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.

Source: BCG analysis.
Reinsurers have outperformed primary insurers and most other sectors in TSR over the past ten years.

Sources: S&P Capital IQ; Refinitiv; BCG Value Creators database 2023; BCG ValueScience Center.

Note: Market cap weighted average TSR per respective industry sample, based on start date market caps; n = 2,468. Russian companies were omitted from the sample due to suspended trading and collapse of share prices. Turkish companies were intentionally left out due to the country’s hyperinflationary environment.
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 (%)

| Segment        | Growth of TBV | Change in P/TBV multiple | Cash flow contribution
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<thead>
<tr>
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<tbody>
<tr>
<td>Global insurance</td>
<td>3.9</td>
<td>4.3</td>
<td>-4.6</td>
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<td>P&amp;C</td>
<td>7.4</td>
<td>6.4</td>
<td>-2.9</td>
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<td>Reinsurance</td>
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<td>5.6</td>
<td>1.6</td>
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<tr>
<td>Multiline</td>
<td>3.5</td>
<td>3.5</td>
<td>1.5</td>
</tr>
<tr>
<td>L&amp;H</td>
<td>1.5</td>
<td>4.9</td>
<td>-7.1</td>
</tr>
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Ten years:
TSR DRIVERS’ CONTRIBUTION TO AVERAGE ANNUAL TSR, 2013–2022 (%)

| Segment        | Growth of TBV | Change in P/TBV multiple | Cash flow contribution
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<tr>
<td>P&amp;C</td>
<td>11.4</td>
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<tr>
<td>Multiline</td>
<td>10.3</td>
<td>6.3</td>
<td>0.8</td>
</tr>
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<td>L&amp;H</td>
<td>7.3</td>
<td>3.2</td>
<td>7.5</td>
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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.

1Total 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.

2Includes 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 (%)**

<table>
<thead>
<tr>
<th></th>
<th>Growth of TBV</th>
<th>Change in P/TBV multiple</th>
<th>Cash flow contribution(^1)</th>
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<tr>
<td>Hannover Re</td>
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<td>Munich Re</td>
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<tr>
<td>#9</td>
<td>1</td>
<td>6</td>
<td>-10</td>
</tr>
</tbody>
</table>

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

**Note:** TSR at the group level was measured from January 1, 2013, through December 31, 2022. Dividend contribution to cash return includes investment of dividends and special dividends, compounded daily. Components of TSR are multiplicative but converted and shown here as additive with remainders assigned to the margin and multiple change fields. P/TBV = price to TBV; TBV = tangible book value of equity less other comprehensive income.

\(^1\)Includes dividend contribution and share count change.
Over the past ten years, Hannover Re, Everest Re, and Munich Re have delivered the best risk-return performance.

Sources: S&P Capital IQ; BCG ValueScience Center; BCG analysis.
Note: Ten-year annual TSR was measured from January 1, 2013, through December 31, 2022. COV = coefficient of variation.
Only a few reinsurers operate at or above their cost of equity.

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.

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

Note: Peers include 2023 VCR industry sample (n = 103), FY 2012–2022; outliers removed or normalized. The country factor for companies domiciled in India (+) are excluded from the stacked bar; RoTE = return on tangible book value of equity.
On average, reinsurers have lower RoTEs than primary insurers

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.

*Operating profit before tax divided by tangible book value of equity allocated to each segment; average of median RoTEs, 2018–2022.

No evidence that reinsurers with higher volatility systematically deliver higher RoTE
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%
- **Group contribution**¹: -2%
- **Investment RoTE**: 9%
- **Loss ratio**: 70%
- **Expense ratio**: 30%
- **TBV/net earned premium**: 92%
- **Investment income/financial assets**: 3%
- **Financial assets/TBV**: 325%

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. P&C = property and casualty; RoTE = return on tangible book value of equity; TBV = tangible book value of equity.

¹P&C reinsurance share of centrally allocated buckets (for example, group functions, noncore business, and eliminations).
For life and health reinsurance, the factors undermining RoTE include negative underwriting margins mainly driven by high loss ratios

AVERAGE ROTE, 2018–2022 (%)

- **Underwriting RoTE**: -11%
  - **Group contribution**: 1%
  - **Investment RoTE**: 15%
- **L&H reinsurance RoTE**: 5%
- **Loss ratio**: 88%
- **Expense ratio**: 18%
- **TBV/net earned premium**: 58%
- **Investment income/financial assets**: 3%
- **Financial assets/TBV**: 363%

**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.

1L&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 (%)**
  - **Cash flow contribution (%)**
    - **Growth of TBV (%)**
    - **Change in P/TBV multiple (%)**
    - **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

Source: BCG analysis.

Note: P/TBV = price to TBV; TBV = tangible book value of equity.