Reinsurance market report
Results for half-year 2019

September 2019
Key findings

Welcome to the 10th semi-annual publication of Willis Re’s Reinsurance market report which tracks the capital and profitability of the global reinsurance industry.

Global reinsurance dedicated capital totalled USD 559B at half-year 2019. This is a robust 8% increase from a re-stated USD 518B at year-end 2018, which allows for a change in constituents and a broader definition of capital(1), with strong investment markets being the main driver of the industry’s capital growth.

Focusing on the INDEX(2) companies, which contribute the largest component of the industry’s capital:

- INDEX companies’ capital grew 11% to USD 440B (FY 2018 re-stated: USD 396B). This was principally due to falling bond yields and rising equity markets leading to strong investment appreciation, a reversal of the trend which we noted in our year-end 2018 report.
- Net income of USD 17.7B, which benefited from the strong investment markets, added 4% to re-stated opening capital. The trend of active capital management continued with USD 10.9B returned to shareholders, accounting for approximately 62% of net income (HY 2018: 11.1B, 77%).
- Unrealised investment appreciation above and beyond that included within net income provided a further USD 32.6B of support to INDEX capital, and accounted for 8 percentage points of capital growth. Over one half of this amount was generated by National Indemnity.
- Fresh capital backing the Convex start-up also contributed to the H1 capital growth.

Drilling further into profitability, for the SUBSET(3) of companies within the INDEX that provide the relevant disclosure:

- The reported combined ratio deteriorated from 93.3% in HY 2018 to 94.9%. This was entirely attributable to a lower pace of reserve releases and higher nat cat activity versus HY 2018.
- Reserve releases benefitted the SUBSET’s combined ratio by only 1.2 percentage points, versus a pace of 3-5% in previous half-years, with the deceleration due largely to deterioration in 2017 and 2018 loss estimates, particularly in relation to Typhoon Jebi.
- Stripping out prior-year development and replacing actual nat cats with a normalised level, we put the underlying combined ratio at 100.5%.(4) This is an improvement on HY 2018’s 101.5%, and the first notable improvement in underlying terms that we have seen since our first half-year publication in 2014.
- The reported RoE improved dramatically to 13.9% in the first half (HY 2018: 8.5%), driven by strong investment gains. Excluding investment gains, which had an only minor impact in HY 2018, the HY 2019 RoE was 7.3% - ie slightly down on HY 2018 and consistent with the deterioration in the reported combined ratio.
- Normalising for nat cat losses and removing the benefit from reserve releases results in an underlying RoE of 10.8%, or 4.2% excluding investment gains. This latter figure is a small improvement on HY 2018’s 3.9% underlying RoE, or 3.3% excluding investment gains.(5)
- Strong investment gains were also manifest in the investment yield. This was 4.8% in HY 2019, including 1.9 percentage points coming from investment gains (HY 2018: 0.3%). The residual ‘running’ yield(6) was 2.9%, up slightly on HY 2018’s 2.8%.

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(1) See Appendix 1 for details on our methodology.
(2) INDEX relates to those companies listed within Appendix 2 of this report.
(3) SUBSET is defined as those companies that make the relevant disclosure in relation to nat cat losses and prior year reserve releases. Appendix 2 also identifies the SUBSET companies.
(4) The normalised nat cat loss and the underlying combined ratio metrics are new in this report. As explained on page 15, we replace actual nat cats with their five year moving average (measured on a full-year basis).
(5) Note that we have slightly revised the impact of normalised nat cats on RoE and have restated prior-year underlying RoEs. As originally reported, HY 2018’s underlying RoE was 3.4%.
(6) Running yield captures items such as bond coupons, equity dividends and interest income.
At a glance

Capital

Total industry capital grew robustly in HY 2019

Total reinsurance dedicated capital (USD billions)(1)

Growth was attributable to INDEX capital, which was fuelled by investment gains

Capital analysis for the INDEX (USD billions)

(1) Due to additional available disclosure on FY 2018 results, the USD 335B INDEX capital for 2018 differs from the USD 336B in our year-end 2018 report. We have re-stated year-end 2018 capital from USD 461B (originally reported: USD 462B) to USD 518B, to allow for a change in constituents and also a broader definition of capital. Appendix 1 of this report explains in more detail.
Underlying RoE for the SUBSET

Strong RoE due to investment gains; excluding gains underlying ROE still running at circa 4%

RoE analysis for the SUBSET(1)

Underlying RoE broadly flat during HY17 to HY19 excluding support from investment gains

(1) Note that we have slightly revised the impact of normalised nat cats on RoE and have restated prior-year underlying RoEs. As originally reported, HY 2018’s underlying RoE was 3.4%.

(2) S&P WACC (weighted average cost of capital) figures.
Combined ratio for the SUBSET

Reported combined ratio increased, but a small improvement in underlying

Reported and underlying combined ratio for the SUBSET\(^{(1)}\)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Reported combined ratio</td>
<td>90.4%</td>
<td>90.4%</td>
<td>93.7%</td>
<td>94.0%</td>
<td>93.3%</td>
<td>94.9%</td>
</tr>
<tr>
<td>Favourable development of pri...</td>
<td>4.5%</td>
<td>5.2%</td>
<td>5.2%</td>
<td>3.6%</td>
<td>3.0%</td>
<td>1.2%</td>
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<tr>
<td>Accident year combined ratio</td>
<td>94.9%</td>
<td>95.6%</td>
<td>98.9%</td>
<td>97.6%</td>
<td>96.3%</td>
<td>96.0%</td>
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<tr>
<td>Catastrophe loss</td>
<td>2.5%</td>
<td>1.2%</td>
<td>4.6%</td>
<td>2.3%</td>
<td>1.2%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Ex-nat cat accident year combined ratio</td>
<td>92.4%</td>
<td>94.4%</td>
<td>94.3%</td>
<td>95.3%</td>
<td>95.1%</td>
<td>93.4%</td>
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<tr>
<td>Normalised nat cat loss</td>
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<td>6.4%</td>
<td>6.4%</td>
<td>6.4%</td>
<td>6.4%</td>
<td>7.1%</td>
</tr>
<tr>
<td>Underlying combined ratio</td>
<td>98.8%</td>
<td>100.8%</td>
<td>100.7%</td>
<td>101.7%</td>
<td>101.5%</td>
<td>100.5%</td>
</tr>
</tbody>
</table>

\(^{(1)}\) The normalised nat cat loss and the underlying combined ratio metrics are new in this report. As explained on page 15, we replace actual nat cats with their five year moving average (measured on a full-year basis).
Expenses for the SUBSET

Lower expense ratio at HY19 mainly driven by premium growth

Weighted average expense ratio for the SUBSET
Investment yield for the SUBSET

Overall investment yield boosted by gains (both realised and unrealised)

Investment yield for the SUBSET\(^{(1)}\)

\[
\begin{array}{c|c|c}
& HY 2018 & HY 2019 \\
\hline
Running yield & 2.8\% & 2.9\% \\
Gains yield & 0.3\% & 1.9\% \\
\end{array}
\]

A number of US / Bermuda companies in particular recorded very high yields

Investment yield for the SUBSET

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\(^{(1)}\) Running yield captures items such as bond coupons, equity dividends and interest income.
Capital

Total reinsurance dedicated capital

Total industry capital grew robustly in HY 2019

Chart 1: Total reinsurance dedicated capital (USD billions)\(^{(1)}\)

- As shown in Chart 1, the industry’s capital base totalled USD 559B at half-year 2019, an 8% increase from a re-stated USD 518B at year-end 2018.\(^{(2)}\)
- The 8% increase in total capital was due to an 11% increase in INDEX capital to USD 440B from a re-stated opening figure of USD 396B.
- Including other major regional and local reinsurers, and a pro-rated portion of capital within major groups, we derive an estimate of USD 466B (FY 2018 re-stated: USD 425B) of capital for the traditional reinsurance market.
- While we only update our alternative capital figure annually, in broad terms 2018’s USD 93B has remained roughly flat through H1 2019.

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\(^{(1)}\) Due to additional available disclosure on FY 2018 results, the USD 335B INDEX capital for 2018 differs from the USD 336B in our year-end 2018 report.

\(^{(2)}\) The re-statement was due a change in methodology. See Appendix 1 for details.
INDEX capital

Growth was attributable to INDEX capital, which was fuelled by investment gains

Chart 2: Capital analysis for the INDEX (USD billions)

- Re-stated opening capital totalled USD 396B (Year-end 2018: USD 335B).\(^{(1)}\)
- The addition of Convex to the INDEX during HY 2019 added close to USD 2B of capital.
- Strong investment markets, both equity and bond, were the main driver of the overall increase in INDEX capital during HY 2019. In the first half of the year both the US 10 year treasury and German 10 year bund yields fell approximately 60bp. In equity markets, the S&P500 was up 17% and Europe’s STOXX index was up 14%. As a result of differing approaches to classification of investments, certain of our INDEX constituents recognise such unrealised appreciation within net income while others recognise it directly as a change in shareholders’ equity (via other comprehensive income).
- Net income of USD 17.7B added 4% to re-stated opening capital. Notably, approximately 35% of this net income was due to investment gains, both realised and unrealised.
- The trend of active capital management continued with 62% of net income being paid out as dividends and buy-backs.
- Unrealised investment appreciation which was not reported within net income provided USD 32.6B of support to INDEX capital.

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\(^{(1)}\) Due to the change in constituents and a broader definition of capital. Of the total USD 61B increase due to a change in methodology, USD 31B is due to the change in constituents (with Pacific LifeCorp and Great-West Lifeco being the most material additions to our INDEX), USD 17B to subordinated debt, and USD 13B to minorities. Appendix 1 provides further detail on our methodology.
Investment gains drive capital increases despite ongoing active capital management

Chart 3: Movement in capital reported as at HY 2019 for the INDEX\(^{(1)}\)

- As shown in Chart 3, despite ongoing active capital management there was a broad trend of rising capital levels across our INDEX, largely due to unrealised appreciation of bond portfolios due to falling yields. Reinsurers also benefited from realised investment gains supported by rising equity markets following their decline in Q4 2018.

- As shown on the left side of the chart, the above factors resulted in significant capital increases for some major INDEX constituents, including RGA (24% rise in capital), National Indemnity (17%), Swiss Re (15%) and Munich Re (10%).

- Notably, 11 reinsurers reported double digit capital increases at HY 2019.

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\(^{(1)}\) Excludes companies who do not report HY 2019.
Return of capital

Reinsurers continue to pay out the vast majority of net income

Chart 4: Return of capital (as percent of opening shareholders’ equity) and payout ratio for the INDEX

Continued active capital management maintains high payout ratios

Chart 5: Percentage of opening shareholders’ equity returned through share buybacks and ordinary and special dividends for the INDEX

For the INDEX:

- A total of USD 10.9B was returned to shareholders, accounting for approximately 62% of net income (HY 2018: USD 11.1B, 77%).
- Share buybacks returned USD 3.1B of capital, equivalent to 1.0% of aggregate adjusted opening shareholders’ equity (HY 2018: USD 2.0B).
- Ordinary and special dividends returned USD 7.8B, or 2.4% of aggregate adjusted opening shareholders’ equity (HY 2018: USD 9.1B).
Return on equity

In the remainder of the report we focus on our SUBSET constituents.

Strong RoE due to investment gains; excluding gains underlying ROE still running at circa 4%

Chart 6: RoE analysis for the SUBSET

- As shown in Chart 6, despite higher nat cat losses and a reduction in support from reserve releases, the reported RoE improved to 13.9% from 8.5% at HY 2018, due to 6.6 percentage points of support from investment gains.

- The significant drop in support from reserve releases to 0.4 percentage points (HY 2018: 2.0 percentage points) was largely due to deterioration in 2017 and 2018 loss estimates, particularly in relation to Typhoon Jebi.

- Normalising for nat cat losses and removing the benefit of 0.4 percentage points of support from reserve releases results in an underlying RoE of 10.8%, or 4.2% excluding investment gains. This latter figure is a small improvement on HY 2018’s 3.9% underlying RoE, or 3.3% excluding investment gains.(1)

- This small improvement in the underlying RoE follows a period of decline from 7.8% at HY 2014 as shown in Chart 7.

- The support to RoE from investment gains varies significantly from company to company, largely due to different accounting policies. Companies with higher RoEs, such as Renaissance Re, typically take a significant portion of unrealised gains through net earnings rather than directly to equity.

(1) Note that we have slightly revised the impact of normalised nat cats on RoE and have restated prior-year underlying RoEs. For example, as originally reported, HY 2016’s underlying RoE was 3.4%, versus the 3.9% we now publish. Chart 7 includes our originally-published figures for comparison. The Combined ratio section which follows explains our new method for normalising nat cats.
Underlying RoE broadly flat during HY17 to HY19 excluding support from investment gains (1)

Chart 7: RoE for the SUBSET

Reported RoEs flattered by significant investment gains

Chart 8: HY 2019 RoE for the SUBSET

(1) S&P WACC (weighted average cost of capital) figures.
Underwriting performance

Premium volumes

Premium growth reported by the majority of SUBSET constituents

Chart 9: HY 2019 movement in group net written premium (U.S. dollar basis) for the SUBSET

Chart 9 shows that HY 2019 group net written premium (NWP) for the SUBSET increased by approximately 6% from HY 2018.

- Improved pricing for U.S. property catastrophe business supported growth for a number of SUBSET constituents. Reinsurers also continued to grow in life and health reinsurance and primary business.
- Large structured transactions for both P&C and L&H reinsurance continued to contribute to premium growth.
- As Chart 9 is on a U.S. dollar basis it shows a reduction in NWP for Munich Re and SCOR, despite their growth on a local currency basis. These reductions are due to the weakening of the euro against the U.S. dollar.
- The 54% growth reported by Renaissance Re was supported by its acquisition of Tokio Millennium Re.
Combined ratios

Reported combined ratio increased, but a small improvement in underlying

Chart 10: Reported and underlying combined ratio for the SUBSET

Less support from reserve releases

Chart 11: Combined ratio analysis for the SUBSET

<table>
<thead>
<tr>
<th>Weighted Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reported combined ratio</td>
</tr>
<tr>
<td>Favourable development of prior years</td>
</tr>
<tr>
<td>Accident year combined ratio</td>
</tr>
<tr>
<td>Catastrophe loss</td>
</tr>
<tr>
<td>Ex-nat cat accident year combined ratio</td>
</tr>
<tr>
<td>Normalised nat cat loss</td>
</tr>
<tr>
<td>Underlying combined ratio</td>
</tr>
</tbody>
</table>
Increased reported combined ratios due to higher nat cat losses and deterioration in prior-year nat cat loss estimates

Chart 12: Reported combined ratios for the SUBSET

- As shown in Chart 10, the reported combined ratios for the SUBSET have been on an upward trend since HY 2014, due to variation in the quantum of nat cat losses and reducing reserve releases. However, the underlying combined ratio has been flatter, remaining above 100% since HY 2015.

- As shown in Chart 11, the reported combined ratio deteriorated to 94.9% (HY 2018: 93.3%). Stripping out 1.2 percentage points of reserve releases (significantly down from 3.0 percentage points at HY 2018), and 2.6 percentage points of nat cat losses (up from 1.2 percentage points at HY 2018), results in an ex-nat cat accident year combined ratio of 93.4%, an improvement from 95.1% at HY 2018.

- However, normalising for nat cat losses the underlying combined ratio improved to 100.5% from 101.5% at HY 2018. This is the first notable improvement in underlying terms that we have seen since our first half-year publication in 2014.\(^1\)

- Total global insured nat cat and man-made losses reduced to USD 19B (HY 2018: USD 26B), mainly due to a decrease in insured nat cat losses to USD 15B (HY 2018: USD 21B). Insured man-made cat losses also decreased to USD 4B compared to USD 5B at HY 2018.\(^2\)

- However, the majority of SUBSET reinsurance market constituents were impacted by higher nat cat losses in HY 2019.

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\(^1\) The normalised nat cat loss and the underlying combined ratio metrics are new in this report. We replace actual nat cats with their five year moving average (measured on a full-year basis). The 7.1% used for HY 2019 is the average of 2014-18 nat cat losses for the SUBSET. The 6.4% used for HY 2018 is the average of 2013-17. We did not collect data prior to 2013 and so have kept the nat cat impact flat at 6.4% for HY 2017 and prior.

\(^2\) Swiss Re sigma figures.
Prior year loss development

Support from reserve releases continues to decline

Chart 13: Prior year development impact on combined ratio for the SUBSET\(^{(1)}\)

![Graph showing prior year loss development impact on combined ratio.]

Continued reduction in aggregate reserve releases

Chart 14: Prior year reserve release for the SUBSET\(^{(2)}\)

![Graph showing prior year reserve release.]

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(1) Positive number indicates a favourable prior year impact.

(2) Aggregate prior year reserve release calculated before tax.
Support from reserve releases reduced materially for the majority of SUBSET constituents.

The support from reserve releases reduced largely due to deterioration in 2017 and 2018 loss estimates, particularly in relation to Typhoon Jebi. Notably, Swiss Re’s P&C Re segment added USD 451M to its reserve estimate for Typhoon Jebi. In addition, some reinsurers reported pockets of adverse reserve development for certain liability and specialty lines of business.

As shown in Chart 13, HY 2019 is the third consecutive period in which support from reserve releases has reduced. The SUBSET constituents have generated approximately 5% of net income through prior year reserve releases, reduced from 26.1% at HY 2018. This decrease is due to a further reduction in aggregate reserve releases to USD 534M (HY 2018: USD 1,962M) in addition to increased net income in HY 2019, largely due to support from investment gains.

**Expense ratios**

*Lower expense ratio at HY19 mainly driven by premium growth*

Chart 15: Weighted average expense ratio for the SUBSET

- Despite a 6.3% increase in expenses at HY 2019, the expense ratio reduced to 32.2% from 33.1% at HY 2018 due to a 9.3% increase in net earned premium.
Investment performance

Overall investment yield boosted by gains (both realised and unrealised)

Chart 16: Investment yield for the SUBSET\(^{(1)}\)

A number of US / Bermuda companies in particular recorded very high yields

Chart 17: Investment yield for the SUBSET

\(^{(1)}\) Running yield captures items such as bond coupons, equity dividends and interest income.
New to this report, we are adding investment gains, both realised and unrealised, to our calculation of investment yield, and showing this component separately from the ‘running’ investment yield. It is this all-in yield that feeds into the companies’ RoE. On top of this, some unrealised gains will go directly to increment shareholders’ equity, without flowing through earnings. Our investment yields do not capture that component, rather only the components that flow through net earnings.

As Chart 16 shows, gains were substantial in HY 2019. As noted in the Capital section, this was due to both falling bond yields (i.e., a rise in bond prices) and strong equity markets. We consider HY 2018 more ‘normal’, with gains providing a small increment to the overall running investment yield.

The running yield in HY 2019 was slightly higher than a year ago, at 2.9%. Given the recent drop in bond yields, this figure may come under renewed pressure.

The amount of gains shown in Chart 17 varies significantly company to company, and in large measure this is due to different accounting policies. Companies with lower gains yields, such as Munich Re and Hannover Re typically take unrealised gains directly to equity.

Conversely, many of the US / Bermudan companies with high yields in Chart 17 record changes in unrealised gains inside net earnings. These companies will typically report operating earnings alongside net earnings, with the principal difference in a period like HY 2019 being the exclusion of unrealised gains. Managements and the investment community tend to put more emphasis on operating earnings.
Appendix 1

Methodology

In this report we have broadened our definition of capital to include subordinated debt and minority interests. We have also introduced the rules below to choose the constituents of our capital calculation for the traditional reinsurance market. As per Chart 1, these components are the INDEX, Major regional and local reinsurers, and Pro-rated portion of capital within major groups.

The constituents of these components within this report have been selected by applying the rules below to year-end 2018 disclosures, which are more detailed than those provided at half-year. We will review and adjust our constituents annually based on future year-end data.

INDEX

(Capital at least USD 1B or NWP at least USD 1B) and reinsurance NWP at least 10% of group NWP.

Major regional and local reinsurers\(^1\)

(Capital at least USD 250M or NWP at least USD 250M) and reinsurance NWP at least 10% of group NWP.

Pro rata of composites\(^2\)

In the case of large groups whose reinsurance NWP is less than 10% of group NWP, we take a pro-rated portion of capital which must be at least USD 250M.

Segment versus group data for the SUBSET

In our combined ratio analysis, we use P&C reinsurance segment combined ratios for those SUBSET reinsurers which provide the disclosure. Otherwise, we use group combined ratios. In calculating the SUBSET averages we weight these combined ratios according to the appropriate segment or group net earned premium. In the section on premium volumes and in Appendix 2, premium income in all cases relates to the group.

\(^1\) Applies to constituents which don’t qualify for the INDEX.

\(^2\) Applies to constituents which don’t qualify for the INDEX or Major regional and local reinsurers.
<table>
<thead>
<tr>
<th>Company</th>
<th>Total Capital</th>
<th>Net Written Premium</th>
<th>Net Income</th>
<th>Combined Ratio</th>
</tr>
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<tbody>
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<td>Arch Capital</td>
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<td>10,040</td>
<td>11,040</td>
<td>100%</td>
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<tr>
<td>Argo</td>
<td>2,186</td>
<td>2,004</td>
<td>2,004</td>
<td>100%</td>
</tr>
<tr>
<td>Aspen</td>
<td>2,782</td>
<td>2,597</td>
<td>2,597</td>
<td>100%</td>
</tr>
<tr>
<td>Axis Capital</td>
<td>5,566</td>
<td>5,030</td>
<td>5,030</td>
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</tr>
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<td>Chubb</td>
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<tr>
<td>Everest Re</td>
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<td>General Reinsurance</td>
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<tr>
<td>IRB</td>
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<td>914</td>
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<td>Liberty</td>
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<td>Lancashire</td>
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<td>Medco</td>
<td>591</td>
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<td>555</td>
<td>100%</td>
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<tr>
<td>R&amp;W</td>
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<td>Renaissance</td>
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<td>RGA</td>
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<tr>
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<tr>
<td>Swiss Re</td>
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<td>100%</td>
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<td>1,624</td>
<td>100%</td>
</tr>
<tr>
<td>Validus Re</td>
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</tr>
<tr>
<td>Index aggregate</td>
<td>439,009</td>
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<tr>
<td>Subset aggregate</td>
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<td>170,049</td>
<td>170,049</td>
<td>100%</td>
</tr>
</tbody>
</table>

NB : Shaded rows in the above summary denote SUBSET groups.
(1) Combined ratios are in respect of the P&C Reinsurance segment only.
(2) Due to lack of disclosure at the time of the report, total capital shown for HY 2019 is based on FY 2018 disclosure.
(3) Companies which have a March 31 financial year-end. Data for the year ended March 31, 2019 is included in the column headed FY 2018 (and similar for prior years).
(4) Figures for net premiums are net earned premiums, not net written premiums.
(5) Numbers are sourced from unconsolidated financial statements.
(6) Total of numbers reported, converted to USD at exchange rates prevailing at end of reporting period for total capital figures. For net income and NWP figures, we use average exchange rates over the reporting period.
(7) The HY 2018 combined ratio for the SUBSET of 93.6% does not match the 93.3% figure shown in Chart 10 as it has not been re-stated based on our updated methodology. For the same reason, the HY 2018, FY 2018, and FY 2017 combined ratios for the INDEX, and FY 2018 and FY 2017 combined ratios for the SUBSET, do not match figures shown in prior reports.

The information compiled in this report by Willis Towers Watson is compiled from third party sources which we consider to be reliable. However we do not guarantee and are not responsible for its accuracy or completeness and no warranty or representation of accuracy or completeness is given.
The Reinsurance Market Report

The Willis Re Reinsurance Market Report is a half yearly publication providing an aggregate analysis of the size and performance of the global reinsurance market. The report is based on the Willis Reinsurance Index group of reinsurance companies from across the globe.

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