

FACULTATIVE REINSURANCE

General trends

Reinsurers are keen to maintain a disciplined underwriting policy in order to sustain the margins generated over the last few years through a higher level of transfer volume and premium increases in a hard market.

Reinsurance will continue to be used to a large extent to meet the ever-increasing demand for capacity, and will have to respond to 3 major challenges at the next round of renewals:

- Inflation
- Capacity demand for natural events
- Uncertainty around the consequences of the war in Ukraine which could accentuate the effects of inflation

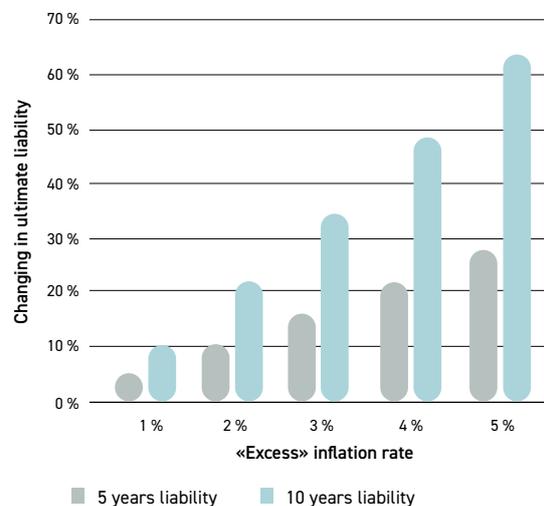
Inflation

The primary effect of inflation is the increase in the cost of claims (reserved and unknown) for reinsurers.

The question of inflation will arise more in non-proportional reinsurance arrangements than in proportional arrangements, even though in the latter, the reinsurers will have to ensure that inflation is taken into account in the renewal terms (in particular the indexation of values with market indices such as the French Industrial Risks Index, FFB, etc.).

The subject of inflation will be approached differently depending on whether short or long-tail lines are being covered. For long-tail lines with claims that may be settled several years after the occurrence of the loss, the effects of inflation are longer. Reinsurers on non-proportional transfers will be more demanding in terms of provisions in the insurance contract to limit the potential effects of inflation over time (indexation clauses, stabilization).

Excess inflation can cause significant damage to claim reserves



Doha Tabouri
Head of Facultative Reinsurance

Higher capacity demand for natural events

Following several consecutive years, global insured losses for natural catastrophes totaled \$39 billion in the first half of 2022, around 18% above the 21st century average with reinsurers reducing their appetite for catastrophe exposure at the June and July 2022 renewals.



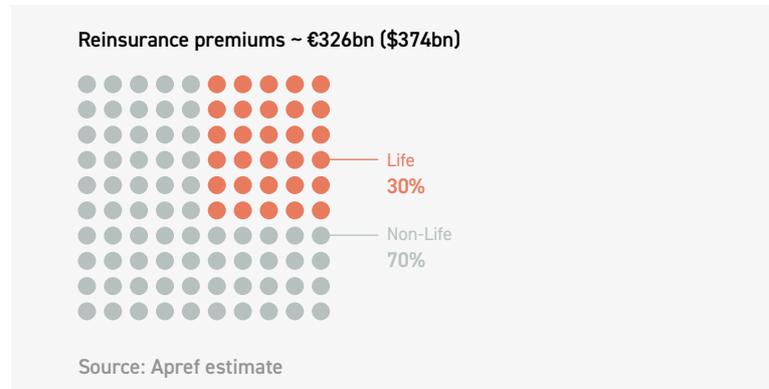
For the first time since the U.S. hurricanes of 2004 and 2005, natural catastrophe capacity contracted significantly, and some reinsurers have been unwilling to underwrite certain risks depending on the region (floods, wind, etc.), in response to mounting pressure from investors to address earnings volatility and reduce catastrophe exposures.

War in Ukraine

Analysts report that the ongoing Russian-Ukrainian conflict could result in losses seven times greater than the final loss amount for the 2001 attacks on the World Trade Center (WTC) and four times the initial WTC reserve. Loss reserving and the impact of this war on global inflation are major factors in the upcoming transfer renewals, particularly for certain lines such as aviation, cyber, credit/bonds, specialty lines (Political Violence & Terrorism) and transportation.

Reinsurance market capacity and trends

The reinsurance market remains stable with significant concentration and increasing transfer volume despite the Covid-19 crisis.



For the upcoming renewals, reinsurers have declared:

- Their inability to continue to accept long term agreement
- Increased vigilance on coverages with systemic volatility (strikes, riots and popular uprisings, supplier failure, natural events, etc.) to ensure these coverages are properly sub-limited with an annual stop loss
- A halt to the underwriting of certain lines of business (Cyber)
- Requirement for inflation to be systematically taken into account in the pricing policy or in the contractual provisions of the transfer

The Monte Carlo Rendez-vous held in September* 2022 have confirmed that reinsurance market is hardening at the same extent as the direct insurance market did back in 2018/2019. It's important to note that the hurricane season will also impact the upcoming renewals of cat nat treaties and available capacity.

(*The Monte Carlo Rendez-vous is a RI market event gathering the Treaty Reinsurance Markets, the RI brokers and the insurers to discuss the 01.01 treaty renewals)

DIOT-SIACI'S EXPERTISE

What is our operational technical expertise?

Reinsurance including:

- Facultative P&C
- Treaties:
 - | P&C
 - | Personal Insurance (Health, Life & Disability, Savings)
 - | Specialties (Aviation, Marine, Cyber)
 - | Regulated Professions' Third-Party Liability

How do we assist and support you?

The P&C Facultative Reinsurance team is a placement support structure dedicated to direct teams to access the continental and international reinsurance markets.

The specificity of the Facultative team is to serve direct clients and not insurers. The Facultative team benefits from an operational link to the direct lines but also a functional link to LSN RE Walbaum which allows it to benefit from market leverage thanks to the synergy between treaties and facts, LSN RE's actuarial tools.

The Facultative team provides clients with:

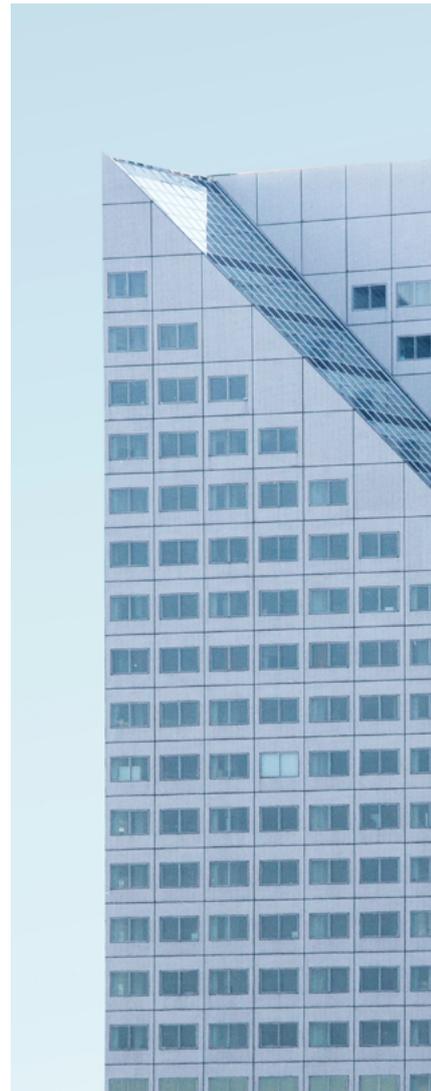
- Placement and structuring solutions for complex arrangements
- Market intelligence (benchmarking, market watch, etc.)
- Pricing guidelines
- Innovation
- Access to specialized markets such as excess markets covering substandard risks
- Cross-functionality within the group making it possible to source the expertise and experience required to meet client expectations

What can we offer you?

Dedicated specialists and global knowledge of the reinsurance market.

What makes us different?

- Our experience and technical expertise in treaty and facultative reinsurance
- Our agility and availability at the service of clients and direct teams
- A cross-functional structure within the group
- Innovation



LSN Ré Walbaum - The Group's reinsurance brokerage subsidiary



15 employees



Premiums placed in 2021 :
53 % : Non-life
47% : Life, Accident and Health



€4,6 M turnover in 2021