

Insurance Risk into Capital Markets

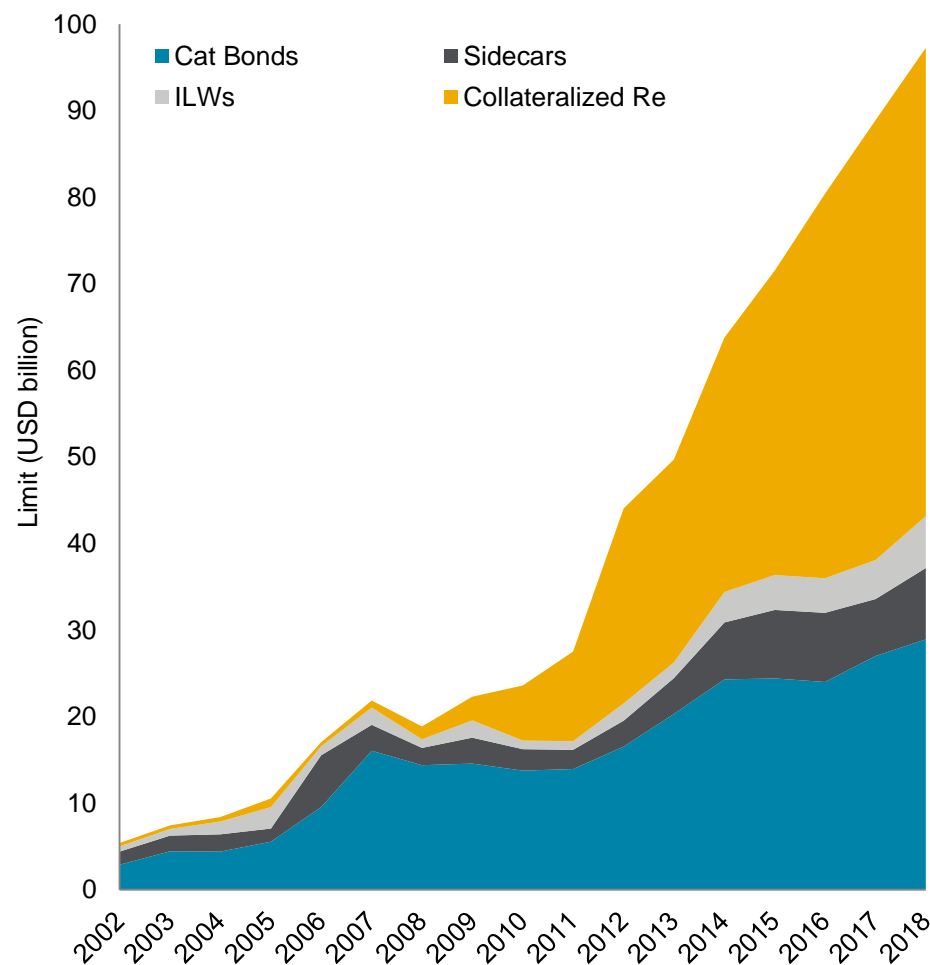
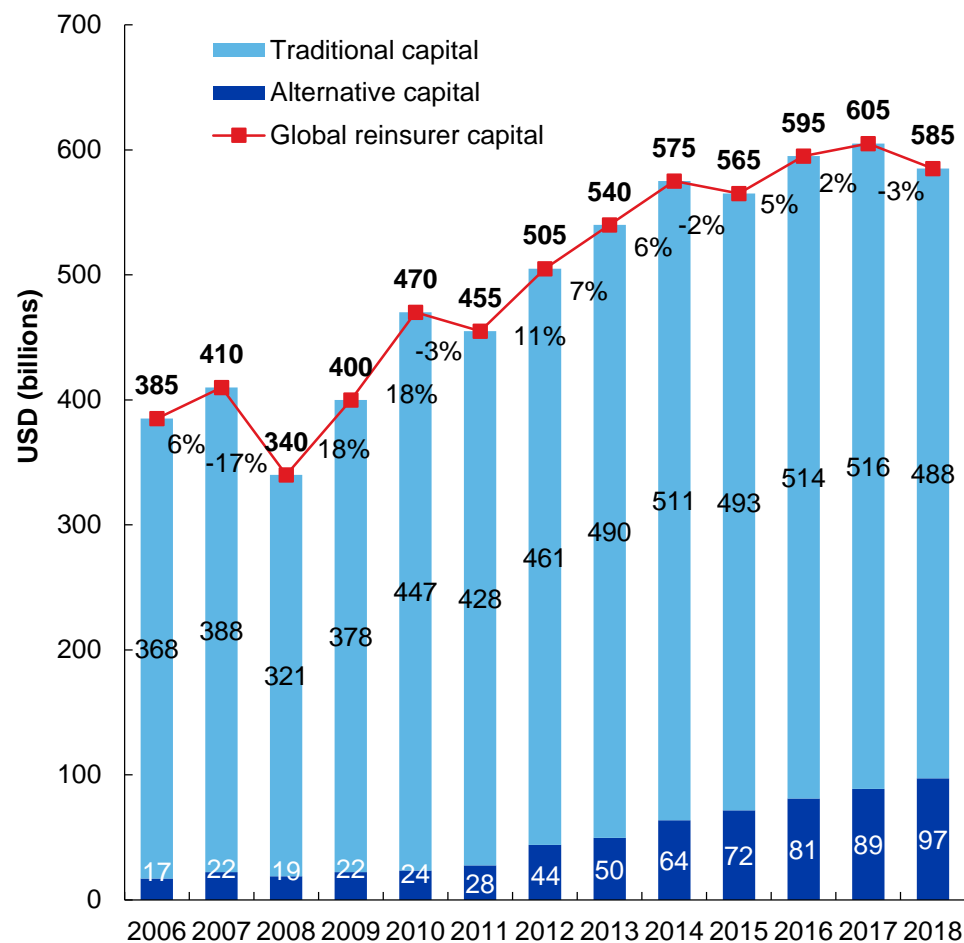
Where does Life Fit?

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Alternative Capital Continues to Fuel Competitive (Re)insurance Market

- Strong 2018 issuance has allowed alternative capital to grow \$8 billion year-over-year, from \$89 billion in 2017 to \$97 billion in 2018, an increase of 9%, despite the third and fourth quarter events of 2017 and 2018



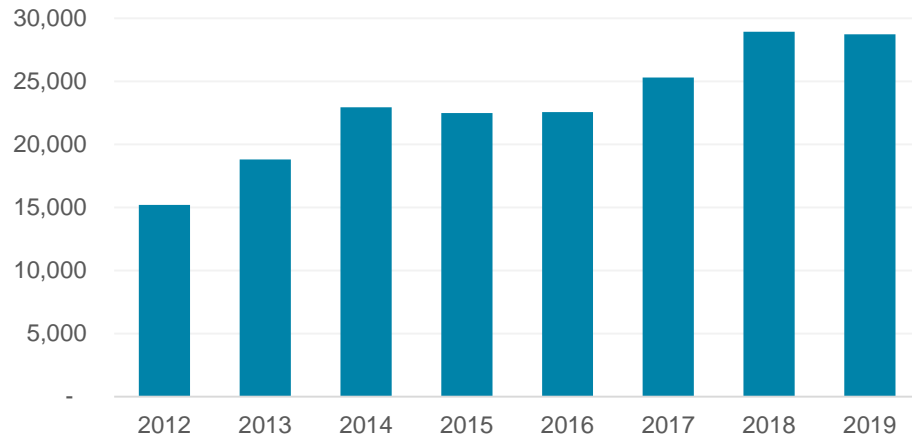
Source: Aon Securities LLC

Comparative Trends

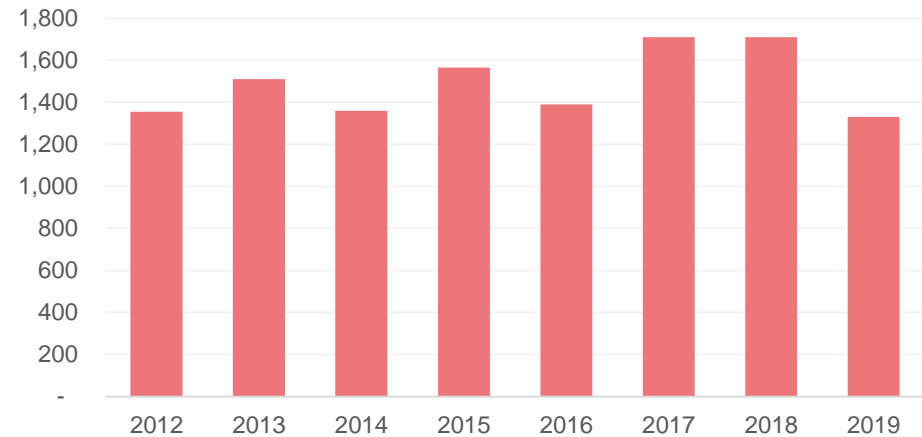
Increase in Outstanding Non-Life Bonds as opposed to stagnant Life & Health issuances

- The total Non-Life Cat Bond Outstanding has steadily increased every year as opposed to the Life & Health Cat bond market, which has remained relatively stagnant. This is mainly due to a lack of new sponsors coming to the life market, with only two new deals being issued in the past 5 years (AXA XL in 2015 and the Pandemic Emergency Fund (PEF) in 2017).

Non-Life Outstanding Cat Bonds by Year (\$m)



Life & Health Outstanding Cat Bonds by Year (\$m)



Source: Aon Securities LLC

Non-Life bonds cover increasingly non-standard perils

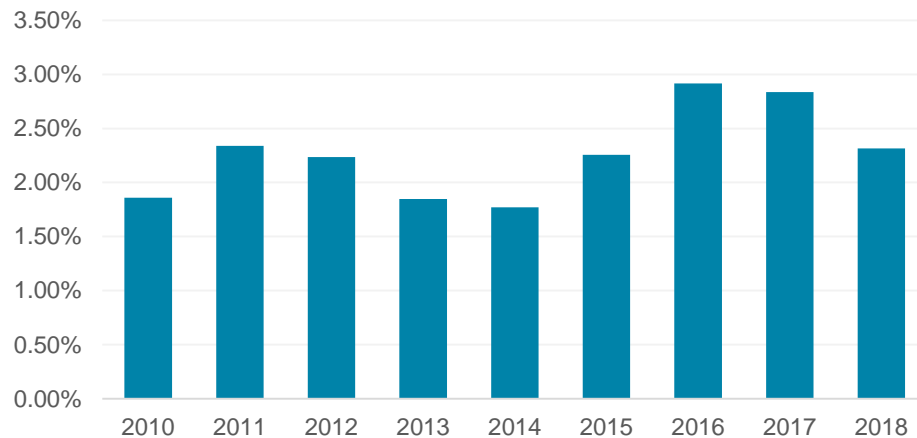
- In recent years, Non-Life catastrophe bond investors have been keen to participate in deals which incorporate alternative perils, diversifying away from US peak perils. This includes Wildfire, Flood, Latin America earthquake, Mexico named storm and earthquake etc. This allows investors to benefit from a novelty premium on the yield, which has eroded on more standard transactions.
- This peril diversification has not yet fully occurred in the securitised Life & Health sector. However, recent investor discussions and the market's reception of the PEF's novel pandemic risk transaction (which raised \$320m in 2017) indicate that Life & Health investors may be very interested in subscribing to innovative, higher yielding transactions.

Comparative Trends (Continued)

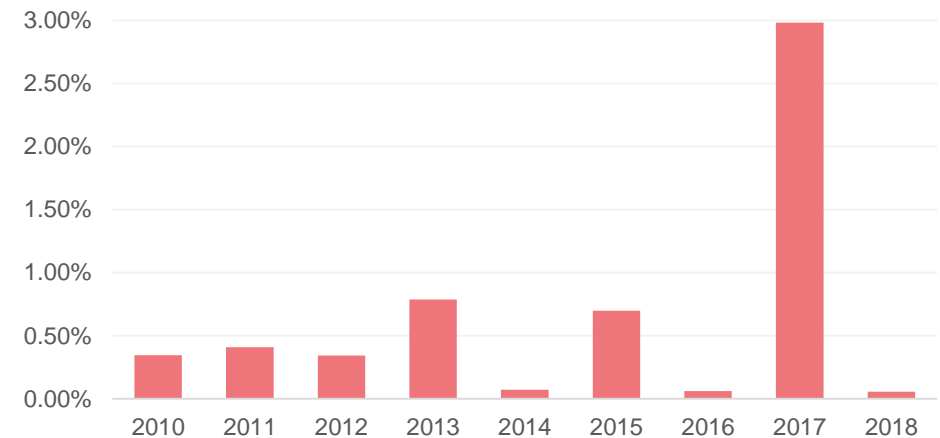
Non-Life bonds are becoming increasingly risky

- In the recent years, Non-Life cat bonds have been issued with higher expected losses, in order to benefit from advantageous pricing achieved at these levels, as investors favour higher yielding transactions. This has not yet occurred on the life & health market as transactions continue to be quite remote.
- A notable exception to this is the PEF's IBRD CAR pandemic transaction, which issued with ELs of 3.57% and 7.74% and was well received by the market. This indicates that Life and Health investors may be ready to start participating in more risky transactions.

**Weighted Average Expected Loss by Year
for Non-Life Bonds**



**Weighted Average Expected Loss by Year
for Life & Health Bonds**



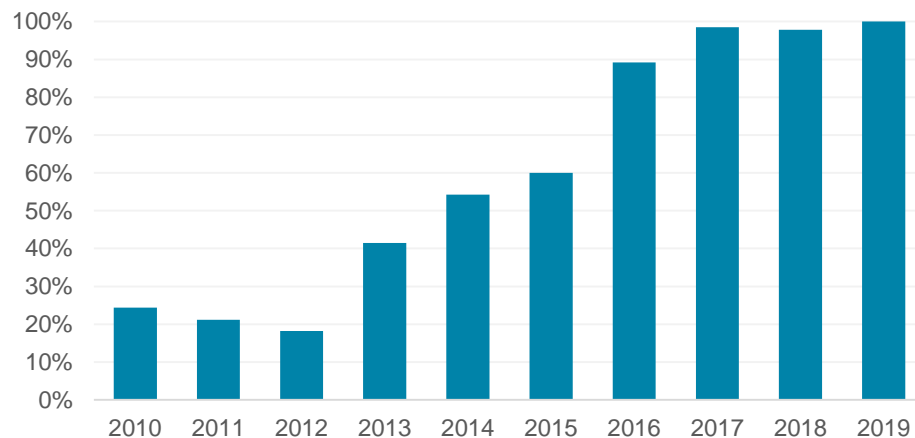
Source: Aon Securities LLC

Comparative Trends (Continued)

Non-Life bonds are no longer required to be rated

- As the Non-Life ILS market has matured, investors no longer require transactions to be independently rated, such that the proportion of non-rated catastrophe bonds has gone from 24% in 2010 to 100% in 2019. This is due to investors becoming increasingly comfortable with the transaction risk analysis provided by third party modelling agents and investors developing their own views of risk.
- In the Life & Health market, ratings may also become obsolete, as evidenced by the PEF's 2017 CAR transaction which has not received a rating. This may indicate that the market is slowly catching up with the Non-Life catastrophe bond sector in this regard as well.

Proportion of Non-Rated Non-Life Bonds by Issuance Year

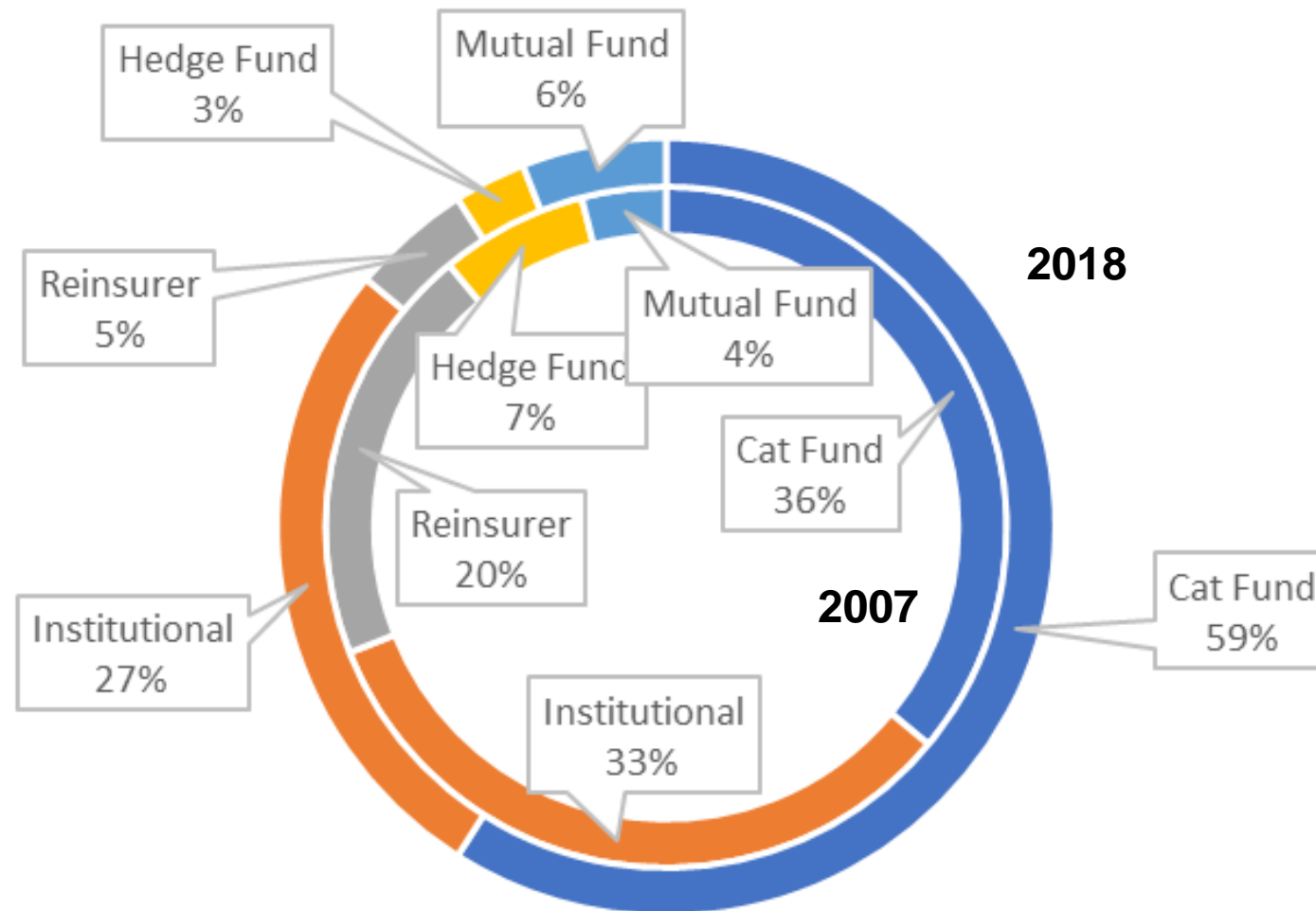


Proportion of Non-Rated Life Bonds by Issuance Year



Source: Aon Securities LLC

Investor Profile has evolved



Source: Aon Securities LLC

Some discussion points for Life Risks ...

- Where in the value chain?
 - Retrocession - Reinsurance – Insurance
 - Role of the broker

- Which trigger?
 - Index – Parametric – Indemnity?
 - Does Regulator like Basis Risk?

- Which role for bespoke collateralised transactions vs Securities?

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