

Sector View

Insurance

	1 M	3 M	6 M	31/12/15
Insurance	1.0%	0.5%	-7.5%	-17.4%
DJ Stoxx 600	-1.1%	2.8%	0.0%	-6.4%

*Stoxx Sector Indices

Companies covered

Company	Rating	Market Cap
AEGON	NEUTRAL	EUR6
Last Price	EUR3.531	Market Cap. EUR7,613m
ALLIANZ	BUY	EUR180
Last Price	EUR134.9	Market Cap. EUR61,649m
AXA	BUY	EUR29
Last Price	EUR19.265	Market Cap. EUR46,704m
CNP ASSURANCES	NEUTRAL	EUR15
Last Price	EUR14.465	Market Cap. EUR9,932m
COFACE	NEUTRAL	EUR5.4
Last Price	EUR5.163	Market Cap. EUR812m
EULER HERMES	BUY	EUR89
Last Price	EUR74.88	Market Cap. EUR3,193m
HANNOVER RE	SELL	EUR110
Last Price	EUR92.6	Market Cap. EUR11,167m
MUNICH RE	SELL	EUR185
Last Price	EUR164.15	Market Cap. EUR26,437m
SCOR	BUY	EUR35
Last Price	EUR27.77	Market Cap. EUR5,331m
SWISS RE	NEUTRAL	CHF100
Last Price	CHF85.75	Market Cap. CHF30,876m
ZURICH INSURANCE	NEUTRAL	CHF270
Last Price	CHF256.4	Market Cap. CHF38,596m



Pretty satisfactory "Rendez-Vous de Septembre"

It should be a pretty satisfactory "Rendez-Vous de Septembre" this year, driven by a slightly better price environment and short/mid-term business opportunities (Solvency II, big data, cyber...). In the current environment, reinsurers deserve their premium to primary insurers, even if the current 15-20% premium seem a little high to us. So look for entry points!

ANALYSIS

- At the 60th anniversary of the Insurance/Reinsurance "Rendez-Vous de Septembre" in Monte Carlo, industry players continue to highlight the critical issue of low interest rates, which has put pressure on the overall underlying profitability, the necessity of renewed strong underwriting discipline and the overall positive impact of Solvency II.
- The "tiering" of the market, with 5-10 global players and 5-10 specialists capturing a growing part of the market, is now a reality and will continue to develop. These companies do not just offer capacity, they offer a broad range of knowledge (risk analysis, intra-group risk transfer pricing...) and services, so that reinsurance is not just a cost for ceding companies, but a way to optimise their own risk management and capital position. M&A activity is possible between Tier 2 and/or Tier 3 players as they need to adapt to the new environment, but Tier 1 players are not expected to be a part of it.
- Major players expect greater stability in prices and conditions at January 2017 renewals. Unsurprisingly, some loss-free segments are likely to see slight ongoing price erosion, but the sharply increased burden of attritional losses in 2016 (e.g. natcats in Germany or Canada) offer some price opportunities. The strong price pressure on US natcats has eased. Bottom line, the market has not turned hard, but the global picture is better than in previous years.
- In this moving environment, innovation and cycle management remain key. Reinsurers continue to express a growing interest for proportional business, as it enables them to be closer to primary markets' trends where the pricing environment is better. They are also aiming at developing their direct business relationship with corporates. Whatever the case, competition between players is tough.
- Opportunities also exist with new risk pools from the integration of data, analytics and technology that addresses the insurance protection gap. Cyber is still small as most players first need to build the learning curve, but the size of the market should triple by 2020 (USD8-10bn vs. USD3bn currently).
- Solvency II remains also a business opportunity: capital relief of course for companies that will find it hard to comply, but also more generally the fact that capital management has become the cornerstone of the management of all companies. The benefits of Solvency II for major reinsurers and primary insurers will gradually be seen in the next few years.
- Following four strong years, reinsurers' results are expected to return to more normalised levels in 2016, mainly driven by a higher natcat environment. But their capital positions are very strong and so are their ratings (AA- with stable outlook for the four reinsurers we cover), so capital returns are safe.

VALUATION

- On average, reinsurers are currently trading at a 15%-20% premium to primary insurers, which seems a little high to us but not fully unjustified given the resilience of their business model and their favourable position as regards Solvency II. So look for attractive entry points!

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Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

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