

PeakRe >

Annual Report 2015





## ABOUT PEAK RE

Based in Hong Kong at the heart of the Asia Pacific Region and authorised by the Office of the Commissioner of Insurance of Hong Kong ("OCI"), Peak Reinsurance Company Limited ("Peak Re") was licensed in December 2012.

With shareholder funds of US\$716.9 million as of 31 December 2015, Peak Re is committed to providing innovative and forward looking reinsurance services for our clients across Asia Pacific, EMEA and the Americas. Our service proposition further expanded from June 2014, when Peak Re obtained the licence for underwriting long-term reinsurance business from the OCI. This makes our Company one of the few locally established reinsurance companies in Asia Pacific underwriting both life & health and property & casualty reinsurance. We offer treaty reinsurance services globally, tailor-making risk transfer and capital management solutions to best fit clients' needs.

Peak Re's mission is to modernise the reinsurance industry through having a fresh perspective on protecting the prosperity and continuing growth of the Asia Pacific region. We understand that as the world economic system grows, complex new risks emerge and hence the need for new risk and capital management solutions. We work hand-in-hand with our clients to offer meaningful reinsurance solutions — solutions that address specific market challenges in support of long-term growth.

Because we listen, we make decisions with speed and integrity, and we have the commitment and courage to deliver.

The Company is backed by Fosun International Limited ("Fosun"), a leading investment group taking roots in China with a global foothold, and the International Finance Corporation ("IFC"), a member of the World Bank Group focusing on private sector development. The two shareholders have respectively invested 85.1% and 14.9% in the Company. Peak Re is rated "A-" by A.M. Best, a leading international insurance industry credit rating agency.



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### INSIGHT

While being committed to investing in knowledge and technology, insights shared with our clients help to manage and mitigate the risks faced by the communities our clients seek to protect.

### COMMITMENT

It is Peak Re's founding mission to support the development of the global reinsurance industry with special focus on developing markets. Our clear and consistent business strategy is based on this commitment.

### COURAGE

"The courage to deliver" has been developed as part of Peak Re's brand platform since the beginning of our operations, demonstrating our determination to serve our clients and communities. This has been well received by the market.



**BRIDGE,**  
**CONNECT, BOND**









# FINANCIAL HIGHLIGHTS >

## Profit & Loss Statement

Year ended 31 December 2015

	2015 US\$	2014 US\$
<b>GROSS WRITTEN PREMIUMS</b>	<b>582,680,029</b>	288,143,992
Gross earned premiums	477,979,901	199,991,256
Retrocessionaires' share of gross earned premiums	(18,040,709)	(8,403,350)
Net reinsurance contracts earned premiums revenue	459,939,192	191,587,906
Gross claims paid and payable	(131,986,557)	(61,273,347)
Change in gross reinsurance claim liabilities	(238,454,733)	(80,621,855)
Change in retrocessionaires' share of outstanding claims	25,638,704	-
Net claims incurred	(344,802,586)	(141,895,202)
Commission expense	(84,645,139)	(34,726,224)
Commission income	298,868	-
Net commission expense	(84,346,271)	(34,726,224)
Administration expenses	(22,098,880)	(17,248,932)
Underwriting profit/(loss) for the year	8,691,455	(2,282,452)
Investment income	56,323,664	55,601,091
Other expenses	(1,738,670)	(1,626,858)
Foreign exchange	(4,999,457)	(4,995,531)
<b>PROFIT BEFORE TAX</b>	<b>58,276,992</b>	46,696,250
Income tax credit/(expense)	877,472	(5,062,442)
<b>PROFIT FOR THE YEAR</b>	<b>59,154,464</b>	41,633,808
<b>OTHER COMPREHENSIVE INCOME</b>		
Other comprehensive income to be reclassified to profit or loss in subsequent periods		
Available-for-sale investments		
Changes in fair value	(37,151,709)	(6,958,854)
Reclassification adjustments for disposal	(253,981)	(128,718)
Income tax effect	6,710,338	1,105,689
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>(30,695,352)</b>	(5,981,883)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>28,459,112</b>	35,651,925

## Asset & Liability Statement

Year ended 31 December 2015

	2015 US\$	2014 US\$
<b>ASSETS</b>		
Intangible assets	771,037	283,229
Property and equipment	182,444	194,940
Held-to-maturity investments	36,335,770	-
Available-for-sale investments	511,429,330	301,592,472
Investments at fair value through profit or loss	191,279,327	323,045,038
Deferred acquisition costs	60,032,829	28,294,697
Prepayments, deposits and other receivables	7,986,639	11,489,882
Retrocession assets	26,050,781	-
Deferred tax assets	11,597,194	-
Reinsurance receivables	380,877,135	182,685,886
Cash and bank balances	173,924,552	156,907,643
<b>TOTAL ASSETS</b>	<b>1,400,467,038</b>	<b>1,004,493,787</b>
<b>LIABILITIES</b>		
Reinsurance contracts/policy liabilities	584,959,105	249,429,659
Reinsurance payables	88,615,731	56,619,376
Deferred commission income	46,202	-
Other payables and accrued liabilities	4,218,006	4,087,928
Deferred tax liabilities	-	3,021,998
Current tax payable	5,770,944	2,936,888
<b>TOTAL LIABILITIES</b>	<b>683,609,988</b>	<b>316,095,849</b>
<b>NET ASSETS</b>	<b>716,857,050</b>	<b>688,397,938</b>
<b>EQUITY</b>		
Share capital	550,000,000	550,000,000
Reserves	166,857,050	138,397,938
	<b>716,857,050</b>	<b>688,397,938</b>

# FINANCIAL HIGHLIGHTS >

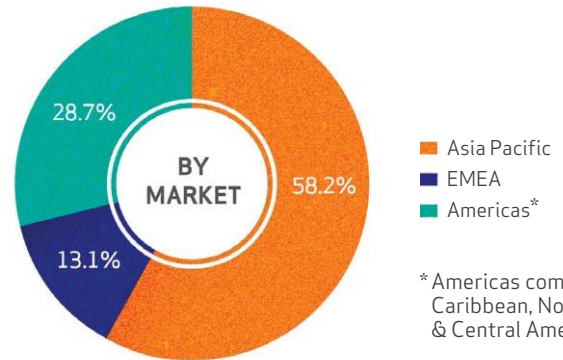
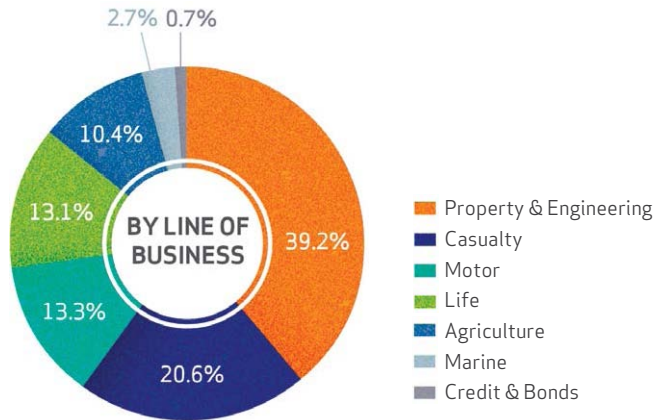
## Cash Flows Statement

Year ended 31 December 2015

	2015 US\$	2014 US\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating activities		
Profit before taxation	58,276,992	46,696,250
Depreciation of property and equipment	150,324	192,133
Amortisation of intangible assets	371,239	264,688
Interest income	(21,859,388)	(15,925,281)
Dividend income from investments at fair value through profit or loss	(8,538,945)	(5,691,498)
Fair value loss/(gain): Fair value through profit or loss investments	12,575,436	(6,619,681)
Gain on disposal of fair value through profit or loss Investments	(61,403,146)	(23,855,701)
Gain on disposal of available-for-sale investments	(8,926,715)	(2,998,306)
Change in reinsurance contract payables	205,204,157	75,701,169
Change in provision for unearned premiums	104,274,508	88,990,975
Change in reinsurance creditors	31,996,355	45,915,805
Change in prepayments, deposits and other receivables	(11,191,515)	(5,787,633)
Change in deferred acquisition costs, net	(31,691,930)	(18,548,806)
Change in reinsurance receivables	(201,758,865)	(125,496,393)
Change in other payables and accrued liabilities	14,240,280	395,377
Net cash flows from operating activities	81,718,787	53,233,098
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of items of property and equipment	(137,828)	(55,004)
Purchase of intangible assets	(859,047)	(145,289)
Interest received	20,726,197	16,452,100
Dividends received from investments in securities	8,533,660	5,687,768
Payment for purchase of available-for-sale investments	(463,528,308)	(162,395,010)
Payment for purchase of fair value through profit or loss investments	(72,054,000)	(268,598,767)
Payment for purchase of held to maturity investments	(37,282,371)	-
Proceeds from maturity of available-for-sale investments	138,715,588	-
Proceeds from disposal of available-for-sale investments	91,389,621	96,434,473
Proceeds from sale of fair value through profit or loss investments	252,647,421	265,142,753
Net cash flows used in investing activities	(61,849,067)	(47,476,976)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	19,869,720	5,756,122
Cash and bank balances at beginning of year	156,907,643	154,577,470
Effect of foreign exchange rate change	(2,852,811)	(3,425,949)
<b>CASH AND BANK BALANCES AT END OF YEAR</b>	173,924,552	156,907,643
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	173,924,552	156,907,643

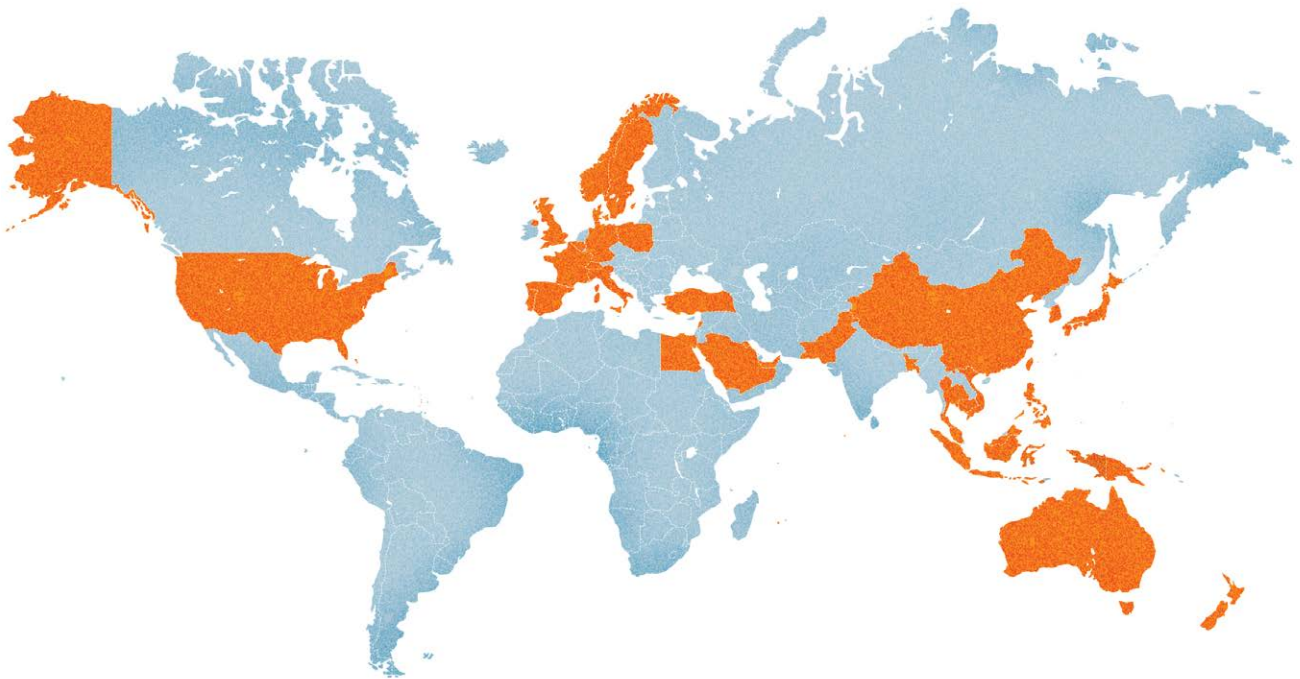


## Business Portfolio



\*Americas comprises Caribbean, North, Latin & Central America

## Market Reach

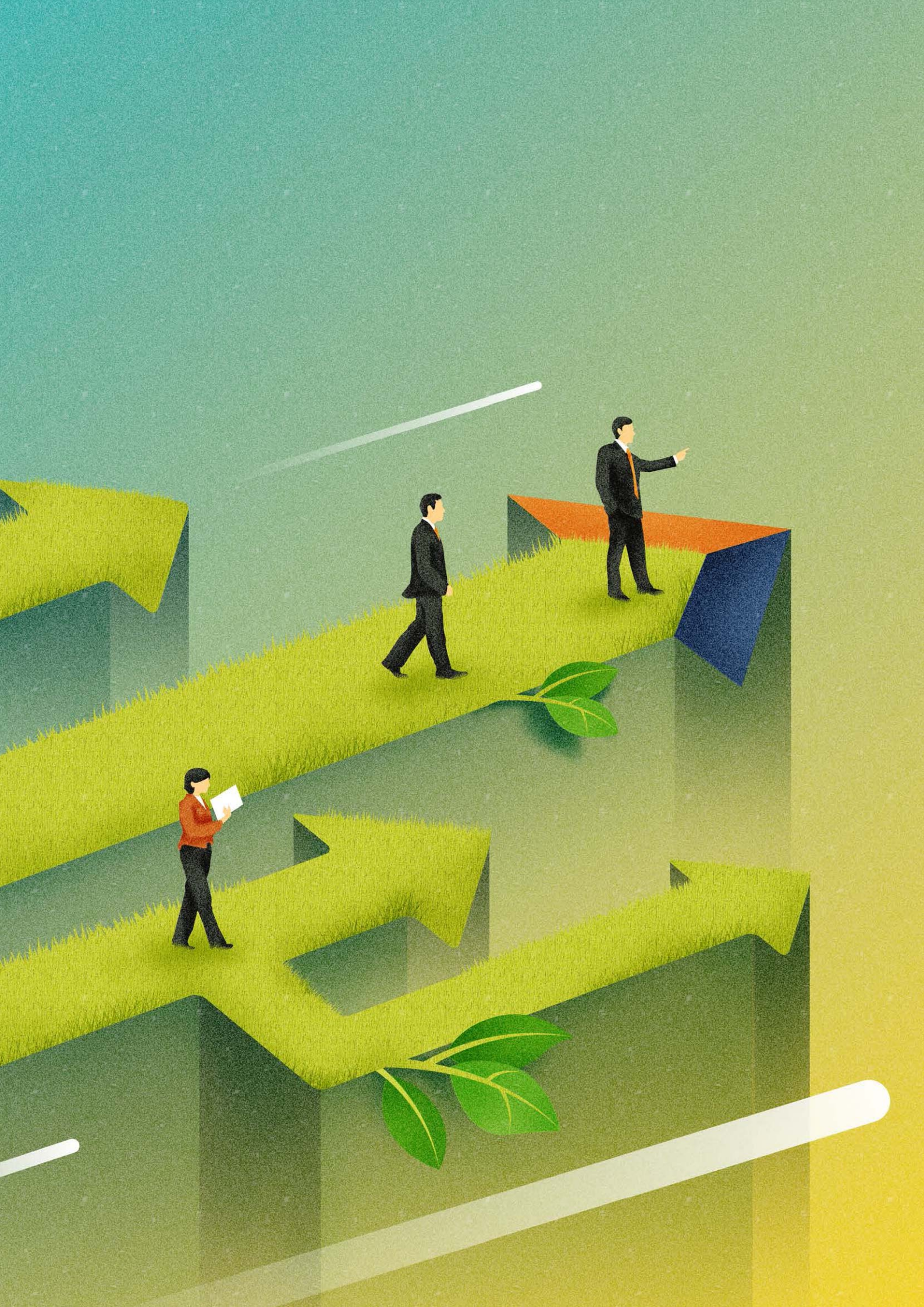




**PIONEERING  
LEADERSHIP**









# LETTER FROM CHAIRMAN & CHIEF EXECUTIVE OFFICER >



**Wang Qunbin**  
Chairman

“  
Peak Re delivered a very strong performance in 2015. These achievements are all the more remarkable taking into account challenging market conditions.”

In just its third year of operation Peak Re delivered a very strong performance in 2015. Gross written premiums doubled to US\$582.7 million, the cost ratio halved to a very competitive level of 4.8% and Peak Re generated an underwriting profit of US\$8.7 million, at a combined ratio of 96.8%. These achievements are all the more remarkable taking into account challenging market conditions as a result of excess capacity, soft rates and turbulent capital markets.

## **Strong Business Performance**

We are proud to report we doubled our technical underwriting profit to US\$30.8 million, reflecting a technical combined ratio of 92.0%. Net income increased by 42% from US\$41.6 million to US\$59.2 million. As in prior years, Peak Re will retain this profit to further grow our franchise. By the end of 2015 our shareholders' equity stood at US\$716.9 million, an increase by 4.1% from US\$688.4 million in 2014.

Despite volatile investment markets Peak Re achieved an investment income of US\$56.3 million, a slight increase from US\$55.6 million in 2014. This represents an investment return of 6.4%, well above the results published by reinsurers in mature markets. By the end of 2015 Peak Re's investable assets amounted to US\$913 million, an increase of 16.8% compared with US\$781.5 million at December 2014. Throughout the year our investment

team steadily reduced the share of equities to 34%, while increasing the weight of our corporate and government bond portfolio to 39%. 19% of our assets are held in cash and the remainder of 8% in alternative investments.

In just three years Peak Re has reduced its cost ratio to 4.8% or total administrative costs of US\$22.1 million, after 9% in 2014 and 28% in 2013. We feel that after just three years in business this is a remarkable achievement. Peak Re's lean cost base allows us to write business at attractive margins despite the prolonged soft market environment. In 2015, our headcount remained almost unchanged at 49 employees.

## **Challenging Market Environment**

Peak Re accomplished its strong results in a challenging market environment. Low interest rates continue to dominate the global economy and therefore, global reinsurance markets remain awash with capital. As a consequence, reinsurance players from mature markets are pushing into "high-growth" markets. We question whether these so-called high-growth markets are likely to deliver in the near term. At the same time, the more sophisticated players from China and other emerging markets are looking for opportunities outside of their traditional spheres.



## Global Expansion

We have had to build Peak Re in a market characterised by falling rates. In response, we have accelerated the establishment of a well-diversified global portfolio, enabling us to selectively grow our book in lines or markets with still attractive margins. In a first step we expanded into Europe in 2014, diversifying our Asian portfolio with mature market risks from Europe. In 2015, we further strengthened our presence in Europe by setting up a branch in Zurich, following our commitment to be close to our clients. In addition, we advanced our position in the Americas and announced a strategic investment in one of the leading primary insurers in the Caribbean, NAGICO Holdings Limited. The transaction is currently waiting for final regulatory approvals. This investment provides us with strong diversification benefits as we balance Asian natural catastrophe risks with Caribbean risks from NAGICO.

Along with the geographical expansion that we pursued beyond our Asia Pacific core markets, Peak Re also entered into further lines of business. In 2014 we prepared the ground for writing business in life as well as credit & surety reinsurance. Already in 2015 these efforts paid off as we wrote US\$76.5 million or 13% of our portfolio in the life segment, significantly strengthened our presence in casualty and started to launch innovative credit & surety solutions in Asian growth markets.

This global expansion and diversification notwithstanding, Peak Re continues to run an operation which is not only agile and responsive but also lean and cost-efficient. Our underwriting remains concentrated in a single location, at our home in Hong Kong. This approach ensures a seamless and swift coordination between our three core functions of market underwriting, product underwriting and analytics. In addition, it enables us to apply a coherent process and logic to our global underwriting activities.

## Strategic Continuity

We will maintain this strategic course as Peak Re's geographical and product portfolio continues to grow and diversify. In late 2015 A.M. Best reaffirmed our "A-" financial strength rating (excellent) with stable outlook, citing our supportive risk-adjusted capitalisation, the wealth of experience in our team, our diversification by region and lines of business, the development of in-house risk management functions and the improving trend in our management expenses ratio.

We would like to thank our shareholders, Board of Directors, clients, brokers and business partners for their continued support. Our special gratitude goes to our staff for their support and strong commitment to Peak Re.

**Wang Qunbin,**  
Chairman

**Franz Josef Hahn,**  
Chief Executive Officer



**Franz Josef Hahn**  
Chief Executive Officer

“  
Peak Re continues to run an operation which is not only agile and responsive but also lean and cost-efficient.”



## BOARD OF DIRECTORS >



### **Wang Qunbin**

#### **Chairman, Non-Executive Director**

Mr. Wang Qunbin is the Chairman and Non-Executive Director of Peak Re. Mr. Wang was one of the founders of Fosun and has been a director of Fosun Group since its establishment.

Mr. Wang was awarded "Asia Pacific Outstanding Entrepreneur Awards" issued by Enterprise Asia in 2014 and "Best Asian Corporate Director" at the Asian Excellence Recognition Awards 2014 by Corporate Governance Asia, and was named one of "China's 50 Top-performing Corporate Leaders" by Harvard Business Review.

Mr. Wang received a bachelor's degree in genetic engineering from Fudan University in 1991.



### **Michael Lee**

#### **Deputy Chairman, Non-Executive Director**

Mr. Michael Lee is the Deputy Chairman and Non-Executive Director of Peak Re. He is Senior Assistant to President, Co-President of Fosun Insurance Group, General Manager of Overseas Insurance Investment and General Manager of Iberian Investment Development.

Mr. Lee has over 20 years of insurance experience in the United States and China with extensive knowledge in actuary, underwriting, claims, product development, marketing, finance and investment.

Mr. Lee played an instrumental role in Fosun's investment in Peak Re. He was the deputy chairman of actuarial committee of Shanghai Institute of Insurance, chief representative of Life Insurance Marketing and Research Association (LIMRA) and a member of Shanghai association of insurance.

Mr. Lee holds a bachelor's degree from Fudan University, a master's degree from Purdue University and a master's degree from Western Michigan University in the United States.



### **Kang Lan**

#### **Non-Executive Director**

Ms. Kang Lan is a Non-Executive Director of Peak Re. Ms. Kang is the Vice President and Chief Human Resources Officer of Fosun Group, as well as President of Fosun Insurance Group.

Ms. Kang was the project manager of Nanjing High Technology Industry Development Company from August 1991 to June 1993, a researcher of Memorial Sloan-Kettering Cancer Center in the United States from October 1995 to May 1998, a research and development scientist in Wyeth from May 1998 to August 2000, a consultant of McKinsey & Company, Greater China Office from August 2002 to February 2007, and a senior client partner of Korn/Ferry International Consulting Ltd., Greater China Office from March 2007 to August 2010.

Ms. Kang received her bachelor's degree in biological sciences and biotechnology from Zhejiang University in 1991, master's degree in biochemistry from Tulane University in the United States in 1995, and MBA degree from the Wharton School of the University of Pennsylvania in 2002.



### **Monish Kant Dutt**

#### **Non-Executive Director**

Mr. Monish Kant Dutt is a Non-Executive Director of Peak Re. He is a seasoned investment professional and consultant on emerging markets, and serves as a director on four other boards in India, the Caribbean and the USA. Mr. Dutt has spent 25 years with the International Finance Corporation (IFC) until 2011 where he last served as Chief Credit Officer for Global Financial Institutions & Private Equity Funds. He was responsible for over US\$10 billion investments in debt instruments and equity during his service at the IFC. Before joining the IFC, Mr. Dutt worked at Ernst & Young London for four years.

Mr. Dutt holds an MBA in Finance from London Business School, London University and a bachelor's degree in Economics from St. Stephen's College, University of Delhi. He is also a Chartered Accountant accredited as a Fellow by the Institute of Chartered Accountants in England.





**Guo Guangchang**  
Non-Executive Director

Mr. Guo Guangchang is a Non-Executive Director of Peak Re. Mr. Guo was one of the founders of the Fosun and has been chairman of Fosun Group since its establishment.

Mr. Guo was awarded, among others, “2015 Most Influential Corporate Leader in China” issued by China Entrepreneur Summit and Chinese Entrepreneur 30th Award Ceremony, and named, among others, in the “50 Most Influential Individuals of the Portuguese Economy in 2015” by the Portuguese mainstream media Jornal de Negócios, Bloomberg Markets “50 Most Influential List 2014 - Corporate Power Broker” and a famous American business magazine Fast Company (Chinese edition) “China 100 Most Creative People in Business 2014”.

Mr. Guo received a bachelor’s degree in philosophy and a master’s degree in business administration, both from Fudan University.



**Franz Josef Hahn**  
Executive Director, Chief Executive Officer

Mr. Franz Josef Hahn is the Chief Executive Officer of Peak Re. With 30 years of reinsurance industry experience, Mr. Hahn has successfully helped building and shaping the reinsurance business in the Greater China and Asia Pacific region.

Prior to founding Peak Re, Mr. Hahn was the Managing Partner of FJ Hahn & Associates, offering strategic business advisory services to insurance companies and other financial institutions across the globe.

Mr. Hahn was the Managing Director of Swiss Re’s Greater China region between 1997 and 2008, and before that, he spent nine years at Munich Re, six years of which as Head of Casualty in Hong Kong.

Before launching his reinsurance career, he started his earlier years as a lawyer.



**Gong Zhiqi**  
Independent  
Non-Executive Director



**Ou-Yang Hui**  
Independent  
Non-Executive Director



**Duan Qiuping**  
Non-Executive Director

(Resigned from Peak Re’s Board and Fosun Group in early 2016.)





**Franz Josef Hahn**  
Chief Executive Officer

Mr. Franz Josef Hahn is the Chief Executive Officer of Peak Re. With 30 years of reinsurance industry experience, Mr. Hahn has successfully helped building and shaping the reinsurance business in the Greater China and Asia Pacific region.

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Before launching his reinsurance career, he started his earlier years as a lawyer.



**Cathy Chen**  
Chief Financial Officer

Ms. Cathy Chen is the Chief Financial Officer for Peak Re, overseeing the financial and operational management of Peak Re.

Ms. Chen has more than 10 years of accounting and financial experience in both the insurance and reinsurance industry and has solid knowledge of the related regulations.

Prior to joining Peak Re, Ms. Chen was the Chief Representative for Lloyd's Beijing representation office. Before that, she was the CFO for Swiss Re's China operation and had successfully established and maintained good relationships with various government authorities.

Ms. Chen holds an MBA in Finance and a bachelor's degree in Economics. She is also a member of the Association of Chartered Certified Accountants (ACCA) Fellowship.



**Desmond Yu**  
Chief Investment Officer

Mr. Desmond Yu is the Chief Investment Officer of Peak Re, designing, strategising and implementing tactical asset allocation of Peak Re's investment portfolio which is more than US\$900 million asset under management (AUM).

Mr. Yu has more than 20 years of financial industry experience, with proven track record of achieving excellent investment returns.

Prior to joining Peak Re, Mr. Yu was Deputy Chief Investment Officer of Bank of China Group Life Assurance, where he managed its US\$5.8 billion portfolio. Before that, he was Chief Investment Officer for Zurich Insurance Hong Kong and Regional Investment Manager for Zurich Insurance Asia.

Mr. Yu holds an EMBA degree and a bachelor's degree in Finance and Accounting. He is also a member of the Association of Chartered Certified Accountants (ACCA).





**Eckart Roth**  
Chief Risk Officer

Mr. Eckart Roth is the Chief Risk Officer of Peak Re. Mr. Roth is a seasoned reinsurance professional with about 25 years of experience in the regional and international reinsurance markets, and a proven track record in building and implementing comprehensive risk management systems during his previous experience with various global reinsurers.

Prior to founding Peak Re, Mr. Roth ran and owned a consultancy which offered tailored reinsurance solutions to financial institutions in Asia Pacific, Europe and the US. Before that Mr. Roth was the Managing Director and Global Risk Officer at White Mountains Re where he successfully built and implemented a risk management platform for the Group covering Europe, Bermuda and US.

Educated in Germany and France, Mr. Roth is a qualified lawyer.



**Chris Kershaw**  
Managing Director – Global Markets

Mr. Chris Kershaw is the Managing Director – Global Markets at Peak Re, responsible for business development and communication.

Mr. Kershaw has 30 years of experience in the reinsurance industry and has spent the past 20 years in Asia, gaining a wide range of experience working with various stakeholders, including regulators, to develop relationships and business across the region and multiple lines.

Before joining Peak Re, Mr. Kershaw was most recently Chief Operating Officer of Asia Reinsurance Brokers, an independent professional reinsurance broker based in Singapore. Prior to that, he was with the JLT Group for 25 years in various senior roles, including being a director of JLT Re Japan Inc.

Mr. Kershaw holds a master's degree in Modern History and Economics from Oxford University.



**Angela Koechli**  
Head of Life & Health

Ms. Angela Koechli is the Head of Life & Health for Peak Re. With more than 30 years of experience in the life insurance and reinsurance industry, Ms. Koechli has built up extensive knowledge of the global life and health market.

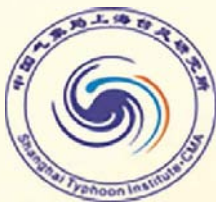
Prior to joining Peak Re, Ms. Koechli was Aon Benfield's Head of Life Reinsurance, Asia, where she consulted life insurers in modelling, structuring and placing of traditional and non-traditional reinsurance solutions.

Ms. Koechli joined Union Re in 1987 responsible for actuarial, underwriting, claims and business development for Life & Health, Accident & Health and Special Risks business in Europe and North America. After the Union Re/Swiss Re merger in 1998, she relocated to Hong Kong as Life Manager for Swiss Re.



## Partnership with STI

In June, Peak Re has announced an exclusive partnership with the Shanghai Typhoon Institute (STI) of China Meteorological Administration, a state-level institution which conducts basic and applied research related to tropical cyclones in China. Peak Re and STI collaborate on research projects related to the tropical cyclone activities in the North West Pacific basin and South China Sea and analyse their insurance impact. The research results will help the insurance industry to better quantify, manage and mitigate the related risks and provide useful information to serve society at large.



## Strengthening our Presence in Europe

Peak Re opened a branch office in Zurich in September to further grow its business and establish a physical presence in Europe. The Company also made the first two appointments dedicated to Europe. These developments reinforced Peak Re's commitment to this region as an important pillar of the Company's global growth strategy.



## A.M. Best Reaffirmed Peak Re's Financial Strength Rating

AM Best has once again reaffirmed Peak Re's financial strength rating of "A-" (Excellent) and issuer credit rating of "a-", both with stable outlook, in December. The ratings reflect the Company's supportive risk-adjusted capitalisation and the wealth of experience the Peak Re team has in the reinsurance industry. More importantly, the ratings also recognise Peak Re's improved diversification by region and lines of business, development of in-house risk management functions and improving trend in management expense ratio.



## US\$500 Million Premium Mark Achieved

Peak Re's franchise has grown stronger in its home markets in Asia Pacific and globally in 2015. The Company continued to gain very encouraging market reception and recognition. The increasing trust and confidence received from cedants were reflected positively in the Company's underwriting results. Peak Re's Gross Written Premium has successfully exceeded the US\$500 million mark in 2015.





**SUITE OF  
OPTIONS**







Alternative  
Capital

FINANCE



## Gross Written Premium

US\$ million **582.7**



In 2015, Peak Re's third year of operation, the Company delivered its first underwriting profit of US\$8.7 million and a combined ratio of 96.8%, on the back of further improvements in technical excellence and continued cost discipline. Gross written premiums doubled to US\$582.7 million, reflective of Peak Re's rapidly development. More importantly, Peak Re further progressed on its strategy of becoming a truly global reinsurer with a well-diversified, balanced portfolio. To this end, in 2015 the Company opened a branch office in Zurich, announced its first strategic investment of acquiring a 50% stake in a leading Caribbean primary insurer NAGICO Holdings Limited. This transaction is currently pending for the final regulatory approvals, and further advanced its risk and underwriting processes.

### Testing Market Environment

The business environment steadily deteriorated during the course of 2015. Initially, most pundits expected economic growth in the US to accelerate, Europe to emerge from its post-crisis stagnation and China to manage a soft landing. These expectations proved to be wrong or too optimistic, at least. Besides the darkening outlook for the global economy, political uncertainties increased on both regional and global scale. In addition, we saw a rise in protectionism in reinsurance markets such as China and Indonesia. Also, the technological revolution

finally arrived at the doorsteps of the insurance industry, also in Asia's fast moving emerging markets where digital giants entered the arena. These new competitors offer insurance policies with a market reach unrivalled by any insurer, entirely circumventing the traditional market. Neither capital nor diversification pose serious obstacles to these newcomers.

In order to respond to these developments, Peak Re accelerated its globalisation and further diversified its portfolio, while remaining lean and agile. While establishing a client-facing office in Zurich and undertaking a major strategic investment in the Caribbean, Peak Re maintained its cost-efficient structure of a single underwriting centre in Hong Kong. This approach paid off in 2015.

### Strong Profitable Growth

Gross written premiums grew to US\$582.7 million in 2015, up by 102% year-over-year, driven by larger shares gained and new business from Peak Re's core Asia Pacific markets, global expansion markets into Europe and the Americas, as well as growth in lines business such as life and casualty reinsurance. Net written premiums increased to US\$459.9 million, up by 140% from US\$191.6 million in 2014.

Only three years after its launch, Peak Re achieved two consecutive years of technical underwriting profit with a net underwriting income of US\$8.7 million in 2015, a combined



ratio of 96.8%. The technical combined ratio, which excludes administrative expenses, remained at 92.0%, compared to 92.2% in the previous year. Peak Re's strong technical results demonstrate its focus on underwriting excellence as well as a firm commitment to profitable growth.

Peak Re focuses on running a nimble operation, with strong client support capabilities. In 2015, the Company's administrative expense ratio came in at an excellent and very competitive level of 4.8%, after 9% in 2014 and 28% in 2013, Peak Re's first year of operations. Total administrative expenses in 2015 and 2014 amounted to US\$22.1 million and US\$17.2 million, respectively.

In 2015 Peak Re achieved a net investment income of US\$56.3 million, a slight increase from US\$55.6 million in 2014. The investment return was 6.4% — a very strong performance, given the volatility in Asia's capital markets in 2015. Investable assets grew by 16.8% from US\$781.5 million to US\$913 million. As of 31 December 2015, Peak Re's portfolio mix was 34% in equities, 39% in fixed income securities, 19% in cash and bank balances, and the remaining 8% in alternative investments. During 2015 Peak Re steadily reduced its equity exposure while increasing its position in fixed income markets, which mainly consist of corporate and government bonds, either held to maturity or available for sale. These bonds have a weighted average credit rating of BBB.

Peak Re manages its investment portfolio in-house. The Company runs a slightly higher equity share than reinsurers in mature markets at the early years of its operations. Over time, Peak Re's asset portfolio will be fully reflective of its liabilities.

Peak Re's net income increased to US\$59.2 million, after US\$41.6 million in 2014. The profit will be retained by Peak Re, in line with the long-term commitment from both shareholders, Fosun, with a shareholding of 85.1% and the International Finance Corporation, with a stake of 14.9%. Shareholders' equity increased to US\$716.9 million, up by 4% from US\$688.4 million in 2014.

### Continued Diversification

As of 31 December 2015 Peak Re wrote business with close to 300 cedants in almost 50 countries worldwide. The book of business not only grew, but also broadened substantially as Peak Re enhanced its geographical and product diversification. By the end of the year, the Company had reduced the share of property business in the portfolio from 44% to 39%. Motor fell from 30% to 13%. Life reinsurance grew from virtually nothing to a sizable share of 13%. Peak Re also grew its casualty business from 10% to 21% of the total portfolio and built a credit & surety portfolio through a number of facultative transactions.

## After-Tax Profit FY2015

US\$ million **59.2**





Within the considerable growth across the portfolio, the Americas contributed 28% in 2015, after 7% in 2014. The shares of Europe remained stable at 13%. China and South Korea each accounted for 22%. Japan and South-East Asia were 5% and 6% respectively while Australia and New Zealand took up the remaining 4% of the total portfolio.

The diversification of Peak Re's book of business reflected its strategic execution of plan in 2015. The opening of its branch office in Zurich in September 2015 only had a limited impact on European business written in the past year, with significantly more traction expected in 2016.

In 2015 the global impact from natural catastrophes remained benign and well below the long-term average. This also applied to Peak Re's portfolio. However, as a Hong Kong based reinsurer with Asia Pacific as its core region, Peak Re was obviously affected by a major man-made loss, the massive explosion and devastating fire in the Chinese port of Tianjin on 12 August 2015, which claimed at least the lives of 17 people and injured hundreds. Peak Re's loss, although sizable, remained well below its market share in China and was further cushioned by the Company's retrocession programme.

In light of the continued excess capital in the global reinsurance markets and subsequent rate reductions, Peak Re adjusted its underwriting strategy to reduce

its exposure to programmes with a greater volatility and higher price pressure. In fact, Peak Re's share on most panels is still "relatively" small and allows for a further expansion as the Company pursues long-term partnerships, predominately with multi-line insurers.

Another characteristic of Peak Re's approach to underwriting and risk management is its astute use of technology. To further improve the transparency of the risks it writes, Peak Re enhanced its data gathering and analysis efforts, also to the benefit of its cedants.

### Outlook for 2016

Peak Re expects the current market environment to remain largely unchanged in 2016. Supply in global reinsurance markets is set to continue to exceed demand. The competitive pressure is likely to be compounded by slow economic growth, in both emerging markets where the best to expect is stabilisation, and mature markets where robust economic growth at pre-crisis levels remains elusive.

In December 2015 the US Fed raised interest rates for the first time in nine years while monetary policies in Europe, Japan and most Asian countries remained very loose. This policy divergence will continue to lead to volatile capital and foreign exchange markets and also affect the top and bottom-line performance of global reinsurers. Against this backdrop, any market or corporate outlook in reinsurance is fraught with uncertainty.

Some pundits believe that the global reinsurance industry is approaching the bottom of the soft cycle and point to first indications of rising demand. Regardless of the prevailing market scenario, Peak Re will continue on its course as a lean and agile provider of reliable reinsurance capacity. As a privately owned reinsurer, Peak Re holds a long-term vision of the reinsurance market, based on its superior expertise and market proximity as well as a commitment to invest in client relationships.

Peak Re had a good start in 2016. In January the Company's renewable book grew by 60% from US\$211 million to US\$337 million. Global portfolio diversification further improved. In Asia, Peak Re recorded significant growth in China and South-East Asia, namely in Thailand, also benefitting from its ability to access business which is not yet available to the open market. In a number of transactions Peak Re developed products and solutions which address clients' specific reinsurance needs through tailor-made private deals. For the full year 2016, Peak Re expects further growth. Asia Pacific continues to be its core market while diversification into Europe and the Americas markets will progress according to plan.



Peak Re is in the business of assuming underwriting risk and investing assets. This exposes the Company to uncertainties from insurance and investment activities. Peak Re manages these uncertainties with the objective of protecting the trust invested by cedants — and ultimately policyholders — and its shareholders into the Company.

Peak Re is based in Asia's dynamic high growth markets. The momentum of the region's socio-economic and insurance market development challenges risk management based on historic data to project the future. The information gathering needs to be forward looking and integrate specific market knowledge. Peak Re leverages its Hong Kong domicile to maintain a constant and intensive dialogue with key markets across the region.

## Corporate Governance

Good corporate governance creates value in the long run and is the basis of our management and risk management approach. It fosters the confidence of investors, supervisors, clients and employees. Efficient practice between shareholders and senior management, open communication, and transparent decision processes create the confidence of employees and roots of the Company's strong risk culture.

Peak Re adheres to the Hong Kong laws and regulations. The shareholder agreement aligns its governance standards with IFC's best practice. In addition, the Company is a signatory company under the Principles for Sustainable Insurance (PSI) of the

United Nations Environment Programme, Finance Initiative (UNEP FI). The compliance with these sets of reference is controlled by the Chief Risk Officer together with Legal Counsel and Social and Environmental Officers.

The responsibility for corporate governance ultimately lies with the board and its committees — Audit Committee, Investment Committee, Risk Management Committee, Nomination and Remuneration Committee. The work and responsibility of the committees is laid out in terms of reference, which have been approved by the full Board of Directors. However the daily practice of good corporate governance is lived by the management and employees. To support and guide Peak Re's staff, the Company has developed a Code of Conduct, a Social and Environmental Responsibility Guideline and an Anti-Money Laundering Policy.

## Enterprise Risk Management

On the Property & Casualty reinsurance business side, Peak Re views its exposure to natural catastrophes as its largest single risk. To manage this risk Peak Re has defined scenarios for flood, earthquake, typhoon, severe windstorm and wildfire across all underwriting regions. For each scenario an aggregate capacity has been allocated. Dependencies between scenarios — notably typhoon — are being taken into consideration.

Peak Re licenses vendor models to analyse its natural catastrophe exposures. In addition Peak Re has built a strong analytical team which enables management to evaluate risks according to its own assessments. A modern IT platform supports real time accumulation tracking also adds in exposures from marine or agro books. Retrocession is being used to manage over all limits.

Peak Re also tracks its accumulations for other lines of business such as fire, personal accident, credit & bond and agriculture.

To track premium deficiency — i.e. the risk of not getting enough premiums to pay for future losses — Peak Re utilises the pricing tools developed by the Company which show the difference between the "technical" price, the correct price for the risk based on actuarial analysis, and the "market" price, the price at which the risk becomes placed. The movement of the price over time shows the market cycle. Peak Re reflects this in its incurred but not reported (IBNR) reserves.

The other major risk to a reinsurer lies in the potential of an adverse reserve development. This can stem from inadequate reporting and also from a change in law, interest rates or severe (medical) inflation. Peak Re calculates its reserves in accordance with actuarial best practice and use benchmark data and independent third party review to guarantee reserve adequacy at any time. Reserves are being reviewed on



a quarterly basis and monitored over time to recognise a change in trends early on.

Underwriting risk in Peak Re's Life and Health business is the risk of insured benefits being higher than expected. Of particular relevance are biometric risks and customer behaviour risks. Exceptional one off events, such as pandemic, can lead to short term decline in the value of the portfolio.

Changes in biometrics or in customer behaviour will have long term effects that can lead to changes in the actuarial assumptions affecting the value of the portfolio. Changes in morbidity or in cost of treatment will have a bigger influence on the health portfolio whereas mortality, longevity and disability changes will affect the life book.

Peak Re manages short term event scenarios and has laid down limits for the number of loss per life and numbers of lives in case of an event. In excess of these limits, reinsurance is being bought to provide sufficient capacity.

The actuarial assumptions and rating rules used are defined by the appointed actuary and reviewed from time to time.

Peak Re's investments are exposed to market risk, the risk of a price change in the capital market which can come from equities, interest rates, property or currency, and credit risk, the risk of a change in the financial situation of a counterparty.

The largest risk to Peak Re on the investment side arises from the volatility of its equity portfolio. Peak Re follows an alpha investment strategy believing in long term value creation through better stock selection. The Company is prepared to accept some movements in share-price from these investments in the short term. Through a traffic light tracking system, positive and negative movements are being tracked on a weekly basis.

On fixed income portfolio, Peak Re is exposed to interest rate movements and changes in spread reflecting counterparty risk. The Company tracks risks on a name, country and industry basis and considers cross balance sheet exposures from credit & bond portfolio. If the Company becomes overexposed to any one country, name or industry, the portfolio can be rebalanced or hedged.

As a reinsurer who writes business in almost 50 countries, Peak Re is also exposed to foreign exchange risk. A rigorous Asset-Liability Management (ALM) framework matches the Company's assets and liabilities. However, Peak Re faces constraints from the immaturity of the financial markets in some of the frontier and emerging economies it is operating in. If appropriate, Peak Re employs hedging strategies to mitigate foreign exchange risk.

In case of a major loss Peak Re needs to have the liquidity to pay claims in a timely manner — this is its main

value proposition to ceding insurance companies. Peak Re monitors its liquidity position and constantly builds out its cash flow planning capabilities with added experience from business. As a precautionary protection Peak Re keeps 5% of its shareholder and of its policyholder funds in cash. A repo facility has been put in place to cater for the unforeseeable. Equities and fixed income instruments are mostly traded in public exchanges in Hong Kong or New York and can be liquidated easily.

Operational risk at Peak Re is being defined as the risk of loss from people, processes, systems and external events. Peak Re tracks these risks using risk registers, which define the risk owner, describe the risk, define mitigating actions and quantify the residual risk. Using an independent third party consultant the Company identified an unsuccessful M&A transaction will be its biggest operational risk. The most likely operational risk is a bottleneck in the underwriting process at a major renewal, leading to either loss of business or impacting the quality of the business written.

In addition Peak Re runs a Disaster Recovery Process at least once a year. This is to test the resilience of its IT systems and access to critical business information in case of an external event. At the same time it provides training to staff on how to react in such an event.









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