Insight and Intelligence on the 2018 *Rendez-Vous de Septembre*

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MONTE CARLO

Downward drift of cat pricing set to resume at 1.1

Catastrophe reinsurance rates are likely to move back into negative territory at 1 January as market fundamentals bring about a reversal of the limited pricing gains made in 2018.

As the reinsurance market begins the run-up to the 1 January renewal season at the Monte Carlo *Rendez-Vous*, a range of reinsurers and brokers suggested privately that without a major cat loss, the balance of power would be tilted in favour of buyers.

The US casualty market is less strictly governed by supply-and-demand economics, so may be subject to a different set of dynamics that could again prompt an uneven improvement in terms for reinsurers.

Reinsurers, which tend to dominate the public discourse on rates in Monte Carlo, are likely to talk up rates, or at least to argue for a flattish renewal.

Last week, as part of its response to the takeover approach from Covea, Scor said it was bullish on rates and talked about the start of a new pricing cycle.

However, at least in cat lines, there is too much capital chasing insufficient risk. Specialty lines like marine and aviation are showing evidence of distress at the front end with a number of carrier withdrawals, but the much smaller secondary markets are also likely to continue to be over-capitalised given the diversification benefits they offer.

As such, it looks likely that we will see a continuation of the recent pattern in which there has been a divergence between the pricing commentary from reinsurers at Monaco and the final outcome at 1 January.

With absolute returns therefore set to remain disappointing, much attention at the conference is likely to focus on reinsurers' responses.

Here discussions will focus on M&A, diversification, cost-cutting and technology.

Downward pressure

- Traditional capital at all-time record high
- ILS funds have reloaded and have more capital than pre-HIM
- Benign H1 for cat losses
- Only Irma has adversely developed
- Demand broadly flat

Upward pressure

- Absolute returns remain depressed
- Casualty lines are underperforming
- Lloyd's risk appetite may fall
- 2017 cat losses are still fresh in the memory
- Signs of stress emerging at isolated companies

Cat pricing

Property cat reinsurers achieved mid-single-digit rate increases on loss-free US accounts at 1 January this year and there was an almost imperceptible increase in international cat pricing as well.

This probably represented a positive swing of 5-10 percentage points from the trend before hurricanes Harvey, Irma and Maria (HIM) hit.

The 1 January renewals were widely described as "disappointing" by reinsurers, but were probably not much worse than most private assumptions from observers that anticipated a rapid reload by the ILS market.

Momentum on property cat pricing slowed over the next nine months as the replenished ILS capital was brought to bear and loss creep turned out to be largely confined to Hurricane Irma.

The 1 April Japanese renewals were almost exactly flat and the 1 June renewals – which included a high proportion of loss-hit accounts – were little better.

Underwriting sources said the renewals were "depressing", with even loss-impacted accounts attracting only single-digit rises and isolated examples of "good cedants" that were able to get loss-hit covers home with small risk-adjusted reductions.

The loss record has provided little help to reinsurers arguing for rate rises, with the first half of the year extremely benign. Swiss Re estimated global cat losses at $18bn in H1 compared to a 10-year average of $30bn.

And to date the North Atlantic wind season – which is predicted to be below

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INSIDE

A look into the unforgiving mirror of Monte Carlo

A veteran returning to Monte Carlo is swiftly reminded of his own mortality.

This is because the older one gets, the shorter the intervening year between visits to the principality seems to last. Blink and you can almost forget which year it is.

Coming to the same place for five days a year for 14 years is a great way of noticing what has changed.

Because we know this place so well, we can see differences that a local person would miss. Small incremental daily changes can go unnoticed, but when they compound over a year, the contrast is striking.

So perhaps this is the true value of the *Rendez-Vous*? A once-a-year frank and honest look at ourselves, with nowhere to hide? Reinsurance is a place we know very well. We write about its incremental evolution day by day, but rarely reflect on what any of the small changes are amounting to.

Reinsurers have had more than enough to remind them of their own mortality in the past 12 months. Big cats, difficult markets and capital reloads from competitors in ILS seeking to cement their position.

The icing on the cake is a failure to produce returns that adequately and consistently exceed the cost of capital. M&A interest from the biggest insurance names in the world is the cherry on top.

If reinsurers are challenged, insurers have it even worse, and on a far grander scale.

Swiss Re's latest Sigma report spells it out in capital letters – insurers all around the world don't make good enough returns.

They need to be able to raise pricing while at the same time defending their bread-and-butter business from all kinds of disruption. My guess is they probably won't be able to do this fast enough to keep pace with the rising cost of claims and capital.

> "The idea of insurers buying reinsurers was unthinkable 10 years ago. But the sum of small incremental changes has caused what now looks like a seismic shift"

If your returns aren't good enough you can do one of two things – you either improve profitability through pricing and tighter terms and conditions or you reduce the amount of capital you have to hold.

If insurers can't do the former they will start doing more of the latter.

And right now, insurers have willing partners in the reinsurance world and further up the food chain, happy to take on increased cessions and package them up and sell them into places with lower return expectations.

Buying a reinsurer and ILS capabilities helps you do all that while at the same time the mere act of becoming bigger also reduces your cost of capital by sheer weight of numbers.

No wonder we are seeing so much deal activity.

Back in the dark ages when I was a broker, all big insurers owned reinsurers. Then they lost a lot of money, lost confidence and got out of the business.

This does beg the question – why should it work this time?

It is slightly different. James Vickers of Willis Re pointed out at his firm's Sunday morning briefing that back then insurers were all run by dyed-in-the-wool insurance folk who had risen through the ranks.

They weren't so good at doing transformative deals. These days they are all run by McKinsey types, fully *au fait* with M&A and financial engineering.

Better tech and analytics also means that they are far more comfortable with what they are getting themselves into and are confident the numbers won't suddenly throw up nasty surprises.

The idea of insurers buying reinsurers was unthinkable 10 years ago. But once again the sum of small incremental changes has caused what now looks like a seismic shift.

Welcome back to the harsh but healthy mirror of Monte Carlo!

Mark Geoghegan, Managing Director, *The Insurance Insider*
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Fascione to join ILS start-up Hudson Structured

ILS start-up Hudson Structured Capital Management (HSCM) Bermuda has recruited well-known retro underwriter Simon Fascione as a partner, sister publication *Trading Risk* has revealed.

His move is subject to Bermudian immigration approval.

In his new role the former Aeolus and Lancashire executive will work across all of the manager's reinsurance strategies, HSCM's founder and managing partner Michael Millette confirmed.

HSCM had more than $740mn of assets under management as of July 2018, according to *Trading Risk* records. It has won backing from Blackstone and launched two new strategies this year, a catastrophe opportunities fund and an InsurTech ventures fund.

It invests across a broad range of reinsurance perils, including health and casualty risks as well as catastrophe business. It also accesses the market via debt as well as reinsurance transactions. Separately, the firm manages transport structured finance strategies that are not included in the $740mn of reinsurance assets.

Fascione left his previous role as senior underwriting executive at Aeolus in May last year, and has been on gardening leave since then. He was at Aeolus for nearly four years.

Before joining the firm, he spent a number of years at Lancashire in a variety of roles.

In his time there, Fascione worked with Millette – who was then at Goldman Sachs leading the investment bank's reinsurance capital-raising and ILS activities – on fundraising for Lancashire sidecar Saltire.

Last week, *Trading Risk* reported that Tim Tetlow is leaving his position as a Bermuda partner at HSCM Bermuda to start his own consultancy business.

However, Tetlow will continue to work with HSCM Bermuda via his consultancy firm.

Following Fascione's departure, Aeolus hired former Willis Re broker Henry Kingham. This year it also recruited an analyst, Fergus Morrison, from Securis.

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average in meteorological terms – has resulted in no meaningful events.

As such, reinsurers that have avoided loss creep have reported strong results.

In reinsurance, capital is king – and the oversupply of capital remains the sector's single biggest challenge.

According to data from Willis Re's global index, reinsurers' shareholders' equity stood at $364.9bn at H1 2018, up 4.8 percent from the same point a year ago.

ILS capital, which is typically willing to accept a lower return than public markets equity capital, has also recovered to reach record levels and has a disproportionate impact in the cat market.

The industry's top 10 managers grew their assets by 7.2 percent over the first half of the year to reach $68.7bn at 1 July, according to figures from sister title *Trading Risk*. This is 21.2 percent higher than at the same point last year.

That ocean of capital is unlikely to dry up any time soon, and it looks as if it could get deeper still, with a series of takeovers by businesses with huge balance sheets likely to create additional capacity over the next two to three years.

AIG has already completed its $5.6bn acquisition of Validus, Axa is awaiting the close of its $15.3bn XL deal and The Hartford has recently signed a $2.1bn agreement to take over Navigators.

Taken together, the three acquiring businesses had 2017 shareholder equity of $165bn. Any or all of them could put more capital into the reinsurance operations of their new acquisitions over the next few years, potentially increasing capital oversupply even further.

On the fringes of the global picture, Lloyd's sharp focus on improving profitability could place some pressure on the amount of aggregate limit it deploys, although it is likely to have a more pronounced effect in primary lines.

There is also an unintended consequence of creating confusion around both buying and selling, with syndicates unclear at this stage what their business plans for 2019 will look like after Lloyd's is finished with them.

Demand

There has been additional demand coming off the back of 2017, with various cedants looking to add more catastrophe limit, but this has tended to be low rate-on-line top-layer risk transfer.

In broad terms, sources expected demand for reinsurance cover to be flat to modestly up.

Sources said this simple supply and demand ratio made rate rises more or less impossible, at least on loss-free accounts.

Absent what one source described as an "Armageddon event", reinsurers' hopes seem to be pinned on a lock-up of the retro market.

Markel Catco, the cornerstone provider of low-attaching retro, has been a huge outlier on loss deterioration, having initially forecast a 2017 return of 5 percent up to 15 percent down following the HIM storms before revising its loss to 27.6 percent in April this year. In May this deteriorated further to 41.4 percent.

The company announced a successful mid-year fundraise of $600mn, but if it were to suffer significant redemptions or some other adverse outcome as a result of the post-raise deterioration, then a meaningful reduction in renewal capacity could cause some dislocation in the retro market.

With available capital again dwarfing supply, the extent of rate rises will depend in part on where cedants choose to place themselves on the spectrum of relationship-based buyer to financially driven buyer.

Reinsurers are sure to argue that a period of respite on rates is required after years of steep reductions and with cat pricing still roughly 40 percent below 2012 levels.

Regardless, a canvass suggests that risk-adjusted rate reductions of around 5 percent could be achievable for many US cedants.

European cat pricing is unlikely to give up as much ground as US cover due to lower margins and the very muted uptick in rates last year.

Asia has historically been the softest region for pricing as reinsurers chase growth.

Casualty treaty

The casualty market is likely to behave somewhat differently, sources suggested.

Cat books can still deliver returns in the mid-to-high single digits in a normal loss year, but even with investment returns baked in, casualty treaty is offering returns that are more meagre.

Auto, in particular commercial auto, has been highly challenging and the loss inflation seen there for a number of years has started to spread to other areas.

Rising loss ratios coming off the back of years of increasing ceding commissions pushed reinsurers to breaking point last year, with terms starting to move against cedants in the second half of 2017.

Returns are still considered inadequate and it seems likely that there will again be some reduction in ceding commissions at 1 January, with original rates also offering reinsurers an offset against loss inflation.

With pricing in casualty more heavily driven by loss experience, the spread of pricing outcomes is likely to be wider than in cat, where most clients will come into the renewal season without losses.

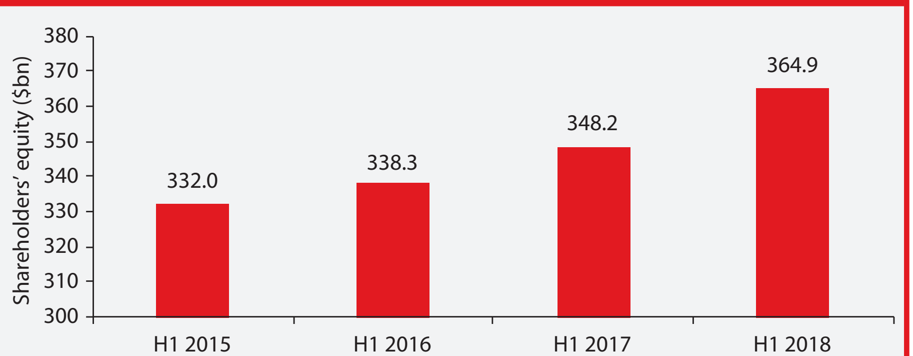
Back to the grind

Although it is early in the renewal season and major cat events cannot be foreseen, the dynamics of the developing discussions are clear already.

And after the turbulence and excitement of 2017, it seems possible that the long slow grind that characterised the market in 2015 and 2016 will resume.

If that proves to be the case and the market as a whole cannot fight its way back to healthy returns, the focus will shift to the performance and strategy of individual businesses – and who is a buyer and who is a seller.

Reinsurance capital continues to grow



Source: Willis Re

AFG prepares to close book on unhappy Lloyd's adventure

American Financial Group (AFG) is hoping that it will be able to leverage the remediation work and reputation of Neon CEO Martin Reith to secure a strong multiple on exit, allowing it to offset losses from the syndicate's Marketform days.

As revealed yesterday, the Cincinnati-based insurer has given Reith and the rest of the leadership team permission to explore a management buyout (MBO) of the company.

Sources told this publication that AFG and Neon are being advised by Macquarie.

It is understood that a restricted process is currently underway, with a number of financial bidders taken through to the second round and a change of ownership envisaged comfortably before year end.

If AFG is able to secure its reserve price for Neon a sale would end a decade-long unhappy experience at Lloyd's for the high-performing US insurance group.

AFG acquired Neon – then known as Marketform – in 2008 when the business was focused on international medical malpractice business.

Shortly afterwards, the firm's Italian med-mal book blew up, inflicting huge losses on Syndicate 2468.

By the time the long-open 2007 year containing the toxic Italian med-mal exposures was closed via a deal with Enstar, the losses to all capital providers totalled around £200mn ($258.5mn).

While some other capital providers allowed claims to hit the Central Fund after the initial Funds at Lloyd's of the syndicate were exhausted, AFG repeatedly earned plaudits from the market by answering cash calls to satisfy liabilities.

Reith has overseen a complete overhaul of AFG's Lloyd's platform since he was parachuted in as CEO of Marketform in 2015.

The turnaround project included the replacement of almost the entire senior team at Marketform. Ariel's Darren Lednor was appointed as CUO, Zurich's Geoff Riddell became chairman and Richard Heppell became CFO.

Alongside the personnel changes, Reith completely overhauled the Marketform portfolio, exiting its core international med-mal business as well as a range of other long-tail lines and increasing its involvement in short-tail classes.

As well as striking a reinsurance-to-close deal with Enstar for the Italian med-mal book, Reith also secured a second £400mn deal that allowed AFG to book a $42mn after-tax gain.

The deal saw Neon hand off the 2015 years and prior, divesting the business of all liabilities that it had incurred under the previous management team, and leaving the company as a quasi-start-up.

Earlier this year a restructuring exercise, which made Reith and the other members of management minority owners of the business, allowed AFG to book $165mn of tax refunds.

If AFG is able to secure the premium valuation it is said to be targeting – which one private equity source placed at 1.5x book – then it will go some way towards wiping out the losses for a business that has comfortably posted double-digit returns on equity year after year at group level.

Sources have suggested for some time that Neon may not be a good long-term fit for AFG.

AFG is famously cautious on catastrophe risk and has tended to deliver a much lower level of earnings volatility than its peers, with a specialty P&C combined ratio of 93.1 percent in 2017.

Reith, meanwhile, has a history of running substantial catastrophe risk and building a major presence in cat-exposed lines is clearly a part of Syndicate 2468's strategy.

Some had speculated, given the raising of an ILS fund for 2018, that Reith's desire to take on more cat risk would see Neon build a substantial third-party capital management business, but it seems likely now that this will be achieved in a different way.

If Reith – who owns 25 percent of Neon along with the rest of the management team – is able to shepherd a deal over the line, he will finally fulfil a long-held ambition to run an independent (re)insurer.

From around 2010 to 2014 Reith explored the creation of a collateralised reinsurer – with the working name Neon – and the acquisition of a range of insurance assets including Montpelier Re, Flagstone at Lloyd's and Hardy.

In the process, he raised billions of dollars of committed capital from the likes of Blackstone, Warburg Pincus and Capital Z, but never actually deployed the money due to the high valuations of available assets.

The executive has a successful track record as an entrepreneur, having established Ascot in conjunction with AIG before selling the staff-owned portion of the business to the global insurance giant.

Sources said that AFG and Neon set the work in train a number of months ago and that a plan to spin the businesses off had long been contemplated.

If it had always been AFG's intention to give Reith the opportunity to spearhead an MBO at Neon, it would go some way to clearing up the mystery of the Ascot founder's decision to take on the leadership of the sub-scale and serially underperforming Lloyd's business back in 2015.

Lime Street sell-off

Target	Buyer	Seller	Notes
Chaucer	China Re	The Hanover	Deal agreed in principle; waiting for Chinese authorities to indicate if transaction can proceed
StarStone		Enstar/Stone Point	Likely to be retained; Aviva and Canopius showed interest but a deal failed to materialise
Atrium		Enstar/Stone Point	Pitched to financial bidders, but likely to be retained
Pembroke		Liberty Mutual	Acappella likely to be sold together or separately
Neon		AFG	Up for sale with management given chance to do an MBO
Beaufort	Armour Holdings (in talks)	Munich Re	Fenchurch Advisory has been appointed to run the sale process
Asta		ACHP	30% stake up for sale; Norwegian mutual Skuld and Icat syndicate Paraline have right of first refusal

Source: *The Insurance Insider*

Speculation mounts on who could succeed O'Kane

With the question of Aspen's future ownership settled, market speculation has now refocused on whether Apollo will look to replace CEO Chris O'Kane, and who it could choose as his successor.

Apollo struck a deal late last month to acquire Aspen for $2.6bn in an all-cash transaction previously reported by this publication.

The alternative asset manager and Aspen did not hold a conference call after disclosing the deal and did not make clear whether O'Kane – who was quoted in the announcement – would remain with the company and in what capacity.

However, sources have said that Apollo has approached at least one senior executive as it looks to line up a successor to O'Kane.

Although moves like this do not always presage a CEO change, it is difficult to see the logic for keeping O'Kane in place to oversee a turnaround that aims to address the issues that emerged under his leadership.

A canvass of senior broking and underwriting sources in the sector also suggests that the executive's credibility has been irreparably undermined by the succession of strategic missteps under his watch.

The impression that Apollo will feel moved to make a change is strengthened by the track record that private equity companies have of shaking up management after buying into underperforming businesses.

Indeed, Apollo itself changed the CEO at Brit Insurance less than 100 days after it acquired the business along with CVC in 2011, with Dane Douetil making way for Mark Cloutier.

If Apollo were to remove O'Kane, who could it turn to as his successor?

A lot of early speculation has centred on recently departed Validus CEO Ed Noonan.

Noonan left the Bermudian (re)insurer, which he founded in 2005 with $1bn of equity, having closed its sale to AIG this summer for $5.6bn.

However, even if AIG were to release him from his year-long restriction, market intelligence suggests that it would be hard to tempt him out of retirement for the Aspen role.

It is likely that Stephen Catlin would also be near the top of any headhunter's list as another proven business builder.

Having retired from his role as deputy executive chairman at XL Catlin at year end, he is currently in the final weeks of consulting for the company, alongside work as an adviser to private equity fund Aquiline.

Catlin is keen to write one more chapter in his career, but he is thought to be more likely to take an entrepreneurial path.

The other big name in the industry who is currently available is former Aon president Steve McGill.

Industry heavyweight McGill is currently a non-executive director at The Hartford but is thought to be interested in returning to an executive role and would have the steel to spearhead a turnaround.

Sources have also flagged Frederick Eppinger, the former CEO of The Hanover, as a possible fit for the job.

Eppinger, who is understood to have advised Apollo on the deal, ran The Hanover for 13 years until his departure in 2016, and demonstrated an appetite for the specialty and reinsurance markets by acquiring Chaucer.

Bruce Hemphill, who recently stood down as CEO of Old Mutual, was also floated as a possible candidate for the role.

Hemphill has just seen through a complex restructuring of the financial services group that demonstrates his turnaround credentials.

Another potential candidate who has a track record working with Apollo is former Brit CEO Cloutier.

Currently chairman of Brit after the handover to long-time number two Matthew Wilson, it is not clear if Cloutier would have the appetite to return for a second turnaround job for Apollo at this stage of his career, but the executive has shown he has what it takes.

Headhunters also pointed to American Financial Group (AFG) CFO Jeff Consolino as a potential target.

As well as playing a key role in founding Bermudian Validus before moving to his current role at highly performing AFG, Consolino has a background as an insurance deal banker at Merrill Lynch.

Rees and Eckert backing Price Forbes reinsurance arm

Benfield co-founder Mike Rees and Brit co-founder Neil Eckert have invested in Price Forbes' reinsurance broking arm, *The Insurance Insider* understands.

Price Forbes Risk Solutions was launched in June, operating within parent company Ardonagh's international and specialty segment and run by David Barrie.

According to sources, industry luminaries Rees and Eckert have made substantial investments of personal resources into the new entity and together own a sizeable minority stake in it.

Price Forbes Risk Solutions forms part of David Ross' Ardonagh Group, a broking and underwriting business that controls £5bn ($6.5bn) of insurance premium but which until now has lacked a presence in the reinsurance space.

The involvement of Rees and Eckert is likely to fuel speculation that Ardonagh, which has backing from HPS and Madison Dearborn, will look to use its broader market presence to attack the opportunity in reinsurance broking.

Having served on the board of Benfield in the early 1990s, serial entrepreneur Eckert co-founded Brit in 1995 and served as CEO for 10 years and then as a non-executive director for a further three.

After leaving Brit, Eckert became CEO of Climate Exchange, which was part of a consortium of investors that bought Brit-backed e-trading platform RI3K in 2007.

Eckert was CEO of Climate Exchange until August 2010, and is now chairman of Aggregated Micro Power, which invests in alternative energy projects.

Rees was one of the founding partners of Lloyd's broker Benfield, Lovick & Rees, which later became Benfield Group following a 1988 management buyout. The broker was in 2008 bought by Aon and Rees received £53mn for his 7.1 percent holding.

He was also one of a highly successful group of investors in CFC who cashed out last year when Vitruvian acquired a majority stake in the fast-growing MGA.

Tullett Prebon launches trading platform

ILS broker-dealer Tullett Prebon is looking to shake up the market for hedging cat risk on an industry loss basis with the launch of a new trading platform for insurance-linked notes (ILNs).

Using industry loss triggers in a tradeable format similar to a cat bond, the firm said it will offer protection buyers and sellers access to lower-cost and anonymous live trading.

The instruments can be customised by geography, peril, loss level and trigger type such as aggregate or occurrence.

Uniquely, both the protection buyer and seller are able to trade on their contracts on the secondary market if they wish, as each counterparty will be issued with Bermuda-listed notes representing their interest in the deal.

This contrasts to the buy-and-hold industry loss warranty market, in which cover cannot be traded on, and in which counterparties are generally known to each other.

However, if a buyer wishes to source cover in reinsurance format this can be done – although they would not then be able to sell on their protection.

The platform is available to registered users but will not be open to retail investors.

It offers real-time risk analysis from Verisk subsidiary Analyze Re, powered by CoreLogic models. In addition, AIR Worldwide models can be overlaid into the analysis for AIR-licensed users.

Steve Emmerson, Tullett Prebon's head of ILS and insurance, said that the data analytics available should enable the firm to attract a broader base of participants over time, moving beyond ILS specialists or reinsurers. "It is a low-cost entry point for investors," he said.

The broker also has future ambitions to attract corporate buyers as well as insurers or reinsurers looking to hedge their portfolios.

"We want to bring in natural original risk buyers and connect them to capital market capacity," Emmerson added.

To date, Tullett Prebon has specialised in secondary market trading of cat bonds. With this new product, it will be taking on a broader segment of the collateralised market in response to what Emmerson described as "huge demand" from its clients to make trading more efficient.

Fees will be set on a sliding scale depending on the size and rate-on-line of trades, ranging from 25 to 42.5 basis points, including analytics and securitisation costs – much more competitive than standard broking rates.

Emmerson said the savings associated with using the pre-designed ILN documents helped to make the process more efficient.

Live online trading will be scheduled for weekly half-hour auction slots listing a range of contracts, although buyers and sellers can list expressions of interest and deals can be confirmed at any time.

Participants can trade either directly online or by calling Tullett Prebon.

"We appreciate that some (re)insurance industry participants are not ready for full live trading of risks, so we are providing all options to facilitate trading," Emmerson added.

Insurwave to support reinsurance treaty business by year end

Marine blockchain initiative Insurwave will be used to process marine treaty reinsurance contracts by the end of the year, *The Insurance Insider* can reveal.

In an interview with this publication, EY financial services partner Preetham Peddanagari said the blockchain project, which already supports facultative marine reinsurance business, would expand to accept treaty placements.

"The existing reinsurance technology which underlies Insurwave will be developed further in time, and used to support quota share, surplus and non-proportional reinsurance contract models by the end of this year," he said.

Peddanagari added that Insurwave could be used for marine reinsurance contracts because the existing technology supported the tracking of both assets and smart contracts.

The expansion of the project marks the next step in the initiative's foray into marine reinsurance.

Insurwave is a joint venture between consultancy EY and software company Guardtime which allows shipping giant Maersk to monitor the changing risk exposure of its assets around the globe in real time.

XL Catlin, MS Amlin and Willis Towers Watson are also using the platform.

The project is built on an open-source distributed ledger system first designed by tech firm R3.

Distributed ledgers are well-suited to tracking the movement of physical marine assets such as ships and containers because they offer multiple parties an indelible and transparent record of real-time changes.

Insurwave also helps to simplify the setting of premiums, which can be made more complex by the scale of many marine and cargo accounts. The system also allows Maersk to sell risk and insurance products directly to its cargo customers.

A source close to the project told this publication the Insurwave programme was likely to involve shipping or logistics conglomerates other than Maersk in the near future.

Speaking following the launch of the project in May, Lars Henneberg, head of risk and insurance at Maersk, said the platform would help the firm automate manual processes and cut costs by removing a range of inefficiencies and "frictional costs".

Ryan Rugg, head of R3's insurance practice, added that the Corda open source system on which Insurwave is based would help with the secure sharing of data and increase transparency between clients, brokers, insurers and other third parties.

Insurwave was launched with the goal of supporting more than half a million automated ledger transactions and helping manage risk for more than 1,000 commercial vessels in the first year.

Senior executives participating in Insurwave said in July that they were exploring the initiative's application in classes other than marine.

MS Amlin global head of strategic initiatives Madeline Bailey said classes including property, aviation and energy were under consideration.

EY director of insurance Ian Meadows said there was an obvious parallel between aviation war risks and war risks in marine.

The roll-out of such a system in general aviation could potentially generate efficiencies at a time when the market is struggling with anaemic rates and high loss ratios.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PartnerRe explores bolt-on acquisitions

PartnerRe has said it will look to expand through bolt-on acquisitions and organic growth, rather than through a transformational deal.

Speaking at a press conference at the Monte Carlo *Rendez-Vous*, Emmanuel Clarke, president and CEO of PartnerRe, said: "On M&A, we actually see plenty of organic growth opportunities both in the non-life space and the life and health space."

Clarke said speculation that PartnerRe had held talks with Scor – which the French reinsurer had itself denied last week – was unfounded.

"We have not been in discussions with Scor at all," he said.

"We are happy with the organic growth opportunities that we have, we don't need that kind of transformational acquisition."

"We remain open to any bolt-on opportunities," he added.

Clarke pointed to the company's April 2017 takeover of Aurigen Capital, a Canadian life and health insurer, as indicative of the type of deal PartnerRe is considering.

The CEO spelled out the advantages of PartnerRe's status as the world's largest privately held reinsurer, arguing that the company could take a longer-term view, without having to worry about short-term reporting pressures.

PartnerRe is owned by Agnelli family-backed investment company Exor, which closed its $6.9bn takeover of the Bermudian group in March 2016.

Charlie Goldie, PartnerRe's CEO of P&C, emphasised the company's position as a "pure-play" reinsurer.

Goldie said the fact that PartnerRe only wrote reinsurance was helpful for cedants.

He said the importance for cedants of being able to "share confidential business plans with a commercial partner and not a potential competitor cannot be underestimated".

PartnerRe has also signalled its ambition to continue writing cyber reinsurance.

Goldie said: "The market is still in its infancy. Right now we are one of the largest cyber reinsurers in North America on products largely geared around data protection.

"We will have a tremendous capacity for cyber as those products change."

But he added that there was little standardisation in the cyber reinsurance market, with disagreement between buyers and sellers as to what cyber cover should include.

The reinsurer has also begun exploring InsurTech, signing a deal with crop technology business Farmers Edge.

PartnerRe was fined EUR1.54mn ($1.78mn) by the Irish regulator last month over mistakes in its treatment of internal reinsurance treaties under Solvency II.

An investigation by the Central Bank of Ireland found that the errors were not intentional.

But in a public statement, the Irish regulator criticised PartnerRe's two Irish entities, PartnerRe Ireland Insurance dac and Partner Reinsurance Europe SE, for failing "to design and operate appropriate internal controls to ensure the accuracy of their Solvency Capital Requirement".

Goldie said that lessons had been learned from the episode.

Specialty insurance integral to Scor's future: Peignet

Scor has reiterated its commitment to Lloyd's and the London market, following the decision in July to fold its Lloyd's syndicate, Channel, into its wider London specialty business.

Speaking about the future of Scor's London market P&C operation, global P&C CEO Victor Peignet said the carrier remained fully committed to the market through The Channel Syndicate.

Peignet added that while Scor's specialty insurance operation was more vulnerable to losses in heavy catastrophe years, it was integral to the growth of the business.

"Specialty insurance has contributed as much to Scor's overall level of gross written premium as reinsurance," the executive said.

At an investor day last week Scor announced a reorganisation of its global P&C operation.

Following the restructure, the P&C business will be split into three segments focusing on reinsurance, specialty insurance and P&C partners.

Jean-Paul Conoscente, previously US chief of the P&C operation, and Umberto Gavazzi, former worldwide treaty chief underwriting officer, were appointed CEO and deputy CEO, respectively, of the reinsurance unit.

Laurent Rousseau was chosen to become CEO of Scor's specialty insurance business unit, in addition to his role as deputy CEO of Scor Global P&C and position on the group's executive committee.

The changes came as part of the French reinsurer's "Vision in Action" strategic plan, which was launched two years ago.

Scor chairman and CEO Denis Kessler also used the conference to reiterate his rejection of Covea's unsolicited takeover bid, which was made public last week.

"We are extremely proud to be independent," he said.

"You need to merge when you are in a situation when you need a big brother – or big mother – to give support. [Or] because you lag behind in terms of technology, [which] we don't.

"[Another reason is] you need more financial resources – which we absolutely don't. [Or] because you are stuck and cannot grow. Again, this is absolutely not true."

Kessler said that Scor's superior profitability in comparison to its competitors meant it should not be considered a target for acquisition.

However, Scor could still consider portfolio acquisitions of its own in order to drive growth.

"Historically we have acquired the portfolios of companies in the US," he said.

"But we do not deviate from the fact that with the capacity for indigenous growth, we would be extremely rigorous. It needs to be absolutely aligned with our profitability and solvency targets."

Last week Scor dismissed the EUR8.3bn ($9.6bn) takeover proposal from mutual insurer Covea, saying the bid was "fundamentally incompatible" with its intention to remain independent and would jeopardise value creation.

The rejection came after Covea, already an 8.2 percent Scor shareholder, said in a statement that it had approached the reinsurer in August with a cash proposal worth EUR43 per share.

The price represented a 21 percent premium to Scor's closing price the day before news of the approach emerged. Covea has since withdrawn its proposal.

More (re)insurance M&A to come: Willis Re

Large-scale M&A activity will continue as carriers seek scale and diversification, Willis Re has predicted.

At a press conference at the Monte Carlo *Rendez-Vous*, senior Willis Re representatives said they did not predict a slowdown in deal activity, which has included AIG buying Validus, Axa purchasing XL Catlin and The Hartford agreeing to acquire Navigators.

Global head of casualty Andrew Newman said the fundamentals continued to make M&A attractive, as carriers attempted to lower their cost of capital by increasing scale.

Global CEO James Kent said the reduction in the rate of corporation tax in the US had accelerated the pace of M&A among US-domiciled carriers. He noted that there were no significant US deals during 2014-2016.

Willis Re International chairman James Vickers added the caveat that although diversification was an incentive for M&A, carriers would pull out of unprofitable lines of business rather than maintain them for the sake of balancing their portfolios.

Vickers noted very different social issues at play in the current wave of acquisitions. Whereas during the last M&A cycle in which insurers had acquired reinsurance groups in the 1990s most insurance CEOs had risen through the ranks of their respective organisations, many current leaders were "outsiders" with more experience in corporate finance and M&A.

He added that better analytics provided deeper insights into the true value of potential acquisitions and that insurance acquirers were now much more confident of the financial positions of the businesses they were buying.

Property cat pricing had entered a "new norm" in which highs and lows were muted, Kent said.

ILS capital has had a significant impact on pricing, Kent said, but had moved from being a "disruptor" of the industry to an "enabler" of more sophisticated risk transfer, with "all forms of capital converging" within carriers through M&A.

Vickers said that increasingly, public sector entities such as governments were looking to buy cover, and that reinsurance would make this possible.

However, he added that closing the protection gap by insuring public sector entities was a challenge.

While he noted there had been better public and private sector collaboration recently, Vickers said (re)insurers had previously approached governments but were "talking a different language".

"You go to a government and try to explain what a model is and they think you're from Mars," Vickers said.

He added that ratings agencies were beginning to take more account of companies' climate change exposures, and that protection against climate risk presented the industry with an opportunity.

Citing figures from the broker's first-half reinsurance market report, which was published on 6 September, Kent said the reported return on equity within its set of 21 reinsurers was 8.5 percent, up by just 0.1 point from the same period last year.

The broker noted this as a sign of stabilisation following a period of deterioration during 2015 and 2016.

The combined ratio of the cohort was 93.3 percent, an improvement of 0.7 points from the same period last year.

Carrier conglomerates an evolution, not a revolution: Marcell

The trend for (re)insurers to look for M&A deals which broaden their capabilities and access to risk and capital is a natural evolution of the (re)insurance market, Aon Reinsurance Solutions CEO Andy Marcell has said.

Speaking at Aon's press conference in Monte Carlo, the executive commented on recent M&A transactions – such as AIG's $5.56bn acquisition of Validus and Markel's agreement to buy Nephila – which point towards a trend of emerging (re)insurance conglomerates.

Both deals allowed the acquiring companies to build scale and broaden their skill set and product offering. They also demonstrate a trend for carriers to bring insurance, reinsurance and alternative capital capabilities under one roof.

"Is there a new model? Potentially yes in the sense that the most sophisticated solution providers want to have optionality in terms of how they deliver solutions to customers in the most effective way for them and their cost of capital," Marcell said.

This is an entirely natural thing for them to do, the executive continued.

"This [trend] is an evolution, I don't think it's a revolution. And we welcome it."

From the perspective of Aon and its clients, the AIG-Validus transaction made Validus a stronger company, Marcell said.

Meanwhile, Markel's Nephila deal makes the insurer's product offering even broader, and Aon welcomes that, the executive added.

Earlier in the press conference, Aon Securities CEO Paul Schultz said he was expecting more insurers and reinsurers to use M&A to broaden out their ILS or alternative capital capabilities.

"I would say the frequency and intensity of those M&A discussions with our clients have increased this year," he said.

"Given what has just happened with Markel and Nephila, I would say we will see more of those types of transactions this year."

Aon also announced the launch of a new capital advisory unit, initially in the UK, to be led by Eric Paire, who joined the firm from Guy Carpenter in March.

Marcell explained that this division will be responsible for setting initial strategies with clients, and the Aon Securities team would take over in executing solutions at the "capital-facing" stage.

The new division will focus on helping cedants to make capital efficiency gains, whether by accessing alternative or traditional capital, identifying better opportunities or improving investment strategies on the asset side of their business.

During the event, Aon Reinsurance Solutions UK CEO Nick Frankland said the new division would also "absolutely" be using the run-off market as part of its offering.

Aon is looking at advising on more legacy transactions but also holding more proactive, rather than reactive, conversations around capital optimisation, he said.

Capital optimisation is going to become an implicit part of the market, Frankland added.

In a statement, Paire said there was no silver bullet that would restore insurers' profitability.

"It is all about fine tuning and optimising the various components of the P&L and the balance sheet for increased operating and financial margins, and an enhanced capital mix, while reducing volatility and allocated capital for a lower cost of capital."

Innovation key to revving up new ILS sidecars

Reinsurers that are playing catch-up on ILS capital management still have a chance of making a go of it – but they will have to offer investors more unique propositions to try to fast-track their growth, said commentators surveyed by sister publication *Trading Risk*.

Aon Securities CEO Paul Schultz says reinsurers chasing ILS capital may find it is now difficult to get buy-in from third-party capital for a "me too" strategy.

In the near term, investor interest is still focused on property cat strategies. But there are ways to build unique cat portfolios – such as picking out geographical niches, suggests Schultz.

One of the newer reinsurer entrants to the ILS market is Neon. Mark Gibson, who heads up the newly launched Neon Capital Markets, says: "Tremendous competitive forces are building up, but entry is not difficult, and it isn't too late."

He suggests beginning by sourcing quota-share sidecar support for a key part of the company's portfolio.

"They should identify sticky, core business which is predictable in volume for the sponsor company, and share that with investors as a first step," he says.

Presentation of data is also key. RMS client director Jin Shah says that the firm has seen a wide range of data quality proffered to sidecar investors.

"When information is less detailed or precise, it is natural that investors will price in some greater uncertainty," he notes.

After setting up a sidecar, a reinsurer will be better positioned to discuss managing more of an investor's capital to underwrite market-facing business, says Neon Capital Markets' Gibson.

To face the market or not

This next step – to managing market-facing business – is something that far fewer reinsurers have undertaken.

A market-facing vehicle is one that has a portfolio built specifically for its investors, and which transacts directly with protection buyers, rather than standing behind a reinsurer and taking a slice of its pre-existing portfolio. Examples include Lancashire's Kinesis and the AlphaCat funds at Validus.

From the perspective of protection buyers, each model of delivering third-party capital can work well if articulated clearly, says Aon's Schultz. "I don't think one size has to fit all."

In either model, investors will always be alert to the risk that a reinsurer is more focused on gains to its parent balance sheet than their funds. But they stand to gain from having access to a reinsurer's balance sheet and expertise.

"Our investor clients benefit from the capital efficiency and granular, diversified portfolios that are built in a cost-effective manner through a rated balance sheet," says Richard Lowther, ILS chief operating officer at Hiscox Re & ILS.

> "Tremendous competitive forces are building up, but entry is not difficult, and it isn't too late"
> *Mark Gibson, Neon*

But there is a bigger philosophical question surrounding reinsurers and their use of ILS capital: are they truly competing as asset managers, or are they simply loading up on retrocession sourced from ILS managers such as Stone Ridge?

It is not always easy to distinguish between a simple retro sidecar and a third-party asset manager. Which vehicles actually have the infrastructure in place to act as fiduciary managers of investor capital – and which are merely asking investors to enter a transaction on a buyer-beware basis?

Consider vehicles operated by some of the continental carriers, for example: Munich Re's Eden Re series and Hannover Re's K sidecar, neither of which are market-facing.

Hannover Re has never described its long-standing K vehicle as anything more than a retro sidecar – one more likely to be placed with ILS managers than to compete with them for investor mandates.

Munich Re on the other hand has won an allocation from one of the largest ILS investors, PGGM, for Eden Re.

Indeed, Lowther suggests that many reinsurers "simply don't want to be asset managers". "[They] see ILS simply as transacting with ILS funds to source capacity," he says.

But he questions whether they will achieve the same benefit as reinsurer managers that are able to directly attract institutional capital.

Balancing the books

Ultimately, before chasing headlong after third-party capital, one of the questions a reinsurer needs to be asking when creating new ILS strategies is: what's in it for me?

The clearest driver, in these days of challenged returns, is fee income. However, unless a reinsurer is using ILS capital to boost their overall top line, then this will come at the cost of more lucrative underwriting income on premiums that would otherwise have been kept by the carrier.

But fees have the advantage of being risk-free income, "which is handy in a tough underwriting environment", as Neon Capital Markets' Gibson points out. "The impact goes directly to the bottom line."

However, reinsurers have to maintain quality underwriting returns for these new investors, he notes.

Meanwhile, scale – both of a reinsurer and its sidecar - may be crucial when it comes to building ILS platforms, judging from analysis by Standard & Poor's (S&P) carried out for this publication (see the Autumn edition of *IQ* for details).

The ratings agency considered the example of a global reinsurer with $5bn of equity before and after setting up a $120mn sidecar.

The results showed that if the reinsurer did not lift its top line, the post-sidecar average loss scenario actually led its return on equity to slip by a basis point. But assuming top-line growth, the pro-forma return on equity of 6.6 per cent in an average cat year would rise by 88 basis points to 7.48 per cent.

However, S&P associate director Olivier Karusisi says the capital relief and reduction to counterparty risk from raising collateralised retrocession was one of the most interesting benefits in his view.

Other more strategic benefits of managing ILS capital include increased relevance to buyers from being able to deploy larger line sizes and having quick access to capacity in a post-loss scenario, says Lowther, of Hiscox Re ILS.

Aon Securities' Schultz suggests that more benefits are yet to be realised. "Cedants are looking for holistic solutions, and using ILS capital enables more innovation," he says. "We have just scratched that surface on this."

Rising rates, new risks thrust casualty into spotlight

From the impact of climate change to the challenges posed by cyber and automation, casualty is rapidly evolving, writes Rachel Dalton

Continued soft property cat market rates are adding pressure on casualty treaty underwriters to deliver results, while at the same time the sector turns its attention to a set of emerging risks.

Casualty treaty has traditionally been a lower margin business than property catastrophe, with carriers cross-subsidising casualty with wins from property.

With relatively low additional capital requirements, the appeal of the class has centred on its function as a diversifier to round out the rough and tumble of a property business in hock to natural disasters.

However, one North American underwriting source said that with property cat facing pressure following a disappointing pricing response to 2017's storms and wildfires, "we can't rely on cat business to round us out".

Another reinsurance source added: "Casualty is increasingly important to us. It's a relatively thin margin, but as a portfolio play it makes sense."

Pricing in 2018 is showing signs of improvement, following the collapse of casualty treaty rates in 2017.

"We're starting to see signs of a turnaround," an underwriting source said.

Another added that "the slide has ended" on pricing in both primary casualty and reinsurance, with a "modest uptick" in treaty.

That said, there is "certainly room for the market to improve in 2019", they added.

One source said an increase in interest rates would make return on equity (RoE) figures for casualty carriers look healthier, although "our RoEs are so low that an increase in interest rates doesn't give you room to cut [prices]".

Given the slender margins in casualty, however, an underwriting source warned of a market correction in the medium term, with "reserve charges ahead and possible carrier closures".

Cyber: a two-pronged risk

The word on all casualty underwriters' lips is "cyber", as web connectivity wends its way into every facet of every industry.

The Prudential Regulatory Authority has asked carriers to look at the impact a mass increase in cyber claims might have on existing policies.

"There's an opportunity to make it a cleaner cover and manage the risk better," a source said.

The true test of whether carriers have underwritten cyber risks prudently will be the "huge blackout event" that underwriters fear is coming.

With major infrastructure such as power grids, dams, and hospitals vulnerable to a remote shutdown, the potential increases for a large-scale terror attack achieved through digital means that is as devastating as 9/11.

One underwriting source said the cyber market continues to expand – "exposure goes up, premiums go up" – but that carriers "don't know how to measure the risk yet".

2017 data breaches

Most common primary causes of loss	
Ransomware	26%
Data breach by hackers	12%
Other security failure/ unauthorised access	11%
Impersonation fraud	9%
Most affected sectors	
Professional services	18%
Financial services	18%
Retail	12%
Business services	10%
Manufacturing	10%

Source: AIG cyber claims report May 2018

> "Our RoEs are so low that an increase in interest rates doesn't give you room to cut [prices]"

Part of the problem with cyber is that many different classes of insurance are vulnerable to cyber risk, but were not written with those risks priced in, so-called "silent cyber".

"When it's written as cyber, it's a clean class, although it is exposed to ever-more sophisticated attacks," an underwriting source said.

The source said underwriters increasingly use the Institute Cyber Attack Exclusion Clause (CL 380) to protect vulnerable policies.

They added that Lloyd's had been looking into how syndicates were dealing with the cyber risk within existing policies across different classes.

A Lloyd's source said they had seen one casualty treaty covering both "silent" and "affirmative" cyber risks this year, which their syndicate had refused as the risks were too broad. The cedant purchased cover mainly in the company market, they added.

Another underwriting source warned that carriers must pick specialties within cyber and cannot continue writing broad policies.

They warned there is also discussion about how to model cyber risks, which is difficult due to the emerging nature of the technology concerned. The person added that the market could face losses on a par with those arising from Hurricane Andrew in 1992 if risks are not modelled accurately enough.

Opioids: sprawling liabilities

There is continuing concern about exposure to claims arising from the inappropriate prescription, supply or sale of addictive opioids in several US states.

It is estimated that 150 people in the US die every day as a result of opioid abuse, usually having been prescribed the drugs following an injury and then becoming addicted.

As state governments take drug manufacturers and distributors to court seeking damages for thousands of addicted citizens, there are fears insurers and reinsurers with pharmaceutical companies on their books could be on the hook.

The fear is exacerbated by a multi-district litigation, the National Prescription Opiate Litigation, which brings together more than 400 cases. It was created in December and assigned to Judge Dan Polster of the Northern District of Ohio, in an attempt to avoid years of litigation and move towards settlements as soon as possible.

This could bring insured losses forward by several years.

"It could get really bad," an underwriting source said. "We haven't seen it yet, but it's coming."

Part of the problem in preparing for the risk is classifying it. Depending on where in the drug supply chain courts allocate blame, insureds could call on general liability, directors' and officers', product liability and even some technology policies. Adding to the confusion, court cases will vary from one jurisdiction to the next.

"[Opioids] are being talked about, but we can't work out where it will land," a Lloyd's underwriter said.

Climate change: cross-class impact

A legal source said that although the intensifying impacts of climate change, such as more frequent severe weather and wildfires, are being felt in property classes, the losses are increasing on the casualty side as well.

As extreme storm weather begins to spread to areas where it has not historically been common, claims are beginning to build up. A source said liability claims against house builders who have built properties unable to withstand minor storms are mounting.

Automation: an unknown quantity

As ever-more sophisticated automation takes hold in all sectors, casualty risks are multiplying, sources said.

One source said they expected driverless vehicles to be "implemented on a massive scale within five years". While this has the potential to cut the number of accidents significantly, they said there would be a "difficult transition period" and that uncertainty over who was liable when vehicles malfunction would be challenging for consumers.

3D printing, too, is beginning to appear on casualty treaty underwriters' radar.

A source said: "The risk is that anyone can buy a 3D printing machine and can print anything, including firearms, but it's not clear yet where the liability lies."

Financial advice: burgeoning risk

In the UK, there is growing concern that the pension freedoms introduced in April 2015, which allow savers with defined benefit pensions to convert them into cash, will lead to professional indemnity claims.

There are fears of scams whereby companies convince savers to cash out their pensions and place them into unsuitable investment products.

One underwriting source said that although this was not yet widespread, the potential for a mis-selling scandal was ripe. They said they had seen one professional liability claim where a financial adviser had convinced 12 savers to withdraw their pensions and invest them into a self-invested personal pension, usually only considered appropriate for sophisticated investors with £100,000 ($129,516) or more in savings.

Although this kind of mis-selling is "not widespread", they added: "Perhaps the consequences are yet to be felt."

#MeToo: spiralling costs

Over the past year sexual abuse scandals have rocked various sectors, from politics to show business to sports.

Disgraced film mogul Harvey Weinstein is locked in legal disputes with two insurers, Zurich North America's Steadfast Insurance and Chubb, over their liability to pay the legal costs relating to his court battles with women who have accused him of sexual assault.

Other cases unfolding are a cause for concern for casualty treaty underwriters.

One source cited the case of Larry Nassar, the USA Gymnastics national team doctor and osteopathic physician at Michigan State University, who was sentenced to 175 years in prison after assaulting several young women in his care.

After the court case, USA Gymnastics sued seven of its insurers, claiming they had not provided a full defence or properly reimbursed the sports body for defence costs in the 10 lawsuits relating to the disgraced doctor.

The source noted the actions of even one abuser could spark huge costs: "That's just one man, over multiple policies over multiple years," they said.

Another source said, however, that reinsurers were less likely to suffer losses relating to sexual abuse scandals involving adults.

"It may affect primary D&O policies, as underwriters may have to fund defences even if you don't indemnify," the person said. "There's a lot of noise, but not a lot of financial consequences."

Child sexual exploitation is more of a concern, they said.

Although there is now "much better vetting" of people involved in the care of children, the risk is still out there, they said.

However, policies for public entities in the US, for instance, are written on a claims-made basis, rather than kicking in from the date that the loss occurred. This means multiple limits for multiple years would not be impacted, a source said.

"It's contained and there is a risk-aware culture," they added.

> "As state governments take drug manufacturers and distributors to court seeking damages for thousands of addicted citizens, there are fears insurers and reinsurers with pharmaceutical companies on their books could be on the hook"

Lloyd's casualty reinsurance

Year	Gross written premium (£mn)	Combined ratio (%)	Underwriting result (£mn)
2013	1,698	88.3	165
2014	1,779	87.6	187
2015	1,797	100	0
2016	2,096	98.1	33
2017	2,223	102.1	-39

Source: Lloyd's

Digital tech must surely be top of the agenda at this year's *Rendez-Vous*

The Insurance Insider talks to Peter Roeder, member of the board of management at Munich Re, about his favourite city and why digital transformation opportunities should headline Monte Carlo

The best thing about living in Munich – Peter Roeder's favourite city – is the opera.

When not jogging, snowshoeing, or taking in the bracing air of the Bavarian mountains, the Munich Re board member likes to spend a night at the opera to wind down outside work. The other major advantage of Munich life, he quips, is the plentiful supply of German beer.

As in *The Marriage of Figaro*, the majority of the action in the reinsurance world takes place in a *folle journée* (or a few) at the annual Monte Carlo *Rendez-Vous*.

Roeder believes one topic is of such importance it would warrant its own aria at this year's gathering: digital technology.

"I'm convinced that we will focus on discussing new opportunities: how digitalisation will transform our industry, how we can manage the risks arising from the digital transformation, for example cyber risks, and how to expand insurability while at the same time limiting possible accumulation risks," says Roeder.

Cyber presents both a large and nebulous risk and a huge opportunity to the insurance industry, he says.

"Cyber risks are emerging to be ever-present, as the WannaCry and NotPetya ransomware attacks demonstrated so spectacularly," he says. "Some companies affected by malware have incurred costs running into the hundreds of millions."

WannaCry, for instance, which hit 300,000 computers worldwide, caused estimated economic losses of $4bn last autumn. Pharmaceutical company Merck & Co, hit by the NotPetya ransomware last summer, reportedly claimed $275mn from its insurers as a result of damage arising from the attack.

> "The growth potential is clear, as demand for cyber coverage, risk mitigation and assistance services continues to rise"

As people become increasingly reliant on digital devices in their everyday lives and technology is further enmeshed in every sector from healthcare to manufacturing, "loss scenarios change quickly and continuously", Roeder says. This is where the challenge emerges for insurers.

As always in (re)insurance, however, risk and opportunity could go hand in hand if carriers can harness digital expertise to underwrite astutely.

"The growth potential is clear, as demand for cyber coverage, risk mitigation and assistance services continues to rise," says Roeder.

It is a chance that can only be seized through cross-industry collaboration, in his view, particularly where complex technology requires niche expertise not currently found within the ranks of (re)insurers.

"We want to contribute to the cyber challenge being seen less as an insurmountable obstacle, and more as an opportunity for sustainable new business throughout the industry as a whole," says Roeder.

"This can only be done in close co-operation with experts from insurance and reinsurance, insureds and external partners."

Roeder says he would have pursued a career in

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academia had he not entered the insurance industry – he has a doctorate in business administration – and he and Munich Re take an academic, evidence-based approach to mastering cyber risk.

Munich Re, Roeder explains, partners with technology providers to bring in-house the digital expertise that it lacks.

He believes cyber presents carriers with the test of a generation; one that they must rise to competently.

"If the insurance industry is unable to provide its clients with comprehensive risk transfer solutions and services, this would be an admission of failure," Roeder says.

Cyber risk isn't the only way technology is making itself known. Roeder believes in the power of InsurTech to change the way carriers serve their customers.

"There is no doubt that the insurance industry is changing at an accelerated pace, and only those who embrace the challenges and understand that they need to innovate will stay relevant," he says.

However, Roeder doesn't believe that change will come about in a single "big bang" moment, with new, nimble, tech-enabled insurers potentially blowing traditional carriers out of the water.

Rather, he feels it is more likely that technological innovation will develop organically, through an eco-system of small players working with established insurers.

"InsurTechs will develop new technologies to improve or replace certain parts of the traditional value chain," says Roeder.

"That is why close co-operation between start-ups and established insurance companies make a lot of sense and that is why we want to be as close as possible to the start-up scene, and to learn in which ways InsurTechs could change our business."

This was the thinking behind Munich Re's digital partners unit, which enables InsurTech businesses to explore new avenues for insurance, he says. The unit seeks to make insurance "fit for the sharing, gig and mobile economy".

Outside technological developments, the (re)insurance industry has faced a number of challenges stemming from rather more natural sources in the past year or so.

Last year's catastrophe events, including hurricanes Harvey, Irma and Maria as well as wildfires in California, left the sector reeling from a global insured loss of well over $140bn. This prompted hopes carriers could achieve rate rises and that the soft market was finally on the turn.

But come January 2018, those rate increases failed to materialise, and the mid-year renewals, although an improvement on 1 January, were hardly spectacular – at 1 June, rate increases were flat to up in the single digits.

Holding pricing in check

Roeder agrees with the consensus view that the continuing oversupply of capital in the market is holding pricing largely in check on non-loss-affected accounts.

"Overall, price development for reinsurers is twofold," explains Roeder.

"First, original rates have risen quite significantly for loss-affected classes. We therefore experience tailwinds on the pro-rata and facultative side.

> "We want to contribute to the cyber challenge being seen less as an insurmountable obstacle, and more as an opportunity for sustainable new business"

"Second, cat prices increased in the markets affected by natural catastrophes, the most significant price increases could be observed in the Caribbean.

"Otherwise rate levels for non-affected segments remained stable given that capacity in these markets remains unchanged."

Roeder feels that last year's cats also taught some insurers a lesson about managing their exposures.

"Last year, some primary insurers went through the painful experience that high retentions can leave them exposed to volatile results. In this regard, 2017 once again reinforced the importance of reinsurance," he says.

However, reinsurance is about more than simply providing capacity, in his view, and cedants increasingly demand more for their money.

"Clients expect their reinsurers to support them to achieve a more competitive position, be it with capital management, data analytics or digital services," he says.

"Reinsurers need to be able to deliver value beyond capacity, and clients are increasingly demanding sophisticated solutions tailored to their complex needs."

Roeder notes that there were some reserve increases last year, particularly among US insurers: "Some of these were in casualty lines to keep up with loss trends, some adjustments were in property classes following revised loss estimates for Irma."

In terms of reserves, Munich Re does not believe there are "systemic reserve inadequacies in this market".

However, as an overall trend, Roeder says reserve releases are "becoming thinner". The combination of reserve increases and slimmer releases will mean a rate boost at some point, in his view.

"I am convinced that over time these developments will result in price increases for the primary insurances as well as reinsurance coverages," says Roeder.

This year has been one of reckoning for the (re)insurance industry, marked by pricing disappointments, a number major of M&As changing the shape of the market, and a great deal of doom-mongering.

There are widespread fears that new carriers based on slick technology can out-manoeuvre large, traditional reinsurance behemoths hamstrung by ever-increasing expenses and cumbersome legacy systems. There are also protests that the market cycle is broken and solid, dependable rate increases have been consigned to history.

But Roeder is far more optimistic, despite the myriad challenges. He believes that if risk carriers can deliver a more sophisticated performance to keep up with the changing times, it's not over until this opera's fat lady sings.

Curriculum vitae

1989: Awarded doctorate in business administration by University of Mannheim. Joined Munich Re as an underwriter in liability, personal accident and motor.
1999: Given marketing responsibility for the Netherlands.
2001: Becomes responsible for non-life business in the Netherlands.
2002: Appointed head of group development.
January 2007: Joins the Ergo International AG management board, in charge of developing life and non-life business in Asia, particularly China and India.
October 2007: Joined the Munich Re board of management, responsible for the global clients and North America division.

Top market executives ponder the Bermuda acquisitions outlook and the deal pipeline at Lloyd's

Do you expect to see more Bermudian (re)insurers sell themselves in the coming 12-24 months?

Sven Althoff, member of the executive board, Hannover Re: One of the reasons behind the Bermudian deals is that size matters more than before, as clients are either reducing reinsurance panels or looking for highly tailored agreements.

Furthermore, Bermuda-based reinsurers tend to be more exposed to catastrophe reinsurance and that's where we are seeing the fiercest competition and pricing pressure in the reinsurance market. I wouldn't be surprised to see more consolidation going forward.

Stephan Ruoff, CEO, Tokio Millennium Re: The pressure in the industry for further consolidation is high; M&A activity will continue. This is not unique to Bermuda, but for the entire global market. In particular, we expect consolidation in Lloyd's and in the emerging, dynamic Asian marketplace.

James Vickers, chairman, Willis Re International: Market conditions have undoubtedly changed, which raises strategic challenges for some Bermudian (re)insurers, but M&A is becoming a more challenging solution.

For (re)insurance company managers with a good franchise but a challenging growth or relevance outlook, M&A has, until recently, been a sensible, viable option to unlock shareholder value.

Unfortunately the prices buyers are prepared to pay are falling at a time when they have a wider range of choice. Given the environment, we expect that the only Bermudian (re)insurers to put themselves forward for sale will be the ones with strong franchises.

Victor Peignet, CEO, Scor Global P&C: There is currently a wide bid/ask spread in the M&A market, with Bermuda and Lloyd's at the centre. Perhaps in the coming months, sellers will become more realistic about what their assets are worth. Or perhaps they will continue to expect a suitor to emerge from off stage, maybe from Asia or private equity, and pay high multiples of book value while leaving management in place.

With recent tax and regulatory changes and the near-elimination of excess profits in cat reinsurance, the Bermuda model is very challenged, even though most cat reinsurers started diversifying several years ago.

Cedants increasingly expect their reinsurers to write their business across all lines of business, in a long-term partnership approach with local expertise, which gives global composite reinsurers a distinct advantage.

Andreas Loucaides, CEO, IGI UK: There will likely be a steady flow of large M&A activity in the next year, and Bermuda (re)insurers will always be in the mix as they often provide classes of business that offer strategic growth to a larger international player.

It seems that more firms are looking to M&A to compete for market share in a recent environment of slow growth – a strong balance sheet, as well as capabilities in all parts of the market has become more important.

Recent acquisitions, such as the AIG-Validus deal, prove that everyone is in play and adds to the idea that nobody is too big to be bought. Such M&A activity also assists in the reduction of operating costs by achieving greater economies of scale.

Brendan Barry, chief underwriting officer, Greenlight Re: I expect to see more M&A activity as reinsurers struggle to find avenues for top line growth and deal with the challenge of the expense structure in the business.

James Few, global managing director of reinsurance, MS Amlin: Scale is becoming more important as expense ratios rise and opportunities for organic growth stall. Reinsurers are likely to look to M&A to fast track profitable growth and achieve cost synergies.

Will other global insurers follow AIG and Axa in buying specialty (re)insurers?

Peignet: These were unique deals, with rationales that had less to do with the target than the acquirer. Both appear to have worked out well for the sellers.

For the buyers, the value will only be proven over time. Entry into reinsurance was almost a by-product of the buyers feeling the need to make a strategic statement.

Loucaides: This highly competitive environment has helped spur an increase in M&A activity and the recent deals would suggest that more and more global insurers are looking to acquire specialty (re)insurers to take increasing amounts of market share. This is also self-fulfilling.

Barry: It's possible. Although saying that, some of the challenges Axa is experiencing

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with its shareholder base are likely to make some global insurers think twice about these purchases or, at a very minimum, think about the book value multiples in the sale.

Few: M&A activity will increase due to the need for scale and a lack of alternative growth opportunities. Specialty (re)insurers are likely to become attractive acquisition targets as their businesses offer the opportunity to increase profits through diversification, better use of capital and opening up new distribution avenues.

Torsten Jeworrek, member of the board of management, Munich Re: Another driver of transactions are global, political and economic changes such as reactions to the Brexit referendum and the US tax reform impacting on Bermudian markets, for example. Increasingly, M&A transactions are also taking place to gain access to technology know-how.

Mounting political and economic changes will continue to drive M&A, in line with further pressure towards consolidation and access to new technologies. I expect these M&A drivers to remain present in the coming years.

In the reinsurance sector, consolidation is taking place among the smaller companies, so there will be stronger market players in the future.

In line with that, transactions providing access to technology will remain on the list for many companies and we might see further attempts at partnerships which would have been considered "unusual" just a few years ago. This is especially true for the Asian markets.

Could more international groups follow recent examples and look to dispose of their Lloyd's platforms?

Vickers: Only those groups that see their Lloyd's platform as a pure investment are likely to put it up for sale.

For many, their Lloyd's platforms are much more than that. For some it is positioned as a centre of speciality underwriting excellence for their entire group. For others it is a way to access global licences, or it is used to take advantage of Lloyd's superior financial strength rating. These groups are unlikely to be sellers.

Ruoff: We don't detect any general trend of large groups disposing of their Lloyd's platforms. Instead, there is evidence of many different strategies in the market. There may be some consolidation in Lloyd's. Depending on how a company has built its business and portfolio, a Lloyd's platform can make a lot of sense, particularly given its unique capital structure and history of innovation.

Peignet: Scor consolidated its Lloyd's and UK company platforms earlier this year. This process had been initiated in 2017 and was consistent with the history of the Channel Syndicate, which started writing business in 2011.

Creating a common management structure for the company market and the syndicate/agency will help to develop business from a stronger London base and enhance benefits across the entire insurance operation.

At a time when certain players are disposing of their Lloyd's operations, we have made it an integral part of our business proposition.

Loucaides: The benefits that Lloyd's provides are obvious for smaller to medium size players in the market: access to business by a distribution channel, immediate A+ security rating and potential capital to name a few, as well as efficiency, worldwide licences, ability to underwrite on a subscription basis, operational support.

However, this all comes at a price – which for a small to medium-size insurer could be very appealing. The questions of what value Lloyd's of London adds to a large international insurer may be questionable.

For any market to survive and continue to operate, it must have relevance and appeal. At the moment, as the insurance and reinsurance conglomerates are getting bigger and bigger, the relevance of Lloyd's is on unsteady ground. However, Lloyd's has survived and flourished over 300 years so I expect that the intellectual property built up over this period will continue to provide both relevance and appeal over the coming years.

Althoff: As an international reinsurer that has acquired a Lloyd's syndicate a little more than a year ago, we are delighted that we have found the ideal partner in Argenta to help us gain additional access to the international and London market business.

We still see the Lloyd's market as an attractive place to do business. The drivers behind the recent examples seem to be many and it is difficult to predict whether this trend will continue. The one common denominator seems to be the high cost of doing business in the London market, which certainly is a topic that does require attention.

Barry: I don't think this is just a Lloyd's-related question, although it is perhaps more pronounced at Lloyd's itself.

The issue is simply cost efficiency and dollars removed through the distribution chain. I do believe that international groups will look at their Lloyd's operations, their cost efficiency and whether Lloyd's is delivering enough value for the cost. Lloyd's and all insurers will ultimately need to look at overall costs at the companies and in the distribution chain.

Few: Lloyd's is a disciplined underwriting business and following the extremely high level of property cat losses the market suffered in 2017, it is imposing high standards on its syndicates to secure the future viability of the market.

Some Lloyd's businesses may struggle to meet these standards. Therefore, it's possible that we could see some syndicates exiting the market, being acquired by larger businesses or merging with other syndicates.

Lloyd's also operates a relatively expensive business model. Carriers with a choice of paper may consider moving some business onto cheaper balance sheets, especially in low margin product lines.

Do you expect to see take-out multiples fall meaningfully and – if you do – what kind of deals could that make possible going forward?

Toby Esser, chairman, AFL Insurance Brokers: Pursuing organic growth is a slow burn because prices aren't changing significantly – and when prices are static at best it makes it difficult to achieve growth without a degree of M&A. Add to the mix the low interest rate environment and ready availability of debt, and there is not much to hold back the M&A trend.

Diversification of investment is also key. Investors are looking to diversify their books, and private equity and hedge fund investors clearly continue to boost the ability of insurance companies and brokers to go out there and acquire. There is also a flocking mentality to some extent – a bit like London buses; a couple of investors acquire specialty businesses, and suddenly more deals seem to follow.

The deals we have seen so far also appear to have been successful. And with choice

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STORY BUILDING - CREDIT PHOTO : GERALDINE ARESTEANU

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relatively thin on the ground, prices will likely remain high. It is also important to consider the efficiencies of the marketplace, and one way of increasing efficiency is merging. As consolidation happens, investors will look for savings.

Vickers: Deals struck in 2016 are likely to be regarded as the pricing high-water mark at this point in the cycle, and are unlikely to be matched in the near term. As pricing multiples decline, the range of potential buyers opens up. That brings into play investors who do not need to look for synergistic savings. In effect, that means that venture capital investors and management buyouts, as well as trade buyers, can start to compete on a more equal footing. That said, for any target company the overriding importance of having a sustainable future business model remains.

Althoff: We don't have a view on how multiples will develop. For us, it's an opportunistic situation. We don't see ourselves as an active consolidator in our market. Would we take a closer look if opportunities came up? For sure. Especially if we would get access to new business and markets.

Barry: This is a little harder to predict, but I do believe that we've got competing drivers on the multiple side. The multiples have reached a level where it's difficult to discern too much value in the acquisition.

That said, the drive for top-line growth and cost efficiency is unlikely to abate. Overall, I suspect a reduction on the multiple. I'm not sure that changes the types of deals, but it's likely to get the M&A machine moving again.

The interesting space may be non-insurance entities trying to unlock combined value by acquisition of insurance entities. We've seen a bit of this, but I suspect that this will be a growth area in the not so distant future.

Do you think there is scope for more businesses to be acquired by Asian insurers or conglomerates despite the regulatory and execution challenges we have seen?

Vickers: The climate for further overseas investment by Chinese insurers and conglomerates is currently challenging for various reasons. Still, this does not mean that some of the larger well-regarded companies are not capable of executing new overseas acquisitions.

The position for Japanese companies is clearer: a number have announced their willingness to consider new M&A deals, and are supported by strong balance sheets and positive execution records. Elsewhere, some larger local and regional Asian (re)insurers may be attracted to M&A opportunities which would help them grow and diversify their regionally biased portfolios.

Ruoff: Asian conglomerates will naturally look to diversify and access North American and European markets in particular. It is important, however, to distinguish between Asian insurers. Japanese conglomerates have been successful. Chinese-led expansions have so far seen mixed results. Korean and Indian will certainly follow and further drive global diversification.

Peignet: The long-term trend of capital flowing to Asia through global trade imbalances means Asian buyers have had increasing amounts of cash, which they are looking to deploy globally with the aim of boosting return on equity. Japanese insurers have sought diversification outside of Asia Pacific for several years. Other Asian players will follow suit as long as local regulators allow it.

Loucaides: Those execution challenges will make it difficult for Asian insurers to acquire, but that does not mean they cannot overcome those hurdles.

The conglomerates seem unstoppable at the moment – neither regulatory or execution risk are factors they would worry about. They are working on a concept that if you are buying a good quality business, it can manage itself without much intervention.

The challenge for the conglomerates will be finding businesses that have the talent and expertise to self-manage and continue performing well. There is less around following the last flurry of M&A activity.

Althoff: For Asian insurers, Europe has always been and still is an interesting opportunity to help them diversify their business and that's even more the case in reinsurance. In our market, it's less complex to write business on a global scale than in primary insurance, where market, products and regulation still differ widely.

Barry: I suspect there continues to be scope for Asian insurers in the acquisition space as they look to balance their predominately Asian portfolios. While regulatory and execution challenges exist, the greater challenge may be the reality of emerging markets-based companies purchasing business in mature markets with stagnant growth.

Few: The combination of international expertise and product range at Amlin with the financial strength and licences at MSI is a powerful one. We expect that Asian insurers' interest in partnering with or acquiring Western (re)insurers will continue, as M&A provides these businesses with greater diversification, product growth and access to new client bases.

CONTRIBUTORS

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James Vickers, chairman, Willis Re International

A market on the move

Barbican's Andy Caldwell discusses some of the key trends influencing reinsurance market dynamics and how developments might impact the forthcoming renewals

Which are the key themes that you think will dominate the Monte Carlo conference this year?

One of the main discussion points at Monte Carlo will be the huge amount of capacity that is currently available to write reinsurance business. The major losses experienced in 2017 have done little to diminish this. While events did result in a swathe of poor results across the market at Q4 2017, on the whole the first two quarters of 2018 have proved relatively benign. As a result, companies are achieving much better combined ratios, with many reporting figures well below the 100 mark.

My current expectation for the coming season is that capacity levels will be at least the same if not higher than last year. If we then trade through the third and fourth quarters without any significant cat loss activity this could result in quite a challenging market come the 1.1 renewals.

The mid-year renewals demonstrated that some of the price momentum achieved at 1.1 has already dissipated. So, the gains achieved at the beginning of the year could potentially be eroded during the next renewal. The game changer of course would be if we experience another major storm or series of storms similar to Harvey, Irma and Maria in the coming weeks. Last year at Monte Carlo, we were all closely following the track of Irma having already witnessed the devastation caused by Harvey.

Should we expect any changes in reinsurance buying trends in January?

We would expect to see the continuation of the trend towards more centralised reinsurance purchasing at 1/1. More and more companies are seeking to purchase composite and aggregate covers. On the seller side, such programmes provide exposure diversification and with the increased analytical capabilities available coupled with higher data resolution, reinsurers are in a much better position to price these complex structures more accurately. This means that composite buying is proving an attractive proposition from both the buyer's and the seller's perspective.

While there has been an increase in the purchasing of multi-year policies, the appeal of such structures is limited at Lloyd's. The market operates on an annual-venture basis and as such a multi-year reinsurance structure does not provide a good fit for syndicates.

From a general perspective, reinsurance is evolving into a much more strategic, capital-management focused tool. Most buyers have moved away from the more opportunistic, "money-swap" reinsurance purchase, with buying strategies now part of a much broader capital consideration.

While buyers such as Barbican are looking at ways to better protect earnings, we are equally cognisant of the margin we are paying away to buy reinsurance. It is not just a case of looking at the up-front spend but also the expected recovery ratio on that reinsurance, as this directly affects the bottom line.

Reinsurers are responding to this more capital-driven reinsurance buying approach. There is a greater flexibility on how programmes are structured, with more and more reinsurers open to embracing new types of reinsurance solutions and innovative buying strategies. However, this willingness to deliver such products is predicated on the quality of the data which the buyer is able to provide. We must be able to provide high resolution data that will undergo extensive actuarial analysis. What we are seeing as a direct result is a much closer relationship between the reinsurance underwriter and the actuary to better understand the data and provide relevant products to market.

What are some of the potential risks associated with this evolving reinsurance buying dynamic?

The fact that these new structures are so heavily data dependent could in itself pose a risk. The growing data demand placed on the reinsurance buying process means we are increasingly reliant on the results of the exposure models. While it is critical that we adopt a scientific approach to risk assessment, and modelled data is a core part of this, we must also recognise the limitations of the data and the modelling capabilities and ensure that underwriter expertise and experience remain a central component of the process.

There are numerous instances of exposures categorised as one-in-200-year events based on modelled data, where the reinsurer has priced accordingly, only to discover to their cost that the actual return period is much shorter.

Where do you have concerns about reserve adequacy in the reinsurance wider market?

Companies are increasingly finding that business categorised as 'short-tail' is not as short in the tail as was originally assumed. There are numerous examples of claims on supposedly short-tail lines, such as property, marine, aviation and energy, which take many years to reach any form of resolution. As soon as you get into legal disputes the tail can become much longer than originally envisaged and this can result in reserving inadequacies.

On the long-tail side, there are a growing number of insurers holding case-specific IBNR on individual losses. Whereas five to 10 years ago, they would have posted a case reserve on a loss there is now a tendency to allocate IBNR to a particular claim. Those claims are not necessarily identified in the reinsurance submission and so the reinsurer might underwrite business for a period of years before any claims emerge. At this point, the case-specific IBNR crystallises into a reserve shortly before the settlement of the claim, which could be eight to 10 years down the line. This practice is becoming more widespread and can mean reinsurers are potentially under-reserving for past years.

Andy Caldwell
Active underwriter for Syndicate 1955 at Barbican Insurance Group

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Looking to the future

As the industry descends upon Monte Carlo for another year, Andy Marcell discusses Aon Benfield's rebrand, emerging risks, how MGAs are disrupting the market and the importance of data analytics

What will Aon Benfield look like five years from now?

Larger, hopefully. And primarily, it won't be Aon Benfield but Aon Reinsurance Solutions. We commonly brand so that we can deliver Aon in some way to all our customers. A more precise answer is that we want our core business, that of being a treaty and facultative reinsurance broker, to still look and feel the same to our customers, with two differences.

One is that we believe the range of services and outcomes our customers will seek from us will continue to broaden, at a pace that is likely to accelerate, with the need to use data and analytics and more InsurTech solutions. And two, we'll be in other risk lines, and we'll have different types of customers. We are getting more involved in credit insurance – more in the mortgage insurance area – and government de-risking.

Do you believe alternative capital threatens the traditional reinsurance model?

Alternative capital is increasing in size and that's an opportunity for our clients. And for us, it's an opportunity to match capital and risk, which is positive. Many traditional reinsurers are using ILS funds to enhance the services they provide through brokers. It's very much aligned and that's additive. Having that surfeit of capital mitigates trends of hard markets and soft markets – it's a flatter pricing environment. But overall, I don't think it's a threat. It's been an additive to the industry.

How has the lack of significant cat events this year affected the buying strategies of commercial carriers?

The year is not over yet. As a general trend, we expect the market will be hungry to underwrite risk and that will bring a downward trend for prices. We expect that our customers will buy at lower rates than before. So we'll see some reduction in rates.

Are the California wildfires a cat event that will affect 1 January pricing in any way?

I think the impact will be de minimis. The amount of loss relative to the amount of capital is not enough to create any upward pressure on pricing.

Are MGAs disruptors for brokers? What role do they play in today's insurance world?

MGAs come in many shapes and forms. We see some wholesalers trying to control their own distribution. That trend will continue because their ability to control risk is enhanced by data transparency.

I don't see MGAs as seriously disruptive, but they are a growing trend worldwide. And we help many of them to manage their risk. For us, we don't see them as disruptive, but we do see them as aggregators of risk that we can help when it comes to enhancing their business model.

What insurable risks will become more important in the months ahead?

Generally, for the (re)insurance markets, the demand for flood, wildfire, government de-risking, cyber and mortgage insurance will continue to expand.

There are always things that cause some uncertainty in the market, like the changes to the UK's Ogden rules last year. And there was the shooting situation last year in Las Vegas at the Mandalay Bay Hotel and Resort. But I wouldn't say there's anything creating a crisis. One potential exception is transactional liability. Reps and warranty and tax are lines of business that seem to be continuing to grow.

What new insurable risks are emerging and are worth watching?

I'm aware of the emerging cannabis market – which also prompts the question, what will happen around opioids? I guess there will be a sort of natural progression for those.

From a reinsurance standpoint, we're working hard to develop new credit risk solutions around the world. Cyber, too, is still an unmet need. We continue to see that grow. There's a lot of uninsured risk in the cyber world, and the sector is looking for ways to close that gap.

What challenges are clients presenting you with?

Clients always want more efficient insurance year on year. And what that looks like in terms of types of coverage runs the gamut. The challenge for us is to help them find profitable growth by helping them reduce their operational costs.

Do you think there will be a shakeout among reinsurers, given some of the M&A activity over the past several months?

Navigators, which was just acquired by The Hartford, writes some reinsurance. Validus was bought by AIG. Those firms will be stronger because of M&A. Will that shakeout cause dislocation in reinsurance market? No. I think the capital available to the reinsurance market just continues to grow, so if there is any shakeout when it comes to reinsurers, it won't cause any dislocation for our customers.

How important is data and analytics becoming for Aon Benfield?

Data and analytics underpins everything we do. And it will year to year. Increasingly, it's become important around the point of sale. It's part of the core of what we do. And it requires constant investment.

We participate in a number of InsurTech initiatives and we've introduced some of these innovations to our clients. Take Hurricane Irma – we introduced our clients to drone adjusters, given the shortage of loss adjusters at the time. And we've introduced machine learning as part of our claims advisory services.

When it comes to Big Data, we constantly look at ways for our clients to control and deal with risk. I think it will continue to accelerate and that we will be the eyes and ears for our customers when it comes to what InsurTech is applicable to them.

Andy Marcell
CEO, Aon Reinsurance Solutions

New opportunities

SCR-Morocco CEO Youssef Fassi Fihri talks about the Moroccan carrier's expansion across Africa and its recent push into specialty lines

What do you expect the mood to be like at Monte Carlo this year? Why is it important for you to attend?

The Monte Carlo annual meeting is an important event because it allows all stakeholders of the global insurance and reinsurance market to discuss a set of issues before 2019 renewal.

The discussions will focus in particular on the renewal of reinsurance covers, existing capacities and guarantees offered by the international reinsurance market regarding each line of business.

It is also an opportunity to discuss the level of claims that have affected the various programmes.

SCR de Maroc launched a new structure dedicated to specialty lines in March this year. Can you talk us through that?

Indeed, SCR has decided to extend its panel of products by offering a new structure dedicated exclusively to specialty lines, which aims to provide a support to the Moroccan and regional partners to fill in their specific needs.

SCR offers specific coverages for credit-bond, political and cyber-crime risks will manage the new unit.

SCR has strengthened its human resources with experienced underwriters, invested in training and has established close partnerships with insurers and reinsurers who have expertise in the field in order to progressively and carefully develop this specific business unit.

A road map is in place in conjunction with our well-defined target figures. In addition, we rely on the highly qualified skills of our team who have all graduated from reputed universities in the US and Europe. They are all engaged in focusing all their efforts to allow SCR to achieve its goals.

A number of reinsurers and brokers have unveiled deals in Africa over the past year – what is attracting the reinsurance market to the region?

Africa is undoubtedly one of the regions where there are growth opportunities for insurance and reinsurance.

The insurance and reinsurance market is at its early stages and remains attractive. Gross written premiums for African reinsurance represents only EUR2bn, excluding South Africa, which has around EUR4bn.

However, there are several barriers among the 50 African countries, which hinder its fast development – largely because of the historical, political, strategic and socio-economic issues.

Having said that, this situation has considerably improved recently.

Which classes of business present the best opportunities in Africa for reinsurers today?

Due to the economic development experienced by most African countries, companies operating in industry and energy represent the opportunity generating the highest level of premium, for both direct and reinsurance business.

> "Africa is undoubtedly one of the regions where there are growth opportunities for insurance and reinsurance"

Last year, you spoke about your plans to expand into other African markets. Can you tell me what progress has been made here?

As part of its development plan, SCR is enlarging its international expansion and targeting high potential markets.

Following the opening of its representative office in the Ivory Coast, another new office has been authorised in Rwanda and a further opportunity is being finalised in Egypt.

In order to reach its new vision, SCR relies on its qualified team of underwriters, the signature of strategic partnerships and the setting-up of effective and efficient projects.

There are two main pillars for this vision: Strong II is our transformation plan, which was been launched to consolidate our role and enhance our position as a leading actor in reinsurance at local and regional level.

And in March, we launched SCR Academy Re, a foundation that provides training and internships to Moroccan and regional partners in the insurance and reinsurance industry as well as internal SCR staff.

Among the one- to three-day training courses are sessions on aviation insurance and reinsurance, cat losses, modelling and risk assessment, and the technical aspects of pricing life reinsurance.

You also spoke about an ambition to grow your life book. In 2017, life reinsurance represented 5 percent of your portfolio. Has that grown today?

The development of SCR's life portfolio reflects its ambition to attract a new growth opportunities.

A dynamic and continuous growth has been somewhat scarred in 2018, in terms of the increasing premiums and the access to new markets notably Middle Eastern and West African ones.

Our priority remains to improve the customer satisfaction by offering a qualified expertise and support to our partners while generating sustainable profitability through rigorous management of risks and costs.

Youssef Fassi Fihri
SCR-Morocco CEO

AIG leads on reinsurance rethink

Both AIG and Allstate turn to aggregate protections following sequence of mid-sized losses in 2017

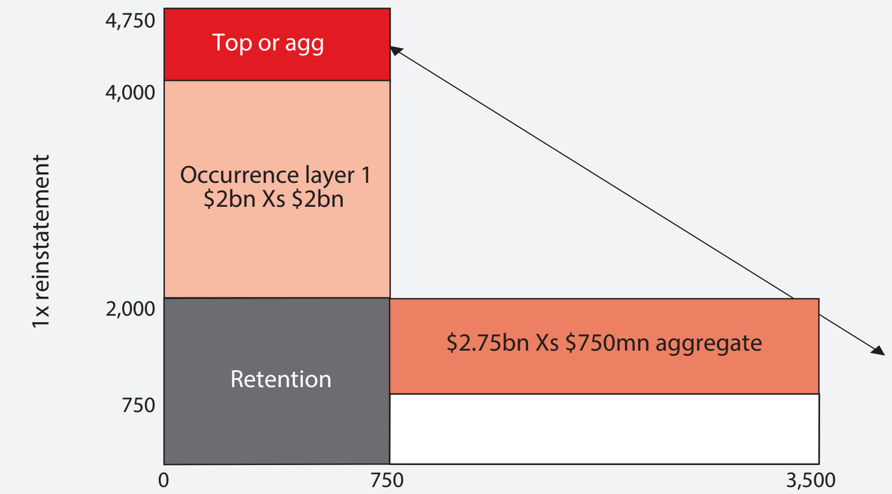
Despite a year of major catastrophe losses and earnings volatility, most major public insurance companies in the US reported little change in their programmes year over year, according to public disclosures.

Among major commercial insurers, only AIG reported a major change.

Other commercial companies reported few deviations from their 2017 covers. Chubb and Travelers broadly maintained their retention levels for their cat treaties as well as the prior-year layers, though Travelers shifted more coverage to cat bonds and reduced its north-east traditional treaty. The Hartford reported only slight adjustments to its reinsurance contracts including its single cat event and Florida hurricane covers.

However, not for the first time, AIG made major changes, reflecting the significant strategic shifts occurring under new management. The long-term struggling company has been one of the major moving pieces at renewals for some time now, essentially since new management took over during the 2008 financial crisis.

AIG 2018 programme



Source: S&P Global, Company reports, *The Insurance Insider*

AIG's ever-evolving reinsurance philosophy

Some context is useful. Prior management under Bob Benmosche, then Peter Hancock, in partnership with reinsurance buyer Samir Shah, believed the firm was giving up too much of the economics of its property book to reinsurers. This was partly due to what was seen as an inefficient mechanism of purchasing reinsurance at the local level by underwriting managers.

During the period of restructuring post-crisis, the firm moved to aggressively centralise its reinsurance buying, taking a "procurement" approach that could lower its total reinsurance spend by leveraging its huge size to pressure the market. This was combined with an attempt to standardise the firm's gross risk appetite across units and geographies.

While fine in theory, the strategy proved problematic in practice.

For AIG, there was a problem inherent to this strategy, founded in the practical reality of how the firm was built and operated. AIG was not an ordinary insurance company with relatively homogenous risks that could be managed by spreadsheet at corporate HQ. The firm specialises in providing complex and unusual risks. This requires a huge amount of decentralised decision-making.

These underwriters were, historically, not only empowered to manage their lines net by laying off risk, but often highly incentivised to do so prudently. Although this was not "efficient" from a transaction costs- or portfolio-perspective, there were three important trade-offs worth considering.

First, the very nature of the complex risk and tailored coverage made AIG an advantaged purchaser of reinsurance. It had an asymmetric information advantage over its counterparties – which were more likely to misprice individual risks – and allowed opportunistic arbitrage. By centralising the reinsurance purchasing internally, this "mispricing of risk" was shifted to the firm's own reinsurance department, which is further from the underlying portfolio and simply may not understand the esoteric risks as well as the frontline underwriter does.

Second, there is an accountability risk. Without thoughtful and aligned incentives, managing the net position can risk becoming an SEP (Somebody Else's Problem). At worst, colleagues could be incentivised to actively trade against each other.

Even without this, there was still a huge amount of operational risk in shifting the accountability for managing the net position – particularly given the high level of staff turnover at the time and the complexity of multiple moving pieces – as the firm drastically re-underwrote its portfolio.

Finally, AIG's talent pool was heavily weighted towards this type of underwriting "arbitrage" expertise. Though this was a hard thing for management consultants to measure from a spreadsheet at HQ, such a drastic shift to centralised and top-down decision-making risked disempowering and demoralising key underwriters, and worsening the value proposition to clients.

Losing key talent at the time of competitive vulnerability for AIG when its "moat" was most at risk was perhaps one of the most important and under-discussed legacies of the Peter Hancock era.

2017 highlights inadequacies

Whatever the causes, the inadequacy of the firm's reinsurance buying was brutally exposed in 2017 with hurricanes Harvey, Irma, and Maria (HIM). Heading into 2017, the firm's reinsurance programmes provided $3.2bn of reinsurance protection above a $1.5bn retention.

This meant the firm was well protected against one truly major loss, but for an accumulation of mid-size losses like HIM, the firm would be forced to eat a loss worth up to 5 percent of contributed equity for commercial insurance at the start of the year. What's more, with no pre-purchased

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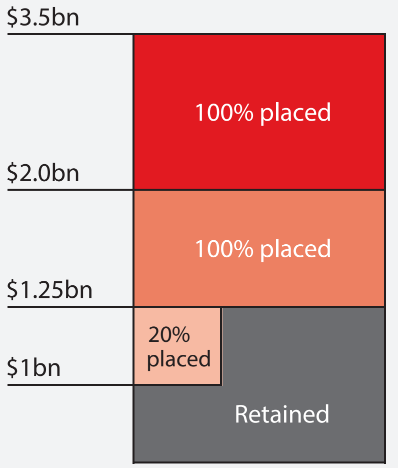
Chubb
US (excl. Alaska and Hawaii)



Source: S&P Global, Company reports, *The Insurance Insider*

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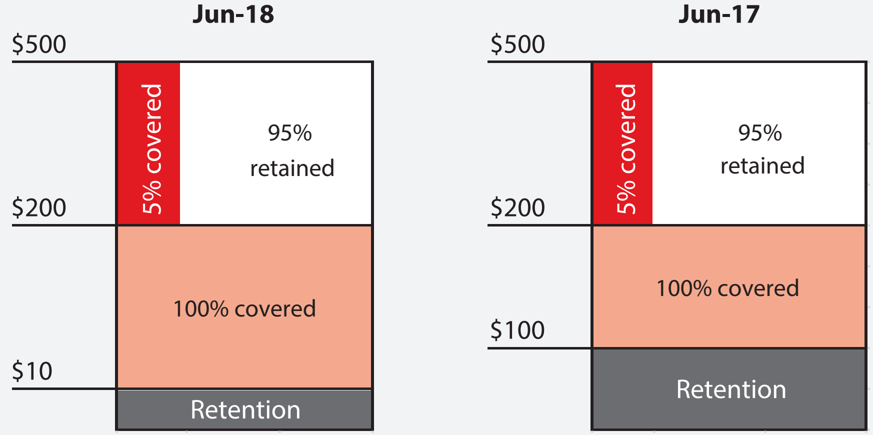
reinstatement, the firm was facing purchasing back-up covers at times of peak market stress (as the company did with a further $1.3bn purchase on 8 September last year with Irma looming). Given the changing nature of reinsurance markets and the rapid re-load of alternative capacity, the duration of capacity shortages are increasingly compressed. Indeed, perhaps the only way to expose yourself to this risk in 99 percent of "normal" years is to have no pre-purchased reinstatement.

As such, the firm significantly restructured its programmes, with new leadership under CEO Brian Duperreault and General Insurance CEO Peter Zaffino significantly de-risking the firm.

In terms of the per-occurrence treaty, the firm actually increased its retention to $2bn, with a $2bn first stretch above this with a reinstatement. However, the true effective retention is lowered by a new aggregate programme, which provides $2bn of recoveries excess a $750mn retention subject to an initial $100mn per event deductible. (This increases to $250mn for individual events greater than $750mn once the $750mn retention is depleted). There is then a shared "top or agg" $750mn layer on top of both of these programmes.

What this does in practice is both essentially cut the firm's first even retention in half (as the agg cover can be used for a first even if over the $750mn retention) while also providing protection for multiple mid-sized losses that might not reach into the occurrence trigger.

Mercury General



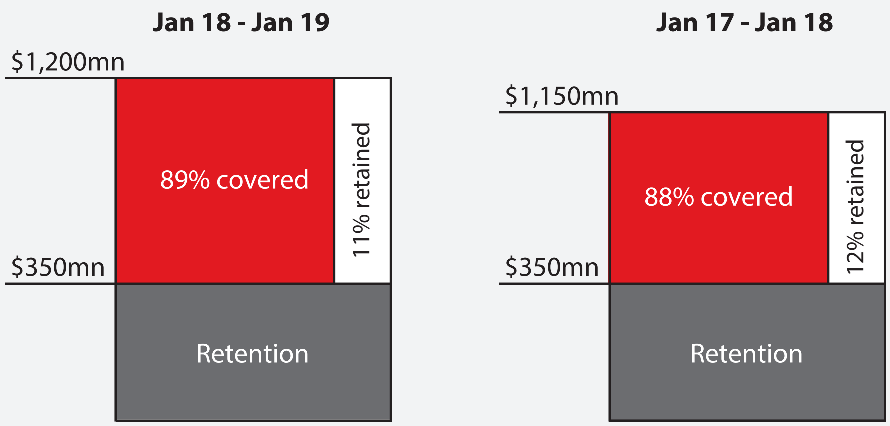
Source: S&P Global, Company reports, *The Insurance Insider*

In evidence of the de-risking, the firm's disclosed 1-in-100 estimated probable maximum loss (PML) from a US hurricane declined from $1.963bn to $1.109bn while the 1-in-250 year PML for US earthquake declined from $3.423bn to $1.632bn. Though not as clearly disclosed, the firm's estimate of aggregate cat exposure appears to have reduced significantly, with its adjustment for "annual average losses" down almost 25 percent in Q1.

Chubb's programme has a $1.0bn retention point, after which the first layer kicks in with a 20 percent coverage placed with reinsurers (making it effectively a $1.2bn retention). The upper two layers are part of the same layers within the carrier's Global Catastrophe Programmes so they may be exhausted in one region and not available in the other, and are 100 percent placed with reinsurers.

Meanwhile, The Harford changed its single cat event protection for 2018, according to the company's disclosures. While the retention point remained at $350mn, the reinsurance cover now takes on 89 percent with a per-occurrence limit of $850mn, effective for the year 2018. Previously, 88 percent of losses excess of $350mn were covered, with a per-occurrence limit of $800mn, adding a little more limit and an extra point of coverage. The Hartford also slightly tweaked its Florida hurricane cover, with the retention just $1mn higher year on year at $32mn while the per-occurrence limit decreased from $102mn to $96mn.

The Hartford: property losses arising from a single cat event

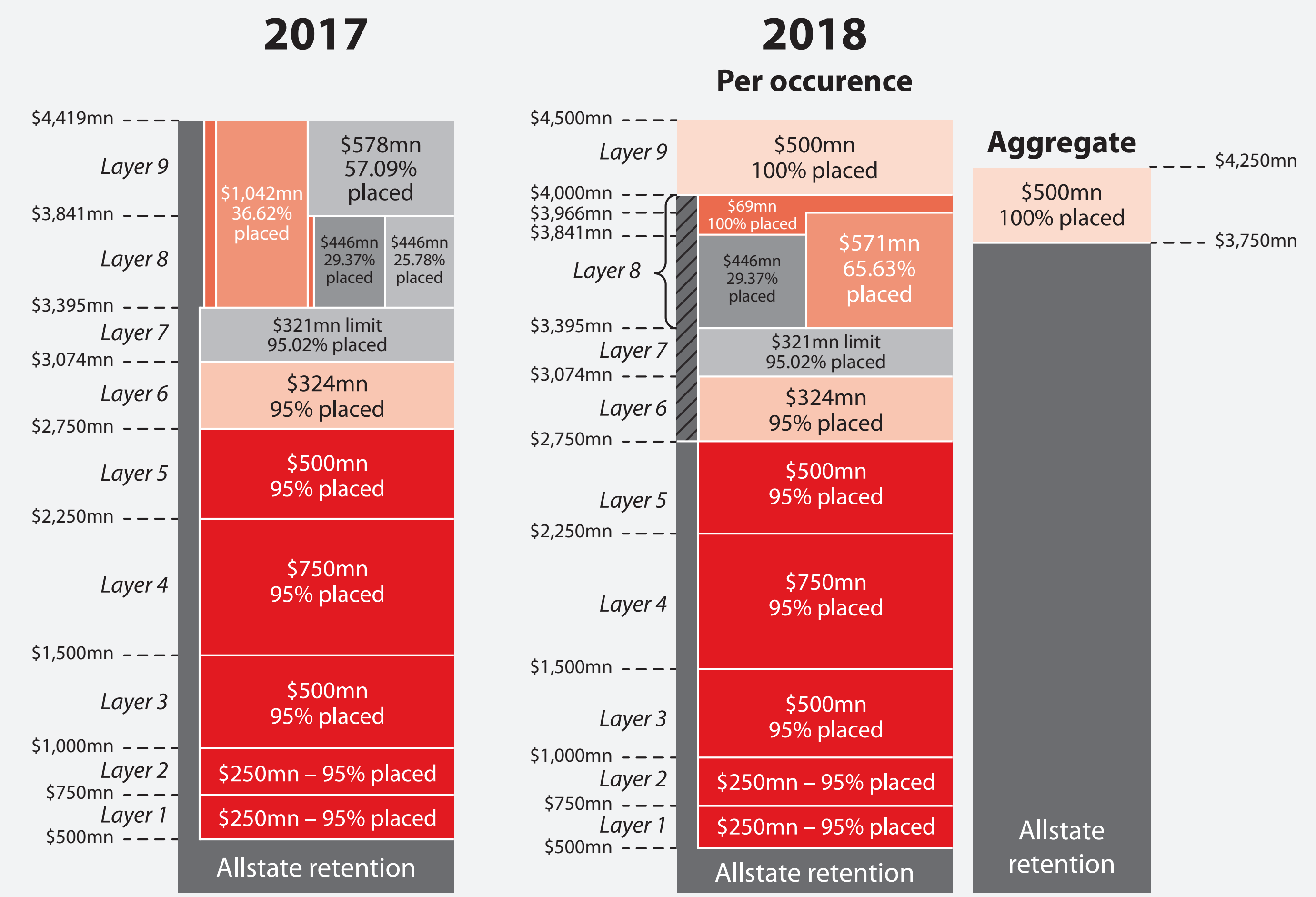


Source: S&P Global, Company reports, *The Insurance Insider*

Aggregate for Allstate

Among nationwide personal lines carriers, the most notable change was at Allstate. Though nowhere near as major as at AIG, the firm did introduce an aggregate cover.

Allstate cat programme



Source: S&P Global, Company reports, *The Insurance Insider*

The firm's nationwide excess of loss programme remains broadly similar to last year. However, the top $500mn excess of $4bn for the occurrence is structured as a top or agg cover. The aggregate cover applies for aggregate losses above $3.75bn for $500mn of coverage.

However, Progressive continued with no major changes to its reinsurance programmes disclosed. The firm does not buy reinsurance for its auto book, and continues to buy low down for its homeowners unit ARX. The firm has a $50mn retention for a first event (that can drop to $25mn for a third event). Coverage for a first event in Florida "exceeds $1.5bn" while an event outside Florida "would exceed $1bn".

At smaller personal lines carriers, there were only small to no changes.

At Mercury General, the firm's reinsurance restructure in 2017 proved well-timed.

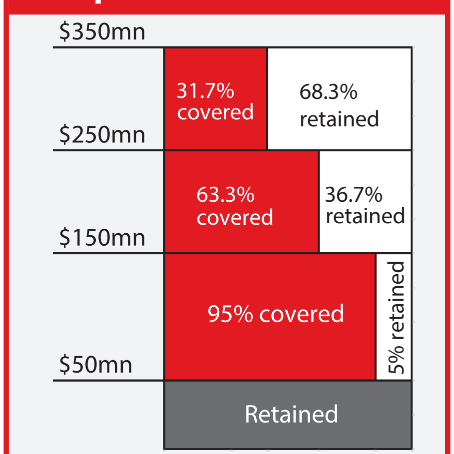
The firm massively reduced its retention from $100mn to $10mn on 1 July 2017, and subsequently reported gross cat losses of $60m-$100mn for Q3 and $109mn in Q4.

In essence, the change in reinsurance purchasing saved the firm $139mn-$179mn in H2 2017, or 7.9 percent – 10.2 percent of 31 June shareholders' equity (if you see that reinsurance buyer around Monte Carlo, buy them a drink for us). Unsurprisingly, the firm kept the new structure in place at 1 July 2018. However, despite the significant losses passed on to reinsurers, the firm's disclosed reinsurance costs went up only around 15 percent, to $22mn from $19mn.

Meanwhile, there were only minor changes elsewhere. National General also had already made a significant change to its reinsurance buying at mid-year 2017 with the introduction of two quota-shares to reduce its capital strain, particularly on homeowners'. At 1 May 2018, the firm increased its homeowners' quota share cessions from 29.6 percent to 42.0 percent, though paid a lower ceding commission of 38.0 percent on the additional 12.4 percent of net liabilities versus 42.5 percent previously.

Kemper made no changes to their programmes. Details shown above left.

Kemper



Source: S&P Global, Company reports, *The Insurance Insider*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Richard Lowther, Partner & COO, Hiscox Re Insurance Linked Strategies Ltd
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Industry has to solve data access dilemma

As the (re)insurance market gathers in Monte Carlo, Paul Latarche, head of insurance at Moore Stephens and co-founder of Rulebook, argues it is time to tackle the issues around data delivery

The (re)insurance industry has invested – and continues to invest – significant amounts of capital into enhancing its ability to collect data.

The scope and scale of data warehouses continues to grow as ever more significant amounts of data can be mined and stored. But the fact is the industry needs to recognise the need for a greater ability to access both internal and external data swiftly and efficiently, and to deliver that data to the underwriter at the point of the underwriting decision.

One only need look at the way firms currently access data, faced with thousands of reports and documents. The information required is in there somewhere, but it takes time to find it and then to retrieve it in the necessary format.

When working through a risk proposal an underwriter will look to access the relevant data to answer some of the questions they have before deciding whether to accept the risk and at what price.

For instance, they may want to know the aged debt status of the broker, access the risk profile and history of the policyholder and look at their ability to pay.

But at present all this information is in different areas and may well be on different systems. We are using multiple systems to carry out a single task, and more importantly it is taking time to locate, access and retrieve that information.

The data quite simply needs to be delivered to the underwriter at the point of decision.

Far better is a system whereby when a key word is inputted the system retrieves the data it believes is pertinent to that section of the proposal. That could be data on the insurer's current relationship with the broker, or the wider dealings of the insurer with the client on the proposal form.

Indeed, underwriters should be able to access both internally held data and external information which will aid in that decision.

By that I mean internal data on the risk class, the specific risk itself, the client and the broker, but also external data on the company in question from respected sources, such as Dun & Bradstreet, which can provide a greater understanding of the client and the risk profile.

It is fundamentally all about delivering intelligent insight at the point of underwriting, and while the appeal of such a system is self-evident, as an industry we have not looked beyond the drive to collect data with little real innovation in terms of how we want to use it.

At present the industry will often reply in a complex underwriting form on which there are tens of questions to be answered. It often requires the broker to manually input the answers – meaning the potential for human error is always present.

We are now at a stage whereby the market for some risks, such as directors' and officers', can move to single question forms. The technology is there to enable the risk to be underwritten simply with the provision of a company number, which will allow the underwriter to access a wide range of external data and enable the underwriting decision to be taken.

It may well require a new approach to some risk, with a greater degree of commoditisation of products that will enable such systems to be utilised. The downside and move away from a more bespoke cover for such risks can be offset by the increased speed and efficiencies that can be delivered across the decision-making process.

What is clear is that the market must take a fresh look at how it treats its data and the systems employed to utilise it.

At Moore Stephens we have been working with our underwriting partners who access Rulebook to create a different approach which dynamically delivers the data described above at the point of decision. The aim of any business has to be to enhance their own and their client's experience and exceed expectations.

However, to do so we cannot simply stand still. Our clients are changing the way they do business and they expect that we will do the same. The industry has been faced with a constant need to innovate and provide new coverages and financial solutions against the background of an ever-changing risk landscape.

There has been a great emphasis on the benefits of big data and what it can deliver. However, it remains a question of delivery. As an industry we cannot afford to be spending time hunting for data which should and can be delivered as the underwriter requires as they work through the submission or proposal form. The huge levels of data which is stored internally and can be quickly accessed from a multitude of external sources can make a real difference.

Only then can we truly deliver real insight.

Author bio

Paul Latarche is co-founder of Rulebook as well as partner and head of insurance at Moore Stephens LLP, the global accountancy firm based in London. Rulebook is the market-leading, multi-award-winning pricing, underwriting and distribution platform built for the insurance industry.

Since its beginning in 2012, Paul has been instrumental in its development and it has now grown to be used by over 25 percent of the Lloyd's market.

Having been involved with insurance IT consultancy for almost 20 years, Paul has in-depth industry knowledge of working with management information, sales and marketing. Paul is responsible for business development and general consultancy across the firm's service lines both in the UK and internationally, and is also paramount in widening Moore Stephens' international alliances.

THE INSURANCE Insider

EVENTS

The Insurance Insider Cyber Rankings Awards

21 September 2018 | 12:30 – 17:00

Banking Hall, 14 Cornhill, London, EC3V 3ND

www.insidercyberawards.com

#InsiderCyberAwards

Trading Risk New York Rendez-Vous

10 October 2018 | 09:00 – 15:30 (followed by networking drinks)

New York Athletic Club, New York, NY 10019

www.trading-riskrendezvous.com

Subscriber delegate rate – $745
Full delegate rate – $945
RSVP: holly.dudden@insuranceinsider.com

#TradingRiskNY

London Market Conference

8 November 2018 | 08:15 – 15:30 (followed by networking drinks)

etc.venues, Liverpool Street, 155 Bishopsgate, London, EC2M 3YD

www.insiderlondonmarketconference.com

Subscriber delegate rate – £495
Earlybird delegate rate – £595 (available until 30 September 2018)
Full delegate rate thereafter – £695
(All prices exclude VAT)
RSVP: jennifer@insuranceinsider.com

#InsiderLMC

Insider London

7 February 2019 | 08:15 – 15:30 (followed by networking drinks)

America Square Conference Centre, London, EC3N 2LB

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