BCG

The 2023 Insurance Value Creators Report

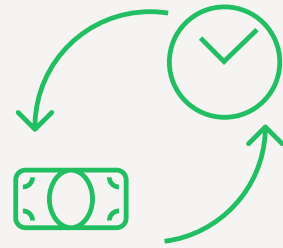Can Reinsurers Maintain Their Momentum?

SEPTEMBER 2023

Value creation in reinsurance: Key takeaways

Reinsurers have outperformed primary insurers and most other sectors in TSR over the past ten years

Cash flow is king: Dividends and share buybacks account for more than 50% of reinsurers' value generation, as companies underperform on growth of tangible book value

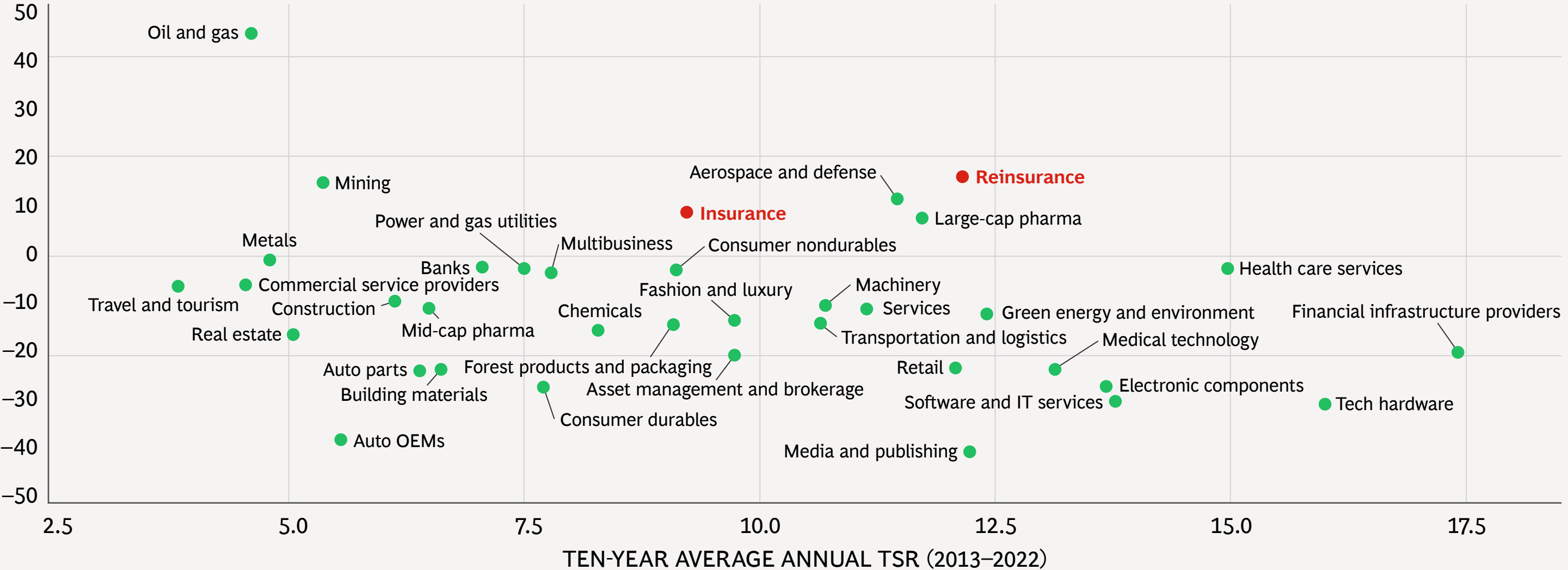The current hard cycle is likely to strengthen performance and boost reserves with high returns on tangible equity

But warning signs loom:
· While pricing for catastrophe and for life and health is strong, other lines lag
· The market may not be hard enough to absorb volatile and accelerating climate-change impacts

Reinsurers have outperformed primary insurers and most other sectors in TSR over the past ten years
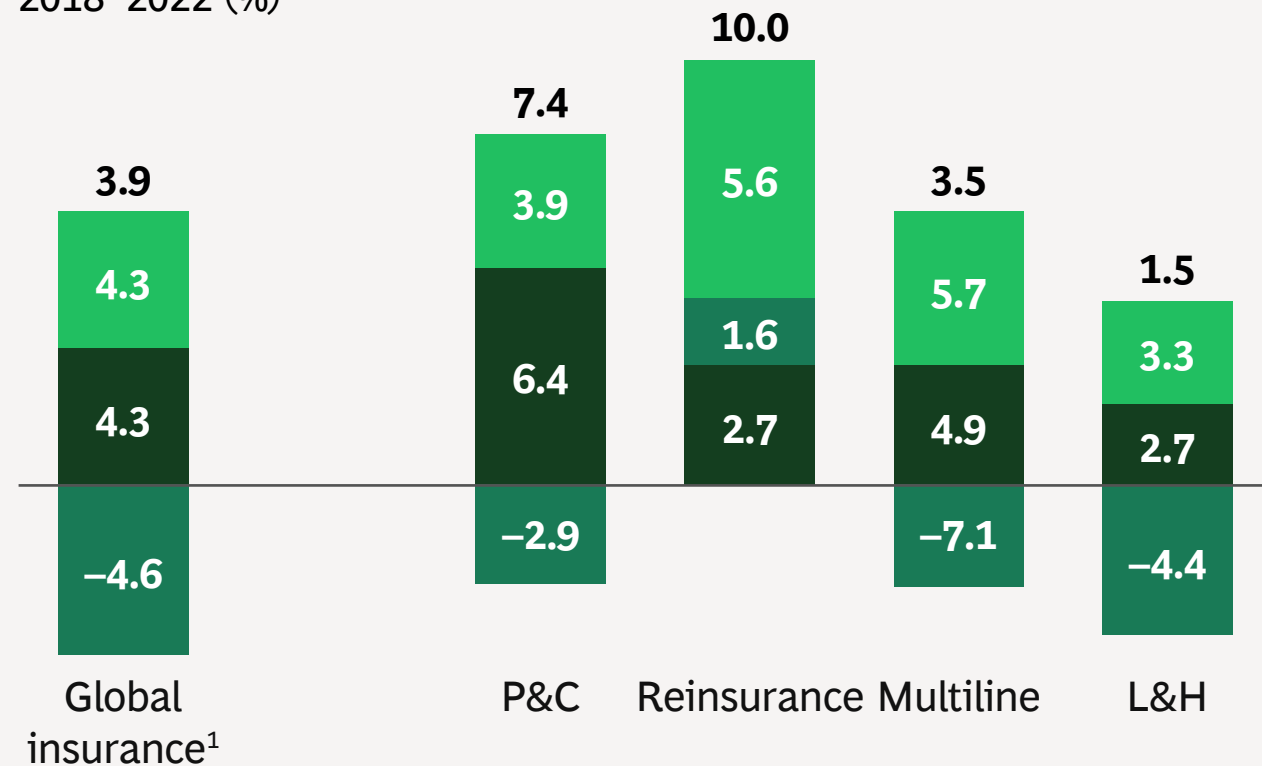
ONE-YEAR TSR (2022)

Oil and gas

Mining

Aerospace and defense • Reinsurance

Insurance • Large-cap pharma

Power and gas utilities

Metals

Multibusiness Consumer nondurables

Banks

Commercial service providers Fashion and luxury Machinery Health care services

Travel and tourism Construction Chemicals Services Green energy and environment Financial infrastructure providers

Real estate Mid-cap pharma Transportation and logistics Medical technology

Auto parts Forest products and packaging Retail Electronic components

Building materials Asset management and brokerage Software and IT services Tech hardware

Consumer durables Media and publishing

Auto OEMs

TEN-YEAR AVERAGE ANNUAL TSR (2013–2022)

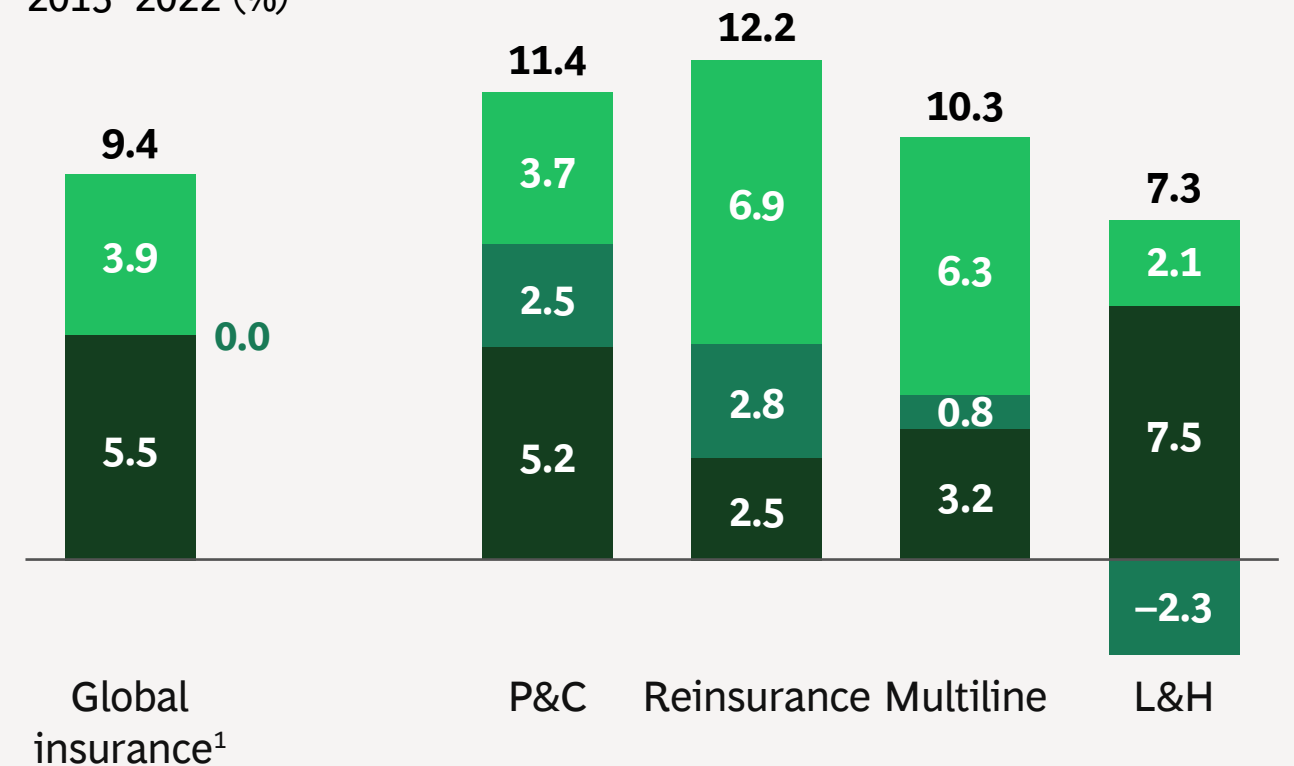# Reinsurers' average annual TSR has generally exceeded that of primary insurers over five- and ten-year horizons

Five years:
TSR DRIVERS' CONTRIBUTION TO AVERAGE ANNUAL TSR, 2018–2022 (%)

3.9 — Global insurance[1]
- 4.3 (Cash flow contribution)
- 4.3 (Growth of TBV)
- −4.6 (Change in P/TBV multiple)

7.4 — P&C
- 3.9 (Cash flow contribution)
- 6.4 (Growth of TBV)
- −2.9 (Change in P/TBV multiple)

10.0 — Reinsurance
- 5.6 (Cash flow contribution)
- 1.6 (Change in P/TBV multiple)
- 2.7 (Growth of TBV)

3.5 — Multiline
- 5.7 (Cash flow contribution)
- 4.9 (Growth of TBV)
- −7.1 (Change in P/TBV multiple)

1.5 — L&H
- 3.3 (Cash flow contribution)
- 2.7 (Growth of TBV)
- −4.4 (Change in P/TBV multiple)

Ten years:
TSR DRIVERS' CONTRIBUTION TO AVERAGE ANNUAL TSR, 2013–2022 (%)

9.4 — Global insurance[1]
- 3.9 (Cash flow contribution)
- 0.0
- 5.5 (Growth of TBV)

11.4 — P&C
- 3.7 (Cash flow contribution)
- 2.5 (Change in P/TBV multiple)
- 5.2 (Growth of TBV)

12.2 — Reinsurance
- 6.9 (Cash flow contribution)
- 2.8 (Change in P/TBV multiple)
- 2.5 (Growth of TBV)

10.3 — Multiline
- 6.3 (Cash flow contribution)
- 0.8 (Change in P/TBV multiple)
- 3.2 (Growth of TBV)

7.3 — L&H
- 2.1 (Cash flow contribution)
- 7.5 (Growth of TBV)
- −2.3 (Change in P/TBV multiple)

Legend:
- Growth of TBV
- Change in P/TBV multiple
- Cash flow contribution[2]

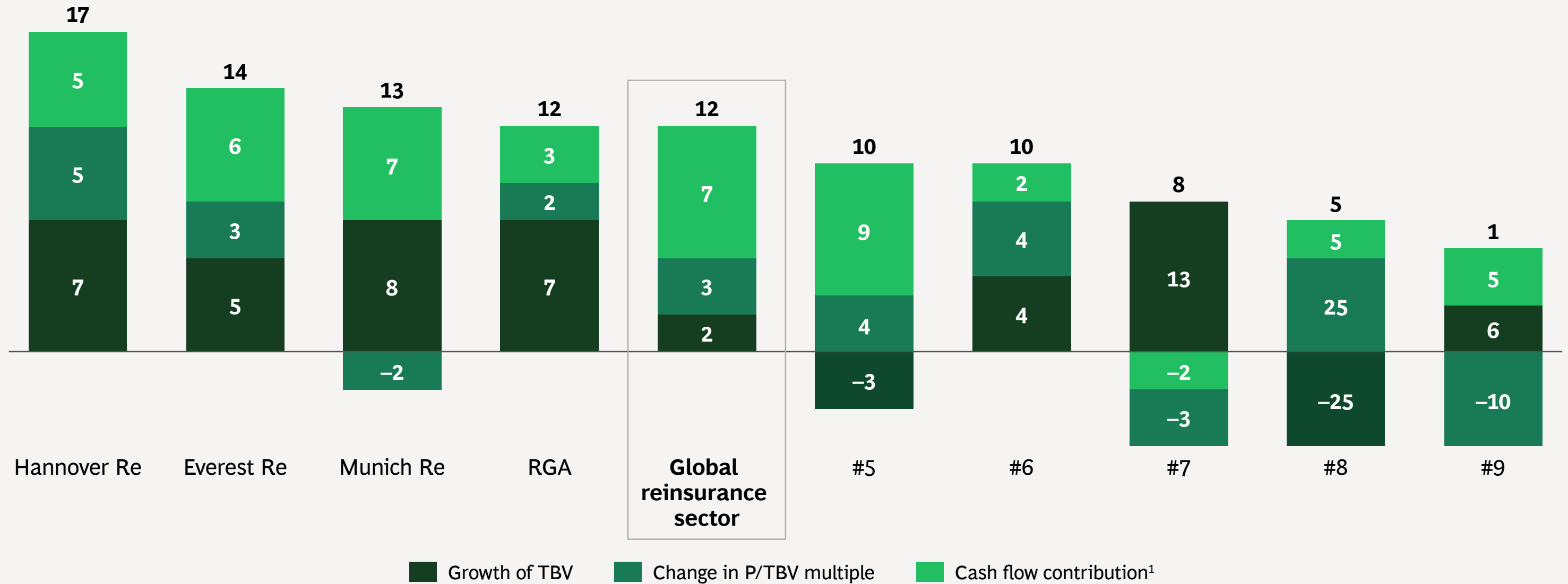**Sources:** S&P Capital IQ; Refinitiv; BCG ValueScience Center.

Note: For an explanation of BCG's TSR methodology, please see the last slide of the presentation. Components of TSR are multiplicative but here they have been converted and are shown as additive with remainders assigned to the multiple change field. Aggregation is based on market cap weights at the start of the year. TSR is calculated in each company's reporting currency. L&H = life and health; P&C = property and casualty; P/TBV = price to TBV; TBV = tangible book value of equity less other comprehensive income. Because of rounding, not all segment totals equal the overall total shown.

[1]Total industry sample = 103. The ten-year analysis uses the 91 companies from the sample with the highest market capitalization as of December 31, 2022, that were stock-listed on January 1, 2013.

[2]Includes dividend contribution and share count change.

The ten-year TSR performance of the largest listed global reinsurers has been solid

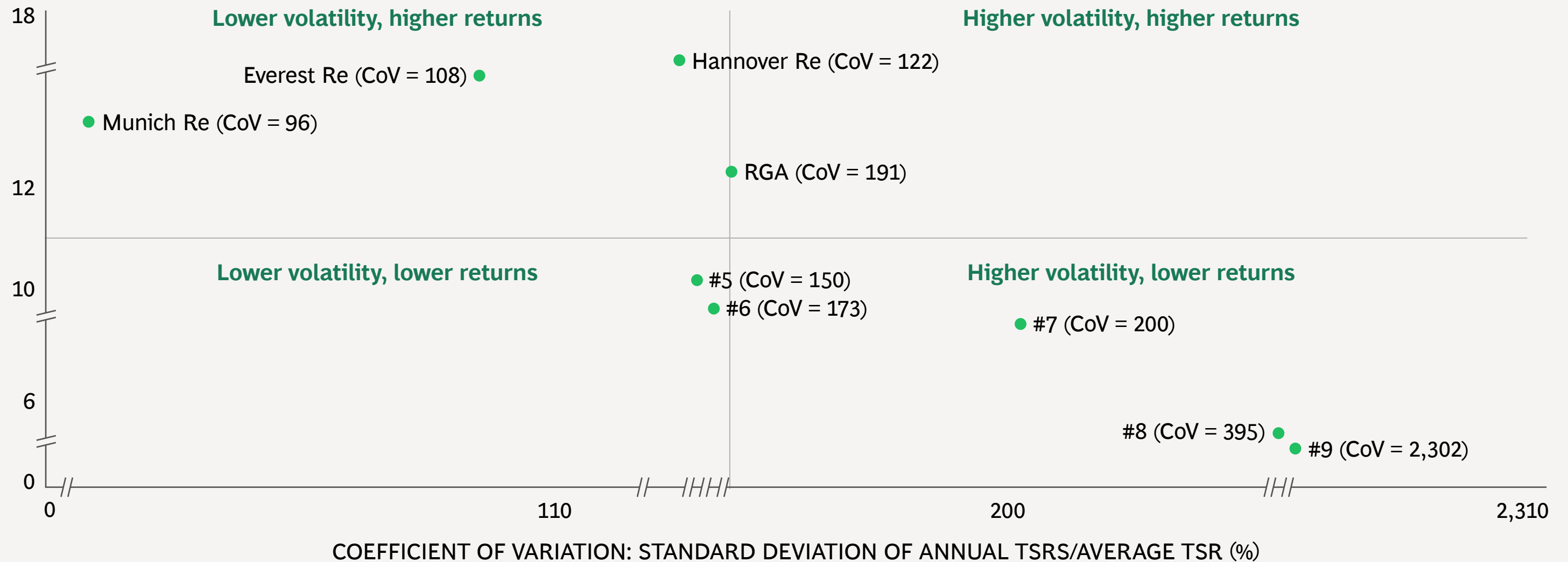CONTRIBUTION TO AVERAGE ANNUAL TEN-YEAR TSR, 2013–2022 (%)

Legend: Growth of TBV | Change in P/TBV multiple | Cash flow contribution[1]

Over the past ten years, Hannover Re, Everest Re, and Munich Re have delivered the best risk-return performance

TEN-YEAR AVERAGE ANNUAL TSR, 2013–2022 (%)

Lower volatility, higher returns

Higher volatility, higher returns

Everest Re (CoV = 108) ●

● Hannover Re (CoV = 122)

● Munich Re (CoV = 96)

● RGA (CoV = 191)

Lower volatility, lower returns

Higher volatility, lower returns

● #5 (CoV = 150)

● #6 (CoV = 173)

● #7 (CoV = 200)

#8 (CoV = 395) ●

● #9 (CoV = 2,302)

18 · 12 · 10 · 6 · 0

0 · 110 · 200 · 2,310

COEFFICIENT OF VARIATION: STANDARD DEVIATION OF ANNUAL TSRS/AVERAGE TSR (%)

Only a few reinsurers operate at or above their cost of equity

AVERAGE RETURN ON TANGIBLE EQUITY, 2018–2022 (%)

2018–2022 CAGR of tangible book value[1] (%)
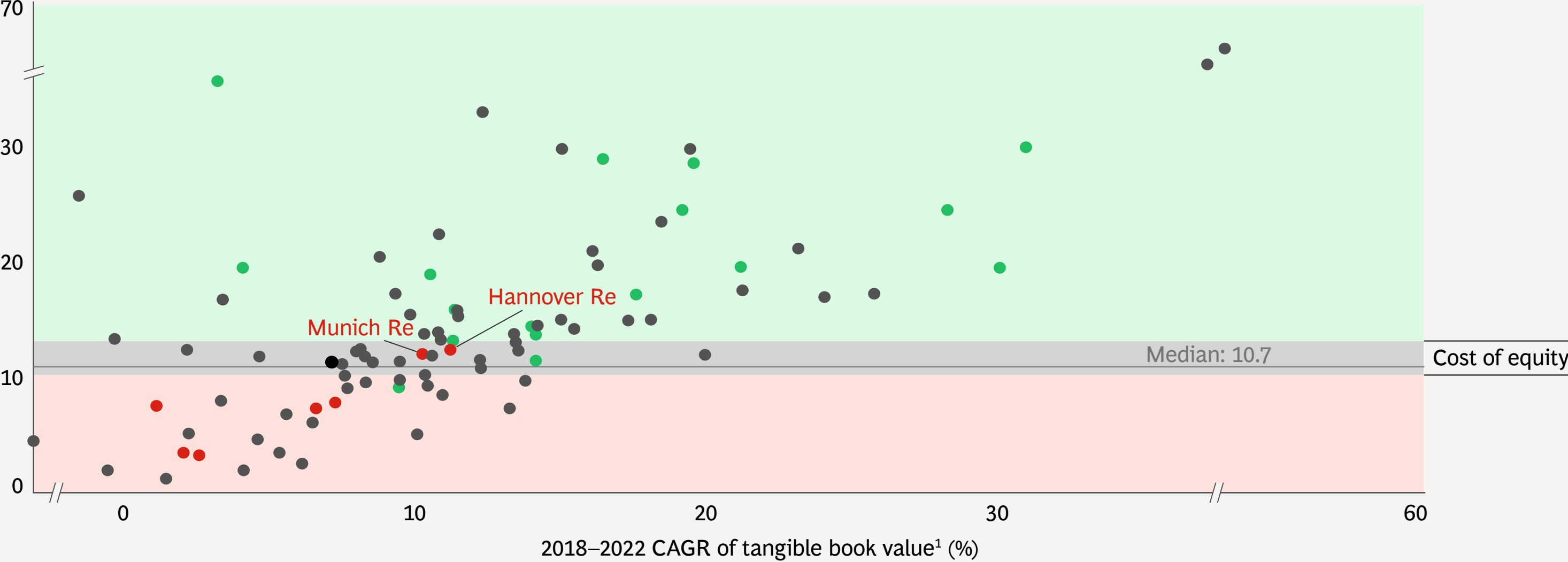
- ■ Top-quartile insurers from BCG's Insurance Value Creators sample 2023
- ■ Reinsurers
- ■ Other insurers

Sources: S&P Capital IQ; BCG analysis.
Note: Sample of 103 largest stock listed insurers globally.
[1]Compounded annual growth rate of tangible book value of equity per share plus dividend per share from 2018 to 2022, excluding other comprehensive income.

Return on tangible equity is the key driver of valuation multiple in the (re)insurance industry
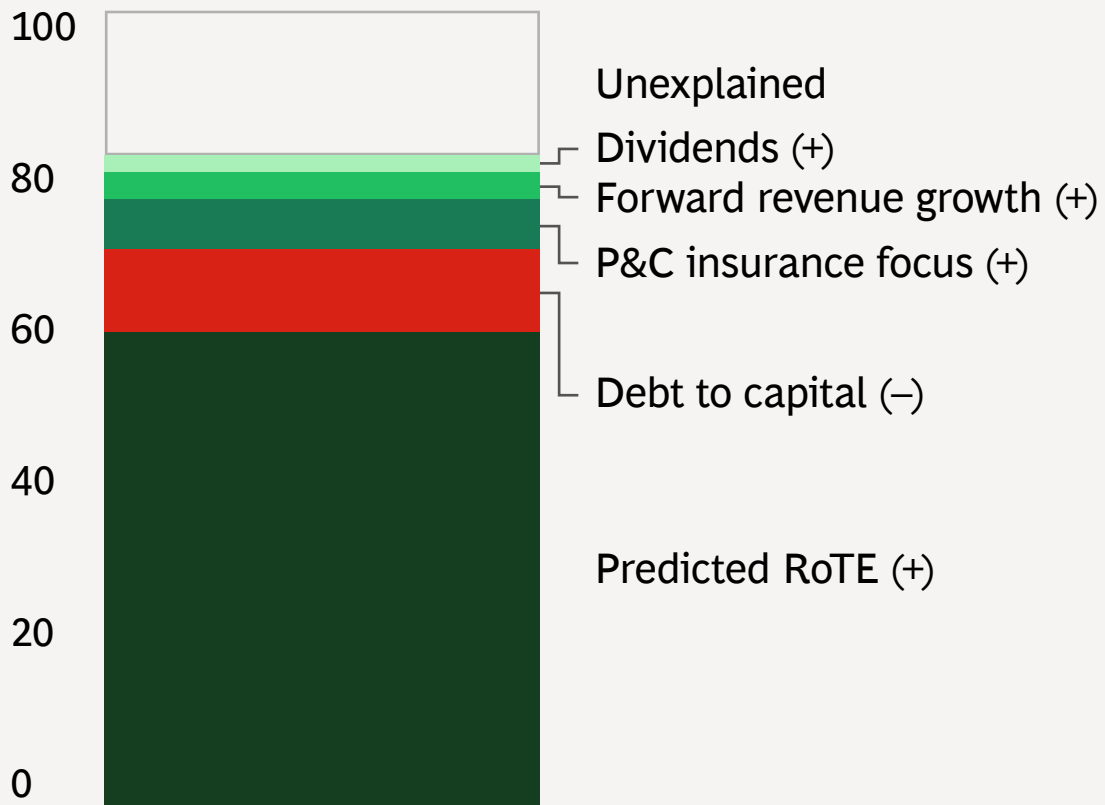
Actual versus fit valuation
ACTUAL MULTIPLE

Adjusted
$R^2 = 82\%$
F stat 727
n = 956
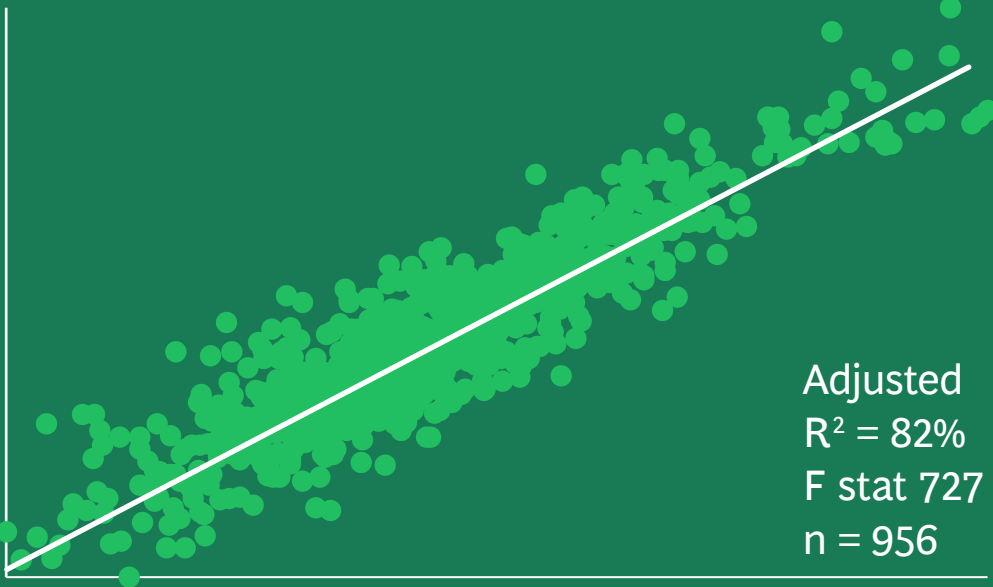
PREDICTED MULTIPLE

● Peers

About 82% of the variance in valuation is explained by five factors
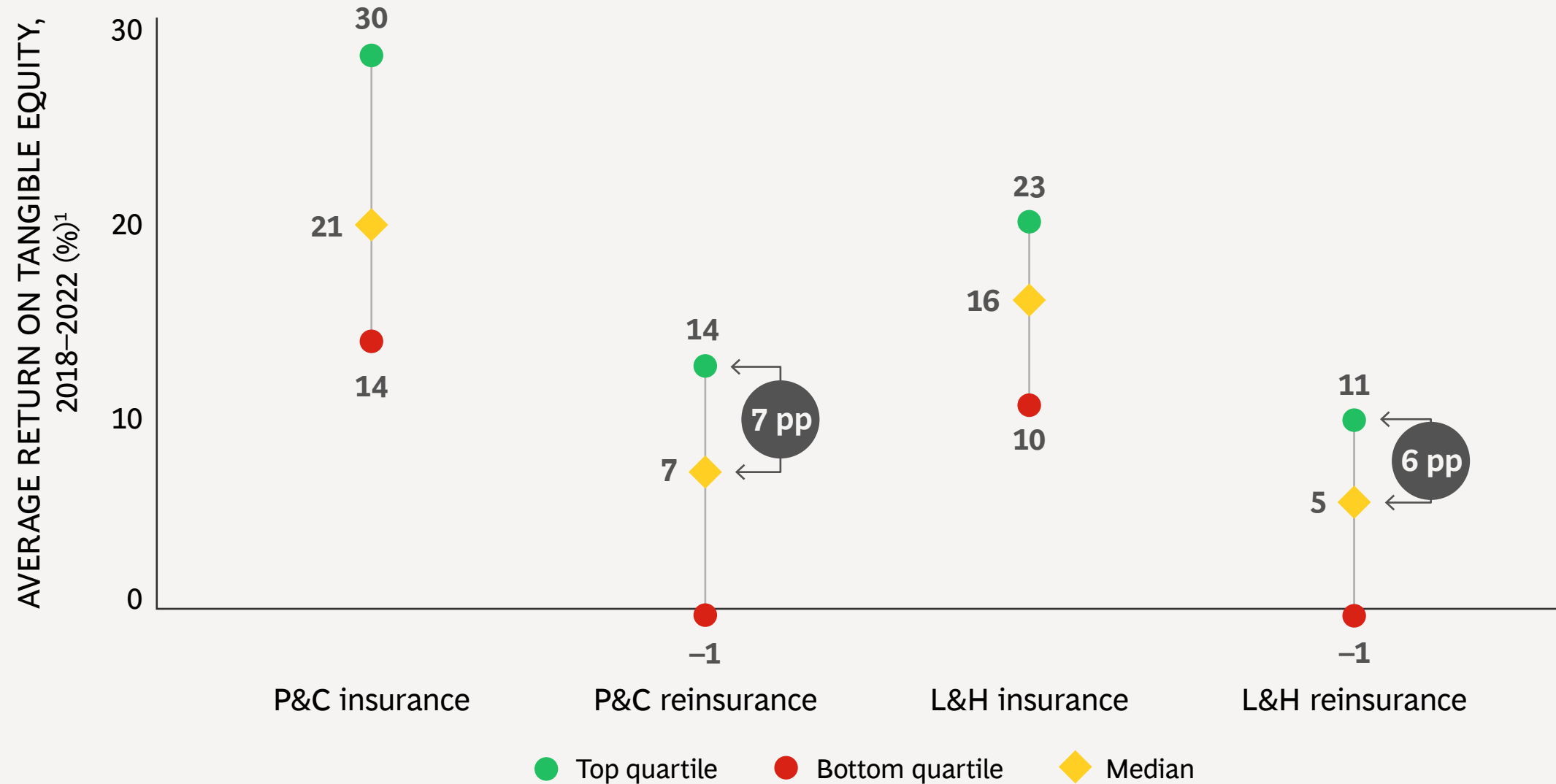CONTRIBUTION TO DIFFERENCES IN VALUATION AMONG PEERS (%)

100 — Unexplained

80 — Dividends (+)
Forward revenue growth (+)
P&C insurance focus (+)

60 — Debt to capital (−)

40 —

Predicted RoTE (+)

20 —

0 —

On average, reinsurers have lower RoTEs than primary insurers

AVERAGE RETURN ON TANGIBLE EQUITY, 2018–2022 (%)[1]

P&C insurance
- 30
- 21
- 14

P&C reinsurance
- 14
- 7
- −1
- 7 pp

L&H insurance
- 23
- 16
- 10

L&H reinsurance
- 11
- 5
- −1
- 6 pp

● Top quartile ● Bottom quartile ◆ Median

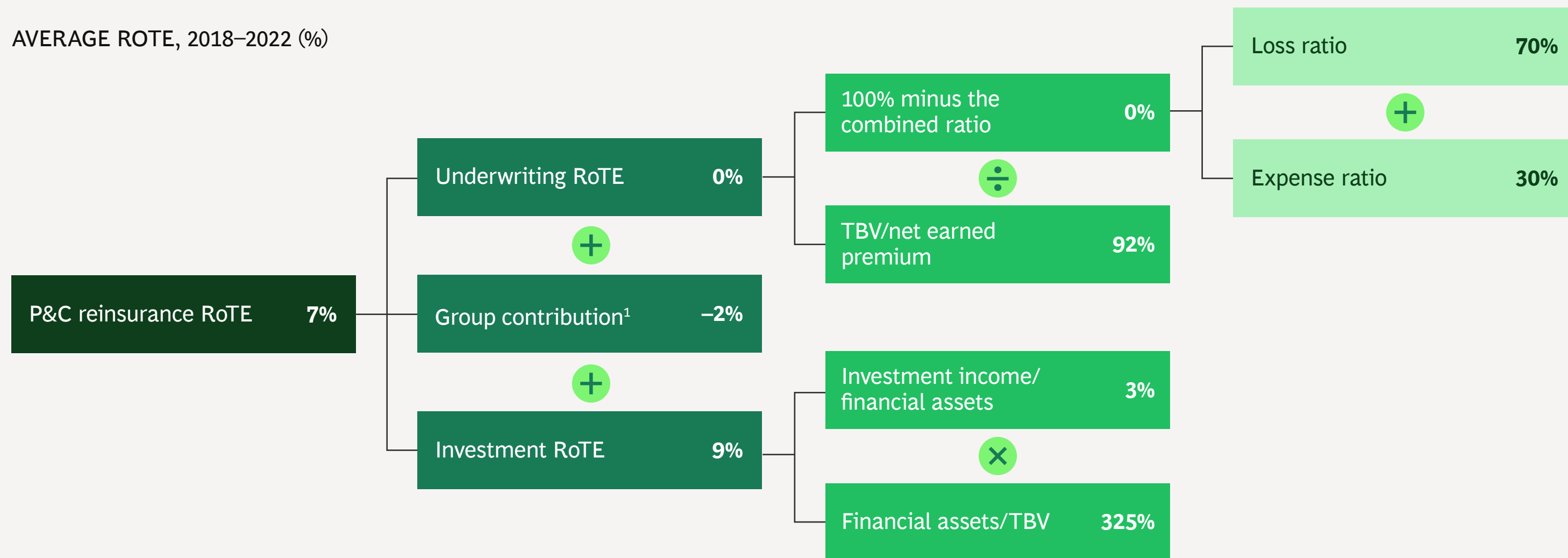**No evidence that reinsurers with higher volatility systematically deliver higher RoTE**

Source: BCG insurance RoTE benchmarking database.
Note: The reinsurance sample in this analysis is n = 30, also including non-stock-listed reinsurers, whereas the main TSR analyses include 9 reinsurers in the Insurance Value Creators sample of the 103 largest stock-listed insurers. L&H = life and health; P&C = property and casualty; pp = percentage point; RoTE = return on tangible book value of equity.
[1]Operating profit before tax divided by tangible book value of equity allocated to each segment; average of median RoTEs, 2018–2022.

The underlying factors driving reinsurers' RoTE reveal poor underwriting margins and high capital intensity in property and casualty reinsurance

AVERAGE ROTE, 2018–2022 (%)

P&C reinsurance RoTE 7%	**Underwriting RoTE** 0%	**100% minus the combined ratio** 0%	**Loss ratio** 70%
	➕	➗	➕
	Group contribution[1] −2%	**TBV/net earned premium** 92%	**Expense ratio** 30%
	➕		
	Investment RoTE 9%	**Investment income/ financial assets** 3%	
		✖	
		Financial assets/TBV 325%	

For life and health reinsurance, the factors undermining RoTE include negative underwriting margins mainly driven by high loss ratios

AVERAGE ROTE, 2018–2022 (%)

L&H reinsurance RoTE	**5%**

+

Underwriting RoTE	**−11%**
Group contribution[1]	**1%**
Investment RoTE	**15%**

100% minus the combined ratio	**−6%**
TBV/net earned premium	**58%**
Investment income/ financial assets	**3%**
Financial assets/TBV	**363%**

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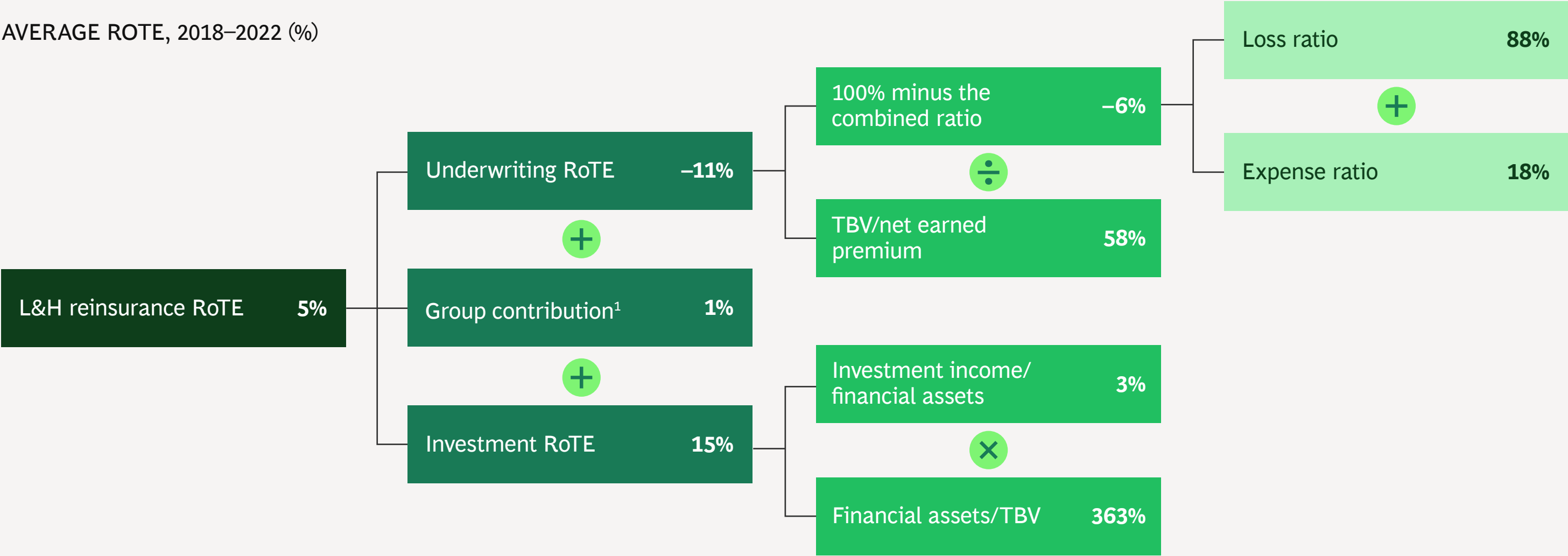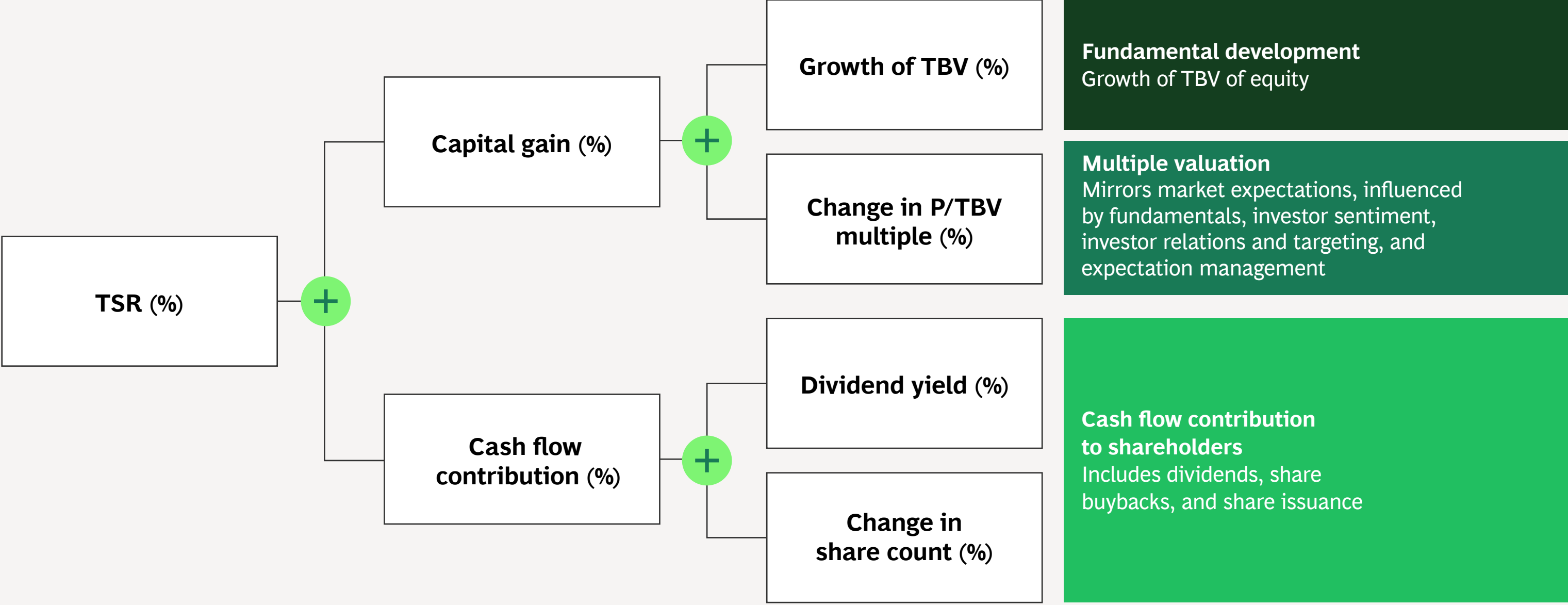|	
Loss ratio	**88%**
Expense ratio	**18%**

+

Source: BCG insurance RoTE benchmarking database.
Note: The reinsurance sample in this analysis is n = 30, also including non-stock-listed reinsurers, whereas the main TSR analyses include 9 reinsurers in the Insurance Value Creators sample of the 103 largest stock-listed insurers. L&H = life and health; RoTE = return on tangible book value of equity; TBV = tangible book value of equity.
[1]L&H reinsurance share of centrally allocated buckets (for example, group functions, noncore business, and eliminations).

BCG's methodology for TSR—the key metric for value creation


```
TSR (%)
  +
  ├── Capital gain (%)
  │     +
  │     ├── Growth of TBV (%)
  │     └── Change in P/TBV multiple (%)
  │
  └── Cash flow contribution (%)
        +
        ├── Dividend yield (%)
        └── Change in share count (%)
```

Fundamental development
Growth of TBV of equity

Multiple valuation
Mirrors market expectations, influenced by fundamentals, investor sentiment, investor relations and targeting, and expectation management

Cash flow contribution to shareholders
Includes dividends, share buybacks, and share issuance