

EVEREST



Reinsurance Outlook for the Caucasus market

Baku, June 19, 2014

By Thierry Pelgrin



EVEREST.
Everest Re Group, Ltd.

Reinsurance Outlook for the Caucasus market

Plan

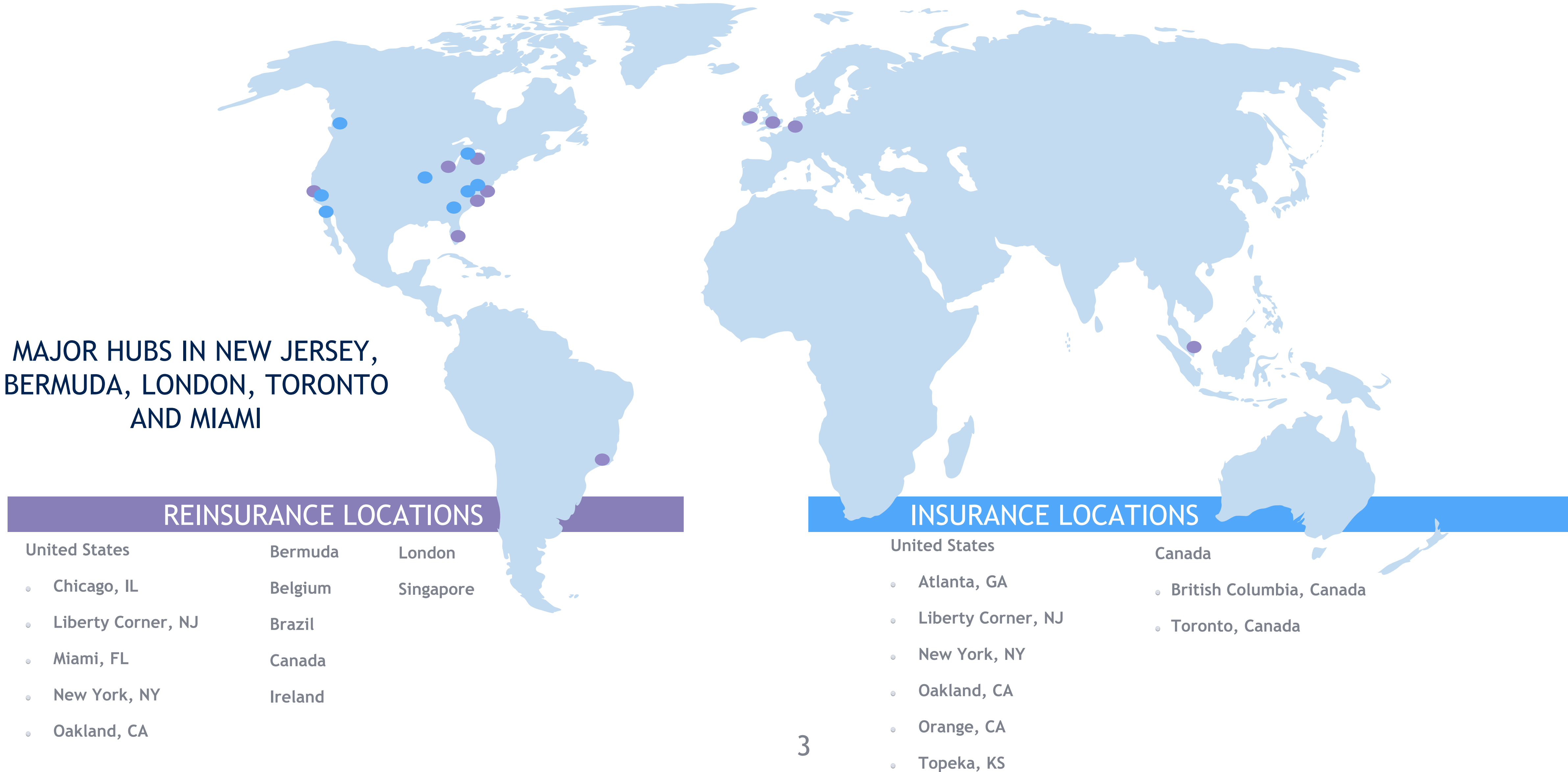
- I. Presentation of our group: EVEREST RE
- II. Suggested Market & Reinsurance-Related Developments
- III. Reinsurance Challenges & Recommendations in Caucasus

Key questions through our presentation:

- What makes Caucasus attractive for Reinsurers?
- Giving a market outlook for a better understanding of development issues.
- Where can reinsurance be supportive of market developments and needs?

I. EVEREST RE - 40 years of presence in Europe

ABILITY TO RESPOND TO GLOBAL OPPORTUNITIES



FINANCIAL Highlights

Development from 1996* to 2013

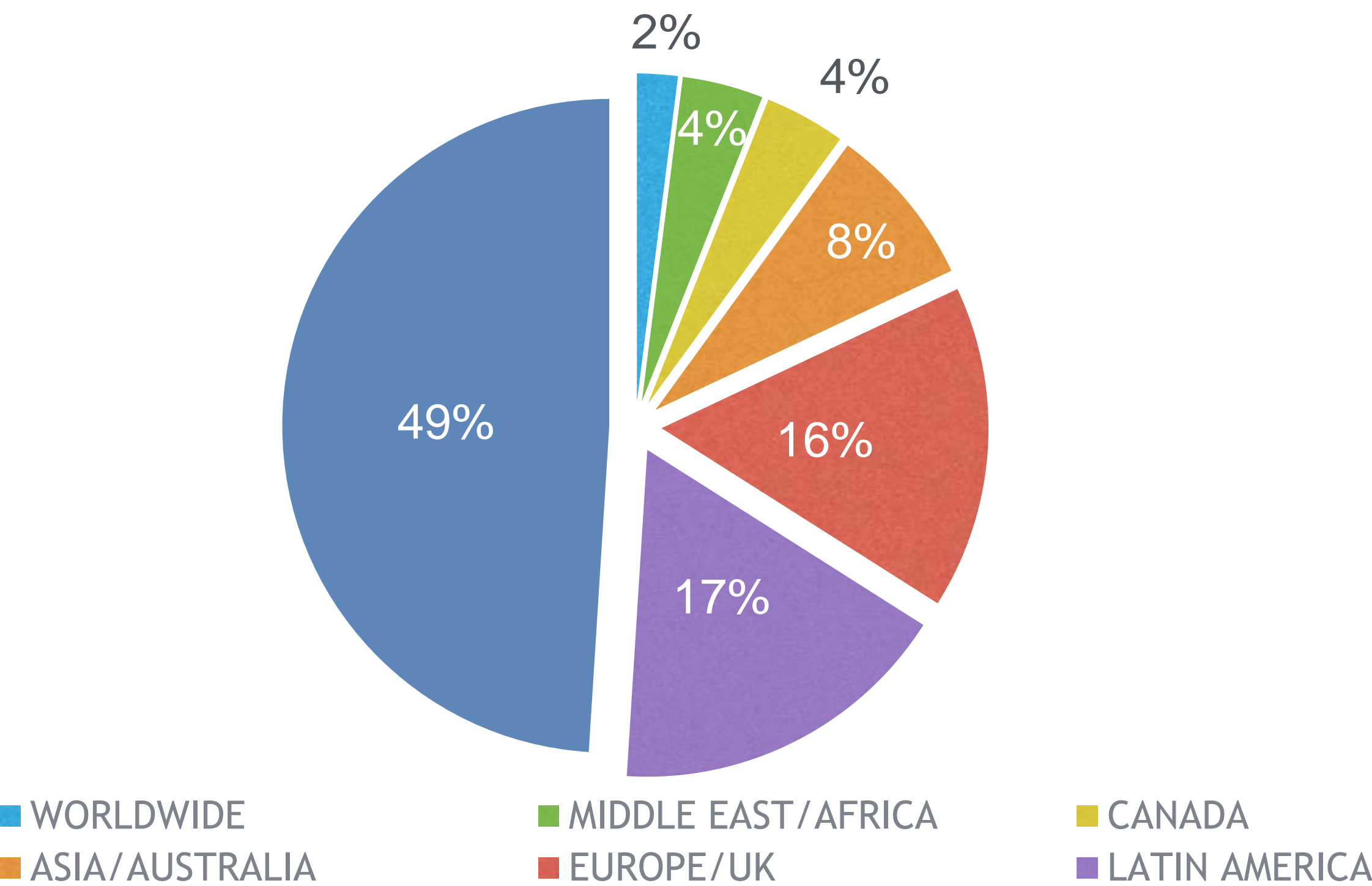
(\$ in millions)	1996	2013
<u>Financial Data:</u>		
Equity	1,086.0	6,968.3
Assets	5,047.8	19,808.0
Gross Written Premium	1,044.0	5,218.6
GWP/Equity Ratio	96%	75%
<u>Financial Strength Ratings:</u>		
AM Best	A	A+
S&P	A+	A+
Moody's	A2	A1

* 1st year fo Everest Re operations after spin-off from Prudential Re

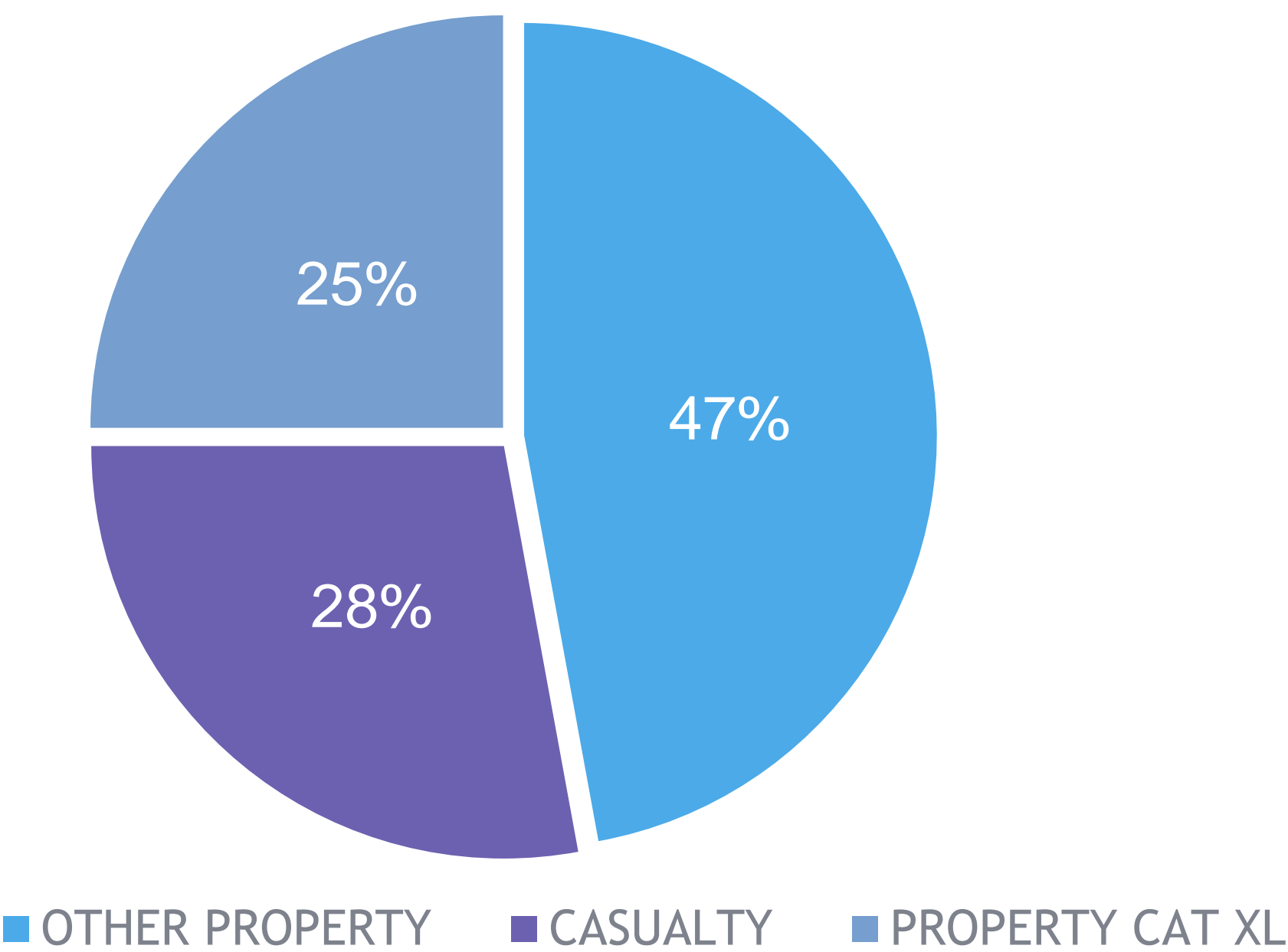
Diversity in Reinsurance Book (Worldwide figures)

AMONGST THE MOST DIVERSIFIED REINSURANCE ORGANIZATIONS

REINSURANCE PREMIUM BY GEOGRAPHY



REINSURANCE PREMIUM BY LINE OF BUSINESS

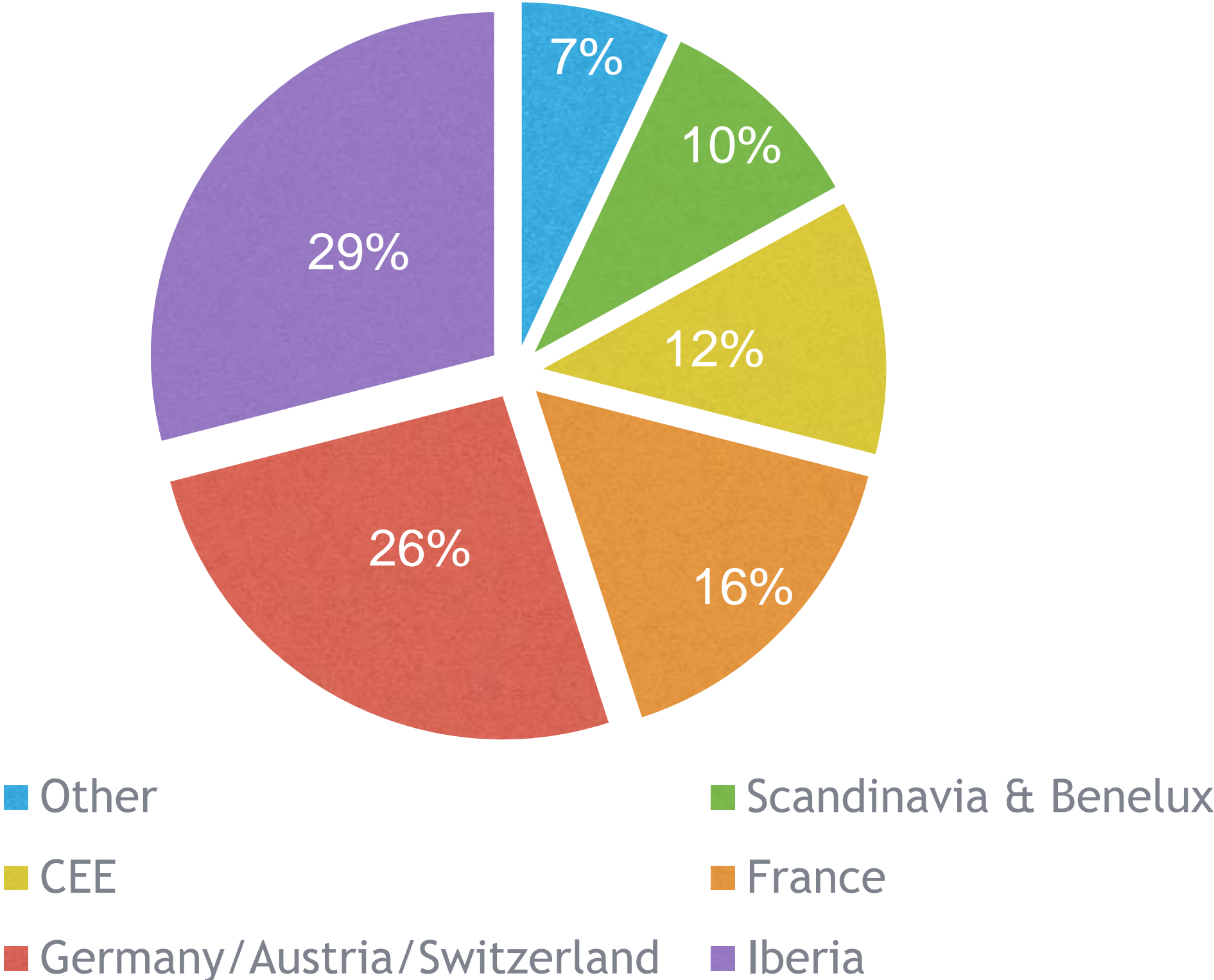


- Multi product capability - Property/Casualty; Treaty/FAC; XOL/Prorata
- Broad Global Distribution Network
- Ability to adapt and react quickly to changing market dynamics
- Strong client/broker relationships

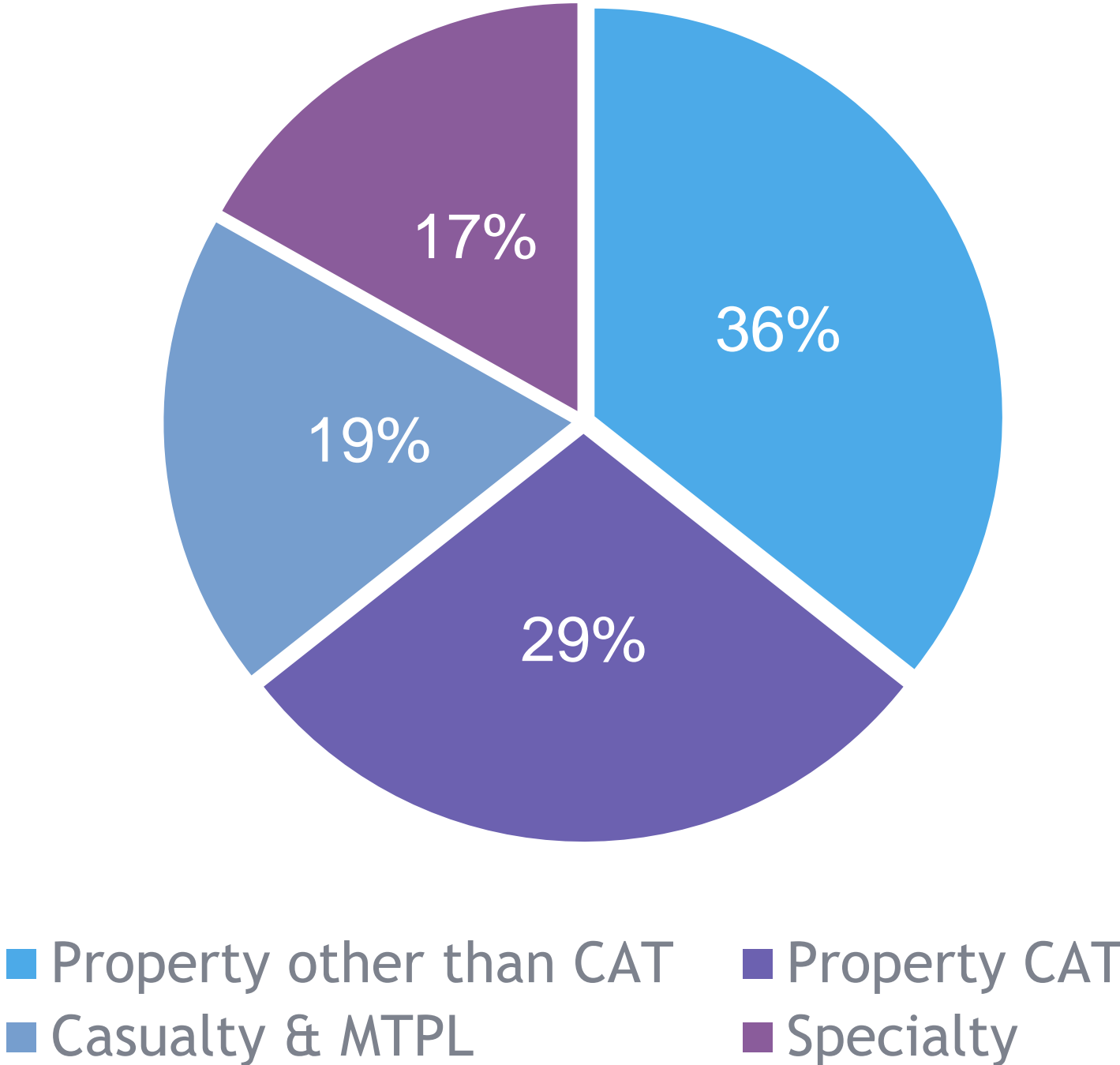
Diversity in Reinsurance Book (Eurasia)

ERCIL* PORTFOLIO

REINSURANCE PREMIUM BY GEOGRAPHY



REINSURANCE PREMIUM BY LINE OF BUSINESS



Ercil* EUROPE OUTLOOK

- Writing larger lines across all Non-Life Classes on Pro-rata or XL basis
- Bespoke solutions for Index Covers, ADC/LPT Covers, Multiline Aggregate XL, CAT Aggregate XL, Stop Loss
- Appetite for Specialty Lines**
- Increased profile as a Leader in Europe
- Easy Access to Decision-Makers in Europe

*Everest Re Company Ireland Limited

**Terrorism, Political Risks, Trade Credit/Single Risks and Bond, Engineering, Latent Defects, Kidnap & Ransom, Privacy, Product Contamination, Marine, Aviation, Agricultural and transport

II. Suggested Market & Reinsurance-Related developments

PEST ANALYSIS

1. Political: regain of stability in the region (2008 - 2013)
2. Macro-Economic & Insurance Indicators
 - 2.1 Macro-Economic Indicators
 - 2.2 Insurance Indicators
3. Social & Legislation
 - 3.1 Legislation
 - 3.2 Social
4. Technological / Innovation - both for Insurance & Reinsurance
 - 4.1 Development of existing core lines
 - 4.2 Extending to other lines

II.Suggested Market & Reinsurance-Related developments

What makes Caucasus attractive for Reinsurance ?

Political Economical Social Technological (PEST) analysis

2. Macro-Economic & Insurance Indicators

2.1 Macro-Economic Indicators

Azerbaijan - Market main indicators *

(EUR billion)	2009	2010	2011	2012	2013
GDP, current prices (EUR billion)	30,96	40,21	50,26	52,01	53,53
GDP per capita, current prices (EUR)	3.480	4.469	5.517	5.632	5.751
Insurance penetration degree	0,46%	0,37%	0,42%	0,63%	0,70%
Insurance density (EUR/capita)	15,96	16,37	22,97	35,74	40,43

Georgia - Market main indicators *

(EUR billion)	2009	2010	2011	2012	2013
GDP, current prices (EUR billion)	7,43	8,33	11,24	11,99	11,25
GDP per capita, current prices (EUR)	1.695	1.990	2.515	2.666	2.510
Insurance penetration degree	2 %	1.74%	1.32%	1.97%	1.75%
Insurance density (EUR/capita)	33,97	34,67	33,18	52,51	43,98

Armenia - Market main indicators *

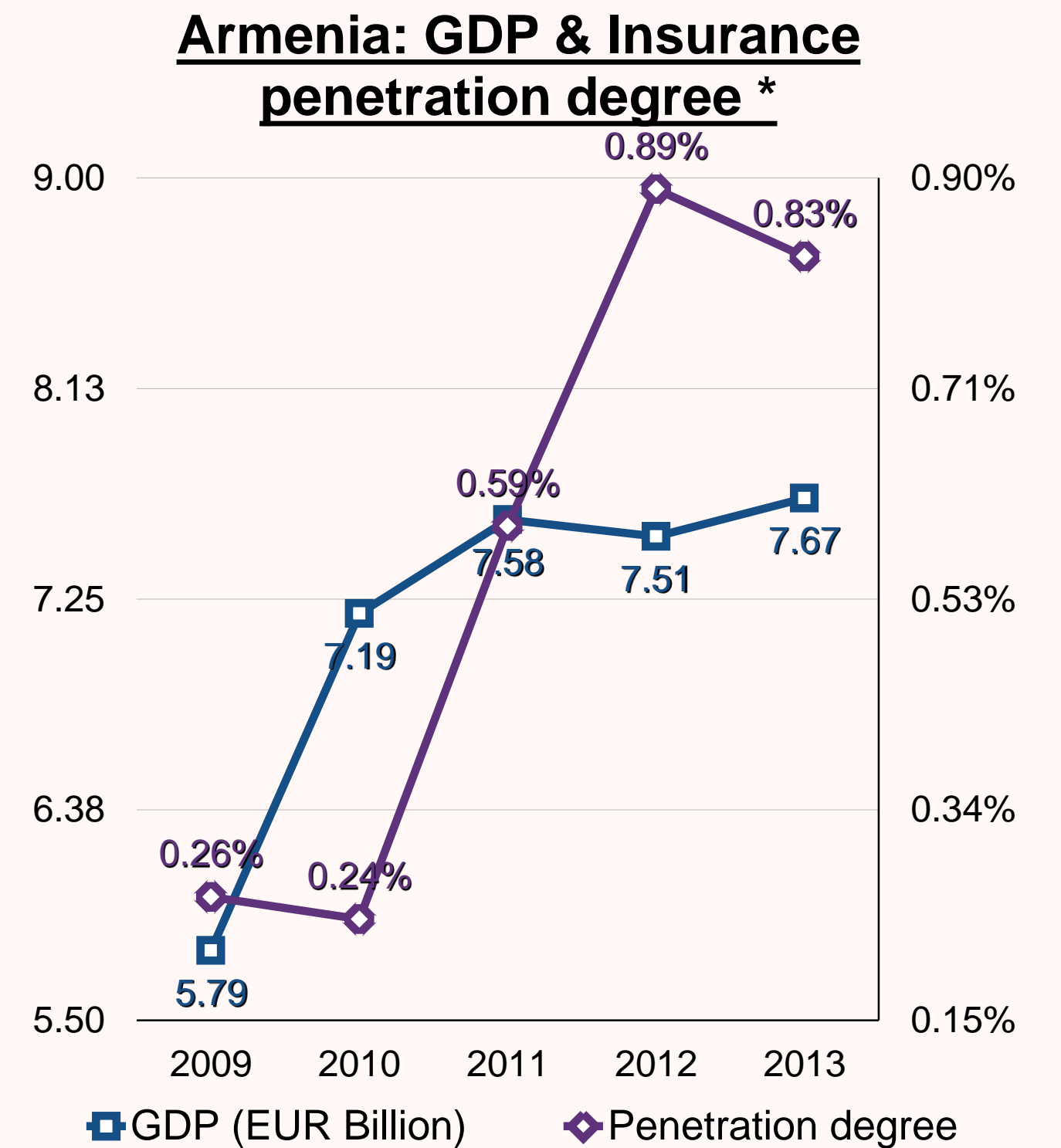
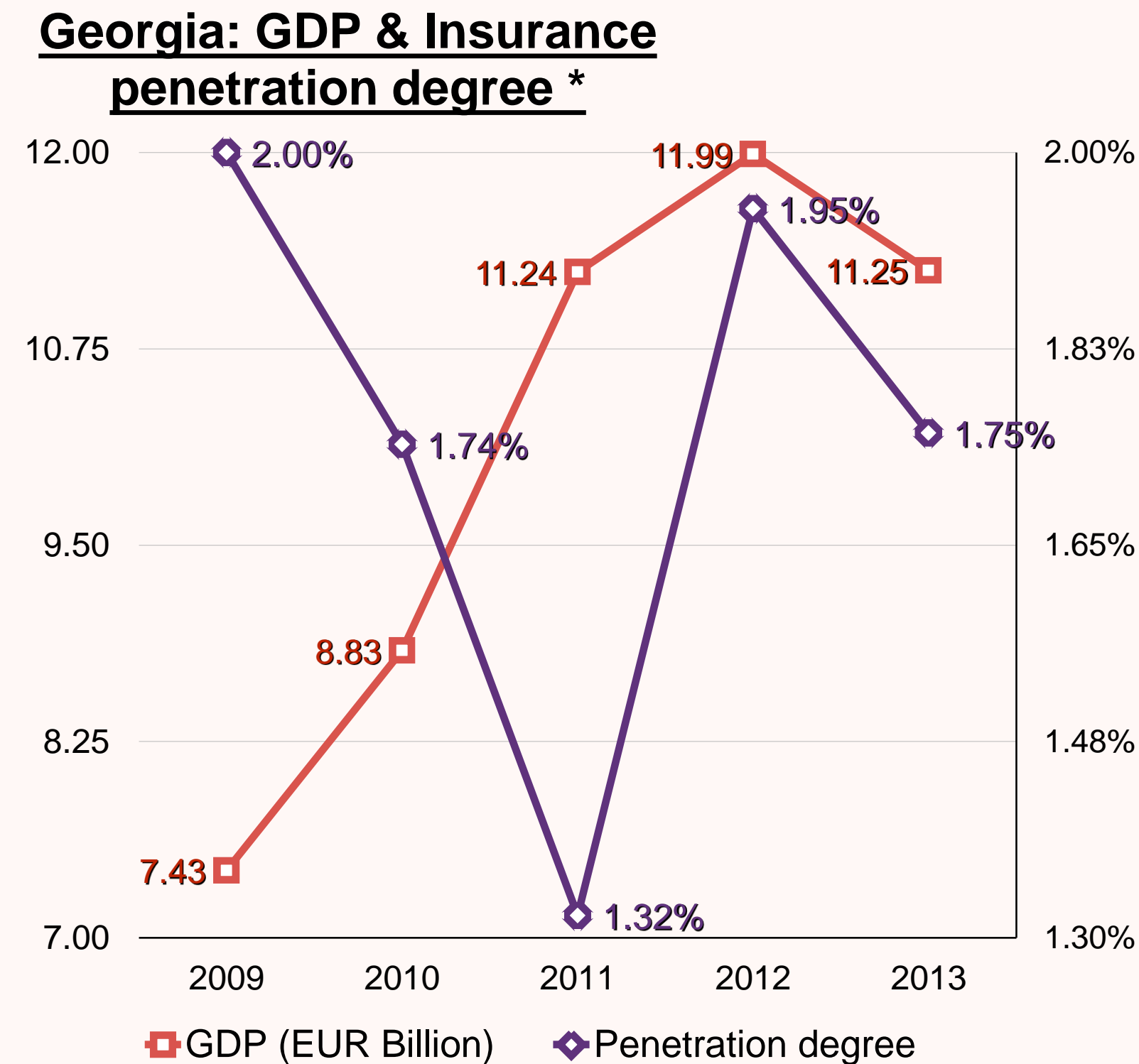
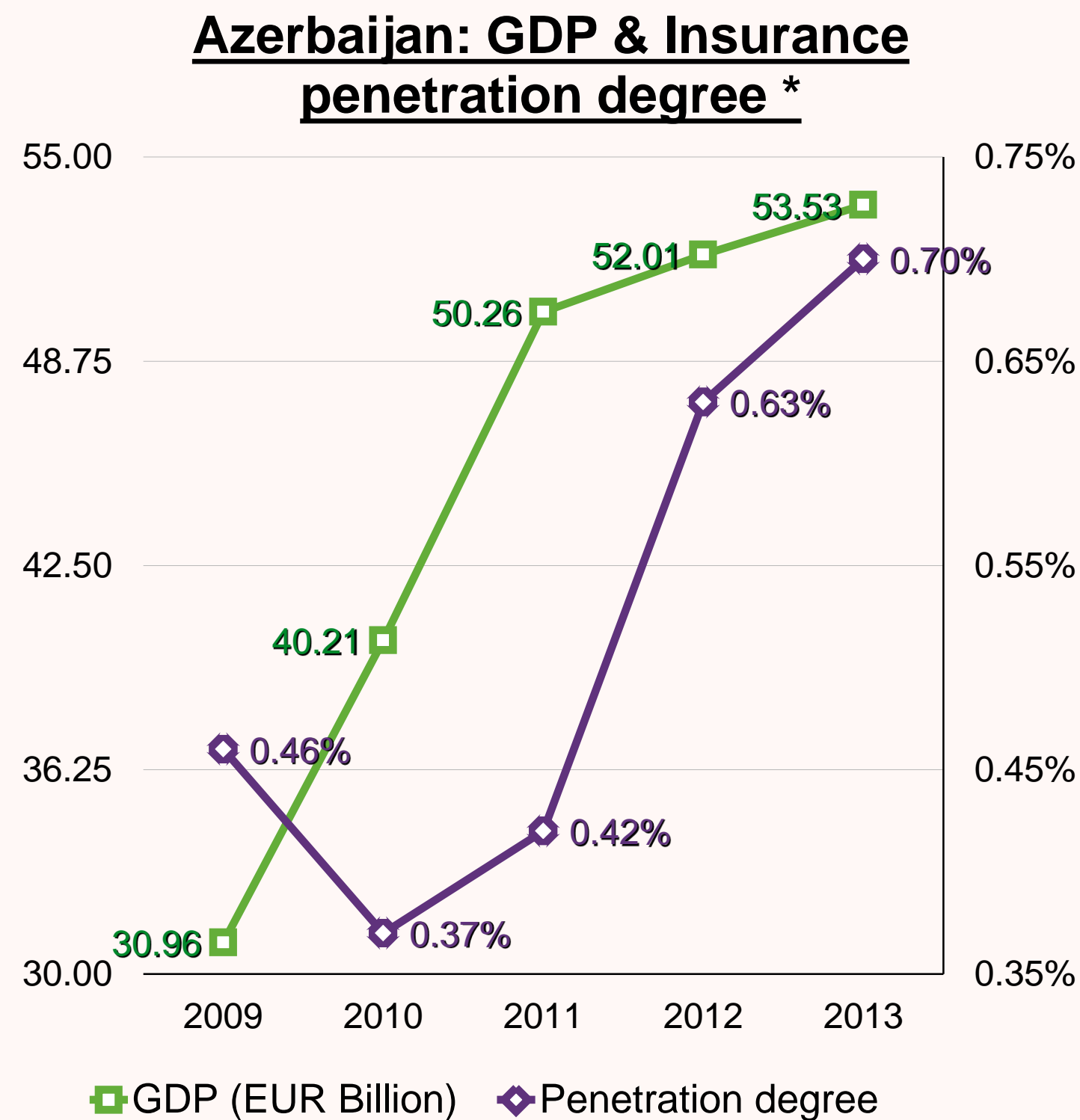
(EUR billion)	2009	2010	2011	2012	2013
GDP, current prices (EUR billion)	5,79	7,19	7,58	7,51	7,67
GDP per capita, current prices (EUR)	1.783	2.204	2.314	2.289	2.332
Insurance penetration degree	0,26 %	0,24 %	0,59 %	0,89 %	0,83 %
Insurance density (EUR/capita)	4,60	5,26	13,71	20,34	19,43

II. Suggested Market & Reinsurance-Related developments

What makes Caucasus attractive for Reinsurance ?

Political Economical Social Technological (PEST) analysis

2.1 Macro-Economic Indicators



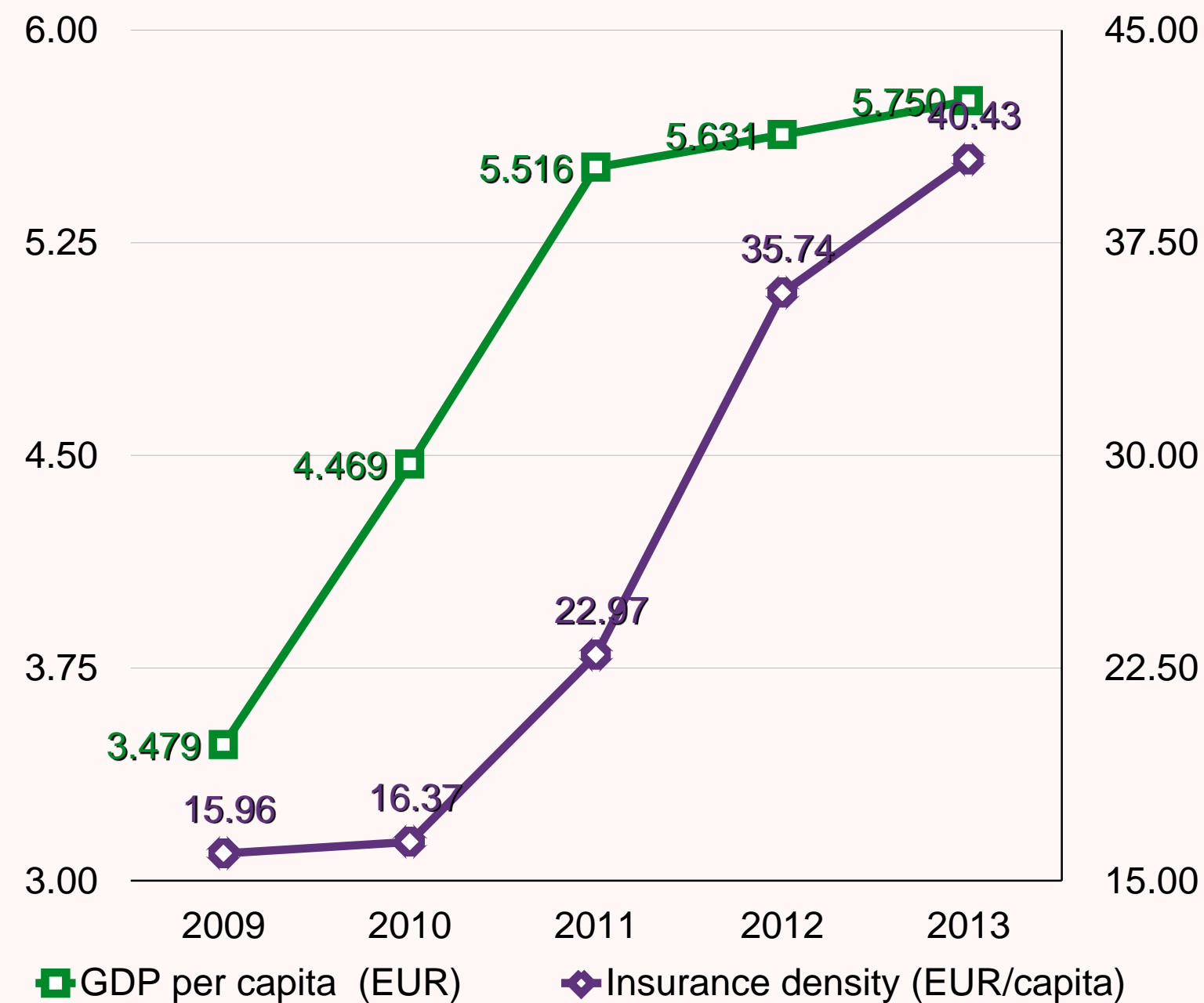
II.Suggested Market & Reinsurance-Related developments

What makes Caucasus attractive for Reinsurance ?

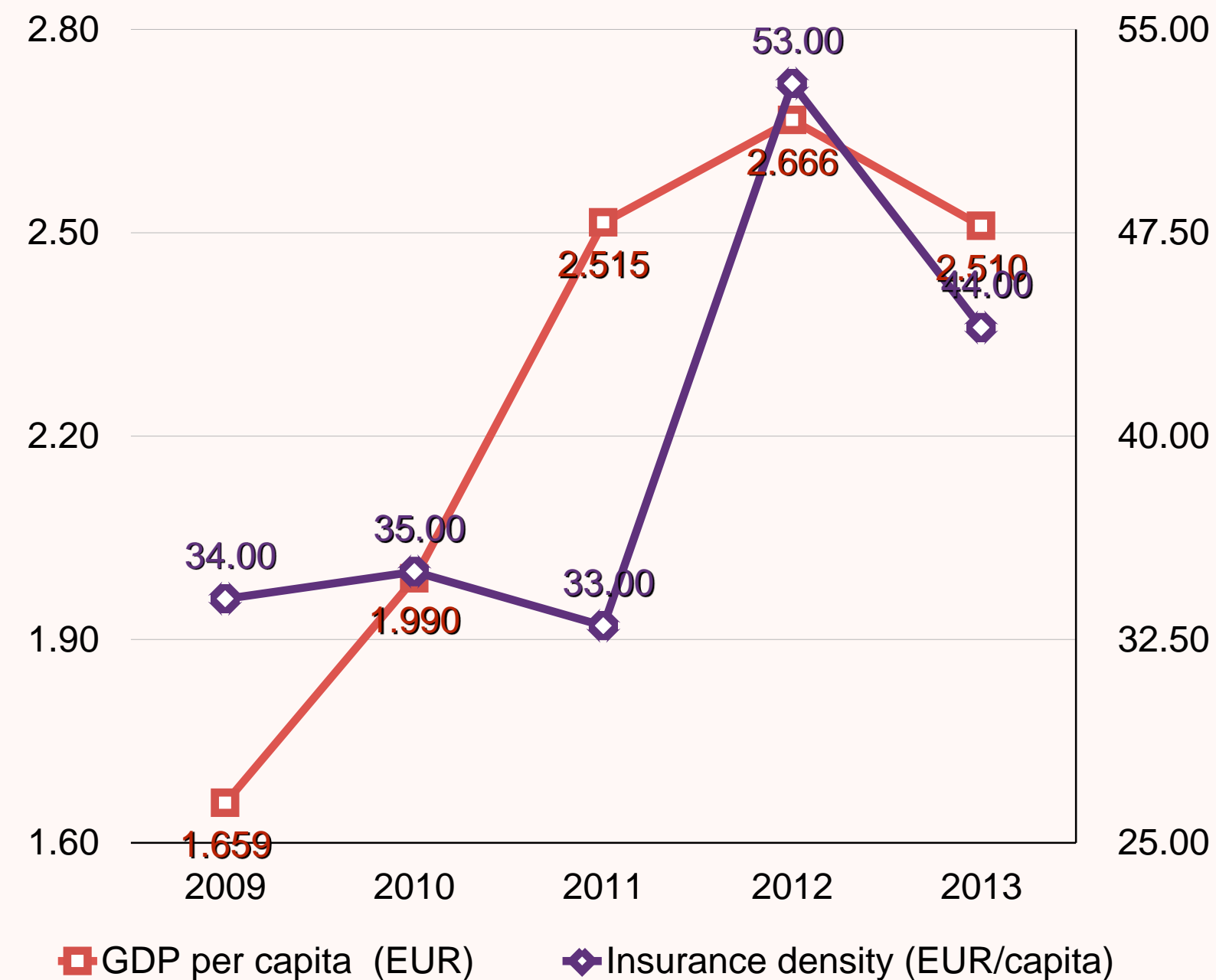
Political Economical Social Technological (PEST) analysis

2.1 Macro-Economic Indicators

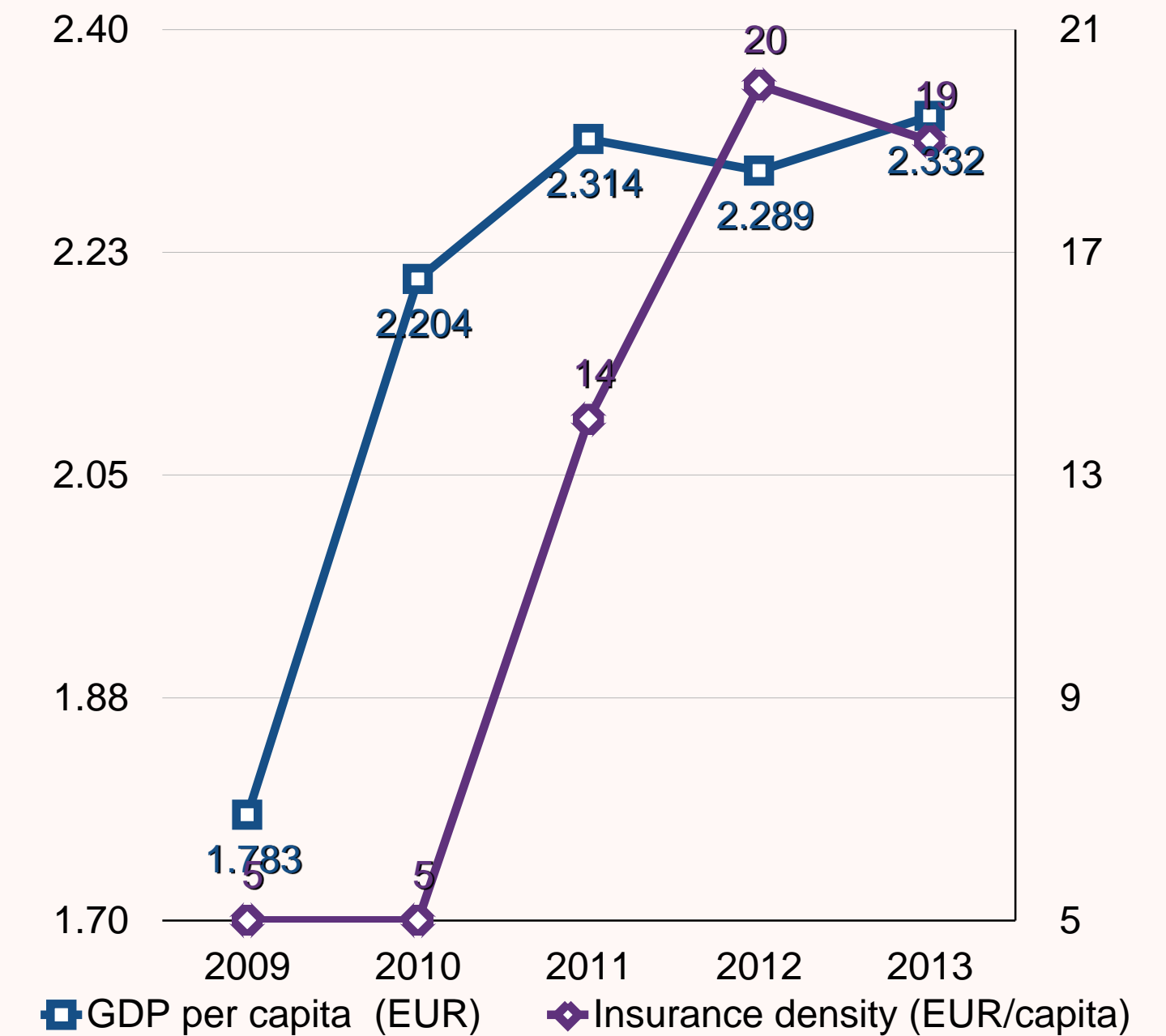
Azerbaijan: GDP per capita & Insurance density



Georgia: GDP per capita & Insurance density



Armenia: GDP per capita & Insurance density



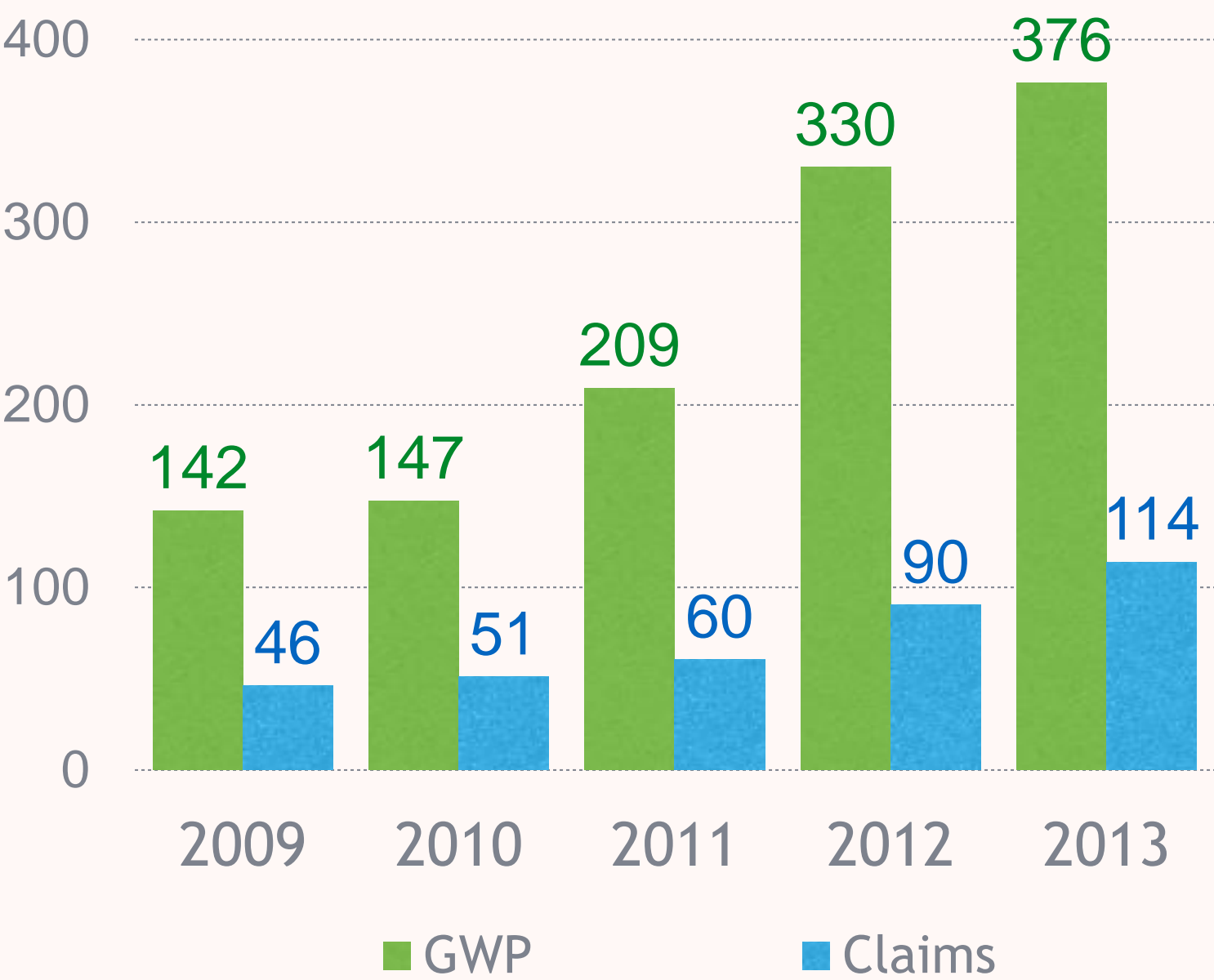
II.Suggested Market & Reinsurance-Related developments

What makes Caucasus attractive for Reinsurance ?

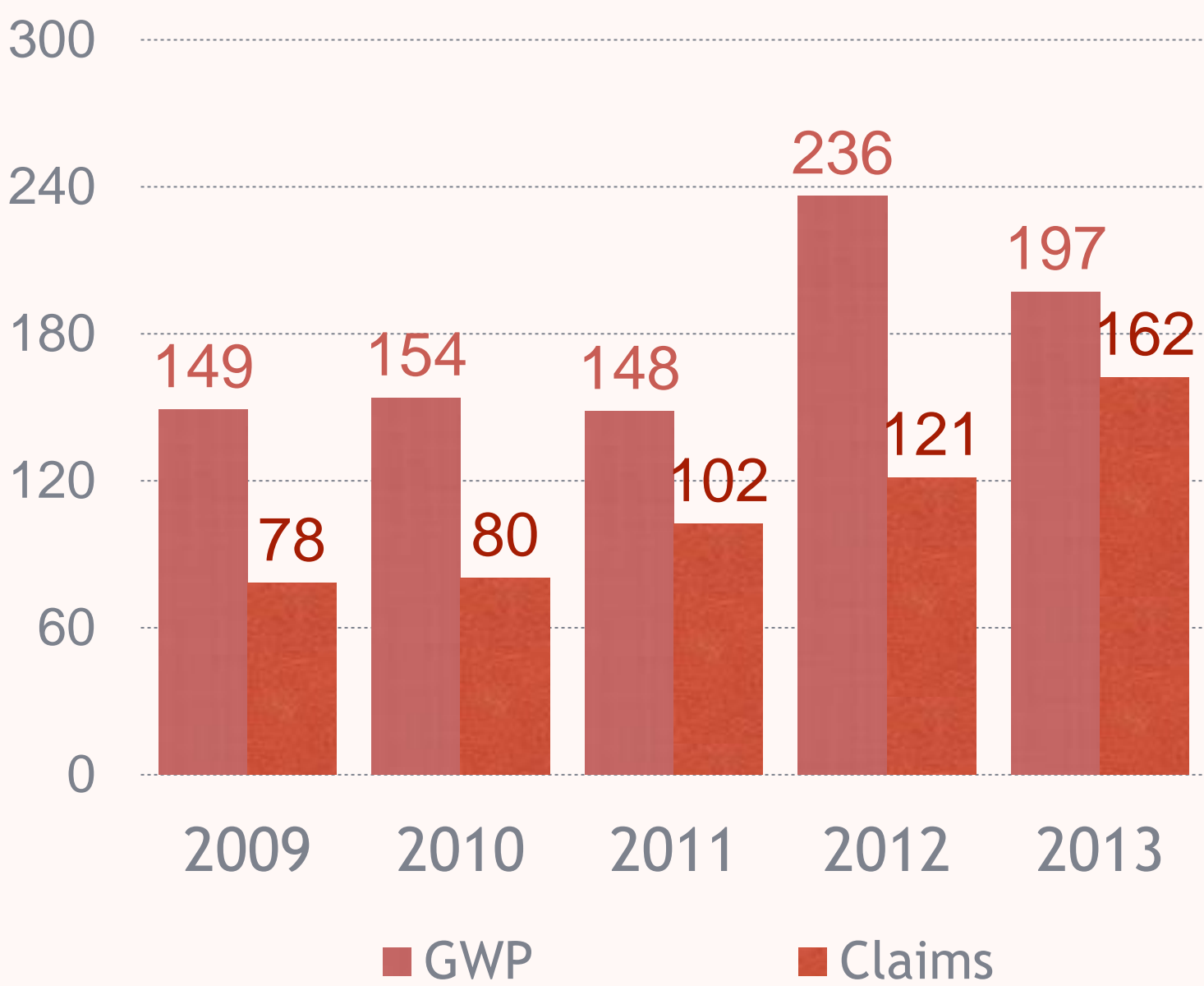
Political Economical Social Technological (PEST) analysis

2.2 Insurance Indicators

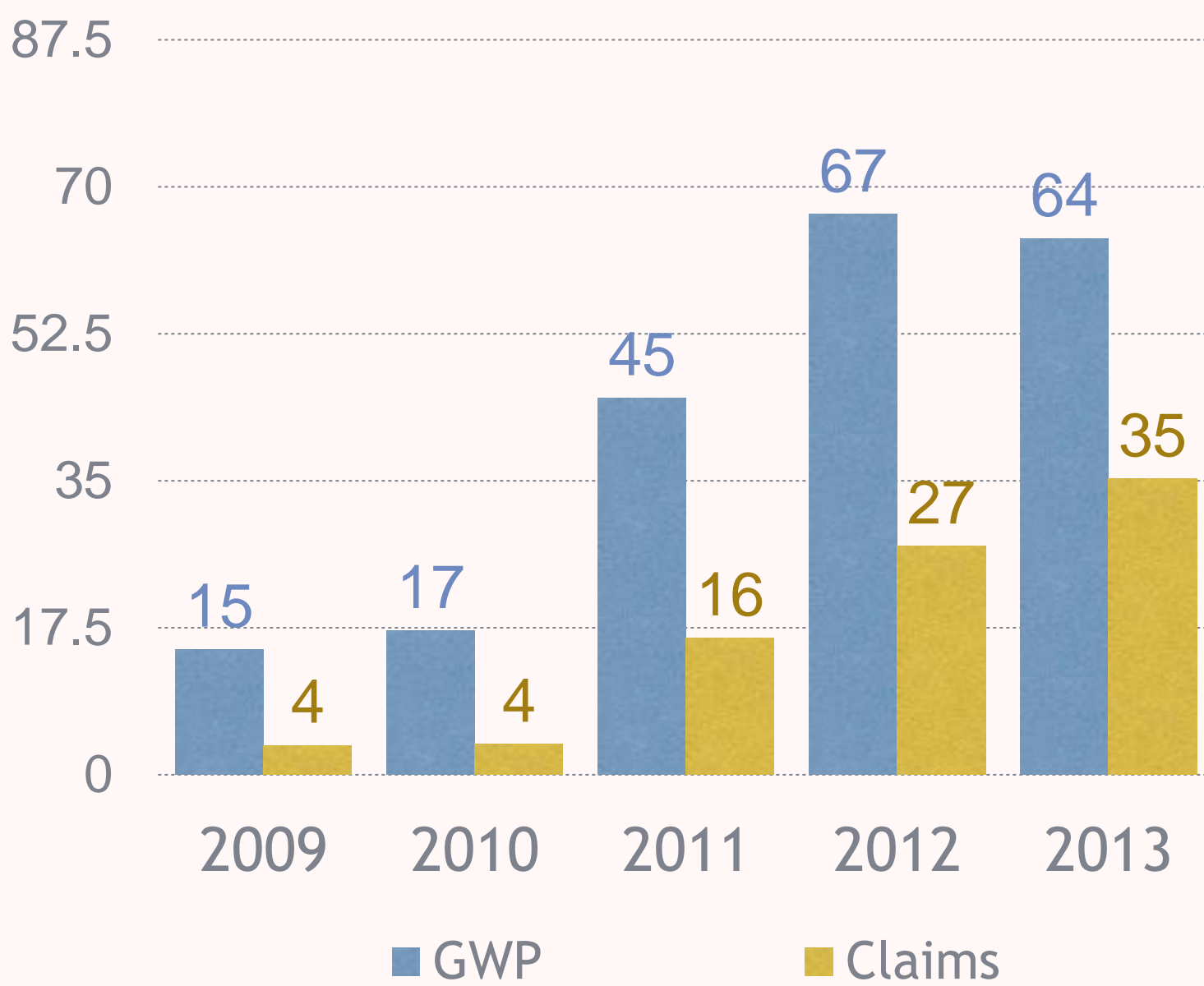
Azerbaijan: GWP and Claims evolution (EUR mil.) *



Georgia: GWP and Claims evolution (EUR mil.) *



Armenia: GWP and Claims evolution (EUR mil.) *



II.Suggested Market & Reinsurance-Related developments

What makes Caucasus attractive for Reinsurance ?

Political Economical Social Technological (PEST) analysis

2.2 Insurance Indicators

- Total Caucasus Non-Life GWP 2013 = 568,32 EUR Mio.
- Ratio of insurance premiums in the Gross Domestic Product = + 0,63% in 2012
- Ratio of insurance premiums in the Gross Domestic Product = +0,70% in 2013
- Average growth 2011-2013 = +56%
- Total Caucasus outward reinsurance 2012 = 60 EUR Mio.
- Client's field = 73

II. Suggested Market & Reinsurance-Related developments

What makes Caucasus attractive for Reinsurance ?

Political Economical Social Technological (PEST) analysis

3. Social & Legislation

3.1 Legislation

- Differentiated state regulation and legislation
 - Pioneering example of Kazakhstan in CIS countries
 - Development of legislation in Caucasus: the examples of Azerbaijan and Georgia
- Trend for quality credit counter party risk (reinsurance rating)
 - Azerbaijan: Specific legislation for capital & separate licensing requirements
 - * Insurance
 - * Reinsurance
- Importance of high-rated reinsurers
- Diversification of exposures
- Diversification of panel of high-calibre reinsurers

II. Suggested Market & Reinsurance-Related developments

What makes Caucasus attractive for Reinsurance ?

Political Economical Social Technological (PEST) analysis

3. Social & Legislation

3.1 Legislation

Mr Fuad KULIYEV, Chairman of the Management Board of AZ Re, analysed the effects of these changes into the market as follows:

“ After the changes come into effect we expect that some of the insurance companies on the local market will have to quit the inward reinsurance business. On the other hand, the further increase in companies’ insurance premium income will naturally lead to more treaties to be bought by the local players as well as to the increase in the limits under the already existing treaty programs”

II.Suggested Market & Reinsurance-Related developments

What makes Caucasus attractive for Reinsurance ?

Political Economical Social Technological (PEST) analysis

3. Social & Legislation

3.2 Social

- No development of insurance without any social and economic development
- Differentiated status of mandatory and voluntary insurance
- Trend for the development of mandatory insurance is working in parallel with reinsurance development: the example of Azerbaijan

Azerbaijan	2011	2012	2013	Weight in 2013
Voluntary non-life insurance in EUR Mio	153,84	190,57	208,02	66,56 %
Mandatory non-life insurance in EUR Mio	33,28	104,05	104,51	33,44 %

II. Suggested Market & Reinsurance-Related developments

What makes Caucasus attractive for Reinsurance ?

Political Economical Social Technological (PEST) analysis

4. Technological/Innovation - both for Insurance & Reinsurance

4.1 Development of existing core lines:

- MTPL
- Property/CAT

4.2 Extending to other lines

- Extending the scope of mandatory lines: the Example of Professional Indemnity
- New Non-Specialty lines: the Example of Liability Insurance
- New Specialty lines: the Example of Agricultural Risks
- « Technological » products / « Innovative » Products: the Example of Cyber Risks Liability

II.Suggested Market & Reinsurance-Related developments

What makes Caucasus attractive for Reinsurance ?

Political Economical Social Technological (PEST) analysis

4. Technological/Innovation

4.1 Development of existing core lines:

- MTPL

Adoption of compulsory laws in the Caucasus region would increase market income which is heavily correlated to the projected increase of the number of vehicles and percentage of insured vehicles.

Compulsory insurance in 2013	Number of concluded insurance contracts	Insurance Premiums in EUR
Compulsory insurance of motor vehicles	911.973	64.356.680
Real estate insurance	111.808	11.922.312
Compulsory insurance of civil liability associated with the use of real property	5.048	351.275
Compulsory personal accident insurance for passengers	275	77.774
Total	1.029.104	76.708.040

*Source: xprimm.com - Azerbaijan: over 1 million comp. ins. contracts concl in 2013 18

II.Suggested Market & Reinsurance-Related developments

What makes Caucasus attractive for Reinsurance ?

Political Economical Social Technological (PEST) analysis

4. Technological/Innovation

4.1 Development of existing core lines:

- Property/CAT
- Mandatory property insurance in Azerbaijan
- Reinsurance View

II.Suggested Market & Reinsurance-Related developments

What makes Caucasus attractive for Reinsurance ?

Political Economical Social Technological (PEST) analysis

4. Technological/Innovation

4.2 Extending to other lines:

- Extending the scope of mandatory lines

➤ The Example of Professional Indemnity:

➤ Georgia: all PI insurances are voluntary (except for some Doctors professional indemnity)

➤ Azerbaijan: PI of auditors is only compulsory: maximum limit AZN 3,000 and maximum premium AZN 30

Hence the potential of growth that could be generated by a higher number of compulsory PI insurances

II. Suggested Market & Reinsurance-Related developments

What makes Caucasus attractive for Reinsurance ?

Political Economical Social Technological (PEST) analysis

4. Technological/Innovation

4.2 Extending to other lines:

- New Non-Specialty lines

➤ The example of liability insurance:

The history of insurance suggests a high correlation between the state of the industry/service economic level and the gradual development of (compulsory) liability insurance and advanced/optional liability products.

Employer's Liability, GTPL and limited PI insurance are the main features of the liability offer in the Caucasus region.

➤ Suggested next market challenges gradually over time span:

- GTPL classes: product liability > product recall, tampering etc.
- Professional Indemnity Classes: extension to Medical Malpractice insurance (a branch of PI), Environmental Liability, D&O etc.
- As a result, liability treaty reinsurance has a significant potential for growth in the Region.

II. Suggested Market & Reinsurance-Related developments

What makes Caucasus attractive for Reinsurance ?

Political Economical Social Technological (PEST) analysis

4. Technological/Innovation

4.2 Extending to other lines:

- New Specialty lines

Agricultural Risks:

Azerbaijan planned to introduce agricultural insurance as a new type of compulsory insurance. The State Insurance Supervision Service is examining the experience of Russia and Turkey in preparing a bill to introduce the compulsory agricultural insurance, ***“and this could be a separate law and by means of amendments to the existing law on Compulsory Types of insurance”, reported Mr Orkhan BAYRAMOV, President of the Azerbaian Insurers Association, to XPrimm CEE Report 2012 (page 66). He also states that “agriculture is a strategically important area of the economy. This law will be directed to insure the risks in the agricultural sector, which may arise as a result of natural disasters, and to recover those losses”.***

- Current project of a Romanian Agricultural Pool
- Our experience as a professional reinsurer for similar types of cover in other markets
- Pre-requisites

II. Suggested Market & Reinsurance-Related developments

What makes Caucasus attractive for Reinsurance ?

Political Economical Social Technological (PEST) analysis

4. Technological/Innovation

4.2 Extending to other lines:

- « Technological » products / « Innovative » Products

➤ The example of Cyber Risks Liability (emerging class of business in the USA, Western Europe and Asia)

Definition*:

« Cyber liability is the risk posed by conducting business over the Internet, over other networks or using electronic storage technology. Insurance can be bought and “risk based” security strategies can be used to mitigate against both the first- and third-party risks caused by cyber liability. »

III. Reinsurance Challenges & Recommendations in Caucasus

1. Profitable Win-Win development

1.1 Quality of Credit Counter-party Risk

1.2 Contribution to the increase of market Solvency & Company capital adequacy

1.3 Profitable upward development, but ...

2. Reinsurance Initiatives

2.1 Individual tailored reinsurance solution

- The Example of Professional Indemnity in Azerbaijan
- The Example of Professional Indemnity in Georgia

2.2 Market tailored reinsurance solution

- Current situation
- Challenges & Recommendations (Perspective)

III. Reinsurance Challenges & Recommendations in Caucasus

1. Profitable Win-Win development

1.1 Quality of Credit Counter-party Risk

Both legislation (see above) and actual market practice are calling for long-term partnerships with high-rated quality reinsurers (such as Everest Re)

“Another development trend that we expect in 2014 is the increase in the Azeri risks cessions to the internationally-rated reinsurers. We base our expectations on the growing demand of the local companies for rated reinsurance. Being the leading reinsurer in Azerbaijan with a local market share of 40-45%, we aim to maintaining a high growth rate in 2014 relying not only on the enrichment of cooperation with the in-country market but also on a more active cooperation with the international markets. We hope that a rating awarded by a well-known international rating agency will help us in both of these directions.” *

As a practical example, 82.08% of reinsurers dealing with AZ Re have a rating being “ A “and above, including local placement in 2012 (based on AZ Re AIIF 2013 Presentation, Azerbaijan International Market, F Kuliyeu, Chairman of the Management Board of AZ RE, June 20th, 2013, page 15)

1.2 Contribution to the increase of market Solvency & Company capital adequacy

III. Reinsurance Challenges & Recommendations in Caucasus

1. Profitable Win-Win development

1.3 Profitable upward development, but ...

The results have been so far, so good but... watch as the situation might justify the need for increased treaty reinsurance!

- **Attritional Loss Ratio:** the trend is upward.
- **Large Loss Potential:** despite the fact that it has not been observed yet, severity potential is real.
- **Cat Loss:** if we select earthquake as the main exposure Cat peril for Azerbaijan, based on loss history, three sizeable CAT events were reported over the last 15 years, out of which Zaqatala earthquake in April 2012 reached AZN 420mio economic loss.

III. Reinsurance Challenges & Recommendations in Caucasus

2. Reinsurance Initiatives

2.1 Individual tailored reinsurance solution

- The Example of Professional Indemnity in Azerbaijan

CLASS: All Professional Indemnity policies accepted directly by the Reinsured in their Liability Department, in respect of the Specific Professions defined below.

Professions covered under the Treaty: Lawyers and Solicitors, Notary, Auditors and accountants, Financial Services companies, Alternative auditors, Bailiffs, Engineers and Architects, Construction/Erection/Maintenance Contractors, Designers, Surveyors & Technical Inspectors, Consultants, Brokers, Agents, Third-Party business administrators, Quality control specialists, Non destructive testing analysts, Appraisers, Information Technology service providers, Publishers, Media professionals, Teachers, Event Organizers, Charities and Not-for-profit organizations, Landlords

TERRITORIAL SCOPE: Azerbaijan and Azerbaijan interests abroad, excluding USA and Canada.

- The Example of Professional Indemnity in Georgia

CLASS: All Professional Indemnity policies of Insurance, accepted by the Reinsured in their Liability Department, in respect of the specific professions as mentioned below.

Professions covered under the Treaty: Lawyers and Solicitors, Notary, Auditors and accountants, Bailiffs, Engineers and Architects, Surveyors & Technical Inspectors, Security Agencies, Clinical Trials, Medical Malpractice in respect of Medical Institutions & Doctors identified as subjects of independent medical malpractice within the scope of their specialization, in use in the Company with respect to Surveyors & Technical Inspectors, Security Agencies, Clinical Trials

TERRITORIAL SCOPE: Georgia and Georgian interests abroad, excluding USA and Canada

III. Reinsurance Challenges & Recommendations in Caucasus

2. Reinsurance Initiatives

2.2 Market tailored reinsurance solution

- Current situation
- Essentially facultative-driven markets
- Significant difference between Gross and Net Capacity
- Challenges & Recommendations (Perspective)
- Automatic treaty capacities
- Development of emerging lines or reinforcing the “bundle of benefits” of existing core lines
- High-calibre reinsurance for capital adequacy to SCR 1 ratio (tomorrow SCR2...)
- As a tool for capital relief / adequacy of the level of reserves
- As a means to restoring profitability (see Motor e.g.) of reinsured or unreinsured lines
- As a way to support a new line of business / new product (see PI in Caucasus) (mostly proportional reinsurance)
- Treaty reinsurance working in parallel with enhanced risk management (CMTPL, CAT)

III. Reinsurance Challenges & Recommendations in Caucasus

2. Reinsurance Initiatives

2.2 Market tailored reinsurance solution

- Challenges & Recommendations (Perspective)

Illustration by the recent statement formulated by the Baku Interbank Exchange (BBVB) Manager, Mr Farkhad AMIRBEKOV, stressing the fact that the Azerbaijani insurers are faced with necessity to change their approach to risk management where reinsurance is playing a leading role:

“ They (the insurance companies) say that in new conditions they have to reconsider their participation and role in MONEY-Market. It is explained by the fact that the expectations associated with the changes in conditions for insurance of motor vehicles owners’ civil liability have been deceived. Insurers do not conceal that this kind of business proved to be not only unprofitable but even loss-making. Probably, the insurance companies will have to reconsider their business models with regard to compulsory motor vehicle insurance and take new approaches to insurance risk management. Meanwhile, MONEY-Market platform should be considered as one of the best tools for insurance risks management”

Conclusive Remarks



*Audaces Fortuna juvat
sed...in cauda venenum!*

Thank you!

Спасибо!

Do you have any question?

Есть-ли у вас вопросы?

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