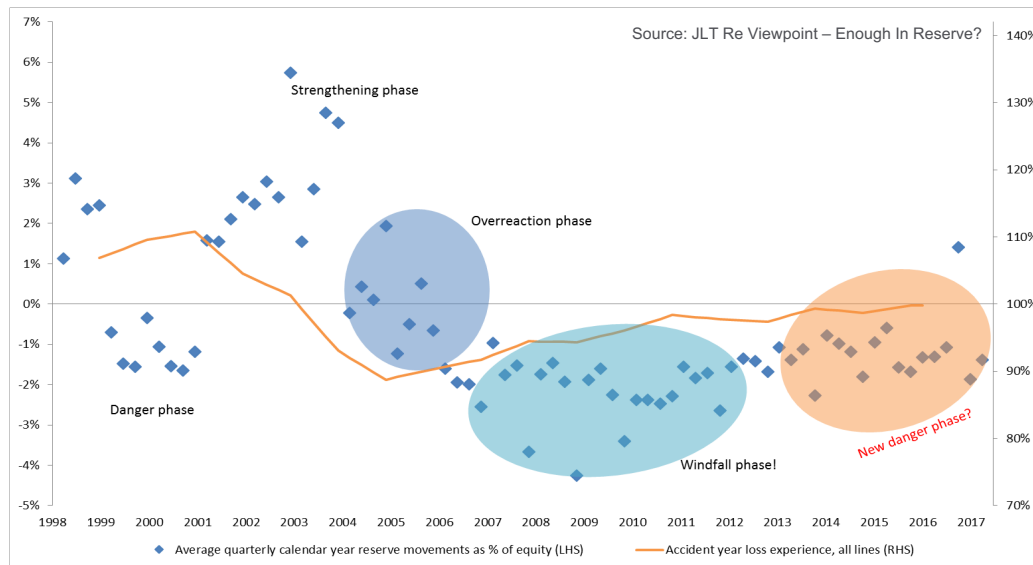
\$4.5bn HIM losses

Significant market loss

Reserve Release Cycle

- In the last decade insurance carriers have used accumulated reserves to pad earnings and compensate for low investment yields and softer market conditions.
- Some flattering calendar year profitability can be attributed to reserves being released faster than accident year experience would dictate.
- Pressure on reserving adequacy will only intensify in prolonged soft pricing environments → **Shrinking Balance Sheets**

Fears about a new and challenging phase in the reserving cycle



Effect of 2017 Dynamics on the Insurance Market

- Single connected global balance sheet
- Moderate rate increases across most lines
- Most rates still below technical requirement
- Internal capital competition within portfolios



Effect of 2017 Dynamics on Upstream Energy Market

- A benign loss year – no direct catastrophe impact
- Most rates beneath technical requirement, especially GOM windstorm
- Capacity (ex-GOM windstorm) remains intact
 - Upstream market capacity is up in 2017 from \$7.56bn to \$7.72bn (Willis Towers Watson)
- Moderate rate rises of c. 5%

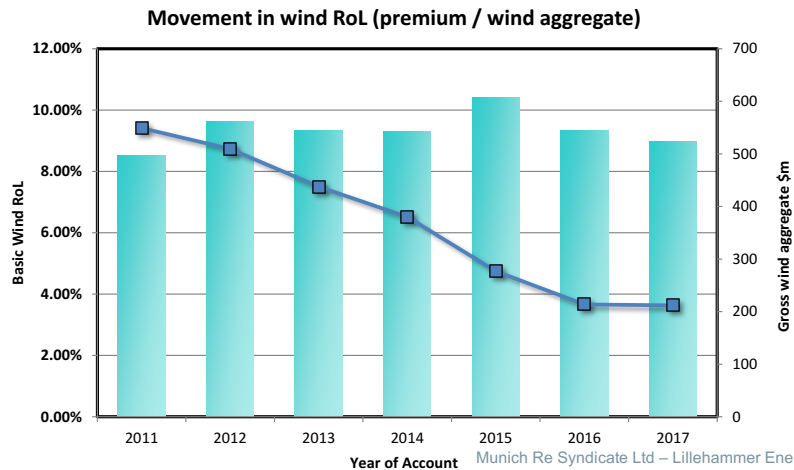


Gulf of Mexico Windstorm

Figures as at Nov 2017

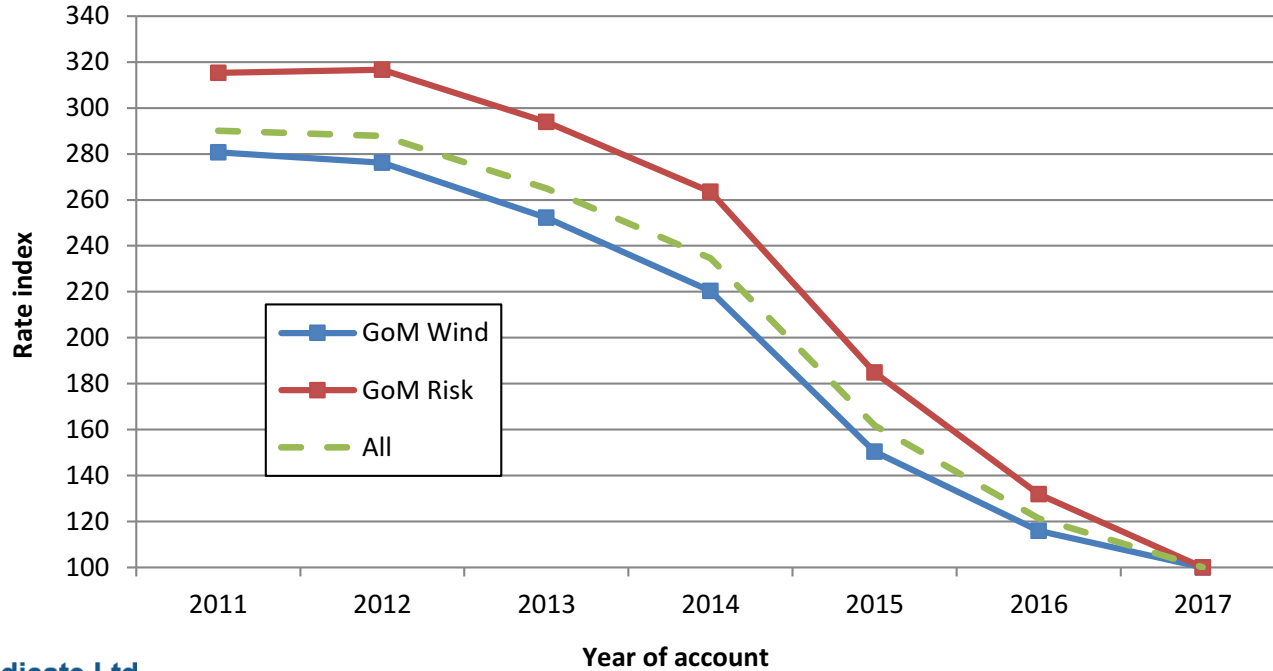
All figures in \$m

YoA	No of GoM accounts	No of accounts with wind coverage	Total gross wind aggregate	Gross net written premium		Basic Wind RoL (premium/aggregate)
				Wind	Risk	
2011	105	84	497	46.8	29.5	9.41%
2012	122	97	561	49.0	32.9	8.74%
2013	130	102	544	40.8	34.6	7.50%
2014	125	97	543	35.4	30.5	6.52%
2015	115	91	608	28.8	18.0	4.74%
2016	97	76	544	19.9	11.0	3.67%
2017	85	69	523	19.0	8.6	3.63%

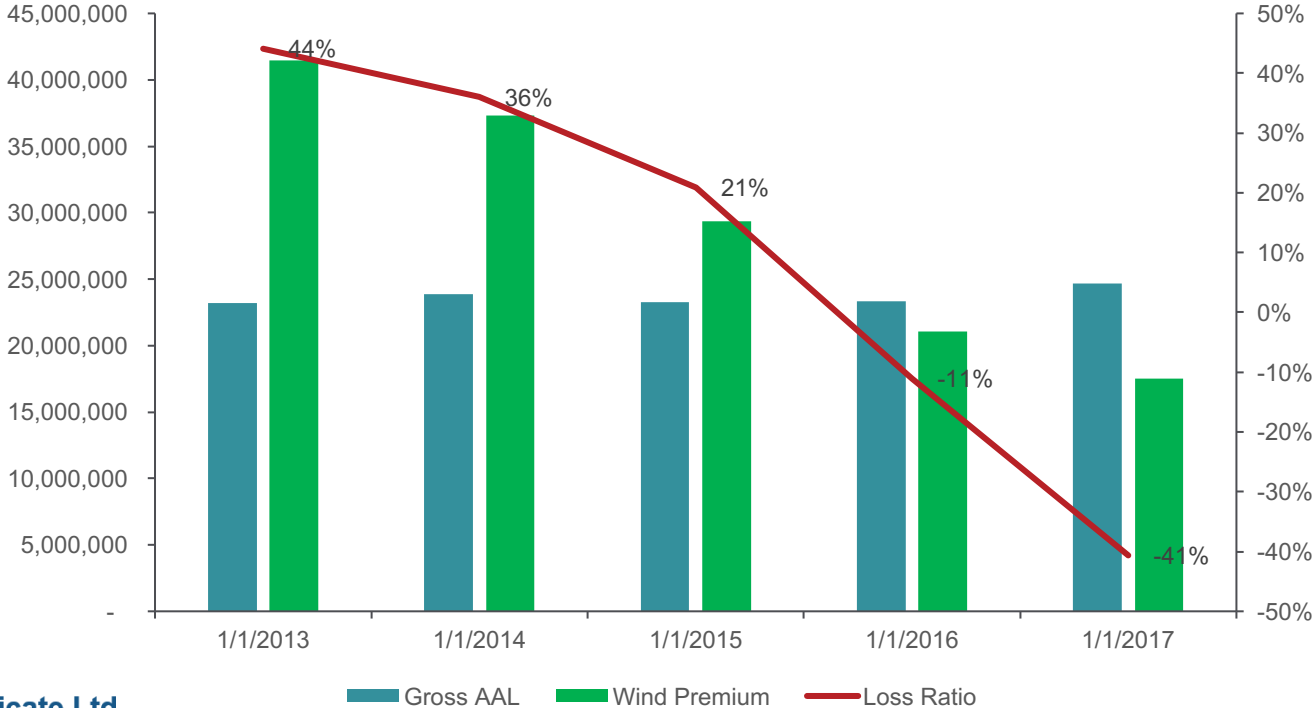


Rate indices

GoM rate index (2017 base = 100)



Profit Graph

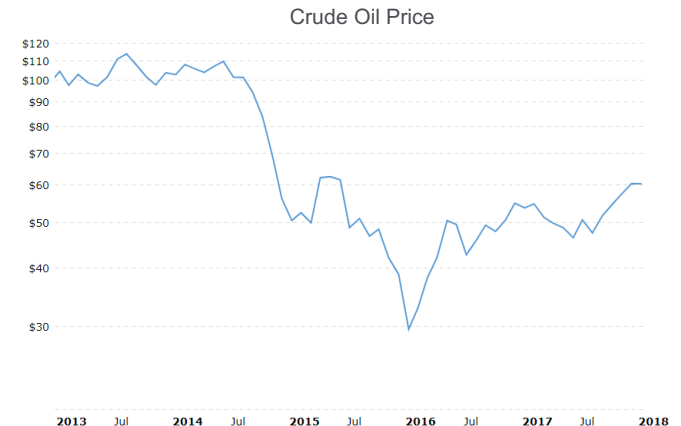
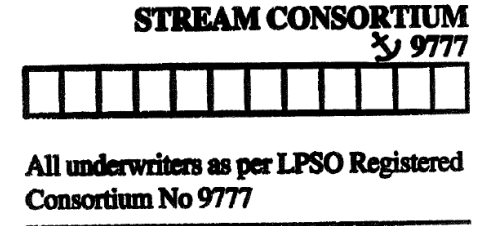


2018 walk away for GoM Wind

2017 gross net windstorm premium \$m	18.8
2017 gross annual average loss \$m	24.7
2017 projected loss Ratio	132%
Load for claim adjustment expenses	5.0%
<u>2017 average expected loss ratio</u>	<u>138%</u>
2018 target gross ULR for 15% return on capital	62%
2018 target gross ULR for 7% return on capital	76%
2018 target gross ULR for risk free rate (1.27%)	93%
<u>Required 2018 rate increase to achieve risk free rate</u>	<u>+49%</u>

Upstream Energy Market - Challenges

- Emerging Threats - Cyber
 - Protection Gap
 - Requires expert analysis & pricing
 - Stream Consortium
- Client base still recovering from commodity price collapse in June '14
- Better returns elsewhere
- Anticipated reduction in GOM windstorm capacity
 - Possibly up to 10%



Upstream Energy Market - Prospects

- A strong market on the surface...
... but underneath very fragile
- Inability to sustain current pricing levels in a 'normalised' loss frequency & severity year
- Significant correction 'around the corner'?





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